

International  
Entrepreneurship Congress  
2009

  
IZMIR UNIVERSITY OF ECONOMICS

# INTERNATIONAL ENTREPRENEURSHIP CONGRESS

SMEs AND ENTREPRENEURSHIP  
OCTOBER 14-15-16  
2009

## PROCEEDINGS

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**PROCEEDINGS of INTERNATIONAL ENTREPRENEURSHIP  
CONGRESS 2009 :  
“ SMEs AND ENTREPRENEURSHIP”**

**OCTOBER , 14-15-16 , 2009**

**İzmir University of Economics  
ISBN : 978-975-8789-32-0**

**Editor :  
Prof. Dr. Alev Katrinli**

**Prepared by:  
Mert Günerergin  
Dicle Yurdakul Şahin**



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## TABLE OF CONTENTS

<b>CONSUMER BEHAVIOR AND ORGANIC FOOD PRODUCTION IN ROMANIA.....</b>	<b>7</b>
<b>ENTREPRENEURIAL MOTIVATION IN COTTAGE INDUSTRY - A CASE STUDY IN THE SILK INDUSTRY OF ASSAM (INDIA) .....</b>	<b>22</b>
<b>EXPLORING THE SYNERGY BETWEEN ENTREPRENEURSHIP AND INNOVATION: STUDY IN FURNITURE SECTOR OF İZMİR.....</b>	<b>33</b>
<b>SUCCESS FACTORS ON BUSINESS INCUBATOR COMPANIES FROM THE VIEWPOINT OF INCUBATOR MANAGERS: CASE STUDY IN IRAN .....</b>	<b>43</b>
<b>COMMON PROBLEMS OF SMES IN TURKEY: AN EMPRICAL RESEARCH IN İZMİR .....</b>	<b>50</b>
<b>FACTORS AFFECTING THE PRODUCT INNOVATIVENESS OF TURKISH ENTREPRENEURS .....</b>	<b>58</b>
<b>GUERILLA MARKETING IN SMES : A CASE STUDY ON THE ASTONISHING SUCCESS OF OIL COMPANY .....</b>	<b>66</b>
<b>FINANCING R&amp;D PROJECTS OF INNOVATIVE SMES: NATIONAL AND INTERNATIONAL FUNDS.....</b>	<b>70</b>
<b>SUCCESSION PLANING IN FAMILY OWNED SMES : A CASE STUDY FROM İZMİR, TURKEY .....</b>	<b>81</b>
<b>SOCIAL CAPITAL IN ENTREPRENEURS' NETWORKS: EFFECT ON MANAGING IN A DOWNTURN.....</b>	<b>89</b>
<b>SOCIAL ENTREPRENEURSHIP AS AN EFFECTIVE WAY IN THE SOLUTION OF SOCIAL AND ECONOMIC PROBLEMS .....</b>	<b>97</b>
<b>CORPORATE ENTREPRENEURSHIP: A CONTEMPORARY PARADIGM IN ENTREPRENEURSHIP RESEARCH .....</b>	<b>104</b>
<b>MANAGING TECHNOLOGICAL INNOVATION PROCESS IN THE PUBLIC ORGANIZATIONS.....</b>	<b>112</b>
<b>SIX SIGMA APPROACH AND A SIX SIGMA APPLICATION IN BANKING SECTOR TARGETING THE INCREASE OF CUSTOMER SATISFACTION.....</b>	<b>121</b>

<b>A RESEARCH ON ENTREPRENEURSHIP EDUCATION AND DETERMINATION OF ENTREPRENEURSHIP PROFILES OF UNIVERSITY STUDENTS: SAMPLE OF İNÖNÜ UNIVERSITY .....</b>	<b>126</b>
<b>EVOLUTION OF THE BASEL ACCORD AND ITS EFFECTS ON SMALL AND MEDIUM-SIZED ENTERPRISES .....</b>	<b>133</b>
<b>THE DIFFERENCES OF PERCEPTIONS ON ENTREPRENEURSHIP BEFORE AND AFTER GRADUATION OF UNIVERSITY STUDENTS.....</b>	<b>146</b>
<b>GOVERNANCE WITH PROFESSIONALS IN FAMILY BUSINESSES.....</b>	<b>155</b>
<b>ENHANCING FAMILY WELFARE BY INTRODUCING PAPER RECYCLING VENTURE (A STUDY IN A POOR URBAN COMMUNITY).....</b>	<b>164</b>
<b>DISCOVERIAL ACTIVISTS IN ORGANIZATIONS: INTRAPRENEURSHIP .....</b>	<b>170</b>
<b>IMPORTANCE OF PURHASING FUNCTION AND CONTRACT MANAGEMENT IN LOGISTICS MANAGEMENT.....</b>	<b>176</b>
<b>LEATHER INDUSTRY E-COMMERCE AND E-MARKETING ENTREPRENEURSHIP.....</b>	<b>183</b>
<b>STUDY ON AGRICULTURAL PRODUCTION COOPERATIVE CHALLENGES IN IRAN'S ENTREPRENEURSHIP AND EMPLOYMENT ( HAMEDAN PROVINCE).....</b>	<b>192</b>
<b>THE RELATIONSHIP OF RESILIENCE AND ENTREPRENEURIAL INTENTIONS.....</b>	<b>199</b>
<b>CAREER PREFERENCES AND ENTREPRENEURSHIP TENDENCIES OF UNIVERSITY STUDENTS.....</b>	<b>205</b>
<b>ARE TURKISH BUS PASSENGER TRANSPORTATION COMPANIES AWARE OF STRATEGIC THREATS AND OPPORTUNITIES COMING FROM TURKISH AIRLINE SECTOR: A FIELD STUDY.....</b>	<b>217</b>



# CONSUMER BEHAVIOR AND ORGANIC FOOD PRODUCTION IN ROMANIA

MANUELA EPURE, SPIRU HARET UNIVERSITY, BUCHAREST  
CRISTINA BARNA, SPIRU HARET UNIVERSITY, BUCHAREST  
RUXANDRA VASILESCU, SPIRU HARET UNIVERSITY, BUCHAREST  
RALUCA ZORZOLIU, SPIRU HARET UNIVERSITY, BUCHAREST  
CORINA SIMONA GUDEI, SPIRU HARET UNIVERSITY, BUCHAREST

## ABSTRACT

Organic agriculture is an emerging industry of worldwide economy, a result of the increased awareness of the general public about the negative effects of the intensive way of doing agriculture on the health condition of the population and the continuous deterioration of the environment. New business models and marketing mechanisms should be developed for biodiversity conservation. An analysis of business biodiversity landscape, considering sectors and activities of potential business opportunities, identifies 'biodiversity-friendly' agriculture ('sustainable', 'green' or 'eco-agriculture') as a successful sector in near-future Romania, with a positive socio-economic impact. The growth of the cultivated surfaces and the organic consumption increase at EU level has been considerable these last decades, especially in the developing countries, where the organic food market has reached 10-12% of the total sales of the agri-food products. Romania has been facing the challenges of this evolution after the EU accession. Unfortunately, the development of this industry is slow down by the lack of coherent studies able to provide reliable data about the main EU/national funding resources and state-support measures to sustain the farmers and food producers. SMEs working in the organic food industry may now develop their own brand and improve their export competitiveness, but it's not an easy task because of the traditional eating habits, the consumers behavior trends and the difficulties of promoting the healthy food approach. Our survey conducted within the young population, attempts to reveal the consumers behavior determinants and provide specific information to start a larger public project to arise the organic products' awareness .

**Keywords:** organic agriculture, „biodiversity-friendly” agriculture, agri-food products, consumer behavior determinants, organic products awareness, eco-agriculture

## 1. ROMANIAN AGRI-FOOD PRODUCERS AND ORGANIC FOOD CONSUMPTION IN ROMANIA

Organic food and farming systems are a promising and innovative means (Niggli et al, 2008) of tackling the challenges facing the EU in the area of agriculture and food production. Organic production has stimulated dynamic market growth, contributed to farm incomes and created employment for more than three decades now. At the same time it delivers public goods in terms of environmental protection, animal welfare and rural development. Furthermore, the innovations generated by the organic sector have played an important role in pushing agriculture and food production generally towards sustainability, quality and low risk technologies.

According to the definition provided by FAO (Food and Agriculture Organization) and WHO (World Health Organization) in *Alimentarius Code* “organic farming represents a full system of the production process management, which contributes to supporting and strengthening the resistance of the agro-ecosystem, including biodiversity, biological cycles and soil biological activity”. In other words a European agricultural, market-oriented, competitive sector, ust be created that might improve living and working in rural areas, that might comply with good practice for the environment and preserving habitats, bio-diversity and landscapes. Moreover, farmers should take into account the consumers' requirements regarding food quality and safety.

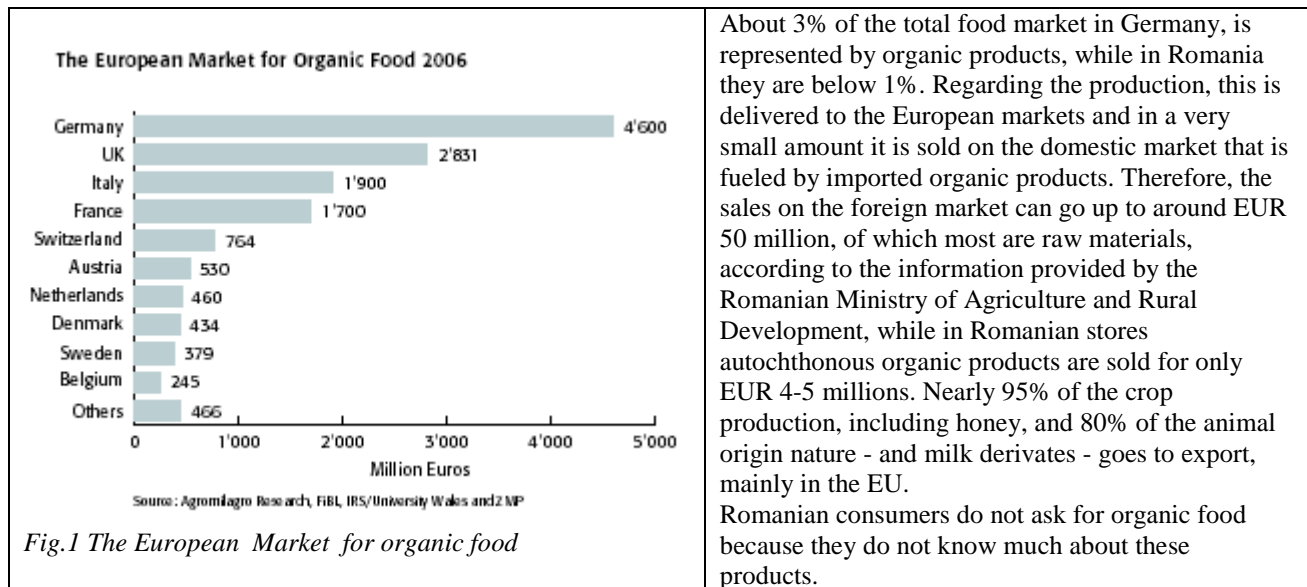
Starting with 1991, growing consumer demand for organic food and the consequent increase in organic production has led to the adoption of strict EU regulations. Based on the rural development policy as part of Common Agricultural Policy (CAP) for the period 2007-2013, EU allocated EUR 88,3 billion to the 27 member states for rural development projects.

Organic industry is currently one of the most rapidly expanding sectors of the food industry in many European countries, also in Romania. The quantitative goal is to expand the cultivated area by organic methods and to create an internal market for organic products. Romania has great opportunities for the promotion and development of organic farming due to an agricultural area of 14.8 million hectares and unpolluted soil.

Based on the data provided by Padel et al.(2008) the European organic market grew by more than 10% in 2006 and that was worth approx. EUR 14 billion. However, there are considerable differences in trends between the various countries. In 2006, production in most old member states accounted for up to 13% of the total farming land; over 6.8 million hectares were under organic management in the EU (7.4 million hectares in the whole of Europe).

Consumption of organic food is 4.5 to 5.5% of the total food market in countries such as Denmark, Switzerland, Austria (see fig. 1). While, the area of organic land has expanded rapidly in many new EU member states as well as in EU candidates and potential candidate countries, with annual growth rates of up to 100%, the consumption levels are still low in these countries (< 1%).

The business with organic products on the Romanian market, although growing from one year to another by about 15-20% still marks a very low volume compared with what is happening in Germany, UK, or Hungary and Poland.



About 3% of the total food market in Germany, is represented by organic products, while in Romania they are below 1%. Regarding the production, this is delivered to the European markets and in a very small amount it is sold on the domestic market that is fueled by imported organic products. Therefore, the sales on the foreign market can go up to around EUR 50 million, of which most are raw materials, according to the information provided by the Romanian Ministry of Agriculture and Rural Development, while in Romanian stores autochthonous organic products are sold for only EUR 4-5 millions. Nearly 95% of the crop production, including honey, and 80% of the animal origin nature - and milk derivatives - goes to export, mainly in the EU. Romanian consumers do not ask for organic food because they do not know much about these products.

It is quite right that the EU logo was created for identifying an organic product on the shelves, but consumers do not know this logo because it has not yet been promoted. If we add to this the price of these products that exceeds by 30% at least, sometimes going up to 100%, the price of conventional food, perhaps we can easily understand the low percentage of the organic food market in Romania.

Romania has an area of about 143,000 hectares certified as being viable to be cultivated with organic products. Although the land cultivated in ecological system is eight times higher than in the following seven years, according to the Ministry of Agriculture, the figures are currently less than 1% (0.94%) of the agricultural area of Romania, 14.82 million hectares, compared to the 3.7% in the European Union.

In Romania an issue, which slows down the market growth, is the lack of farming subsidies and projects to access EU funds for ecological agriculture. The local organic production is far below the European average. In 2008, according to the Ministry of Agriculture, Forestry and Rural Development database, the cultivated ecological area was 15%, higher than in 2007, reaching 220,000 hectares. In line with the National Development Strategy of ecological agriculture in Romania the cultivated area will reach, by the end of 2009, 300,000 hectares, which would represent 2% of the agricultural area of the country. The number of organic operators registered in agriculture has increased by over 9% in 2008 compared to the previous year; thus, in 2008 4200 operators were recorded and in 2007, 3800 operators. The vast majority (93%) of those registered last year is formed of producers and the rest are merchants and processors.

In order to achieve the quantitative goals, established by the National Strategy for Export and using the value chain analysis, the critical success factors were revealed: *price, assortments, packaging-branding and availability.*

The achievement of the export target is linked to other objectives (short and long-run term) that can help to improve the competitiveness of Romanian organic sector in the future. Some of those objectives are:

- increasing the number of operators who receive financial support from the Romanian Government Program;
- increasing the production of organic farming



- developing the role of NGOs in promoting the healthiness of organic food
- increasing the number of exporters actively involved in the program for trade development of the organic sector
- helping organic farms to become better known on the domestic and foreign markets;
- sustaining the small farmers association to cooperate for improving the marketing activities designed especially for organic products;
- increasing the local processing units and sustaining the foreign direct investment;
- developing the investments in export related to the rural areas production;
- increasing the number of new companies involved in exporting organic products or primary processed organic products;
- developing the processing capacity in specific ecological agriculture
- improvement in term of products and added value
- diversification of the exportable cultivated species (vegetables, fruits) and a range of processed products (bread, pastry).

Considering the above-mentioned objectives and the real possibility to achieve them in the future, we can conclude that the Romanian market of organic products hit the amount of EUR 15 million in 2008, as compared to 2007 when the amount was of EUR 5 million, and for the present year estimation is EUR 20 million. The growth rate is really promising, so one needs to think how to associate the most efficient marketing strategies in order to maintain constant this growth rate.

In order to promote Romanian organic products on the market, the development of an efficient market-oriented strategy at macro- and micro-level is supposed to start with studying the needs and the drivers of consumer behavior.

## **2. BUSINESS BIODIVERSITY MODELS: ‘BIODIVERSITY – FRIENDLY’ AGRICULTURE**

Biodiversity protection is a priority issue of the European Union environmental policy. The integration of biodiversity considerations into other important policy areas, such as *agriculture*, regional development, fisheries, energy, transport, trade, development aid and research, and especially to build partnerships with businesses is a challenge of our times. It is also important to meet the Countdown 2010 biodiversity target - ‘to achieve a significant reduction of the current rate of biodiversity loss’, and at the European Union and pan-European level, an even more ambitious target - ‘halt the loss of biodiversity’. Can the 2010 biodiversity target be met? Yes, but only with an emerging consensus about what needs to be done and with a major shift in thinking about the role of business in biodiversity conservation.

Biodiversity is defined as “*the variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems.*” (World Resources Institute 2005). First of all, biodiversity is of strategic importance for the business sector, because it is providing the raw materials and natural assets for many enterprises. Of course, this is most obvious in cases where profits depend directly on healthy ecosystems, such as ecotourism, which is expanding at a rate of 20-30% annually, compared with 9% for the tourism sector as a whole. But we also must consider positive effects as *biological productivity in agriculture*, forestry, fisheries, pharmaceuticals, food processing etc. At a fundamental level, all economies and all businesses depend, directly or indirectly, on biodiversity and its component resources. Biodiversity is similarly recognized in the Millennium Ecosystem Assessment as the foundation of all ecosystem services, which in turn support and protect economic activity and property.

Let’s not forget the indirect benefits in terms of ecological, aesthetical and ethical value. Corporate actions on biodiversity can help companies to distinguish themselves from competitors, while also involving retailers, investors, employees, local communities and others. At present the issue of public image is becoming crucial for businesses if they are to compete successfully for customers. Many companies have realized the necessity of meeting their social responsibilities to implement sustainable practices and limit their impact on the environment.

We can define Business Biodiversity concept as “*commercial enterprise that generates profits through production processes which conserve biodiversity, use biological resources sustainably and share the benefits arising out of this use equitably*” (Building Biodiversity Business Report, 2008).

The business case for biodiversity is easy to make when a company depends directly on biodiversity to operate (the case of nature-based tourism), but examples can be found in other business sectors, where greater biodiversity is associated with lower costs, increased productivity and higher profits:

- *Biologically diverse soils are generally more productive for agriculture;*
- Marine biodiversity is associated with increased productivity of fisheries;

- *Crop genetic diversity is a key factor in maintaining disease resistance and yields;*
- Diverse tropical forests are prime locations in which to find novel genes and compounds for agricultural, industrial and pharmaceutical uses.

The *Building Biodiversity Report 2008* presents an analysis of business biodiversity landscape, considering sectors and activities of potential business opportunities as: *'biodiversity-friendly' agriculture*, sustainable forestry, business with non-timber forest products, sustainable fisheries and aquaculture, carbon sequestration in biomass, watershed protection, bioprospecting, eco-tourism, biodiversity offsets, biodiversity management services, recreational hunting and sportfishing. Let's analyze in detail the model of 'biodiversity – friendly' agriculture. Terms such as 'sustainable', 'green' and 'eco-agriculture' are widely used to describe environmentally-friendly agricultural practices, which often also have positive socio-economic impacts. The promotion of biodiversity-friendly agriculture tends to involve some or all of the following practices:

- Creating biodiversity reserves or sanctuaries on farms.
- Developing habitat networks around and between farms; this can include the creation of 'biological corridors' that connect areas of significant biodiversity.
- Reducing conversion of wild habitat to agriculture by increasing farm productivity and by protecting priority areas, such as watersheds, forest fragments, rivers and wetlands.
- Taking marginal agricultural land out of production and assisting regeneration of natural habitats.
- Modifying farming systems to mimic natural ecosystems as much as possible.
- Low-input or less environmentally damaging agriculture practices, focusing on reduced erosion and chemical or waste 'run off', through 'zero tillage' planting techniques, contour ploughing, use of vegetation and trees as windbreaks, use of leguminous species, etc.
- Sustainable livestock practices that range from modified grazing and pasture management systems to promoting the incorporation of trees and other vegetation into livestock grazing areas.

Various labels and certification standards are used to distinguish farms that adopt such practices from conventional agriculture, such as 'bird-friendly', 'shade-grown', 'conservation', 'sustainable', 'organic' and 'fair trade'. These and other practices have the potential to be scaled-up significantly and, depending upon how they are implemented, to enable agribusinesses of all sizes to promote biodiversity conservation.

*The Romanian SME's, oriented to the eco-agriculture and the organic food production, must developed their own business biodiversity model starting from the land natural potential, and continuing with a concentrated common development strategy referring to the eco-agriculture production, organic food production, branding and export strategy. From the SME's perspective there are at least two reasons for their increasing interest in organic farming. First it is Mac Sharry reform, adopted in 1992, under which are implemented the so-called accompanying measures which involves the separation between market price and income support, through the compensation to directly support farm incomes. The second reason is linked to the possibility of higher financial returns for farmers/producers in a saturated market. Organic food production seems to constitute an interesting and attractive market niche. An important role should be played by the SME's associations in their effort to access EU funds for eco-agriculture and conservation of the environment.*

There is a growing demand for organic foods driven by consumers' perception of the quality and safety of these foods (Vindigni et al., 2002) and by the positive impact of organic agricultural practices, so Romanian SMEs should take advantage of this economic trend. From the marketing point of view it is important to understand why consumers consume a certain level of organic food, when they change their consumption pattern, what their motives are, how the consumption of organic food can be enhanced.

### **3. GENERAL DESCRIPTION OF THE CONSUMER BEHAVIOR COMPONENTS - ORGANIC FOOD CONSUMPTION AND ITS SPECIFICITY**

Consumer behavior is driven by a significant number of determinants, such as: economic, psychological, cultural, social, more or less important in the everyday decision-making process - buying food. Buying food is a very common and repetitive decision that each of us must make; sometimes we just buy a certain food product because we act mechanically, going on the habits paths developed in our childhood years. We have learned what to eat and how to prepare our food from our family, and we are choosing food products based on our repetitive previous decisions.

Having this in mind, the associated educational process becomes important if it is intended to change people's feeding habits, to shift them from regular food products to organic products. We will provide arguments about how organic food

producers can market their products, not only using traditional marketing methods and techniques but mainly using educational campaigns to change the consumers' perception of organic food.

Let's consider some important findings about mental activities that occur in consumer's decision-making process.

The findings have shown that most mental processes operate at an unconscious level. We are scarcely conscious of a minimum part of our brain activity, but also we hardly know that our brain makes decisions before we may realize it, i.e. before we are consciously aware of making the decision. According to Michael Gazzaniga "our mind is the last one to know about the things" and he adds "the illusory we (the mind) only becomes aware of the facts that the brain has really computed." (Gazzaniga, 1998). *This explains why most of the time we don't know why we do what we do.* A new marketing concept flourished – neuro-marketing - the way to influence the consumers decisions before they even notice, providing them with products they feel attracted in a Pavlovian way. But that is a different story, far more complex and challenging to explore - maybe later, in the near future.

Therefore, language can only partially report on these processes, especially if we accept that the human brain often uses non-linguistic systems of information processing, as shown by Kosslyn and his collaborators through the theory on mental images (Kosslyn, Pinker, Smith, Shwartz, 1979, Ortells, 1996). Sweet talks delivered in the commercials make us think that if we use a certain cosmetic product we will be endlessly young.....no wrinkles, no grey hair, no fat....do we really buy the product chasing for this image of us...endlessly young?

Gerard Zaltman (Zaltman, et al.2008), a marketing professor at the Harvard Business School in his successful book – "How do consumers think" lists some marketing errors:

- To believe that consumers think in a lineal, well-reasoned and rational way:
- To believe that consumers are able to explain easily their mental processes and behavior
- To believe that consumers' memories accurately represent their experiences
- To believe that consumers think in words.

Modern consumption theory states that the act of consumption is not limited to a simple economic practice, to a trivial act of merely materialist satisfaction. Consumption involves a symbolic relationship of meaning and senses with goods, and it is a linking and differentiating instrument towards the others. Within this context "having" works as a principal source of identity: acquisition or possession of objects of consumption contributes to the symbolic extension of the "self", to the achievement of the self-concept. We may distinguish between the real (who I am now) personal concept and the ideal (who I would like to be) personal concept. (Hawking, Best, Coney, 2004).

Then, a psychological benefit is a positive judgement the consumer can make of him/herself at selecting, buying or using a brand of a product or service. People buy the products not only with practical purposes, but also psychological purposes, specially in order to increase or maintain the positive appraisal of his/herself –concept (self-esteem). In this way, psychological benefits are associated to brands, probably due to an identity built around its attributes and communication.

When we make a purchase decision, we rationally consider the functional attributes of the product/service and the image characteristics of its brand, compared to other competitors and substitutes. A list of possible psychological benefits is endless, since directions of self-fulfilment are endless, too. However, every causal theory of personality and the motivational models of behavior coincide in the fact that the multiple reasons that core human behavior may be reduced to a quite limited list of factors, and at an even deeper level, to few basic "super-factors"(Angler 1996, Livingston, 2004). The list of motivators used was: to be powerful, to be creative, to be productive, efficient, to be self-confident, to be worthy of confidence, to be able to teach others, to be attractive, to be intelligent, to feel protected, to be able to take care of others, to feel relaxed, to feel unique, exclusive, to be generous, to be accepted, admired, to feel free, to be strong, to be worthy of luxury, to be an adventurer, to be loved/valued, to be able to love, to be a winner, successful, to feel life under one's own control, to be morally honest, to be responsible, to be enterprising, hard-working, to be active, to show solidarity, to feel in a good mood ....

Some of these determinants of the consumer's behavior are involved in shaping also the organic food consumers behavior, with some specific patterns. In order to reveal this specificity we should compare the behavior of consumers when they need to chose between traditional and organic food. What makes them decide to buy organic food? Is it anything relevant changed in their perception, knowledge, motivation and that makes them to decide in favour of organics?

#### 4. ORGANIC FOOD VS TRADITIONAL FOOD - ANOTHER POSSIBLE PERCEPTION OF CONSUMPTION

People are concerned more and more about their health-status related to food consumption. The choices that consumers make when they buy food have become nowadays more difficult than one could even think of a few years ago. An enormous quantity of products, a wide range of food brands surround us, new shiny packs smile at us from the store shelves and we are looking puzzled and are trying to make the RIGHT decision in terms of: calories, price, food ingredients, dangerous E-s, and finally, if we are aware of, will we think if it's an organic food or not? But, really, how many people in the EU have knowledge about the impact of the organic/non-organic food on their health and their body functions?

Consumers often perceive organic products as representing an environmentally-friendly mode of production as well as having certain intrinsic quality and safety characteristics.

Organic products have now entered the mainstream food market across Europe, but it accounts for less than 10% of total spending on food. Nevertheless, it is still a significant component of the food market and is set on a continued growth path in many EU countries.

We must question ourselves what are the decision-making choices that determine when or if consumers buy organic? If the organic market is increasing there is a need for systematic and scientific examination of the consumer behavior process and the choice between organic and non-organic products.

Investigation and analysis of consumers behavior related with organic food consumption is well represented in the literature on consumer behavior. Studies mainly focus on the complexity of factors which drive food preferences and even some authors have proposed models which attempt to categorise and integrate ethical and environmental values among relevant factors.(Siskos et al., 2001).

A European project - Condor (<http://www.condor-organic.org/>) - was run for 3 years between 2003-2006; the CONDOR project brought together a multidisciplinary team from eight EU countries to examine this topic. It combined the development of methods for the segmentation of consumers based upon values and elicitation of their affective (emotional) associations and moral concerns. It also involved building a theoretically-based consumer decision-making model. This model was tested in several EU member states and on selected consumer segments. The researchers interacted with over 8400 consumers across Europe to build up databases of consumer attitudes, values, emotional and moral concerns in relation to organic food.

But, more or less scientifically proved, emotions play an important role (Laros & Steenkamp, 2005) when we make decisions concerning food. Emotions are expected to differ across people, across cultures and societies, and to have an impact on our food consumer behavior. So, when we evaluate traditional versus organic food, we can feel *fear* that a certain food will make us ill, so, instantly we avoid that product. The same food can elicit *anger* to someone else who might confront the seller of the product. Most of the time, food is supposed to make us feel good, the taste must be pleasant, the flavour rich, all our senses must be delighted when we eat, for example, chocolate. Chinese people are not so keen to buy chocolate, not because of their emotions mostly because of their habits and food traditions and culture.

Scientists have proved that emotions play a particularly important role for newer types of food that claimed health and/or sustainability benefits. Three main groups of this category were identified: *genetically modified foods*, *organic foods* and *functional foods*. So, it's essential to know how consumers feel about these new ways of producing/processing, to identify how we can improve the awareness of the young generation on the long-term benefits of organic food consumption, and to reveal the main trends of organic food industry in the following decades.

A study conducted among 645 Dutch consumers revealed that a wide range of emotions driven the consumer's behavior; genetically-modified products elicit significantly more of the negative emotions and less of the positive emotions that regular food. When confronted with the genetically-modified, people feel especially very discontented and worried. Consumers are significantly more nervous, tense and less content and thrilled when thinking of functional food when compared to regular food. Organic food elicits less calm feelings, happiness and peacefulness than regular food. It does, on the other hand, cause more nostalgia, hope and less irritation than regular food (Laros, Steenkamp, 2005).

Knowing the complexity of the buying decision-making process, when it's about organic food we need to explore also the market characteristics and trends, to be seen as an opportunity for SME's to do business on this market.

Having in mind that the consumers' decision-making process is really complicated and a lot of variables are involved in it, we explore the possibility to merge the research findings with the practice of the food industry in order to be able to propose a realistic curriculum development to provide a proper education for the young generation concerning food and organic food, in particular.

## 5. CASE STUDY ON ROMANIAN CONSUMERS BEHAVIOR IN RELATION WITH ORGANIC FOOD

In today's Romania the market for organic products is growing every year, but despite the constant growth trend, the market niche is still low, below 1%.

Farmers and organic food producers seem to understand the potential high benefits coming from organic products and, more and more, the organic land areas are expanding. New challenges and also opportunities are coming up for the Romanian SME's in order to support them in their efforts to export organic agri-products and organic food products.

The inner market could be a proper start for a small company, knowing the local consumers' behavior in relation with organic food should give them enough information about how to produce and sell the right organic products in order to meet their needs and expectations. The SME's real concern should be to build and manage a powerful brand, and secure their future not only on the Romanian market but also on international markets.

Romanian consumers like to eat, they enjoy rich meals along with the family and most of their income goes to food buying. Habits, cultural inheriting, social influences shape the consumers behavior and we would like to know in what extent the young generation is willing to adopt new lifestyle and new food products. Are they prepared to become aware of the organic food and his benefits for the body health? Did they need to be educated in selecting food not only by taste, price or calories? How they perceive the existence of the organic food?

Having in mind such challenging questions, several colleagues from the *Centre for European Studies and Mobility*, Spiru Haret University, prepared and conducted a survey among 1034 consumers, all over Romania, trying to reveal the characteristics of the organic food consumers' behavior and to gain knowledge about consumers' attitude in relation with organic products. The beneficiaries of the study findings will be the Romanian Association of Organic Farming and the Minister of SMEs and liberal professions, which are involved in the Second Export National Strategy development.

With a sample of 1034 respondents, the data obtained so far from 534 respondents were analysed using basic statistical methods (chi-square, correlation analysis ...). The evaluation of the first stage of the surveys results enabled us to present an estimation of the behavior determinants (such as attitude and perception). The provisional results indicated that people are aware of what is happening to the environment and the ecology issues and most of the respondents perceived that organic food is healthier.

The main objectives of the study are:

- acquiring knowledge on consumer attitude in relation with organic food;
- identifying factors that might influence the decision-making process;
- investigating the influences of the consumer's socio-demographic characteristics on the organic food purchasing process.

The ultimate goal is to better understand consumer motivations for buying organic food products so that Romanian organic producers could develop more effective strategic marketing planning.

The survey was conducted using personal interviews mainly based on a questionnaire with structured questions, offering a set of response alternatives such as multiple choice, dichotomous or scales.

The questionnaire was pre-tested on a small group of students to identify or remove potential problems. The respondents were selected from a predefined sample frame using a probability sample technique (simple random sampling without replacement) and they are coming from all the 40 counties of the country, due to the contribution of our distance learning centres that are located in each different county. The respondents were asked to fill up the questionnaire and to return it immediately to the research team representative. The data collection was initiated in June 2009, the amount of completed questionnaires received so far was of 534 units which were entered in the computer for analysis and to provide provisional findings. We estimate to finalise the study shortly and to be able to publish the results before end of September.

The questionnaire was designed so as to cover the following *aspects*;

- first part was designed to collect general information (general interest for the environment and eco-farming, the awareness of the benefits of organic food),
- second part was dedicated to obtain information about the buying behavior and the potential influences, motivation and attitude in relation with organic products and their prices (What do you choose? Why organic food? What stops you to purchase? What kind of organic you prefer, fresh or processed?),
- third part is an attempt to provide information about the extent of the informed consumers, can they define correctly organic products? And last part of the study is for providing socio-demographic discrimination of the sample population.

The main variables included in the research and the provisional findings for them can be summarized (due to restrictions imposed for the paper length) as follows (*for further details see Appendix A*):

- 82% of the respondents are interested in the ecological background of what they eat and 74.7% declared that they consume organic food on a regular basis, still only 46% of the respondents are truly confident that Romanian organic products are genuinely organic.
- beliefs about product safety for use, benefits for health: 44.43% said that organic food prevents certain diseases and 32.13% find them tastier. So, we believe that respondents are associating the taste with the health benefits of organic food, in their effort to identify real organic food not always labelled properly (an eco-label was imposed in EU but in Romania it does not apply for fresh organic products such as vegetables and fruits). When the respondents were asked to describe organic products (open-ended text question) the answers were: HEALTHY PRODUCTS – 184 quotations, NATURAL PRODUCTS – 112 quotations and PRODUCTS WITHOUT ADITIVES, CHIMICALS, NO E-s – 145 quotations
- awareness on government action and support: the vast majority of respondents 77.53% said that the state support for organic farming and organic food production is insignificant, and a lot of actions should be implemented in the near future.
- availability of information on organic food for the general public: information is collected from the TV (61%) and the radio (16%), websites (33.7%) and printed sources (51.87%).
- intention to purchase organic products in the future is highly significant, the respondents will buy more if the assortment is more diverse (30%), if the supermarkets offer a higher range of organic food on their shelves (49%), if the organic food price is lower (29.96%) – (*the percentage were calculated from the responses given to a multiple choice question*)
- the need for an educational campaign in order to increase the general public awareness on organic products consumption was indicated by 81.86% of respondents. They actually think that a specialized course must be introduced in the school curriculum.

Analysing the provisional figures we explored a few correlations between variables and we found out interesting and significant dependencies between variables, such as (*for further details see Appendix B*):

- a) consumers' age is not a determinant that could influence the decision-making process, young or old consumers are equally concerned with eating healthier products.
- b) government's action is a major factor of influence on consumers behavior; if the involvement will increase the people will be more oriented to purchase and consume organic products.
- c) the consumers' confidence in Romanian organic products is a highly significant factor, which influences the organic food consumption.
- d) better information (Q12) will increase the consumers' level of confidence in the Romanian organic products.
- e) several multifactor analysis reveals much more about the determinants of the Romanian organic consumers behavior, and furthermore we need to process all the collected data. In Appendix B a provisional cross-analysis and multifactor analysis is provided in order to make our point.

Despite the data collection difficulties, the study will be finalised and the final conclusion will be provided to all interested stakeholders.

## 6. CONCLUSION

The study is interesting because it reveals the major components of consumer behavior in relation with organic products, and it is a strong argument to develop a real marketing strategy to support the market increase and to sustain the Romanian export of organic fresh and processed organic products. On the other hand, it highlighted the need for specific information and specialized courses of rising awareness on the benefits of organic food consumption. The SMEs should join forces into a common effort to make their voice heard in the line of organic food due to the rising



public interest on this issue. Extended explanations and emphasis on the advantages of consuming organic food should make the object of advertising campaigns and/or in-company training or symposia.

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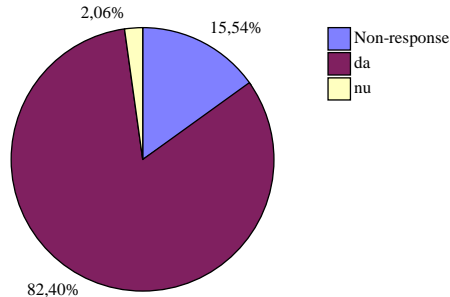
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## APPENDIX A

1. The interest for ecological background of the food is high (82%) among Romanians

Pie-chart representation of 'aspectul ecologic'

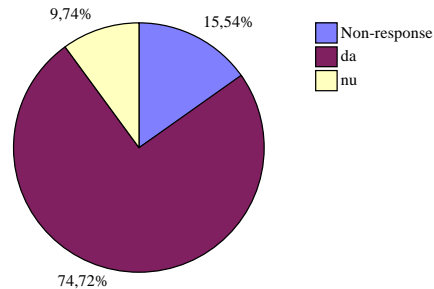
aspectul ecologic	N°. ans.	Freq.
Non-response	83	15,54%
da	440	82,40%
nu	11	2,06%
<b>TOTAL OBS.</b>	<b>534</b>	<b>100%</b>



2. Does the consumption of organic products become a habit? The answer could be YES if 74.7% of the respondents are eating organic products on a regular basis. We can assume that respondents are not really aware of the definition of organic food, they make confusions between organic and homemade products, presuming that homemade food or the production of small farms are entirely ecological.

Pie-chart representation of 'consum produse alim'

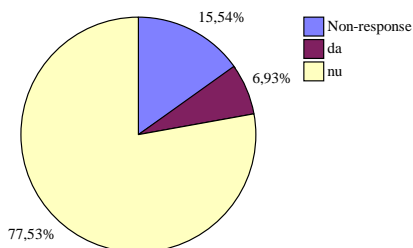
consum produse alim	N°. ans.	Freq.
Non-response	83	15,54%
da	399	74,72%
nu	52	9,74%
<b>TOTAL OBS.</b>	<b>534</b>	<b>100%</b>



3. Regarding the awareness of the government actions and support, a vast majority of respondents 77.53% agree that it is an insignificant involvement of the government in supporting the organic farming and organic food production in Romania.

Pie-chart representation of 'implicatia statului'

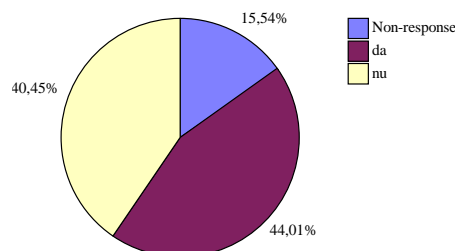
implicatia statului	N°. ans.	Freq.
Non-response	83	15,54%
da	37	6,93%
nu	414	77,53%
<b>TOTAL OBS.</b>	<b>534</b>	<b>100%</b>



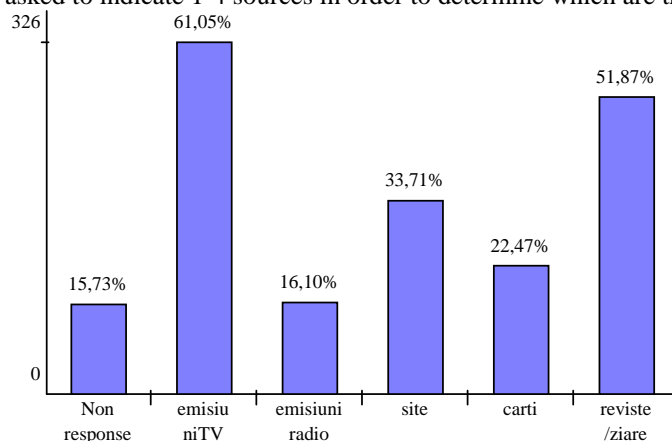
4. The availability of information on organic food for the general public is not satisfactory. 40.45% say that the information is insufficient to be able to make a correct purchase decision, but 44.01% disagree. The big rate of non-response could be associated with a lack of information.

Pie-chart representation of 'informare in domeniul'

informare in domeniul	N°. ans.	Freq.
Non-response	83	15,54%
da	235	44,01%
nu	216	40,45%
<b>TOTAL OBS.</b>	<b>534</b>	<b>100%</b>



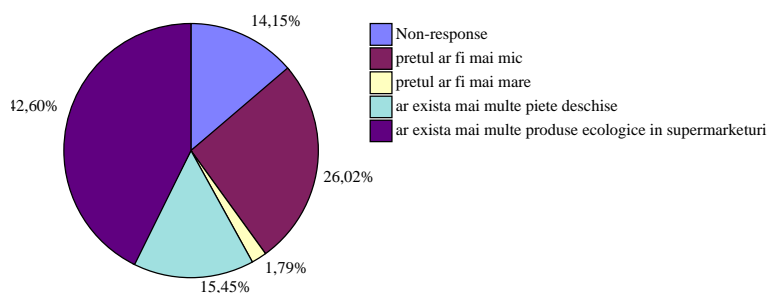
5. The main source of information for consumers are TV documentaries (61%), radio (16.1%), websites (33.71%) and other printed sources (51.87%). The figures are extracted from a multiple choice question, respondents are asked to indicate 1-4 sources in order to determine which are the most accessed sources:



6. The consumption intentions in the future are subject to several aspects, such as: lower prices (29.96%), more markets for fresh veg&fruits (17.79%), a wider range of organic products on the supermarket's shelves (49.06%)

motivatia consumului	N°. ans. (rank 1)	Freq.	N°. ans. (rank 2)	Freq.	N°. ans. (rank 3)	Freq.	N°. ans. (rank 4)	Freq.	N°. ans. (sum)	Freq.
Non-response	87	16,29%	380	71,16%	54	10,11%	12	2,25%	87	16,29%
pretul ar fi mai mic	159	29,78%	0	0,00%	0	0,00%	1	0,19%	160	29,96%
pretul ar fi mai mare	11	2,06%	0	0,00%	0	0,00%	0	0,00%	11	2,06%
ar exista mai multe pietele deschise	75	14,04%	20	3,75%	0	0,00%	0	0,00%	95	17,79%
ar exista mai multe produse ecologice in supermarketuri	202	37,83%	47	8,80%	13	2,43%	0	0,00%	262	49,06%
<b>TOTAL OBS.</b>	<b>534</b>		<b>534</b>		<b>534</b>		<b>534</b>		<b>534</b>	

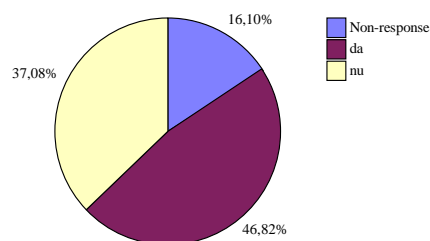
Pie-chart representation of 'motivatia consumului'



7. The trust in Romanian organic labelled food as genuinely organic is low, only 46.82% of respondents are sure of it and 37.08% are not.

Pie-chart representation of 'increderea in produse'

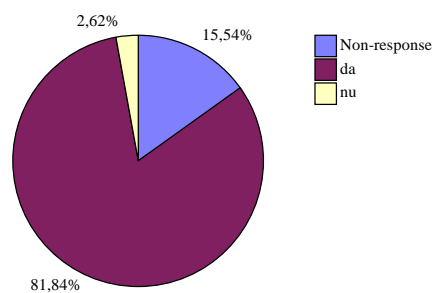
increderea in produse	N°. ans.	Freq.
Non-response	86	16,10%
da	250	46,82%
nu	198	37,08%
<b>TOTAL OBS.</b>	<b>534</b>	<b>100%</b>



8. The vast majority of the respondents (81.84%) agree that a specialized course should be included in the primary/secondary school curriculum

Pie-chart representation of 'necesit.cursurilor i'

necesit.cursurilor i	N°. ans.	Freq.
Non-response	83	15,54%
da	437	81,84%
nu	14	2,62%
<b>TOTAL OBS.</b>	<b>534</b>	<b>100%</b>



## APPENDIX B: Correlational Analysis

1. Is the consumers' age important in shaping the interest for organic products? NO

*Q1 organic products interest x Q21.respondent's age*

arsta respondentulu aspectul ecologic	intre 20 35	intre 36 50	peste 51	TOTAL
da	255	164	20	<b>439</b>
nu	8	2	1	<b>11</b>
<b>TOTAL</b>	<b>263</b>	<b>166</b>	<b>21</b>	<b>450</b>

The dependence is not significant (Chi2 = 1,94, df = 2, 1-p = 62,02%).

2. Is organic product consumption dependent on the government involvement? YES,

*Q3 organic consumption x Q16.government implication*

implicatia statului consum produse alim	Non response	da	nu	TOTAL
Non-response	82	1	0	<b>83</b>
da	1	34	364	<b>399</b>
nu	0	2	50	<b>52</b>
<b>TOTAL</b>	<b>83</b>	<b>37</b>	<b>414</b>	<b>534</b>

The dependence is highly significant (Chi2 = 520,66, df = 4, 1-p = >99,99%).

3. The purchase intention is hardly influenced by the monthly income of the consumer.

*Q6.purchase intention x Q24.monthly income*

motivatia consumului	venitul lunar	sub 700 lei	intre 701 1200	intre 1201 3000	peste 3000	TOTAL
pretul ar fi mai mic		27	75	55	2	<b>159</b>
pretul ar fi mai mare		3	1	6	1	<b>11</b>
ar exista mai multe pietee deschise		16	50	28	1	<b>95</b>
ar exista mai multe produse ecologice in supermarketuri		34	129	88	11	<b>262</b>
<b>TOTAL</b>		<b>80</b>	<b>255</b>	<b>177</b>	<b>15</b>	<b>527</b>

The dependence is hardly significant (Chi2 = 14,00, df = 9, 1-p = 87,77%).

4. The confidence in Romanian organic products is a highly significant factor which influences organic food consumption.

*Q 14.confidence R organic x Q3.organic food consumption*

consum produse alim increderea in prod e	Non response	da	nu	TOTAL
Non-response	83	3	0	<b>86</b>
da	0	231	19	<b>250</b>
nu	0	165	33	<b>198</b>
<b>TOTAL</b>	<b>83</b>	<b>399</b>	<b>52</b>	<b>534</b>

The dependence is highly significant (Chi2 = 522,51, df = 4, 1-p = >99,99%).

5. The confidence in Romanian organic products is highly significant, influenced by the degree of knowledge that consumers acquire in the field.

Q14.confidence in R organic products x Q12.extent of knowledge

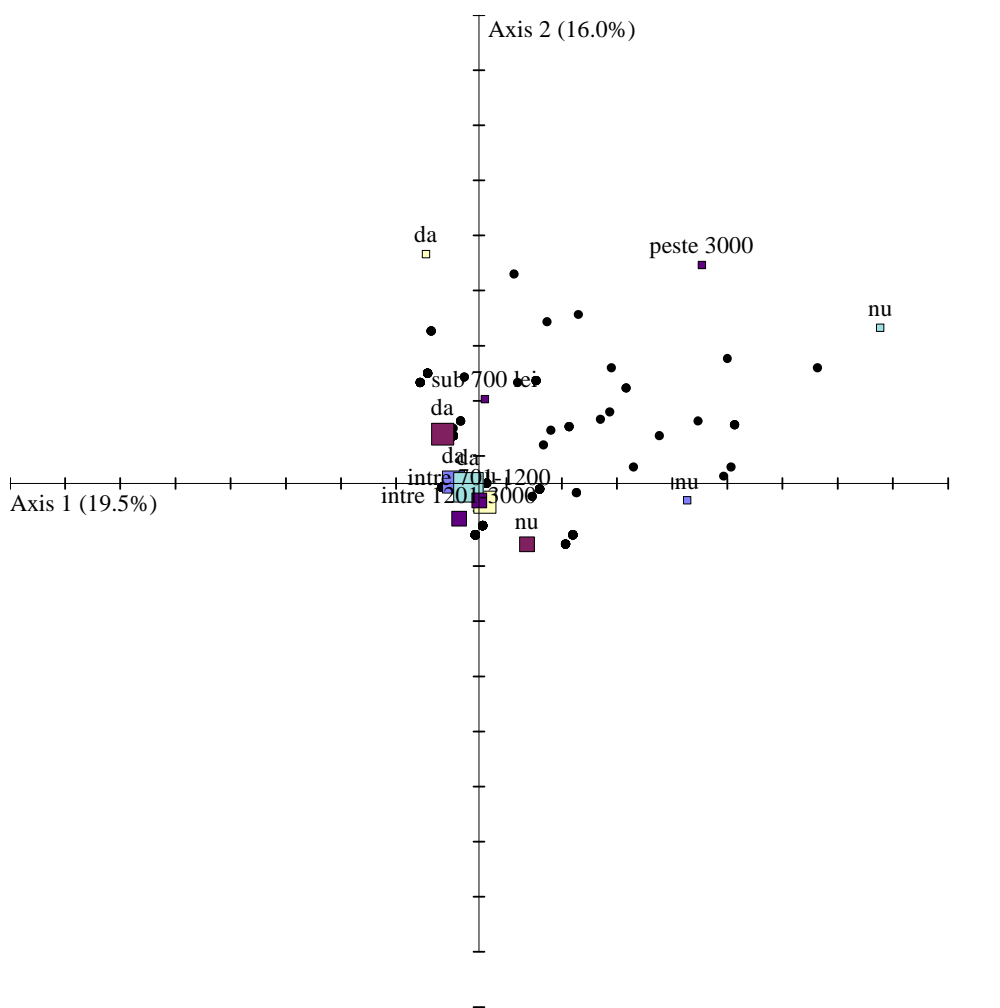
<b>informare in domeniul increderea in produse</b>	Non response	da	nu	<b>TOTAL</b>
Non-response	83	3	0	<b>86</b>
da	0	155	95	<b>250</b>
nu	0	77	121	<b>198</b>
<b>TOTAL</b>	<b>83</b>	<b>235</b>	<b>216</b>	<b>534</b>

The dependence is highly significant (Chi2 = 540,08, df = 4, 1-p = >99,99%).

6. Multifactor analysis : The organic products consumption is a variable whose variance can be explained through the following variables: confidence in R .organic products, government implication, need for education and finally consumer's monthly income.

	<b>c1</b>	<b>c2</b>	<b>i1</b>	<b>i2</b>	<b>i1</b>	<b>i2</b>	<b>n1</b>	<b>n2</b>	<b>v1</b>	<b>v2</b>	<b>v3</b>	<b>v4</b>
<b>c1</b>	396	-	231	165	33	363	390	6	65	179	141	11
<b>c2</b>	-	51	19	32	2	49	44	7	6	30	11	4
<b>i1</b>	231	19	250	-	26	224	245	5	42	119	81	8
<b>i2</b>	165	32	-	197	9	188	189	8	29	90	71	7
<b>i1</b>	33	2	26	9	35	-	34	1	6	17	10	2
<b>i2</b>	363	49	224	188	-	412	400	12	65	192	142	13
<b>n1</b>	390	44	245	189	34	400	434	-	67	206	148	13
<b>n2</b>	6	7	5	8	1	12	-	13	4	3	4	2
<b>v1</b>	65	6	42	29	6	65	67	4	71	-	-	-
<b>v2</b>	179	30	119	90	17	192	206	3	-	209	-	-
<b>v3</b>	141	11	81	71	10	142	148	4	-	-	152	-
<b>v4</b>	11	4	8	7	2	13	13	2	-	-	-	15





	Axis 1 (+19.5%)		Axis 2 (+16.0%)	
POSITIVE CONTRIBUTIONS	nu	+34.3%	da	+35.5%
	nu	+32.8%	peste 3000	+13.6%
	peste 3000	+11.7%	da	+11.5%
	nu	+7.0%	sub 700 lei	+9.8%
	nu	+0.1%	nu	+6.1%
	sub 700 lei	+0.0%	da	+0.0%
NEGATIVE CONTRIBUTIONS	da	-5.6%	nu	-14.6%
	da	-4.4%	intre 1201-3000	-4.0%
	da	-1.7%	nu	-3.0%
	intre 1201-3000	-1.2%	intre 701-1200	-1.2%
	da	-1.0%	nu	-0.4%
	intre 701-1200	-0.0%	da	-0.2%

**Note:** The analysis will be continued and the final results will be provided to whoever is interested.

# ENTREPRENEURIAL MOTIVATION IN COTTAGE INDUSTRY -A CASE STUDY IN THE SILK INDUSTRY OF ASSAM (INDIA)

NIHAR RANJAN KALITA, S.B.M.S. COLLEGE

## 1. INTRODUCTION

In India, Cottage industry refers to “one which is carried on wholly or primarily with the help of members of a family either as a whole or a part time occupation”. The location of cottage industry is restricted in village. So it is regarded as village industry also. Basically village industry is a part of small scale tiny industry. ‘Fixed capital investment in a unit’ has also been adopted as the criteria to make distinction between small scale and village industry and large scale industry since the inception of first Industrial policy of India on 1948. In the Industrial Policy statement 1991, the Indian government considered that a small scale unit may have the investment in plant and machinery up to six million rupees and for the tiny unit the limit is up to .5 million rupees. However to make the distinction more clear between small-scale and village industry, the Government has brought a change in the terminology that is used to refer small scale and cottage industry. In 2006, the Government of India enacted the Micro, Small and Medium Enterprises Development Act (MSMED Act) which provides the first ever legal framework for recognition of the concept “enterprise” (comprising both manufacturing and services) and integrating the three tiers of these enterprise i.e. micro, small and medium.<sup>1</sup> So, the term village industry/ cottage industry is being replaced with the term micro and small scale enterprise (MSEs) to sort out the conceptual anomalies and for clarity. Hence forth we would also use the same term to mean a cottage industry.

Worldwide, the micro and small enterprises have been accepted as the engine of economic growth. In India, the MSEs play a pivotal role in the overall industry economy of the country. It is estimated that in terms of value, the sector accounts for about 30% of the manufacturing output and around 33% of the total export of the country. The major advantage of the sector is its employment potential at low capital cost.<sup>2</sup> The labor intensity in MSEs is estimated to be almost 4 times higher than the large enterprises. India is a labor surplus country having almost 65% of its people living in rural area. So MSEs play a significant role for facilitating employment opportunity to rural people. In 2004-05, village industry alone has given employment to 7.68 million rural people.

Since 1991, India has initiated a new industrial set up under the policy of Liberalization and Privatization. Opening up of Indian economy through reforms have given twist to the industrial scenario of the country. During the post-reform era, total number of small scale units has increased from 1.95 million in 1990-91 to 10.81 million and number of employment has also touched a new height i.e 31.25 million in 2006-07.<sup>3</sup>

The contribution of small scale industry (SSI) sector towards export is also increasing at a faster rate during the post reform era. On the ground of statistical bandwagon, it is clear that micro and small scale sector has registered growth in terms of production, employment and export. But on the other hand the number of sick industry in this period reveals a complete different picture. At the end of March 2003, there were nearly 1.71 lac sick or weak industrial units on the roll of scheduled commercial bank. Surprisingly more than 1.67 lac of these units were in the small scale sector which constitute about 98% of their total number. Two major problems responsible for the sickness of small and tiny industries are lack of availability of adequate credit, especially working capital and problems associated with marketing of products.<sup>4</sup> In this respect, Small scale Industry Association remarked that the main problem of sickness of small scale and micro industry is that they are not able to effectively market their products in the absence of brand names and superior advertising power of large scale industry. Dominance of medium and large scale industry in the new free economy has made MSEs unviable. Removals of various protection measures of SSI in the free economy have given a jerk to the survival of MSEs. The same is true in case of Assam also.

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<sup>1</sup> Dhar,P.K., Indian Economy-Its growing Dimension,pp-435

<sup>2</sup> www.kvic.nic.in

<sup>3</sup> Dhar,P.K., Indian Economy-Its growing Dimension,pp-427

<sup>4</sup> Dutta,Ruddar & Sundharam,KPM, Indian Economy,pp-664

## 2. ABOUT ASSAM

Assam is the pioneer state of the North-Eastern region in India, whose economy is full of potentialities. The state is located in the far north-east part of the country. The area of the state is 78523 sq. kms. as against the country's total area of 32,80,483 sq. kms. Thus the state constitutes 2.39 per cent of the total land area of the country. Population of Assam stood at 20.66 million as 2001 census. The state is bounded by Bangladesh on the west and south and is very near to Myanmar on the east and to Tibet, Bhutan and China on the north. The economy of Assam can be described as an underdeveloped one and characterized by poverty, industrial backwardness, unemployment, paucity of infrastructure, untapped natural resources etc. The state is lagging behind other states in regard to industrial development. This is due to absence of large investments in industry during preceding plans and Assam's geographical isolation. The industrial sector in the state has been centralized around some major industries, i.e., Tea, Jute and Oil. The volume of private industrial investment in Assam is very poor due to heavy risks involved in the investment. These risks are both natural risks, arising through natural calamities like flood, droughts and political risk as the state itself is a border state<sup>5</sup>.

It needs no emphasis that absence of industrial development in Assam is both a cause and an effect of dearth of local entrepreneur. An industrial culture is yet to take its root in the heart of the indigenous people of Assam.<sup>6</sup> Though the state is lagging far behind than the other parts of the country in relation to industry, traditionally the state is known for its rich indigenous handloom, handicraft products produced in various tiny and cottage industry. Various cluster of production at local level were existent in different part of the state. As per information made available by Khadi and Village Industries Commission, Assam (KVIC) there were no. of families in Hajo and Sarthebari producing brass-bell metal utensils, in Barpeta dealing with ivory and fire works, cane and bamboo furniture in different parts of the state. But the remarkable feature of these once-very -famous-industries are that they are almost non-existent at present. Various causes including dearth of capital, raw material etc can be assigned to their collapse. But the main reason of the non-existence of these home based industries is lack of entrepreneurship in the second generation of the entrepreneur family. It is noticed that most of youth from the business household of these industries are reluctant to carry on their traditional businesses in the adverse situation and rather opted for different business or government job. It is the silk industry of Sualkuchi village where the same logic does not hold good. The village is popularly known as "The Manchester of India" for its unique handloom product especially *mulberry* and *muga* silk cloth.

## 3. SILK INDUSTRY OF SUALKUCHI: A PROFILE

Sualkuchi is a small census town. It consists of two revenue villages, i.e., Sualkuchi and Bamun-Sualkuchi standing on the north bank of the mighty river Brahmaputra 32 Km west of Guwahati, the capital of Assam. The two combined revenue villages or census towns popularly known as Sualkuchi covers an area of 12 sq. km, 4km from east to west and 3 km from north to south to the bank of river Brahmaputra. It provides residence to 21,252 local people excluding the migrant weaver and other laborers as per 2001 census. However inclusion of the migrant would increase the number up to 50,000 at present. As a matter of fact Sualkuchi was a "craft village" having several cottage industries till the forties of the last century. Besides the handloom industry, oil pressing in the traditional *ghani* in the Bamun-Sualkuchi, goldsmithy of the Sonaripara, pottery in the Kumarpara area in West Sualkuchi comprised some of the cottage industries. The industries other than handloom are now almost extinct and all the artisans have taken up silk weaving as a profession, even the fisher man of river side area have given up their traditional profession and taken up silk weaving as the main source of income.<sup>7</sup>

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<sup>5</sup> Dhar,P.K., The Economy Of Assam, pp-36-37

<sup>6</sup> Baruah,R.K., Financing Small Scale Industries, PP-10

<sup>7</sup> Baishya,Prabin, The Silk Industry of Assam,pp-63

**Table No-1: Facts of Silk Industry, Sualkuchi<sup>8</sup> #**

<i>Sl. No.</i>		<i>1961</i>	<i>1971</i>	<i>1981</i>	<i>2002</i>
1.	Total No. of looms	1200	2165	2998	16717
	A. <i>Pat</i>	-----	1359	2680	12688
	B. <i>Muga</i>	-----	806	318	2645
	C. <i>Tasar</i>	-----	-----	-----	1384
2.	No. Of Households with looms		1077	1478	2968
3.	Average No. Of looms per family	-----	-----	-----	5.63
4.	Employment				33924
	A. Loom Owner	-----	-----	-----	4715
	B. Hired weavers	-----	-----	-----	13827
	C. Family weavers	-----	-----	-----	5341
	D. Helpers	-----	-----	-----	7770
	E. Yarn reelers	-----	-----	-----	2271
5.	Fabric Production	-----	-----	-----	3million sq.mtr (per year)

The data of Table-1 reveal that the number of looms in Sualkuchi has increased by 5.57 times in 2002 over 1981 and the household having looms have also gone up by 2 times. The average number of looms per household was a little more than 2 in 1981, but in 2002 it increased to 5.63 per family. This is a clear picture of growing importance of silk industry in Sualkuchi though the country's economic environment is not conducive for micro entrepreneur. Tremendous progress of this cottage industry in the era of intensive competition of large-scale industry has given a scope for the researcher to study into various matter of surviving factor of the industry in a non conducive environment. We, being associated with the village for last 30 years have noticed immense entrepreneurial capabilities of villagers to keep their business going on against all odd.

In the context of this unique characteristic of this village industry, we have proposed a case study among the rural entrepreneur of Sualkuchi village with the following objectives:

- 1) To analyze the factors that have motivated rural people of Sualkuchi to enter into the business.
- 2) To prescribe some suggestion for improving entrepreneurial ability among village people of India in the context of global competition. (65% of people still live in village of India.)

#### **4. SAMPLE DESIGN**

The family business of Sualkuchi's silk industry has got tremendous importance at present due to its large employment absorbing capacity and low cost of production per unit of output in a comparatively capital and technology deficient society. It is to be mentioned that due to absence of Government jobs and weak industrialization base in the north-east region (NER) of India, micro and small scale enterprise play a vital role in shaping industrial sector in the region. The

<sup>8</sup> Ibid,pp-75,128-129

# These facts are the results of a project and writer of this paper worked as a supervisor in the project Financed by NEDFi, Guwahati, and it is the first comprehensive study of the industry.

population of Sualkuchi village is around 50,000 including migrant laborer. The village consists of two revenue village under three *Panchayat* (Local government) namely East *Panchayat*, Middle *Panchayat* and West *Panchayat*. For the Study we have followed the division of Chuba (locality) of the village. In every locality youth entrepreneur not crossing 40 years of age were found out and a proportionate sample were selected out of total youth entrepreneur in every chuba or locality. Age 40 is taken as a cut off age by considering the fact that even at the time of opening up the economy through reforms the person attained at least twenty years in 1990. However care has been taken that in any case sample of a particular chuba is not exceeding 10% of total sample. This is done to give equal representation to youth entrepreneur of all area of the village and to avoid biasness in the survey. In this way we have selected 200 samples from the youth entrepreneur of the village. A questionnaire with suitable questions to judge the entrepreneurial motivation was prepared and distributed among those selected youth entrepreneur of the village under the supervision of seven well trained enumerators. Another questionnaire was also canvassed among some selected successful entrepreneur of the village to cross-match the facts aired by young entrepreneur of the industry. The researcher individually collected information of this questionnaire and met people directly to collect information to make study more comprehensive and accurate. However it is worth to mention that judging or measuring motivation in an industry particularly in a cottage/ village industry can not be done correctly by using methods that we follow in case of modern, large scale industry. For that, prolong attachment to the local people is an utmost necessity. The researcher humbly admits that staying almost 30 years in the village and having looms in his own home have given him ample scope to understand the business as well as entrepreneur properly. However in judging and analyzing the facts, the analyzer tried his level best to maintain neutrality to get the result perfect.

## 5. HYPOTHESIS AND METHODOLOGY

The study is purely analytical and confined to main production center of silk cloths including traditional *Mekhela-Chadar*<sup>9</sup>, *Saree*,<sup>10</sup> etc of Sualkuchi. In the study it is hypothesized that in Sualkuchi

- I) Society assumes entrepreneurship as good and beneficial.
- II) Family having silk business encourages their children to enter into the same business.

By its very nature, the topic, analyzing of export potentiality of silk industry entails exposition of vital and intricate areas of silk production of Assam through a comprehensive and schematic investigation based on collecting and collection of field data duly blended with the storehouse of book knowledge. Thus our study would be based on data obtained from both primary and secondary sources.

## 6. DATA INTERPRETATION AND FINDINGS OF THE STUDY

As it is mentioned in the Table-1, Sualkuchi's silk industry has registered positive sign of growth in the era of intense competition of liberalized era; the village industry occupies an important role in the industrial picture of the state. Due to some inherent features of MSEs like low production capacity, high cost of production and absence of selling cost, they can not compete with large scale, multi national company (MNCs). Worldwide, micro enterprises are facing these problems of incompetence. So they are either forced to stop functioning or to modify structure to loss their original identity. Considering the growth of Sualkuchi's cottage business as an exceptional one and entrepreneurial activities of young generation are solid, we have done an analysis with the accumulated data to examine the hypothesized fact. The findings after scanning all details are listed below.

### 6.1 Early-age Entrepreneurship:

In a factor driven economy, growth of early-stage entrepreneurship is common. However in rural areas of India as well as in Assam, young people are more attracted to white color job due their perception about agriculture and business are troublesome and problematic. Backwardness of agriculture and absence of basic infrastructure with inadequate technical education, inadequate capital have compelled rural young generation to get absorbed in jobs which require less hard labor but provide financial security to himself and family. Inability of Government to provide employment has created lots of socio-economic problems particularly the problem of militancy in backward region of the country. It is well known that north-east region of the country is the hot bed of terrorism. Present youth of the region are attracted to terrorist group who provide alternative engagement in the name of revolution. In many villages of Assam this phenomena is very common. However the economy of Sualkuchi village is strong enough to provide alternative employment opportunity that results almost zero rate of youth participating in militancy. New generation of this village value their business and go to participate in it without any second thought. This fact can be established with the help of Table-2.

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<sup>9</sup> *Mekhela-Chadar*- A two-piece traditional dress material wore by Assamese woman

<sup>10</sup> *Saree*- a five meter long single piece dress material wore by Indian woman.

**Table-2: Entry Age Group of Entrepreneur**

Entry Age group	No Of Entrepreneur	% to Total
15-20	11	5.5%
20-25	105	52.5%
25-30	39	19.5%
30-35	40	20%
35-40	5	2.5%
Total	200	100.00

In the Table-2, it is observed that the business generates more attraction to the age group of 20-25. Out of 200 entrepreneurs 105 entrepreneurs (52.5%) had started their entrepreneurial activity as early as in between 20 to 25 years of age. Again the no. of entrepreneur that taken up entrepreneurial activity at the age group of 25-30 are 39 (19.5%). If we add both the figure, it come out that out of 200 entrepreneurs 144 business man started their business at the age group of 20 -30! Obviously this is very tender age of their life. This fact reveals that entrepreneur of Sualkuchi are motivated to enter into business at very early age of their life and it signifies that they are entering in to the business not out of frustration of not getting any Government job rather have high dream with their business. In the Table -2, it is seen that only 2.5% of business man started their venture at the age of 35 and afterwards. Again it is noticed that even at the age group of 15 -20 also 11 entrepreneur shouldered upon the duty of entrepreneurship in their family. This is a really peculiar fact. This data shows that even a person without finishing their school education entered into the business. Generally no cottage industry shows this kind of trend of early-stage entrepreneurship in Assam. So the case of Sualkuchi's silk business need proper examination and for that, motivating factors should be verified.

## **6.2 Motivational Factors to Enter in to the Enterprise:**

Motivation refers to the way in which urges, drives, desires, striving, and aspirations or needs direct, control, or explain the behavior of human being.<sup>11</sup> In simple term motives are expressions of a person's goals or needs<sup>12</sup>. Motives are the background prompter to carry on entrepreneurial activity and thus occupy a significant place in determining entrepreneurial capability and shaping business attitudes in a society. It can be developed through training and education. As number of rural people is more than 65 percent in the country's total population ,it make a case to give importance to rural entrepreneurship for balanced regional development, generation of employment and optimum use of latent resources. Because of such importance, emphasis has been given for improvement of rural industries in every industrial policy of India. However, rural entrepreneurship is marred with various problems. One of the major hurdles is growing negative attitude among rural people regarding micro and small enterprises as number of them are now either sick or on the verge of collapse. In the post-liberalized era, Indian youth are more attracted to the jobs of service sector. In fact it recorded a quantum leap. Unprecedented growths of information technology, computer software, and multinational company have lured young generation to high income jobs. The same trend is also observed in Assam both in rural as well as urban areas. Exodus of young people outside Assam, particularly to metro cities to seek job has created vacuum in the society and it has major socio-economic consequences. But in contrast, young generations of Sualkuchi village are showing a different attitude against the national trend. Instead of getting away, they are showing an attachment to their age old traditional business. The data of increasing no. of looms and local entrepreneurs have already established the fact. So in the study, we have enquired about the fact and tried to find out the causes of motivating young generation to take up entrepreneurship profession though there are number of problems attached to the business. There are several motivational factors that generate positive enthusiasm among local youth to enter into the business. The information regarding their motivational attributes is summarized in Table-3.

<sup>11</sup> McClellan, D.C., The Achieving Society.

<sup>12</sup> Kanka,S.S., Entrepreneurship Development,pp-40



**Table-3: Factors to Accelerate Entrepreneurial Activity**

Factors To start Business Activity	Entrepreneur's Ranking			Weighted score	Rating	Rank
	One	Two	Three			
To Earn Money	23	17	35	138	11.50	05
To carry out Family Business	76	45	32	350	29.17	01
Being Sualkuchian	17	33	30	147	12.25	03
Motivated By Family Members	28	30	27	171	14.25	02
No other option	20	28	18	134	11.17	06
Influence of Training	3	2	6	19	01.58	08
To be Self dependent	14	25	10	102	08.50	07
Influence of Success Stories of other Entrepreneur	19	20	42	139	11.58	04
Total	200	200	200	1200	100.00	

Under the present study, the entrepreneurs were asked to rank in order of preference, any three of given factors. The factors of motivating them were ranked by weighted score by according 3 points to the factors ranked first, 2 points to the factors ranked second and 1 point to the factors ranked third. On the basis of the percentage of total weighted score of each factor overall ranking is made. From this classification, the factors to carry out family business have got first rank. It implies that a prominent compelling factor of the entrepreneur is responsibility of carrying family business. And thus signifies that the society is successful to promote its value on the business to attract new business man from their own cult. On the basis of weighted score, the second strongest preference is given to family background .It has been found to be the most prominent factor that effects formation of attitude towards entrepreneurship. This fact is highly significant among the silk producer of Sualkuchi and prescribed an answer to the other industry based society to revive their sick industries .Another motivating factor for the entrepreneur is the feeling of being sualkuchian among themselves..This is a extra-ordinary reason to motivate people to take up entrepreneurial responsibility that come out in the study .The feeling of being Sualkuchian has also led some service holder of the village to own looms so they can sell silk clothes among colleagues and their family member and earn some extra money. It signifies high regards of locale people to the business and so the strength of the industry. "No other option" factor ranked sixth in factor list and thus shows that most of the entrepreneurs entered into business not out of frustration of not getting job. The fact is supported by early-stage entry factor also. Another startling fact of the study is the absence of formal training among the local entrepreneur. Training is considered an important tool to encourage rural people to embark enterprise. For that, Indian Government has established various industry specific institutions to provide necessary expertise and training in the rural area. However contrary to the established belief , Sualkuchi's entrepreneur had set an example that even without formal training entrepreneurship can be boosted provided the society viewed the business activity as profitable and rewarding one. In the survey it is revealed that only 15 entrepreneur (7.5% of total sample) have received training from different training institute like *Assam Samabay Resham Pratisthan*, National Institute Of Fashion Technology (NIFT), Sualkuchi Fashion Technology(SIFT), Central Silk Board etc. Instead of training, young entrepreneur were more fascinated by success stories of other silk business man of the village. Possession of material assets like real estate, luxurious car and high standard of living of some entrepreneur have indirectly attracted young generation to the business. It is to be recalled that large scale production of silk cloth have given more profit to some entrepreneur and it result inflating money power of them in the society. When simple man turn to be a big businessman by taking entrepreneurial activity within a short spun of time in front of young people they accepted them as role model. As a result they conceive the idea of doing the same business later on. With it they envisage to gain more money power, improve standards of living etc. In the survey 8.5% weighted score has registered the factor; to be self dependent and thus ranked eight in the rank chart.

### 6.3 Influence of Family Occupation:

It has been found that family occupation have a direct impact in the building of entrepreneurship among youth of village people. An individual's socialization takes place at home, at the place of education and in other spheres of interaction.<sup>13</sup> Family back ground along with parental role model has been found most prominent factor that affects early socialization

<sup>13</sup> 'Goel, Vohra, Zhang & Arora, ' Attitude of Youth Towards Entrepreneur and Entrepreneurship, Working Paper No 2007-01-06,pp-6

and hence formation of entrepreneurship. From the information of the present analysis, it is found that family having silk business are often lead their male child to take up that entrepreneurial activity that too at the very early stage of life. The result of family occupation is shown in the Table-4

**Table-4: Family Occupation of Entrepreneur**

Family Occupation	No. of Entrepreneur	% to Total
Agriculture	7	3.5
Service	34	17.0
Silk Business	102	51.0
Weaving	20	10.0
Shop	18	9.0
Trade	10	5.0
Others*	9	4.5
<b>Total</b>	<b>200</b>	<b>100.00</b>
*Other occupation include Bonded labor, Helpers etc		

In the table-4, it is clear that 51% of entrepreneur i.e. 102 entrepreneur are having silk business as their family occupation. If we add figures of weaving and trade, the number stands at 132. It is to be noted that weaving in handloom as well as doing trade of silk cloth is also connected with silk business of Sualkuchi. So total no. of entrepreneurs having silk business stand at 132 (66% of total entrepreneur). From the figure it is clear that family occupation has direct effect on the youth entrepreneur of Sualkuchi. The economy of Sualkuchi is non agriculture and only 7 entrepreneurs are coming from agricultural background only. Even it is found that these entrepreneurs are not originally from Sualkuchi and settled in the village whose fathers were migrant weaver in the silk looms earlier.

### 6.3 Problems of Entrepreneur:

Hindrance of business stands as a bottleneck of entrepreneurial activity. General bottlenecks in the development of village industries are mostly financial constraints, lack of technical know- how , lack of training ,management problem, lack of quality control, high cost of production, lack of market information, obsolete and primitive technology and lack of promotional activity.<sup>14</sup> In our study we tried to find out what problems youth entrepreneur of Sualkuchi have faced at the time of starting their business. The information collected is presented in the Table-5. As far as Problems are concerned under the present study, the entrepreneurs were asked to rank in order of importance, any three of seven given problems. The ambitions marked by them were ranked by weighted score. On the basis of the percentage of total weighted score of each problem, overall ranking is made.<sup>15</sup> As it is observed in the Table -5, number one problem of the local entrepreneur of Sualkuch's silk business at the starting period of venture is 'shortage of capital'. In the chart, 28.08% weight- age has given to this problem and it ranked No. 1. Since eighties of last century, the pattern of silk Industry has taken a new shape and it turned to be factory oriented rather than confined to family members only. New entrants to the business were more interested to peruse business in large scale by investing more capital and employing more labor. In fact, in the study also we have found that though the average no. of looms per household was 2 in 1981 the no of average looms per family gone up to 5.63 in 2002. In the survey we got 5 such entrepreneur who owns loom more than 30 in their factory. Obviously this necessitates more capital than the predecessor. Increasing price of silk yarn and other raw materials, doing related works through hired labor have increased the amount of investments per loom. However, in the village there are only two nationalized bank (one bank has started operation only in March'09) with three branches and two other local banks to cater the need of huge entrepreneur of the industry. Moreover these banks were not interested to provide loan to cottage industry due to high risks involved in it.

<sup>14</sup> Khanka,S.S., Entrepreneurial Development,pp-29

<sup>15</sup> Prasain,G.P.(Ed), Entrepreneurship And Small Scale Industries,pp-45

**Table -5: Problem Faced By Entrepreneur at the Entry Time**

List of Problems	Entrepreneur's Ranking			Weighted score	Rating	Rank
	One	Two	Three			
Shortage of Capital	68	52	29	337	28.08	01
Shortage of Space	47	42	31	256	21.33	03
Non-Availability of labor	36	57	63	285	23.75	02
Fear Of Loss	20	12	15	99	08.25	05
Lack Of Business Idea	07	03	12	39	03.25	07
Not Permitted by Family	11	23	32	111	09.26	04
Others*	11	11	18	73	06.08	06
Total	200	200	200	1200	100.00	

\*Others include problem "like not interested to business first", "lack of confidence" etc

Number two ranked problem of the entrepreneur is "shortage of laborer/ weaver". The reason is obvious from the fact that if everybody turns into entrepreneur instead of working as weaver in the loom there must be shortage of laborer. In the industry 72.13% of weavers are hired from distant villages of the state. Sometime they do not come back from their home after taking heavy amount as advance money for the work. This has increased inactive looms in the industry. The third major problem according to the weighted score is the problem of space (21.33%). The small loom owners of Sualkuchi are mostly using a part of the residential house and they have no land to construct even an ordinary house as work shed.<sup>16</sup> It may be recalled that Sualkuchi is one of the thickly populated villages of India and the density of population per sq.km is about 3334 as against the national average of 325 per sq. km! Because of such heavy density of population those willing to have a separate work shed for looms can not construct it for want of space. Among other initial problem, 11 entrepreneurs have given the first choice that their parents were not interested to allow their children to start this business. Same feeling was also aired 23 and 32 no. of entrepreneurs with the second and third choice respectively. Close enquiry of these entrepreneurs revealed the fact that some parent felt that their children are not matured enough to carry out entrepreneurial activity as the business becomes more troublesome day by day. Some of parent rather store big dream for their children other than this business. However though they initially hesitate to allow them to do business later on they did not stop to provide necessary help for the progress of the business. Other problems marked in the list are "fear of loss, lack of confidence, lack of business idea etc. However these problems are very negligible in terms of weighted score and thus occupy low rank in the problem chart.

#### 6.4 Ambition in School Days:

Ambition is the wrench of all motives. The intentions and initiatives of a man are motivated by his/her ambitions. Ambitions in schooldays or in student life are also considered as motivational factors for entrepreneur. Well conceived notions, careful planning, calculated risk training, timely decision making and swift execution make the ambition meaningful and fruitful.<sup>17</sup> Apart from having motivation one needs to have opportunity to fulfill their ambition. Some people nurse an ambition and to fulfill the same, plan and obtain necessary skills and facilities and achieve their ambition in a planned way.<sup>18</sup> In this regard we have enquired about the number of entrepreneur having ambition in schooldays to increase entrepreneurship in Sualkuchi. Information about their ambition at tender age is required to know about the attitude of local people regarding their age old traditional business. In the following Table.-6 we have summarized the finding.

<sup>16</sup> Baishya, Prabin, The Silk Industry of Assam , pp-121

<sup>17</sup> Prasain,G.P.(Ed), Entrepreneurship And Small scale Industries,pp-45

<sup>18</sup> Indian Institute of Entrepreneurship, Problems and Prospects of Woman Entrepreneurship in NE region- A critical Study,pp-35

**Table-6 : Ambition in School days of Entrepreneur**

Sl. No	Ambitions	No. Of entrepreneur	% To Total
1	To Become A rich person	42	21%
2	To Be Highly Educated	26	13%
3.	To Get a Job	25	12.5%
4	To be a responsible Family Person	12	6%
5	To be a businessman	93	46.5
6	To enter Into politics	2	1
	Total	200	100.00

The information from Table -6 reveals that society of Sualkuchi accord high value to business which is being reflected in the attitude of next generation. It is observed from the data of Table-6 that most of the entrepreneur is not entered into business by luck or default. . Rather majority of them had a conceived dream to do silk business since the schooldays. It is quite natural that when a society gives more value to a particular industry or business, new blood often tends to flow into it. Out of 200 entrepreneur 93 (46.5% of total) remarked that they had ambition to enter into silk business right from school days. 21% of entrepreneur had an ambition to earn money in their school days. Though there was no any instrument to judge how they planned to earn money, but one can assume the impact of social surrounding and social influence in the mindset of growing kids. So they are also likely to be motivated by business activity of either family or neighborhood. Education got third importance in terms of number and percentage. It seems that present entrepreneur were not much interested either for higher education and job. It is worth to mention that non existence of other once-famous MSEs of Assam is mainly due to attraction of white color job among new generation as they are well secured, less risky and socially preferable. But the situation of Sualkuchi does not resemble with them. Perhaps this the driving force of Silk business of Sualkuchi.

#### 7. ENTREPRENEUR'S FULFILLMENT OF EXPECTATION:

The main drive behind entrepreneurship is the inner force of the entrepreneur that keeps them on against all difficulties and uncertainties of business. As uncertainties in MSEs are more than other industry functioning in the country, entrepreneur's expectation and degree of fulfillment of their expectation is an important determinant to generate enthusiasm among business community. In Table-7, degrees of fulfillment of expectation of young producer are enlisted.

**Table- 7: Degree of Fulfillment of Expectation**

Degree of fulfillment	No. of entrepreneur	% to total
Fully Fulfilled	29	14.5
Partly fulfilled	130	65
Unfulfilled	36	18
No expectation	05	2.5
Total	200	100.00

Out of 200 entrepreneurs, only 29 (14.5% of total) revealed that their expectation in the business were fully fulfilled. The expectations of 65% of the total entrepreneur (130 out of 200) are partly fulfilled. It is worth to mention that 90 entrepreneurs of 130 whose expectation are partly fulfilled are from the age group of 20-30. Considering their age, we

can come to conclusion that in future they would work hard to fulfill their expectations. In the analysis it is found that only 18% of young entrepreneur felt that their dreams are unfulfilled. On the other hand out of 200 samples only 5 business men disclosed that they had no any expectation at time of starting business. All of them having family background other than silk business and entered in to entrepreneurial activity in the age group of 35-40. Personal discussion with them reveals that they were more interested to government job at first. Even 3 of them were cheated by unscrupulous middleman who taken bribes to give Government job.

## **8. CONCLUSION & SUGGESTION:**

In an under developed country like India utmost care has been given to encourage entrepreneurship among rural people. Various agencies have been set up to train young people because it is the only solution to neutralize the un employment problem in a country having one billion plus population where 65% of them live in rural area. Since 1961 Indian Government has been formulating policies to induce entrepreneur's capability among rural people and providing training through Entrepreneurial Development Programme (EDP) through number of institution. In the north-east region of the country including Assam, institutions like Indian Institute of Entrepreneurship (IIE), Small scale Industrial Development Bank of India(SIDBI), North Eastern Industrial and Technical Consultancy Organization (NEITCO),North-Eastern Development Finance Corporation Limited (NEDFi) and different Government department are assigned to impart education and training to infuse entrepreneurial knowledge among common people. Nevertheless numbers of trainer have increased but the numbers of entrepreneur have not increased proportionately. On the other hand, in some cases it is seen that people are coming forward to carry on their traditional business activities without any formal knowledge and training. After studying of different aspect of young entrepreneur of Sualkuchi village, we can conclude that family and social influence is more vital in moulding entrepreneurship especially in micro and tiny village based industry. The chi-square test of proving a fact also reveal the same result. The test shows that young generation of silk business family are prone to enter into the same business at the very early stage of life than the young people having different occupation in their family.

The youth of business family perceives silk business as respected, rewarding and desirable profession and rather shows an inclination to the business at the very early stage of life. Society and family's attitude to the profession affects young mind as well as their risk bearing capacity. It is noticed in Sualkuchi that though new generation are lacking any entrepreneurship training , it is the social environment that strengthen their mind right from the young age to shoulder entrepreneurial responsibility. On this ground, we can conclude that, class room based training is ineffective until and unless their society does not perceive that business as respectable and beneficial one. So focus of boosting entrepreneurship should be more society centric than individual specific. For that, policies have to be formulated and steps have to be streamlined to penetrate social attitudes of the country.

Revival of sick or dying MSEs is an unsolvable task with burgeoning attacks of large-scale business. No doubt if MSEs are transformed to an subservient of multinational and large-scale industry, the present crisis would be averted but it would vanish their unique character of production. Instead of that if we follow the example of silk business of Sualkuchi where society itself has evolved an resistant power to boost their own business, the situation would be much better for numerous sick and weak village industries who generates employment to millions of people of the country. So it is strongly recommended to the Government to change their views in connection with accelerating entrepreneurship in rural areas and following suggestions are prescribed to improve the situations.

- 1) For stimulating entrepreneurship in rural area, Government agencies should hold awareness camp, workshop with the participation of parents, children and other village person. All should be allowed to take part together so that every strata of society understand the related facts together.
- 2) Instead of focusing on individual training programme, more attention should be given to include Entrepreneurship as a subject in the school curriculum at the very early period of school life.
- 3) In the participatory programme, success stories of fellow entrepreneur should be highlighted to make them role model for other of the village or community.
- 4) Government should construct comprehensive plan together for the society as a whole and should emphasize to accept macro policy instead of micro one.

Implementation of these suggestions properly would glorify the importance of village industry once again in the days of intensive competition in free and liberalized environment. The need of hour for Indian MSEs are not only capital, technological know-how or else but a robust attitude of village entrepreneur that face all hurdles of business. Hope young entrepreneur of silk business of Sualkuchi would fill up that need in coming days too.

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# **EXPLORING THE SYNERGY BETWEEN ENTREPRENEURSHIP AND INNOVATION: STUDY IN FURNITURE SECTOR OF İZMİR**

**İPEK SAVAŞCI KAZANÇOĞLU, EGE UNIVERSITY, İZMİR  
AYKAN CANDEMİR, EGE UNIVERSITY, İZMİR**

## **ABSTRACT**

In the new economy, competitive advantages of the nations are related to producing information and converting it to knowledge where firms can use it as a strategic resource for innovative activities to increase productivity. Society is rediscovering entrepreneurship and its tool, innovation, through increasing participation and growing importance of small businesses in the economy. Furniture sector is one of the rapidly growing sectors of manufacturing and mainly composed of SME's. SME's of the furniture sector face with several problems through the competition like design, quality, costs, production problems, qualified worker and marketing. The furniture sector is one of the sectors where design copying frequently occurs. This problem causes hesitation on firms to develop high cost innovative projects. The aim of this study is to investigate the relationship between entrepreneurship and innovation and their roles in competition. Therefore the current situation of the furniture sector is studied and the problems related to marketing and competitions are highlighted. The relation between innovation and marketing is analyzed together with the entrepreneurial structure of the firms. In accordance with this, the effects of entrepreneurship on the innovative capacity of firms and perception of the firms about innovation for competition and current innovative actions taken by the firms in product, process and organizational fields are examined. The study is conducted through questionnaires for survey research, face to face with 350 randomly selected small and medium sized furniture firms registered in Izmir Chamber of Commerce. SPSS 15.0 program package is used for the analysis of the questionnaires. According to the findings of the study, suggestions are listed for firms to overcome marketing problems based on the viewpoint and actions of entrepreneurship and innovation.

## **1. INTRODUCTION**

The increasingly changing global business environment is characterized by integration, rapid technological changes and growing competition and has forced enterprises to find new ways of competing effectively. Society is rediscovering entrepreneurship and its tool, innovation, through increasing participation and growing importance of small businesses in the economy.

The aim of this study is to investigate the relationship between entrepreneurship and innovation and their roles in competition. The study addresses two main research questions:

- (1) How are entrepreneurship, innovation and marketing related to each other in furniture sector?
- (2) What are the crucial factors affecting the development of entrepreneurship and innovation, and how does interaction between them affect the competitive position of the furniture firms?

This study is conducted in two sections. In literature review, entrepreneurship, innovation and the interaction between them are investigated. In research design section quantitative approach takes place to explore the synergies between entrepreneurship and innovation and how marketing affected these factors in furniture sector.

## **2. LITERATURE REVIEW**

In global environment, enterprises with greater entrepreneurship and innovative capacity will achieve a better response from the environment, by creating capabilities needed to improve their competitive position. Entrepreneurship and innovation are complementary, and a combination of the two is vital to organisational success and sustainability in today's dynamic and changing environment; entrepreneurship and innovation are not confined to the initial stages of a new venture; rather, they are dynamic and holistic processes in entrepreneurial and innovative organisations; and organisational culture and management style are crucial factors affecting the development of entrepreneurial and innovation behaviour in organisations. Therefore, an innovative and entrepreneurial organization needs a range of new managerial and entrepreneurial capacities and skills to handle strategic decisions making by fostering adaptation to the global environment challenges.

## 2.1. Entrepreneurship

Describing the concept of entrepreneurship Drucker (1985) defines it as “creation of innovations and includes the usage of resources and the usage of new possibilities of valuation”. According to Ireland *et al.*, (2001), entrepreneurship involves creating new resources or combining existing resources in new ways in order to develop and commercialise new products, move into new markets, and/or service new customers (Jatuliavičienė, Kučinskienė and Garuckas, 2007:57). “Entrepreneurship, in its narrowest sense, involves capturing ideas, converting them into products and, or services and then building a venture to take the product to market” (Johnson, 2001: 138). The key elements of entrepreneurship include risk taking, proactivity, and innovation (Miller, 1983; Zhao, 2005: 26).

Entrepreneurship encompasses a variety of factors. According to Drucker (1994) systematic innovation requires the capturing and monitoring of seven sources of opportunity: the unexpected; incongruities; process need; industry and market structures; demographics; changes in perception; and new knowledge. Clearly, an innovative and entrepreneurial organization needs a range of managerial and entrepreneurial capacities and skills to handle innovation (Jatuliavičienė, Kučinskienė and Garuckas, 2007:57).

Based on the studies of J. Schumpeter (1934), P. F. Drucker (1994), D. Johnson 2001, F. Zhao (2001, 2005) and others, new development concept embracing capacities of innovative and entrepreneurial organizations could be defined as follows:

- an ability to search for and identify innovative opportunities that foster economic growth;
- an ability to create a technological environment that fosters innovation and entrepreneurship;
- the ability to develop effective plans and support systems to implement innovation and commercialisation procedures;
- the ability to integrate research, design, and market information to convert new ideas and inventions into commercially viable innovations; and
- the ability to develop effective and realistic procedures for the evaluation of R&D projects in terms of innovation, quality, and commercial value (Jatuliavičienė, Kučinskienė and Garuckas, 2007:57).

## 2.2. Entrepreneurs and Small Business Owners

Entrepreneur is an individual who takes agency and initiative; who assumes responsibility and ownership for making things happen; is both open to and create to novelty, who manages the risks attached to the process; and who has the persistence to see things through to some identified end-point, even when faced with obstacles and difficulties (Johnson, 2001: 137). Schumpeter (1934) identified entrepreneurship as a process of “creative destruction” in which the wealth of the economy was enhanced via innovation and the introduction of new combinations of products, production, market opportunities, supply sources or organisational design. This underlines the nexus between entrepreneurship and innovation. Within the context of small firms, the difference between conventional small business owner managers and growth oriented entrepreneurs is their propensity for innovation (Brockhaus, 1987; Carland *et al.*, 1984; Mazzarol and Reboud, 2008:224). Thus attitudes to innovation, risk-taking, strategy, leadership, market changes and information, organizational improvement, growth and the continued attainment of business development opportunities, are essential ingredients of entrepreneurship.

The ability of most SMEs to survive, grow and generate new quality jobs increasingly depends on their capacity to put innovation at the core of their business strategy in order to harness benefits from technological change and the globalization of markets for products and resources. Key issues influencing the success of innovation within small firms are the personality of the owner-manager, their flexibility in the face of external environmental forces, the formality of their innovation management processes, whether they have a culture supportive of innovation, their scarcity of resources and lack of bargaining power within markets (Hadjimanolis, 2000; Mazzarol, Reboud, 2008: 225).

## 2.3. Innovation

Joseph A. Schumpeter defined innovation as the setting up of a new production function. This definition included five specific cases leading to a new production function, which include: (1) the introduction of a new good, (2) the introduction of a new method of production, (3) the opening of a new market, (4) the conquest of a new source of supply of new materials, and (5) the carrying out of a new organization of any industry (creating a monopoly position or the breaking up of a monopoly) (Schumpeter, 1936; McDaniel, 2000:278).

Innovation thus has many facets and is multidimensional. The most prominent innovation dimensions can be expressed as dualisms: radical versus incremental; product versus process; and administrative versus technological (Cooper, 1998; Zhao, 2005: 27). Product innovation, as the name suggests, “reflects change in the end product or service offered



by the organizations, [whereas] process innovation represents changes in the way firms produce end products or services” (Cooper, 1998 : 498).

Innovation can refer to new products or services, new production processes, new marketing techniques, and new organisational or managerial structures, and may also involve technology, intellectual property, business and physical activity (Sundbo, 1998; Mazzarol and Reboud, 2008 : 225). It can be either incremental or radical in nature (Cooper, 1998), and while it is commonly associated with significant improvements in product or process technologies, it can also encompass relatively modest enhancements of how a small firm applies technology or techniques (North and Smallbone, 2000; Mazzarol and Reboud, 2008:225). In fact some of the most successful innovations have involved a synthesis of existing technology into new dominant product or process design (Tushman and Nadler, 1986). The main aims of innovation are economies in development costs, reduced lead-times, and increased predictability of outcomes and better internal and external organisational integration (Dodgson, Gann and Salter, 2002: 54).

Companies spending funds on research will quickly show that applied research is successful if and only if the new product or process is commercialized at a profit. How quickly this diffusion process occurs is likely to depend on how well the innovation satisfies the customer’s existing problems, whether it offers a relative advantage over existing products and services, how easily the new product or process can be adopted and its operation learnt by end users, how compatible the new technology is with existing complementary technologies already in place, and whether the new innovation can be trialled and evaluated prior to adoption (Rogers, 1976, 1995; Mazzarol and Reboud, 2008:226). Innovation from new technology may offer a way to improve product, improve delivery timing, allow reduced pricing, and so forth to gain market share through increased sales. If market share is important and increasing market share is an objective, then implementing innovation from new technologies is often a choice to meet that objective (McDaniel, 2000: 283).

#### **2.4. The Conceptual Relationship Between Entrepreneurship And Innovation**

They all demonstrated incremental innovation, proactively to market dynamics, and a willingness to take risks if necessary (Slevin and Covin, 1990; Zhao, 2005: 34). Entrepreneurship continuously looks forward and creates opportunities, thus stimulating the generation of innovations. Entrepreneurship and innovation are continuous processes in organisations, and that entrepreneurship and innovation are complementary in enhancing business performance. They all demonstrated continuous pursuit of opportunities to develop new products, new services, and new customers. Briefly, entrepreneurs seek opportunities, and innovations provide the instrument by which they might succeed. Corporate entrepreneurship often refers to the introduction of a new idea, new products, a new organisational structure, a new production process, or the establishment of a new organisation by (or within) an existing organisation. As Herbig et al. (1994: 37, 45) have observed: “Innovation requires three basic components: the infrastructure; the capital; and the entrepreneurial capacity needed to make the first two works”. Innovation is the specific tool of entrepreneurship by which entrepreneurs exploit change as an opportunity for a different business or service. There is an considerable overlap between entrepreneurship and innovation (Kanungo 1999, Sundbo 1998; Zhao, 2005: 28). Innovation has to address market needs, and requires entrepreneurship if it is to achieve commercial success.

Entrepreneurship and innovation are positively related to each other and interact to help an organisation to flourish. Entrepreneurs themselves do not consciously innovate; they seek opportunities. These opportunities are those that larger firms either ignore, seek not to produce, or cannot physically create or manufacture due to bureaucratic tendencies inherent in all large organizations. The entrepreneur does not in itself guarantee innovation. The entrepreneur must necessarily be independent minded and individualistic. Individualism is highly related to innovation through entrepreneurs and the creation of small enterprises (Herbig, Golden and Dunphy, 1994: 39). Meeting and exceeding the changing needs of customers, and an emphasis on marketing and the development of new markets should be the key management and entrepreneurial strategies. Moreover, in the current turbulent economic environment, developing organisational capacity to acquire, create, accumulate, and exploit knowledge should be an essential strategy in gaining a competitive advantage through innovation. A good strategy depends on effective execution, and this requires an appropriate system, a capable staff team, a wide range of skills, and an encouraging and supportive management style that fosters an innovative and entrepreneurial organisational culture.

### **3. METHODOLOGY**

Furniture sector is one of the rapidly growing sectors of manufacturing and mainly composed of SME’s. SME’s of the furniture sector face with several problems through the competition like design, quality, costs, production problems, qualified worker and marketing. Turkish furniture sector is composed of small businesses with intermittent -job shop-production method. However, within the last 10-15 years medium and big scale businesses started their operations besides small businesses. In general, Turkish furniture sector production is defined as job shop production. In this

method production is made with incoming orders from the customers, thus no stock problems appear (İnal, Toksari, 2006: 109). The furniture sector is one of the sectors where design copying frequently occurs. This problem causes hesitation of firms to invest and to develop high cost innovative projects.

### **3.1. Research Design**

The aim of this study is to investigate the relationship between entrepreneurship and innovation and their roles in competition. Therefore the current situation of the furniture sector is studied and the problems related to marketing and competitions are highlighted. The relation between innovation and marketing is analyzed together with the entrepreneurial structure of the firms. In accordance with this, the effects of entrepreneurship on the innovative capacity of firms and perception of the firms about innovation for competition and current innovative actions taken by the firms in product, process and organizational fields are examined.

Questionnaire form is composed of five sections. In the first section questions about the firms in furniture sector concerning their production strategies, export potentials and sales are placed. In the second section entrepreneurial characteristics of the firms are searched through likert scale questions. Within this context likert scale is composed of 5 options i.e. 1- I strongly agree, 2- I agree, 3- I am not sure, 4- I disagree and 5- I strongly disagree. In the third section questions about the marketing mix decisions and implementations of the firms take place. And in the fourth section likert scale questions composed of 5 options are asked i.e. 1- Very important, 2- Important, 3- Moderate important, 4- Not important, 5- Not important at all in order to learn the fundamental objectives of the firms towards innovation. Another question with likert scale is prepared to learn if the firms pursue innovative policies. Within this context likert scale is composed of 5 options i.e. 1- I strongly agree, 2- I agree, 3- I am not sure, 4- I disagree and 5- I strongly disagree. In the last section of the questionnaire multiple choice questions are asked about their innovative actions, for innovative actions what kind of information sources they use, whether they have patented products, if they make benchmarking for innovation and besides these questions are open ended questions to reflect their expectations and suggestions.

### **3.2. Sampling and Data Collection**

The study is conducted through questionnaires for survey research, face to face with 350 randomly selected small and medium sized furniture firms registered in Izmir Chamber of Commerce. Questionnaires are filled by the firms between 15 April-15 June 2009. Questionnaires filled by top managers are accepted, thus 303 firms were selected for analysis.

## **4. ANALYSIS AND RESULTS**

All data analysis was conducted using Statistical Package for the Social Sciences (SPSS) software version 15.0. Prior to analysis in order to obtain meaningful results, validity and reliability of the questionnaire was evaluated. Structural validity of the scale was analyzed via factor analysis. Related variables are grouped and named through factor analysis. For the reliability of the scale Cronbach Alpha values were checked. In the study, two sided MANOVA analysis were used to determine the relation and the effect between the firms' comments for the questions about marketing implementations and entrepreneurial and innovative activities together with the relation and the effect between the firms' comments for the questions about innovative and entrepreneurial activities. By this means relations and interactions of entrepreneurial, innovative and marketing activities of the firms are examined.

### **4.1. General Respondent Characteristics**

When general respondent characteristics of the firms are examined; it is seen that 37% of the firms are established between 1990-1999, 50,5% are limited liability companies, 45,5% are located in Karabağlar, 37,3% of the firms are small scale firms employing i.e. 10-49 workers and 65% of the firms work with intermittent -job shop- production method. 41,1% of the respondents are owners, 40,3% of the respondents are high school graduates, 78,2% of the firms are seen as "family business". 63,7% of the respondents declared that they change their product range, 62,4% of the firms only work for domestic market, only 37,3% of the firms are in export business and of those firms, only 26,7% exports with their own brands. The furniture sector, despite its employment capacity and number of firms, has quite a low share in national exports. In this manner, the solution to the bottleneck of this sector reveals as the increasing of exports. Only a small percentage of the firms make direct exports, where the majority export though other firms especially through contractor firms in construction business (Sonmez, Arslan, 2007: 403). When the sales for the past three years are evaluated, 67% of the firms declare the drop in sales. This shows the adverse effects of the global crisis on the furniture sector. 60,7% of the firms state that they produce in their own facilities where 67% of the firms use name of their company names as their brands.

## 4.2. Hypothesis Testing

The response rate in this study is high for an industrial survey and represents a good sample from a small population. The basic hypotheses developed are as follows:

H1: There is a significant relation between the response levels to the statements related to marketing activities and entrepreneurial activities.

H2: There is a significant relation between the response levels to the statements related to marketing activities and innovative activities.

H3: There is a significant relation between the response levels to the statements related to innovative activities and entrepreneurial activities.

When responses of the firms to the questions about entrepreneurship; highest importance is given to the ability to respond to customer demands with 97%, being a pioneer 79,2% has the lowest value. Thus it can be commented that the firms are shaping their activities according to customer demands. Factor analysis was applied to the variables related with entrepreneurship in order to assign new dimensions. The main objective of factor analysis is to reduce the number of variables and to group them in sub factors. The total values of the variances of the factors are wished to be more than 50% (Dursun and Nakip, 1997: 69) and being more than 50% gives a high validity. According to this, having vision, risk taking and being able to form strategy, being dynamic constitutes the **First Factor** "Strategic vision"; being creative, being pioneer, constant developing, being able to see their own strengths and weaknesses constitutes the **Second Factor** "Pioneer"; watching the market closely, being able to utilize the opportunities constitutes the **Third Factor** "Opportunist"; enthusiastic to grow, being able to maintain flexibility and variability in production constitutes the **Fourth Factor** "Growth"; being able to customer oriented, open to innovation constitutes the **Fifth Factor** "Market oriented". Factor 1 explains the 16,5% of the total variance; Factor 2, 30,3% of the total variance; Factor 3, 39,7% of the total variance, Factor 4, 48,8% of the total variance, Factor 5, 57,64% of the total variance. Scale reliability testing found that these fifteen items had a strong alpha score (0.75) suggesting good reliability. "Risk taking" makes the most important contribution with 0,70 value among the variables for **Strategic Vision**. "Being creative" makes the most important contribution with 0,79 value among the variables for **Pioneer**. "Watching the market closely" makes the most important contribution with 0,685 values among the variables for **Opportunist**. "Being able to maintain flexibility and variability in production" makes the most important contribution with 0,78 value among the variables for **Growth**. "Being able to customer oriented" makes the most important contribution with 0,85 value among the variables for **Market oriented**.

Among the responses of the firms towards the statements for marketing, "We supply the highest level of after sales service" has the highest value (87,8%); where "working conditions of our firm are in sufficient" has the lowest value (31,4 %).

In order to assign new dimensions of marketing to these variables factor analysis is applied to 33 variables. In the factor analysis variables with low variances were taken out (e.g. lower than 0,50), and thus factor analysis can be made again. In this analysis three variable factors lower than 0,50 were taken out of the factor analysis and the factor analysis was applied again. Statements of "we cannot promote my brand internationally", "we cannot market my products internationally", "we do not have sufficient financial resources for marketing" constitutes the **First Factor** "Source limited"; statements of "we have problems in pricing", "we cannot promote my products domestically", "we determine my prices according to the competitors' prices", "working conditions in my firm are insufficient" constitutes the **Second Factor** "Follower"; statements of "we design our products", "we can create authentic designed products", "we can redesign our products according to our customers' demands", "we supply the highest level of after sales service" constitutes the **Third Factor** "Creative"; "We use non-monetary promotional tools for certain amount of sales", "due to the crisis we have to sell high quality goods for lower prices", constitutes the **Fourth Factor** "Promoter"; "We make promotional activities in media", "we participate in domestic and international fairs to follow the new developments in the market" constitutes the **Fifth Factor** "Developer"; "We design our products according to customers' demands", "we have the desired market share", "every year we can offer new products" constitutes the **Sixth Factor** "Initiator"; "We can reach to our customers with the distribution channels", "we produce the goods printed in the catalogues" constitutes the **Seventh Factor** "Convenience"; "The secret of success in furniture sector is to follow the technological developments", "production technology for production gives the advantage for delivery" constitutes the **Eighth Factor** "Techno-Specialist"; "We make marketing research", "our production costs are high", "product range varies according to the conditions" constitutes the **Ninth Factor** "Observer"; "Our design costs are low", "our marketing costs are high", "our labour costs are high" constitutes the **Tenth Factor** "Cost bearer"; "We follow the standards and legal necessities", "we make frequent adjustments in prices" constitutes the **Eleventh Factor** "Law implementer". Factor 1 explains the 8,066 % of the total variance; Factor 2, 14,87 % of the total variance; Factor 3, 21,45 % of the total variance, Factor 4, 26,89 % of the total variance, Factor 5, 32,23 % of the total variance, Factor 6, 37,50 % of the total

variance, Factor 7, 42,53 % of the total variance, Factor 8, 47,20 % of the total variance, Factor 9, 51,82 % of the total variance, Factor 10 56,38 % of the total variance, Factor 11, 60,85 % of the total variance. “We cannot promote my brand internationally” makes the most important contribution with 0,76 value among the variables for **Source limited**. “We cannot create authentic designed products” makes the most important contribution with 0,81 value among the variables for **Followers**. “We have problems in determining our prices according to the competitors” makes the most important contribution with 0,73 value among the variables for **Creative**. “We use non-monetary promotional tools for certain amount of sales” makes the most important contribution with 0,81 value among the variables for **Promoter**. “We make promotional activities in media” makes the most important contribution with 0,70 value among the variables for **Developer**. “We produce depending on the marketing research” makes the most important contribution with 0,76 value among the variables for **Initiator**. “We can reach our customers through distribution channels” makes the most important contribution with 0,77 value among the variables for **Convenience**. “The secret of success in furniture sector is to follow the technological developments” makes the most important contribution with 0,81 value among the variables for **Techno-Specialist**. “We make marketing research” makes the most important contribution with 0,69 value among the variables for **Observer**. “Our design costs are low” makes the most important contribution with 0,83 value among the variables for **Cost bearer**. “We follow the standards and legal necessities” makes the most important contribution with 0,76 value among the variables for **Law implementer**.

In the study also the responses to the statements related to marketing activities and entrepreneurship and their effects are analyzed through Two-way Manova and H1 is tested. The results of factor analysis are used to test the statements for entrepreneurship. According to the analysis results in “Test of between subjects” table, the existence of meaningful effects of each independent variables of each dependent variable is searched. According to the results, the values lower than 0,05 constituting the sub hypotheses of H1, between dependent and independent variables significant effects are found. At the 0,05 significance level relations are found between “we design our products” and the factors “strategic vision” and “opportunist”; between “we can create authentic designed products” and the factor “strategic vision”; between “we can redesign our products according to our customers’ demands” and the factor “growth”; between “we make market research” and the factors “pioneer” and “market oriented”; between “we can reach our customers through distribution channels” and the factor “growth”; between “we participate in domestic and international fairs to follow the new developments in the market” and the factors “strategic vision”; between “the secret of success in furniture sector is to follow the technological developments” and the factor “opportunist”; between “we increase the product variety according to the conditions” and the factors “strategic vision” and “growth”; between “our labour costs are low” and the factor “pioneer”.

The fundamental objectives directing the firms towards innovation are searched and 97% of the firms think that the most important objective for innovation is to meet customer demands, 32,3% stated that imitation has the lowest importance among the objectives of innovation. The customer is therefore a key actor in the innovation commercialisation process for small firms. Customers can collaborate with firms to assist their new product development process, providing a test market in which to explore the boundaries of a new technology, and to allow the firm to experiment, feeding back recommendations for future development. To determine the variables of innovation objectives factor analysis were applied to 29 variables. Scale reliability testing found that these twenty-nine items had a strong alpha score (0.75) suggesting good reliability. In this analysis three variable factors lower than 0,50 were taken out of the factor analysis and the factor analysis was applied again. Statements of “to gain image and prestige”, “to get known in the market”, “adaptation to trends” constitutes the **First Factor** “Trendy”; “To decrease the labour costs”, “to decrease the unnecessary stocks”, “decrease in the demand for current products”, “to decrease the design costs” constitutes the **Second Factor** “Cost diminished”; “To meet the customer needs and expectations”, “to decrease the energy consumption”, “to decrease the raw material consumption” constitutes the **Third Factor** “Effective customer oriented”; “To increase the product quality”, “to enable product differentiation (for the same product)”, “to increase the product variety” constitutes the **Fourth Factor** “Product differentiation”; “To improve the working conditions”, “to reduce the environmental pollution”, “to adapt to the demand easily” statements constitutes the **Fifth Factor** “Environment-Sensitive”; “to increase the market share”, “to keep the market share” statements constitutes the **Sixth Factor** “Market share seeker”; “To imitate”, “to react to the competitors” statements constitutes the **Seventh Factor** “Competitor oriented”; “To increase the production flexibility”, “to create new markets (foreign and domestic markets)”, “to create new markets abroad” statements constitutes the **Eighth Factor** “Market creator”; “To make changes in production process (production technology, CNC etc.)”, “to make timely delivery”, “to create a brand” statements constitutes the **Ninth Factor** “Intangible difference”. Factor 1 explains the 9,10 % of the total variance; Factor 2, 16,73 % of the total variance; Factor 3, 24,27% of the total variance, Factor 4, 31,73% of the total variance, Factor 5, 38,78% of the total variance, Factor 6, 44,53% of the total variance, Factor 7, 50,21% of the total variance, Factor 8, 55,82% of the total variance, Factor 9, 61,14% of the total variance. Variable “To gain image and prestige” makes the biggest contribution for “Trendy” with 0,76 value. “To decrease the labour costs” makes the biggest contribution for “Cost diminished” with 0,69 value. “To decrease the raw material consumption” variable makes the biggest contribution for “Effective customer oriented” with 0,72 value. “To be able to offer high profile designs”

variable makes the biggest contribution for “Product differentiation” with 0,73 value. “To improve the working conditions” variable makes the biggest contribution for “Environment-sensitive” with 0,74 value. “To keep the market share” variable makes the biggest contribution for “Market share seeker” with 0,78 value. “To react to the competitors” variable makes the biggest contribution for “Competitor oriented” with 0,71 value. “To create new markets” variable makes the biggest contribution for “Market creator” with 0,71 value. “To make timely delivery” variable makes the biggest contribution for “Intangible difference” with 0,81 value.

When responses of the firms are related to innovative activities, 97,4% of the firms declare that their innovative activities are directed towards meeting the demands and expectations of the customers, and 33% of the firms declare that they are dealing with imitation (lowest value). To determine and assign new variables for innovative activities of the firms, factor analyses were applied to 29 variables. To group these variables, Varimax Rotation was used (Churchill, 1998: 354-356). Scale reliability testing found that these twenty-nine items had a strong alpha score (0.80) suggesting good reliability. “To increase the product variety”, “to increase the production capacity”, “to increase the product quality” variables constitute the **First Factor** “Production improver”; “To create new markets (foreign and domestic markets)”, “to create new markets abroad”, “to make changes in production process (production technology, CNC etc.)”, “to create a brand”, “to meet the demands and expectations of the customers” variables constitute the **Second Factor** “Market developer”; “to decrease the energy consumption”, “to decrease the raw material consumption”, “To increase the production flexibility” statements constitute the **Third Factor** “Cost reducer”; “to keep the market share”, “to enable product differentiation (for the same product)”, “to improve the working conditions”, “to reduce the environmental pollution”, statements constitute the **Fourth Factor** “Social marketer”; “to gain image and prestige”, “to adapted to trends”, “to decrease the design costs” statements constitute the **Fifth Factor** “Designer”; “To decrease the labour costs”, “to reduce the increases in stock” statements constitute the **Sixth Factor** “Productivity increaser”; “to adapt to the demand easily” statement constitutes the **Seventh Factor** “Flexible”; “Decrease of demand to current products”, “to be able to offer products with superior designs” statements constitute the **Eight Factor** “Demand creator”; “to react to the competitors” statements constitute the **Ninth Factor** “Challenger”; “To adapt to the standards and legal necessities”, “to get to known in the market”, “to meet the customer needs and expectations” statements constitute the **Tenth Factor** “Adapter”. Factor 1 explains the 8,66% of the total variance; Factor 2, 16,83 % of the total variance; Factor 3, 24,31% of the total variance, Factor 4, 31,70% of the total variance, Factor 5, 38,90% of the total variance, Factor 6, 45,59% of the total variance, Factor 7, 50,95% of the total variance, Factor 8, 56,14% of the total variance, Factor 9, 61,07% of the total variance, Factor 10, 65,63% of the total variance. Variable “to increase the variety of products makes the biggest contribution for “Production improver” with 0.88 value. Variable “to create new markets abroad” makes the biggest contribution for “Market developer” with 0.74 value. Variable “to decrease the raw material consumption” makes the biggest contribution for “Cost reducer” with 0.77 value. Variable “to keep the market share” makes the biggest contribution for “Social marketer” with 0.73 value. Variable “to gain image and prestige” makes the biggest contribution for “Designer” with 0.67 value. Variable “to decrease the labour costs” makes the biggest contribution for “Productivity increaser” with 0.82 value. Variable “to adapt to the demand easily” makes the biggest contribution for “Flexible” with 0.86 value. Variable “decrease of demand to current products” makes the biggest contribution for “Demand creator” with 0.77 value. Variable “to react to the competitors” makes the biggest contribution for “Challenger” with 0.81 value. Variable “To adapt to the standards and legal necessities” makes the biggest contribution for “Adapter” with 0.63 value.

In the study also the responses to the statements related to marketing activities and innovative activities and their effects are analyzed through Two-way Manova and H2 is tested. In results of factor analysis related to statements for innovation are used. According to the results, the values lower than 0,05 constituting the sub hypotheses of H2, between dependent and independent variables significant effects are found. At the 0,05 significance level relations are found between “designing their own products” and the factors “demand creator” and “adapter”; between “being able to redesign according to the customer demands” and the factors “market developer” and “adapter”; between “products are designed depending on consumer researches” and the factors “social marketer” and “flexible”; between “we make market research” and the factor “adapter”; between “we participate in domestic and international fairs to follow the new developments in the market” and the factor “market developer”; between “we supply the highest level of after sales service” and the factors “cost reducer” and “challenger”, between “every year we can offer new products” and the factor “adapter”; between “the secret of success in furniture sector is to follow the technological developments” and the factors “market developer”, “social marketer” and “adapter”, between “we make promotional activities in media” and the factors “cost reducer”, “market developer” and “challenger”; between “we use non-monetary promotional tools for certain amount of sales” and the factor “cost reducer”, between “our marketing costs are high” and the factor “flexible”; between “we determine our prices according to the competitors’ prices” and the factors “social marketer” and “challenger”; between “technology (flexible) used for production upon orders, creates advantage for delivery” and the factor “challenger”; between “we increase the product variety according to the conditions” and the factor “challenger”; between “we can create new markets” and the factors “production improvement” and “designer”; between “our labour costs are low” and the factors “cost reducer” and “market developer”; between “working conditions of our firm are in

sufficient” and the factors “cost reducer” and “demand creator”, between “our design costs are low” and the factor “market developer”; between “we cannot sell our products in foreign markets” and the factor “challenger”.

In the study also the responses to the statements related to innovative activities and entrepreneurship and their effects are analyzed through Two-way Manova. The results of factor analysis related to statements for entrepreneurship are used. According to the results, the values lower than 0,05 constituting the sub hypotheses of H3, between dependent and independent variables significant effects are found. At the 0,05 significance level relations are found between “to increase the product quality” and the factors “strategic vision” and “pioneer”; between “to increase the product variety” and the factors “strategic vision”, “pioneer” and “opportunist”; between “to increase the production capacity” and the factor “growth”; between “to make changes in production processes” and the factors “pioneer”; between “to meet the demands and expectations of the customers” and the factor “growth”; between “to adapted to trends” and the factors “opportunist”; between “to increase the market share” and the factors “strategic vision” and “growth”; between “to adapt to the standards and legal necessities” and the factor “pioneer”; between “to reduce the increases in stocks” and the factors “strategic vision” and “growth”; between “to reduce the environmental pollution” and the factor “growth”; between “to decrease the raw material consumption” and the factor “growth”; between “to create new markets abroad” and the factor “growth”.

47,2% of the firms declared as being involved in innovative activities. The sources for innovative information and ideas are; % 60,1% from customers, 53,5% from trade fairs, 43,9% from internal sources, 41,6% from marketing department and 40,3% from production department. When number of new products, which are introduced by the firms annually, are searched it was seen as 32,3% of the firms introduce 1 to 9 new products.

To increase their innovative activities, firms demand primarily decrease tax and the compulsory social security payments as well as increase their financial resources.

## 5. CONCLUSION

The increasingly changing global business environment is characterized by integration, rapid technological changes and growing competition and has forced enterprises to find new ways of competing effectively. The need to be superior in competition forces enterprises to be innovative in all areas of business activity. There is considerable overlap between entrepreneurship and innovation. The choices of the customers related to furniture are highly changeable. Therefore firms in this sector has to follow the changes in the market constantly, to be able to understand the needs and opportunities in the changing market and thus have the entrepreneurial spirit to be able to make the necessary changes in their product ranges and production processes. Furniture sector, being affected highly by demand depending on pleasure and fashion, needs new product designs for competition. Changes in production processes have considerable effects on production quantities and cost factors.

The findings of the paper, about entrepreneurship; highest importance is given to the ability to respond to customer demands, but being a pioneer has the lowest value. Thus, it can be commented that the firms are shaping their activities according to customers’ demands. In accordance with these findings, the respondent firms declared their innovative activities as a reaction to the demands of the customers.

In this study investigate the relationship between marketing and innovative actives. It was found that the firms, with their strategic vision and opportunistic behaviours, can be able to design their products with their own sources and via this they can be able to create demand and adapt to changing market conditions. It was also found that redesigning the products in accordance with the customer demand and having features as a market developer enable the firms to follow and adapt the changes in market. The firms also declared that their product designs may be affected by the consumer researches and be flexible in their operations. The firms trying to learn the wants and needs of the customers, strategies of the competitors through market researches show the characteristics of pioneers and market oriented firms. With this practice, they can adjust their products to changing market conditions and customer demand. By way of participating the domestic and international fairs to learn the latest developments and also having a strategic vision the firms can expand their operations in new markets and through high quality after sales services the firms can decrease their costs as well as gaining strength in competition. Besides these, it was found that, through following the technological advances in the sector and through following the market opportunities, the firms can able to expand their markets, performing more socially responsive marketing activities and be able to adapt to the changing market conditions. The decrease of labour costs will enable the total costs to decrease and give opportunities to access into the new markets. Decrease in the design costs may also help in accessing new markets.

The study has found that entrepreneurship and innovative activities are related to each other. As the firm achieves to have strategic vision than it may succeed in increasing the product quality, product variety, market share and reducing

stocks. If the firm is a pioneer than it may increase the product quality, increase the product variety, change production processes and adapt to the standards and legal necessities. When the firm is labelled as opportunist, it may increase the product variety and adapt to trends. Whereas if the firm aims to grow it may increase the production capacity, meet the demands and expectations of the customers, increase the market share, reduce stocks and environmental pollution, decrease the raw material consumption and create new markets abroad.

For the entrepreneurial managers of small innovator firms, who feel that they have the necessary resources and competencies for the innovation, will proceed with innovative marketing practices via competitive product mix supported by the encouraging appreciation from customers about their new products as valuable. Innovation support systems for small and medium sized firms need to recognise that the entrepreneurs prefer to exploit market opportunities and implement flexible strategies and tactics rather than preset unalterable plans and models.

The findings have several implications for furniture firms. Firms in furniture sector have to make high quality market research to learn the needs of the customers as well as the marketing environment in order to make production with demanded quality levels and to stand strong in a competitive environment. The information obtained from market research should be used for new product development, design and redesign the production processes necessary to maintain competitive productions and operations.

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# SUCCESS FACTORS ON BUSINESS INCUBATOR COMPANIES FROM THE VIEWPOINT OF INCUBATOR MANAGERS: CASE STUDY IN IRAN

ABDOLREZA MIRMOHSENI, EAST AZARBAIJAN SCIENCE AND TECHNOLOGY  
MEHDI SEDGHI, EAST AZARBAIJAN SCIENCE AND TECHNOLOGY

## ABSTRACT

One of the modern ways to help startups and entrepreneurs is incubation system that has been applied recently in Iran. In the current research, a model of making successful startups at incubators has been developed. According to incubation process, the model is based on three key factors; specifications of entered Idea (to be innovative, technological, commercial, and economic), talent and endeavor of entrepreneurs, and incubators support system (including different resources and services). This model was then tested for Incubators located in Science and Technology Parks and University Incubators in Iran. Results showed that the model is valid for most of the incubators with little exceptions that were due to some elements and cultural effects.

**Keywords:** Startups, Success, Incubators, Entrepreneurship

## 1. INTRODUCTION

Economic development resulted by empowerment of entrepreneurship and Small-Medium Enterprise (SME) technology has forced different countries to have policy and regulation toward this sector. Studying of economic and social evolution in some east and south East Asian countries, revealed that small and medium enterprises are principal axes in economic development (Dhanani, 2000; Name, 2005). It has been shown that in European countries, SMEs have main role in developing process (ECEI, 2000).

Incubation is one of the modern ways for supporting startups and entrepreneurs, particularly, in the area of technology. Creating possibilities, facilities, networks, and other infrastructures; supplying business, financial, and technical services, incubators assemble the growth and development requisites for startups. Thus, enterprises can be survived and developed quickly by recovering market failures.

Incubators have become an international phenomenon. For example, while in 1980 less than 10 incubators existed world-wide, they numbered over 1,100 by mid-2000. In the first half of 2000, six new incubators were established every week (Ruping and Zedtwitz, 2001). The American national business incubation association (NBIA) reports that the number of business incubators in North America rose from 12 in 1980 to 950 by the end of 2002 (NBIA A, 2003).

This increased level of activity has stimulated an important academic debate concerning whether such property-based initiatives enhance the performance of corporations and economic regions. More practically, it has also led to an interest among policymakers and industry leaders in identifying best practices and success factors of incubators (Link and Scott, 2003).

Unfortunately, few academic studies address such issues (Link and Scott, 2003). This can be attributed to the somewhat embryonic nature of incubators and the fact that the organizations which have established these facilities, i.e., universities and governments, are nonprofit entities. This renders standard economic explanation assumptions invalid or in need of substantial modification. It is also important to note that incubators are often the result of public-private partnerships, which means that multiple stakeholders (e.g., community groups, regional, and state governments) have enormous influence over their missions and operational procedures. Thus, developing theories to characterize the precise nature of their business models and managerial practices beyond simple descriptions has not preceded very far (Phan, 2005). The purpose of this special issue is to begin filling these theoretical gaps in the literature, by modeling interactions between elements of incubation system to develop successful companies.

There are little models related to internal operation of incubators. One of the best models in this context is co-production model. Mark Rice (2002) characterized the relationship between business incubation program and their entrepreneurial firm as interdependent co-production, as defined in the equation below by Parks *et al.* (1981).

$$Q = cRP^d CP^e$$

Where  $Q$  is output,  $RP$  is regular producer inputs,  $CP$  is consumer producer inputs,  $c$  is a scaling factor and  $d$  and  $e$  are the respective output elasticities of each input. The impact of co-production is driven primarily by the nature of the relationship between the incubator manager and the entrepreneur, a relationship that can be characterized as a co-production dyad. In the incubator manager–entrepreneur dyad, the incubator manager is the regular producer; the incubator company entrepreneur is the consumer producer; and the relevant output ( $Q$ ) is business assistance (Rice, 2002).

In his study, he utilized the three elements of the co-production equation: outputs, inputs of regular and consumer producers, and elasticities — to provide a framework for reporting the results of his study. The primary focus of his study is on four factors affect the output elasticities: the total amount of time dedicated to co-production by the incubator manager; the intensity of engagement in co-production by the incubator manager; the breadth of co-production modalities deployed; and the readiness of the entrepreneur to engage in co-production. His study revealed that the incubator managers with greater impact invest more hours in co-production, invest more time on average in each co-production episode and engage in a broader range of co-production modalities. With respect to co-production modalities, the majority of incubators in his study have engaged primarily in reactive co-production —addressing a short-term problem or crisis identified by an entrepreneur. However, those incubators recording greater impact were engaged in the full range of co-production modalities — including proactive, continual co-production with some of their companies on a pilot basis. Finally, those entrepreneurs for whom co-production activities had greater impact exhibited greater ‘‘readiness’’ to engage in co-production (Rice, 2002).

This report aims to develop a new model revealing interactions between incubation system elements in three components including: Specifications of entered idea, Entrepreneurs' talents and endeavors, Incubators and their advantages for startups. The next section explores the situation of incubators in Iran (the statistic society of the study).

## **2. CONCEPTUAL FRAMEWORK**

Factors that cause incubator companies to be successful can be divided to three components: ideas, entrepreneurs and supports of incubator (Sedghi, 2005). Therefore, the theoretical framework of the study is composed of three components.

### **2.1. Specification of Entered Idea**

First component includes the specifications of entered idea that entrepreneurs introduce to incubator. The idea must orderly be, innovative, marketable (salable), economic (profitable), and technically feasible (Sedghi, 2005). Since startups can not compete to large companies by cost and quality in early stage of their life, innovation with focus on niche market is a primary strategy for startups. Thus, innovation is the first variable in the model. In the feasibility study of each business plan, technical feasibility is done after market and economic feasibility.

### **2.2. Entrepreneurs' Talents and Endeavors**

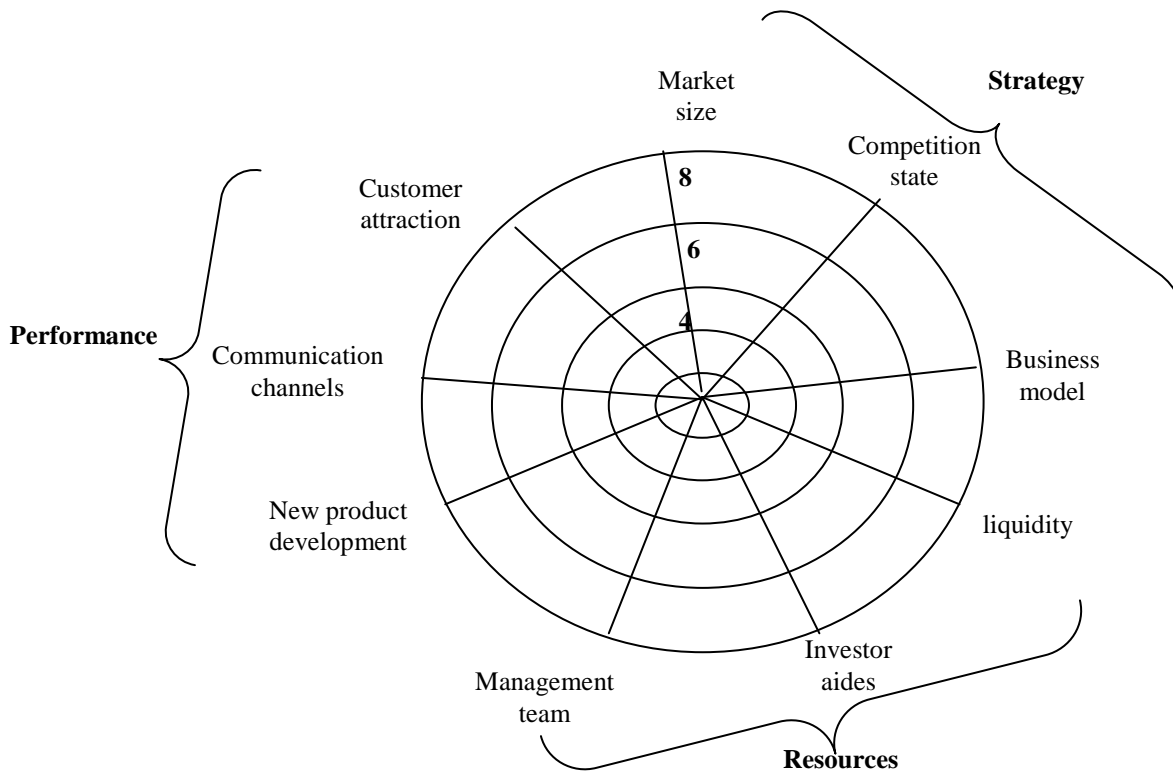
Second component is related to entrepreneurs' talents and endeavors. Entrepreneurial talent is different from managerial skills which we can learn by education. Although some of management scientists believe that we can learn entrepreneurship by education (Drucker, 1985), but undoubtedly, acquisition of entrepreneurial traits is a long process. For this reason, in acceptance process there should be a special attention to the entrepreneurial traits. In this model, entrepreneurial elements are preferred to entrepreneurs endeavor. Logically, all successful and effective endeavors are based on the existed bright talent and characteristics.

Although there is no agreement on definition of entrepreneurship, some of its elements can be counted which includes; risk taking (McClelland, 1965), creativity (Schumpeter, 1934), opportunistic (Drucker, 1985). According to the trait approach, entrepreneurs are distinct from others and their personality and psychological traits are specified. Researchers have found some common characteristics among them by studying their life in different stages and their experience in family, society and even their educational courses (Dollinger, 2003). These characteristics are not exclusive and equal among potential and existed entrepreneurs. Some of these characteristics are: need for achievement (McClelland, 1965), creativity, self-confidence (Timons, 1990), flexibility, ability to influence others, foresight, ability to learn from mistakes, imagination, persistence, ambition and self starting (Hornaday and Aboud, 1971).

Entrepreneurs must manage their new enterprise to be a successful company. In this context "Paths to value model" is acceptable. In responding to challenge faced to startups, Pricewater House Technology Center has made this model after deep survey with entrepreneurs and executives of early-stage companies that are subject of incubators. Nine axes

has distributed equally between three key factors. These factors are: *strategy, resources and performance*. The strategy includes three components such as market size, competition state, and business model. The resources factor is divided to three components: liquidity, investor aides, and management team. The elements of performance are new product development, customer attraction, and communication and distribute channels. The model is displayed in figure 1. The circles beginning from center are investment or financing circles that start from first until eighth circle (Pricewater House coopers Global, 2002).

Thus, startups must have obvious vision and strategy for success in fields of competition, business model and market; and then attract needed resources (management teams, capital and liquidity) for success. They must use attracted resources to develop products, to attract customers and to develop distribution channels.



**Figure1. Paths to value model**

### 2.3. Incubators and Their Advantages for Startups

In third component, incubator must support their companies. Oxford dictionary describes incubator as: Incubator: (noun),

1. An apparatus used to hatch eggs or grow micro-organisms.
2. A heated enclosed apparatus in which premature babies can be cared for (Oxford, 2000).

Business incubator is a comprehensive business assistance program targeted to startup and early stage firms with the goal of improving their chance to grow into healthy, sustainable company (NBIA B, 2001).

Incubators are support structures for enterprises creation. They bring together specialized recourses dedicated to supporting and assisting companies before their creation or during their initial years. In general, they consist of flexible accommodation, administrative services, consulting advice and linkages to business networks, particularly financial ones (Albert and et al, 2002).

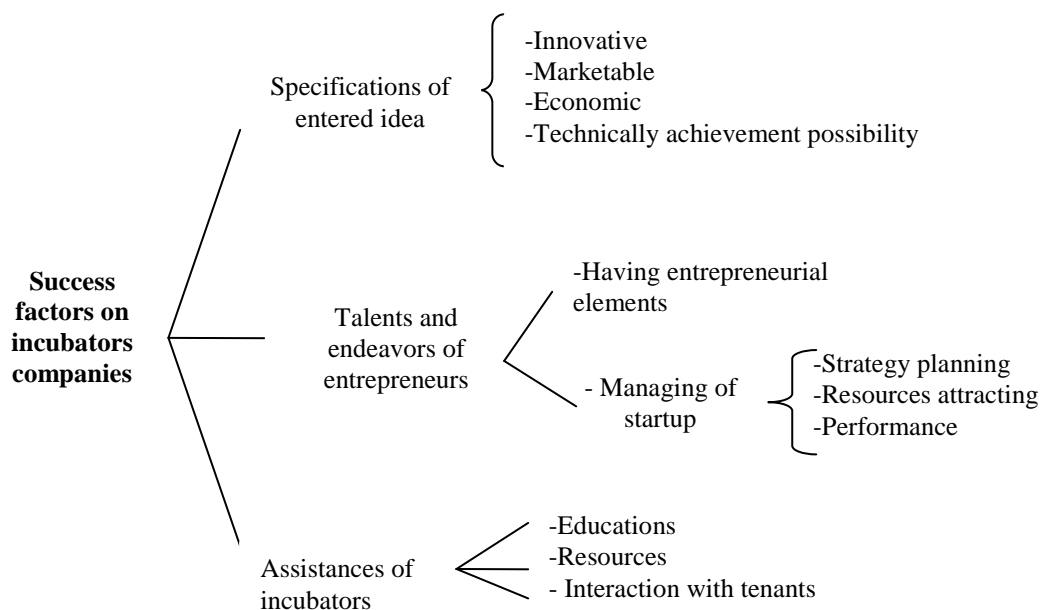
Developing innovative products and technologies is a time-consuming and expensive process. Some of the challenges that new enterprises face with are complex facilities, great financial investments, failure risk and long time to convert

ideas to marketable products. In general, incubation system is applied to describe long range of institutions which help entrepreneurs to develop their ideas from startup point towards commercialization and launching new business.

However, what is the mission of incubators? Why, in spite of existed markets in which resources presented by incubators are exchanged, incubators appeared. Principle justification for incubator existence is market failures that entrepreneurs are face in startup stage of enterprises. Some of these failures are: fixed expenditures and top entrance expenses, lack of access to financial resources, lack or insufficient information on market and even on technical and managerial skills. Entrepreneurs in startup stage are confronted with large ambiguities and, thus, are failed (Lewis, 2001). Generally, when the possible social yield is more than private yield, developing incubators which make use of public resources are the best option.

Manning *et al.* (1989) have emphasized the content aspect of incubator assistance programs. Along these lines, content can be divided into functional areas, some of which may represent knowledge gaps that need to be remedied by participation incubator and entrepreneurs, i.e., risk management, legal and intellectual property issues, finance, marketing, technology/product/service development, business planning and team building. Similarly, there may be other resource gaps which can be filled by the incubator, or through the incubator network. For example, technology development may require access to testing equipment, which may be available through an affiliation between the incubator and a university. The incubator company may be needed to recruit a new key employer or has an access to capital. The incubator and its network may supply important contacts to fill these needs (Manning, Birley, Norburn, 1989).

Since in Iran, in contrary with capitalist countries, people have not a lot of information about marketing and other modern management, in addition to usual services, incubators are participating in managing the SMEs and startups (without having ownership and managerial stock) such as a quasi-partners in the pre-incubation and incubation phases. For this reason, incubator managers attempt to have good interactions with startups. Conceptual framework has showed in figure 2.



**Figure2. Conceptual model**

### 3. INCUBATORS IN IRAN

Incubators program was setting up in Iran in years after 2000. These institutions formed mostly by government investments. Now, there are more than 40 incubators in Iran which are members of national incubator network and from these, more than 30 incubators are active (BSPTI, 2007). Almost all of these incubators have incubation periods from six months to three years. Some of them are affiliated to Science and Technology Parks and others to Universities. There are also few private incubators in Iran.

Units settled in these centers are startup private ones which stay there until their incubation period is completed (maximum three years). Because of existed under-sizing direction in macroeconomics strategy, governmental

incubators can not have managerial and ownership stocks in these companies in Iran. Thus, presented business, technical and financial services to these startups and SMEs are credit and must be repaid gradually when these units exit from incubator. Services presented in Iran's incubators are often official services including; work office, secretarial services, educational and consultative services and financing services in form of incubator projects financing fund. Besides these services, incubators in Iran have fair infrastructures such as technical laboratories, workshops and communicational infrastructures which can have access to quick internet and communication roads and railways.

#### **4. METHODOLOGY**

Survey questionnaire method was used in current study. The questionnaire was consisting of closed questions that scaled with Likert scale from 1 (the least) to 5 (the most) and some open questions. Being a good introducer for mentioned characteristics as well as validating questionnaire, content validity was used as regards to the expert's opinions. Guttman Split-half coefficient was used to measure the reliability of data gathering tool in pilot study. Coefficient of 0.846 was obtained.

Managers of active incubators who had incubating tenants were selected as statistic society of the study. The society had 32 members and questionnaires were sent to all of them. 30 filled questionnaires were collected. From these questionnaires, two questionnaires were imperfect and were not included in this study. Overall, 28 questionnaires were analyzed. Mean and standard deviation were calculated in data analysis. Three was the neutral number and statements took average above 3 confirmed and those had less than 3 were disproved. Some factors which have limited generalization of the study results were narrow society with 32 members and unique condition of businesses and incubators in Iran (which can affect incubation process). We expect the researchers bring to this study their understandings and apply this model in their countries.

#### **5. RESULT AND DISCUSSION**

Table below (table 1) shows the result of this study. As it reveals, taking averages above 3, all mentioned factors have been confirmed to have effect on success of startups located at incubators. According to the result, in first level factor, specifications of entered idea are preferred to talent and endeavors of entrepreneurs and supports of incubators. Most of the incubators managers addressed "maturity degree" as an important specification for entered initial idea in open questions. Maturity degree is an extent in which idea is known as a marketable product. In other word, maturity is a degree in commercialization process from pure concept or fundamental research to marketable product or technology. In general, along with the result, entered idea must orderly be marketable, technically feasible, economic and innovative as well as being mature.

Entrepreneurial traits and entrepreneurs endeavors are other factors which were neglected in previous incubation models. This factor is evaluated higher than incubator support. As the result shows, entrepreneurial talent has taken high privilege in this model, higher than managing of startups. In co-production model, readiness of entrepreneurs to engage in co-production is similar to entrepreneurial talent. But entrepreneurial talents are innate traits that persons (coming to incubators) own, while we can learn how to gain readiness to engage in co-production process by education. Some of respondents emphasized on honesty and good intent as entrepreneurial traits.

Entrepreneurial elements and traits which incubator's managers emphasized on are risk taking, creativity, opportunism, need for achievement, self-confidence, flexibility, foresight, persistence, ambition and self starting. At the next step, entrepreneurs play management role to develop company. According to our expectation, strategy planning, resource attracting and operation management orderly took high score in this context.

To support incubator component, presenting of needed resource have took higher score comparing with the interaction and education. Resources which acquired great privilege consequently are financial resources, managerial resources, information (databases) resources and technological and human resources. Interactions with tenants were preferred to education. In the field of interactions, results from Rice (2002) study are complementary to the current result. In his study, Rice concluded that the incubator managers with greater impact, invest more hours in co-production, invest more time on average in each co-production episode and engage in a broader range of co-production modalities. With respect to co-production modalities, the majority of incubators in his study engage primarily in reactive co-production — addressing a short-term problem or crisis identified by an entrepreneur. However, those incubators recording greater impact were engaged in the full range of co-production modalities — including proactive, continual co-production with some of their companies on a pilot basis (Rice, 2002). Incubator education plans which incubators managers proposed in open questions orderly are: marketing, strategic management, technology management, business rules, development

	First level factors	M	S.D	Second level factors	M	S.D	Third level factors	M	S.D
Success factors on startups and SMEs located at incubators	Specifications of entered idea	4/2	0.85	Innovative	4	1.02			
				Marketable	4.4	0.83			
				Economic	4	0.93			
				Technically achievement possibility	4.2	0.75			
	Talents and endeavors of entrepreneurs	4.1	0.92	Having entrepreneurial elements	4.3	1.2			
				Endeavors of entrepreneurs on company	4.1	0.8	Strategy planning	4.2	0.86
							Resources attracting	4	0.12
							Performance (operation management)	4	0.12
	Incubator's assistances	4.1	1.4	Educations	3.9	1.4			
				Resources	4.2	0.32			
				Interaction with tenants	4.1	0.75			

M: Mean S.D: Standard Deviation

**Table1. Result of study**

management, production management, management of information and communication systems, human resources management and risk and crisis management.

## 6. CONCLUSION

In this study, it was found that three key factors cause an enterprise to be successful in an incubation system. Good initial entered idea, good entrepreneur and endeavors and good support. A good initial entered idea must be in order marketable, technically feasible, economic, innovative and matured. The entrepreneur to be capable must have entrepreneurial traits, and must manage his enterprise well. Some of entrepreneurial elements and traits are: risk taking, creativity, opportunism, and need for achievement, self-confidence, flexibility, foresight, persistence, ambition and self starting. National cultures are effective in entrepreneurship traits. For example, in current study some of respondents emphasize on honesty and good intent as entrepreneurial traits. Strategic management, resource acquisition and operation management are important for managing an enterprise. Incubator support is a final factor in making a successful company. Good idea and good entrepreneur and manager are followed by support of incubator. If the entered idea is not suitable enough or entrepreneur and enterprise manager are not competent, supports of incubator-although be the best- can not develop the startup. Supports of incubator are divided to three sectors: resource preparing, interacting with startups and education.

In current study, in ideas specifications component, marketability were preferred to other factors. Technical possibility, being economic and being innovative are subsequent factors. This result indicates that, in spite of the fact that incubators in Iran are mostly governmental, managers of incubators are risk avoiding.

In third component, supplying of resources and interacting with startups were preferred to educating courses. Incubators in Iran are mostly accepting well educated and graduated people and insist on having of managerial and specialized teams. Thus, educational courses were not appeared to be necessary for incubating tenants. Rather, they need resources in their developing process. Also, this indicates that, in incubators managers' view, finding the necessary resources in particular financial resources is important for startups success. This finding also highlights the existed difficulties in financing of SMEs and startups.

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# COMMON PROBLEMS OF SMEs IN TURKEY: AN EMPRICAL RESEARCH IN İZMİR

MURAD CANBULUT, İZMİR UNIVERSITY OF ECONOMICS  
EREN HİÇÜŞENMEZ, CELAL BAYAR UNIVERSITY

## ABSTRACT

One of the most important issues for Turkish Economy is to provide conditions that will enable Small and Medium size Enterprises (SMEs), which compose a great percentage of Turkish economy, to compete and operate effectively. Turkish SMEs face similar problems like others abroad. Difficulties in recruiting educated and experienced employees, inadequate management systems and managerial shortcomings, bureaucracy that slow down the operations in addition to weak support of both government and credit institutions are among common problems of the SMEs all over the world. In addition to problems stated above Turkish SMEs face another serious problem, that is rising adequate funds at reasonable prices to finance their operations. Financing alternatives costs which are quite unfavorable for Turkish SMEs compared to their rivals in other countries are the key issues affecting the competition in every industry. Therefore the main objective of this research is to analyze the importance of financing costs on competitiveness of SMEs and provide financing alternatives. It is searched whether there is a relation between financing costs and competitiveness, and if there is a relation, to what extent it affects the competition. Data for the study has been gathered through a survey conducted among SMEs in Izmir.

## 1. SMES AND THEIR ROLE IN TURKISH MARKET

Small and medium-sized enterprises (SMEs) are the main institutions of all economies and are a key source of economic growth, dynamism and flexibility in both advanced industrialised countries and in economies which are emerging and developing. SMEs have contributions about providing economic and social development . They are also important in decreasing the rate of unemployment and creating new employment opportunities for people and it is possible for them to follow the changes in the market conditions with their flexible production structure. Because they are important for the economies, nearly all of the countries, especially the developed ones, use the way of developing regulations and laws which will support entrepreneurs to establish, develop and protect the small and medium sized entrepreneurships. (Türkiye Cumhuriyeti Başbakanlık Devlet Planlama Teşkilatı, 2004: 6)

“ Competitiveness and shares in value added of SMEs forming 98.8 % of all enterprises, 76.7 % of total employment and 26.5 % of total value added.

In Turkey, the number of SMEs including those in the service sector constitutes 99.8% of total enterprises and 76.7% of total employment. The share of SME investments within total investments reaches 38% and 26.5% of total value added is also created by these enterprises. Although the share of SMEs in total exports fluctuates on an annual basis, on the average, it is 10% and their share in total bank loans is below 5%.”(Türkiye Cumhuriyeti Başbakanlık Devlet Planlama Teşkilatı, 2004: 9)

Turkish market is more SME-based when it is compared to European market. In addition to this, agricultural industry has a great percent in the whole Turkish economy and employed population in the countryside is much more as it is in European Union. Therefore most of the SMEs are about agriculture. (Türkiye Cumhuriyeti Başbakanlık Devlet Planlama Teşkilatı, 2004: 12)



**Table 1: Comparison of definition of SMEs between Turkey and EU.** (Türkiye Cumhuriyeti Başbakanlık Devlet Planlama Teşkilatı, 2007: 22)

Defining Criteria		Micro Businesses		Small Businesses		Medium Scaled	
		Million TL	Million Euro	Million TL	Million Euro	Million TL	Million Euro
TURKEY	Number of employees	0-9		10-49		50-249	
	Net sales revenue per year	1	0,6	5	3	25	15
	Values of financial statements per year	1	0,6	5	3	25	15
EU	Number of employees	10		50		250	
	Net sales revenue per year	2		10		50	
	Values of financial statements per year	2		10		43	

**Table 2 : Definitions of SMEs by different institutions in Turkey.** (Türkiye Cumhuriyeti Başbakanlık Devlet Planlama Teşkilatı, 2004: 27)

Institution	Scope of Definiton	Criteria of Definition	Micro Sized Business	Small Sized Business	Medium Sized Business
KOSGEB	Manufact. ind.	Number of employees	-	1-50	51-150
HALKBANK	Manufact. ind., Tourism, Software developm.	Number of employees	-	-	1-250
		Fixed inv.(Euro)	230.000	230.000	230.000
Undersecr. of Treasury	Manufact.ind., Tourism, Educ., Health, Software developm.	Number of employees	1-9	10-49	50-250
		Amount of invest. in SME invest. zones.	350.000	350.000	350.000
Undersecre. of Foreign Trade	Manufact. ind.	Number of employees	-	-	1-200
		Fixed inv.(Euro)	-	-	1.830.000
EXIMBANK	Manufact. ind.	Number of employees			1-200

### 1.1 Financing is important in SMEs

Small and medium sized businesses are important for economic development and growth of both industrialised and emerging countries. They are playing a determinant role in creating new job opportunities in the countries. Financing is an important tool for SMEs in order to establish and develop their operations, create new products, invest in different fields and hire employees. Most of the small businesses have the same story from beginning the establishment. Few people have the idea of setting up a business. The capital is provided by these people and their families. It seems enough for them to go on for a while. However, they will face with difficulties when they decide

on developing the operations and creating opportunities. It is the time to get financial help from banks or financial institutions.

In an innovative era, financing is playing a key role for SMEs. If they can use the opportunities efficiently with their potential, they will need money for them to turn their ideas into the reality. SMEs should notice the fact that they will need credits or funds if they are determinant to expand their operations. Owner's equity will not be enough for them. (OECD,2006: 2)

## 1.2 Some problems Turkish SMEs face with

According to some important criteria like efficiency, value-added and competitiveness, some important problems should be concerned in Turkey to carry Turkish SMEs to higher levels are as below: (KOSGEB Stratejik Planı, 2008: 36-37)

**1.2.1 Financing:** SMEs get low levels of credits because of assurances. Basel II criteria, which will be in practise in near future, will increase costs of credits for the SMEs which are not ready for Basel II. Furthermore, SMEs can not take place in capital markets adequately and they do not have enough information about EU-based funds.

- **Qualified work force:** Taxes, social security and employment expenses are important cost components for SMEs in Turkey. When a higher qualified person is employed, the costs will increase. The number of intermediate staff for manufacturing industry is inadequate. Vocational and higher education system does not match the needs of industry's needs in Turkey.
- **Information and communication systems:** Turkish SMEs can not take the advantage of the using information and communication technologies. Inadequate information about technologies, high costs of hardware, software and infrastructure investments are the reasons for why SMEs can not use the technologies efficiently.
- **Technology and R&D:** As Turkey can not provide the needed technologies of industrialists, importing the new technologies is preferred. However, this causes the problem of high costs for investing in latest technologies in SMEs.
- **Marketing and exporting:** Inadequate number of experienced executives and lack of information about marketing and exporting are some of the main problems. Branding awareness is not a significant point in SMEs. Specialized departments of marketing and exporting can not be built up because of lack of institutionalization.
- **Quality and standardization:** Information about national and international quality standards are not adequate. Most of the SMEs can not provide standards. Even some of them can use the standards, high costs interrupt using them more. Lack of control mechanisms in market and high costs have a negative effect on competition in Turkish market.
- **Entrepreneurship:** Culture of entrepreneurship has not developed in our country. Entrepreneurs do not have enough information about business establishment and preparing business plans. Moreover, the need of private equity is one of the most important problems.

## 2. AN EMPRICAL RESEARCH TO DETERMINE THE COMMON PROBLEMS OF SMES IN İZMİR

### 2.1 Aim of the research

Turkish market contains an important number of businesses,SMEs, and they have several problems from establishing to developing. Almost every firm faces with the same difficulties. This research aims to find the common problems and their affects to competitiveness of SMEs in Izmir.

### 2.2 Scope of the research

The research was made by containing the businesses which are suitable in definition of SMEs in the laws. The chosen firms were located in and around Izmir. From the records of Small and Medium Enterprises Development Organization ( KOSGEB ), 110 firms were defined and 87 of them were agree to fill the survey. The surveys were made with the managers of the firms by face to face.

### 2.3 Evaluating data

The data were evaluated by SPSS software.

### 2.4 Evaluation of survey

**Question 1 )** Range of number of the employees.

Number of Employees	Number of the Firms	Range as Percentage ( % )
1-9	27	31,1
10-49	44	50,6
50-99	10	11,5
100-199	3	3,7
200-250	3	3,7
<b>TOTAL</b>	87	100

**Table 3.1: Range of employees in SMEs in the survey.**

**Question 2 )** What kind of source of capital was used during establishment of the firm ?

**Table 3.2 : Source of capital used while establishing the firm.**

Source of capital	First Place	Percentage ( % )	Second Place	Percentage ( % )
Owner's Equity	79	90,8	3	13,1
Relatives	3	3,4	5	21,7
Commercial Credits	2	2,3	5	21,7
Bank Credits	1	1,2	8	34,8
Other	2	2,3	2	8,7
<b>TOTAL</b>	87	100,0	23	100,0

In the first place, 90,8% of the firms preferred to use owner's equity while establishing the firm. Other alternatives were not used as owner's equity were used.

In the second place bank credits were the first choice for the owners of the firms by 34,8%. Commercial credits and relatives were the other alternatives in the second place after bank credits by 21,7%.

**Question 3 )** What are the important factors while using resources ?

**Table 3.3 : Putting in order the important factors while using resources.**

Factors	First Place	Percentage ( % )	Second Place	Percentage ( % )	Third Place	Percentage ( % )
Cost of the Resources	49	56,3	7	14,0	-	-
Maturity Composition	11	12,6	17	34,0	4	26,7
Campaigns	-	-	1	2,0	1	6,7
Financial Position of the Firm	18	20,7	15	30,0	5	33,3
High Assurances	1	1,2	6	12,0	5	33,3
Limited Credits	1	1,2	1	2,0	-	-
Other	7	8,0	3	6,0	-	-
<b>TOTAL</b>	87	100,0	50	100,0	15	100,0

The most important factor for the firms is cost of the resources by 56,3%. Other factors are financial position of the firm by 20,7% and maturity composition by 12,6%.

In the second place as an important factor, maturity composition ( 34% ) and financial position of the firm ( 30% ) are concerned by SMEs.

**Question 4 )** How do you provide credit when you need it?

**Table 3.4 : The ways used while providing credit.**

Sources	First Place	Percentage (%)	Second Place	Percentage (%)	Third Place	Percentage (%)
Halkbank	9	10,4	4	25,0	-	-
Other Commercial Banks	48	55,2	6	37,5	2	66,7
Relatives	5	5,7	2	12,5	-	-
Shareholders	11	12,6	3	18,7	-	-
Other	14	16,1	1	6,3	1	33,3
<b>TOTAL</b>	<b>87</b>	<b>100,0</b>	<b>16</b>	<b>100,0</b>	<b>3</b>	<b>100,0</b>

55,2% of the firms prefer using commercial bank credits when they need credit. Shareholders are the second alternative after commercial bank credits by 12,6%. In the first place “other” alternative contains;

- a) using no credit,
- b) Small and Medium Enterprises Development Organization( KOSGEB ) incentives.

Only 3 firm uses incentives. The choice “other” is also important for the first place alternatives.

**Question 5 )** What are the difficulties when you use a credit ?

**Table 3.5 : The difficulties during using credit.**

Problems	First Place	Perc. (%)	Second Place	Perc. (%)	Third Place	Perc. (%)	Forth Place	Perc. (%)	Fifth Place	Perc. (%)
High Cost of Resources	28	32,2	3	7,5	2	14,3	-	-	-	-
Unavail. of Struct. of Matur.	3	3,4	8	20,0	3	21,4	-	-	1	25,0
High Assurances	9	10,4	7	17,5	2	14,3	2	50,0	2	50,0
Inadequate Credit Limits	3	3,4	2	5,0	-	-	2	50,0	1	25,0
Formalities	14	16,1	20	50,0	5	35,7	-	-	-	-
Other	30	34,5	-	-	2	14,3	-	-	-	-
<b>TOTAL</b>	<b>87</b>	<b>100,0</b>	<b>40</b>	<b>100,0</b>	<b>14</b>	<b>100,0</b>	<b>4</b>	<b>100,0</b>	<b>4</b>	<b>100,0</b>

High cost resource is the primary difficulty for the firms which use credits. It is in the first place in difficulties by 32,2%. For the firms which do not use credits or face with no difficulty “other” alternative is in the first place by 34,5%. ( “Other” alternative contains no use of credit or no difficulty. )

In the second place, formalities is one of the main problems that the firms complain about by 50%. “Unavailability of structure of maturity” by 20% and “high assurances” by 17,5% are the other main problems in the second place.

**Question 6 )** What do you see as a main problem for your firm ?

**Table 3.6 : Main problems for SMEs in the survey**

<b>Problem</b>	<b>Number of the Firms</b>	<b>Percentages ( % )</b>
There is not any problem.	18	20,7
Division of the market too much, unfair competition.	12	11,6
Low profit margins	20	19,4
High taxes for employment	1	1,0
Difficulties during using bank credits	2	2,0
Changes in exchange rates	2	2,0
Difficulties in getting back receivables	9	8,7
Global economic crisis	17	16,5
Sharp fall in sales	24	23,3
Disharmony in maturity of buyings and sales	1	1,0
Diffulties in finding qualified employees	2	2,0
Cash flow and financing	6	5,8
Bureaucracy	5	4,9
Turning the crisis into the opportunity	1	1,0
Firing some employees	1	1,0

This question was an open-ended one. Because;

- 1) The alternatives might not include the ones that the people thought.
- 2) The alternatives might set borders for the managers who answered the questionnaire.
- 3) If so many alternatives were used in this question, it would be boring for the survey makers to find the best ones.
- 4) It could be another way to find the main problems.

18 firms out of 87 had no problems or see nothing as a difficulty for the firm. It means only 20,7% of the firms do not have any problem such as financial, taxes, recruitment, crisis and so on.

The other ones preferred to answer the question by one or more than one answer. 103 answers were picked from 69 firms. The basic four problems are sharp fall in sales by 23,3%, low profit margins by 19,4%, global economic crisis by 16,5% and division of the market and unfair competition by 11,6%. Almost every firm which used the sales are falling sharply answer preferred the sentence “We have low profit margins.”. Sharp fall in sales and low profit margins were also signs of the division of the market too much and unfair competition. “Global economic crisis” has bad effects for 17,5% of the firms in total. This could be the reason of two situations: Economic crisis is almost at the end or Turkish SMEs are not global enough that the global crisis has not much effect on the firms. From the answers, it is seen almost every answer is related with the financial ( economical ) problems.

**Question 7 )** Do you have problem with financing?

**Table 3.7 : Number of the firms which have or not financing problems.**

<b>Does the firm have financing problems?</b>	<b>Number of the Firms</b>	<b>Percentage ( % )</b>
YES	51	58,6
NO	36	41,4
<b>TOTAL</b>	87	100,0

**Question 8 )** Who is responsible for the firm’s accounting ?

**Table 3.8 : How the firm carries out the accounting process.**

<b>Responsible for the Firm's Accounting</b>	<b>Number of the Firms</b>	<b>Percentage (%)</b>
Gets Account Service	53	60,9
Has Department for Account	34	39,1
<b>TOTAL</b>	<b>87</b>	<b>100,0</b>

60,9% of the firms use the way of outsourcing the accounting service. Only 39,1% of them have department, employees and system for their own accounting. This means that the SMEs in the survey are not institutionalised. Not being institutionalised is one of the problems for SMEs.

**Question 9 )** Which software do you use for your accounting ?

**Table 3.9 : Usage of software in the firms for accounting.**

<b>Does the firm uses an accounting software?</b>	<b>Number of the Firms</b>	<b>Percentage (%)</b>
No software or no answer	38	43,7
Uses software	49	56,3
<b>TOTAL</b>	<b>87</b>	<b>100,0</b>

- Netsis by 34 firms.
- Micro by 8 firms.
- ETA by 7 firms.
- Nebim by 3 firms.
- Logo by 2 firms.
- Excel by 2 firms.

Some of the firms uses more than one software.

56,3% of the firms uses software. The others uses no software or they did not answer this question.

These mean that SMEs begin to use technology. It is possible to say that the number of the firms may raise in near future.

### **3. RESULTS OF THE SURVEY**

- About 80% of the firms in the research consist of the number of the employees between 1 and 49. It means a great percent of the firms are small and medium sized entrepreneurship.
- Firms prefer to use owner's equity during establishment of the business. In the survey 90,8% of the firms used their own sources.
- If the SMEs need credit, they prefer to use commercial bank credits instead of Halkbank. Commercial bank credits are preferred primarily and in the first place by 55,2% ; however, Halkbank has a percent of 10,4. In addition to this, Small and Medium Enterprises Development Organization ( KOSGEB ) incentives are only known and used by 3 firms out of 87.
- The main problems which are faced with when credit is used are high cost of resources and formalities.
- 18 of the firms confirm that they do not face with any problems, but the others complain about fall in sales, low profit margins, irregular market conditions and unfair competition.
- About 60% of the firms have financial problems.
- 60% of the firms has no account department in their firms.

#### 4. SUGGESTIONS

- Survey results show that SMEs have financial problems. It is because of high cost of resources, too much formality to use credit and high assurances. Most of SMEs consist of small sized entrepreneurship; hence regulations which will make conditions easier should be made.
- Halkbank, as a bank for SMEs, is not the first alternative for the firms when they need financial support. Making new regulations and providing opportunities may make Halkbank as a first choice for SMEs.
- SMEs do not have enough information about Small and Medium Enterprises Development Organization ( KOSGEB ) incentives. It would be useful to brief and promotion campaigns about incentives for SMEs.
- Most of the SMEs have the problems about falling sales and lowering profit margins as primary problems. These are the results of the increase in the number of the firms in the market and unfair competition conditions. Regulations to prevent unfair competition conditions should be made.
- Education system should be organized to provide qualified employees for SMEs.
- SMEs still have problems with deparmentalization and institutionalization. These problems have negative effects for SMEs to compete with others abroad. Education and briefing should be made as a support for SMEs for specialization, institutionalization and using the technology efficiently.

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# FACTORS AFFECTING THE PRODUCT INNOVATIVENESS OF TURKISH ENTREPRENEURS

ÖZLEM KARABÜBER KUNDAY, YEDİTEPE UNIVERSITY,  
NİLGÜN GÜRKAYNAK, İZMİR UNIVERSITY OF ECONOMICS,

## ABSTRACT

Entrepreneurship is an essential factor for today's economy of knowledge to manage its competitive and dynamic nature. Both governments and academics are concentrating on encouraging entrepreneurship as it symbolizes innovation. Entrepreneurship also has been characterized as a major force for job creation, and a vital determinant of economic growth. As Schumpeter (1965) and Mitton (1989) suggest, innovativeness is the "focal point of entrepreneurship" and a very essential entrepreneurial characteristic. Also, it is among the most chronic themes in the definition of entrepreneurship.

The aim of this study is to provide practical information to better understand the factors that have an impact on the product innovativeness of Turkish entrepreneurs and to be a guide for national entrepreneurship support programs. Given that the theories on entrepreneurs have emerged primarily from research in developed countries, it is important to examine the extent to which these apply in the context of developing ones, such as Turkey. The sample is drawn using the stratified sampling technique from small businesses registered at the Istanbul Chamber of Commerce and consist of 300 entrepreneurs.

Results of this study highlight that demographics as well as personality traits, namely Risk Taking Propensity, Locus of Control, and Self-Esteem, are important for explaining product innovativeness.

**Keywords:** Entrepreneurship, Innovativeness, Product Innovativeness, Personal Characteristics, Gender, Demographics

## 1. INTRODUCTION

Entrepreneurship is an essential factor for today's economy of knowledge to manage its competitive and dynamic nature. Both governments and academics appear to be concentrating on encouraging entrepreneurship as it symbolizes innovation. Entrepreneurship also has been characterized as a major force for job creation, and a vital determinant of economic growth. It targets to detect the relationship between personality traits and innovativeness.

As Schumpeter (1965) and Mitton (1989) suggest, innovativeness is the "focal point of entrepreneurship" and a very essential entrepreneurial characteristic. Also, it is among the most chronic themes in the definition of entrepreneurship. Many research in the entrepreneurship literature indicate that entrepreneurs tend to be significantly innovative than non-entrepreneurs. Innovativeness is also one of the three dimensions of Entrepreneurial Orientation (EO). This research focuses on the innovativeness dimension of EO and investigates the effect of personality traits on product innovativeness-market dimension as well as product innovativeness-change dimension. The aim is to investigate the effect of personality traits and demographics on entrepreneurship and innovativeness-with a special emphasis on the dimensions of product innovativeness-, specifically in emerging economies, such as Turkey.

## 2. LITERATURE REVIEW

### 2.1. Entrepreneurship and the Entrepreneur

The concept of entrepreneurship cannot be completely understood without the contributions made by Joseph Schumpeter (1934), being probably the first scholar to develop its theories. Schumpeter argued that innovation and technological change of a nation comes from the entrepreneurs, or "*wild spirits*". He believed that these individuals are the ones who really make things work in the economy of the country. Schumpeter was among the first to identify the entrepreneur as an entity worth of study, distinct from business owners and managers. He described entrepreneurs as individuals whose function was to carry out new combinations of means of production. To Schumpeter, this function was fundamental to economic development.



Robbins and DeCenzo (2001) define entrepreneurship as the process of initiating a business venture, formulating a strategic plan, organizing and investing the necessary resources, while assuming the risks and rewards as consequences for doing business.

## **2.2. Entrepreneurial Orientation (EO)**

Lumpkin and Dess (1996) made a distinction between entrepreneurship and entrepreneurial orientation which provided a more fine grained approach to specifying the dimensions of entrepreneurial processes. Based on prior research and developed theory, they suggested that an entrepreneurial orientation represents entrepreneurial processes that address the question of how new ventures are undertaken, whereas the term entrepreneurship refers to the content of entrepreneurial decisions by addressing what is undertaken (Lumpkin and Erdoğan,2000).

Five dimensions of EO –autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness- were identified. These dimensions represent distinct constructs that may vary independently of each other in a given context. Study by Lumpkin and Erdoğan(2000) further suggest that the antecedents and corollaries of these dimensions of EO may also differ.

In newly established entrepreneurial organizations, founders of the organization will be able to shape the structures and strategies of the organization and will lead the organization in a direction that is consistent with their personal tendencies. Therefore, it is expected that personality characteristics of the entrepreneurs will influence the entrepreneurial orientation of the organization (Lumpkin and Erdoğan,2000).

Identifying the relationship between personality characteristics and entrepreneurial orientation is important for theoretical and practical reasons, because entrepreneurs with a certain personality trait may have a tendency to identify with sub-optimal entrepreneurial orientation and identifying this tendency may provide benefits to the organization (Lumpkin and Erdoğan,2000).

## **2.3. Innovativeness**

According to Robinson et al. (1991): “*Innovativeness is related to perceiving and acting on business activities in new and unique ways*”. The literature on innovation is long-standing. The ability of an organization to innovate is recognized as one of the determinant factors for it to survive and succeed. (Doyle,1998; Quinn,2000). Innovativeness may be present in various forms, such as product or process innovation, radical or incremental innovation, administrative or technological innovation, etc. (Zalyman et al.,1973; Utterback,1994;Cooper, 1998).

Schumpeter (1934) suggests a range of possible innovative alternatives, namely developing new products or services, developing new methods for production, identifying new markets, discovering new sources of supply, and developing new organizational forms.

From various research, Wang and Ahmed (2004) have identified five main areas that determine an organization's overall innovativeness. They are product innovativeness, market innovativeness, process innovativeness, behavioural innovativeness and strategic innovativeness.

For the aim of this research, the dimension that will be investigated in more detail will be product innovativeness.

## **2.4. Product Innovativeness**

Product Innovativeness has been a key concept and measure in many empirical studies (Danneels and Kleinschmidt, 2001). Product innovativeness reflects the level of newness in product innovations, which can vary, broadly ranging over a wide spectrum (Balachandra and Friar,1997). Thus, product innovativeness refers to a phenomenon manifested by companies with product-related innovated activity. Although it can be described along several dimensions (Song and Montoya-Weiss,1998), most of them appear to reflect the firm's and-or the customer's perspective. (Danneels and Kleinschmidt,2001; de Brentani,2001) Lawton and Parasumaran (1980) assert that there are two basic dimensions of product innovativeness:

- 1) The degree of change in consuming patterns of users, which is required for adopting a new product. This adaptation may incorporate a small or no change, a moderate or major change.
- 2) The degree of difference between new and existing products in the market.

In this context, a new product may vary from incremental or radical change in existing products to a completely new product line. In particular, among the innovation types that have been developed in a vain effort to improve low levels of explanation in innovation results, product innovation appears to provide the most substantiated interpretation. This becomes evident considering the difficulty of setting up explicit boundaries among other innovation types (i.e. process, administrative, technical/technological).

In this study, product innovativeness is investigated along two dimensions. The first dimension describes the innovativeness of the product in the market whereas the second dimension describes the changes made to an already existing product in the market. In the remaining part of this study, the first dimension will be referred to as *product innovativeness-market* and the second one as *product innovativeness-change*.

This distinguishes product innovativeness from other innovative factors and definitions of product innovativeness as discussed earlier.

### **3. SAMPLE AND DATA COLLECTION**

The sample is derived from list of the Turkish small businesses registered at the Istanbul Chamber of Commerce (ITO). There are a total of 285,245 registered businesses in the chamber. These businesses are further divided into 85 categories according to the industry they are operating in. Using the stratified sampling technique, the sample has been drawn. A total of 300 businesses are selected as the sample for this study.

As the data collection tool, a questionnaire has been developed by the researchers. The questionnaire contains a total of 86 questions where 9 of them are open ended and two filter questions.

There are five main parts of the questionnaire, namely: Business Related and Innovativeness, Risk Taking Propensity, Locus of Control, Self-Esteem and Demographics.

Business related, innovativeness, and demographic questions are adopted from the Global Entrepreneurship Monitor (GEM) survey and Scotland Household Survey of Entrepreneurship which use both nominal and categorical scales.

Risk taking propensity will be measured using the questions of Hisrich and Peters (2002) while Self-Esteem by the Rosenberg's (1965) Self-Esteem questionnaire and Locus of Control by Rotter's (1966) Internal-External Locus of Control Scale.

As planned at the beginning of the study, a total of 300 entrepreneurs were selected from list of small businesses. After contacting and scheduling an interview with each of them, the questionnaire was face to face administered.

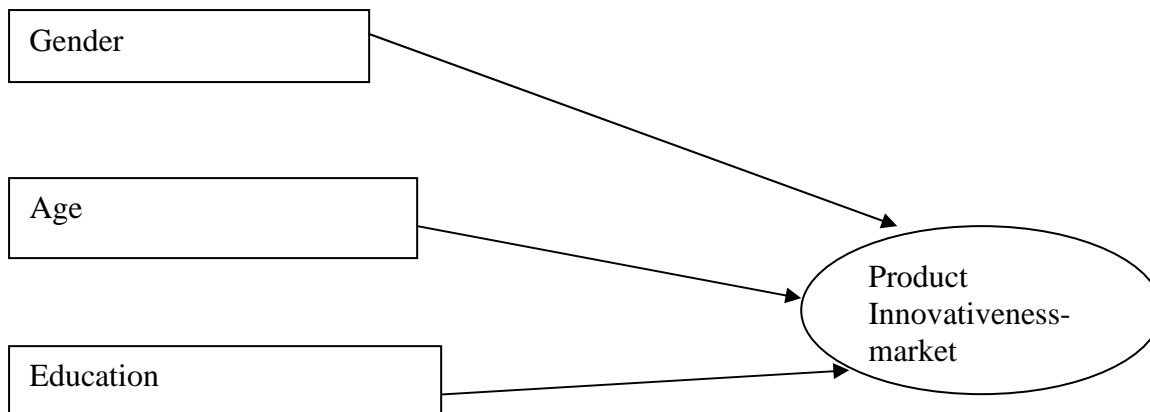
### **4. ANALYSIS**

Here, the aim is to find out how much of the variance in the dependent variable (product innovativeness) is predicted by the independent variables such as gender, age, education, and the personality traits of the model.

#### **4.1 Assessing the Relation between Demographics (Gender, Age, and Education) and Product Innovativeness-market**

First, multiple regression analysis is performed for the effects of personality traits on product innovativeness and later to test the predictability of the remaining independent variables of product innovativeness-market. The same steps are repeated for product innovativeness-change.

**Figure 1: The Effect of Gender, Age, and Education on Product Innovativeness Market Dimension**



The results of the multiple regression analysis are presented in table 1.

**Table-1 Results of regression analysis of gender, age, and education on product innovativeness-market**

Independent Variables	Beta coefficient	P
Gender	0.102	0.003
Age	0.525	0,000
Education	0.278	0,000
R2= 0.789		

**Dependent Variable: product innovativeness-market**

The adjusted R square value gives the explanatory power of the model. This value is expected to be equal or greater to 0.50. The R square value of our model is 0.789, indicating that 78,9% of the change in the dependent variable is explained by the changes in the independent variables. As results, the findings indicate that 78,9% of the change in product innovativeness can be explained by the changes in the independent variables, namely gender, age, and education.

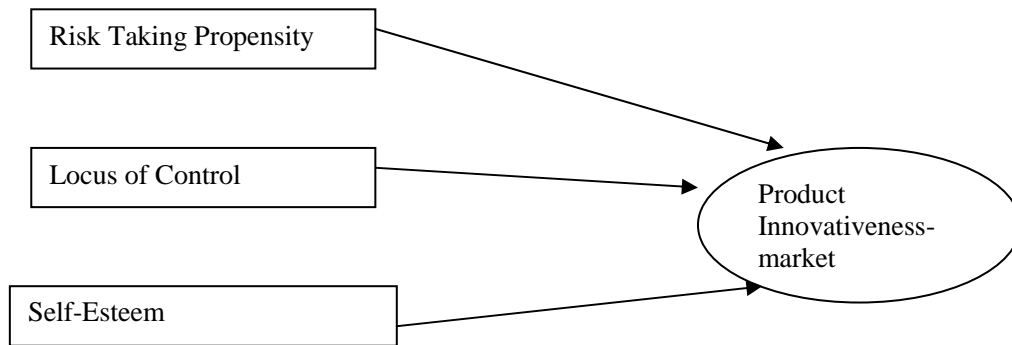
As for the independent variables, all of the independent variables are predictors of product innovativeness-market since all of them have p values smaller than 0.050.

The beta coefficients give information on the effect of each of the independent variables. Among all the independent variables, age is found to be the most important variable in explaining product innovativeness-market. This is followed by education and gender is the least explanatory variable. As a result, it is appropriate to presume that the age of the entrepreneur, The education level of the entrepreneur, and whether the entrepreneur is female or male are important factors for product innovativeness-market.

**4.2 Assessing the Relation between Personality Traits and Product Innovativeness-market**

An essential intention of this study is to comprehend product innovativeness of entrepreneurs. There is only very little research in this field of study, and it is identified that personality traits are important factors in explaining product innovativeness. Therefore, multiple regression analysis is performed to identify the effect of personality traits on product innovativeness of entrepreneurs.

**Figure 2: The Effect of Risk Taking Propensity, Locus of Control, and Self Esteem on Product Innovativeness Market Dimension**



**Table 2- Results of regression analysis of risk taking propensity, locus of control, and self-esteem on product innovativeness-market**

Independent Variables	Beta coefficient	P
<i>Risk Taking Propensity</i>	0,088	0,423
Locus of Control	0,351	0,001
Self-Esteem	0,556	0,000

**R2= 0,808**

**Dependent variable: product innovativeness-market**

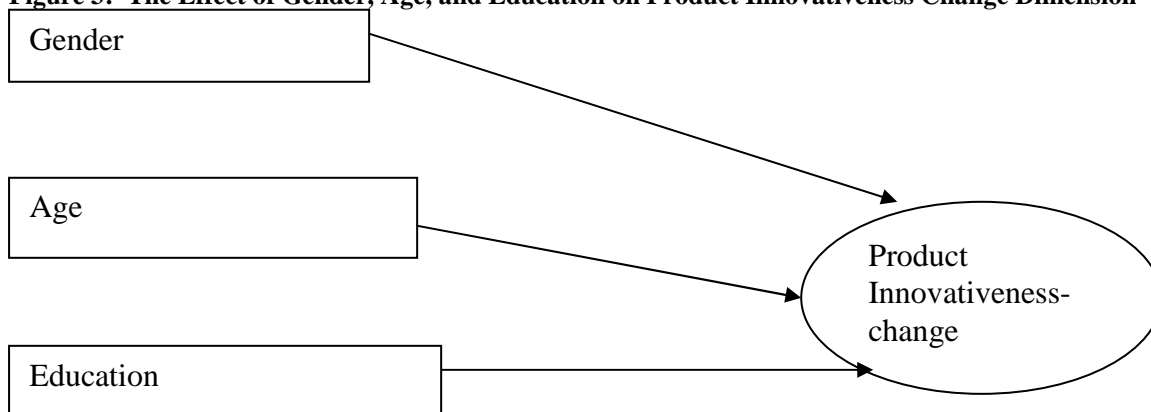
First of all, R square value of the model must be interpreted. The model has an R square of 0.808, thus is higher than 0.50 and statistically significant. This indicates that this model explains 80.8% of the variations in product innovativeness-market.

However, looking at the p values of each independent variable, risk taking propensity has a value of 0.493 that is higher than 0.05 and is therefore insignificant in explaining the changes in product innovativeness-market.

As for the remaining two independent variables, both locus of control (0,001) and self-esteem (0,000) are significant in explaining the changes in product innovativeness-market. Locus of control has a beta value of 0.351 and explains 35.1% of the changes in product innovativeness-market. Self-esteem has a beta value of 0.556 and explains 55.6 % of the changes in product innovation-market.

**4.3. Assessing the Relations between gender, age, and education on product innovativeness-change**

**Figure 3: The Effect of Gender, Age, and Education on Product Innovativeness Change Dimension**



This part of the study, product innovativeness-change is the dependent variable and gender, age, and education of the entrepreneur the independent variables. Multiple regression analysis is performed to find out how much of the variance

in the dependent variable can be explained by the independent variables of the model. The results are given in the table below.

**Table 3- Results of the multiple regression analysis between gender, age, education and product innovativeness-change**

Independent Variables	Beta coefficient	P
Gender	0,190	0,011
Age	0,152	0,028
Education	0,602	0,000
<b>R2= 0,858</b>		

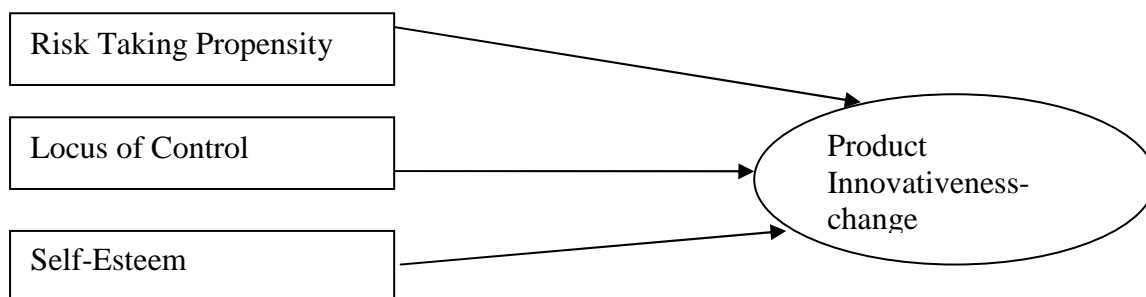
**Dependent variable: product innovativeness-change**

The explanatory power of the model is 85,8% indicated by a R square value of 0,858. here also, the model has a R2 value that is higher than 0,050 and therefore is statistically acceptable. The independent variables are all significant and as for the beta coefficients of each independent variable, education (0,602) has the highest one, followed by age. Once again, gender is the one with the least explanatory power. These findings draw once more the attentions to the importance of education on entrepreneurship and innovativeness in general .The results of the multiple regression analysis indicate that product innovativeness-change can be explained by gender, age, and education level of the entrepreneur.

**4.4. Assessing the Effect of Risk Taking Propensity, Locus of Control, and Self-Esteem on product innovativeness-change**

This final part investigates if and how the personality traits predict product innovativeness-change. Again, multiple regression is the statistical tool used.

**Figure 4: The Effect of Risk Taking Propensity,Locus of Control, and Self Esteem on Product Innovativeness Change Dimension**



**Table 5- Results of the multiple regression analysis between risk taking propensity, locus of control, self-esteem and product innovativeness-change**

Independent Variables	Beta coefficient	P
Risk Taking Propensity	0,479	0,000
Locus of Control	0,276	0,003
Self-Esteem	0,183	0,044
<b>R2= 0,862</b>		

**Dependent Variable: product innovativeness-change**

The model has an R square of 0.862 and since this value is higher than 0.50, it is statistically significant. This indicates that this model explains 86,2% of the variations in product innovativeness and the risk taling propensity, locus of control, and self-esteem are observed as important predictors. All three of the independent factors are significant since all of them have p values higher than 0.050. Risk Taking Propensity has the highest explanatory power among them (0.479). Locus of control has a beta value of 0,276 and is followed by self-esteem with a beta of 0.183.

## 5. RESULTS AND IMPLICATIONS

Results of this study highlight that demographics, as well as, personality traits, i.e. Risk Taking Propensity, Locus of Control, and Self-Esteem are important for explaining innovativeness. The findings of the regression analysis state that demographics as well as each of the personality traits –except one being significant for only one type of innovativeness– are significant in explaining the variance in the dependent variables, namely product innovativeness-market and product innovativeness-change.

To further foster the innovativeness of Turkish entrepreneurs, government should encourage entrepreneurial and innovativeness related education programs. Also Universities should include innovativeness and entrepreneurship courses or specialization tracks to their curriculum.

By the results of this study, striking differences between male and female entrepreneurs exist in area of product innovation- market dimension. Therefore, female entrepreneurs are to be addressed more intensively and with specially designed support packages to reveal their innovative spirit.

There are only an extensive amount of research in the area of the affect of personality traits and demographics on product innovativeness. In this context, this study is among the few and pioneering ones. A pilot study of 27 businesses by Erdogan (2002) revisited the questions of whether personality traits are useful predictors by investigating their relationship to the dimensions of entrepreneurial orientation. According to their results, risk taking propensity is not related to product innovativeness-market. However, risk taking propensity and locus of control are found to be significant predictors for product innovation-change. These findings are supported by the results of this research as well.

## 6. LIMITATIONS AND FUTURE RESEARCH SUGGESTIONS

The sample for this research was drawn from a group of entrepreneurs that were registered at the Istanbul Chamber of Commerce. However, this sample is far from being representative for Turkey. The results could differ, especially from the point of view of women, when the lesser developed regions of Turkey included. Future research could choose such a sample that includes entrepreneurs from each of the seven regions of Turkey.

Finally, the study did not concentrate on all of the dimension of entrepreneurial orientation or did include all types of innovations. Future research should be designed to overcome these limitations of this study and include additional dimensions.

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# **GUERRILLA MARKETING IN SMEs : A CASE STUDY ON THE ASTONISHING SUCCESS OF OIL COMPANY**

**DENİZ ATİK, İZMİR UNIVERSITY OF ECONOMICS  
DİCLE YURDAKUL ŞAHİN, İZMİR UNIVERSITY OF ECONOMICS**

## **1. INTRODUCTION**

Small and medium sized enterprises (SMEs) are the main drivers of economic growth and consequently there is an increasing need for entrepreneurship. Due to the growing interest in SMEs, entrepreneurial marketing is also becoming more important and needs to be evaluated in detail. Creative ways of thinking and innovativeness which are key concepts of entrepreneurial behavior should take the place of traditional management and marketing strategies in order to ensure sustainable growth and competitiveness in the highly turbulent environments.

Guerrilla marketing, as one of the main strategies of entrepreneurial marketing, can be defined as unconventional marketing campaigns and/or strategies which should have a significant promotional effect and is a fraction of the budget that traditional marketing campaigns would spend for the same goal (Baltes and Leibing,2008). The unconventional strategies of guerrilla marketing, with a creative and careful implementation, can be the key to success especially for SMEs by getting the awareness and attention of consumers and differentiating the marketing messages from thousands of others in the market.

Marketers spend lavishly to create marketing messages with the aim to persuade customers that their product is the best. Sometimes, they are trying too hard, and the more they push, the less credible they become. Consumers do not just surrender to every marketing message sent to them, knowing the commercial purposes behind. Instead, most of us like to have a friendly advice. Because we get the opinion from the people we know, word-of-mouth communication tends to be more reliable and trustworthy than the messages we get through more formal marketing channels like advertising (Arndt,1967).

Therefore, the challenge to the marketers who are aware of this vital effect of word-of-mouth is to get the word out there without looking like they have a role in it. In fact, the concept of Guerilla Marketing entails all kind of promotional strategies that use unconventional methods and intensive word-of-mouth campaigns to push products. These campaigns often recruit real consumers who agree to engage in some kind of street theater or other activity in order to convince others to consume their products (Solomon,2006).

In consideration of the high importance of entrepreneurial activities in marketing, this study aims to identify how guerrilla marketing strategies can be used and contribute to the success of SMEs.

## **2. BACKGROUND**

Morris et al. (2002, pg.5) defined entrepreneurial marketing as “the proactive identification and exploitation of opportunities for acquiring and retaining profitable customers through innovative approaches to risk management, resource leveraging and value creation.” According to Hills and Hultman (2006), the difference between traditional marketing and entrepreneurial marketing is not the concept of the 4-7 Ps but the content and the combination of the Ps applied to the market by entrepreneurs as compared to managers.

Entrepreneurial marketers seek new and unpracticed ways to create value for desired customers and build customer equity with an opportunistic way of thinking (Morris et al. 2002). Hills and Hultman (2006) have indicated that identifying new opportunities, applying innovative techniques to bring the product/service to the market place and meeting the needs of their chosen target market is the key to the success in marketing which underlines the importance of entrepreneurial marketing.

In contrast with traditional marketing, entrepreneurial marketing is not based on rational planning of the marketing mix. Traditional marketing concepts can also be used in entrepreneurial marketing however a full understanding of the need for creativity, innovativeness and other aspects of entrepreneurship is highly needed to be able to have an entrepreneurial perspective of marketing. Entrepreneurial marketing requires customer knowledge based on market interaction, innovation and a focus on creating and exploiting markets and recognition of opportunities (Hill and Hultman, 2005).



Kotler (2003) identifies three stages of marketing practice as organizations grow. The first stage is entrepreneurial marketing. According to Kotler, most companies are started by individuals who visualize an opportunity and knock on every door to gain attention. In this stage of marketing, the level of entrepreneurship is high and the degree of formalization of marketing practices is low. In the second and more mature stage, marketing practices become formulated marketing as more and more people become involved and as standardized routines become increasingly necessary. Finally organizations get into a stage of too much formulation that they lack the creativity and passion of the guerrilla marketers in the entrepreneurial stage.

Ries and Trout (1986) stated that marketing activities are a battle to conquer the customers' mind and they introduced the term "guerrilla marketing". According to Ries and Trout, there are four main strategies for fighting a marketing war which are defensive strategy, offensive strategy, flanking strategy and guerrilla strategy. Guerrilla marketing is appropriate for companies that are too small to launch offensive or flanking moves. Guerrilla marketing warfare needs identification of a segment that is small enough to defend, resisting the temptation to give up lean and nimble marketing organization as the company grows and being ready to enter and exit on short notice if the market for the product takes a negative turn in order to prevent the waste of resources.

Entrepreneurial behavior is highly related with guerrilla marketing as entrepreneurs need these strategies more than ever due to the smart, aggressive and sophisticated nature of the competition in the current market arena.

SMEs are having greater internal limitations with a restricted budget for marketing activities and confronting serious external challenges by competitors and market turbulence. One of the main objectives of guerrilla marketers is to ensure low-cost marketing communications. Guerrilla marketing aims to maintain or get the awareness and attention of the consumers in a cost efficient way which makes it suitable for SMEs due to the resource constraints and environmental challenges.

Guerrilla marketing activities is based on the idea that in the highly competitive environment for customer attention, traditional ways of marketing activities will waste resources as customers are not paying attention to thousands of identical marketing messages and strategies. In contrast, guerrilla marketing activities, which are unconventional and surprising, are efficient in terms of gaining customer attention. Guerrilla marketing can be more effective and less expensive, when compared with conventional marketing activities.

According to Levinson(1994), guerrilla marketing relies on concentrating resources to achieve superiority, selling the ideology along with the product, overcoming established and traditional patterns, searching for synergies, trying to overcome the difficulties which are based on the perception filters of target consumers and being flexible and agile instead of holding on strongly to conventional way of thinking.

Selling the ideology along with the product means addressing the emotional bound of the product by communication and obtaining the superiority of attention. Therefore, guerrilla marketing targets differentiating the product by targeting emotional aspects of buying decision and positioning the product on an ideological level rather than a functional level (Baltes and Leibing, 2007).

Here, the Oil Company case shows us how guerrilla marketing turns into a real success story.

### **3. AN ENTREPRENEURIAL START-UP**

Oil Company was founded in 1989 by a visionary entrepreneur, Mr. Nuri Erdem, starting its journey in a small shop of Karşıyaka Çarşısı, İzmir, selling only one type of jeans. Although Mr. Erdem had several years of experience in fashion retailing business, to begin with, he did not have much knowledge about the production processes of fashion clothing.<sup>19</sup> Getting inspired from different brands of most popular jeans of the time such as Lewis, Diesel, or Jordash, he worked for four months on creating a new design with the help of an experienced molder. His inspiration of this new design also came from watching the social happenings of the moment, Mr. Erdem says. He tried to figure out what was missing in the market, aiming to produce something unique and special. Although he was lacking the technical knowledge of producing a new design, he had the artistic senses for feeling what was being desired in the market.

Stating that our target market is young people from the ages of 15 to 20 is an empty statement, Mr.Erdem says. You should try to understand the spirit, feelings, and the identity of your target market. You must figure out how you can make them feel special. He further quotes: "It is like a male-female relationship; there should be chemistry between the brand and the consumer."

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<sup>19</sup> Interview on the 17th of June, 2008 with Mr. Nuri Erdem, the founder of Oil Company.

Looking deeper in consumers' minds, Mr. Erdem created the first Oil Company designed jean, which had double colored stripes on its sides, with an out of the ordinary look compared to the more regular jeans of the time that were mainly blue, black, and grey. The innovativeness of the company has already started at the product development stage. Although the owner did not have much technical experience at the beginning about the fashion merchandise production processes; his vision about what the target market desired carried the company much further. Using his friendly connections in dyeing factories and production ateliers, Mr. Erdem managed to produce 850 pieces of this new design to be placed in a small shop of Karşıyaka.

#### **4. THE SUCCESS OF GUERRILLA MARKETING**

Everything started with one type of jean, one model, one color; only different sizes. Mr. Erdem placed one piece of each size on the selves of his shop. 20 pieces of jeans out of 850 were exhibited; the rest were in the stock room. At the beginning, Mr. Erdem, himself, was present in the shop, receiving customers along with the sales people he hired. When a customer entered to the shop, he was telling: "We brought a nice piece of jeans from Italy. Would you like to try?". He was aware of the popularity of Italian fashion products in Turkey at that time, and he was appealing to this desire of consumers (Note: He imported all the raw materials from Italy, including the textile). Though, the ethical aspect of this issue is questionable.

When the customer liked the jeans and decided to buy one, he said: "It is limited edition; we only have one piece at the moment, but if you leave a deposit, I will order one for you." In about 15 days, with the money collected by customers' deposits, Mr. Erdem already break-evened revenue and costs. On those two weeks, on purpose, he did not sell any jeans while 850 were waiting in stock. The creative entrepreneur / marketer was appealing to the consumers' desire for uniqueness. He started the buzz about this unique jean that is so rare and special, and everybody desired to have one. Within 2-3 weeks, Mr. Erdem realized that the number of deposits started to exceed the amount of jeans in the stock. Not only that, but also, customers ordered especially certain sizes and not others while Mr. Erdem had in stock equal numbers for each size. Subsequently, learning from this operational mistake, Mr. Erdem organized the production of 1600 pieces more to be able to cover all customer orders.

After 4-5 months of attracting the customers through the uniqueness and rarity of its product, Mr. Erdem realized that he needed new ideas to spread the word-of-mouth and keep customers excited. He decided to hire good looking college students, paid them hourly salaries to form artificial queues in front of the Oil Company store and to talk about the Oil Company products to their friends. The students were lining up in the store in rush hours of shopping, getting out from the stores with Oil Company bags, which were full of their personal stuff. In Karşıyaka Çarşısı, everyday, there were plenty of people walking with these bags. This time, ironically, Mr. Erdem was appealing to consumers' desire for social prescription, for conformity while he was creating brand awareness. People were wondering around, hoping to try the jeans of this new very popular company. Within one month, Mr. Erdem says, he did not need anymore artificial queues because the real ones were forming in front of the shop.

After a little while, he opened a new store in Gül Sokak, the VIP neighborhood of Alsancak, İzmir, spreading the buzz with new creative ideas. Then, he decided to grow his operations. He traveled for one month all over Turkey, visiting the most popular shops in ever city, looking for franchisees. Conversely, he came back to Izmir with empty hands because nobody knew about Oil Company. The buzz was spreading in Izmir, but nowhere else. Without leaving himself in desperation, the creative entrepreneur developed new strategies for growth. After a long search between Italian Chamber of Commerce and Consulates, he made an agreement for print advertising shooting with two of the most popular Italian models. He paid large amount money for only one photo that was going to be displayed full page in the leading national newspapers, Hürriyet and Sabah. Below the photo of the beautiful models, wearing Oil Company jeans, the ad said both in Italian and in Turkish: "We are accepting franchisees."

Amazingly, 90% of the potential franchisees Mr. Erdem visited the previous months replied to the ad, wanting a franchise position. The following 4 years, Oil Company has already reached above 300 selling points in Turkey while towards the end of nineties, the company had 580 franchises in total.

The creative marketing moves of Oil Company were not only towards the individual consumers (B to C), but also, towards its dealers (B to B), suppliers, and employees. For a sustainable growth, opening a new franchise is not enough Mr. Erdem says; the company should be able to attract the customers to that new point of sale. He traveled every weekend, visiting its franchisees and spreading the word about the unique products of Oil Company. He also continued to advertise in the leading national newspapers, increasing the visibility of his brand. He dressed up opinion leaders, celebrities, singers, fashion models like Çağla Şikel. People were wearing Oil Company jeans in TV programs like TeleVole, in parties, in clubs, in all kind of popular social meetings. The brand was more and more known by larger public; it was becoming a national brand. Mr. Erdem was highly active himself in public relations, participating in all

kind of social activities and hanging out in the social environments of his target market. He kept his senses alert for what the young generation desired.

In time, along with its creative marketing efforts, the company also gained experience in fashion production processes, establishing its own manufacturing factory with the state of the art facilities and skilled human resources. Mr. Erdem says: "I taught to every employee that our objective is not to produce the largest amount or variety of products but the highest percentage of marketable products that will turn into actual sales. I asked to my designers to figure out 10 new designs each season that will become highly fashionable and demanded, searched by consumers, instead of focusing on the 300 hundred pieces of the collection."

## 5. CONCLUSION

Oil Company does not exist anymore. This is mainly due to the economic crisis that Turkey has experienced in 2001, Mr. Erdem says. The company was importing its main raw material, the very fine fabric of its jeans from Italy, and due to the devaluation of Turkish Lira during the crisis, the company's depths augmented tremendously over a course of one night, and the company could not manage its financial loss effectively.

Despite its sad ending, Oil Company has experienced a success story for over a decade, by touching the heart of its consumers and becoming a national brand, thanks to its visionary and innovative marketing moves, knowing to look deeper in consumers' minds.

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# FINANCING R&D PROJECTS OF INNOVATIVE SMES: NATIONAL AND INTERNATIONAL FUNDS

ALİ BEBA, ÖZYEĞİN UNIVERSITY  
KEMAL SAATÇIOĞLU, ÖZYEĞİN UNIVERSITY

## ABSTRACT

Both academic papers and popular press frequently cite financing of R&D projects as one of the major problems innovative SMEs face. A five year long collaborative effort between Ozyegin University and a major business confederation targets to strengthen the institutional capabilities and build the capacities of the innovative and R&D focused Turkish SMEs. In its first year (2009), this joint activity focuses on improving SMEs' access to financing in general. As part of this project, one-to-one interactions with a large number of Turkish SMEs reveal that the majority of SMEs use their own capital, bank loans, and business loans as their only sources of funding and their knowledge of alternative financing sources for their R&D projects is limited at best. This study explores alternative sources of financing available to innovative SMEs for funding their R&D projects and investigates national funds, EU funds, framework programs (FP7), and funds resulting from international bilateral agreements (Government to Government and Twinning Agreements) in detail. The study is expected to benefit innovative SMEs focusing on R&D activities by enabling them to understand the pros and cons of each of these funding sources and help them make informed decisions in choosing the most appropriate sources of funding for their R&D projects.

## 1. INTRODUCTION

Both academic papers and popular press frequently cite financing of R&D projects as one of the major problems innovative SMEs face. A number of studies by policy making institutions investigate the financing gap faced by SMEs. (e.g. see [1], [2], [3], [4], [5], and [6].) There are numerous region or country specific studies focusing on the financing problems of SMEs in those regions. (e.g. see [7] and [8] for studies concentrating on developing countries and Eastern Europe, respectively, and see [9], [10], [11], [12], [13], [14], and [15] for papers focusing on Australia, Bangladesh, Colombia, Ireland, Japan, Nigeria, and Poland, respectively.)

A five year long collaborative effort between Ozyegin University and a major business confederation targets to strengthen the institutional capabilities and build the capacities of the innovative and R&D focused Turkish SMEs. Considering the effects of the global financial crisis, in 2009 this joint activity is focusing on improving SMEs' access to financing in general. As part of this project, panels and round table discussions are conducted with the presence of a large number of SMEs in different cities in Turkey. One-to-one interactions with the Turkish SMEs reveal that the majority of them use the original entrepreneur's own capital (including loans from family members), bank loans, business loans (trade credit), leasing and factoring as their only sources of funding. Studies indicate similar patterns for SMEs around the world. (e.g. for studies focusing on bank financing see [11], [16], and [17], for a focus on trade credit see [18], and for studies looking at factoring see [19], [20], and [21].) SMEs knowledge of alternative financing sources for their R&D projects seems to be limited at best. Anecdotal evidence tells us access to private equity, venture capital, and risk capital is virtually non-existent for the Turkish SMEs, and this is also in line with survey results for European SMEs. (see [4].) There are also studies investigating newer and more innovative approaches to SME financing such as the use of public credit guarantees (see [22]) and introduction of SME stock exchanges (see [23]). Regarding the former, the consensus among Turkish SMEs we have interacted with is that public credit guarantees in Turkey do not work as intended and regarding the latter, after years of planning, the SME stock exchange in Turkey is still not operational.

This study explores alternative sources of financing available to innovative SMEs for funding their R&D projects and concentrates on national funds, EU funds, framework programs (FP7), and funds resulting from international bilateral agreements. One-on-one interactions with a large number of Turkish SMEs reveal that they are either unaware of these funding opportunities or find them to be too complex to delve into. The study is expected to benefit innovative SMEs focusing on R&D activities by enabling them to understand the pros and cons of each of these funding sources and help them make informed decisions in choosing the most appropriate sources of funding for their R&D projects.

The remainder of this paper is organized as follows: We start by looking at national funds for Turkey in Section 2. EU funds and 7<sup>th</sup> framework programs are investigated in Sections 3 and 4, respectively. Section 5 introduces

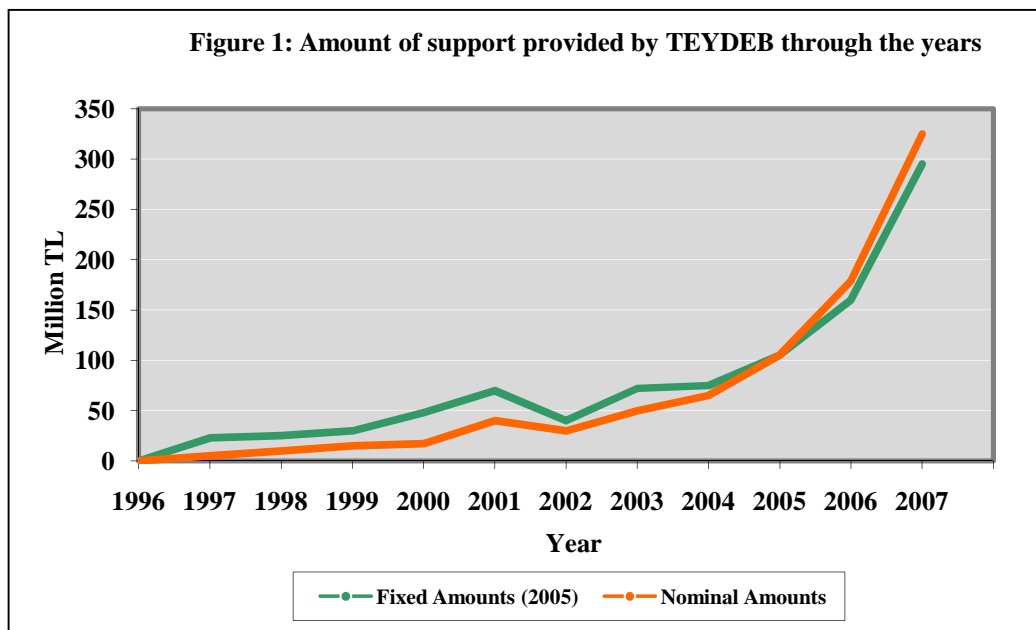
competitiveness and innovation framework program (CIP) and lastly Section 6 looks into international bilateral agreements. Section 7 lists some recommendations and concludes.

## 2. NATIONAL FUNDS

In Turkey the rate of R&D budget to Gross Domestic Product (GDP) is designated to be 0,58% in 2007. According to the strategy that is developed by the Science and Technology High Commission of Turkey, this rate is targeted to be 2% in 2013 and the share of the private sector in R&D studies to be 50%. In line with this strategy, a significant growth on national R&D funds that are implemented is observed in terms of both the amount of the supports and the number of the tools. In this scope, national R&D funds which are currently implemented are detailed in the following sections. (see [24], [27], [28], and [29])

### 2.1 TÜBİTAK- Technology and Innovation Support Programs Directorate (TEYDEB) Supports

These supports are provided by TÜBİTAK to the entrepreneurs who are planning to establish a company, to SMEs and to large scale companies. Figure 1 demonstrates the total amount of supports provided by TEYDEB to entrepreneurs, SMEs and large scale companies through the years. A significant increase in these supports since 2003 is evident from the figure.



TEYDEB supports are implemented by five main tools. A brief description of each follows:

#### 2.1.1 1508 – Support For Entrepreneurships That Is Focused On Technology And Innovation (TEKNOGİRİŞİM)

This program is implemented to encourage the entrepreneurs who hold bachelor, master or PhD degrees to innovate new products that have commercial value. Following the establishment of the companies, the program provides supports for personnel, materials equipments, software, travel, consultancy, office rent and other office expenses. A maximum of 100,000 TL can be provided to each entrepreneur, and the support rate is 75%.

#### 2.1.2 1507 – SME R&D Start-Up Support Program

This program aims to enhance the competitive capacity of SMEs. It supports activities for new product development, product development and amendment, enhancement of the product quality and standards, and reduction of the production costs. The projects to be supported by this program should have budgets less than 400,000 TL and last less than 18 months. Support rate for this program is also 75%.

#### 2.1.3 1501 – Industry R&D Projects Support Program

This program is implemented to develop R&D capacities of large-scale companies. There is no budget limitation for the projects that will be supported by this program. Durations of the projects can be up to 36 months. Support rate is between 50-60 %.

#### **2.1.4 1509 – International R&D Projects Support Program**

This program supports the projects that have international partnership via Eureka and Eurostars programs. Companies based in Turkey can apply to this program by establishing partnerships with companies from the member states. Support rate is 60% for large scale companies and 75% for SMEs. There is no limitation for either the project budget or the duration.

#### **2.1.5 1503 – Project Markets Support Program**

This program supports activities that enable representatives from the universities, research institutions, and the industry to come together to share the project ideas and establish contacts and project partnerships. Universities and research institutions can apply to this program.

#### **2.2 TÜBİTAK - Patent Application Support Program (TPE),**

This program covers the expenditures incurred during a patent application. The support is given as a loan and in the case of triadic patents (a series of corresponding patents filed at the European Patent Office (EP), the United States Patent and Trademark Office (USPTO) and the Japan Patent Office (JPO), for the same invention, by the same applicant or inventor) the loan is converted into a grant.

#### **2.3 İŞBAP- National Technology Platform Supports**

With this program, supports for establishment of technology platforms are provided. Automotive, textile, metal, electric, electronic, navy and sea technologies, energy, medicine, agriculture and construction are the technology platforms which are established by this support.

#### **2.4 Turkey Technology Development Foundation (TTGV) Supports**

TTGV is a foundation that supports R&D and technological innovation projects of the private sector in Turkey since 1991. Within this framework, TTGV provides long-term credit that is to be repaid by the companies and it requires compulsory contribution of the companies to all costs incurred in the project. In this scope TTGV supports the following programs for the private sector.

##### **2.4.1 R&D Project Supports Program**

These supports include consecutive and integrated mechanisms that will enable SMEs and large scale companies to make the best of their technological development potential so that the developed technologies serve Turkish Enterprises to achieve a competitive position in the global market. This program is implemented by three support tools:

- Technology development project support
- Commercialization project supports
- Joint technology development supports

##### **2.4.2 Environmental Projects**

Besides raising the industrial sector's awareness of R&D and supporting technology development projects since its establishment, TTGV pays close attention to protection of the environment. Thus a special support program is developed for environmental projects.

##### **2.4.3 Technological Entrepreneurship Supports**

TTGV provides supports to the entrepreneurs who have technological projects via the below tools:

- Pre-Incubation supports
- Risk sharing facility supports
- Start – up supports

#### **2.5 Development and Support Administration for SMEs (KOSGEB) Supports**

KOSGEB, which is founded in 1990, provides technical, administrative and financial supports to SMEs in order to enhance their technological capability and their contribution to the national economy. These supports can be loan and grants, technological know-how information, and specific trainings. A summary of the most recent SME related KOSGEB supports is given below:

- I. **Information Technologies Supports:** This program covers supports for computer software (8,000 TL) and E-Commerce (3,000 TL) applications.
- II. **Regional Development:** This program provides financial supports to the SMEs located in regional development areas and covers qualified personnel support (up to 18,000 TL), local economic research support (15,000 TL), and infrastructure & superstructure blueprints supports (10,000 TL).
- III. **Consultancy and Training:** This program encourages SMEs to receive technical consultancy and specific trainings and supports 5,000 – 15,000 TL grants to SMEs.
- IV. **Development of Entrepreneurship:** These are consultancy and training supports organized by KOSGEB and covers the following compounds: young entrepreneur development, general entrepreneurship, new entrepreneur, business development.
- V. **Quality Development:** This support is provided to SMEs that aim to establish a quality standard in their operations and is given for general testing, analysis and calibration (10,000 TL), and CE certification (20,000 TL).
- VI. **Market Research:** This program covers supports for participation to national and international fairs.
- VII. **Technology Development and Innovation:** This program covers technology R&D supports, industrial property rights, and technologic entrepreneurship capital supports. It provides financial support between 50,000 – 200,000 TL.
- VIII. **International Cooperation:** This is financial support for international cooperation and it covers business trips focused on export and partnership activities.

## 2.6 The Ministry of Industry and Commerce San-Tez Program

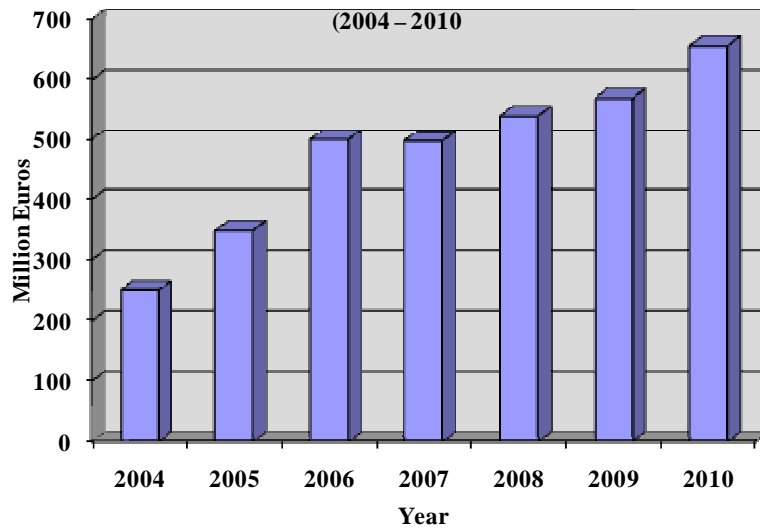
This program targets university–industry partnerships in R&D projects. It is based on a thesis study that will be utilized in an industrial facility together with the coordination of a university. SMEs participating in this program can develop R&D projects with the technical personnel of the university. The program covers 75% of the project budget with the industrial company covering the remaining 25%.

## 3. EU FUNDS – GRANTS

The EU aims at the extension of peace, democracy and prosperity in the world. In this scope, EU builds partnerships with countries that share the same basic values of democracy, human rights and the market economy. The EU contributes financially to these countries' economic and social development through a variety of financial instruments. Some of these countries in Europe seek eventual EU membership. If accepted as candidate countries, they get increased financial support, called pre-accession funding. The main target of EU pre-accession funding is to help candidate countries prepare for EU membership.

There is a significant growth in the EU project funds allocated to Turkey since 2002. Figure 2 shows the EU project funds given and allocated to Turkey in the 2004-2010 period and highlights this growth. These funds are utilized in three equal parts: approximation to EU Acquis (the total body of EU law accumulated), technical assistance for institutional strengthening, and economical and social consistence. (see [26], [27], [28], and [29])

Figure 2: EU Pre-Accession Funds Given and Allocated For Turkey



The EU funds that are implemented are a composition of the following five components:

- I. **Transition period supports and institutional development:** Covers the supports that will be used for the approximation of governmental institutionalization in the field of EU laws and Acquis.
- II. **Regional and cross-border cooperation:** This component supports the projects that encourage the cooperation between Turkey and bordering members and candidate countries.
- III. **Regional Development:** This component aims to decrease the economical and social gap among the different parts of Turkey.
- IV. **Human Resources:** The supports provided by this component are used for development of human resources.
- V. **Rural Development:** Supports the projects which are implemented in order to develop agriculture and food sector in Turkey.

#### 4. SEVENTH FRAMEWORK PROGRAM (FP7)

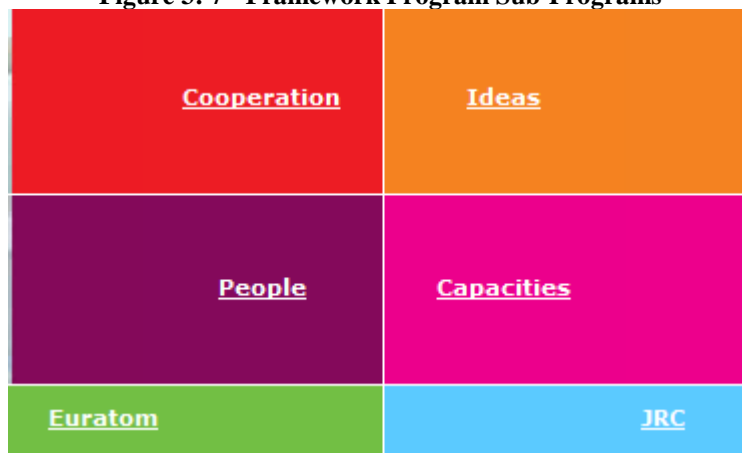
The 7th Framework Program is the EU program established for research and technological development. The program will last for seven years from 2007 until 2013 and has a total budget of € 54.5 billion. FP7 is a keytool to respond to Europe's needs in terms of jobs and competitiveness, and to maintain leadership in the global knowledge economy. This budget will be spent on grants to research participants all over Europe and beyond, in order to co-finance R&D and demonstration projects. Grants are determined on the basis of calls for proposals and a peer review process, and the process is highly competitive.

In order to complement national research programs, activities funded by FP7 must have a “European added value.” One key aspect of this is the trans-nationality of many actions: R&D projects are carried out by consortia which include participants from different FP7 countries and fellowships in FP7 require mobility over national borders. Indeed, many research challenges are so complex that they can only be addressed at the European level.

Figure 3 shows the four sub-programs (cooperation, ideas, people, and capacities) and the two side tools (Euratom and JRC) that account for 93% of the total program budget amounting € 50.5 billion. Figure 4 gives the budget share of the sub-programs. The four sub-programs are described in more detail below. More detailed information can be obtained at <http://cordis.europa.eu/> in English and also from <http://www.fp7.org.tr/> in Turkish. (also see [25], [27], [28], and [29])

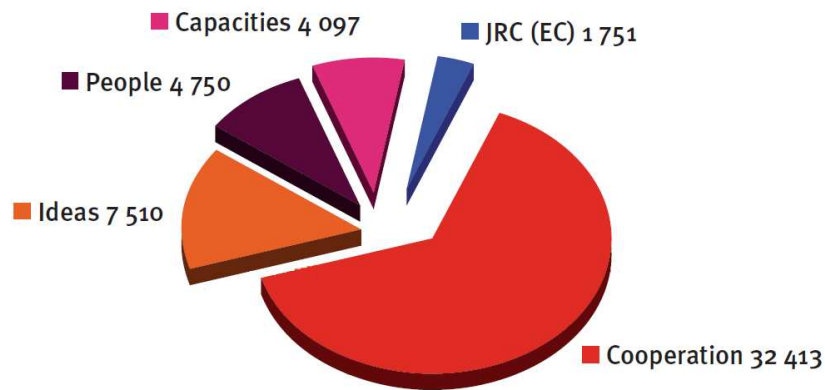


**Figure 3: 7<sup>th</sup> Framework Program Sub-Programs**



**Figure 4: The total budget share for the 7<sup>th</sup> Framework sub-programs**

€ million

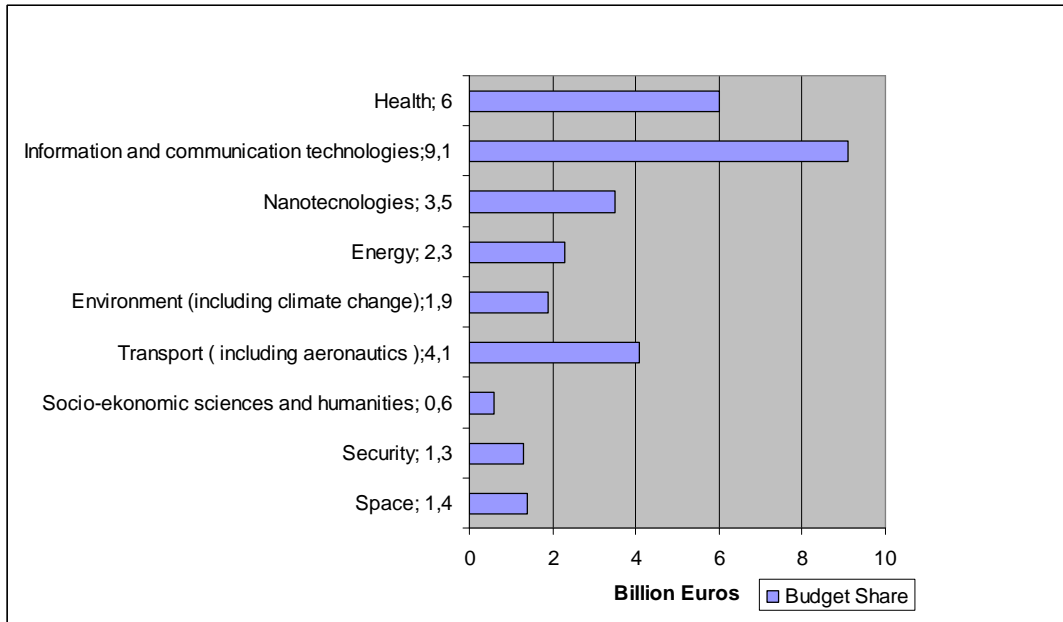


#### 4.1 Cooperation Program

The core of FP7 is the Cooperation Program. A total of € 32.3 billion is allocated for this program, amounting to roughly two thirds of the overall budget. It fosters collaborative research across Europe and other partner countries through projects by trans-national consortia of industry and academia. Research will be carried out in ten key thematic areas. The budget share among the thematic areas is given in Figure 5.

- Health
- Food, agriculture and fisheries, and biotechnology
- Information and communication technologies
- Nanosciences, nanotechnologies, materials and new production technologies
- Energy
- Environment (including climate change)
- Transport (including aeronautics)
- Socio-economic sciences and the humanities
- Space
- Security

Figure 5: Budget Share among the 10 Thematic Areas of the Cooperation Program



#### 4.2 Ideas Program

The Ideas Program will support “frontier research” solely on the basis of scientific excellence. Research may be carried out in any area of science or technology, including engineering, socio-economic sciences and the humanities. In contrast with the Cooperation program, there is no obligation for cross-border partnerships. Projects are implemented by “individual teams” around a “principal investigator.” The program supports projects that have high level R&D. Thus, generally, academicians apply to the program. The support may last up to 5 years and the amount of support is € 100,000 - 500,000 per year. The total budget allocated for the sub-program for seven years is € 7.5 billion.

#### 4.3 People Program

The People Program provides support for researcher mobility and career development, both for researchers inside the European Union and internationally. It is implemented via a set of Marie Curie actions, providing fellowships and other measures to help researchers build their skills and competences throughout their careers. The program has the following support areas:

- Initial training of researchers - Marie Curie Networks
- Industry-academia partnerships
- Co-funding of regional, national and international mobility programs
- Intra-European fellowships
- International dimension - outgoing and incoming fellowships, international cooperation scheme, reintegration grants
- Marie Curie Awards

#### 4.4 Capacities Program

The Capacities Program strengthens the research capacities that Europe needs if it is to become a thriving knowledge-based economy. This sub-program has a budget of € 42 billion for the period of 2007 – 2013 and covers the following activities:

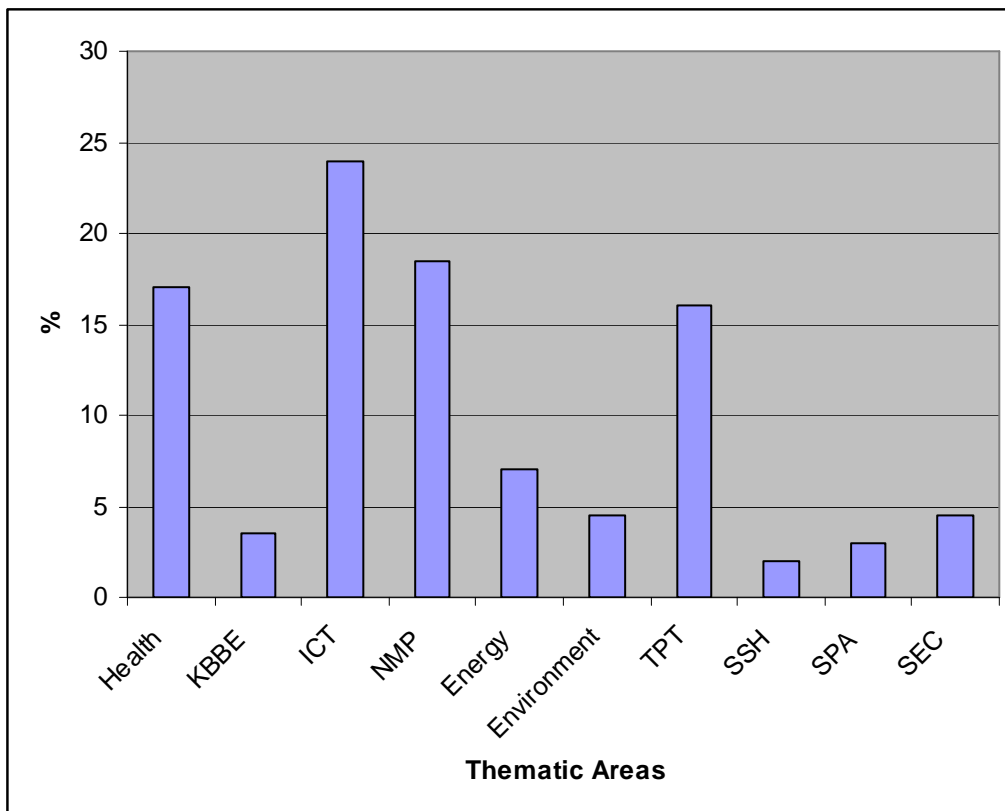
- Research infrastructures
- Research for the benefit of SMEs
- Regions of Knowledge
- Research Potential
- Science in Society
- Specific activities of international cooperation

#### 4.5 Programs Important for SMEs

In FP7, a special emphasize is given to development of SMEs. A total of 6.2 billion Euro is planned to be given to SMEs by various tools. Of these funds, 69% will be distributed to SMEs that have less then 49 employees and 31% will be distributed to SMEs that have 50-249 employees. In this scope, over 6,000 SMEs participated in FP7 in the first two years (2007 – 2008). According to the third progress report of SME participation, health, ICT, NMP and transport are the most attractive thematic areas for SMEs. Dispersal of the utilized funding is demonstrated in Figure 6 below.

Within the Cooperation sub-program, 15% of the total budget, equaling 4.86 billion Euros, is allocated to be used by the SMEs. So far, 12.3% funding rate is achieved in this program. Similarly, within the Capacities Program, 1.34 billion Euros, approximately 32% of the total budget, is allocated to “Research for SMEs.”

Figure 6: Dispersal of Funds Utilized by SMEs in 2007-2008



### 5. COMPETITIVENESS AND INNOVATION FRAMEWORK PROGRAM (CIP)

The Competitiveness and Innovation Framework Program (CIP) aims to encourage the competitiveness of European enterprises. With SMEs as its main target, the program supports innovation activities (including eco-innovation), provides better access to finance and delivers business support services in the regions. It encourages a better take-up and use of information and communications technologies (ICT) and helps to develop the information society. It also promotes the increased use of renewable energies and energy efficiency. The program runs from 2007 to 2013 and has a total budget of €3.621 billion. The CIP is divided into three programs and brief information is provided on each sub-program below. Detailed information about CIP can be reached from [http://ec.europa.eu/cip/index\\_en.htm](http://ec.europa.eu/cip/index_en.htm) (See also [25], [26], [27], and [28].)

#### 5.1 Entrepreneurship and Innovation Program (EIP)

The EIP with a budget of € 2.17 billion for the overall period of 2007-2013 aims to achieve the following objectives:

- Facilitate access to finance for the start-up and growth of SMEs and encourage investment in innovation activities,

- Create an environment favorable to SME cooperation, particularly in the field of cross-border cooperation,
- Promote all forms of innovation in enterprises,
- Support eco-innovation,
- Promote an entrepreneurship and innovation culture,
- Promote enterprise and innovation-related economic and administrative reform.

### **5.2 Information Communication Technologies Policy Support Program (ICT PSP)**

The sub-program supports the following priorities with a budget of € 730 million:

- Developing a single European information space,
- Strengthening the European internal market for ICT and ICT-based products and services,
- Encouraging innovation through the wider adoption of and investment in ICT,
- Developing an inclusive information society and more efficient and effective services in areas of public interest,
- Improving the quality of life.

### **5.3 Intelligent Energy Europe (IEE)**

The sub-program which has a total of € 730 million budget for the whole period supports the projects that targets:

- Fostering energy efficiency and the rational use of energy sources,
- Promoting new and renewable energy sources and energy diversification,
- Promoting energy efficiency and new energy sources in transport.

## **6. GOVERNMENT TO GOVERNMENT (G2G) AND TWINNING AGREEMENTS**

The aim of G2G cooperation programs are implementation of policies in selected countries and establish sustainable relationships between institutions from different countries.

The main subjects which are covered by G2G programs are primary and secondary legislation, compliance, public administrative reform, education, justice and home affairs, health, environment, public works, social policy areas and working conditions. This program is important for SMEs which provides services in the above mentioned fields.

A special form of G2G agreements is "Twinning Agreements" which were launched in May 1998 is now one of the principal tools of 'Institution Building' assistance. Twinning aims to help beneficiary countries in the development of modern and efficient administrations, with the structures, human resources, R&D and management skills needed to implement the *acquis communautaire*.

Twinning Agreements provides the organizations the framework in the beneficiary countries to work with their counterparts within the EU. Together they develop and implement targeted projects aimed at supporting the transposition, enforcement and implementation of a specific part of EU *acquis*.

The main feature of Twinning Agreements is setting out to deliver specific and guaranteed results and not to foster general co-operation. The parties agree in advance on a detailed work program to meet an objective concerning priority areas of the *acquis*, as set out in the Accession Partnerships. Since 1998, beneficiary countries have benefited from over 1,100 Twinning projects.

Turkey is now proceeding with accession negotiations as a candidate. It will have to demonstrate its resolve and ability to complete the necessary transformations to implement community legislation. Twinning will therefore remain an essential tool at its service to reach the required level of administrative and judicial capacity. The current approach to Turkey as candidate country is "accession-driven" concentrating on supporting priority areas aimed at helping this country in preparing for EU membership.

G2G Programs and Twinning Agreements carry importance for SMEs especially in the field of legislative transposition which can participate to this program as a stakeholder. [24]

## 7. CONCLUSIONS AND RECOMMENDATIONS

In the current market, SMEs do not consider national and EU funds as viable financing alternative. One-on-one interactions with a large number of Turkish SMEs reveal that many SMEs are not aware of these funding opportunities and those that are aware find the process of sorting through these funds, understanding them, and applying for them to be too complex. However, national and international funds provide important and sizable financing opportunities for SMEs and should be better understood and utilized by them. The following recommendations should be of help to SMEs that intend to develop projects under national and EU funds:

SMEs are advised to start by gaining the ability to develop and implement projects under these funds. Establishing a specific team to track, develop, and implement these projects will make this process easier and manageable. SMEs that have no experience in applying to these funds would find it easier to evaluate the national funds first. Those SMEs that gain experience in applying for and getting national funds will have an easier time charting the EU funding opportunities.

Innovative SMEs will also be better off by not viewing these funds as one-time funding opportunities. Those SMEs that are able to incorporate these funds into their normal operations will be able to consider these as regular funding opportunities within their financial planning processes. This will help them gain a sizable advantage in seizing new opportunities.

The main purpose of these funds is not to simply provide additional financing to SME production but instead to improve SMEs' capacities and strengthen their capabilities. Utilization of these funds will enable SMEs to become more competitive in global markets. Those SME's that are unaware of these funding opportunities and those that lack the infrastructures to take advantage of these funds have higher likelihoods of getting left behind.

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# SUCCESSION PLANING IN FAMILY OWNED SMEs : A CASE STUDY FROM İZMİR, TURKEY

ŞEBNEM PENBEK, İZMİR UNIVERSITY OF ECONOMICS  
ELA BURCU UÇEL, İZMİR UNIVERSITY OF ECONOMICS  
MERT GÜNERERGİN, İZMİR UNIVERSITY OF ECONOMICS

## ABSTRACT

This paper aims to present an insight into the succession planning processes of Turkish family owned SMEs mainly in İzmir, by adopting the case study approach. As the subject of this case study, among various alternatives, the automotive sector is chosen. From this sector, one of İzmir's most successful and conventional family owned businesses, Ermat Automotive is selected. In order to collect information about their succession targets, plans and processes, a series of in-depth interviews are conducted with the predecessors and successors of this firm.

**Keywords:** succession planing, family owned businesses, SME,

## 1. RELEVANT LITERATURE

It was family that ruled countries and empires all through the history; as empires and sultanates of modern times, businesses are run by families today. Accepting the fact that the true rulers of countries are those who hold economic power, and citing that more than 75 % of all companies listed in İstanbul Stock Exchange are family owned (Yurtoğlu; 2000), the above statement is fully recognized. As, the focus of this paper is small and medium sized enterprises, it shall be noted that 94,1 % of Turkish SMEs are family owned (Tatoglu, Kula and Glaister; 2008).

The importance and dominance of family owned businesses in Turkish economy is supported by numbers: 98,8 % of all firms are SMEs (94,1 % of which is family owned) and 45,6 % of employment is provided by them (Sirkeci; 2008)

### 1.1 Family Owned Business: 'FOB'

"Family owned business" is defined in various ways and a number of criteria for it, is available. One relevant definition is "Family owned businesses are those companies in which at least 51 % of shares are held by a family or related families; the family members comprise the majority of the senior management team and the owners have day-to-day responsibility for the management of the business (Caliskan; 2008). To avoid confusion, distinctive definitions for family-owned businesses; family-owned and managed businesses and family-owned and led businesses are offered in the literature:

"A *family owned business* is a for profit enterprise in which a controlling number of voting shares, typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family"(Davis; 2001)

A *family owned and managed business* is defined completely same as the family owned business but additionally the family determines the objectives, methods and policies, besides at least one family member has a position in the top management. (Davis; 2001)

A *family owned and led company* also has the same definition but with a difference: the family determines the objectives, methods and policies and at least one family member is actively in the *board of directors*. (Davis; 2001)

In addition to the definitions given above family owned businesses have certain common characteristics referred to in the literature: the founder or a family member is the CEO; members of that family is employed by the business; major decisions are made by the family; managerial assignments are affected by family relations (Holland and Boulton; 1984) ; there exists a continuous association between family and the business (Hollander and Elman; 1988) and there is an expectation or actuality of succession by a family member (Churchill and Hatten; 1987).

### 1.2 Family Owned Businesses and Continuity

Although family owned businesses are among the leading actors of Turkish economy, they are mostly neglected: there is even no official definition of family businesses in Turkish Commercial Code and there is no governmental / non-

governmental focus on their continuity. As stated by Lansberg (1999), less than 30 % of family owned businesses can accomplish to pass to second generation and only 10 % survive to the third. It is also cited that average life span of family owned businesses is limited to 24 years, meaning the firm survives and prospers only in the life time of its founder.(Welles; 1995) These deductions prevail for Turkish FOBs. In this respect, unlike non-family businesses , family owned businesses should thoroughly concentrate on long term continuity of the enterprise and succession of management and ownership rather than short term profitability (Şıvgın; 2009)

## 2. SUCCESSION PLANNING IN FAMILY OWNED SMEs

Succession planning is a certain process, not a single, one time event and through that process, management of the business is passed from one family member to another (Sharma et al; 2000).

This process should involve the following ten elements: a statement of the distribution of ownership, the identity of the new leader, the trainings designed to prepare the new leader to his/her new role, the definition of other key members' roles during the transition, the process of the purchase/sale of stakes in business, taxation considerations, legal considerations, financial considerations, retirement considerations, the method of monitoring this process, the method of dealing with disputes, the timetable of the process (Bruce, D. and Picard, D.; 2006) and most importantly, a formal process of finding a successor (Upton-Bowman; 1999).

As long as the succession process is correctly managed, it can provide a competitive advantage to the FOB over non family owned rivals (Bjuggren and Sund, 2001). According to Gallo (2002), children trained for a future career in family business have the opportunity to gain family values, history, corporate culture, entrepreneurial characteristics and most importantly, the unique ways of dealing with problems and conflicts developed by the family. All these acquisitions stated by Gallo (2002), ensure the family business with the additional competitive advantage which would not be obtained in case of the transition of leadership to an external professional. Lambrecht, (2005), demonstrates the ingredients of a successful multigenerational transition that assures the above mentioned acquisitions to the successor as transfer of professional knowledge, management values, entrepreneurial characteristics and the soul of the essence of the family business. Studies suggest that, many CEOs in family owned businesses are aware of the interference of their life cycles and positions in the business. Therefore, to achieve a smooth succession, they start training the potential successors from early childhood in order to give them the required values, characteristics, knowledge and information (Westhead, 2003). Lambrecht, (2005) suggests that the personal and career development of the successor should better follow the subsequent steps:

<b>Up to age 11</b>	The FOB should be presented as a playground
<b>Ages 11-15</b>	The potential successor should be involved in light business activities during weekends and vacations.
<b>Ages 15-17</b>	It is time for the potential successors to be involved in more serious business activities and to take initial responsibilities.
<b>After age 17</b>	The successor should start an undergraduate degree (Preferably in an area related to the family business)
<b>After graduation</b>	The successor starts working either in the family business (From low levels), or in another company to have outside experience (Whether in home country or abroad).When the successors have outside work experience, besides the knowledge and wisdom they gain, their self-confidence develops, they have the opportunity to prove their capabilities to their family.
<b>When the successor begins to work full-time in the FOB</b>	Potential successor rotates among different departments and positions before he/she obtains the necessary experience to hold a higher position in management. Predecessors provide the successors formal trainings in this stage, in order to ensure their achievement
<b>During the succession period</b>	For the continuity of the family business, doomsday scenarios (Financial crisis, death or resignation of a family member) should be prepared in written format, so that the successors utilize when needed. Legal and



	financial procedures are completed, shares are passed on, the retirement plans and considerations are held for the predecessor.
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## 2.1 Potential Failures in Succession Process

In spite of its importance due to continuity considerations, succession is among the major points where failures occur in family businesses (Kram and Handler; 1988).

Some of the basic reasons lying behind those failures are cited in the literature as: Mismanagement of organizational change caused by the transition of management control from the predecessor to the successor ; the inability to re-establish the emotional and managerial equilibrium in the business(Gersick; 1991); lack of mutual respect among the successor and the predecessor (Handler, 1989 and Davis, 1982); mismanagement of family and business boundaries (Handler, 1989); conflicts emerging during the transition of primary values from the predecessors to the successors due to differences in personal characteristics; the circumstances in which there is either many or none appropriate potential successors; the unwillingness of the successor (Lambrecht, 2005); the unwillingness of the predecessor; absence of the necessary breathing and maneuvering room for the successor(Lambrecht, 2005).

After a review of literature regarding Turkish family owned SMEs and succession, it stands out that mostly the major focus has been failures in succession. According to the report of a project conducted on behalf of European Commission regarding family businesses in Turkey, the key points lying behind the failure of continuity can be summarized as: insufficient financial resources and inability to control costs, inability of institutionalization, financial competition and conflicts between family members, over-blown self-confidence of family members, and inability to establish proper recording systems and developing new long-term strategies. Furthermore, another major draw-back of family owned businesses is the failure of planning the delivery of control and management to the next generation, namely succession (Kuratko et al., 1993).

Considering the vital importance and role of succession planning and process in continuity, this paper focuses on the real life practices of the selected Turkish family owned SME: Ermat Automotive.

## 3. METHODOLOGY

### 3.1 The Process

A series of in-depth interviews are conducted by the authors with both the successors and the predecessors of Ermat Automotive between July and August 2009. Each interview lasted approximately one and a half hour. They took place in the offices of Ermat managers and each were tape recorded. Successors of the firm are Mr. Hasan Özerinç; Mrs. Asli Özerinç; Mr. Ali Özerinç and predecessors are Mr. Muhip Özerinç and Mr. Şafak Özerinç.

### 3.2 The History of Özerinç Family Businesses

The Özerinç Brothers were sons of a goldsmith in a small town of İzmir, called Bergama. From early ages they worked at their father's small jewelry shop on weekends and vacations. They were both successful students, they took bachelors degrees from leading universities of Turkey on mechanical engineering. Mr. Şafak Özerinç has started his career in an Istanbul firm after his graduation, while Mr. Muhip Özerinç has turned back to the family business in Bergama.

#### 3.2.1 Mr. Muhip Özerinç - The Predecessor

Mr. Muhip Özerinç was graduated from Middle East Technical University, Department of Mechanical Engineering and he received his master's degree at the same university but on a different subject: Solar Energy. Despite his plans of continuing his career as an academician, he turned back to Bergama and started to work at the jewelry shop. This was the turning point for Özerinç Family as a whole. Due to his childhood work experiences, he was competent in and familiar to the jewelry business. Soon after his endeavor in the family business, his older brother Mr. Şafak Özerinç quitted his career in İstanbul and returned to Bergama. Now it was time to progress for The Özerinç Brothers:

*“ ... We have lots of stories of Bergama... Soon after my brother's return to Bergama, we rented a place and started selling durable house appliances and TVs. Those were the days when Turkish customers first met color TVs. I remember us selling a lorry of color TVs in Bergama in a new year's eve ...”* said Mr. Muhip Özerinç.

They were searching for new ventures and opportunities while they were running the existing businesses. As a result of the growing economy and the deregulations on exports; Turkish customers were willing and able to buy products that could enhance their life standards. By the year 1985, The Özerinç Brothers discovered a promising sector: Automotive.

Meanwhile the continuing shrinkage in jewelry sector made it difficult to support the needs of a growing family. Both the newly detected opportunities and shrinkage in the old business played a vital role in their investment decision. They acquired a Renault franchise in Bergama.

Until the announcement of economic precautions of April, 5, 1994, things went very well for The Özerinç Family. Following the announcement of precautions, an economic crisis emerged which severely affected their businesses in Bergama. Trying to find ways out of the crisis, they realized that 90 % of their customers were from the surrounding big cities rather than Bergama.

This was the second the turning point for them. They would have either quitted the automotive sector or expanded their business to a big city: İzmir.

*“ I was the bouncer of the family, so I went to İzmir in 1996 and started to work as a car salesman. Because, our demand of a second franchise in İzmir was refused by Renault with the argument that there were more than 18 franchises over there...”*

The refusal did not stop Özerinç Brothers; Mr. Muhip Özerinç continued working as a car salesman until they received an offer from another Renault franchise to take over their business. Name of the franchise proposed to the family was Ermat Automotive.

### **3.2.1.1 The Ermat Venture**

A period of progress has started for the family with the take over of Ermat Automotive in a hundred square meter showroom in 1997 and continued with the construction of Ermat Plaza in 2001. The construction decision of a plaza was a very risky one for those days as, due to political instability and economic crisis, majority of new ventures and investments were prone to failure.

At this point for the continuity of the family business they hired a management consultant who would assist them at structuring organization chart, managing human capital and preparing a family constitution. Although they failed to write down the family constitution, they improved governance of the business significantly. Between 1996 and 2001, the business was managed by Mr. Muhip Özerinç.

With his own words: *“This one man show has ended with the change in my vision after my interactions with the management consultant.”* Mr. Muhip Özerinç learned to share responsibility and work related issues with the other family members, especially the successors.

### **3.2.2 Ashi Özerinç – The Successor**

Mrs. Özerinç (daughter of Mr. Şafak Özerinç) is a food engineer; in her last year at the university she had some bad experiences that caused her to decide not to practice her profession. The day after her graduation, she went to her uncle (Mr Muhip Özerinç) and asked him to give her a job. That was something unexpected. In 1997 she started working in the family business. The first job given to her was at the call center of the firm: she started with answering the phones. Her other duties included paying the bills and taxes. In time, she started replacing absent workers who were attending trainings or were on vacation. Soon after that, his uncle and father suggested her to be a saleswoman.

*“ ...I said ok but added that I have no idea about cars, I even don't know how to drive. I asked them how I could understand the models of cars. They replied: Models are written at the back of the cars, look there and just memorize the prices.”*

She was raised in a conservative neighborhood in Bergama, she was not comfortable with people. She thought she was not able to sell anything. Slightly after her decision to ask her uncle to give her another position, she sold her first car. That was when she overcame her shyness and timidity. She continued her career as a saleswoman.

*“ ...Neither my colleagues nor the customers knew that I was the daughter of boss.”* she added.

She made mistakes and corrected them, she learned everything by doing. She proceeded step by step. She made active sales, after a few years she was appointed as the chief of other three salespersons. She was making sales and directing the work of other salespersons at the same time.

*“... I was inexperienced and not educated to lead people. That was a really tough time both for me and my team, but we have done a great job, we sold many cars even in the worst times.”* she said.

As time passed she realized that she became a model of her uncle: *“...while I was working, I figured out that I became a copycat of my uncle in sales. We have the same style.”*

With the expansion of family business, her uncle suggested her to be the sales coordinator. *“...I was involved in everything: service problems, finance, accounting, sales, and customer relations. ... That’s why I am so familiar with solving problems in every area.”* she added. Now she is in the board of directors and she is the general manager of a subsidiary of Ermat: Cem Automotive. *“... I am the boss of Cem Automotive now, for the past six months. I started to understand everything better and clearer.”*

Mrs. Özerinç thinks her biggest chance is to be so close to her uncle: *“... My biggest chance was to be in a close contact with the founder and the administrator of the business... I proceeded step by step, I had no knowledge and experience, we had lots of conflicts with my uncle, but at the end of the day, we accomplished a great many things together.”*

She describes being the CEO of Cem as:

*“...Being on your own at the top, is really rewarding, you have to know everything, control everything and you have to establish a system.”*

Her promotion as the CEO of Cem is result of a decision made by board of directors at the beginning of 2009. She and her brother Mr. Hasan Özerinç, were promoted to top positions of two subsidiaries: Cem Automotive and Şafak Automotive. Aim of this decision was to have better control on the firms and to provide the successors advanced experiences in leading the firms.

Mrs. Özerinç explained her feelings about working in the family business as motivating. She added that the power and pleasure of the job is very different, even though she mostly works without the chance of any vacation.

### **3.2.3 Ali Özerinç- The Successor**

Mr. Ali Özerinç is a graduate of Koç University, Department of Mechanical Engineering. His profession is a conscious selection which he made with his father (Mr. Muhip Özerinç). They thought this education would help him establish a system in family business in the future. He will have a master’s degree in financial management in England in 2009.

His work experience in Ermat was as follows, with his words:

*“..It all started as a punishment that my father gave me. He forced me to work in Ermat . I was delivering tea to the employees. I was very upset and furious at the beginning. But after a few hours it turned out to be fun. I discovered that the biggest mistake that I could make -regarding my responsibilities in Ermat- was just breaking all the glasses...”*

Aspiration of Mr. Ali Özerinç in his work was appreciated by Mr. Muhip Özerinç and he was rotated among various departments like Mrs. Aslı Özerinç did at the very beginning of her career. According to Mr. Ali Özerinç the real punishment for him started during his practice in accounting department.

Despite all disadvantages of a career in the family business, Mr. Ali Özerinç decided to work for family, keeping in mind that Turkey was severely affected by the recent economic crisis and millions have lost their jobs. Other reasons of his decision are the convenience earnings provided by the family business which would help him to maintain his life standards, the greater sense of involvement and responsibility.

### **3.3 Ermat’s Succession Plan**

During the interviews, it is understood that there is no official succession plan but some unofficial practices in Ermat. They have not included the elements of a good succession plan suggested by the literature in their succession process: They don’t have a statement of distribution of ownership and a defined way for delivery of shares. Although Mrs. Aslı Özerinç is fully supported by top management in terms of guiding her in the areas that she feels insufficient and

inexperienced (In her own words: “...My biggest chance is being so close to the founders”), they have no formal trainings designed to prepare her to the new role.

Mr. Muhip Özerinç transfers the professional knowledge, management values, entrepreneurial characteristics and the soul of the family business to the successors informally. Through this transfer of experience, family values, history of the family business, corporate culture, entrepreneurial characteristics and the unique ways of dealing with problems and conflicts developed by the family are passed on, too.

“...he (Mr. Muhip Özerinç) is the man who thought us the business ... He does not teach directly, he lets you learn by experiencing. As time passes, he draws himself back incrementally...At first he left the sales department completely to us, that month we made the worst sales ever, but we slowly recovered.” said Mrs. Aslı Özerinç.

According to Mr. Muhip Özerinç, they manage the business on the basis of goodwill between family members, so they have not worked on any special methods of dealing with disputes and any doomsday scenarios. The founders, Mr. Muhip Özerinç and his brother Mr. Şafak Özerinç keep on following the performances of the next generation, but they have no formal method for this monitoring process. Regarding the personal and career development steps suggested by Lambrecht, 2005, all indicators support the informality of the succession process:

The successors were not integrated to the business through apprenticeship periods in their early childhood. Only Mr. Ali Özerinç has worked in Ermat for some time, but that appointment was given as a punishment to him. Considering the profession selection, predecessors have let the second generation free (Only for Mr. Ali Özerinç, his father Mr. Muhip Özerinç has given him some guidance without being coercive). Likewise, Mrs. Aslı Özerinç has been free to choose a totally irrelevant profession regarding the family business.

The process of transition between generations is not established with a specific time table and also there is no explicit and formal agreement on the identity of the future leader (Even though it is not declared formally, it is obvious that Mrs Aslı Özerinç is being equipped as the main successor of Ermat). Although there are no formal retirement plans for the predecessors, Mrs. Aslı Özerinç discusses future scenarios with them.

“...I make plans for the aftermath of my uncle’s retirement, and I share my ideas with him. If he leaves the business today, I am capable to keep the business operating as it does today...”

Mrs. Özerinç feels ready to take over the business, but it seems that it’s not the case for Mr. Ali Özerinç: He answers a question about what he would do if his father Mr. Muhip Özerinç left the business with a sudden decision as “I would ask him to stay!”

As it is clearly understood during the interviews, Mr. Muhip Özerinç is a dominant character and his authority is strongly felt all around Ermat. Mrs. Özerinç admitted the situation, but she added that he was tougher before, he used have a more strict management style, in time he became more flexible.

With such a successful and strong authority at the top of the business, it is evidently hard to avoid conflicts among family members. The Özerinç family has achieved to manage such conflicts by the strong goodwill and mutual respect between members.

#### **4. CONCLUSION AND FUTURE RESEARCH**

Established by the father, expanded by his sons, and likely to be taken over by the third generation, Ermat Automotive is a very convenient case to study succession between generations. As noted in the paragraph above, Ermat does not have an official succession plan.

Top management applies some informal practices about the issue, but the process is still run by rule of thumb.

Lack of a well-thought, well-established and elaborate succession plan, as cited in the literature, is likely to result in a series of failures for the business: Organizational change caused by the transfer of management control is likely to be mismanaged; the successor will probably experience the inability to re-establish the emotional and managerial equilibrium point via reducing uncertainty (Dunn, 1999); there will be a good chance that a lack of mutual respect between generations will emerge during this consuming period; differences in personal characteristics and personal values will induce conflicts; predecessors will presumably be dissatisfied by the way successors run the company; the employees will be de-motivated and disturbed by the uncertainty perceived around; there will be dispute among family members about the successor, mostly when he/she is chosen without a consensus and when his/her competencies are not

enough. Although in many cases intelligence, hard work, good leadership skills and education are the most important criteria, literature supports that the eldest sons of the predecessors are more likely to be the successors (Fox et al., 1996; Kuratko et al, 1993; Martin, 2001)

Alongside those threats, the successor may not be willing to take over and may have different plans for the future; or the predecessor may not be willing to transfer his power, due to his character or incompetency of delegating.

In our case, even though there are no formal plans and processes of succession; serious intentions about transferring experience and knowledge, desire to keep the business alive, existence of goodwill and mutual respect in the family, explicit boundaries between family and business (Other members of the family are kept away from business issues), willingness and commitment of the successors and the family motto '*What happens in business stays in business*' are strong factors that can protect Ermat from certain failures in succession.

It was aimed to gain an insight about and to present a closer look to the succession processes of Turkish Family Owned SMEs in this paper. It will be proper to enlarge this study through examining more family owned SMEs in their succession periods in the future, so that some common failures or practices can be detected and theorized.

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# SOCIAL CAPITAL IN ENTREPRENEURS' NETWORKS: EFFECT ON MANAGING IN A DOWNTURN

ZEYNEP AKŞEHİRLİ, ÖZYEĞİN UNIVERSITY  
SERRA BAYRAM, ABİGEM KAYSERİ

## ABSTRACT

Social capital is the value derived from the connections within and between social networks within a society. Despite the attention given to social capital recently, the nature and application of social capital in an entrepreneurial context have not been explored extensively (Anderson, Jack, 2002). Surely, high level of personal social capital will assist entrepreneurs in gaining access to financial resources and potential customers. Given the current economic downturn, SMEs will do well only if they can effectively use all the resources at hand. These resources include the ones that the entrepreneur has through his/her personal connections. Present research will try to answer whether the *qualities of personal social capital* of the entrepreneur affects the capabilities of the SME in *coping with a downturn* and the *economic performance* of the SME (as judged by the entrepreneurs themselves). Using Social Survey of Networks (Van Der Gaag and Snijders, 2005), financial questionnaire and downturn management questionnaire, this paper attempts to answer this research question. A sample of SMEs in Kayseri Organized Industrial Zone participated in this study. Results of the preliminary analysis showed support that brokerage opportunities in an entrepreneur's network and access to higher diversity of resources positively affect the diversity of responsive actions they take facing a downturn. The link between diversity of responses and economic performance was in the expected direction, however desired significance levels were not reached with the sample at hand.

## 1. INTRODUCTION

There are conflicting reports on how successful entrepreneurs are in dealing with the economic downturn of 2008-2009. Some reports mention that, especially in emerging economies, entrepreneurs expect positive growth for the coming two years thanks to entrepreneurs' unique abilities to react quickly to new opportunities (Endeavour entrepreneurial survey, 2009). Other accounts, however, mention SMEs to be most affected by the ripples of the downturn (Hodorogel, 2009), citing access to finance problems as a culprit in causing entrepreneurial companies to suffer the most (UEAPME report, 2009). In this study, we look at how a personal quality of an entrepreneur, namely their individual social capital, affects how they cope with the economic downturn. The results can help us point out the behaviours entrepreneurs exhibit that helps them to weather the tough situations better or worse than their peers. As social networks take time and effort to built, knowing what kinds of networks aid them in crisis can help entrepreneurs built their networks accordingly before the challenging times roll in.

Entrepreneurial organizations have the advantage of agility and being in tune with market needs (Tatlıdil and Candemir, 1998) when things go sour. Both the agility and the closeness to customer are made stronger by the entrepreneurs' and managers' informal relations with their colleagues and their customers (Nohria, 1992; Burt, 1992). As social capital can be defined as the value driven from social networks, it is reasonable to think an entrepreneur's social networks will help them enhance their business outcomes.

Prior literature on social capital demonstrates a strong relation between entrepreneurs social network and their business performance through a wide array of mechanisms: Entrepreneurs observe and delve in opportunities they see through their unique ties (Burt, 1999); They get information and advice from their social contacts (Birley et al., 1985); They gain access to financial and human capital (Batjargal and Liu, 2004).

In their recent study Dulupçu et al. (2006) wrote:

“...Although 99% of business enterprises comprise of SMEs in Turkey, their share in value added, credit and export are very low compared to the European counterparts (OECD, 2004). In other words the SMEs in Turkey seem to have problems in the fields of innovation and finance which are assumed to be solved or enhanced through social capital as stated by various adherents of social capital literature (Puntam, 1993; Ruuskanen, 2004). Unfortunately the studies and the measurements of social capital on Turkey are very limited and even they are not related to SMEs and regional development.”

The study shows it is very important to study social capital in entrepreneurial context, and Turkish SMEs seem to be fertile ground to plant the seeds of improvement by enhancing social capital. With this general goal in mind, we set out

to analyze a specific, albeit significant, part of the unexplored arena of social capital and entrepreneurship in Turkish context.

Our objective with this research is to discuss some of the specific qualities of an individual's social capital that may affect how their entrepreneurial behaviour changes and how this change in turn affects their business performance during a downturn. In the following sections we explore the relevant literature and outline relevant facets of the social capital concept. We sketch out the hypothesized relationships between these facets and the responses of entrepreneurs to the economic downturn. Description of the social network analysis and statistical analysis methods are followed by the results and conclusions derived from an initial sample of 20 entrepreneurs.

## 2. LITERATURE SURVEY AND HYPOTHESES

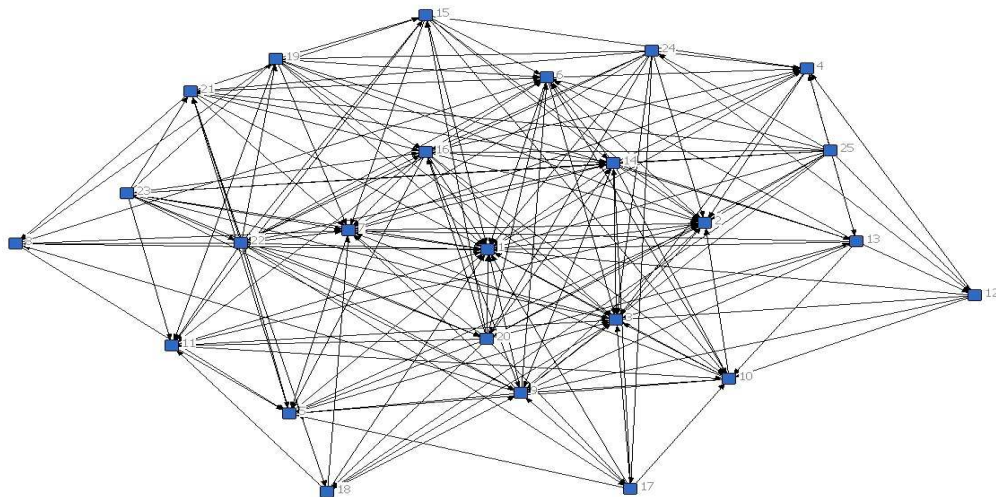
Literature in social capital arena demonstrates that social capital is a productive resource similar to other forms of capital (e.g. financial capital, human capital) (Tsai & Ghoshal, 1998). Previous literature on personal networks of entrepreneurs revealed that entrepreneurs notice and pursue opportunities in detached networks (Burt, 1992), ask for advice and support from their contacts (Birley, 1985) and access financial resources (Shane & Cable, 2002).

Social capital can be seen in three dimensions: structural, relational and cognitive (Nahapiet & Ghoshal, 1998). Structural social capital relates to the structure of ties between individuals within a social network. Relational social capital refers to the trust and friendship assets stemming from one's networks. Finally, cognitive social capital is the value and efficiency created through the shared code and mental schemas prevalent in a network.

As we are dealing with individuals' networks in this study, we will be focusing on the structural aspects of an ego-network (i.e. a network that comprises the people that a focal person knows and the relations between those people) rather than relational and cognitive aspects. This concentration coincides with the trends that can be observed in previous literature that bridges entrepreneurship and social networks (Burt, 1999).

One of the foremost discussions that appear in previous literature on social capital is the duality regarding the source of value in social networks. On the one hand lays the claim that networks rich in structural holes, where the focal person has connections to several people or groups of people that do not have direct ties with each other, will provide more value to the person. On the other side is the idea that dense and closed networks, labelled closure networks, will offer more value to the focal individual.

**Figure.1 Sample Closure Network**



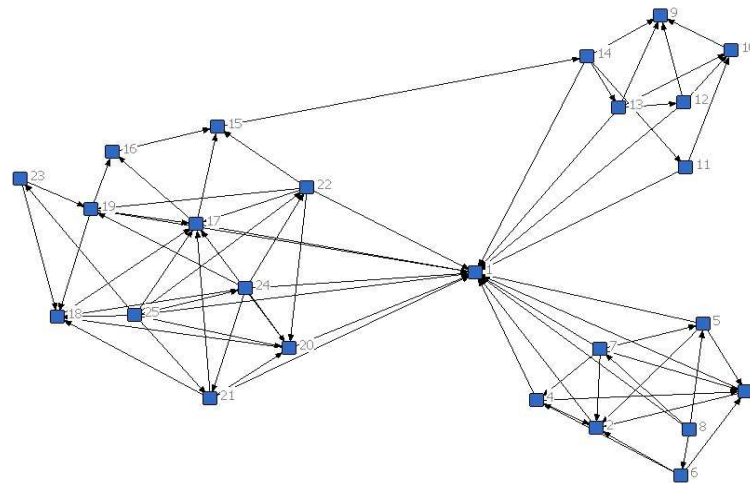
Networks with closure are networks in which most of the people have close ties to each other. A visualized example of such a network can be seen in Figure.1. This kind of network tends to have high trust and strong reciprocity norms –i.e. people respond to each other in kind- because of increased visibility of behaviour. Because of the trust environment and expectation of reciprocity, closure networks provide strong access to information and task or emotional support. Information advantages result not only from access, but also accuracy. Accuracy is ensured in two ways: 1) information travels less (because everybody is connected, they are 'close' to each other in network terms (Baker and Iyer, 1992)). When information travels less, there is less chance of distortion. 2) Confirmation of information is assured by redundancy. Since people are connected to each other through several channels the information could be confirmed



using these channels separately (Uzzi, 1997). Given the efficient travel for any positive and negative information in such a network, and strong reciprocity rules, members of the network are highly aware of image and reputation building (Aaltio et al., 2008). This heightened awareness increases ‘risk management’ behaviour that leads to lower risk seeking conduct. This kind of normative environment discourages diversity of distinct ideas (Baum et al., 2006). Thus, Hypothesis 1 follows:

*Hypothesis 1:* Entrepreneurs with networks high on closure will exhibit less diverse responses to economic downturn.

**Figure.2. Sample Brokerage Network**



Networks high on structural holes are networks in which two or more groups of people are connected through a limited number of individuals. A visualized example of such a network can be seen in Figure.2. These holes create an environment that is ripe for brokerage opportunities for the individuals spanning the structural holes in the network (Burt, 2001). The clustered groups in such networks produce information and develop ideas separate from each other. They are non-redundant sources of information. Individuals that act as a bridge between these groups have access to all these diverse ideas by the virtue of their network location. They have access to unique information and variety of viewpoints from different groups of people they interact with (Burt, 2005). Knowledge and behaviour are more uniform within than between groups, so individuals that form a bridge across groups are more familiar with alternative ways of thinking and acting. Such variety of ideas and behaviour will result into shift of focus from internal stakeholders to external ones and increase the diversity of responses given to a downturn (Pearson and Clair, 1998; Aksoy and Çabuk, 2006). Hence,

*Hypothesis 2:* Entrepreneurs with networks high on brokerage will exhibit more diverse responses to economic downturn.

After the initial forming of a firm, entrepreneurs focus on the quality of their network composition such as diversity/heterophily and non-redundancy (Steier and Greenwood, 2000). Heterophily (opposite of homophily) is the tendency of individuals to collect in diverse groups. Batjargal (2005), in his study of bankers, shows that greater heterophily in an ego network supports creative solutions to resource issues. He defines this property as *resource embeddedness* - the degree to which network ties contain valuable instrumental resources (Lin & Dumin, 1986). Resource embeddedness was shown to have positive impacts on sales growth, profit margin and return on assets. Batjargal (2005) posits that the practical implication is that entrepreneurs should weave more resource-rich ties into their networks.

Diversity in contacts breeds variety in resources and increase creative ideas (Richard, 2000). Having a diverse set of individuals in one’s family and friends circle is also conducive of seeking interactions with dissimilar others. Creativity increases as interactions with diverse people and diverse artefacts increase (Fisher et al., 2004). People with more homogenous networks are lower in creativity and openness to new ideas (Perry-Smith and Shalley, 2003) compared to people with heterogeneous networks. Given such a strong link between diversity in one’s networks and diversity in one’s ideas and behaviour, it would be reasonable to expect entrepreneurs with diverse contacts produce and implement a diverse set of responses during a downturn. Hypotheses 3 and 4 express this link for positional diversity (i.e. the

vocations of people in one's network; Lin et al., 2001) and resource diversity (i.e. the capabilities of people in one's network; Van der Gaag and Snijders, 2005).

*Hypothesis 3:* Entrepreneurs with high heterophily in their networks will exhibit more diverse responses to economic downturn.

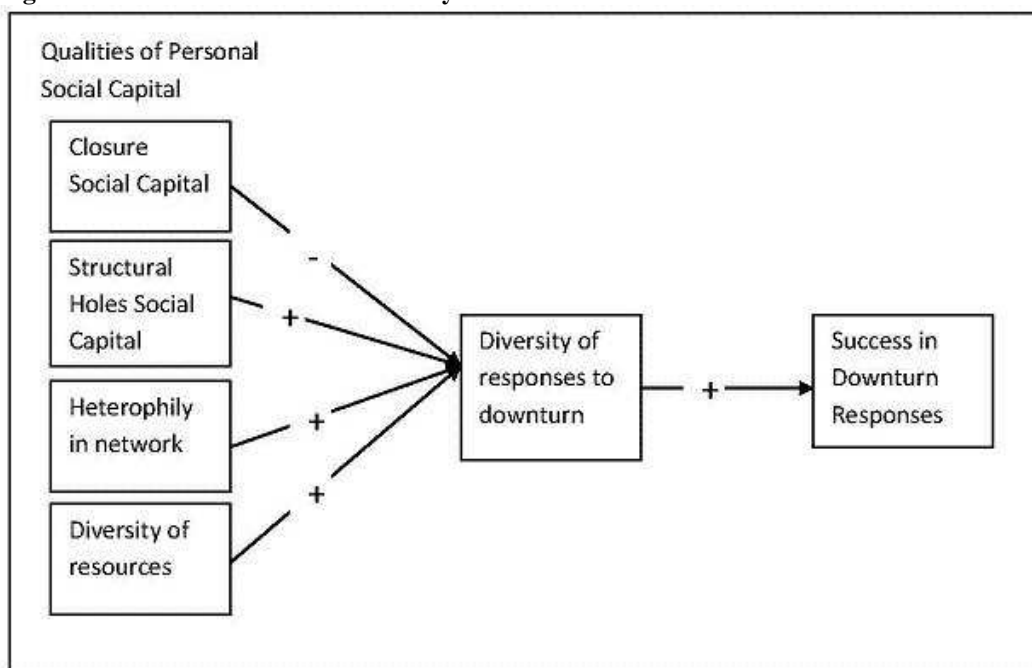
*Hypothesis 4:* Entrepreneurs with more diverse resources in their networks will exhibit more diverse responses to economic downturn.

Having reviewed the literature on social capital features that enhance diversity of thoughts and behaviour, the question remains whether such diversity would lead to better performance, particularly in crisis situations. Creativity literature provides ample evidence that diversity of ideas and implementation methods increase individual performance as well as firm performance in general. However, since this study is interested in responses and performance during an economic downturn we turn to 'crisis management' literature for guidance. In their article on successfully coping with a crisis, Pearson and Mitroff (1993) emphasize the importance of being in relation with a wide array of constituents and considering ripple effects of actions under duress. They conclude that the entrepreneurs should develop a portfolio of actions to respond to a downturn or crisis that will enhance their ability to strategically weather the hostile environment. They go on to enumerate five arenas of response with 6-7 action avenues for each of the arenas. This suggests that diverse set of responses, ranging from cost cutting to employee training, will help entrepreneurial companies cope with the downturn better.

*Hypothesis 5:* Entrepreneurs who exhibit more diverse responses to economic downturn will have better performing firms.

As mentioned before, this study aims to uncover the relationship between an entrepreneur's social capital and their responses to an economic downturn. The literature reviewed above in this domain lead us to put forward five hypotheses discussed above. A summary of these relationships can be seen in the model in Figure.3. The direction of the hypothesized relationships between variables can be found on the arrows in the model.

**Figure.3 Model to be tested in this study**



### 3. METHODS

The study uses Social Survey of the Networks, i.e. SSN, (Van Der Gaag and Snijders, 2005), financial assessment questionnaire and downturn management questionnaire to answer the focal research question. SSN questionnaire is a validated survey from individual social capital literature. Downturn management questionnaire consists of 19 questions gathered and adjusted from English and Turkish language entrepreneurial literature. The questions were intended to determine an inventory of company actions used in crisis situations. The actions listed covered market based actions,

product/production based actions, financial actions and human resources based actions. Financial assessment questionnaire is a short instrument measuring the entrepreneurs' self assessment of their financial health. At this stage access to actual reliable financial data was not possible. If such data becomes available in the future, it will be included in the research.

In order to achieve higher participation rates, face-to-face survey techniques were used to fill these questionnaires. During the course of these interviews, informal conversations and probing questions can be used to understand the mechanisms linking social capital to management strategies during economic downturns. At this time a total of 23 entrepreneurs are contacted, 1 was excluded as the company ceased operations last year. Two entrepreneurs were not willing to participate. We have secured participation of 20 entrepreneurs (86% response rate) in Kayseri Organized Industrial Zone. This limited sample will be used as a pilot study and the number of firms in the sample will increase over time. Currently, data collection is continuing through snowball sampling methods.

SPSS was used for statistical analysis and UCINET 6 was used for social network analysis. Closure of network was operationalized with the density of an entrepreneur's ego-centered network and Structural holes of a network were operationalized with the constraint measure, consistent with previous literature (Burt, 1992). Heterophily of a network was measured through the number of distinct professions mentioned in the Position Generator index (part of SSN). Only the strong connections (i.e. people within entrepreneur's family or friend circle) were considered. Diversity of resources was gauged using the distinct resource kinds mentioned in the Resource Generator index (part of SSN). Only the strong connections were considered as in the heterophily measure. Diversity of the responses was measured using the number of different actions entrepreneurs exhibited in response to the recent downturn. Success was an assessment of general financial health of the firm, as judged by the entrepreneurs themselves. Hypotheses were tested using regression analysis.

## 4. RESULTS

### 4.1 Descriptive results:

Before moving on to the results of hypothesis testing, we would like to give some descriptive figures from the data. These are important in showing the general attitude of entrepreneurs in Kayseri towards the recent economic troubles and provide details as to tactics they are using to alleviate some of the effects.

Of the twenty entrepreneurs interviewed, only 4 were female. About half of them were in the age range of 35-44 (9 out of 20), with the second largest group being 45-54 with 5 people. Majority of the companies were in existence for over 20 years (9 out of 20), with the second largest group with operations between 6-10 years. The industries were as follows: chemicals (1), construction material (1), electronics (1), paper (1), printing (1), textile (3), metal works (3), food (4) and furniture (5). An overwhelming majority operated in domestic markets with only limited engagements in exports (15/20). Two of the remaining firms operated solely in foreign markets, whereas 3 of them operated in both. Finance is listed as the main problem of SMEs in Turkey by 16 of the participants. Twelve of the entrepreneurs thought SMEs were affected more by the economic downturn compared to larger organizations; eight of them thought the effects were about the same. There is a general optimism, however, with sixteen of the participants expect this financial environment to continue only for one year.

In terms of the entrepreneur's responses, the results show the following actions are preferred by an overwhelming percentage of interviewed: *Explore and expand to new domestic markets, Increase product assortment, Decrease product price, Change production technology, Change production process, Have employees take paid leave, Increase effectiveness of collection activities, Stop any sort of borrowing, Delay investments.* A detailed frequency table can be found in the Appendix.

### 4.2 Regression Results:

Regression analysis was used to test the hypotheses stated previously. Hypothesis 2 and 4 were supported, while the coefficients for the other hypotheses were in the expected direction but failed to reach statistical significance. Brokerage opportunities in entrepreneur's networks significantly predicted diversity of their responses,  $\beta = -14.7$ ,  $t = 1.96$ ,  $p < .1$ . Diversity of resources also significantly predicted diversity of their responses  $\beta = -.86$ ,  $t = 2.24$ ,  $p < .05$ . These two variables also explained a significant proportion of variance  $R^2 = .48$ ,  $F = 5.49$ ,  $p < .01$ . The relationship between closure of entrepreneurs' networks, heterophily of their networks and diversity of their responses to the downturn were in the expected direction, however desired significance levels were not reached with this sample size.

Hypothesis 5 was not significantly supported. Diversity of the responses to downturn failed to predict firms' financial performance. Although the direction of the relationship was as expected ( $\beta = 0.1$ ), significance level remained low ( $p = 0.14$ ).

## 5. DISCUSSION AND FUTURE RESEARCH

This research set out to find out if the *qualities of entrepreneurs' social capital* affect the capabilities of the SME in *coping with a downturn* and the *economic performance* of the SME. We find support that brokerage in a network and resource diversity have a positive effect on diversity of responsive action during an economic downturn. Closure and positional diversity of the network, however, did not produce a significant change in diversity of responses. The link between these responses and company performance was also not significantly established.

The findings on brokerage are consistent with most of the previous literature, especially on entrepreneurial networks. Bridging behaviour results into better performance for individuals and firms alike. Burt (2005) even equates structural holes to entrepreneurship. Individuals high on entrepreneurial behaviour tend to favour ego networks rich in structural holes. The structural holes in their network indicate the entrepreneur has connections to people at different realms of operation (possibly different professions or industries). This variety exposes them to differing ideas, which in turn would help them widen the array of tools they use to respond to forces in their environment.

Resource diversity was also found to significantly affect response diversity. In addition to the boost resource diversity gives to any creative idea development for the entrepreneur, access to varied resources gives them the opportunity to act upon these ideas. As such, resource diversity is essential in both development and the implementation stages of crisis responses.

Burt (2000) mentions brokerage is the source of value added, whereas closure is critical in realizing the value buried in social networks. One explanation for not finding this relationship could be the 'family' nature of dense networks in our sample. Closure helps with support however density in these particular cases are achieved through smaller and family based social support networks, rather than a dense business network. In a previous study in the same geographical area, Çoban (2005) showed that competition gets very personal and becomes a sour capital. As a result, entrepreneurs don't want to cooperate with other companies in the same industry to solve their problems. In her study only 33% of firms were interested in such cooperation, 66% actively avoided this. It is possible that the dense networks in our sample gave the entrepreneurs necessary emotional support but failed to produce viable solutions for their business problems. As we have collected detailed data on demographics of all their network contacts, the next step would be to confirm if the dense networks observed here consisted of mainly non-business family members.

Professional/positional diversity also failed to produce the expected effect. Possibly the position inventory used here was not effective for the purposes of this study. The items in this survey are designed to unearth social capital of a member of a society within that society at large. As such, positions asked about are geared towards what can help us in life in general (knowing a doctor; a politician; a teacher) rather than what can help us in business. In a future study, the survey can be modified to ask about person's contacts in various industries/businesses and use that measure as the indicator of positional diversity. This approach was previously used in the literature by Batjargal (2005) successfully.

Finally, although the link between diversity of responses and economic performance was in the right direction, the results didn't reach statistical significance. Two explanations for this result are both specific to this study: our sample size is not large enough at this time; and the measures we use to gauge financial performance are self reports. As a future step, alternative sources of financial data will be used to confirm the results. Another reason could be that the actions entrepreneurs took within the last six months didn't reflect in financial results yet. We could revisit the participants and assess the financial consequences of these actions at a later time to see if there is a lagged effect of diversity of responses.

### 5.1 Limitations

Limited sample size is the main drawback of the study. It is encouraging that significant results can be reached even with such a sample. However, further data collection will make the study stronger. Another limitation is related to the cross-sectional nature of the study. One could say firm performance may be affecting the social networks. However as the study is asking specific reactions to the economic downturn –a relatively recent phenomenon–, and social networks form over a longer period of time, we could say network variables precede diversity of responses (our dependent variable). Finally, firm performance is measured by self reports. Although specific performance measures were probed (profitability, financial health, market share, etc.), there may be a halo effect when answering them. Better and more objective measures of financial situation would increase the validity of the study.

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## APPENDIX A

<b>Actions and Frequencies</b>	
<b>Market based actions</b>	
Explore alternative business options	1
<b>Explore and expand to new domestic markets</b>	<b>13</b>
Explore international markets	7
Retract from some of the current markets	2
<b>Product and Production based actions</b>	
Change the product	0
Decrease production	9
Decrease expensive raw material	6
Decrease the volume of product	3
Increase product price	0
<b>Increase product assortment</b>	<b>13</b>
Decrease product assortment	1
Tie product price to foreign currency	1
<b>Decrease product price</b>	<b>10</b>
<b>Change production technology</b>	<b>10</b>
<b>Change production process</b>	<b>10</b>
Change raw material from import to domestic	1
Focus on using existing raw material more efficiently	9
Stocking raw material for future production	3
Focus on quality standards certification	2
<b>Human Resources based actions</b>	
Salary freeze	1
Temporarily stopping the salary payments	0
Have employees take unpaid leave	6
<b>Have employees take paid leave</b>	<b>10</b>
Stopping payment of bonuses	2
Increase employee satisfaction	6
Increase activities for employee engagement	7
Increase participation in outside training	5
Increase participation in inside training	7
Decrease the number of line employees	4
Hiring freeze	9
Decrease managerial employees	5
Change top management	0
Increase savings on employee related overhead expenses	6
Decrease staff personnel	4
Decrease the number of hours worked	9
<b>Financial actions</b>	
Increase productivity	7
<b>Increase effectiveness of collection activities</b>	<b>13</b>
<b>Stop any sort of borrowing</b>	<b>14</b>
Take on a new partner	0
<b>Delay investments</b>	<b>14</b>
We brought back some of outsourced activities	6
We outsourced some of the activities	1
Payoff bank loans with funds borrowed from other sources	1
We increased income from alternative sources (e.g. financial investment, interest income, etc.)	1
Sell assets for cash	5

# **SOCIAL ENTREPRENEURSHIP AS AN EFFECTIVE WAY IN THE SOLUTION OF SOCIAL AND ECONOMIC PROBLEMS**

**ŞENOL YAPRAK, AFYON KOCATEPE UNIVERSITY**  
**BERFU İLTER, AFYON KOCATEPE UNIVERSITY**

## **ABSTRACT**

In recent years, economic crises around the world have signaled some negative developments. These economic crises, also, have brought about social problems. So, it is a must to find radical and permanent solutions to these problems, not temporary ones. Nowadays, because of economic crises around the world, there is a huge increase in dismissal of a lot of employees and in unemployment. In order to find a solution to these problems, social entrepreneurship is an alternative way. Social entrepreneurs don't let the government or business world to solve these social problems, they do it themselves. They find the source of the problem and solve it by changing the system. Also they convince the whole community to take new steps by sharing the ways of solution with the society. Like an economic entrepreneur's building a new industry, social entrepreneurs try to find innovative solutions to social problems and practice these solutions in a wide range. Social entrepreneur's task is, when there is a problem in the society, to feel it and find a useful solution. A social entrepreneur finds the source of the problem, convinces the society for new steps and solves the problem by changing the system. Social entrepreneurs not only give people a fish or teach how to fish, but also work until make a revolution in the fish industry. A social entrepreneur finds new solutions to the society's complex problems. While doing this, they are always positive to all events. They believe that everything that they argue will be solved later in any way. In general, entrepreneur is a person who brings together all necessary sources for production. In this study, the factor of social entrepreneurship is analyzed as an effective way for solving economic and social problems that occur nowadays, especially under bad economic conditions.

**Keywords:** Entrepreneurship, Social Entrepreneurship, Social and Economic Problems

## **1. INTRODUCTION**

Welfare of countries is based on foundation of modern industries, providing employment, overcoming poverty, entrepreneurs which provide goods and services meeting national-international requirements (Robbins and Coulter, 2000, p.17). Today, entrepreneurship fact has become a study area which receives great support and acceptance. The reason is that entrepreneurship forms the core and dynamics of economical, social, psychological and technological development and evolution (Schumpeter, 1991, p.407).

There is no doubt that one the most important factors in development of a country is the presence of individuals having entrepreneurial spirit and who can bring this characteristic into prominence in practice (Conkar and Iltter, 2005:203). Entrepreneur is a person who makes innovation by taking risks. In other words, entrepreneur searches for opportunities and when he determines them, he tries to realize his ideas by taking all kinds of risks. And entrepreneurship is the name given to all risk taking, opportunity searching, implementation and innovation process (Cetindamar, 2002,p.17).

Economical comfort created by entrepreneurship is also effective in resolving social problems, hence it is seen as a factor which resolves social problems. However, for resolving social matters, there is need for social entrepreneurs with this consciousness.

## **2. CONTRIBUTION OF ENTREPRENEURSHIP INTO ECONOMICAL AND SOCIAL DEVELOPMENT OF COUNTRIES**

Entrepreneurship initiates and improves the change in the structure of enterprises and society. This change improves growth and production. Entrepreneur accelerates the formation, spreading and implementation of new ideas. Additionally leads to formation of new industries. Entrepreneur increases the productivity in sectors using new technologies and accelerates the economical growth over rapidly growing sectors. Hence, entrepreneur is the key factor in organizing economical activities, creating employment and production activities. Entrepreneur is the main actor in process of transferring economical resources from low productivity areas to higher areas since he enables utilization of unemployed production factors by combining production resources in a new style. When it is evaluated in every respect, entrepreneurship becomes prominent as main field in creating social benefits. (Ibrahim Ozturk, Girişimcilik Raporu, 2008, p:21)

In a country, regulating economical structure, creating employment opportunities shall make a major contribution to social peace. Forming such an environment in a country shall form a base in providing peace. Countries in which such ground is formed also obtain capacity of maintaining their social development.

### **3. WHAT IS A SOCIAL ENTREPRENEUR?**

Entrepreneurs are essential drivers of innovation and progress. In the business world, they act as engines of growth, harnessing opportunity and innovation to fuel economic advancement. Social entrepreneurs act similarly, tapping inspiration and creativity, courage and fortitude, to seize opportunities that challenge and forever change established, but fundamentally inequitable systems.

Distinct from a business entrepreneur who sees value in the creation of new markets, the social entrepreneur aims for value in the form of transformational change that will benefit disadvantaged communities and ultimately society at large. Social entrepreneurs pioneer innovative and systemic approaches for meeting the needs of the marginalized, the disadvantaged and the disenfranchised – populations that lack the financial means or political clout to achieve lasting benefit on their own.

Throughout history, such individuals have introduced solutions to seemingly intractable social problems, fundamentally improving the lives of countless individuals by changing the way critical systems operate. Florence Nightingale and Maria Montessori offer two prominent historical examples. Muhammad Yunus, recipient of the 2006 Nobel Peace Prize, is a more recent example. He began offering microloans to impoverished people in Bangladesh in 1976, thereby empowering them to become economically self-sufficient and proving the microcredit model that has now been replicated around the world.

While social entrepreneurship isn't a new concept, it has gained renewed currency in a world characterized by a growing divide between the haves and the have-nots. With this heightened visibility, social entrepreneurs at the forefront of the movement are distinguishing themselves from other social venture players in terms of ultimate impact. One example is social entrepreneur Bunker Roy, who created the Barefoot College in rural communities in India to train illiterate and semiliterate men and women, whose lack of educational qualifications keeps them mired in poverty. Today Barefoot College graduates include teachers, health workers and architects who are improving communities across India, including 450 "barefoot" engineers who have installed and maintain solar-electrification systems in 547 villages that reach nearly 100,000 people.

Another example is Ann Cotton, who started the Campaign for Female Education (CAMFED) in 1993 to achieve the simple goal of ensuring an education for young girls in Africa whose families cannot afford school fees. By establishing a sustainable model that provides community support for girls to go to school, start businesses and return to their communities as leaders, CAMFED has broken the cycle of poverty for hundreds of thousands of young women in Zimbabwe, Ghana, Zambia and Tanzania. Since 1993, 645,400 children have benefited from Camfed's education program across a network of 2,798 Schools. 5,132 young women have received business training and start-up grants to establish their own rural enterprises. 1,067 young women have been trained as community health activists; in 2008 alone, they reached 79,998 children and young people with vital health information.

These and other social entrepreneurs are solution-minded pragmatists who are not afraid to tackle some of the world's biggest problems. They recognize the extraordinary potential in the billions of poor people who inhabit the planet, and they are absolutely committed to helping them use their talents and abilities to achieve their potential. Social entrepreneurs use inspiration, creativity, courage, fortitude and, most importantly, direct action, to create a new reality – a new equilibrium – that results in enduring social benefit and a better future for everyone (<http://www.skollfoundation.org/aboutsocialentrepreneurship/whatis.asp>).

### **4. THE DIFFERENCES BETWEEN “ENTREPRENEURSHIP” AND “SOCIAL ENTREPRENEURSHIP”**

The most commonly quoted definition of “social entrepreneurship” today was formulated by Prof. J. Gregory Dees of Stanford University in 1998, but his essay contained a fundamental oversight. He outlines five factors that define social entrepreneurship: Adopting a mission to create and sustain social value (not just private value); recognizing and relentlessly pursuing new opportunities to serve that mission; engaging in a process of continuous innovation, adaptation, and learning; acting boldly without being limited by resources currently in hand; and exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created. He never mentions earned income.



We think that is not only conceptually flawed, but also psychologically crippling. It lets nonprofits off the hook. It allows them to congratulate themselves for being “entrepreneurial” without ever seriously pursuing sustainability or self-sufficiency. They still return, year after year, to the same individual donors, foundations and government agencies. What, then, *is* social entrepreneurship? And how does it differ from entrepreneurship *per se*?

A social entrepreneur is any person, in any sector, who uses earned income strategies to pursue a social objective, and a social entrepreneur differs from a traditional entrepreneur in two important ways:

Traditional entrepreneurs frequently act in a socially responsible manner: They donate money to nonprofits; they refuse to engage in certain types of businesses; they use environmentally safe materials and practices; they treat their employees with dignity and respect. All of this is admirable, but their efforts are only *indirectly* attached to social problems. Social entrepreneurs are different because their earned income strategies are tied *directly* to their mission: They either employ people who are developmentally disabled, chronically mentally ill, physically challenged, poverty-stricken or otherwise disadvantaged; or they sell mission-driven products and services that have a direct impact on a specific social problem (*e.g.*, working with potential dropouts to keep them in school, manufacturing assistive devices for people with physical disabilities, providing home care services that help elderly people stay out of nursing homes, developing and selling curricula). • Secondly, traditional entrepreneurs are ultimately measured by financial results: The success or failure of their companies is determined by their ability to generate profits for their owners. On the other hand, social entrepreneurs are driven by a *doublebottom* line, a virtual *blend* of financial and social returns. Profitability is still a goal, but it is not the only goal, and profits are re-invested in the mission rather than being distributed to shareholders (Boschee and McClurg, 2003:2-3).

## 5. SOCIAL ENTREPRENEUR AND CORPORATE SOCIAL RESPONSIBILITY

Social entrepreneur is defined as a person who makes an attempt by using traditional entrepreneurship methods in order to facilitate social change by realizing social matters (Bornstein, 1998, 35). Social entrepreneur approaches social problems with an entrepreneurial spirit and a business mind (Barendsen and Gartner, 2004,44). Hence social entrepreneurship is much different than social responsibility. In corporate responsibility projects, the main objective of companies is not providing benefits to society. In addition to its main objective of profitability, their objective is to improve their image and increase sales by meeting requirements of society. In social entrepreneurship the main objective is to provide jobs, food and/or social benefits for poor persons in an area where poverty is the most intensive by determining the potential with a small amount of investment in a field in which it is possible to obtain the maximum social benefit (<http://www.milliyet.com.tr>).

Social responsibility is a term associated with an enterprise which follows a business strategy and policy correspondent with economical and judicial conditions, business ethics and expectations within the enterprise and among people and establishments around the enterprise, and pleasing and comforting the public (Eren, 1990, p.110). Enterprises maintain their activities by taking objective of profitability as a key element within their economical, political and socio-cultural structure (Yilmazer, 2005, p/321). However, besides welfare of public, enterprises acting in accordance with the social responsibility and business ethics affect future of establishment in a positive way. Therefore, society demands enterprises to work effectively, attach interest to social events and be sensitive about matters related with business ethics and they react against contrary acts (Ozalp, 1996, p.42-43).

## 6. SOCIAL ENTREPRENEURSHIP AND INTERACTION OF NONGOVERNMENTAL ORGANIZATIONS

Individuals can correspond to his inherent feelings about being useful by being occupied with a purpose without expecting financial benefits, and corresponds to his needs of enriching the society through voluntary agencies. Hence, voluntary agencies become establishments in which a meaningful life and responsible citizen awareness are put into practice. People take the pleasure of adding a value which shall create a difference in their region, country and gradually in the world. Therefore, voluntary agencies increasingly become more important in respect of social life quality (Arguden and Yilmaz, 2006, p.5).

Throughout history, nongovernmental organizations or organizations without profit which played a very important and effective role in social life have been named in different ways. Functions performed by these organizations in the past and especially services they shall provide today have a great social importance. While determining social policies in a country, acting by taking standard of judgment in that society as a reference point reduces the resistance which may be encountered in adopting and implementing these policies in the society (Arslan, 2005, p.155).

Volunteering is basis of social entrepreneurship. Because of this aspect, it involves Nongovernmental Agencies as much as enterprises. In the world and recently in Turkey, the number of enterprises and Nongovernmental Organizations

which put signature under important projects is increasing gradually (Resource [http://biiibf.comu.edu.tr/php/index.php?option=com\\_content&view=article&id=150&Itemid=282](http://biiibf.comu.edu.tr/php/index.php?option=com_content&view=article&id=150&Itemid=282)).

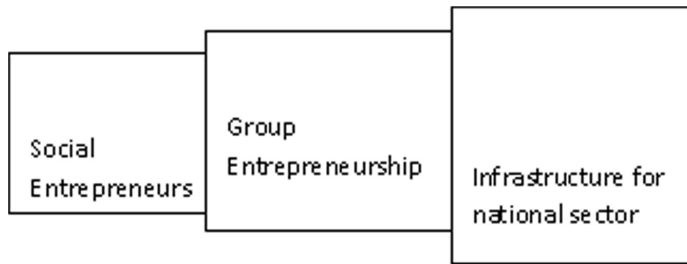
Nongovernmental organizations argue that enterprises can encourage social entrepreneurship by maintaining their activities with the voluntary involvement of their employees. In this concept, it is desired that private sector employees participate in projects of nongovernmental organizations for at least one hour a week. As a part of social responsibility awareness of enterprises, these efforts increase social awareness of individuals and show that they can be helpful to society while working in private sector (Guclu, [www.insankaynaklari.com](http://www.insankaynaklari.com), 05-01-2009). These activities open a way to develop innovative ideas about social matters, in other words, they become practices which may pave the way for social entrepreneurship.

## 7. NONGOVERNMENTAL ORGANIZATIONS SUPPORTING SOCIAL ENTREPRENEURS

First and important nongovernmental organization which supports social entrepreneurship is Ashoka. Ashoka which was founded in 1980 does not receive support from governments, EU funds, weapon or tobacco companies. Among its financiers there are google, eBay and Anuseh Ensari who was the first woman tourist to space. Ashoka has 1800 members from 62 countries who see social benefit as a profit. Ashoka's members who receive financial support for 3 years are provided consultancy service by McKinsey and they are assured to share the same with other members (Sosyal Girişimciler Yeni Bir Sektör Yarattı (Social Entrepreneurs Created A New Sector), [www.insankaynaklari.com](http://www.insankaynaklari.com), 03-01-2009).

Ashoka's efforts consist of three stages. First of all, it supports social entrepreneurs individually. In the second stage, it supports social entrepreneurship groups and the last stage is the stage for forming financial systems and infrastructure in order to spread and improve application area of social entrepreneurship universally ([www.ashoka.org/whatwedo](http://www.ashoka.org/whatwedo)).

**Figure 1: Works of Ashoka**

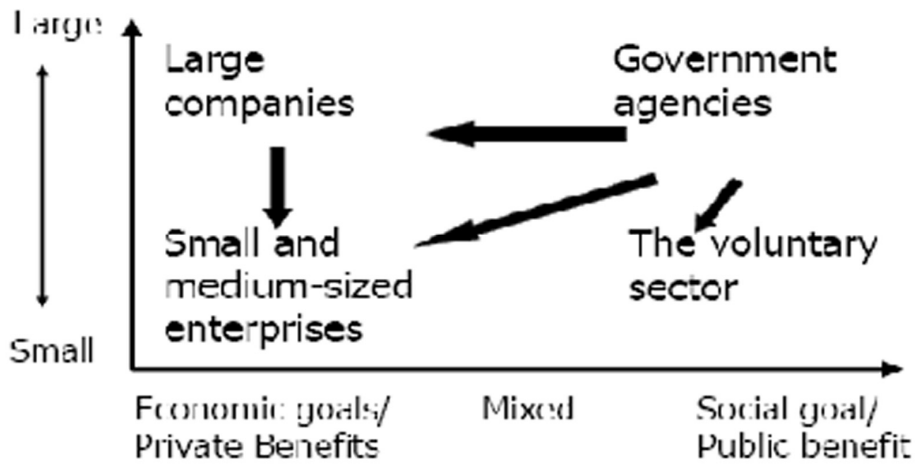


**Resource:** M.KAYALAR ve T.ARSLAN, Ashoka'ya Üye Sosyal Girişimcilerin Türkiye ve Dünyadaki Faaliyet Alanlarının karşılaştırılması (Comparison Activity Fields of Ashoka Member Social Entrepreneurs in Turkey and in the World), [edergi.sdu.edu.tr/index.php/sduvd/article/view/1365/1452](http://edergi.sdu.edu.tr/index.php/sduvd/article/view/1365/1452)

Ashoka commenced its operations in Turkey on 22nd February 2004. Currently Ashoka has 16 members. With their works, each member both offers a solution to a public matter and forms a model. Through annually held interviews, new social entrepreneurs join Ashoka Turkey family (Denizalp, 2007, p.19).

Another important organization which aims to unite social entrepreneurs but does not provide financial support is Schwab Foundation. Foundation implements practical, innovative and market focused approached intended to change the conditions which forgets people and push them to poverty (Social Entrepreneurs Created A New Sector, [www.insankaynaklari.com](http://www.insankaynaklari.com), 03-01-2009).

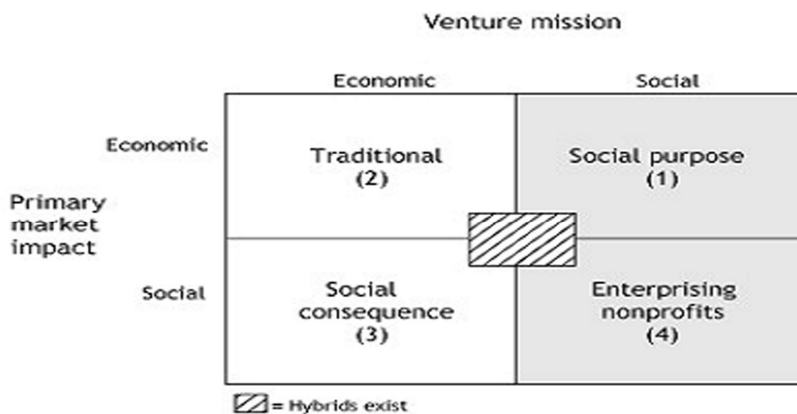
**Figure 2: The Changing World of Organizations**



**Source:** Paton, Rob, Studying Social Entrepreneurship and Enterprise  
<http://www7.open.ac.uk/oubs/research/pdf/Studying%20Social%20Entrepreneurship.pdf>

There are many intermediate forms, both as regards size – think of business franchising, and federations of organizations. And as regards hybrids, those with mixed social and economic purposes. Indeed, essentially, the map is out of date – the world has changed. One big story of the last 20-25 years has been the emergence of a new generation of green and ethical businesses (eg, involved in Fairtrade, or providing environmental products and services). Another, even bigger story, has been the recognition that mega-organizations are impossibly difficult to run – in a world that is changing rapidly they are unmanageable. So large companies have out-sourced non-core activities and re-structured into federations of business units. And governments, of course, have been doing the same – the general trend has been for the state to retreat from direct involvement in the delivery of services. (Paton, Rob, Studying Social Entrepreneurship and Enterprise <http://www7.open.ac.uk/oubs/research/pdf/Studying%20Social%20Entrepreneurship.pdf>).

**Figure 3: Venture typology**



**Source:** Neck, Heidi and others. The Landscape of Social Entrepreneurship

Some resources propose four specific types of entrepreneurial ventures, plus a hybrid form. *Social Purpose Ventures* (Quadrant 1) are founded on the premise that a social problem will be solved, yet the venture is for-profit and the impact on the market is typically perceived as economic. *Traditional Ventures* (Quadrant 2) focus primarily on

economic mission and economic impact, with financial performance as its primary metric. These ventures have no explicit social mission beyond running a good and profitable business through the exploitation of market-based opportunities. *Social Consequence Ventures* (Quadrant 3) are similar to the traditional venture except that many of their practices have social outcomes, although these social outcomes are not the reason for the firm's existence but an outcome of doing business. The popular term *corporate social responsibility* most closely aligns with the social consequence venture. The fourth type of venture is the *Enterprising Nonprofits* (Quadrant 4). Enterprising nonprofits have earned income activities which very much apply the general principles of entrepreneurship. Additionally, these organizations focus on growth and economic sustainability, and may be funded by venture philanthropists. Finally, there are hybrid forms that have a combination of behaviors and characteristics that are found in more than one type (Neck, Heidi and others. *The Landscape of Social Entrepreneurship*, [http://www.sciencedirect.com/science?\\_ob=ArticleURL&\\_udi=B6W45-4TRR8XM](http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6W45-4TRR8XM)).

## **8. SOCIAL ENTREPRENEURS CHANGE THE SYSTEM**

All social entrepreneurs work on social problems and matters. Works they perform focus on system which make people poor and suppressed. The aim is not founding a hospital or a school but it is to change the health or education system (Hartigan, [www.insankaynaklari.com](http://www.insankaynaklari.com), 03-01-2009).

Social entrepreneur is a person who realized the social problems which occur in his/her society and clamps down the problems with an approach which has not been thought or ventured until that time; and a person who gains trust of society by creating difference with his/her creative, persistent, sensitive, realistic behaviors. Social entrepreneurs devote their lives to create solutions for social problems through their characteristics such as vision, creativeness and extreme commitment, similar to commercial entrepreneurs. These unique individuals who are present in every culture can foresee the next step in their field (environment, education, health, human rights, social development) and they follow the project tightly until this foresight becomes a concept which is adopted by society. Social entrepreneurs determine blocked aspects of society and develop new ideas which shall enable their transformation. Reformation created by social entrepreneurs changes society's way of transformation and their approaches to social matters dramatically (Denizalp, 2007, p:8).

Social entrepreneurs are persons who find innovative solutions for the most important problems of society. They are ambitious and determined about developing new ideas which provide large scale transformation in fight against social problems. Social entrepreneurs do not leave the solution of social problems to government or business world, they find the source of the problem. They solve the problem by changing the system, they share solutions with a large mass and they convince whole society to take new steps. New idea of each social entrepreneur must be practical, easily understandable, ethic and it should be able to mobilize wide support of the region's public. Hence individuals stand up for their own rights and they make a move to apply this new idea. Just like entrepreneurs who change the face of business world, social entrepreneurs are important building stones of social transformation ([http://turkey.ashoka.org/social\\_entrepreneur](http://turkey.ashoka.org/social_entrepreneur)).

## **9. FORMATION OF SOCIAL ENTREPRENEURSHIP CULTURE**

Social entrepreneurs undertake an innovative and leading role in solution of social problems. By taking a problem in subjects such as health, environment, human rights as a starting point, social entrepreneurs enable social transformation by creating projects on basis of social effect, sustainability and innovation. Recently, social entrepreneurs created a new sector except for government and private sector in respect of creating solutions for social problems. Social entrepreneurs are leaders of local transformation (Kayalar ve Arslan, [edergi.sdu.edu.tr/index.php/sduvd/article/view/1365/1452](http://edergi.sdu.edu.tr/index.php/sduvd/article/view/1365/1452), 2009 )

At first, social entrepreneurs should implement a series of activities in order to solve locally focused problems and to trail locals. Moreover, laying foundation of activities which may be accepted in respect of matters which are effective in establishing public welfare of locals is incumbent on social entrepreneurs. In order to improve social sector through their activities, social entrepreneurs should support in increasing awareness of public about local education, economical development, environment, human rights, health and civil initiative.

## **10. CONCLUSION**

Lately, social entrepreneurs have an important catalysor role in solution of social and economical matters. At first stage, this catalysor role contributes to solution of local problems. At next step, they have the qualification of social and economical problem solver in universal meaning. Because each region has different problems and in solution of these problems local solver actors are effective (raw material, labor force, geographic conditions etc).

A social entrepreneur, while searching solutions to social problems, should study in the region where the problems occur. He or she should apply the SWOT analysis in that region. The threats and occasions that will cause while finding solutions to social problems that constituted in that region should be searched. Afterwards the weak and strong aspects which are considered to be effective in finding solutions of the region should be designated so that it will be possible to overcome the social problem regionally. These data will form a good guidance for a social entrepreneur.

Social entrepreneurs gradually make progress in solution of social problems. Social and economical problems which are solved locally can spread to a wider environment when communicated with other social entrepreneurs universally. Social entrepreneurs which support each other shall provide opportunities for social and economical comfort of societies worldwide through a wider perspective.

In this sense, it is very important for social entrepreneurs to receive support of nongovernmental organizations and governments in creating a universal environment.

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# **CORPORATE ENTREPRENEURSHIP: A CONTEMPORARY PARADIGM IN ENTREPRENEURSHIP RESEARCH**

**DENİZ KANTUR,BOĞAZIÇI UNIVERSITY**

## **ABSTRACT**

This conceptual study aims to develop the corporate entrepreneurship literature by differentiating between posture and activities. The study identifies the gaps in the corporate entrepreneurship research and develops a model that posture (attitudes towards entrepreneurship) acts as an independent variable affecting corporate entrepreneurship (actual behaviors). The relationship between posture and corporate entrepreneurship is suggested to be moderated by certain factors (management support, work discretion, rewards/reinforcement, time availability, and organizational boundaries). Qualitative research method (interviews and focus group studies) is adopted in the current study to develop the conceptual model and proposed relationships.

## **1. INTRODUCTION**

The concept of entrepreneurship has been applied to many different levels, for instance, individuals, groups and to the whole organization (Lumpkin and Dess, 1996). Current study focuses on entrepreneurship at the organization level not individual or group. Corporate entrepreneurship is an evolving area of research, however there is no universally acceptable definition of the term (Gautam and Verma, 1997). Authors use many terms to refer to different aspects of corporate entrepreneurship like intrapreneurship (Kuratko et al., 1990; Burgelman, 1983), internal corporate entrepreneurship (Schollhammer, 1982) or corporate venturing (Guth and Ginsberg, 1990). This study through reviewing the literature on firm-level entrepreneurship and analyzing the results of the qualitative research, differentiates between attitudes towards entrepreneurship and entrepreneurial activities (actions). The conceptual model developed in the current study is part of an extensive research project (No: 09HC103D - Kurumsal Girişimcilik: Örgüt Kültürü ve Liderlik) funded by Boğaziçi University Research Fund which attempts to develop the corporate entrepreneurship literature through differentiating between intentions and actions and the analysis of the effect of organizational factors on turning these intentions into actual organizational actions.

## **2. LITERATURE REVIEW**

According to Zahra (1991) corporate entrepreneurship refers to the process of creating new business within established firms to improve organizational profitability and enhance a firm's competitive position or the strategic renewal of existing business. According to Burgelman (1983), the concept of corporate entrepreneurship should include the effort of large firms to renew themselves by carrying out new combinations of resources that alter the relationships between them and their environments. Burgelman (1983) also indicates that little is known about the process through which large, complex firms engage in corporate entrepreneurship. While, research on intrapreneurship concentrates more on large organizations, Carrier (1996) examined the phenomenon of intrapreneurship in small businesses; including different forms of intrapreneurship, factors governing the emergence, factors motivating owner-managers and intrapreneurs and the strategic processes involved, and emphasized that small and medium-sized ones are also facing the need to innovate and therefore engage in intrapreneurial activities (Carrier, 1996). While there is imprecise consensus on the definition of corporate entrepreneurship, most authors accept that all types of entrepreneurship are based on innovations that require changes in the pattern of resource deployment and the creation of new capabilities to add new possibilities for positioning in markets (Stopford and Baden-Fuller 1994). In general, corporate entrepreneurship can be defined as the pursuit of creative or novel solutions to challenges confronting the firm, including the development or enhancement of products and services, as well as new administrative techniques and technologies for performing organizational functions (Knight, 1997).

There are different types of corporate entrepreneurship defined in literature. One is the creation of new business within an existing organization - corporate venturing or intrapreneurship as it is called (Burgelman, 1983; Kuratko et al., 1990; Guth & Ginsberg, 1990). Another is a more pervasive activity associated with the transformation or renewal of existing organizations (Stopford and Baden-Fuller, 1994). To Burgelman (1983) the corporate entrepreneurship refers to the process whereby firms engage in diversification through internal development. Miller and Friesen (1982) created a distinction between the concepts of corporate entrepreneurship and an entrepreneurial strategy. An entrepreneurial strategy is defined as the frequent and persistent effort to establish competitive advantage through innovation, while corporate entrepreneurship is defined as an infrequent attempt to implement innovation. Venkataraman (1997) emphasizing the exploitation of opportunities states that entrepreneurship as a scholarly field seeks to understand how

opportunities to bring into existence 'future' goods and services are discovered created and exploited. Moreover, recent research has argued that corporate entrepreneurship adds value not only by utilizing resources in new ways but also, perhaps more importantly, by creating new resources (Ahuja et al., 2001)

While there is no consensus in the literature regarding the definition of entrepreneurship at the organizational level, measures are developed to assess entrepreneurship within organizations. Previous research that measured entrepreneurship at the organizational level focused mostly on large corporations and used measures such as the firm 'Entrepreneurial Orientation' (Khandwalla 1977; Miller and Friesen 1982; Covin and Slevin, 1989; Knight 1997) or engagement of the corporation in corporate entrepreneurship (Zahra 1991, 1993a). The first and the most popular scale was developed by Khandwalla (1977). Khandwalla (1977) studied 103 large Canadian firms and the relationship between top management style, environmental context and firm performance was examined. Khandwalla (1977) operationally defined two management styles; entrepreneurial and conservative and entrepreneurial style was mainly associated with innovation and proactiveness in organizations. There were nine items in the scale under these two main dimensions of innovativeness and proactiveness. The scale overall renders an assessment of a given company's degree of entrepreneurship.

This Entrepreneurial Orientation scale was subsequently refined by Miller and Friesen (1982) and by Covin and Slevin (1989). Miller and Friesen (1982) developed two different models of product innovation. Conservative model assumes that innovation is performed reluctantly in response to serious challenges and entrepreneurial model assumes that innovation is performed aggressively and continuously. Their study was conducted among 52 Canadian firms and a negative correlation was expected between the two models. Authors operationally defined entrepreneurial orientation in terms of innovation, proactiveness and risk-taking. Product innovation refers to the ability to create new products or change existing ones to meet the demands of current or future markets. Proactiveness refers to a company's capacity to outperform competitors by new product/service or technology introduction. Finally, corporate entrepreneurship indicates that a company is willing to engage in business ventures in which the outcome may be highly uncertain and therefore risky.

After Miller and Friesen (1982), Entrepreneurial Orientation scale was further refined by Covin and Slevin (1989). Covin and Slevin (1989) studied 161 small entrepreneurial firms in hostile and benign environments; the entrepreneurship construct was referred as 'Entrepreneurial Strategic Posture' and was characterized by frequent and extensive technological and product innovation, aggressive competitive orientation and a strong risk-taking propensity. The scale consisted of nine items measuring three dimensions of innovation, proactiveness and risk taking with a 7 point scale; first three items measuring firm's tendency toward innovation, second three assessing the firm's proactive orientation and the last three items assessing the firm's risk taking propensity (Covin and Slevin 1989). Overall, Entrepreneurship Orientation (EO) scale has been found to possess strong reliability and validity in numerous studies (e.g., Covin and Slevin 1989; Khandwalla 1977). Later, Covin and Slevin (1991) developed a popular model of entrepreneurship behavior at the organizational level. Using the three dimensions of innovation, proactiveness and risk taking and authors defined the concept of entrepreneurship as the entrepreneurial posture affecting firm performance and they included external, internal and strategic variables interacting with the entrepreneurial posture of the firms.

Guth and Ginsberg (1990) indicates that corporate entrepreneurship covers two types of processes, one is the birth of new businesses within existing organizations and second is the transformation of organizations through renewal of the key fundamental ideas. Using these two dimensions of corporate entrepreneurship a model is presented that portrays the theoretical connections that can be drawn from corporate entrepreneurship to the other conceptual elements in the field of strategic management. In their model, Guth and Ginsberg (1990) identified four concepts affecting entrepreneurship within organizations; environment, strategic leaders, organization form or conduct, and lastly organizational performance. Using two dimensions of Guth and Ginsberg (1990) - innovation/venturing and renewal - Zahra (1991) tested a model of corporate entrepreneurship with its predictors and financial performance outcomes. Reviewing studies of Burgelman (1983) and Miller (1982), an index of corporate entrepreneurship is developed in the study (Zahra, 1991) based on responses of CEO's of 119 Fortune 500 industrial firms. Zahra (1991) then correlated the results of the measure with Miller's (1982) Entrepreneurial Orientation measure and received 0.49 correlation,  $p < 0.001$ . Zahra indicates that entrepreneurial orientation scale first developed by Khandwalla (1977) and refined further by Miller (1982) and Covin and Slevin (1989) measures firm's *disposition or orientation* towards corporate entrepreneurship activities rather than actual engagement and only covers formal activities while these above nine items incorporates informal activities and actual engagement.

Drawing on the dimensions of innovation and venturing and strategic renewal, Zahra (1993a) operationalized the corporate entrepreneurship construct and developed the 'Corporate Entrepreneurship Scale'. This scale was intended to measure engagement of the corporation in corporate entrepreneurship activities such as venturing, innovation, and self-renewal activities. First dimension, corporate innovation and venturing, operationalized with four components of new

business creation (5 items), new product introduction (5 items), percent of revenue from new product and technological entrepreneurship (4 items). The renewal dimension had three components, mission reformulation (3 items), reorganization (4 items) and system-wide change (6 items). All the items were on 5 point scales. The self-renewal dimension reflects the transformation of organizations through the renewal of key ideas on which they are built (Guth and Ginsberg 1990; Zahra 1991). It has strategic and organizational change connotations and includes the redefinition of the business concept, reorganization, and the introduction of system-wide changes for innovation (Zahra 1993a).

Reviewing the studies of Miller (1982) and Covin and Slevin (1989, 1991), Lumpkin and Dess (1996) concludes that entrepreneurial orientation refers to the processes, practices, and decision making activities that lead to new entry. Authors add two more dimensions to Entrepreneurial Orientation construct namely autonomy and competitive aggressiveness. Using the entrepreneurial orientation with five dimensions they provided a contingency framework to investigate relationship between entrepreneurial orientation and firm performance. The framework basically developed some propositions integrating some moderator, mediator and independent variables between the relationship of entrepreneurship orientation and firm performance. Later Gregory, Lumpkin and Covin (1997) explored the nature of entrepreneurial strategy making and its relationship with strategy, environment and performance and concluded that entrepreneurial strategy making process may be subsumed by or parallel to other related processes which are difficult to separate in an organizational context.

The Entrepreneurship Orientation Scale first developed by Khandwalla (1977) and later refined by Miller (1982) and Covin and Slevin (1989, 1991) once proved valid and reliable measures in different organizations was then tested for cross cultural validation. By emphasizing that sound measures of entrepreneurship are especially critical for managers attempting to understand the construct's' cultural dynamic, Knight (1997) tested the cross-cultural measurement properties of the Entrepreneurship Orientation Scale. Knight (1997) included the development or enhancement of products, services, and techniques and technologies in production as part of organizational innovativeness (product lines, product changes and R&D leadership items for innovativeness dimension) and included new techniques, competitive posture, risk-taking proclivity, environmental boldness and decision-making style as the items of proactiveness. Same scale is mailed to both English- and French-speaking managers in Canada and results indicated that measure performs well both in reliability and validity in different cultures.

Risk taking, innovativeness and proactiveness dimensions tap some important aspects of corporate entrepreneurship, yet Stevenson and Jarillo (1990) developed an opportunity-based conceptualization of entrepreneurship. Authors argued that entrepreneurial value creating processes can take place in any type of organization. This understanding puts the focus on entrepreneurship as the pursuit of opportunity irrespectively of organizational context (Brown et.al. 2001).

Covin and Miles (1999) suggest that there is still ambiguity surrounding the corporate entrepreneurship construct and identifies three most common phenomena that are often viewed as examples of corporate entrepreneurship. First situation involves, an established organization entering a new business, second an individual or individuals champion new product ideas within a corporate context and thirdly a philosophy permeates an entire organization's operations. In their study they focus on the final phenomenon, whereby the term corporate entrepreneurship is reserved to refer to cases where entire firms, rather than exclusively individuals or other "parts" of firms, act in ways that generally would be described as entrepreneurial (Covin and Miles, 1999 pg.48). Covin and Miles (1999) then define four different forms of corporate entrepreneurship, sustained regeneration, organizational rejuvenation, strategic renewal, and domain redefinition.

The literature on corporate entrepreneurship clearly indicates that creation of a corporate entrepreneurship activity requires radical changes in the internal behaviors of the organizations. While some organizational environments or cultures enhance the implementation of intrapreneurial activities some others hamper it. Kuratko et.al. (1990) attempt to measure the effectiveness of the environment or culture for the implementation of intrapreneurial ideas, through the use of Intrapreneurship Assessment Instrument (IAI). The IAI (Kuratko et. al. 1990) is developed to identify the conditions needed to foster entrepreneurial activity within organizations. The scale initially had five dimensions with 28 items however Kuratko et. al. (1990) found only three significant dimensions including; management support for intrapreneurship (measured with 9 items), organizational structure (6 items) and reward and research availability (6 items). In a further study by Hornsby et. al (2002) the Intrapreneurship Assessment Instrument was assessed in terms of its measurement properties of the key internal organizational factors that influence middle managers to initiate corporate entrepreneurship activities. Five dimensions were found significant: the appropriate use of rewards, gaining top management support, resource availability, supportive organizational structure and risk taking and tolerance for failure. The distinction between engaging in corporate entrepreneurship activities and an organizational environment favoring entrepreneurship is important for a better conceptual understanding of corporate entrepreneurship.



The literature review on the measurement of corporate entrepreneurship indicates that most of the studies used one of the two measures of intrapreneurship; first one being the Entrepreneurship Orientation Scale (Khandwalla 1977, Miller, 1982 and Covin and Slevin 1989, 1991) and the second one Corporate Entrepreneurship Scale developed by Zahra (1991, 1993a). In a study by Antoncic and Hisrich (2001) corporate entrepreneurship construct has been refined and both of these scales are incorporated to check cross cultural validation. Data was collected by using two surveys, one in the United States and another in Slovenia and analysis showed moderately good convergent and discriminant validity across these two samples.

Finally, taking into consideration above literature review, research on entrepreneurship and especially corporate entrepreneurship is still developing. Articles appearing in the mainstream entrepreneurship literature in the past decade was reviewed with respect to the methodologies employed (Chandler and Lyon 2001). Results indicate trends toward more multivariate statistics and some increase in the emphasis on reliability and validity over the past decade. However it is suggested that there should be emphasis on multiple source data sets, reliability and validity issues, the development of more sophisticated theoretical models and subsequent analysis, and more longitudinal research. . Moreover, there is lack of a consensus on characterizing firm-level entrepreneurship which impedes theory development and inhibits proper theory enhancement (Lumpkin and Dess, 1996). According to Zahra (1991) research needs to concentrate on the dimensions of the construct for the proper progress in the field.

### 3. QUALITATIVE RESEARCH

Literature review provided the researcher of this study with the necessary knowledge about the previous studies conducted in the field of corporate entrepreneurship. Additional to the literature survey, qualitative research is carried out in order to generate sample of items that tap into the domain of corporate entrepreneurship construct better. Qualitative research methods enable researchers to get closer to the people under investigation and create richer and deeper data (Bryman, 1988). There are various methods of qualitative research used for item generation additional to literature search like experience survey, insight stimulating examples, critical incidents and focus groups (Churchill, 1979). Among these, focus group and semi-structured in-depth interview is conducted in this study.

As part of the qualitative research two semi-structured interviews were conducted. The first interview was conducted with the general manager of a marketing and sales company in food industry who is also the head of Young Entrepreneurs Club (Genç Girişimciler Kulübü). The interview was conducted in the office of the club where young entrepreneurs meet regularly every week. The interview lasted for one hour and fifteen minutes. As a general manager of a company and as the head of such an entrepreneurial club, the interviewee shared his ideas about the entrepreneurial initiatives in companies, the concept of entrepreneurship and shared his suggestions about how to be more entrepreneurial. The second interview was conducted with a manager from one of the big consulting companies in Turkey which organizes the Entrepreneur of the Year competition in Turkey since 2004. This competition is conducted in different countries around the world since 1986. The interview was scheduled in the head-office of the auditing company and lasted for one hour. The interviewee shared her experiences gained through the selection of winner companies. Both of the interviews were semi-structured and some sample interview questions include<sup>20</sup>:

- What do you understand from corporate entrepreneurship?
- Could you please define corporate entrepreneurship?
- What characteristics make you perceive an organization as an entrepreneurial one?
- Do you think your company/club is an entrepreneurial company? Why?
- What kind of corporate entrepreneurship activities are observed in your company?
- Could you please explain the different kinds of corporate entrepreneurship activities in your company?
- What are the major differences between these different corporate entrepreneurship activities?
- In general what are attitudes towards corporate entrepreneurship in your company?

Two focus group studies were conducted. The first group was consisted of people from private sector with minimum five years of work experience. Second group was composed of doctoral students of Boğaziçi University Management Department from the fields of Finance, Management and Organizations and Marketing. The first group participants were closer to the realities of the business environment, its constraints and uncertainties and because of minimum five year work experience requirement they were actually at the upper levels of the hierarchy (minimum at the director level) closer to the top management team. On the other hand, the second group participants were all coming from academic field with no work experience at all. This group was relatively distant from the business environment when compared to first one; they all completed their two years in their program and had a structured academic background

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<sup>20</sup> These are general questions that provided the structure of the interviews. The semi-structure nature of the interviews enabled the researcher to adopt interview questions in accordance with the issue under discussion.

which made them generate ideas with a real academic perspective. The first focus group lasted for 45 minutes, it started with the question of ‘What do you understand from corporate entrepreneurship?’ asked by the moderator and than the participants were left free to discuss, the entrepreneurship level in their companies and characteristics of entrepreneurial firms in general. The second focus group lasted for one hour. Because the participants of the second group were from academia the discussions were basically on the dimensionality of corporate entrepreneurship.

All the discussions were tape-recorded and later content analyzed by the researcher. During content analysis all the words and the phrases that were mentioned related to the entrepreneurship within organizations were all written. First, analysis was made separately for each discussions and interview, later on all the words and phrases were combined together.

#### 4. CONCEPTUAL MODEL

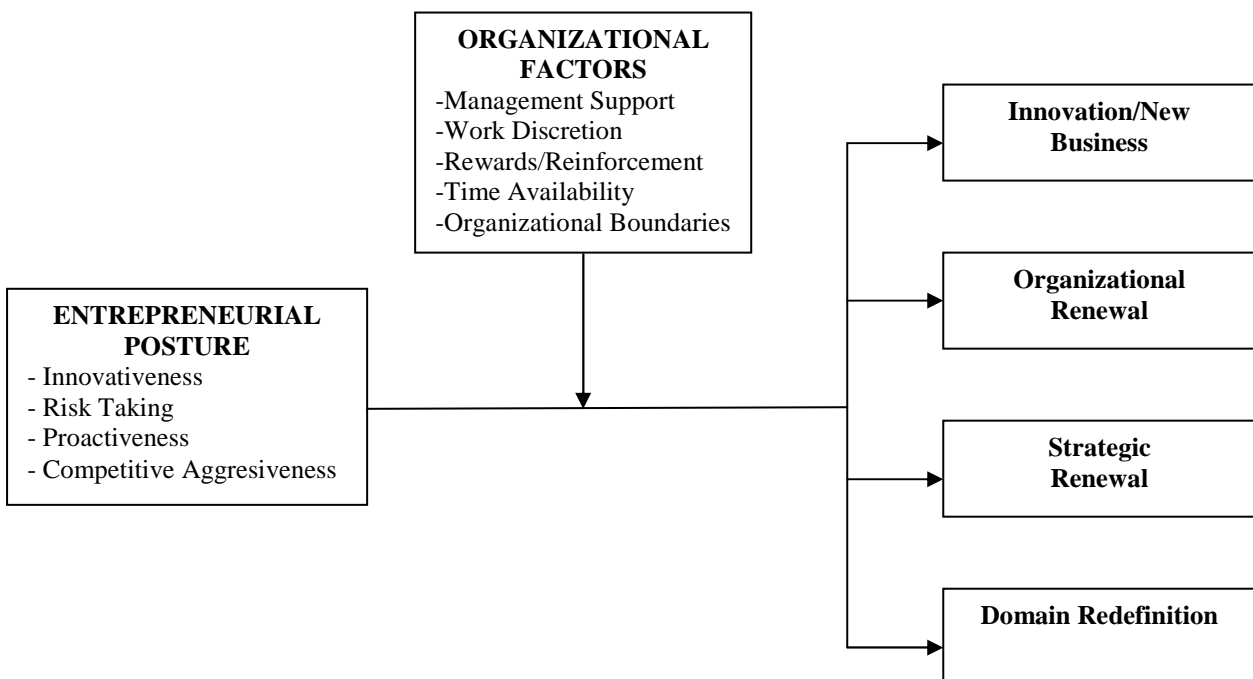
Reviewing the literature on corporate entrepreneurship and analyzing the results of qualitative research, the current study develops the conceptual model of firm-level entrepreneurship (Figure 1). Zahra et al. (1999) reviews the literature on firm-level entrepreneurship and concludes that most studies adopt the measure developed by Miller and Friesen (1982) by even using different constructs. Consequently, a serious misfit between the construct and measures has occurred, questioning the meaning of what has been found and its theoretical and practical implications (Zahra et al., 1999, p. 54). Accordingly, Zahra et al. (1999) suggests that future research should differentiate between entrepreneurial disposition (Covin and Slevin, 1991; Miller and Friesen, 1982), orientation (Lumpkin and Dess, 1996), and actions (Zahra, 1991).

While the entrepreneurial orientation construct is stated as a general philosophy of the firm, the conceptualization involves both actual behaviors and attitudes (Wiklund, 2006). Lumpkin and Dess (1996) state that, entrepreneurial orientation, which incorporates autonomy, innovation, risk taking, proactiveness, and competitive aggressiveness, represents the process aspect of entrepreneurship. Authors suggest that entrepreneurship is represented by new entry and it explains *what* entrepreneurship consists of, while entrepreneurial orientation that refers to processes explains *how* entrepreneurship (or new entry) has occurred (Lumpkin and Dess, 2001).

Accordingly, the conceptual model presented here differentiates between ‘entrepreneurial posture’ and different ‘forms’ of firm-level entrepreneurship. ‘Entrepreneurial posture’ construct incorporates *only* attitudes towards entrepreneurship and incorporates dimensions of innovativeness, risk taking, proactiveness, and competitive aggressiveness. Accordingly the proposition is developed as follows:

*PI: Entrepreneurial postures as a higher-order construct involves dimensions of innovativeness, risk taking, proactiveness and competitive aggressiveness.*

**Figure 1: A conceptual model of firm-level entrepreneurship**



According to Sharma and Chrisman (1999) corporate entrepreneurship may take several forms. Vesper (1984) differentiates between three forms of corporate entrepreneurship: new strategic direction, initiative from below, and autonomous business creation. Schollhammer (1982) identifies five different forms of entrepreneurship as administrative, opportunistic, imitative, acquisitive, and incubative. Stopford and Baden-Fuller (1994) differentiated between three types of firm-level entrepreneurship: new business venturing, organizational renewal and Schumpeterian innovation that transforms the whole competitive environment. Covin and Miles (1999) developed four different forms of corporate entrepreneurship: sustained regeneration, organizational rejuvenation, strategic renewal, and domain redefinition.

The literature suggests that there are different types of corporate initiatives within firms. This study asserts that introducing a new product into market - which is the basic form of corporate entrepreneurship - need to be differentiated from self-renewal which introduces significant changes to the strategies of the firm. As the above literature suggests, such a differentiation between different entrepreneurial activities has not been clearly conceptualized in the entrepreneurship literature. Accordingly, in line with the reasoning of Covin and Miles (1999) and based on the qualitative analysis, four different forms of corporate entrepreneurship activities can be developed: innovation/new business (such as new product development, entering into new markets, and finding new niche market opportunities), organizational renewal (such as changes in internal processes of the firms), strategic renewal (innovations in strategies of the firms) and domain redefinition (engagement in new competitive battle). Overall, a positive association is expected between entrepreneurial posture and different forms of entrepreneurial actions in the firms. The propositions are developed as follows:

*P2: Corporate entrepreneurship activities within firms take four different forms of innovation/new business, organizational renewal, strategic renewal and domain redefinition.*

*P3: Entrepreneurial posture involving dimensions of innovativeness, risk taking, proactiveness and competitive aggressiveness has a positive association with innovation/new, organizational renewal, strategic renewal and domain redefinition forms of corporate entrepreneurship.*

## **5. THE MODERATING EFFECTS OF ORGANIZATIONAL FACTORS**

For entrepreneurial intentions or orientations turn into reality (i.e. actions) some organizational factors are required as facilitators. Entrepreneurial intentions need to be supported by certain organizational capabilities so as to engage in organization actions. Considering that entrepreneurial activities require certain amount of time and capital (both social and financial) there need to be an organizational setting favoring the emergence of these activities in terms strategies, procedures and human resources applications. Kuratko et al. (1990) develops five factor structure that facilitate the emergence of entrepreneurial initiatives. There is empirical support for the affect of these factors as influencers of corporate entrepreneurship (Hornsby et al., 1993; Hornsby et al., 2002; Kuratko et al., 1990). The five factor structure of organizational variables involve: management support, work discretion, rewards/reinforcement, time availability, defined organizational boundaries. The proposition is developed as follows:

*P4: Entrepreneurial posture affects different forms of corporate entrepreneurship - innovation/new business, organizational renewal, strategic renewal, and domain redefinition - only when there is management support, work discretion, rewards/reinforcement, time availability, defined organizational boundaries.*

## **7. CONCLUSION**

In today's competitive business environment where entrepreneurship is increasingly important, how companies will know how entrepreneurial they are? This is directly related with the refinement of the corporate entrepreneurship construct and the measurement of it. Corporate entrepreneurship is an evolving area of research and the concept has essential theoretical and practical implications. While the concept is gaining popularity among academicians and practitioner, there is not a consensus in the literature regarding what the term really is. Accordingly, this paper aims to contribute to corporate entrepreneurship literature through clarification of the construct and through developing a better understanding about entrepreneurial attitudes, intentions and actions.

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# MANAGING TECHNOLOGICAL INNOVATION PROCESS IN THE PUBLIC ORGANIZATIONS

İBRAHİM ARPACI, MIDDLE EAST TECHNICAL UNIVERSITY

## ABSTRACT

In today's fast changing environment, there is no executive task more vital and demanding than the sustained management of innovation and change. This paper aims to contribute technological innovation management in Turkish public sector and investigates technological innovation process in public organizations. Ongoing innovation projects that are performed by public organizations are analyzed to identify technological innovation process. In the scope of the study total twenty public organizations; all of the ministries and pioneer public organizations that perform technological innovation projects are analyzed. Case study is used as a research strategy and interviews, documentation, and observations are used as data collection methods. In accordance with the findings achieved by the analysis, technological innovation process is identified. Moreover stakeholders of the process, inputs and outputs of the process are identified. The results of the study will light the way for innovation projects and enable successful management of innovation process in public organizations.

**Keywords:** E-Government, Technological Innovation, Innovation Management, Public Organizations

## 1. INTRODUCTION

“Processes” can be defined as the particular ways in which an individual organization has learned to behave, and include the routines which characterize the culture of the organization (Schein, 1984). Many researches were performed on innovation processes in enterprises and regional competitiveness. With the increasing innovation process research, numerous studies and extensive research in innovation management have descriptively linked innovation with competitiveness and economic outcomes at the national level (Porter, 1990; Nelson, 1993). Moreover these researches attributed to the recognition of innovation as a key determinant of economic growth and a basis for competitiveness (Porter, 2003). Now, it is widely accepted that technological innovation and its effective diffusion are central and crucial to the growth of economic output, productivity and employment (Sternberg and Arndt, 2001).

According to OECD (1997) innovation is the process of making change, difference and novelty in the products, services and business manner to create economic and social benefit. Innovation has a different meaning from a management perspective, it is not a single action but a total process of interrelated sub processes. It is not just the conception of a new idea, nor the invention of a new device, nor the development of a new market. The process is all these things an integrated fashion (Myers and Marquis, 1969).

According to Trott (2002) an organization manages its resources over time and develops capabilities that affect its innovation performance. Innovation process includes an economic perspective, a business management strategy perspective and an organizational behavior to manage internal activities. Organizations form relationship with other firms and trade, compete and corporate with each other. Individuals within the organization affect process of innovation. Organizational architecture clarifies its way of innovation over time. The organizational architecture contains firm's internal design including its functions and relationship with suppliers, competitors and customers. All of these components consist of micro environment. Finally micro environment effects the macro environment.

According to Betz (1998), technological innovation process includes some stages. First, a new technology must be invented. Second, the new technology must be developed and embedded into new products, process, or services. Third, the technological innovation must be designed, produced, and marketed. Technological innovation represents an important source of global competitive advantage in today's technologically intensive competitive markets. To compete in today's technologically intensive competitive markets, companies must create new products, services and processes and they must adopt innovation as a way of corporate life (Tushman and Nadler, 1986). Technological innovations in a firm help it respond quickly to new product offerings and shorten product development time. As technological competition intensifies, it becomes more and more important that firms recognize, protect, and reinforce their technological capabilities as the sources of global competitive advantage (Guan and Liu, 2007). Technological innovativeness plays an important role in developed economies, it is also important in the revitalization of transition

economies since it is the driving force behind the process of restructuring and catching up (Gunther and Gebhardt 2005).

Innovation is widely recognized as a core renewal process within organizations. Unless managers continuously look for ways to change or at least improve offerings or create and deliver those offerings, organizations risk becoming increasingly vulnerable to hostile and turbulent environments (Bowen, 1994). For this reason growing attention has been paid to the challenge of innovation management in trying to understand the generic and firm-specific issues surrounding the problem of dealing with this challenge (Tidd et al, 2001). To overcome these challenges organizations need to be prepared for innovation, managers need understand the nature of innovation, organizations need to develop a strategic portfolio of innovation projects (Tranfield et al, 2003). Understanding the nature of innovation in the life sciences is critical to manage innovation process. Developing such an understanding requires a careful examination of the nature of innovation in the life sciences, the innovation process that spans academic institutions, healthcare systems and multiple industrial organizations, and involves a wide range of stakeholders (Atun et al, 2007).

Successful innovation occurs when an invention, related to a product, service or process in some part of the organization's value chain, is joined with a business design, which in turn is implemented with discipline and skill through innovation management (Maital and Seshadri, 2007). This research aims to detect technological innovation process in the public organizations, inputs and outputs of the process, and stakeholders of the process. The findings will help effective management of innovation processes in the public organizations.

## 2. METHODOLOGY

There are five major research strategies used in the social science; experiment, survey, archival analysis, history and case study (Yin, 1994). Case study is one of the major research strategies. "Case study is an empirical inquiry which investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence are used" (Yin, 1984). Compared to other methods, the strength of the case study method is its ability to examine, in-depth, a "case" within its "real-life" context (Schell, 1992). The case study method helps you to make direct observations and collect data in natural settings (Bromley, 1986).

The purpose of this study is to identify innovation process and stakeholders, inputs, outputs of the process. This study used case study as a research strategy and data gathered through case studies are qualitative. In this study interviews, documentation, and observations are used as data collection methods. The interviews performed during the study were semi structured or open interviews. The research process consisted of six steps: literature review, setting the research questions, case and interviewee selection, data collection, data analysis, identification of the innovation process.

Twenty organizations are participated in the study. On the other hand twenty eight technological innovation projects are examined. All ministries, two governmental organizations, one nongovernmental organization and two private firms that are project partners of the public organizations are analyzed as cases. The selection criteria for the cases and projects were:

- The cases are public organizations located in Turkey
- Case study projects must contain a technological change at least for the organization
- Case study projects must contain an economic or social value

Research questions that meet objectives of the study were answered by top level IT managers during the research. Twenty one managers are interviewed during the study. The selection criteria for the interviewees are

- They hold executive positions in the public organization
- They have experience in strategic management at business or technology level
- They are willing to allocate minimum of 45 minutes to discuss the matter

In this study interviews, documentation, and observations are used as data collection methods. The interviews performed during the study were semi structured or open interviews. Researcher utilized a MP3 player that has recording option during the interview to record conversations. Information about the technological innovation projects performed in the public organizations accumulated from documents, books, governmental reports, and booklets. The researcher took observation notes during the case study. Following research questions were prepared to guide data collection

- What are the technological innovation projects that are performed by the organization?
- What are the stages and processes of the technological innovation projects?
- Who are the stakeholders of technological innovation process?
- What are the sources of new ideas and innovation?
- What are the obstacles in front of the innovation?
- What are the drivers of innovation?

The interview process methodology was as follows

- The interview procedure was initiated by a telephone call or e-mail. The interview reason and purpose of the research were discussed, the time and place for the interview is set.
- Interviews were performed face to face in the interviewee's office when the time comes. The interview was initiated with a short explanation of the topic. The interview was semi structured; questions were preplanned. All of the questions were asked to the interviewee.
- The researcher throughout the conversation recorded the interview on a MP3 player. The interviewee was aware about this.
- The interview time range was from forty-five minutes to two hours. Only in one case a follow up meeting was arranged to complete the interview.

Twenty eight technological innovation projects that lead innovation in the public services are examined in the study. Table 1 illustrates examined technological innovation projects which are performed by the public organizations.

**Table 1: Technological Innovation Projects**

Organization	Technological Innovation Projects
Metu-Technopolis, Ankara Chamber of Industry, SMIDO	Innovation Relay Center Anatolia, Business Support Network Anatolia
Ministry of National Education	ILSIS, E-School
Ministry of Public Works and Settlement	Remote Sensing and Geographical Information Systems Project, Land Registry and Cadastre Information System, Disaster Information System
Ministry of Finance	Finance SGB.Net Project, Strategic Management Project
State Planning Organization	E-Transformation Turkey Project
Ministry of Transport	Land Automation Project, National Transport Portal
Ministry of Energy and Natural Resources	ENEBIS, Ministry of Energy Portal
Ministry of Agriculture and Rural Affairs	Farmer Registry System
The Ministry of Industry and Commerce	Electronic Commerce Project, SME Information Collection Project
Small and Medium Industry Development Organization (SMIDO)	KOBI-NET Project, KOSGEB MIS
Ministry of Health	Sağlık-NET Project, TELETIP
Ministry of Culture and Tourism	Turkey Tourism Portal, Turkey Culture Portal
Ministry of Justice	Better Access to Justice, National Judiciary Informatics System
Ministry of Labour and Social Security	Worker Entry and Exit Declaration Project, Work Inspection Project, Zone Automation Project

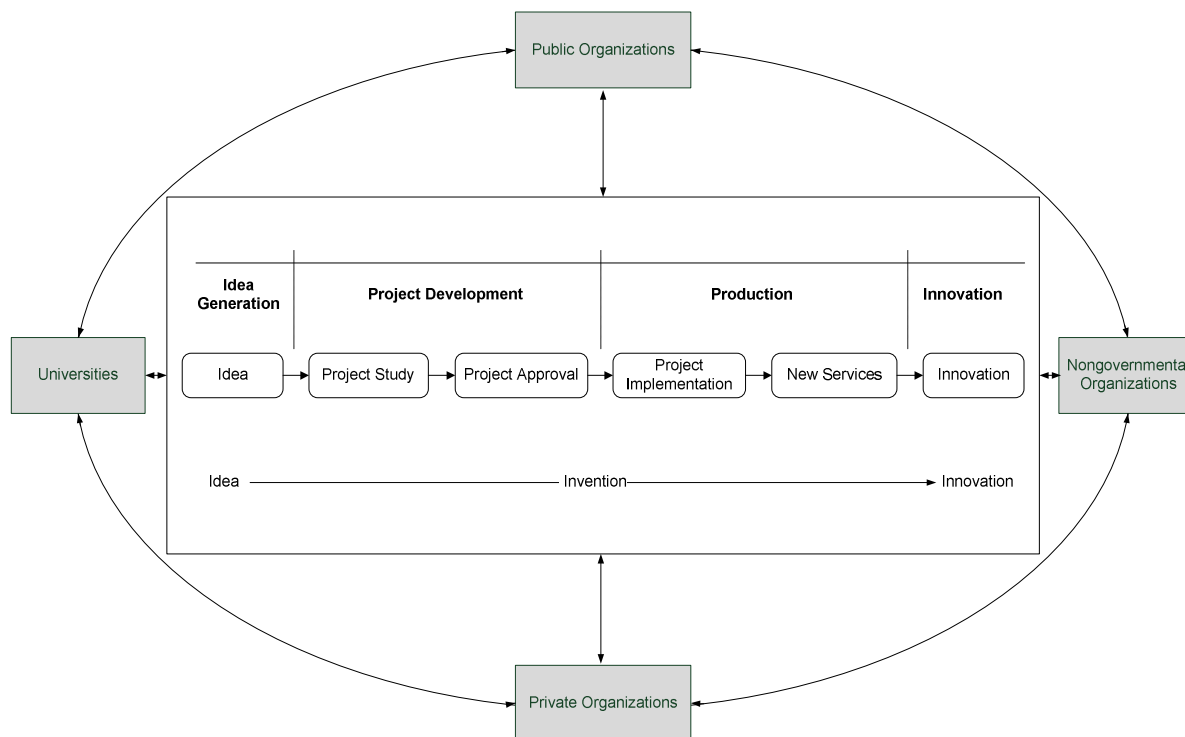


Case study tactics used to increase reliability and validity of the study. Multiple sources of evidence (interviews with multiple organizations and departments, governmental documents, books, observation, web sites) are used in data collection phase to increase construct validity. Research questions are prepared to guide data collection, findings and results are derived from the collected data. The report is reviewed by participants. For internal validity, pattern matching technique is used to analyze case study evidences in data analysis phase. For reliability of the study, case study protocol and case study database are prepared.

Recorded interviews transcribed before analysis of the interview data. Analysis of the data collected from case study is performed using pattern matching technique. Campbell (1975) described "pattern-matching" as a useful technique for linking data to the propositions. He asserted that pattern-matching is a situation where several pieces of information from the same case may be related to some theoretical proposition. Several pieces of data collected from cases are classified into patterns. Then selecting the data from patterns, data matrixes are designed. In this way, we are able to get a mixture of qualitative and quantitative data. The following sections discuss these findings.

### 3. RESULTS

According to the results of the study, it can be stated that innovation process in the public organizations consists of four stages and six steps as illustrated in Figure 1. Stages of the innovation process are idea generation, project development, production and innovation. Six steps of the innovation process are idea, project study, project approval, project implementation, new services and innovation.



**Figure 1: Technological Innovation Process in the Public Sector**

Idea generation is the first stage of the technological innovation process, in this stage new ideas that will be transformed to new projects to lead innovation are generated. There are four different sources of new ideas and innovation in the public organizations. Table 2 illustrates sources of innovation in the public organizations. In the table, percentage shows frequency of the related item. According to results of the study show in the table, it can be stated that most of the innovations arise from personnel and legislation. Nevertheless some of the innovations are arise from citizens and other firms.

**Table 2: Sources of Innovation**

Sources of Innovation	%
Personnel	78.5
Legislation	64.2
Other Firms	14.2
Citizens	14.2

Personnel who think about how to serve better and how to ease business processes try to generate new ideas. New idea generation is performed in the public sector when there is qualified staff. Only skilled staff can generate new ideas in an organization. But employing qualified staff in the public sector is too hard because of the low wages policy. As a result, innovation and new idea generation get hard in the public organizations with lack of qualified employee. Government tries to overcome inactivity of the staff and force them to design new projects by legislation. New laws are introduced to force organizations to make innovation. Sometimes new ideas are generated by citizens. Citizens are the end users of the services for the public sector. When they are not satisfied from the existing services they make suggestions to the organizations. They generate new ideas in order to take a better service. Public organizations can demand new ideas and projects from other organizations especially from consulting firms to innovate in the organization.

Project development is the second stage of the technological innovation process. This stage consists of two steps. In the first step of the stage, project feasibility study, project plan, and project documentation are performed. In the second step, approval of the project is performed by approval authority. First, approximate cost of the project is calculated in the project feasibility study. Approximate cost indicates the financial budget of the project. This indicator determines the approval authority. Approval authority is the authorizing officer who decides acceptance of the project. Authorizing officer can be head of the unit, undersecretary or minister according to the financial limit of the project.

Obstacles in front of the innovation prevent transformation of new ideas into projects and transformation of the projects into innovation in the public sector. Table 3 illustrates obstacles to innovation in the public organizations. According to results, the main obstacles in front of the innovation in the public sector found as bureaucracy, approval authority, legislation, and lack of qualified staff.

**Table 3: Obstacles to Innovation**

Obstacles to Innovation	%
<i>Bureaucracy</i>	100
<i>Approval authority</i>	92.8
<i>Legislation</i>	92.8
<i>Lack of qualified staff</i>	71.4
Work environment	35.7
Financial constraints	35.7
Management hierarchy	21.4
Low wages policy	14.2
Government program	7.14

Production is the third stage of the technological innovation process. This stage composes two steps; project implementation and new services. In the first step of this stage, implementation of the project is accomplished. The second step of this stage is gaining the new services. After implementation, a new service is acquired. The completed

service is accepted by the examination and acceptance commission of the public organization. It is tested in the maintenance period. According to result of the tests, final acceptance of the service is done if there is no deficiency. Innovation is the last stage of the technological innovation process. In this stage, diffusion of the new service is performed in order to innovate in the organization. Innovation includes not only the development but also the diffusion of the new services. From the perspective of innovation systems, it is not just the development of new service that is important, as the accessibility of new service is also of interest (Doloreux, 2006).

Verloop (2004) claims that successful innovation requires changes in organizational processes and conversion of an idea into a new product that is designed, manufactured, and adopted by users. According to Rogers (1995) there are different success rates of adoption. Adoption is a decision to make full use of an innovation as the best course of action available. Innovations that are perceived by its potential users as having a higher relative advantage, compatibility, trialability, observability and less complexity will be adopted more rapidly than other innovations (Tornatzky and Klein, 1982). Innovation offers new services for the organizations. Offering a better service or a new service provides easier, cheaper, quicker, and more secured services. Service innovation changes the business processes of the public organization. Mistakes in the processes are minimized because of the innovation.

Innovation can arise from universities, private organizations, nongovernmental organizations or public organizations. An important source of innovation comes from linkages between them. Table 4 illustrates stakeholders of innovation process as composing a complex system where an innovation may emerge from one or more components of the system or linkages between them. According to results of the study, it can be stated that public organizations, private organizations were participated almost all of the innovation projects. On the other hand, Nongovernmental Organizations (NGOs) and universities were participated a few innovation projects performed by public organizations.

**Table 4: Stakeholders of the Innovation Process**

Stakeholders	%
Public Sector	92.8
Private Sector	92.8
University	57.1
Nongovernmental Organizations	28.5

#### 4. DISCUSSION AND CONCLUSION

Many scientists defined innovation as a process (Hargadon and Sutton, 2000; Buggie, 2001). Nelson and Winter (1978) suggest that innovation, as driven by competition, can be viewed as a process. It is suggested that the process that may successfully attain innovation and hence future organizational growth consists of stages (Rothwell, 1994; Buggie, 2001) such as: strategy development, ideation, evaluation and implementation. Fraser et al (2005) defined innovation as an increasingly distributed process, involving development webs of multiple, players and modular production networks with a variety of possible and dynamic value chain configurations. Thus, viewing innovation as a process provides a systematic model and process of how innovation can be realized.

Storey (2000) sees the idea of innovation as a planned, rational process. This meant that managing it entailed a series of stages with each culminating in a phase or stage review. Typical phases were: idea conception, specification of product, planning the project, prototyping and so on, through to final review. This type of understanding of the process of innovation and its management is closely allied to the idea of product life cycles.

Twenty organizations were conducted to the study and innovation processes that show how innovation is realized in the organization were investigated. The analysis results demonstrate that, in order to reach innovation all of the public organizations follow six identical steps: new idea generation, project study (project plan, feasibility study, and documentation), project approval, project implementation, new services, and innovation.

Findings indicate that, innovation initiates with new idea generation first. Wolfe (1994) claims that innovation process research focuses on the analysis of ordered steps involving the formation, redesign and implementation of new ideas. And Nonaka (1994) confirms that knowledge creation and innovation take place inside new product development

projects. According to Zaltman et al (1984) innovation process starts with the generation of initial idea leading to the development of a new product or service. In addition Storey (2000) argues that innovation comes first and foremost from the ideas of individuals and from the way in which the ideas are captured.

Project study is the second steps of the innovation process. After idea generation, new ideas are selected to transform new projects. Cooper and Kleinschmidt (1986) see the idea development and idea selection stages as the 'fuzzy front end' of new product development. And deficiencies in idea development and idea selection are dominant factors explaining innovation failure (Khurana and Rosenthal, 1998). The idea development and idea selection phase is a fundamental stage of the overall innovation process because it represents the initial impulse for further innovation activities (Birkinshaw, 2000).

After project implementation new services enliven in the organization. After this step the last step named as "Innovation" comes. Diffusion and adoption of new service is realized in the last step. Innovation process includes not only the development but also the diffusion of new services. Because successful innovation requires changes in organizational processes and conversion of an idea into a new service that is designed, manufactured, and adopted by users (Verloop, 2004).

Findings indicate that, stakeholders of the technological innovation process are; universities, private organizations, nongovernmental organizations and public organizations. And an innovation may emerge from one or more stakeholders or linkages between them. According to Doloreux (2004), innovation system is viewed as a set of interacting private firms, public authorities, research organizations, and other bodies that function according to organizational and institutional arrangements and relationships that are conducive to the generation, use, and dissemination of knowledge. In this context, there are multitudes of actors involved in the innovation process. The main partners for innovation activities are; other firms, universities, technical colleges, technology transfer organizations, government agencies, and financial organizations.

Inganas et al (2007) investigated new energy technologies in their research study and identified a number of stakeholders; research institutes, technology providers, energy companies, investors and policy makers. According to them an intensive interaction between technology providers, power companies and research institutes is highly important for the successful transfer of new energy technologies from research institutes to the industry.

According to results of the study stakeholders are significant part of innovation process. External relations with stakeholders enhance the innovation process. Innovation emerges as a result of interaction between the stakeholders. Doloreux (2006) confirms these ideas declaring, innovation is a process by paying attention not only to different stages of evolutionary development, but also to certain types of institutional arrangements, organizational forms, and configurations of relationships among organizations that are all related to the provision of knowledge, finance, and other inputs to innovating firms. Many studies in innovation stress the importance of external linkages and processes at all points along the technology transfer pathway (Tidd et al, 1997). Innovation is seen increasingly as a multi-firm networking process involving close collaboration between companies and a consequent linking of technology-push and market-pull factors (Rothwell, 1992). There is also a presumption that collaboration between universities and SMEs is desirable (Henry et al, 2000).

Successful innovation management is required in order to perform successful innovations. And identification of the technological innovation process is required in order to manage innovation in the public organizations. Technological innovation process in the public organizations was identified through the study. Moreover stakeholders of the process, sources of innovation and obstacles in front of the innovation were detected through the study.

Surely the findings represented in this paper will provide successful management of innovation in the public organizations that will increase national productivity and, as a result, enable to gain international competitive advantage. This study detected innovation process in the public organizations in Turkey. Further research would be useful to research innovation process in the private organizations.

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# SIX SIGMA APPROACH AND A SIX SIGMA APPLICATION IN BANKING SECTOR TARGETING THE INCREASE OF CUSTOMER SATISFACTION

MAHMUT TEKİN, SELÇUK UNIVERSITY  
GÖZDE SEVAL ATEŞ, SELÇUK UNIVERSITY  
EMEL CELEP, SELÇUK UNIVERSITY

## 1. SIX SIGMA APPROACH

Today's business environment expects speed, flexibility, adaptability, accuracy, ease of doing business, with product and service performance as a minimum requirement. To meet this new set of business needs, organizations need to deploy tools, which can enable them to remain competitive and grow in the increasing digital age. Six Sigma is one of the strategies and tools which leading organizations have started using to achieve accuracy and speed and at the same time reduce cost and increase customer satisfaction and profits. Sigma is a Greek alphabet character and the sigma value indicates how often defects are likely to occur. Six Sigma's target is to achieve less than 3.4 defects or errors per million opportunities, hence the name (Thawanı, 2004).

The levels of Sigma and the defects per million units are can be explain with Table1

**Table 1.Sigma Levels**

Sigma Level	Defects Per Million
6	3.4
5	233
4	6210
3	66807
2	308537
1	690000

Source: (Love, 1999)

Six sigma is the rating that signifies "best in class", with only 3.4 defects per million units or operations. The primary use of six sigma in measuring zero defects has been in the manufacturing industry. Most US manufacturing firms on average rate below four sigma. In 1990, IBM was at an average level of three sigma, while Motorola was operating at a level of four sigma. Comparatively speaking, whatever the industry, most companies averaged a level of four sigma at the beginning of 1990, with the exclusion of the domestic airline flight fatality rate at approximately five sigma. For example, airline baggage handling, doctor prescription writing, payroll processing, restaurant billing, and journal vouchers all rated four sigma (Rayner,1990).

Six Sigma has been widely publicized in recent years as the most effective means to combat quality problems and win customer satisfaction. As a management initiative, Six Sigma is best suited to organizations with repetitive operations for specified outcomes. It aims at preventing non-conformance to defined formats and contents of outcomes, generally identified as defects in products and errors in transactions (Goh, 2002).

Six Sigma is a disciplined, data-driven approach and methodology for eliminating defects in any process—from manufacture to transaction and from product to service. One of the primary themes of this modern management practice is to identify and prioritize high-impact projects and enable companies to establish goals that relate to bottom-line improvement, customer satisfaction and loyalty (Kumar, 2007). A company's top leaders should pay particular attention to the following steps if they wish to avoid some of the pitfalls and assure a high likelihood of success with Six Sigma deployments (Byrne, 2003):

- Step 1: The top leaders—including the CEO—must become highly visible and vigorous champions of Six Sigma.
- Step 2: To build broad-based commitment to Six Sigma principles, a company's top business leaders must play a strong, hands-on role in cascading Six Sigma knowledge and work practices to others in the organization.
- Step 3: As leadership of Six Sigma initiatives is cascaded to individuals at successively lower levels in the company, it is critical to enlist the active support and engagement of business process owners in Six Sigma project implementation.
- Step 4: Select Black Belts that have the competencies necessary for the job.
- Step 5: At the appropriate time, provide Black Belt training that addresses the needs of the individuals as well as the requirements of the job.

A key difference between Six Sigma and other approaches is the integration of a highly disciplined process (such as DMAIC for Define, Measure, Analyze, Improve, Control or DMADOV for Define, Measure, Analyze, Design, Optimize, Verify) with one that is very quantitative and data oriented. This is a winning combination—as evidenced by the results of the companies that have used it. The concepts underlying Six Sigma have always made sense. What makes Six Sigma especially timely today is the combination of the following (Hahn, 2005)

- intense competitive pressures, including those resulting from globalization;
- greater consumer demand for high-quality product and management recognition of the cost of poor quality;
- the accessibility of large databases and our ability to digest and analyze data.

Although Six Sigma builds off prior quality management practices and principles, it offers a new structure for improvement. The structural differences simultaneously promote both more control and exploration in improvement efforts. Some organizations may find benefit from the Six Sigma approach because it fits their organizational needs better (Schroeder et al. 2008). Six Sigma offers statisticians and quality professionals an excellent opportunity to take a leadership role and to get involved more deeply in the management and improvement of the organization for which they work. Six Sigma builds on their knowledge base and enables them to take their skills and knowledge to a new level—leading the improvement of the organization (Snee, 2005).

## **2. THE IMPLEMENTATIONS OF SIX SIGMA IN HSBC BANK INC.**

### **2.1 Six Sigma and the Training Process in HSBC**

The HSBC Group which is active in Europe, Asia-Pacific Region, South and North America, Middle East and Africa is one of the largest banking and financial service companies of the world. The headquarters of HSBC Holdings plc which is registered in England is in London. HSBC Inc. which has over about 9500 branches all over the world, over 355.000 personnel in 85 countries and regions, and over 100 million clients around the world started business in Turkey in 2001 by purchasing a bank. Now it has become an important financial supplier in banking sector in Turkey with 335 individual and corporate branches, over 3 million clients and 6853 personnel.

Six Sigma is accepted as one of the most important means of reaching the global goals including expansion throughout the HSBC Group also and in the HSBC Group there is a strong network of sharing information and experience among the teams implementing Six Sigma. HSBC Turkey is the only bank adopting and implementing Six Sigma philosophy in banking sector in Turkey. The aim is to make Six Sigma common throughout the bank, to state amendments that will provide all professions to reach their goals and play an important and active role in accomplishing them fast and well. The projects of Six Sigma are followed and implemented carefully throughout the HSBC Group. Professional teams are trained in order to implement Six Sigma methodology. In 2006 by using amendment techniques the process provided 154 M USD of financial profit. Six Sigma is also important in terms of its implementation results reflected especially on our financial tables.

In HSBC Turkey the studies about Six Sigma started in the year 2005. Projects with Six Sigma methodology are implemented and concluded successfully within the body of professions. By May 2007, “The First Wave Projects” were started by organizing professional staff with a command of Six Sigma implementations in the body of Change and Organization Management in order to manage Six Sigma implementations, provide spread in organization, to examine the processes with Six Sigma methodology and make studies faster in HSBC Group panel. By April 2008, The First Wave Projects were completed and The Second Wave Projects were close to the conclusion level. Besides the relevant projects, all the preparations to start The Green Generation Projects were completed.



In the body of Change and Organization Management there are 4 Black Generations that manage the projects and are trained on “Six Sigma Tools and Management” and Green Generations that are being trained.

- Green Generations carry out projects about work processes in their responsibility and take part time assignments in Six Sigma projects.
- Black Generations carry out projects about more comprehensive work processes and take full time assignments in Six Sigma projects.

The Six Sigma program in the HSBC Group is implemented and coordinated by “Center of Excellence – CoE” which is connected to Business Transformation Unit founded in 2005 and located in India/Hyderabad. “Center of Excellence – CoE” aims to supply implementation of methodology in the same standards in all Group countries and maximum profit by organizing standard training programs throughout the Group.

### **3. THE AIM AND SCOPE OF IMPLEMENTATION**

#### **3.1 SME – MME (Enterprise Banking) Loans, Amendment of Loan Assessment Process Report of Six Sigma**

##### **3.1.1 The Aim of the Project**

It is aimed with the project to shorten the assessment time of the loan demands of SME – MME clients. In the pre-analysis study of the project the assessment time for MME loans has been counted as 32 days and the goal of the projects for these clients has been stated as 23 days.

As the Project scope and loan assessment processes are different the project is phased and examined separately as SME (loans under 3 million \$ - Regional Work Development, Sectoral Work Development), MME (loans over 3 million \$ - Regional Work Development, Sectoral Work Development) and 228 Corporate Branch loans. The studies done in this scope are stated down for your information.

In the implementation of the project first a target in shortening the loan assessment process has been stated and the problems that the bank faces in reaching this aim have been defined. The awaiting time in each unit has been measured by the road map created for the loan approval process, in the line with the results of the analysis done the related team has come up with amendment ideas for shortening this time and what kind of a solution can be created is defined.

The aims of the project can be listed as followed;

- The shortening of loan assessment time
- Increasing assessed loan files
- Providing low rate of false loans

The reasons why the loan assessment time is long can be listed as;

Reasons arising from process;

- The expertise process is manual,
- Individual branches prepare SME loan files,
- The committees can meet once a week and limited number of files can be examined.

Reasons arising from person;

- The questions are not answered in time,
- There are defects in package,
- The contradictions between FINS (Financial Information Input System) inputs and detailed balance,
- The offer is not directed to approval committee,
- CCIS (Corporate Client Information System) financial inputs are false.

Problems arising from environment;

- The information comes late from the clients.

Problems arising from method;

- There is missing information because the form used is different from the form in CCIS,
- Large components and high increases are not explained in balance sheet analysis,
- Document flow is done as hardcopy,

Problems arising from the system;

- Application input is partial,
- The loan authorized officer approving loans can not be followed systematically,
- There is not a systematical following/reporting process for SLA (Scheduled Total Operation Time).

The amendments implemented in the project that is done in order to shorten the loan approval time are mentioned above.

Whereas the loan offers under 500k USD are assessed in about 6 days on average, this time is determined as minimum 12 days on average for the offers over 500k USD. Considering the work-load that will emerge in the case of increasing authority, assigning limit to the officers who have the assistant manager title and are working in Enterprise Banking Loan Adjustment unit will avoid the increase in work-loads of the authorized officers in loan approval.

In 2007 it was discussed that 257 transfer files are assessed by GM (General Management) teams. Leaving the transfer activities all to the authority of the branch manager with a transfer table prepared will help avoiding the work-load emerging in the GM units and the transfer time of the file between branch and GM units.

When the approval limit increase is risky in all loans, amendment can be possible in process by keeping only cash loans, like daily loan usage, out of limit or total time can be decreased by defining a special limit for vehicle loans and cash loans.

If the missing information and documents in the loan offer files are not completed in a certain time, they are returned by GM teams. Tough there is a 7-day awaiting time for completing the missing parts in the files, it is kept waiting much longer in order to decrease file returns and avoid losing time in sending the file to the branch and getting it back.

The loan offers between 1 million USD and 3 million USD first go to the Enterprise Banking and then to Loan&Risk unit. It has been seen that in this case 427 loan offers waited in Enterprise Banking unit for 4 days on average in 2007 for reasons like missing parts in the files and file checking. This awaiting time will be avoided when the files are sent directly to the Loan&Risk unit like the similar MME loans.

The most important awaiting time for loan offers has come out as answering of the questions asked to the branch. For the questions asked to the branch the awaiting time for SLA will be defined as 3 days. As the loans will be moved on CCIS with the preparation of Main Information Report (MIR), they will be used in the questions and answers part developed on the CCIS and SLA will be able to be followed.

The extension in information process has been stated as one of the other main reasons for the extension in loan assessment time. By creating MIR and moving information process on CCIS, 2 days of SLA will be defined to the information unit.

The extension in the expertise process effects the loan assessment time badly. The revision of the offer will be done according to LTV (Margin Rate) after defining the amount of the loan that can be adjusted without waiting the expertise report from loan assessment teams for mortgage loans and expertise. Thus loan assessment will not need to wait for the expertise operation.

In order to reach the loan offers to the loan admin the offer itself is sent or it is scanned in Esentepe and sent to Maslak via e-mail. In the case that loan approval directing authorization is given to certain people and the system's applicability is defined, in stead of sending the offer itself the notification will be done depending on the form on CCIS. Thus the time lost by courier and scanning can be decreased.

The following of the loan file assessment time is done manually by each work unit. Thanks to the logging on the Loan Offer Approval form for the following of the file, assessment time will be followed systematically by sending systematical report.

#### **4. RESULT**

The loan assessment time calculated as 32 days in the pre-analysis study of the project has decreased to 25 days at the end of the project, the time between loan offer and approval has been shortened and efficiency thus increase in used loan number has been provided. Depending on the loan offers from corporate branches of HSBC Bank Inc. in Turkey, 4332 (361 per month on average) loans in total have been assessed in 2007. Whereas about 11 loan assessments have been done per day in the meantime after the decrease of assessment time to 25 days this number increased to 17 loan assessments per day.

Helping this approach to become common throughout the bank with intranet network or publications in company, changing this methodology into a team culture will make the projects more efficient and will increase the success percentage with the help of all the personnel not only in branches but also in general management. Only Black Generation and Green Generation personnel are trained for now as it is new in Turkey. However; with adopting the implementation and the project to the internal clients the contribution and support of all the personnel can be reached. When the branch personnel who are face to face with clients all day can transmit their ideas about making the operation easier and making internal or external clients glad to the management, it will help finding reasonable solutions to important problems.

Besides, by training the personnel in individual branches about enterprise banking loan offers and approval process, shortening the missing document completing time for the applications from branches, updating the manually filled forms according to the ones on the system and making the program used more practical; it will be tried to decrease this time to 20 days.

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# A RESEARCH ON ENTREPRENEURSHIP EDUCATION AND DETERMINATION OF ENTREPRENEURSHIP PROFILES OF UNIVERSITY STUDENTS: SAMPLE OF İNÖNÜ UNIVERSITY

MEHMET KARAHAN, İNÖNÜ UNIVERSITY

## ABSTRACT

The main purpose of entrepreneurship education program is to provide the students with necessary basic entrepreneurship and business knowledge, to allow easy transition into private sector and to allow them to carry out their businesses successively. Because of this reason, in this research there is an urgent need to determine the entrepreneurship profiles of university students in order to find out potential entrepreneur, to allow them come into area and to determine the problems of entrepreneurship education.

The sample of the research is the randomly chosen 235 students at Inonu University at 2008-2009 spring education semesters. As a data gathering tool, "The Entrepreneurship Skills Test I" consisting of 37 question and developed by Tekin, (1999:227-234) wary used. First of all, frequencies and percentages of the obtained data were found to determine the entrepreneurship profiles of the university students. Then, some statistical methods such as t-test, analysis of variance together with SPSS program were applied to determine whether these data differ according to several variables or not.

**Keywords:** *Entrepreneurship skills, entrepreneurship education, entrepreneurship profiles, statistic analysis*

## 1. INTRODUCTION

For decades, unemployment rates have increased throughout the world. Young people in particular have difficulties entering the job market; one reason being that they lack work experience. Education does not protect against unemployment, and many university graduates cannot find a job. To address high unemployment rates, politicians have suggested that young people should engage in self-employment. Some universities have started to offer courses in entrepreneurship education. However, the same work experience that is required to find a job is necessary for starting a business. Therefore, for the majority of school leavers and graduates, entrepreneurship is not a viable option. In addition, many young people lack career maturity and the confidence to make career related decisions that would also empower them psychologically to engage in entrepreneurial activities (Plattner et al., 2009:305).

While development in science and technology quickly change the structure of a society, they also increase the economical and social value of an entrepreneur and entrepreneurship. As a reflection of this, this, the entrepreneurship based on individual and individualistic skills comes front and intellectual productivity capacity of a person gains importance. There is a need for our contemporary entrepreneurs to go beyond the classical entrepreneur identity & profile. This new style entrepreneur will be the most important driving force of organizations at both national & international competition (Arslan, 2002:2).

The development of skilled entrepreneurs required the creation of a new culture and it become necessary to change the traditional society structure in this respect. Competitive advantages of entrepreneurs and businesses in the globalization world and economic condition in Turkey require our society to become creative, risk-taking, and entrepreneur (Özgener, 2009). All countries over the world concern with the development of entrepreneur cultures in order to create new entrepreneurs and support entrepreneurship. At the same time, most of the education organizations over the world think they are also responsible in this field. For developing countries such as ours, reaching the contemporary civilization level can be achieved by supporting and introducing entrepreneur spirit. This can be achieved by bringing out the entrepreneur spirit of our students through an interactive education and training support (Kirby, 2005).

It is accepted by foreign researchers studying in this field that when compared with other societies Turkish people are more entrepreneur then others. Because of this reason, it is very important for us to see each student starting university education as an entrepreneur, to equip them with knowledge and skills to be able to find out the potentials of the society in which they live and to turn problems into an opportunity and finally to allow them grow as adults aware of their potential and their creativity unleashed (Arslan, 2002:3). There is a need for new entrepreneurs to solve the unemployment problem and also to increase the income per capita in our country which is struggling with employment.

The provision of the needs of this new entrepreneurship is possible by the training of powerful entrepreneurs (Alswedan and Özhavzalı, 2009).

The main purpose of entrepreneurship education is to allow individuals to start their own businesses and to work independently. The main purpose of entrepreneurship education program is to provide the students with necessary basic entrepreneurship and business knowledge, to allow easy transition into private sector and to allow them to carry out their businesses successively (Tekin, 2005:447). Because of this reason, in this research there is an urgent need to determine the entrepreneurship profiles of university students in order to find out potential entrepreneur, to allow them come into area and to determine the problems of entrepreneurship education.

## **2. RESEARCH PATTERN AND METHOD**

The population of the research consists of the student studying at Faculty of Business and Faculty of Engineering during the spring semester of 2008-2009 education year. The sample of the research consists of randomly selected 235 students coming to Inonu University.

The sample of the research is the randomly chosen 206 students at Inonu University at 2008-2009 spring education semesters. As a data gathering tool, "The Entrepreneurship Skills Test I" consisting of 37 question and developed by Tekin, (1999:227-234), was used. First of all, frequencies and percentages of the obtained data were found to determine the entrepreneurship profiles of the university students. Then, some statistical methods such as chi-square, t-test, analysis of variance together with SPSS program were applied to determine whether these data differ according to several variables or not.

## **3. FINDINGS AND COMMENTS**

### **3.1 Demographic Data**

The 73% (172) of the total 235 university students who have been participated in the research are studying at Faculty of Business of Inonu University and the calculation of the average entrepreneurship skill point has been determined as 245. Other 27% (64) are studying at Faculty of Engineering of Inonu University and their average point of entrepreneurship has been calculated as 244. Both of the two groups' students' the average entrepreneurship skill point is over at least 200 skill points which is necessary to obtain entrepreneurship education as Tekin, (1999:234) said. With these data it can be said that the major of the university students who have been participated in the research have the enough skill to begin the entrepreneurship education.

### **3.2 Frequencies of Items**

Almost the 99% (233) students' entire group of age who were participated in the research is 21-30. The 97% (229) of the students aren't married. The 34% (79) of the students are the biggest child of family and the 28% (66) of the students are the middle child of family. The 89% (209) of the students are students of the higher education and the 7% (16) of the students are students of graduate education. The 75% (175) of the students are living in cities and the 14% (32) of the students are living in big cities. Other students are living in small towns and villages.

The 37% (88) of the students have said that they are working in a job or them a salary. The income of the 8% (18) of students who have a salary is 400-500 TL and the income of 6% (13) of students is 151-200TL. The 46% of the students have stated that their average monthly expenses and the 10% (23) of these students have stated that they are spending average 201-300 TL in a month.

The main reason for their wanting to establish their own work; the 46% (108) of the students have stated that their aim is to earn money; the 20% (47) have stated that they don't like to work for other people. None of their mother and father of the 36% (86) of the students had their own job and one of their mother or father of the 34% (80) of the students worked in their own work in the most big period of their life. In the family of the 22% (51) of the students there is a person who has a shop and in the family of the 12% (27) of the students there is a person who has a place of employment.

The 64% (151) of the students didn't get education about Entrepreneurship and the 36% (83) of students have stated that they are getting education. The 32% (74) of students have stated that they are getting Business education and the 12% (28) of students have stated that they are getting Economy education.

The 64% (151) of the students say that they will be happy for working with other people and the 15% (35) of them say that they prefer working alone. The most 46% (/108) of the students state that with group working and individual working one becomes successful. The 66% (155) of the students have said that they have never been fired because they may be never employed. Because the minorities of the students are working in a job or they are fired, the 4% (16) of students say that they are innocent and they are behaved unequally. It is observed that the minority 34% (80) of working students they are generally working in small Businesses. Most of the students 84% (198) have stated that they didn't establish a work before. The 26% (62) minority of the students who established a work before were asked about their difficulties and obstacles they confront and most of them 5% (12) complained about the powerless of market and 4% (9) of them complained about the excess of the bureaucratic obstacles.

The question of "if you have a capital how do you use this for investment?" was answered by the 56% (131) of students as "I establish my own work" and was answered by the 20% (47) of the students as "I evaluate in bank" and was answered by the 9% (20) of the students as "I establish an associate employment place". While deciding to open an employment place or making decision about an attempt, the 40% (95) of the students stated that it is necessary to investigate the market and the 35% (83) of students stated that it is necessary to decide by seeing the market conditions and the emptiness of market. The 29% (68) of the students stated that they can spend their all time and energy for new and profitable works and the 30% (70) of students stated that they can spend their all time and energy for new ideas of products and production for new financing plans and for new human sources that is all of the alternatives.

The 50% (118) of the students stated that they will prefer the personality features which have the peculiarities of successful finisher a work and good knower a work and the 38% (89) of students prefer the personality features which have the peculiarities of energetic and intelligent. The 34% (80) of the students said that they are both precise and they have the skill of being well organized and the 30% (70) of the students said that they have the skill of being successful finisher a work and they think that they will finish their works successfully thanks to it. The 44% (103) of the students hate to tell the indefiniteness of the future of their work and the 23% (54) of students hate the conflicts among personals. Majority of students 71% (166) have stated that they want to study on the problem the possibility of solution of which is 1 in 3.

About the students' preferences of job; the 36% (84) of the students prefer management, the 14% (33) prefer entrepreneurship and the 13% (32) prefer teaching. The students state that they firstly trust themselves 55% (130), and then they trust both themselves and their family 20% (46) and they then trust themselves and their friends 13% (131). According to the students, the personality features of people who are successful in working life are; people who are dynamic, strong and rash 45% (106), people who evaluate the opportunities and who have a mission 27% (63), people who behave according to their situation.

The question "if it is wanted you to choose a person as a work partner, do you choose your close friend or an expert of his/her subject?" was answered by the 83% (194) of students as "I choose an expert of his subject" and was answered by the 17% (41) as "I choose my close friend". The 85% (200) of the students stated that if there is a meaningful thing to do they would be pleased for being together with people. The 69 % (161) of the students state that they completely agree with the idea that determining a person who is responsible for the subjects of work is helpful to take result and the 26 % (60) of the students state that they agree with the idea expert some situations. The 60 % (141) of the students state that their competition priorities are playing the game successfully and determination of struggle, the 24 % (59) state that they agree with the same idea but winning and losing are also among the priorities.

The 86 % (203) of the students haven't the enough capital to start the entrepreneurship and only the 14 % (32) of them have the enough capital. It is found out that the 50 % (117) of the students have portly info about the credit source and opportunities to start entrepreneurship and that the 29 % (67) haven't got any information. The number of students who have information is only 23% (51). The 49% (115) of the students know from where they can buy credit. If it is required, students who believe that they can find capital from their family and friends are 36%(84) people and students who believe that they can portly find capital are 34%(80) people.

### **3.3 Findings about transverse comparisons**

In the result of the comparison of the students' situations of taking and not taking entrepreneurship education with the entrepreneurship skill point; there is a meaningful connection between their entrepreneurship skill point and the situation of taking or not taking entrepreneurship education ( $\chi^2=25.119$ ,  $dof=13$ ,  $p<0.05$ ). According to this result, it can be said that the entrepreneurship skill points of the students taking entrepreneurship education are higher.

*The results of the variant analysis which was made according to the situation that whether or not there is a relation between the situation of students' being the oldest or the smallest child of the family and other variables are like below*

**Table 1:** The variant analysis of the comparison of students' being which number of child of family and other variables

		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Level of Significance</b>
a. Aileis	Between Groups	49,124	3	16,375	3,450	0,018<0,050 <b>Significant</b>
	Within Groups	688,285	145	4,747		
	Total	737,409	148			
b. Isolc	Between Groups	7,371	3	2,457	5,844	0,001<0,050 <b>Significant</b>
	Within Groups	46,252	110	,420		
	Total	53,623	113			
c. Tercih	Between Groups	5,943	3	1,981	2,684	0,048<0,050 <b>Significant</b>
	Within Groups	163,863	222	,738		
	Total	169,805	225			
d. Sermaye	Between Groups	,949	3	,316	2,736	0,044<0,050 <b>Significant</b>
	Within Groups	26,694	231	,116		
	Total	27,643	234			

As it is seen in the Table 1, the situation of the students' being the older or younger child of their family; The relation between the entrepreneur in the family of the students and what kind of job they have is tested by variant analysis and a meaningful relation was found between them (F=3.450, dof=3, p<0.05).

In the result of the variant analysis test which is made according to the relation between the students' working life and the employment place where they spend their life, there is a meaningful relationship between them (F=5.844, dof=3, p<0.05).

In the result of the variant analysis test which is made according to the relation between the students' desires in the subjects of work which have the possibility to be solved, there is a meaningful relation between them (F=2.684, dof=3, p<0.05).

In the result of the variant analysis test which is made according to the relation about the situation of students' having or not having enough capital to begin entrepreneurship, there is a meaningful relation between them (F=2.736, dof=3, p<0.05).

*The result of the comparisons between situations of the students' having or not having enough capital to begin entrepreneurship and other variables:*

**Table 2:** The comparison the situation of students' having or not having enough capital to begin entrepreneurship to other variables

	<b>SERMAYE</b>	<b>N</b>	<b>X</b>	<b>S</b>	<b>Value of T</b>	<b>Level of Significance</b>
a. Ebeveynis	1 Yes	32	2,28	1,76	-2,552	P<0,05 <b>Significant</b>
	2 No	203	3,11	1,71	-2,491	
b. Aileyapis	1 Yes	29	4,07	2,22	2,085	P<0,05 <b>Significant</b>
	2 No	120	3,12	2,20	2,077	
c. Oncekiiş	1 Yes	30	2,50	,73	-5,576	P<0,05 <b>Significant</b>
	2 No	189	2,93	,31	-3,185	
d. Rekabetoncel	1 Yes	32	2,16	1,11	2,482	P<0,05 <b>Significant</b>
	2 No	203	1,69	,97	2,246	
e. Kredibilgisi	1 Yes	32	1,88	,94	-3,149	P<0,05 <b>Significant</b>
	2 No	203	2,34	,76	-2,688	
f. Sermbulma	1 Yes	32	1,50	,80	-3,601	P<0,05 <b>Significant</b>
	2 No	203	2,06	,82	-3,650	
g. Puanlar	1 Yes	32	265,63	21,09	5,755	P<0,05 <b>Significant</b>
	2 No	203	241,97	21,69	5,874	

In the Table 2, as it is seen, the situation of the students' having or not having enough capital to begin entrepreneurship; According to the result of T Test which was made according to the relation of the kinds of works which their mother and father did, there is a meaningful relation between them ( $t = -2.552, p < 0.05$ ).

According to the result of T Test which was made according to the relation of the kinds of employment places that they have in their families, there is a meaningful relation between them ( $t = 2.085, p < 0.05$ ).

According to the result of the T test which was made according to the relation of the situation of their establishing or not establishing a work before, there is a meaningful relation between them ( $t = -5.576, p < 0.05$ ).

According to the result of the T test which was made according to the relation of the students' competition priorities, there is a meaningful relation between them ( $t = 2.482, p < 0.05$ ).

According to the result of the T test which was made according to the relation of the students' information about the credit sources and opportunities, there is a meaningful relation between them ( $t = -3.149, p < 0.05$ ).

According to the result of the T test which was made according to the relation of the students' situation about their finding capital from their family or friends, there is a meaningful relation between them ( $t = -3.601, p < 0.05$ ).

According to the result of the T test which was made according to the relation of the students' entrepreneurship skill points, there is a meaningful relation between them ( $t = 5.755, p < 0.05$ ).

*The result of the variant analysis according to the relation between students' entrepreneurship skill points and other variables.*

**Table 3:** The variant analysis according to the relation between students' entrepreneurship skill points and other variables

		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Level of Significance</b>
a.Ebeis	Between Groups	107,861	13	8,297	3,076	0,000
	Within Groups	596,139	221	2,697		P<0,05
	Total	704,000	234			<b>Significant</b>
b.Giregt	Between Groups	5,750	13	,442	2,035	0,019
	Within Groups	47,810	220	,217		P<0,05
	Total	53,560	233			<b>Significant</b>
c.Sorumlu	Between Groups	11,900	13	,915	3,046	0,000
	Within Groups	65,816	219	,301		P<0,05
	Total	77,717	232			<b>Significant</b>
d.Kredibil	Between Groups	20,489	13	1,576	2,701	0,001
	Within Groups	128,975	221	,584		P<0,05
	Total	149,464	234			<b>Significant</b>
e.Serbulm	Between Groups	25,110	13	1,932	3,075	0,000
	Within Groups	138,822	221	,628		P<0,05
	Total	163,932	234			<b>Significant</b>

As it is seen in the Table 3, which the students' entrepreneurship skill points;

According to the result of the variant analysis test which was made according to the relation of the kinds of works which the students' parents did, there is a meaningful relation between them ( $F = 3.076, dof = 13, p < 0.05$ ).

According to the result of the variant analysis test which was made according to the relation of the comparison of the situation of students' getting or not getting education about entrepreneurship, there is a meaningful relation between them ( $F = 2.035, dof = 13, p < 0.05$ ).

According to the result of the variant analysis test which was made according to the relation of the answers that students gave about whether it is helpful or not to get a result by determining a responsible person about the subject of work, there is a meaningful relation between them ( $F = 3.046, dof = 13, p < 0.05$ ).



According to the result of the variant analysis test which was made according to the relation of the situation of students' having or not information about credit sources and opportunities to begin entrepreneurship, there is a meaningful relation between them ( $F=2.701$ ,  $dof=13$ ,  $p<0.05$ ).

According to the result of the variant analysis test which was made according to the relation of the situation of students' finding capital from their family or friends if required, there is a meaningful relation between them ( $F=3.075$ ,  $dof=13$ ,  $p<0.05$ ).

#### **4. RESULTS AND RECOMMENDATIONS**

University programmes, no matter the discipline, should infuse young people with a positive self-concept so that they can find employment, become entrepreneurs and be self-employed. University programmes should seek to strengthening students' self-concept and produce confident, determined, and assertive graduates that can compete successfully in the world of work. Universities should also ensure that students do not lose their career-related excitement during the course of their studies. More research is needed to investigate how Universities can empower students academically and psychologically so that they can engage and succeed in the world of work in general and as entrepreneurs in particular (Plattner et al., 2009:310).

Attempting to realize an economic activity include a risk such as success and failure. Entrepreneurs have a tendency to success. For this reason, they use their tendencies of using their skills and improving them, being independent, making a good work, struggling in a way in which they become successful. So, an entrepreneur is a person who waits the prize of success but at the same time who is ready to the risk of failure. Only those people who are ready to unfailure can be an entrepreneur. An entrepreneur has to provide himself with information and has to be wise in this decision and preferences to lessen the risk to least and to increase his profit to higher position.

In this sense, it is necessary for our education system to evaluate again the subject of training an entrepreneur and to do everything to give young candidates of entrepreneur required information. For this, it is required to evaluate the entrepreneurship education and to improve it with new methods, ideas, and programs.

Almost all of the students participated in the research are young (99%) and not married (97%) because of their being university students. Most of these students are the oldest child of the family (34%) and are living in cities (75%). It is seen that most of the students aren't working in a work and their monthly income and expenses are very low. Because of these financial impossibilities, they want to establish their own work and to earn money after education (46%).

Most of the students' parents are working and they have not got their own employment places. This situation shows the reality that the oldest children of families have to find a job after education for their families. The majority of students who believe to find capital from family or friends (36%) or who partly believe (34%) supports this idea. The rate of the students who believe that they cannot start to entrepreneurship because of lack of capital is also very high (86%). But, the students' having partly information about credit sources and opportunities (50%) can be interpreted as the necessary information was not given to the students during their education it can be recommended that universities should reevaluate this subject.

Although they have a tendency to group working, most of the students cannot create common enterprise among them because most of them (64%) do not have education about entrepreneurship and even there is not any lesson about it in the Faculty of engineering. These results show the deficiency in our education system.

The classical question "If you have capital, what would you do with this?" was answered by the 56% of students as "I would establish my own work". This rate is 45% in Europe, 67% in USA, 39% in Kırıkkale University in the research made by Alswedan and Özhavzalı (2009), 46% in Haliç University made by Arslan (2002) and it can be seen that most of our university students also have a tendency in entrepreneurship. These results obviously show that students should benefit from these skills and those concerned should support them.

According to the result chi-square test which was made related to the question that whether there is a meaningful relation between the situation of students' having entrepreneurship or not having education and entrepreneurship skill points, there is a meaningful relation between them according to this results, it has been observed that students who have gained the entrepreneurship education have higher entrepreneurship skill point and this shows the importance of entrepreneurship education and this supports the idea that students need this education. About this point, Honig (2004:270) says that academic and public environment should give more importance to contemporary entrepreneurship education, they should make more investment to this matter, various supporting activities should be arranged and pedagogical analysis should be made about this matter.

With the assumption that the first child of the family has the higher possibility to be an entrepreneur (Alswedan and Özhavuzlu, 2009), because the first child of the family is behaved well and he/she trusts himself more, there is a meaningful relation between them by comparing this situation to the work of parents, to the employment place, desire to work and the situation of having or not enough capital. The table 1 supports these ideas.

There is meaningful relation between the situation of having or not enough capital to start entrepreneurship and parents' jobs, their competition priorities knowledge about credit sources and opportunities and entrepreneurship skill points. This situation makes it evident that supports of families and education institutions are very important for these students to win their future. If there is a entrepreneurship model in their family, this increases their trust themselves. Universities should increase their supports for these students.

There is meaningful relation between the entrepreneurship skill points of students and their knowledge about credit sources and opportunities, their finding capital (table 3). According to these results; their families' establishing a work before affects the students' entrepreneurship skills and courage them. Particularly, their families' supports for capital improve their entrepreneurship skills. And also if there is a support for credit by concerned institutions, their skills will be improved.

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# EVOLUTION OF THE BASEL ACCORD AND ITS EFFECTS ON SMALL AND MEDIUM-SIZED ENTERPRISES

CAN TANSEL KAYA YEDİTEPE UNIVERSITY  
ÇAĞATAY AKARÇAY, YEDİTEPE UNIVERSITY

## 1. INTRODUCTION

Ever changing global markets with complex structures forced many actors to modify their systems. These actors who make up the financial system range from financial markets to banks all the way down to simple investors. Especially for banking, significant events of the early 1970s like the discontinuation of fixed exchange rate and the petroleum crises of 1974, had significant effects to trigger authorities even more to establish a sound global banking system. Late 1970s and early 1980s has been the period of substantial deregulation. As a result of this development, major banking crisis emerged towards the end of 1980s. Therefore, banking crisis has expedited the necessity of a strong regulatory process in world banking.

In 1974, the Bank for International Settlements established the Basel Committee with the purpose of standardizing the banking systems of nations. In 1988, Basel I Capital Accord has been established. Recent crises have shown us that economic crises in one country can easily affect other markets in different locations because of the free market economy. In the light of recent crises around the world, to more efficiently deal with the growing complexity of the financial industry and with systemic threats, a new Capital Accord under the name of Basel II was proposed by the Basel Committee on Banking Supervision to establish a more sophisticated framework for banks to measure risk and set aside sufficient capital to cover losses from market risk, credit risk, and operational risk.

Though Basel II aims to fix weaknesses of the banking system, the new accord will lead the banks to act in an abrasive manner towards small and medium-sized enterprises (SMEs). Basel II was expected to be fully implemented by 2009 in Turkey; yet the general view towards the implementation date is no earlier than 2010. The utility of Basel II has become questionable especially after the financial crises of 2008. The purpose of this article is to provide an in-depth study on the evolution of Basel I, need for Basel II, development of Basel II, criticisms to Basel II, SMEs in general and in Turkey along with especially financial problems SMEs face, Basel II and SMEs, and finally recommendations to SMEs to better themselves.

### 1.1 BASEL I

Bank for International Settlements (BIS) is an international organization founded by the central banks of nations around the globe in 1930. It is one of the oldest financial organizations in the world (Yalçın, Önder, Aksel, Özyürek, 2006).

In 1974, as their main goal being to standardize the banking systems of nations, Bank for International Settlements set up the Basel Committee. In 1988, Basel I Capital Accord was established. International standards have been set for capital adequacy and the notorious %8 capital adequacy ratio has been introduced (Uz, 2005).

Capital for banks acts as a cushion for potential failures. Higher the capital of the bank is, the higher is the solvency of that bank. If a bank fails to maintain a sound level of capital and if the maintained level of capital cannot cover losses, the bank will become capital insolvent. The soundness of a bank can be defined as the likelihood of a bank becoming insolvent (Greenspan, 1998). Certainly the lower this likelihood the higher is the soundness of a bank.

Up until the 1990s, bank regulators based their capital adequacy policy principally on the simple leverage ratio defined as follows:

$$\text{Leverage Ratio} = \frac{\text{Capital}}{\text{Total Assets}}$$

It is obvious that the larger this ratio, the stronger is the cushion against failure. What is obvious about this ratio is that it fails to take into consideration assets on the basis of risk. The asset risk of a bank can increase (increase the likelihood of insolvency) and the capital can stay the same if the bank satisfies the minimum leverage ratio. In other words, the leverage ratio set the *minimum capital ratio*, not a *maximum insolvency probability* (Hasan, 2002).

The first Basel Capital Accord was instituted in 1988 to coordinate global regulatory efforts and to establish minimum capital requirements to eliminate the threat posed by undercapitalized banks. Under Basel I, the main goal could be summarized as to strengthen banks for potential financial crises by introducing the minimum capital requirement ratio. Basel I Accord required the internationally active banks of the G-10 to hold capital equal to at least %8 of a basket of assets measured in different ways according to their riskiness. This accord not only offered a more complex system to involve risk-based capital requirements, but also was, in a way to deal with the weaknesses of the leverage ratio as a measure of solvency.

The definition of capital is set (broadly) in two tiers, a bank's capital was defined as comprising two tiers. Tier 1 which is also called the core capital included the book value of common stock, non-cumulative perpetual preferred stock and published reserves from post-tax retained earnings. Tier 2, which is also called the supplementary capital, was deemed of lower quality. It included, subject to various conditions, general loan loss reserves, long-term subordinated debt and cumulative and/or redeemable preferred stock. The bank has to hold at least half of its measured capital in Tier 1 form. The 1988 Basel Accord primarily addressed banking in the sense of deposit taking and lending, so its focus was credit risk (Bank of International Settlements, 2001).

In the early 1990s, the Basel Committee decided to update the proposed 1988 accord to include bank capital requirements for market risk. In April 1993, after failed attempts to co-operate with several other institutions such as the International Organization of Securities Commissions (IOSCO) to jointly develop a framework, the Basel Committee released a package of proposed amendments to the 1988 accord. Primarily, these amendments proposed minimum capital requirements for banks' market risk. The proposal generally conformed to Europe's Capital Adequacy Directive (CAD). Banks would be required to identify a trading book and hold capital for trading book market risks and organization-wide foreign exchange exposures. The Basel Committee's new proposal was adopted in 1996 as an amendment to the 1988 accord. It is known as the 1996 Amendment. It went into effect in 1998.

By this time, shortcomings of the original accord's treatment of credit risk were becoming evident. The simple system of risk weightings provided an incentive for banks to hold the %0 risk-weighted debt of G-10 governments (a fact viewed with some cynicism, since those same governments were largely responsible for the original accord). However, such debt tended to be unprofitable. Far more profitable for banks was corporate debt, which was weighted %100. With all corporate debt being weighted equally, it made sense for banks to hold the most risky corporate debt. Higher quality corporate debt incurred exactly the same capital charges but was less profitable.

Another issue during this period was operational risk. Operational risk poses a significant risk for banks. It includes a variety of contingencies including fraud which is a routine factor in bank failures. Neither the original Basel Accord nor the 1996 Amendment required capital for operational risk.

In January 1999, the Basel Committee proposed a new capital accord which has come to be known as Basel II. There followed an extensive period of consultation, with the committee releasing additional proposals to be discussed in January 2001 and April 2003. It has also conducted three quantitative impact studies to assess those proposals. The finalized Basel II Accord was released in June 2004.

## **1.2 WHY BASEL II?**

The 1988 Capital Accord prescribed a single measure of risk to determine minimal capital requirements. Latest crises have shown that economic crises in one country can easily affect the other markets in different geographies because of the free market economy. Asian crises in 1997 have negatively affected Malaysia, Indonesia, and Philippines respectively; then pulled Singapore, Hong Kong, and South Korea as well which resulted in a great threat to Asia pacific and eventually to the whole world. Russian crises caused the Russian government to devalue the national currency by %34; which caused the Central Asian Republics to suffer crises as well (Garanti, 2006).

As the ever-changing times have proven, the growing complexity of the financial industry demanded more than what the first Basel Capital Accord could offer. Under current applications, because the measurement of credit risk is not calculated in accordance with the highly complex market structure, compliance among banks about the very same business entity sometimes could not be reached; therefore different credit costs could be attained. The risk weights of Basel I lacked to meet with these above mentioned complexities which banks and financial systems as a whole went through. The minimum capital requirement of %8 was not difficult for many banks to maintain. But from the supervision viewpoint, it has become clear that situating the actual risk levels of banks have not been all that accurate and significant (Küçüközmen, 2003).

To deal with the growing complexity of the financial industry and with systemic threats, a new Capital Accord was proposed by the Basel Committee on Banking Supervision, to establish a more sophisticated framework for banks to measure risk and set aside sufficient capital to cover losses from market, credit, and operational risk.

Criticisms on Basel I to point out the weaknesses are as follows

- Credit risk is computed directly according to volume – that the risk level of the debtor is not taken into consideration at all,
- Focusing solely on the %8 minimum capital requirement causes banks to neglect the actual risk levels that they are being exposed to,
- Since being an Organization for Economic Co-operation and Development (OECD) member allows the member countries to be in the %0 zone, this hinders the risk level differences among the OECD countries,
- Contemporary methods for risk evaluation are neglected,
- Collateral types are rather limited,
- Operational risk is not taken into consideration at all (YapıKredi, 2006).

### 1.3 BASEL II

Global financial systems are on the verge of many drastic changes. Basel II Regulations have been put in effect in 2007, and the deadline for Turkey was 2009. These drastic global changes will have a significant impact on the financial sector as well as in the real sector. Basel II reexamines the standards of the capital accord of banking systems in addition to risk management and risk measurement. Banks will have to be more sensitive towards risk when they grant credits to public, especially when granting these credits to SMEs. A more risk sensitive approach will affect firms in many ways from the line of credit they use to credit assurance issues. The two major points Basel II Criterion focuses on as far as measuring risk is concerned are:

- The risk level of the business entity to use the credit
- The risk level of the transaction of issuing the credit

The risk level of a business entity is measured through extensive quantitative and qualitative techniques. For the quantitative aspect, the financial statements of the business are studied thoroughly to be able to draw a conclusion. Qualitative aspect of the subject matter includes variables such as the professional record of the members of the executive team, social responsibility level of the business, transparency of the management, the organizational structure, research-and-development, volume of import/exports, market share, and product recalls and so on. After evaluating both the qualitative and the quantitative factors, the risk level of the business entity is identified in terms of a grade.

The risk level of the transaction is measured by evaluating the type of the transaction, credit assurance, credit maturity, and the monetary means used. After all, credit to be issued will be categorized as “high risk” or “low risk”, therefore the cost of the credit will be affected as well.

Apart from the first accord, one other application Basel II will bring along is a new method named *internal rating based* approach method (IRB). Apart from the present applications, the new accord offers a method for each bank to establish their own internal risk rating system when measuring the minimum capital requirement ratios of businesses, which after a grace period, is highly recommended for banks to use by the Basel Committee. Since banks using the IRB will allocate weights of risk to their assets, the corresponding capital is going to have to be at a relatively safe level. This will eventually be much harder on businesses that are willing to borrow funds than it was before, since now, banks have their own IRB criteria as far as rating businesses.

By the start of the Basel II applications, the cost of capital will be directly affected since the risk level of the entity and the risk level of the transaction will be the two major cornerstones for evaluation. Basel II will impact the entire spectrum of financial services, including corporate finance, retail banking, asset management, payments and settlements, commercial banking, trading and sales, retail brokerage, and agency and custody services. One of the most significant aspects of Basel II for Turkey is the fact that 99.5% of all business entities in Turkey are SMEs.

#### 1.3.1 The Three Pillars of the New Capital Accord

The New Basel Accord is a set of recommended best practices that emphasize the three areas of capital requirements, supervisory review, and information disclosure (Gerber, 2005).

### 1.3.1.1 Minimum Capital Requirements

The first pillar is the *minimum capital requirements* which sets out minimum capital requirements and defines what constitutes capital. It refines the 1988 Capital Accord measurement framework to include three options for calculating credit risk, from the simplest to the most sophisticated, and introduces a capital charge for operational risk. Data must be sufficiently granular and capture historical trends to ensure a detailed view of risk across the enterprise. Several disagreements have emerged in the literature as far as the structure of operational risk as to what constitutes operational risk, and why operational risk is included in the calculation of regulatory capital charges. For the first time, banks will be required to set aside capital for market, credit, and operational risk (Bank of International Settlements (a), 2004).

### 1.3.1.2 Supervisory Review Process

The second pillar is the *supervisory review process* which recognizes the correlation between regulatory capital and the strength and effectiveness of internal control and risk management processes. This pillar requires bank management to explain their risk assessment and management activities and strategies to bank regulators located in individual countries. The bank management will need to educate regulators on their bank's risk level, philosophy toward risk, and methodologies used to assess and manage risk. Regulators will also require third-party validation of a bank's risk methodologies and actions (Mazıbaş, 2004).

### 1.3.1.3 Market Discipline

The third pillar is the *market discipline*, which requires bank management to increase the level of transparency and disclosure to the marketplace so that capital markets have sufficient information to assess effectively the risk a bank undertakes and impose capital market discipline for accessing capital. Enhanced reporting and disclosure will be required on items such as capital structure, risk measurement and management practices, risk profile, and capital adequacy. For those institutions adopting the most stringent parts of the accord, the potential payoff is improved competitiveness in the form of higher stock prices and cheaper access to public debt (Küçüközmen, 2004). Under the third pillar, banks are required to be in possession of a disclosure policy approved by the board of directors when explaining in detail the approach they employ and the internal audit mechanism when disclosing information (Bank of International Settlements (b), 2004).

In many countries, implementation of Basel II and the related Pillar 3 requirements will be a natural evolution from a disclosure framework that meets these objectives. In other countries, supervisors may wish to focus initially on achieving consistency in the application of a "baseline" level of disclosure across all banks. This may serve as a suitable starting point for promoting market discipline. Such baseline disclosures can be grouped under the following six broad categories:

- financial performance;
- financial position (including different tiers of capital, solvency and liquidity);
- risk management strategies and practices;
- risk exposures (including credit risk, market risk, liquidity risk, operational, legal and other risks);
- accounting policies, and
- basic business, management and corporate governance information. (Bank of International Settlements, 2004)

### 1.3.2. Market Risk

Market risk is defined as the risk that the value of an investment will decrease due to market fluctuations. These factors which affect market risk are:

- Equity risk, which is defined as the risk that stock prices are expected to change.
- Interest rate risk, which is defined as the risk that interest rates are expected to change.
- Currency risk, which is defined as the risk that foreign exchange rates are expected to change.
- Commodity risk, which is defined as the risk that commodity prices (e.g. grains, metals) are expected to change.
- Credit risk, which is defined as the risk that a loan is expected not to be paid back.

### 1.3.3 Credit Risk

Credit Risk is defined as the risk a bank is exposed to due to the fact that the debtor cannot meet the requisites partially or fully (Candan, Özün, 2006).

### 1.3.4 Operational Risk

Operational risk according to the Basel Committee is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events including legal risk but excluding strategic and reputation risk (BRSA, 2006). As far as operational risk and the capital associated with operational risk are concerned, the general view is that BIS itself has not clearly set out a structure to successfully quantify operational risk, which constitutes as a criticism on the subject matter (Giese, 2002).

Operational risk is the potential for incurring losses in relation to employees, contractual specifications and documentation, technology, infrastructure failure and disasters, projects, external influences and customer relationships (Deutsche Bank, 2004).

Operational risk includes, among somewhat more ordinary events, unusual occurrences as well. Some unusual events that would constitute examples of operational risk are as follows:

Bank robberies - In 2006, Securitas Bank depot manager was kidnapped to get ransom of 90,000,000 USD. In 2005, at the Central Bank of Brazil, a gang dug a 262-foot tunnel from a nearby home and accessed the vault to steal 70,000,000 USD. In 2004, a gang kidnapped two bank executives to get access to vaults from Danske Bank Group to steal 49,268,800 USD. Again in 2004, a very violent robbery took place which ended with the shooting of a policeman at Norsk Kontantservice to steal 8,800,000 USD.

For examples of Organized crime gangs to use modern hacking technology - In 2002, a "Logic bomb" was planted in a brokerage computer system to steal 3,000,000 Euros from UBS AG. In 2003, there was a breach of the internal computer security system which resulted in a transfer of funds in the amount of 1,900,000 Euros from BNP Paribas. In 2005 there was an attempted money transfer after hacking into the computer system with the purpose of stealing 308,000,000 Euros from Sumitomo Mitsui.

For examples of terrorist actions - Loss related to 9/11/2001 has been reported from Bank of New York in the amount of 829,611,434 Euros, and 781,598,928 Euros from the Citi Group. In 1993, a truck bomb exploded in the Bishopgate section of London attributed to Irish Republican Army which resulted in 466,647,344 Euros.

For examples of internal fraud - In 2004, concealment of loss position has taken place with a cost of 222,686,711 Euros at National Australia Bank. In 2002, concealing of loss position has taken place with a cost of 730,752,961 Euros at Allied Irish Bank. In 2002, 528,764,805 Euros have been embezzled at Bank of China. In 1999, concealing of loss position has taken place with a cost of 2,679,677,238 Euros at Sumitomo Corp. In 1996, there has been misappropriation of funds in the amount of 496,663,923 Euros at Morgan Grenfell. In 1995, concealing of loss position has taken place with a cost of 953,017,389 Euros at Barings Bank. In 1995, concealing of loss position has taken place with a cost of 1,055,650,031 Euros at Daiwa Bank (Deutsche Bank, 2007).

## 1.4 CRITICISMS OF BASEL II

Basel I was a widely searched topic in the early 1990s. Since it was a major attempt to standardize the banking system around the globe, much research have been done in many different countries. Basel II, on the other hand, has also attracted much attention although it is a rather recent subject. Since this research is in many ways associated with Basel II, criticism of Basel II has also been studied. The literature review has a positive tendency towards applications that have been brought by the second accord. Nevertheless, however, many scholars and practitioners disagree with some of the characteristics of the new accord.

After the arrival Basel II was announced with great fanfare, particularly in the U.S., the initial admiration shown by the industry, regulators, and the scholars has decreased markedly, and has become progressively even more muted through time, after the details of the overall subject matter were examined more closely (Kaufman, 2003).

Additional criticism of Basel II comes with the fact that the new accord has the potential to create an uneven arena for banks in the U.S. since the bank regulators will require the banks to adopt different methods. *"The main point here is that Basel II creates an uneven playing field for the large, but not the largest, banks in the U.S."* (Gup, 2004)

In a study of the Austrian economy, Schwaiger (2002) conducts a research on Basel II and its effects on SME s. For the Spanish economy, Saurina and Trucharte (2006) apply their analysis to a more complex environment. Both researchers meet on a common ground. Since SME s are smaller in sales volume (therefore they would be expected to have much less volume of liabilities on their balance sheets) than those of much larger firms, the typical belief would be that, the loan portfolios of SME s would be much less risky than those of the larger companies. Indeed, almost all extant

literature agrees that there is no evidence that SME s loan portfolios are less risky than the large corporate ones (Altman, Sabato, 2005)

As for the Americas, the preferential treatment of government liabilities in the calculation of capital requirements according to Basel I has created incentives for banks to concentrate a significant part of their assets in government instruments. This crowds-out credit to the private sector. However , the implementation of Basel II in Latin America will not change this distortion since national authorities are given the discretion to continue favoring government paper in the calculation of capital requirements (Suárez, L. 2005)

In a wider sense, beyond the general perception of Basel II as being a practical accord, there is little support for the idea of using a “simple” risk weight mapping, as in the Basel II framework, to approximate the actual credit risk exposure or economic capital requirement for a large variety of differentiated banks. Related work by (Carling, Jacobson, Kenneth, Roszbach, 2002) has already shown that banks can have different perceptions of the riskiness of a portfolio with identical counterparts and that portfolio size is important for credit risk and economic capital requirements. Different perception of riskiness means simply a subjective approach towards the financing practices of SMEs; and it is believed that this differential approach towards what should be in a corroborative fashion is the strongest weakness of Basel II that appears in the literature.

## **2. SMALL AND MEDIUM-SIZED ENTERPRISES**

Small and medium-sized enterprises (SMEs) are reasonably considered as the backbone of the economy in many countries all over the world. For OECD member countries, SMEs constitute more than %97 of the total number of firms. In the US, SMEs provide approximately %75 of the net jobs added to the economy and employ around %50 of the private workforce, representing %99.7 of all employers (Altman, Sabato, 2005).

The size scales (revenue, assets, number of employees, etc.) in the definition of SME according to European Union countries, developed or developing countries might not be suitable for Turkey. For this reason, a generally accepted SME definition should be developed through a highly participated consensus (Demir, 2007).

### **2.1 SME Definition According to Different Bodies**

#### **2.1.1 SME Definition According to Under-secretariat of the Prime Ministry for Foreign Trade of Turkey**

According to the Under-secretariat of the Prime Ministry for Foreign Trade of Turkey, any business entity in the manufacturing sector, with a 1-200 employee volume, keeping an accounting record according to the double-entry accounting system, and not exceeding the TLY translation of \$2 million of fixed capital employed, excluding the property, plant & equipment in considered as a small to medium-sized enterprise.

#### **2.1.2 SME Definition According to Under-secretariat of the Prime Ministry for Treasury of Turkey**

According to the Under-secretariat of the Prime Ministry for Treasury of Turkey, SMEs are business entities who operate in the line of production and whose fixed assets such as machine, car, equipment etc. excluding land and building do not exceed 400,000 TLY (Hançerli, Gökgönül, 2005).

#### **2.1.3 SME Definition According to International Standards of Accounting and Reporting**

According to the International Standards of Accounting and Reporting (ISAR), SMEs are divided into three groups:

The first group of SMEs that are publicly held, the second group is the type of SMEs which has a remarkable volume of business operations, but are not publicly held, therefore are omitted from mandatory financial reporting to the outside; and the last level of SMEs are the ones that are usually managed by their owner(s) and employ a very small number of people.

In addition to the above said, ISAR classifies the reporting differences as follows:

The first group of SMEs are to fully apply IFRS, the second group is the type of SMEs that are to partially apply IFRS: full application of principles on valuation and financial statements; and partial application of principles on disclosing of financial information to the public; and the last group of SMEs are to apply matters such as accrual basis accounting, historical cost principle, periodicity concept and no offsetting between accounts (Özkan, 2007).



#### **2.1.4 SME Definition According to International Accounting Standards Board: Specific Accounting Standards for SMEs?**

IASB has a different stand on the subject matter since the board's view will involve accounting standards on the issue, specifically a set of accounting standards derived from IFRS specifically on SMEs. After a debate over the appropriate threshold criteria, it has been determined by the IASB that the proposed standard should be intended for entities which do not have public accountability. There are two conditions that a business entity should meet in order to be considered as an entity that has public accountability (therefore should use the full IFRS). The first criteria is that the business entity has issued debt or equity securities in public market; or the second criteria is that the entity holds assets in a fiduciary capacity for a broad group of outsiders (Epstein, Jermakowicz, 2007).

*An entity has public accountability (and therefore should use full IFRSs) if:*

- *It has issued debt or equity securities in a public market; or*
- *It holds assets in a fiduciary capacity for a broad group of outsiders. Examples of*

*such an entity include a bank, an insurance company, a securities broker/dealer, a pension fund, a mutual fund and an investment bank (Exposure Draft of a Proposed IFRS for Small and Medium-Sized Enterprises, 2007).*

SMEs are defined very differently by authorities in the finance arena. Most of these national definitions differ in quantities of assets, debts and employees. Because the IASB defines SMEs as business entities which do not have public accountability, small and medium-sized enterprises neither issue debt or security equities to public nor hold assets in a fiduciary capacity for a broad group of outsiders, such as a bank. IASB suggests that full use of IFRSs is not necessary for SMEs. Therefore IASB has published draft IFRS for SMEs.

##### **2.1.4.1 Non-Publicly Accountable Entity**

IASB tried to replace the term *small and medium-sized enterprises* with non-publicly accountable entity (NPAE). However, the term NPAE was not considered to be recognized, because the term *SME* was known universally. Also SMEs usually prepare financial statements only for owners/managers and for tax purposes, but this does not imply that SMEs are not accountable. Finally, IASB accepted the term *small and medium-sized enterprises* (sometimes called *small and medium-sized entity*) and the term *small and medium-sized entity* has been added to the objectives of IASC:

- *To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions; to promote the use and rigorous application of those standards; to take account of the special needs of small and medium-sized entities and emerging economies.*
- *to promote the use and rigorous application of those standards*
- *in fulfilling the objectives associated with the first and the second, to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions. (Exposure Draft of a Proposed IFRS for Small and Medium-Sized Enterprises, 2007)*

##### **2.1.5 SME Definition According to Small Business Act**

According to the Small Business Act (SBA) which has passed in 1953 in the United States, a business entity employs less than 250 people with annual sales revenue figures between 9.5 million USD to 22 million USD is considered as a small business. The average count of employees in these small businesses is below 100 employees (Kaya, 2005).

##### **2.1.6 SME Definition According to KOSGEB**

According to SME Improvement and Support Office (KOSGEB):

- *small enterprise* is of 1-9 employment
- *medium enterprise* is of 10-49 employment
- *large enterprise* is of 50+ employment (Özer, G., Savaş, O. 2001)

##### **2.1.7 SME Definition According to European Union**

Micro, small and medium-sized enterprises are socially and economically important, since they represent 99 % of all enterprises in the EU and provide around 65 million jobs and contribute to entrepreneurship and innovation. However, they face particular difficulties which the EU and national legislation try to redress by granting various advantages to SMEs. A legally secure and user-friendly definition is necessary in order to avoid distortions in the Single Market (European Union, 2003).

**Table 1.1 SME Definition according to Organizations in Turkey**

**SME Definition according to Organizations in Turkey**

Institution	SME Type	Number of Employees	Sales	Asset Size
KOSGEB	Small	1-50	N / A	
	Medium	51-150	N / A	
Treasury	Micro	1-49	N / A	< 600.000 TLY
	Small	10-49	N / A	< 600.000 TLY
	Medium	50-250	N / A	< 600.000 TLY
Foreign Trade		1-200	N / A	< 2.000.000 USD
Halk Bank		1-250	N / A	< 600.000 TLY
Eximbank		1-200	N / A	
TÜİK ve DPT	Very Small	1-9	N / A	
	Small	10-49	N / A	
	Medium	50-99	N / A	
TOBB	Micro	< 9	N / A	< 1.000.000 TLY
	Small	< 50	N / A	< 5.000.000 TLY
	Medium	< 250	N / A	< 25.000.000 TLY

**Table 1.2 SME Definition according to European Union**

SME Definition according to European Union				
SME Type	Number of Employees	Sales		Balance Sheet Total
micro	< 10	≤ € 2 million	<b>OR</b>	≤ € 2 million
small	< 50	≤ € 10 million		≤ € 10 million
medium-sized	< 250	≤ € 50 million		≤ € 43 million

**2.2 BASEL II and SMEs**

Though there are definitions for small and medium-sized enterprises in Turkey according to different organizations, there is not a single stated definition which all authorities agree upon. Appliance of Basel II will provide a generalized definition for SMEs.

Basel II brings certain limits to the definitions of businesses that banks will use as a basis when granting credits. SMEs are defined basically on the basis of sales revenues. According to the Basel II definition of SMEs, the businesses that have 250 employees at most, revenues below 50 million Euro and end-year balance sheet balance below 43 million Euros are considered as small and medium-sized enterprises (Yüksel, 2005).

The Basel Committee has taken risk management and the implementation of an efficiently working risk management system in banks as their primary objective. The real benefit will emerge when a potential qualitative or quantitative problem occurs. Successfully implemented and efficiently working risk management system will diagnose the problem at once. As many business entities will have to; especially banks will have to reexamine their capital structures with the implementation of Basel II. If the banks fail to employ the highly advanced methods for risk measurement, banks' demand for capital will rise, which eventually will be reflected upon the cost of credit for SMEs who are willing to borrow.

Small and medium-sized enterprises are also classified according to their credit risks. This classification separates the SMEs into two categories, retail and corporate SMEs. Retail SMEs have credits not more than 1 million Euros in a bank and institutional SMEs have more than 1 million Euros in a bank. When a business entity fits to the definition of SMEs but has a credit risk above 1 million Euros, it is assumed to be a corporation. Therefore, the risk and cost of credit is

calculated with a different method (Aras, 2007). In addition, corporate SMEs are the entities that exceed annual sales of 50 million Euros and retail SMEs are the entities which are more in the nature of individual clients (Aksel, 2007).

There are many changes awaiting the SMEs in Turkey before the implementation of Basel II. SMEs, because of their positive effects on economic development and exposing the innovative and creative nature of the society, must definitely be preserved and solutions must be found to their problems in the name of developing the Turkish economy. In this sense, Basel II and global competition rules must be clearly established so the weaknesses in the current situation should be overcome (Murat, 2006).

The following factors will significantly affect the SMEs with regard to Basel II:

- Definition of SME has changed
- Credit Pricing will depend on risk
- Rating will be required to identify risk
- Assets for collateral have been re-identified
- Importance of corporate management principles has increased
- Reporting and recording financial information along with transparency has become much more important (Aras, 2005).

The approach should be proactive in terms of preparations for the requirements of Basel II. Any late attempt will create even more serious problems since the SMEs constitute a very significant percentage of the Turkish economy. This percentage is %96 in England, with a high percentage of %99.9 in France, %99.8 in Germany, %98.6 in India, %97 in Italy, %99.4 in Japan, %97.8 in South Korea, and %97.2 in the United States of America (Deloitte, 2007).

### **2.3 SMEs in TURKISH ECONOMY**

*In Turkey, SMEs constitute; 98 % of all enterprises, 76.7 % of actual employment, 26.5% of investments, 38 % of value added, 10 % of exports. 99.32 % of the total number of enterprises is in the manufacturing sector, which are approximately 250,000 enterprises in total.*

*Main Sectors of Turkish SMEs are: 26.1 % Metallic Goods; 25.6 % Textiles, Clothing, Leather Products; 24.3 % Wood Products and Furniture; 12.7 % Food and Beverages; 3.9 % Paper Products; 7.4 % Others.*

*Regional Distribution of SMEs is: 38 % in Marmara Region, 17 % in Aegean Region, 16 % in Mid-Anatolia, 11 % in Mediterranean Region, 9 % in Black Sea Region, 6 % in South East Anatolia, and 3 % in East Anatolia.*

### **2.4 Institutions Offering Services to SMEs**

SME Improvement and Support Office (KOSGEB), Turkish Standards Institute (TSE), National Productivity Center (MPM), The Scientific and Technical Research Council of Turkey (TÜBİTAK), Turkish Union of Chambers and Commodity Exchanges (TOBB), State Institute of Statistics (DİE), Export Promotion Center (İGEME), Technology Development Foundation of Turkey (TTGV), Turkish Tradesmen and Craftsmen Confederation (TESK), Halk Bank, Credit Guarantee Fund Company (KGF), Foreign Economic Relations Board (DEİK), Turkish Foundation for Small and Medium Business (TOSYÖV), Foundation for Support of Vocational Training and Small Enterprises (MEKSA) are the institutions that are offering services to SMEs in Turkey.

### **2.5 SME PROBLEMS and RECOMMENDATIONS to SMEs**

According to the studies of World Bank and KOSGEB approximately % 40 of SMEs have financing problems (Aras, 2007). Bank loans make up the largest portion of source of finance for SMEs to carry on their operations (Bayraktar, Köse, 2001). As banks offer four main types of service – payment services, debt financing, equity financing, and special financing – % 88.3 of SMEs in Turkey apply for credits, and the remaining % 11.7 seek other alternatives (Casu, Girardone, Molyneux, 2006). % 52 of all credit needs is resolved by commercial banks, and %19 by Halk Bank (Sezer, 2005).

With Basel II regulations, SMEs will have to present transparent and reliable financial statements in order to borrow funds from financial institutions, especially from banks. SMEs which fail to improve themselves in this area will significantly jeopardize their sustainability (Uyar, 2007).

In order to be able to borrow funds from financial institutions, especially from banks, SMEs must present sound financial statements. Financial statement lending involves underwriting loans based on the strength of the borrower's

financial statements. There are two requirements for this process. First, the borrower must have informative financial statements (e.g., audited statements prepared by reputable accounting firms according to widely accepted accounting standards such as GAAP). Second, the borrower must have a strong financial condition as reflected in the financial ratios calculated from these statements (Berger, Udell, 2004).

Among other problems SMEs face, financing seems to be exclusively important. The studies of OECD state that financing problems cause SMEs not to be able to continue production and expand (Aras, 2007). Because of financial problems, SMEs lack new technology, and this reflects directly on the quality of their products (Oktay, Güney, 2002)

*Standards for SMEs should have the objective of helping SME financial reporting to improve as good external financial reporting is extremely valuable to SMEs in order to identify new contributors to the entity (whatever the form of economic contribution) and reduce the cost of financing.* (Pacter, P. 2005)

Banks are to evaluate SMEs in two major areas under Basel II. These areas require immediate attention by the SMEs in order to reduce or avoid potential disadvantages of Basel II. The first area is the financial characteristics, and the second area is the qualitative characteristics. Audited financial statements and financial ratios (size, profitability, debt coverage, turnover ratios etc.) come under the financial characteristics. As for the qualitative characteristics, accordance with corporate governance, managerial experience and competence, periodic development of the business entity, condition in the line of business, and level of competitiveness can be listed (Doyrangöl, Saltoğlu, 2006).

Gençtürk (2006) to some extent, seconds the above mentioned factors. As Basel II will directly affect credit risk decision concerning SMEs, these entities have the opportunity to reverse the potential disadvantages of Basel II into advantages. Among other factors, transparent presentation of financial statements and conformity to corporate principles will be crucial for SMEs to avoid potential disadvantages of Basel II (Gençtürk, 2006). Management and audit process in a transparent manner is only possible by successful development of corporate governance (Uzay, 2003). The four core principles of corporate governance (transparency, fairness, accountability, and responsibility) shed light on how important accordance with corporate governance is for SMEs to successfully apply requirements brought by Basel II. Unfortunately, the overall picture as of now illustrates that the level of corporate governance is low for SMEs in Turkey. This situation will lead to a financial pressure on the SMEs. Especially with the implementation of Basel II in Turkey, the credit usage facilities for companies will be limited and also the rating system will lead to an increase in the cost of capital (Aksoy, Bozmuş, 2007). Among other factors, stronger equity, transparent and reliable reporting, and last but certainly not the least, corporate governance play as critical success factors (Aras, 2007).

Korkmaz (2006) emphasizes the importance of corporate governance for SMEs to overcome the difficulties set by Basel II as well. In order to avoid major problems concerning sustainability of SMEs during the Basel II transition era, SMEs should eliminate off the record (unregistered) operations. In addition, they need to strengthen their capital structure along with focusing on their main operations. Since qualitative data will also play crucial role in the rating process, SMEs should work on this aspect as well especially on the information systems. Qualified human resources is also a must for finance and accounting staff. Last but certainly not the least corporate governance culture should be spread to all levels of the organization starting from the top management all the way down to the bottom levels (Korkmaz, 2006).

Yılmaz (2007) discusses the importance of reliable financial statements. As financial statements should reflect actuality, these statements must be prepared in a transparent manner according to international standards, and SMEs should make the necessary investment in new technology and infrastructure for high quality financial statements. In addition to the financial necessities such as reliable financial statement preparation to implement proper risk management practices for a strong equity, qualitative necessities such as corporate governance is a must as well (Yılmaz, 2007).

Banks will have to evaluate SMEs not solely on financial performance, but on corporate governance performance as well (Tekstilbank, 2006). According to a study conducted by The Bank of England on why companies fail based on 22 bankrupt institutions, six top reasons in order of frequency are as follows:

1. Mismanagement
2. Poor assets
3. Faulty structure
4. Liquidity
5. Dealing losses
6. Secrecy and fraud

Mismanagement reasons for bankruptcy were % 68.4 of all cases and financial reasons were % 31.6 of all cases (Chorafas, 2004)

Moreover, % 95 of all Turkish business entities are family firms (Yılmaz, 2004). There is evidence that family firms are ineffective in corporate governance. Family businesses fail to extend their existence to the next generations due to health problems or death of family members. But beyond all, the major reason for this ineffectiveness is operating without planning and acting myopic; and most importantly failing to allocate the necessary importance to corporate governance (Deloitte Touche Tohmatsu, 2007).

SMEs are to take preventive actions at once in order to prepare themselves for the pending developments about the implementations of not only Basel II but IFRS in Turkey as well. Unfortunately the adoption process seems to be complex, because of the corporate structure of SMEs and the limited education opportunities about IFRS. Not recognizing the Turkish uniform system of accounts and tax legislation while setting standards will also serve as an obstacle to the convergence process. In addition to the difficulties and obstacles of the convergence process, SMEs in Turkey will be subject to adopt IFRS like the listed companies at Istanbul Stock Exchange (Arsoy, Sipahi, 2006).

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# THE DIFFERENCES OF PERCEPTIONS ON ENTREPRENEURSHIP BEFORE AND AFTER GRADUATION OF UNIVERSITY STUDENTS

MELTEM ONAY, CELAL BAYAR UNIVERSITY  
UĞUR ZEL, DOĞUŞ UNIVERSITY

## ABSTRACT

It has become a reality that the importance of entrepreneurship has been increased as the economic development of the countries mostly depends on new investments. To encourage new generations on entrepreneurship universities have an important role. Researches' findings show that the number of entrepreneurs is increasing in Turkey for the last two decades. However, when compared with developed countries the proportion of the number of entrepreneurs to the adult population is still unsatisfactory (4.6%).

This article covers a research made to reveal the differences of perceptions on entrepreneurship before and after graduation of university students. A questionnaire designed by KOSGEP is redesigned and used in the research. The research will be held in two phases. The first phase will be applied in 2009 to a sample selected from different universities and faculties. The second phase will be held in 2011 and the questionnaire will be applied to the same sample again after two years. Comparing the two data sets, we will be able to see if there is any change in their perceptions on entrepreneurship. The subsidiary conclusions will be made on how to improve the effectiveness of the curriculum to encourage students at the universities.

## 1. THEORETICAL BACKGROUND

Entrepreneurship attracts attention as a significant management field that has been emphasized by researchers and implementers recently. It is hard to mention a generally accepted theory in this field. Studies performed on various disciplines such as economy, finance, anthropology and education provide contribution to the literature of entrepreneurship. In the literature of entrepreneurship; definition of the entrepreneurship concept, the qualities approach stating which factor is more determinant among personality and environment factors for emergence of entrepreneurship, strategies of success, new business establishment and impact of environmental factors on entrepreneurship have been the five main topics studied most (Bull and Willard, 1995:115). What could be the basic motives leading to emergence of entrepreneurship is one of the significant points of discussion. According to the classical economics understanding, elevating the individual interests to the highest level is the most important motive encouraging entrepreneurship. That is, the desire to acquire economical benefit and profit results in emergence of entrepreneurship. In response to this approach of the classical economics theory, McClelland (1971:109) suggests that development of entrepreneurship depends on the need for success, a psychological variable, rather than economical motives.

Statements of Schumpeter about entrepreneurship as an economist have been maintaining its applicability and significance increasingly also today. The issue had received the required importance and contribution mostly from the science of business management until the recent years. Today, the topic of entrepreneurship is deeply studied by every discipline, and countries make great efforts to generalize understanding and implementation of entrepreneurship. There is no doubt that the concept and implementations of entrepreneurship are one of the reflections of the great change brought by information society and globalization era we are experiencing. Opportunities to find a job and work at public corporations or private sector are gradually becoming harder and educations dedicated to allowing people to realize their own enterprises have been gaining accelerations in all countries. Employment, in most of the technologically-developed regions and countries of the world, is mostly directed towards people utilizing newest technologies well and having skills in new product creation. Continuous change is deemed to be the driving force of economical and social development and innovation based on value adding information becomes an undeniably important part of competition as the incentive factor in such a culture and atmosphere (Schumpeter, 1934:27).

In classical terms, entrepreneur used to be described mostly as a person who established his own business, who participated in the production process by gathering various production factors together and undertaking risk and who aimed at gaining profit as a result (Emsen, 2001:153). Today, entrepreneurship is perceived as a method to achieve superior situations that can be revealed by using high-level creativity (Titiz, 1999:11). In another definition, entrepreneur is a person organizing production of goods and services by gathering resources required for production. As it is known, classical production factors consist of capital, labor, natural and physical resources. As different from the industrial society, "information" is now considered among the production factors in today's information society. That



is, entrepreneurship is a concept involving canalization of all these factors towards production of goods and services. In today's information society, entrepreneurship takes its place in the ranking as the fourth production factor due to these qualities.

## 2. ENTREPRENEURSHIP AND EDUCATION

Education has great importance for entrepreneur to overcome problems encountered. In this context, although official education is not a must, it is a component needed for success. It is important for entrepreneurs to receive education on fields such as finance, strategy, planning etc.

It is indicated by many researchers that entrepreneurship is a behavioral change acquired as a result of education and learning, as well as being a genetic characteristic. With this assumption, it may not always be possible for individuals without entrepreneurship education to be aware of their entrepreneurial self-competence. Entrepreneurship education is important to ensure this awareness. Although the importance of education and information is admitted in entrepreneurship, weight of components determining a business management is listed as follows (Arslan, 2002:1):

- Academic and technical knowledge: 30%
- Practical knowledge: 34%
- Inherent and acquired personal characteristics: 36%

Transition to information society has changed these ratios in favor of the first one. Therefore, 21<sup>st</sup> century entrepreneurship affected by progresses in information society is described as informative entrepreneurship (Şenocak, 1992: 186). Furthermore, young people with higher education are considered to be people ready for education in developed societies and it is emphasized that educated young people have several advantages in terms of entrepreneurship.

The culture and idea of entrepreneurship is given to students during education-training process and all the information is provided to let them become entrepreneurs that can take all the risks, realize their ideas and try to make their dreams come true in future. For this purpose, courses, workshops, certificate and diploma programs are becoming diversified and widespread all across the world and in our country.

Universities should encourage students, among internal stakeholders of universities, to establish their own companies, to become partners of existing companies and to serve as “information producers” by producing information that forms the core of innovation there. Again, depending on the fact that entrepreneurship can be learned and taught, it is becoming mandatory to restructure education-training in a manner to raise students especially and primarily as technology entrepreneurs in the future. Recent entrepreneurship education at universities has been shifting from scientific information production about entrepreneurship to education of entrepreneurs. Basic motive in formation of this condition is the desire to convert scientific information into productive ideas to provide benefits (Anderseck, 2004:194). On this issue, it can be said that educators, like missionaries, have important duties and responsibilities for adoption and generalization of the culture of entrepreneurship. It is possible that the students in entrepreneurship and innovation fields will transfer information to companies around them via companies founded and internships done as a result of improvement of their performing-realizing skills. In this way, it is a desired situation to have students contribute to the awareness and change of people around, especially the world of business, about competitive technologies and innovations to create difference.

It is observed that psychological factors come into prominence in the studies about factors affecting the entrepreneurship. Whereas Bygrave (1989) considered need for success, internal control focus, inclination to bear uncertainty and to take risk as the basic determinant of entrepreneurship, Robinson et al. (1991) focused on need for success, innovation, internal control focus and self-confidence factors (Koh, 1996:15). In various studies performed recently (Koh, 1996; Gürol and Atsan, 2006), it is observed that all the above-mentioned factors are handled.

It is observed that psychological factors are also utilized in several studies on entrepreneurship inclinations of university students. In these studies, first of all entrepreneurship degree of the individual is tried to be measured, and then the associations between psychological factors and entrepreneurship degree are examined.

Lüthje and Franke (2003) performed a questionnaire study on 512 students receiving engineering education at MIT in order to examine the factors affecting the entrepreneurship such as risk-taking, control focus, environmental obstacles against entrepreneurship, environmental factors supporting entrepreneurship, point of view on entrepreneurship and purpose of entrepreneurship. As a result of the study, they reached the finding that the personal characteristics of students had a powerful impact on the intent of entrepreneurship.

Wang and Wong (2004) analyzed entrepreneurship inclinations of university students receiving technical education in Singapore. As a result of the study, it was found out that gender, presence of entrepreneur history of family and level of education came out as the factors affecting the entrepreneurship, whereas income status of family, ethnical origin and nationality had no impact on entrepreneurship.

Veciana et al. (2005) performed a questionnaire on university students with similar cultural structures in Catalonia and Puerto Rico in order to determine entrepreneurship inclination of students. As a result of the study, it was found out that entrepreneurship inclinations of both groups were similarly high.

Berglund and Wennberg (2006) analyzed entrepreneurship inclinations of business management and engineering students receiving entrepreneurship education. As a result of the study, it was found out that entrepreneurship inclinations of both groups were high. Whereas problem-solving inclinations of engineering students are higher, business management students are more likely to act based on the market.

Need for success, control focus, inclination to take risk, bearing uncertainty, self-confidence and innovative behaviors were handled in the study performed by Gürol and Atsan (2006) for Türkiye and a questionnaire was performed on 400 senior students studying at Yıldız Technical University and the Mediterranean University. It was tried to determine entrepreneurship inclinations of the students by asking what they were planning to do after completing their education. As a result of the study, it was found out that inclination to take risk, internal control focus, need of success and innovation qualities were higher in students with entrepreneurship inclination than those without it.

Arslan (2002) dealt with the role of physical, social and economical environment in formation of entrepreneurship inclinations and professional preferences of students at Haliç University. As a result of the study, it was found out that the first degree priority in terms of professional ideals of the students was to establish own business, whereas the second degree was to work at private sector. In formation of professional preferences, desire to gain profit got the first degree priority, whereas desire to work independently got the second degree. As a result, it was found out that entrepreneurship inclinations of the students were high. When the relation between professional inclination and entrepreneurship is analyzed in terms of gender, it is seen that male students place first priority on establishing their own business, whereas female students place it on finding a job and working at private sector. In general, it was concluded that male students had more entrepreneurship inclination than female students. It was found out that children of families in higher income group had higher entrepreneurship inclination. This high ratio confirmed the expected positive relation between level of income and entrepreneurship. Whereas students belonging to families with fewer children have higher inclination to establish their own business, this ratio decreases in families with more children. Furthermore, it was found out in the study that entrepreneurship was not closely associated with the fact that father worked independently on his own behalf and for his own account.

It was revealed by the studies on social psychology field that perception could be changed with education. Based on this finding, it will be tested whether "the entrepreneurship perception", which is the topic of our article, changes or not as a result of education and effects of business/social life process.

### **3. PURPOSE OF THE STUDY**

The study was commenced considering a two-stage process. Therefore, the primary purpose of the study is to determine in which period of the individual (while studying at the university or in business life) the "entrepreneurship" skill is more effective and efficient. As well as this primary purpose, an assessment will be made on why individuals to graduate from university want to establish their own business, what issues they believe to encounter while establishing their own business and what kind of entrepreneurial qualities they have.

### **4. SAMPLE OF THE STUDY**

The study was performed on 180 students of which 75,6% is from a "state university" and 24,4% is from a "private university". The desired sample number could not be achieved due to timing of the application that is some of the business management students were already graduated from the university.

In demographical questions of the study, university, gender, age group, department and father's profession of the subjects were asked. Accordingly, percentages of the sample are as follows;

- 75.6% study at "state" and 24.4% study at "private" university,
- 55.6% are "female" and 44.4% are "male" students,

- 83.3% are aged between “20-24”, 15% are between “25-27” and 1.7% are between “28-30”,
- 28.3% are at “international trade”, 23.9% are at “banking and finance – evening education”, 36.1% are at “banking and finance – formal education” and 11.7% are at “business management” departments,
- Fathers of 46.1% are “self-employed”, 16.7% are “civil servants”, 17.8% are “workers”, 17.8% are “retired” and 1.6% are categorized as “other”.

## 5. METHODOLOGY OF THE STUDY

The questionnaire form of the study was aimed at determining the “entrepreneurship” qualities applied by KOSGEB (Small and Medium Scaled Industry Development Support), tested across the country and published via internet. However, not the whole questionnaire form was used in the study. Since it was intended to test the thoughts, expectations and concerns of graduated students in the same year and whether there is a change in them or not after experiences and practices in profession for two years in accordance with the purpose of the study, only three sections of the form were used.

In section one; there are demographical findings of the participants of the questionnaire. In section two; the respondents were asked to grade 17 expressions, about why they wanted to establish their own business, among alternatives from “do not agree at all” to “absolutely agree”. In section three; 7 expressions dedicated to determination of what concerns individuals had about establishing their own business were used. In section four, 22 expressions were used to determine which entrepreneurship qualities individuals had.

## 6. ASSUMPTIONS OF THE STUDY

The study will be performed in a two-stage process. In the first stage; analysis results of questionnaire responses of the students graduating this year will be presented. In the second stage; the students will be contacted again after two years, they will be asked to answer the same questionnaire form again and comparison will be made with their old responses. In this way, it will be tried to show what kind of difference there is between the two forms. Accordingly, five different assumptions are made;

**Assumption-1 of the Study:** “Individuals willing to establish their own business have differences in terms of demographical qualities.”

**Assumption-2 of the Study:** “Individuals with concerns to establish their own business have differences in terms of demographical qualities.”

**Assumption-3 of the Study:** “Individuals that are believed to have entrepreneurship qualities have differences in terms of demographical qualities.”

**Assumption-4 of the Study:** “There is a relation between qualities of individuals willing to establish their own business and qualities of individuals with entrepreneurship capability.”

**Assumption-5 of the Study:** “There is a difference between the perceptions of the individuals by the time”.

## 7. ANALYSIS RESULTS ON ASSUMPTIONS AND HYPOTHESIS OF THE STUDY

**Assumption of the Study 1:** Individuals willing to establish their own business have differences in terms of demographical qualities. This expression has been examined via the below mentioned hypothesis:

**Hypothesis 1:** “Individuals willing to establish their own business have differences in terms of gender variable”.

According to results of t-test performed to determine whether gender difference existed or not in terms of establishing own business; significant relation was found between 2 of 17 expressions. Accordingly;

- Male students (mean=4,1772) want to be their own boss more than female students (mean=3,8200) ( $p=0,17<0,50$ )
- Male students (mean=4,3000) want to earn more money than female students (mean=3,9800) ( $p=0,17<0,50$ )

**Hypothesis 2:** “Individuals willing to establish their own business have differences in terms of age variable. “

According to ANOVA (Analysis Of Variance) results performed to determine the existence of difference among individuals willing to establish their own business in terms of their age levels, no significant relation was found in any of 17 expressions.

**Hypothesis 3:** “Individuals willing to establish their own business have differences in terms of departments they study at.”

According to ANOVA results performed to determine the existence of difference among individuals willing to establish their own business in terms of departments they study at, difference has been found among variables: being his/her own boss ( $p=0,029$ ); testing him/herself ( $p=0,022$ ); using skills ( $p=0,023$ ); improving skills ( $p=0,022$ ); need for a chance ( $p=0,031$ ); satisfaction ( $p=0,046 < 0,05$ )

In the sample group of the study, there are four departments which are international trade, banking and finance - evening education, banking and finance - formal education and business management. According to Post hoc analysis results performed to determine the differences amongst the departments;

- “Being his/her own boss” variable; between banking and finance - evening education and banking and finance - formal education ( $p= 0,003 < 0,05$ )
- “Testing him/herself” variable; between international trade ( $p=0,005$ ) and business management, banking and finance - evening education ( $p=0,007$ ) and business management, banking and finance - formal education ( $p=0,004$ ) and business management
- “Using skills” variable; between international trade ( $p=0,003$ ) and business management, banking and finance - evening education ( $p=0,011$ ) and business management, banking and finance - formal education ( $p=0,008$ ) and business management
- “Improving skills” variable; between international trade ( $p=0,006$ ) and business management, banking and finance - evening education ( $p=0,012$ ) and business management, banking and finance - formal education ( $p=0,003$ ) and business management
- “Need for a chance” variable; between international trade ( $p=0,016$ ) and business management, banking and finance - formal education ( $p=0,005$ ) and business management
- “Satisfaction” variable; between banking and finance - formal education and business management ( $p=0,006$ )

**Hypothesis 4:** “Individuals willing to establish their own business have differences in terms of fathers’ professions.”

Fathers’ professions of individuals willing to establish their own business have been examined within two groups in the study (people who are self-employed and those who are not self-employed). According to results of t-test performed between variables and occupational groups, difference has been found only in “earning money” variable. Whereas the average of people who are not self-employed is 3,9897, the average of those who are self-employed is 4,4096. ( $p=0,034 < 0,05$ ). In this case, students whose fathers are self-employed consider “earning money” as a more primary need in establishing own business in comparison to other groups (for instance: civil servant).

**Assumption of the Study 2:** “Individuals with concerns to establish their own business have differences in terms of demographical qualities.”

**Hypothesis 1:** “Individuals with concerns to establish their own business have differences in terms of gender variable.” Significant relation was found in 3 of 7 expressions in terms of concerns to establish own business. These are;

- Female students (mean=3,4898) believe more than male students (mean=3,0385) that they need to study harder in the evenings and at weekends ( $p= 0,018 < 0,05$ )
- Male students (mean=3,2500) believe more than female students (mean=2,7857) that they will worry if there is nobody to give them advice ( $p= 0,007 < 0,05$ )
- Male students (mean=3,0779) worry more than female students (mean=2,5306) about keeping books and records ( $p= 0,007 < 0,05$ )

**Hypothesis 2:** “Individuals with concerns to establish their own business have differences in terms of age variable.”

According to ANOVA results performed to determine the existence of difference among individuals with concerns to establish their own business in terms of their age levels, no significant relation was found in any of 7 expressions.

**Hypothesis 3:** “Individuals with concerns to establish their own business have differences in terms of departments they study at.”

It was observed that students worry about establishing their own business only with regard to “keeping books and records” due to departments they study at ( $p= 0,053 < 0,05$ ). According to Post hoc analysis performed taking into consideration the departments they study at;

- Students at international trade department ( $p=0,026$ ) and students at banking and finance department - formal education ( $p=0,042 < 0,05$ ) are more depressed/worried than the students at business management department with regard to “keeping books and records” at the stage of establishing their own business.

**Hypothesis 4:** “Individuals with concerns to establish their own business have differences in terms of fathers’ professions.”

It was found out that whether the father is self-employed or not is not associated with the concerns of the individual to establish his/her own business.

**Assumption of the Study 3:** “Individuals that are believed to have entrepreneurship qualities have differences in terms of demographical qualities.”

**Hypothesis 1:** “Individuals that are believed to have entrepreneurship qualities have differences in terms of gender variable.”

Significant relationship was found in 2 of 22 expressions which were asked to individuals that are believed to have entrepreneurship qualities. Accordingly;

- Male students (mean=4,0641) have higher psychical strength than female students (mean=3,6162) ( $p= 0,004 < 0,05$ )
- Male students (mean=4,2750) have a better sense of humor than female students (mean=3,9691) ( $p=0,028 < 0,05$ )

**Hypothesis 2:** “Individuals that are believed to have entrepreneurship qualities have differences in terms of age variable.”

A significant relation was found only in “flexibility” ( $p=0,004 < 0,05$ ) property of individuals that are believed to have entrepreneurship qualities. According to results of Post Hoc analysis performed to determine which of the considered three age groups are more flexible, it can be said that students among the age groups “25-27” (mean=4,4231) are more ready to do all sorts of required tasks in comparison to students among the age groups “20-24” ( $p=0,001 < 0,05$ ).

**Hypothesis 3:** “Individuals that are believed to have entrepreneurship qualities have differences in terms of departments they study at.”

According to ANOVA results performed to determine the existence of a difference among individuals that are believed to have entrepreneurship qualities in terms of departments they study at, differences have been found among variables: being realistic ( $p=0,001$ ); mental strength ( $p=0,016$ ); determination ( $p=0,016$ ); flexibility ( $p=0,052$ ); being motivated ( $p=0,007$ ); detail ( $p=0,005$ ) and being reliable ( $p=0,003 < 0,05$ ). According to Post Hoc analysis performed to find out which variable is valid for which department, there are the following differences;

- “Being realistic” variable; between international trade ( $p=0,001$ ) and business management, banking and finance - evening education ( $p=0,013$ ) and business management, banking and finance - formal education ( $p=0,000$ ) and business management
- “Mental strength” variable; between international trade ( $p=0,005$ ) and business management, banking and finance - evening education ( $p=0,050$ ) and business management, banking and finance - formal education ( $p=0,003$ ) and business management
- “Determination” variable; between international trade ( $p=0,003$ ) and business management, banking and finance - evening education ( $p=0,009$ ) and business management, banking and finance - formal education ( $p=0,003$ ) and business management
- “Flexibility” variable; between international trade and business management ( $p=0,007$ )
- “Being motivated” variable; between international trade ( $p=0,001$ ) and business management, banking and finance - evening education ( $p=0,004$ ) and business management

- “Ability to pay attention to details” variable; between international trade (p=0,039) and banking and finance - evening education, banking and finance - evening education (p=0,001) and business management, banking and finance - formal education (p=0,005) and business management
- “Being reliable” variable; between international trade (p=0,001) and business management, banking and finance - formal education (p=0,000) and business management

**Hypothesis 4:** “Individuals that are believed to have entrepreneurship qualities have differences in terms of fathers’ professions.”

No difference was observed no matter what the professions of fathers of individuals, who are believed to have entrepreneurship qualities, are.

**Assumption of the study 4:** “There is a relation between qualities of individuals willing to establish their own business and qualities of individuals with entrepreneurship capability.”

According to results of the chi-square analysis performed among the expressions stated in both sections, relations are as follows;

A significant relation was found between:

- Desire to “be his/her own boss”, Desire to “earn more money”, Desire to “have a job”.
- No significant relation was found with any expression.
- Desire to “prove others his/her value”, Belief to “achieve it himself/herself as well after seeing others establishing their own business”, Desire to “have control on his/her own life”, Desire to “be taken serious”, “Freedom to do anything he/she wants”, Desire to “be rewarded for his/her efforts”,

**Assumption of the Study 5:** “There is a difference between the perceptions of the individuals by the time”.

The evaluation of this assumption will be made after the second stage of the research is made.

## 7.1 Results and Assessment of the Study and Recommendations

The study was performed on senior students and graduated students in four departments (international trade, banking and finance - evening education, banking and finance - formal education and business management) of state and private universities. The primary purpose of the study is to determine in which period of the individual (while studying at the university or in business life) the “entrepreneurship” skill is more effective and efficient.

The study has five Assumptions. In order to be able to find answers to all of the study questions, a comparison was made with demographical qualities on students in the sample group regarding why they want to establish their own business, what kinds of worries they have while establishing their own business and which of the entrepreneurial qualities they have. In the meantime, it was also examined to see the existence of a relation between the characteristics of individuals who want to establish their own business and the characteristics of individuals who have entrepreneurship qualities.

## 7.2 General Results of the Study

In the study, four out of five primary assumptions were taken into consideration and examined. The first of them is the determination of existence of difference in the thoughts of students from the sample group to establish their own business due to their demographical qualities. Among the demographical variables are “gender, age, department they study and their father’s profession”. Accordingly;

- In gender variable, it was ascertained that **male students** give more importance to being their own boss and earning money when compared to female students. It is seen that this result is compatible with literature information.
- No difference was found out amongst students in terms of “**age level**”.
- Differences were found in terms of departments they study at. Among the variables which were found to be different, there are “being their own boss, testing him/herself, using their skills, improving their skills, needing a chance and being satisfied”. The subject to be overemphasized here is seen to be the differences between students studying at state universities and those at private universities. Because when results of analysis are taken into consideration, it is seen that students studying at **state universities** (international trade and banking

and finance) have more “entrepreneurship” qualities than those studying at private universities (business management) in terms of all the mentioned variables. Within the departments included in the examined sample group, maybe the most remarkable point is that students of **Banking and Finance** -Evening Education give more importance to “being their own boss” in comparison to other groups.

- In terms of fathers’ profession, children of **self-employed fathers** are also more willing especially in terms of will “to earn money” among the variables, as it is also mentioned in the literature.

The second Assumption of the study is to determine whether or not the individuals with concerns to establish their own business have differences due to their demographical qualities. Accordingly;

- In gender variable, it was ascertained that **female students** do not have much desire to work outside “working hours” when they establish their own business in comparison to **male students** while it was seen that male students have doubts especially in keeping “the accounting records”.
- In terms of departments of universities they study at, it was ascertained that students studying at **business management** are overconfident especially in keeping the accounting records due to the departments and lessons they study.

And in the third Assumption of the study, when examining the differences in terms of demographical qualities of individuals who are believed to have entrepreneurship qualities;

- It was ascertained that **male students** have higher physical strength and are more humoristic than female students.
- According to age variable, students “**aged between 25-27**” are ready to do all sorts of tasks.
- When considered in terms of departments studied at the university, students of **international trade, banking and finance - evening and formal education** - are more skilled in observing the events in comparison to those who study at business management. Likewise, they have the capacity to ponder the matters as well as having the capability of dedicating themselves to their tasks.

Finally, according to the fourth Assumption of the study, when examining the relation between the qualities of individuals willing to establish their own business and those of the ones with entrepreneurship qualities, **significant relations** were found between entrepreneurship qualities and the desire to “be his/her own boss”, “earn more money”, “prove others his/her value”, “achieve it himself/herself as well after seeing others establishing their own business”, “have control on his/her own life”, “be taken serious”, “do anything he/she wants freely”, “be rewarded for his/her efforts”, “test the idea of job”, “be independent” and “need a chance”.

## 8. ASSESSMENT OF THE STUDY AND RECOMMENDATIONS

The fact that the performed study covers a two-stage process inevitably restricts the assessments and recommendations given as a result of the study. However, when the current results are taken into consideration;

When it is considered that entrepreneurship is not only a genetic characteristic but also a behavioral change acquired as a result of education and learning, entrepreneurship culture and idea have to be delivered to students especially starting from the university years and maybe from the secondary education years and they have to be encouraged for “entrepreneurship” by taking certain risks into account. Scientific researches have also shown that there is not a significant difference amongst genders in terms of entrepreneurship. Besides, individuals’ desire to prove themselves and to have more economical welfare increase the entrepreneurship inclinations of individuals rather than the entrepreneurship history of the family.

The performed study has two stages. It is a quite intriguing situation to see whether or not there will be a difference especially in the answers of the same students when they are contacted after two years. It is anticipated that the results of the questionnaire to be performed in the future will reveal more interesting findings.

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# GOVERNANCE WITH PROFESSIONALS IN FAMILY BUSINESSES

MAZHAR İZMİROĞLU, HONORARY CONSUL OF REPUBLIC OF SLOVENIA

## 1. INTRODUCTION

Family-owned firm is the most pervasive and oldest form of business through the history. The oldest family business is a Japanese firm **Hausi Onsen** established in 718, still in business and the 46th generation of descendant is on duty. Family businesses create 60 to 90% of GDPs in free marked economies and represent around 80% of all registered companies. Most of the largest enterprises in the world are family controlled. They often outperformed non-family firms and on average they exist longer than their counterparts.

Nevertheless, their importance is being recognized only recently. Many prestigious business schools like IMD-Switzerland, Insead-France, Kellogg-USA and Bocconi-Italy are establishing special centers to put spotlights on how family businesses can better profit and continue. Associations like IFERA (International Family Enterprises Research Association) and FBN (Family Business Network) embrace thousands of business owning families around the world. Recently, many giant companies are conducting special training programs to support their stakeholders to perform like family firms and many companies providing financial services are increasingly focusing on them.

No doubt that, successful performance of these firms has great importance for not only owning families but also for the national economies as well. But, it is worth considering whether all family businesses endure and succeed generations. Surprisingly, average life span of family businesses is only around 25 years. The low survival rate of these firms is well known. Less than 30% last into the second generation and only about 10% can make it to the third.

## 2. FINDINGS OF A SURVEY

According to the findings of the survey conducted in 8 major cities and 100 companies in Turkey recently, most of the business-owning families (60%) regarded institutionalization as one of the foremost challenge they faced in business life. Good news is, working with professionals is being recognized and valued in general. Bad news is, there are common complaints about difficulties in recruiting and retaining the talented personnel. But, in family businesses complainants are not only owners. Non-family employees are also complaining.

We all aware of difficulties in recruiting professionals especially in rural areas as they often avoid locating in less developed regions with their families and look for the occasion to leave. On the other hand, they are very upset mainly to be dependant to the families for decisions even they are authorized to make. More often, common tendency is to pull outsiders into the hierarchic system of the owning family. Those doesn't fit are to leave, otherwise face constant and endless conflicts with family members.

According to replies of respondents, 65% of them favored non-family executives co-work with family leaders. Only 25% are in favor of the outsider take control and lead the company alone. Besides, for most companies (83%) only family members can be in charged of key positions.

In family businesses, cultural habits and traditions prevail. Loyalty and respect to seniors and nepotism are common behaviors in general. Such irrational factors including lack of trust towards professionals represent common governing philosophy of most business-owning families.

No doubt that, institutionalization means to systematize not only company interactions but also the family relations as well. We know, many healthy businesses have been destroyed as a result of family disputes rather than business failings. Strong performance doesn't always translate into longevity.

I am not going into details as this is another concept and out of the subject of my today's presentation. Although findings of the research mentioned afore indicate employing professionals is regarded as an advantage by the business owning families, owners seem not to be ready to hand over reins to outsiders.

### **3. MUTUAL RESERVATIONS**

Family business leaders are often uneasy to put non-family employees into key positions. First of all, outsiders are being regarded as a cost rather than an investment. Leaders also worry that the non-family employees will not be as hard working, loyal, committed and trustworthy as family members are, or that practical business knowledge is not much as family members. Additionally, there is a possibility of the outsider may want an equity in the company.

Besides, how well they will get along with the next generation and non-active family members? And what about the horror stories have being heard about outsiders who at least try to take control of the business or start competing with? On

the other hand, non-family employees also have many concerns of their own. First of all, will they be treated on a par with family members? Will their voice be heard in the company? Will they find an opportunity to advance? They are also hearing the horror stories. Will they be asked to take sides in family conflicts? What if to be expected to work with an incompetent who is in a superior position only because he/she is a member of the family?

To achieve long-term success, the family business depends on the fruitful collaboration between the business-owning family and its non-family managers. This calls for understanding desires, fears, needs and expectations reciprocally and this calls for a new behavior on the part of the family, especially leaders. They must try to understand what it is like to be in the position of an outsider. Conversely, non-family executives must try to understand the family business “system” to perform better their roles and work with the family towards reaching their goals.

Some businesses owning families put “family” first while others put “business” first. It is often assumed that, one set of interests need to be chosen over another, but either style of operation alone can cause serious problems. In fact, both family and business domains are crucial and require equal care, neither need to assume a dominant role. Instead, respect for the needs of the business must be balanced with family concerns if the family business is to endure. No need to say, the first option represent more challenging case for the non-family employees.

### **4. DIFFERENT PHASES**

Talented non-family employees are often the key element for the success of family businesses, though the relationship between family members and outsiders is still one of the least understood.

Regarding the process of hiring and retaining outsiders, greatest difficulties occur mainly in first generation. The company is small, the family is not used to work with outsiders and the owner is more controlling and maybe less trusting. All family businesses serve primarily to employ family members at the very beginning. However, as business grows, the nature of employment changes. The effective organization of labor becomes as important as hard work.

By the second generation and further, the business-owning families will accept non-family managers as a necessary part of running and thriving the business and they will also become more experienced. The knowledge, competence and skill of individuals become increasingly specialized and coordinating becomes even more complex.

### **5. WHAT ATTRACTS / DISCOURAGES OUTSIDERS?**

In most countries, family businesses are voted for the best companies to work for. Many people find these companies attractive places to work. What is the main reason for such common evaluations? Is it possible top positions to be reached within a short period of time or better payments than other companies?

Before answering these questions, one needs to understand the motives of employees who can not ever expect or doesn't want to be the CEO of the company.

Many outsiders are attracted to a family firm's non-bureaucratic structure, friendly attitude toward employees and owning family's values, deep culture and popularity. Some see an opportunity to enhance personnel wealth and also to have broader authority and responsibilities than they might get in publicly owned companies.

Nevertheless, they may feel uneasy for a variety of reasons;

Particularly, when the family engages in extreme nepotism, in both placing and promoting family members just because they belong to the family not because they are qualified and when an inequity of rewards that favor family members over them. Sometimes they don't fit in the culture of the family business. Additionally, the family firm fails to stay competitive as closes itself to innovation and change.

So, in such cases insufficient opportunity for advancement and creation personnel wealth evolves and this kind of working climate demotivate and discourage outsiders.

## **5. RECOGNIZING BENEFITS**

In fact, leading a family business is one of the most complex jobs imaginable. As a family business leader, the point to start is to recognize outsiders benefit your company. Well chosen and wisely managed non-family employees can play valuable roles in family firms. They enable your business to grow.

We all know in the long term, family businesses enjoy many strategic advantages over their competitors, like; trust and integrity in relationship, longer term view, ability to make quicker decisions, greater loyalty of employees and higher commitment by family members. But remember, some of these advantages can be a two-edged sword. For example, commitment towards the founder's strategy may lead to inflexibility in the face of economic chance and advantage of being so patient may fail to respond to opportunities and threats as well. We know some disadvantages like aversion to risk, inflexibility and lack of fresh insights may not be lethal in early days but may easily become threats as the company grows, market matures and the conditions changes.

Family businesses particularly that reached further phases after foundation, should consider input from non-family executives. This can be in the form of a management team or a board of directors supported by people whose expertise and style are different than those of the leader. Especially, if they come from other companies they bring knowledge, working discipline and experience gained before, thus, complement the chief's skills. To keep the strategy fresh, try to include outside top executives on your board and provide room for new people at all levels of your organization. Studies suggested that, companies benefit from having 25% new faces every five years at each level of the management structure.

Here are some worth mentioning benefits your non-family executives can bring to your business;

### **5.1 Diversity of thinking**

Business growth needs larger pool of qualified talents than one family can supply. Besides, as your company grows, you will inevitably need more middle and upper management team. If top positions are limited to family members, the business will be confined and stay relatively small. You will be investing more money, but you will be getting more highly talented people into your organization. Additionally, you can gain the advantage of their fresh ideas and benefit from diversity of thinking which will help the company stay competitive and innovative. Input and insight from talented outsiders, reinforces strategic thinking and ultimately makes it part of your company's business culture.

### **5.2 Culture of change**

Change is a given and the pace of change is ever accelerating. Management today means effectively managing change. Competition is intensifying, product life cycles are becoming shorter and rapid change depreciates the value of knowledge. It was really possible in the past for a business leader to create a strategic success and make it last for many years. Today, during their tenures, leaders are facing several waves of strategic renewal.

In many small businesses, owners are hesitant to develop even middle management team, because they see outsiders as an expensive overhead. They often try to do almost everything and use to fix their own problems themselves as they have the privilege of making their own mistakes as an entrepreneur. Besides the fact that they can not do, they even don't have enough time to think strategically and generate new ideas. They build a trap that make impossible for the company to transform. Especially when so much power rests in one leader and when he isolates himself from outside input, the organization can become very stable and resist change. Primary role of today's managers is to facilitate good job rather than doing it themselves. You must give them more power and responsibility and count on them for being part of the process that implements changes.

### **5.3 Establishing an effective board**

We all know, the board of a company is charged with overseeing the operation of the business. A sounding board is an instrument for turning organization noise into harmonic progress. Surveys suggested that, most family companies that have lasted for more than one generation have some independent directors on their boards. An ideal board should consist of at least a significant minority of experienced, qualified and impartial outside directors. We also know, in some business- owning families, family members who realize the potential of an active board, have voluntarily relinquished their seats to make room for outside directors.

Nevertheless, business owners are more often reluctant to have a board with outsiders, fearing they will lose control of the company, at least their decisions will be challenged and especially their privacy will be compromised. However, many owners conclude that their initial fears were unfounded and outsiders have added to quality of board decisions. The best insurance against leakage secrets that might hurt both the company and the family is to have nothing illegal or unethical to hide. While outside directors should amply be compensated, those who are motivated only by money alone aren't good choices. Many business leaders agree to serve on boards of family businesses mainly because they like to share their knowledge and experiences. A proper balance between internal and external directors is vital. For example, in a board of eleven, even having 3 or 4 independent directors may be suitable for the beginning. Similarly, there should be a balance between family and non-family directors. Board with too many family members may end up functioning like an executive committee. Like non-family directors, family members should be chosen for the quality of judgment they can bring to the board. No need to say, besides familiarity with the business and broad knowledge of economics and management, loyalty to the family is an important requirement of outside directors. Remember, best outside directors are often CEO's of the other companies.

#### **5.4 Succeeding generations**

Top non-family executives can be helpful in supporting succession process in many ways. The first and foremost is mentoring children and help prepare them for leadership roles in family businesses. So, many families use outsiders to direct career development and evolution of young family members. If family business is to survive, has to have leaders for the future. Career development is essential to the continuity of all family businesses. The appropriate period of the mentoring needs to be about 3-4 years. Avoid mentoring to one for a long period of time. By using variety of mentors over time, the mentored gains new perspectives and diversity of role models.

#### **5.5 Non-family CEOs**

In family businesses, despite the desire to keep top leadership of the business in the family, it may sometimes be necessary to assign an outsider as CEO. For example, an incumbent leader died unexpectedly and the heirs are too young to take the helm. Or, the leader likes to retire and no one in the next generation wants the leadership or is not ready. Furthermore, in case of temporary or permanently absence of the leader, a trusted non-family executive can step in and run the company. It is just like an insurance policy.

In such cases, outside executives function as a bridge between generations. The leader may transfer the control of the company to a non-family CEO preferably within the organization. Then, he/she begins to mentor the successor. After a adequate period of time, the successor assumes control. A respected outsider can implement needed changes more easily than a family successor. Moreover, family members must be enlightened about the necessity for his kind of operation. This model works well, if the right person can be found in filling the interim slot of leadership in family business. By the way, it worth mentioning that, it may sometimes be difficult to find a candidate with required qualifications.

Ideally your non-family CEO could be promoted within. But if you need to consider an outside CEO,

- Look for someone whose personality is compatible with family members, vision and strategy match those of the family and who will have credibility both in the business and the family,
- Everybody in the family must embrace the decision. You need to explain the reasons for this assignment also to employees to secure their support,
- One of the most important responsibilities of the outsider CEO is to train the next CEO from the family. So, he/she should have the ability to mentor and coach the young family members,
- Make it clear that, the new leader is in charge now, don't let employees bypass the new CEO and go to the previous with problems. You need to remind them of the proper chain of authority.

#### **5.6 Set an example**

Last but not least, outside executives set an example for other employees- including active family members- to follow and enhance standards of professionalism and transfer family's values and ideas and assure them the family is solid and trustworthy.

All these roles offer some extend of comfort to family members that there are supporters by their side to help them meet the challenges of governing a family business.

## 6. SOME DO s and DO NOT s

Entrepreneurial behavior reflects the desire for total control and being at the very center almost everything. Consequently, business owners often doesn't like talented outsider's pressures on them towards conforming to even basic management principles and prefer to employ people who will probably not challenge their control.

Using consulting firms in recruiting outsiders have been avoided as this process is seen costly. Moreover, common tendency is to hire people who are looking for a job, instead seeking successful performers currently working in other companies.

As a family business leader, you must seek to hire the best people. To be the best, try to find and keep the best. But, you need to be sure that non-family candidate holds values that are similar to those of the family and the company culture. You must not forget, your approach will affect the company's ability to attract and retain the talents.

It will be the best to promote within the company, if possible. As their loyalty, trustworthiness and talents have already been tested. Besides, inside candidate also understands the dynamics of your family business and corporate culture.

Do not expect an outsider to exhibit slavishly blind loyalty. Naturally, outsiders consider their own families best interests. It is your challenge to convince them this lies in serving your family business.

## 7. SOME HINTS

Here are several hints about both recruiting and retaining non-family employees;

- Look for people who are better than you. Remember your team will carry you to success,
- Consider non-family employees as an investment rather than an expense. As stated before, owners who try to do all the things themselves don't have enough time to think strategically and generate new ideas. The job of a leader is not merely to run the company but to lead change and create the environment that encourages new ideas. Thus, it makes sense to invest in enough people to allow you time to envision the future as opposed to being captured by day-to-day operations,
- Allocate adequate funds for training and development. Unfortunately, in many organizations employees are not being trained and developed sufficiently for their future roles that limit the company's career paths to executive levels. Do not try to save money by means of under-invest in training. Don't say training is important and then cut back on the training budget. Search out the very best training courses and seminars for your people. Furthermore, avoid selecting anyone into your managerial team who doesn't want to improve his/her skills,
- Hire people to built for future roles rather than to fill an immediate open position,
- Prefer people who have abilities that are not available within the family. So, you can multiply the talents instead of duplicating them,
- Clarifying expectations is crucial. Secure putting expectations of both sides on the table before the hire or promotion is completed. It will be possible to reduce misunderstandings and eliminate disappointments. Thus, outsiders will be able to know the limits of their power, the procedure of how their performance will be evaluated and potential career paths that are available in the company. On the other side, family will know about outsider's career goals, compensation expectations and values,
- Create an organization structure for employees to move up through. Titles mean many things. Outsiders at least will have a sense that they can move up in the company. Create career paths for them,
- Adopt a family employment policy in which every employee will deserve his/her position in the company regardless of being a member of the family or not. Share it with your key outsiders,
- Design a compensation policy that applies to all employees, which stimulates and rewards performance, contribution and innovation rather than length of service. This kind of compensation system will help outsiders think and act like owners. Besides company profit share incentive available to all employees, consider non-financial incentives as well.
- Make your non-family executives part of your team. This can be achieved by convincing them that greatest awards lie in serving your family business. Being treated on a par with family managers, honored with respect and recognition will do it. Share complete information with your key outside executives, involve them in strategic planning and decisions, communicate them the family succession plans.

## 8. SOME CONTRADICTORY CONCEPTS

### 8.1 Nepotism

Some business owning families preserve an expectation that only family members must lead the company while others focus on professional qualifications and experience. The latter choose the candidate who has the best competencies for the job, regardless he/she is a family member or not.

We know that, the success of the family business depends upon balancing the logic of family and business. Neither must be put before the other. Nevertheless, nepotism is of crucial importance as family members are the guardians of the survival of not only financial but also social and cultural assets of the family business. This view often raise such a question: how much nepotism is good and at what point it is bad?

Family participation and leadership is critical to input family values in the company which is the up most important side of the success. Many family businesses develop formal employment policies for family members. Development of these policies is associated with the increase of the size of the business or the family. When the business reaches a definite size, specialization becomes a norm and competency and qualifications become more important. Also, increases in the size of the family also need to standardize and formalize the entry process for family members.

Family employment policies stipulated standards for entry into the business, create requirements for advancement and promotion. These policies require family members to have qualifications at least equal to those of outsiders. Most policies state that, no jobs may be created or people moved to make a way for the family member.

Conventional wisdom says, jobs shouldn't be created especially for family members. I am not in favor of creating extra additional positions because a family member can't get a job elsewhere. But, sometimes it may be good to create a place for highly talented. Why not be creative and establish a position to take advantage of the prospective young family member

if both the business and the family will benefit ? You can extend that adaptability to non-family employees as well. Otherwise, wouldn't valuable opportunities be missed?

### 8.2 Is personnel turnover lethal?

Most family leaders as they often suffer with the shortage of talented people, avoid turnover. Over paying for long-term employees to reward their loyalty is a common practice as it saves the cost of replacing them. Nevertheless, there is a risk for the organization.

As the business matures, the managerial team aged together. This, inevitably results in an organizational stagnation. Besides, there is another risk. The team will all be retiring at about the same time. That means a great loss of corporate memory and years of vast experience.

Look at the age pyramid of your organization. If your business is overloaded with aged executives, your organization chart looks like an upside down pyramid. It is your challenge to shape your organizational profile such as an original pyramid. You must plan well and long enough ahead to hire young and talented people who can be developed over a period of time. Younger generation will be at the bottom and there will be many candidates available for promotion who are ready to take over senior-level challenges.

Assess your middle managers, not on their past contributions but on their potential for top management positions. If it is lacking, it means it is the time for them to find another job. Maybe, some of your good people will leave for better opportunities offered by other companies. Do not worry. Imagine, if no company wanted any of your people. Just try to keep the very best among them.

Regarding to the succession process, successors eventually establish their own management teams that meet business' strategic needs. At that time the former leader's non-family managers need the successor's respect. A good balance is needed to be established between honoring past contribution and building for the future. Some of them will leave voluntarily.

The important thing is that, it needn't be left to the successor to do. Otherwise, your heir will be regarded as a person who cops off heads. That kind of reputation is not good neither for him/her nor the family. If necessary, cleaning the house need to be done gracefully and preferably by the incumbent leader before leaving.

### 8.3 Is non-family executive an impediment to succession?

As a matter of fact, the transition period from one generation to another is a period of uncertainty for employees. Key outsiders hired by the older generation always feel threatened by the process of change within the company. Ironically, they may easily become impediments to succession and change particularly when siblings are about to take the helm.

Non-family employees may become unhappy and suspicious whether the next generation leader will appreciate their contributions to the company in early days. Besides, they may be so worried about the job security. Will they still have their jobs? (usually, but not always) Is the system going to be the same? (probably not) Will their role change? (probably yes) Because of these uncertainties, it is a common scenario that, they encourage the incumbent to stay in power.

In co-partnerships, the most common leadership model for family businesses especially in these days, siblings must act as a unit in their relationships regarding with such outsiders avoid sending mixed messages to them. It is advisable for the incumbent leader successors talking to each other about the future of the non-family executives.

In family business, it is naturally expected family members hold top management positions. Non-family employees need to understand and accepted the fact that, they will never be CEO and must truly devote themselves to the development of the next generation. These are to be appreciated highly by the family. Besides, reward such attitudes well. But, some outsiders have an ambition to be in the top positions and cling to the belief that, one day they will become CEO. When non-family executives nurture that illusion, they may hinder career development of next generation family members by keeping them out of the information, denying them encouragement and worry parents about their offspring unnecessarily.

Be clear with them when you have set a goal of keeping merely family members in the top positions and be prepared to take action if an outsider doesn't get it. In case your top non-family executive leave, you need to make sure that your company is not overly-dependent on one person.

## 9. COMPENSATION POLICY

Your challenge is, to be sure providing sufficient compensation to attract, retain and keep best outsiders happy and motivated. Of course, it will be a good starting point to gather information on market rates for key positions. You must have a package for your excellent outside executives that combines a market based salary with incentives that gives long-term perspective.

To provide stock is a commonly known practice on the subject. This option makes your company more attractive for outsiders and will be cheaper as it doesn't require cash. Nevertheless, it is not advisable for owners to promise or suggest this option, as it will dilute family ownership and create conflicts in case of executive's leave. Besides, presents legal and administrative complications and also it is often difficult to value. We can say, only about 5% of family businesses offer stock to employees.

For these reasons, most families prefer applying other options than stock ownership such as;

- To allocate a sum of money,
- For working in the company for a fixed period of time or stay until some age keeps the outsider for a long time in the company. Disadvantage is, profitability is not taken as criteria.
- Bonuses,
- Applied as a percentage of profit which will be paid out over the next, lets say 3 or 4 years. It motivates performance. The disadvantage is that, it is not long-term oriented.
- Shadow stock,
- It is the equity without conferring rights of ownership. It encourages employees to think about long-term goals. The disadvantage is, the difficulty of putting value on the shares in case of outsider retires and like to cash his/her shares.
- Non-company investments,
- This option offers equity in any other investments of business-owning families. It strengthens ties between the outsider and the family. The risk is that, investment may loose money instead of making profit. Nevertheless, it will be the family's money at risk, but failure always brings disappointment.

Whatever type of compensation you apply to reward your top talents, try to consider through all the angles and possible consequences as thoroughly as you can. You mustn't forget, compensation is only one aspect of relationship with outsiders. Of course, they expect to be paid and compensated sufficient, other factors which underlined previously count much as well.

## 10. NON-FAMILY MANAGERS' EXPECTATIONS

Your non-family executives naturally have many expectations. Most important ones are as follows;

- Want to be treated fairly,
- If your family's intention is that, only a family member can get top management positions, non-family managers need to know that. Such transparency may discourage some outsiders with high ambitions from even applying to your job offer.
- As discussed earlier, having a family employment policy, give some measure of comfort from the fact that to achieve positions in the company is based on merit for all, including family members. Everyone needs to meet high standards to earn the privilege of joining and being promoted in the company. Also the compensation policy will convince non-family managers that the family is fair and there will be no perception of inequity between executives related to the rewards of employment.
- Want to have word,
- They want to be listened as they want to contribute to your company. If you respect them by listening to and following their advices, they feel they are of value. So, their pride and motivation are enhanced.
- Need praise and recognition,
- One of the simplest ways of sharing business success is, to share credit generously for the accomplishments. Former leader of The Coca-Cola Company Mr. Woodruff said, the best family businesses we know are those takes the attitude that, "we owe our employees more than they owe us" and their actions match this attitude. Regard them as your equals instead of the hired helps.
- Want to be involved in decision making,
- Participation in decision making and especially in strategic planning shouldn't be a privilege only for the family members. When you add non-family executives in to the process, you will get the benefit of the fresh, innovative and broad ideas that they can bring and will get their support as well. But if you don't, you will send the message that they are in the business not to contribute but to do what you tell them to do.
- Like you to share information,
- If you want to built trust with outsiders, you need to share information and communicate openly with them, that may include some knowledge of the family and it's problems and to some extend regarded as sensitive, such as profit and loss statements and knowledge of the family members who work for them. This is because owners feel uneasy. But it will be worth the stretch in the long run.
- Need to have relationship with the outside world,
- Some business owners try to keep their non-family employees from the outside world as they think and fear that, the more external contacts they have , the more likely the company is to lose them. Conversely, this attitude prevents the outsiders getting personal growth and broader professional network. In return, they will have less to contribute to the company.
- Want responsibilities compatible with their talents,
- In this regard, it is necessary to have a career path for your non-family executives like you would have for family members. Ask yourself, whether your organization designed to offer room for them and they can aspire to the high levels. Large businesses will probably have little trouble in providing opportunities, but for small businesses it may be difficult. In these cases, family employment policy can especially becomes a very useful tool.
- Want to have good relationship with successors and family members,
- This kind of relationship begins at the very early stages of your businesses, when the children are very young. You need to show and teach your children that the non-family employees are of great importance and value to the business and have a stake in the success of the company. Help them to realize how much they can learn from talented outsiders. You must set an example for all, if you treat your non-family executives with respect and fairness. No doubt that, not only your children but family members and other stakeholders will follow you as well.
- Want to be trusted
- The growth of the business depend on the chief executive can delegate and trust others. Trust must be mutual, building of trust has to be initiated most particularly by the business leader. One of the most intensives for the involvement of non-family executives is your ability to trust others as a leader. Begin by being trustworthy yourself. Be open, consistent and willing to share power and authority and to delegate meaningful responsibilities, have empathy for others. When you adopt such attitudes, you inspire your outsiders to trust in return and committed to your family business.
- An environment of trust and respect combined with the opportunity to grow and authority will persuade the most talented non-family executives that, it is their best interest to serve the best interests of your family business.



## 11. CONCLUSIONS

If your non-family executives;

- Are ambitiously interested in and try to understand family business issues thoroughly,
- Realize that the business needs the family as they become stewards of the business, don't threat family control and support succession,
- Accept that ownership is out of the question and becoming CEO may not be on the table,
- Keep the distance and always remember that they are not members of the family and act accordingly, even if treated almost as a family,
- Keep in mind that, owner's children are their most valued assets, mentor successors and help younger family members prepare themselves for future leadership roles, particularly that of successors to the CEO,
- Don't get involved in family disputes, avoid choosing to side neither with one generation or the other nor between family branches,
- Loyal to the entire business instead of any member or part of the family, win the respect of family members, try to enhance their political capital, aware of the fact that, the more p.c. they have the more possibility to be heard, thus contribute to the family business' success,
- Emphasize team work and see themselves as members of the family's team, and last but not least,
- Empower employees, understand family culture and values, thus set an example for all,
- congratulations for your success in hiring/retaining valuable outsiders that help where your family business wants to go.

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# ENHANCING FAMILY WELFARE BY INTRODUCING PAPER RECYCLING VENTURE (A STUDY IN A POOR URBAN COMMUNITY)

DEBORA EFLINA PURBA, UNIVERSITAS INDONESIA  
WILMAN DAHLAN MANSOER, UNIVERSITAS INDONESIA

## ABSTRACT

This study is a combination of research and social action, aimed to develop entrepreneurial effort in a poor urban society located in Depok. The community is known as Al Bahar Community, comprises of garbage collectors and small traders. Based on the assessment of the community's strength, the researchers introduce a low risk venture (paper recycling). The participants of this research are women based on the assumption that women can play role as change agent in their community. The study use action research method, with techniques such as socialization, fieldtrip, achievement motivation training, observations and interviews. The sample for this research is 20 women with specific characteristics, and we cluster them in group of 5. The result reveals that women enthusiastically learned about the new venture, but they are also impatience in producing products. Patience is one of the requirements in making high quality paper. We also find a need for leadership. More than half of them haven't seen this activity as an investment for the betterment of their future, probably because the learned helplessness phenomenon in the community. For the purpose of sustainability the researchers also cooperate with a wellknown paper recycling entrepreneur who conducts as guide and buyer of their products.

**Keywords:** women empowering, learned helplessness, entrepreneurship, leadership, paper recycling

## 1. INTRODUCTION

Poverty is often associated with hunger, undernourishment, illiteracy, physical and mental disease, lack of education, and social marginalization (Narayan, Chambers, et.al in Nelson & Prilleltensky, 2005). Blanco (2002) also states poverty as the total absence of opportunities, accompanied by high levels of hunger, lack of education, emotional and social instability, unhappiness, sorrow and low level of hopelessness for the future. Poverty exists in all regions of the world, but it is the purpose of this paper to address poverty in Indonesia, the 4<sup>th</sup> biggest country in the world that has long history of poverty.

Data from Indonesian Bureau of Statistics (Biro Pusat Statistik – BPS) July 2008 showed that Indonesian number of population below the poverty line by March 2008 was 34.96 million, or 15.42% from about 220 million people (Indonesian Bureau of Statistics, 2008). The data showed that there was a slight decrease number and percentage from 2007 data, in March 2007 number of population below the poverty line was 37.17 million (16.58% from the population). As in urban area in Indonesia, BPS March 2008 data showed the number of population below the poverty line was 12.77 million or 11.65% of Indonesian population. These numbers and percentages are still considered high, which means poverty in Indonesia is a major problem to be overcome.

There are two kinds of poor individuals according to Charles Murray (1984): the deserving poor – the involuntarily unemployed and the helpless, and the “undeserving poor” – individuals who take advantage of society's generosity. The challenge is to take care of the deserving poor without encouraging people to become undeserving (Murray, 1984). Another theorist who proposed “the concentration effects”, William Julius Wilson (2002) contends that individuals living in highly concentrated poverty areas were much less likely to be tied into job information and other self-sufficiency networks.

Hence low income families are often assumed to be locked into a culture of poverty (Lee, 1988), and impact self-esteem, motivation, self-efficacy, and lack of long-range planning. In general, individuals in poverty have been linked to threatening situations and uncontrollable life events, creating learned helplessness.

Michael Harrington also believed that poverty has a psychological impact; making people feel “hopeless and passive, yet prone to bursts of violence” the poor are lonely and isolated, often rigid and hostile. To be poor is not simply to be deprived of the material things of this world. It is to enter a fatal, futile universe, an America within America, with a twisted spirit”. (Harrington in Harrison, 2004).

Creating an intervention program to a poor community to help them get out of their poverty is very important today, because they couldn't get out themselves without help. Harrington believed that they are caught up in a vicious circle, that they live in what he called a "culture of poverty", the term first coined by Oscar Lewis (Harrington in Harrison, 2004). This happens because the poor were born to the wrong parents, in the wrong section of the country, in the wrong industry, or in the wrong ethnic group. Once "mistake" has been made, most of the poor people could have been paragons of will and morality, but most of them would never had a chance to get out of poverty (Harrington in Harrison, 2004).

## **2. POVERTY AND LEARNED HELPLESSNESS**

Anup Singh (1991) argues that poverty is a multi-faceted phenomenon. People experience poverty largely affects their life goals, social and personal relationship, and cognitive and affective processes. He says that poverty induces feelings of helplessness and hopelessness (Singh, 1991).

Poor people mostly lack adequate information on anything that could help them overcome their difficulties (Fitchen, 1991). They do not recognize that they have a problem, or if they recognize it they believe that it is part of their life and cannot be resolved. According to Harrison (2004) this is an example of learned helplessness. Fitchen also observed that sometimes poor people lack their self-confidence to take action to change his or her life.

Harrison says that much discouragement and lack of motivation is caused by pessimism. Martin Seligman, who studied the negative impacts of pessimism, believed that the characteristic of pessimists is that bad events will undermine everything they do and last for a long time. On the contrary, the optimists facing bad events will take the events as temporary setback, will not last long and confined only to one situation. According to Seligman, the difference between optimists and pessimists is that pessimists give up more easily and get depressed more often, whereas optimists are more successful in school and work, and are less likely to "succumb" to long term patterns of poverty (Seligman, 1990).

Seligman introduced the term learned helplessness and explanatory style, and defined learned helplessness as "the giving up reaction, the quitting response that follows in the belief that whatever you do doesn't matter". Explanatory style was defined as, "the manner in which you habitually explain to yourself why events happen". (Seligman, 1990: p.15). Explanatory style is the great modulator of learned helplessness, and he argued that an optimistic explanatory style stops helplessness, while a pessimistic explanatory style spreads helplessness (Seligman, 1990).

## **3. PROGRAMS TO ALLEVIATE POVERTY**

Denise Winfield Harrison argues that programs to eradicate poverty will continue to be ineffective until social welfare theories begin to assume a holistic approach and attack the problem of poverty from multi-disciplined approach, i.e., working to empower the individual and to show him or her that there is an escape from their life of poverty (Harrison, 2004).

The program that we have done toward the community is considered holistic. At the first encounter, we provide them life skills such as simple family balance for mothers and controlling money used for snacking for mothers and children. We also provided them hygiene bathrooms and wells to help them get clean water instead of buying it.

At the second encounter we approached mothers only, with the assumption that they can act as change agents in the family and in the community. We help them raise the awareness of keeping money to be invested and some skills to engage in the ventures by giving those women trainings on achievement motivation and technical trainings. The achievement motivation training was included in the program to help us identify the strength of their achievement motivations.

The need for someone to lead is very common in Indonesia. The success of programs depends on leaders. Leaders are not necessarily formal, but they usually take the first step to be followed by others. Programs to alleviate poverty will not do any good if there are no internal leaders involved in the program.

## **4. AL BAHAR COMMUNITY AND POVERTY**

Al Bahar Community in Depok, Indonesia is a community that consists of almost a hundred households. Their main livelihoods are collecting discarded things and small trading among the community. Many of the housewives work as partime housemaids in the surroundings. About half of the community comes from many rural areas in West Java, and half other comes from East and Mid-Java. Mostly they have farms in their rural areas, but poverty dragged them into coming to the city to seek a better livelihood.

Housing condition in Al Bahar Community is very poor, with houses stuck together in a slum area. Actually the area itself is not really a slum area, but the used materials collected carelessly made the area becomes slum. The landlord has to do something to make a better residence for the tenants, especially because the rented houses are considered expensive compare to its condition. Houses at the fore-front area are 20 meter square each built by the landlord, and houses at the rear-end area are mostly 9 meter square each built by the bosses of the garbage collectors, who also rent the land from the landlord.

Their income in the city ranges between USD 30 – USD 150 per month. Every garbage collector has a “boss”, someone who collects the discarded things they pick up everyday. They are paid monthly for every kilo second-hand things that they offer to the boss. Financial matters are managed poorly by the housewives. Their biggest expenses are for food, and their number two expenses are for eating snacks. They expend about USD 1.5 to USD 2 only for snacking. They also expend USD 5 for clean water, and about USD 1.5 to USD 2.5 to rent their small houses, not included their children’s school fee, money to be sent to their family in rural areas and medical fee. In short, their income is not equal to their expenses.

In fact, they can survive in the city because they have their bosses to lend them money. The payment with some interest would be deducted from their monthly income by the boss. This circle of debt creates ongoing poverty within the community. Those families come from the rural areas to seek a better life to live only to find themselves stay poor. Because of their poverty, they just accept their condition and do nothing to improve their lives. For example, they don’t know that if they invest a little bit and work together to dig more deeply into the earth to find clean water, so instead of doing it they just buy some clean water which is more expensive. Only when they are helped by outsiders to dig wells they understand that they can save money from the wells.

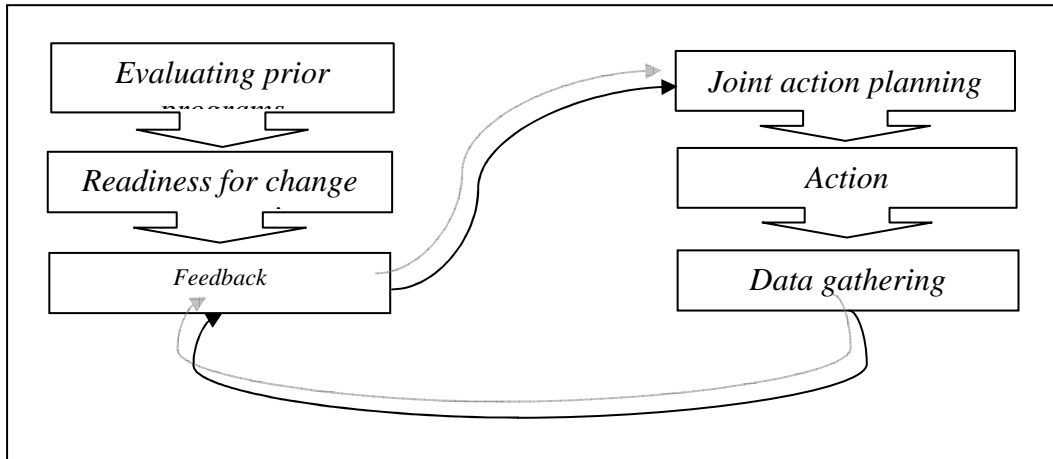
The community is naturally divided into two groups: forefront group and rear-end group. The forefront group largely comprises of small traders and housemaids, and the rear-end group comprises of garbage collectors. Optimism toward life is better in the forefront than in the rear-end groups. That is the reason why the entrepreneurship program we conducted is better applied by the forefront groups than the rear-end groups. It is very obvious that the learned helplessness phenomenon happens more intensely within the rear-end groups.

Demographically, most of the populations are illiterate to elementary school graduates. Only 5 people in the community are senior high school graduates, while 14 others are junior high graduates.

## **5. METHODS**

The community has been intervened twice by our faculty since year 2007. The first intervention is conducted towards every part of the family: fathers, mothers, children and the environment at large to improve their quality of lives. The intervention was in the field of building saving behavior, building hygiene clean water resources, and composting. The saving behavior was conducted towards mothers and children, to get them used to balance their income and expenses, especially snacking expenses. Building hygiene clean water resources done by creating three wells to find clean water to be used together for household needs. They still use the wells until now. Composting was the third type of intervention that failed during the implementation due to lack of available time reason by the community.

By 2008, we approached the community again to develop an entrepreneurship program. This time we approached only women, with an assumption that women can take role as change agent within the community. We use action research method to identify entrepreneurial ventures to be taken and took action based on the evaluation. Here is the action research cycle that we conducted within the community.



**Figure 1. Action Research Cycle**

Based on the joint action planning, we identify two ventures: paper recycling and earth-worm cultivation. Along with the community, we chose those low risk ventures based on the strength of the community and the opportunity available. Because many of them work as garbage collectors, they can easily get used papers from their work areas. Earth-worm cultivation is another bright venture with less energy and capital involved. But in the middle of the action phase, we dropped the earth-worm cultivation for some reasons, such as not enough space to cultivate since fathers (garbage collectors) lorded it over for their second-hand material repositories and many of the women had second thought about the activity. In the middle of the intervention, we focus only to the paper recycling venture.

The intervention is divided into five programs: socialization, field trips, achievement motivation training, technical trainings on paper recycling and earth-worm cultivation, and assistance program. There were more than 25 women interested in the program at the first and second programs (socialization and field trips) and the amount decreased in the next programs. It increased again at the technical trainings, but slowly decreased after the trainings. We divided them into four groups consisted of 4 to 5 women from front-end and rear-end groups at the technical training programs. Data gathering conducted using observation and interview methods.

## Result



**Figure 2. Entrance to the Al Bahar Community**

This community is different from other illegal settlements in urban area. Unlike the illegal settlement, the Al Bahar community settles in a private land. Therefore, as long as the landlord takes the advantage from his tenants, the community is not going to be removed from the area.

The problem with the area is the uninhabitable settlement to be rented. The populations live in a dirty, flood-prone environment. The houses are only 12 square meters each, lived by one family consists of parents and children. There are hardly enough space between the houses.



**Figure 3. Settlement condition at the rear-end group**

The mothers were enthusiastically welcoming us during the program. We used many programs to attract their attentions, such as socialization, field trip to the success people in the paper recycling and earth-worm cultivation ventures, and achievement motivation program. We invested some of our money on the materials to do both ventures, and taught them how to do it with the help from experts. In the socialization and field trip programs, there were about 30 women who were interested and had time to be involved the programs, but in the achievement motivation training program there were only ten women involved in the program. Of all the ten women who actually engaged in hard work everyday, only two of them showed high need for achievement. In the technical training program, there were more than 30 women involved in the program, but we chose only 20 women who expressed their commitments to the program.

After sometime, more and more women withdrew from the activity with many reasons. Many of them didn't see the project as a resource for immediate income, unlike their job as garbage collectors. The problem with the paper recycling project is that one cannot immediately master the skill and create a beautiful paper recycle; it needs patience and hard work. Although there was a guarantee that their products will be bought by a buyer, they didn't seem to care enough. Only five of them survive at this moment.

A need for leader is obvious in the project. Many of the women refer to a woman who seems to take a lead in almost situations when interviewed. This situation actually puts burden to the woman, especially because she hasn't taken any leader role in the community before. Her persistence and optimism in the project seems to influence her neighbours to do the same.

## **6. DISCUSSION AND CONCLUSION**

What we have done in Al Bahar is considered a holistic approach to empower the community. Although we couldn't reach the whole family in the community to be involved in the entrepreneurial venture, some of them have always kept high hope in the business. They even have dreams to be successful entrepreneurs in the field of paper recycling, and to keep the dream high they practice almost every day as long as there is enough sun to dry the papers. One of the women even dares to accept the invitation to train in a school nearby the community, and started to sell the products to external parties besides the buyer we are cooperated with.

To some extent, most of the population in the community has the attitudes that lead to learned helplessness phenomenon, for example they couldn't figure out themselves what to do in order to have cheap clean water for their everyday needs (the phenomenon at our first encounter in 2007). Only when external people come and taught them



what to do, they realized that they only have to spend little energy to find clean water resources. At the very early stage of development, the community depends very much on external people to help them change.

When we came back after the first encounter in 2007, some of the trained mothers in the simple family balance program have already unlearned the program and back to their old habit of spending money, but some of them kept the good learning because they are determined to give more to the family. The odd phenomenon was that, those who were already left the program were mostly resided at the rear-end groups. When we encountered the community in 2008, we were aware of this problem and put mothers from rear-end and front-end groups together at the same group so that every group will have some rear-end and some front-end mothers. Unfortunately, the method didn't work well. At the end of the program, there were only front-end mothers who survive and still do the project.

When we interviewed the rear-end mothers why they left the program, they said that they didn't have time to do the project because they have already been busy with their job as the garbage collectors. They realized that they don't get enough from being garbage collectors, but they also believe that nothing they do will change their lives. Even if they master the skill on paper recycling, that's not going to change their lives. This attitude is very different from the optimist front-end mothers, who have high hope in the business. They are not satisfied with only one buyer to their products, so they search other buyers and try to be creative in the product creation. They even dare to dream about their children going to college from their effort in the business. The problem is, they always wait for one person to take the lead to start the work. If the leader is not in the mood for doing the business, they won't do the work either. They depend on the person, although she is not very happy to be their leader. It is by chance that the informal leader is a senior high graduate.

Up until now, even the informal leader as the most optimistic woman in the community asks us not to leave the community before they could stand on their feet. Sometimes we supply them used papers from our offices, but many times we come to the community just to have a small talk with the women or listen to their next plan. We usually gather together at a small mosque located at the center of the community. It is obvious that they don't need external leaders to lead them to work because they already have one internally, but we believe that being close to the people who care for them will do a lot of good to keep them spirited in the business. We hope that they will continue to work and spread the skill to the community.

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# DISCOVERIAL ACTIVISTS IN ORGANIZATIONS: INTRAPRENEURSHIP

SERHAT SOYŞEKERCİ, ÇANAKKALE ONSEKİZ MART UNIVERSITY  
RAMAZAN ERTURGUT, TURKISH AIR FORCE COMMAND

## ABSTRACT

Today, the discourse and practice of entrepreneurship has changed shape. In traditional sense entrepreneurs are the people who found the company and undertaking it's profit and loss with tolerate risk and uncertainty to the future. Traditional entrepreneurs are encoded 'boss' or 'own capital' that they come toge ther production factors and venture every conclusions. In this case internal entrepreneurs are described as the people who creates intellectual side of goods and services and starts extra ordinary activity in organizations. intreprenuers (internal entrepreneurs) are the creative characters that they cause transformational changes in company. They constitutes mind team of company that they work their own enterprises in natural structure and original identity and don't prefer establishing an any other enterprise. In this context intreprenurship is the key role in enterprises that it activates innovation and creativity potential. The term "intreprenurship" is the emphasize to creative way of companies and it includes multistructure with some risk, management information entrepreneurship thought. This study examines the concept of entrepreneurship within the context of intreprenurship by approaching it from a different point of view. Exploring the relationship between internal entrepreneurship and entrepreneurship meaning discoverial entrepreneurship activities in the existing. Also it is dealt with distinguished examples and success stories about internal entrepreneurship. It's aimed with this study to bring in new point of view to businness management and entrepreneurship culture in the frame of organizational Dynamics.

**Keywords** Intrapreneurship, Internal Entrepreneurship, Innovation, Creativity, Organization, Discoverial Activist.

## 1. INTRODUCTION

Today, the field of entrepreneurship forming otu the front by changing face of organizational behavior such as of self-managed teams, internal entrepreneurship, creating innovative organizational culture, inspiring leadership change process, and reformers in the management field. Besides, financial (profitability and growth) and non-financial (customer satisfaction and Employee satisfaction) components which determined the companies performance are constitute a vital importance for the operation of the company Becoming entrepreneurs, setting up their own businesses and willingness to work independently with the traditional sense is a factor that makes the people entrepreneurs. But people can continue their entrepreneurs and independent charesteristics as an employed people in an organization. This means is to perform its activities in established business, instead of establishing a business. B In this way, people may choose to equip himself with internal entrepreneurs abilities instead of traditional goals. Because this case reflects a natural result of one's own potential. Internal entreprenuers must not be dealt with as an alternative of entrepreneurship. Because internal entrepreneurship is realized in existing company and necessary to deal it it's own dynmic charesteristics.

## 2. INTRAPRENEURSHIP (INTERNAL ENTREPRENEURHIP) CONCEPT

Although the concept of entrepreneurship associates SMEs, today's large enterprises economic activities are often start as small businesses (Ercan and Gökdeniz, 2009: 82). When the humanity end hunting and gathering cycle (polished stone) started production in neolithic period entrepreneurship, began to first create forms. Therefore it is rooted activity as much as the history of human existence. After a short term period simple businness forms and city countries were established. (Ercan and Gökdeniz, 2009:83). for the purpose of describing entrepreneurship, multiple definitions have been taken to explain it with economic, psychological and sociological approaches.

The entrepreneur word is composed of 'entre' (to enter) and 'prendre' (to receive, to take) and means 'do something' (Öğüt, 2006: 431). When the liberal economies come to the fore with rationality and competition realized in the high-level, risk factor of entrepreneurship has shown for the first time in 17th century in Western societies.(Ercan and Gökdeniz, 2009:61). Entrepreneurship concept was defined by Richard Cantillon French economist as to profit by taking risks "(Hisrich & Peters, 1989: 7)in economic literature. Another economist Jean Baptiste Say also defined entrepreneurs "persons who transform production factors into the profits" and he expressed todays near meaning of entrepreneurship with using profit and risk factors. (Aytaç, 2006: 141). Use of the concept of entrepreneurship in the British literature meet 19th century. (Çetindamar 2002:33). After that Joseph Schumpeter who British economist the



describe entrepreneurs, person who form the market maximize with "using factors of production through technological developments by bringing together." in 1934 (Boyett, 1998: 78) According to Schumpeter, however, the stable situation will be abandoned when entrepreneurship is awakened.(Hava and Erturgut, 2009:3) Thus, entrepreneurs emphasizes the one who create new market combinations via "creative-destruction" in organization. (Dündar and Ağca, 2007:124). As it seen according to descriptions so far related entrepreneurial type, influence of the capitalist process and obedience. (Kızılkaya, 2005: 39). Definitions at the beginning, come forward to the economic side, but with new definitions, this case has been located traditional or classical category (TÜGİAD, 1994: 3). The touch of entrapreneurship with not only economy discipline but also management discipline has show up entrapreneurs leadership (Müftüoğlu, 2004: 14).

Here the main subject which will be dealt with is internal entrepreneurship that it is out of entrepreneurship and different activity in entrepreneurial activity. According to Hodgets, (1997: 12). "entrepreneurship concepts include every kind of entrepreneurial activity in enterprise". Therefore, intrapreneurship (entrepreneurship within existing organizations) is an important element in organizational and economic development. Scholars and practitioners have shown interest in the concept since the beginning of the 1980s due to its beneficial effect on revitalization and performance of firms (Antoncic & Hisrich, 2001: 496). Moreover the term of first of all according to Gifford and Elizabeth Pinchot "existing entrepreneur at the company" in the 1976 (MIT, 2001). In parallel, the internal concept of entrepreneurship appears to be expressed with article which has written in The Journal of Economist in 1976 by Norman Macrae. However this definition must be evaluate as restricted suggestion only, with "experimenting to do something new experiments in future domestic businesses by finding alternative ways." (Yıldız, 2007: 14). Gifford Pinchot in 1983, moved the concept as revised by a larger size of "an entrepreneurs that existing in organization currently" (Hisrich & Peters, 1985: 96) Terms such as intrapreneuring (Pinchot 1985), corporate entrepreneurship (Burgelman, 1983; 1984), corporate venturing, and internal corporate entrepreneurship have been used to describe the phenomenon of intrapreneurship (Antoncic & Hisrich, 2001: 496). Intrapreneurship have been focusing four field sizes.

- New Business Venturing,
- Innovativeness,
- Self-renewal, and
- Proactiveness.

New business venturing is the most salient characteristic of intrapreneurship because it can result in a new business creation within an existing organization by redefining the company's products (or services) and / or by developing new markets (Antoncic & Hisrich, 2001: 496). Traditionally, the studies of intrapreneurship are multidisciplinary using several sources that are often located within the studies of entrepreneurship (Menzel et al., 2007: 733).

### **3. THE PROBLEMS OF ENTREPRENEURS IN COMPANIES: BUREAUCRATIC PROCESS AND FORMAL OPERATIONS**

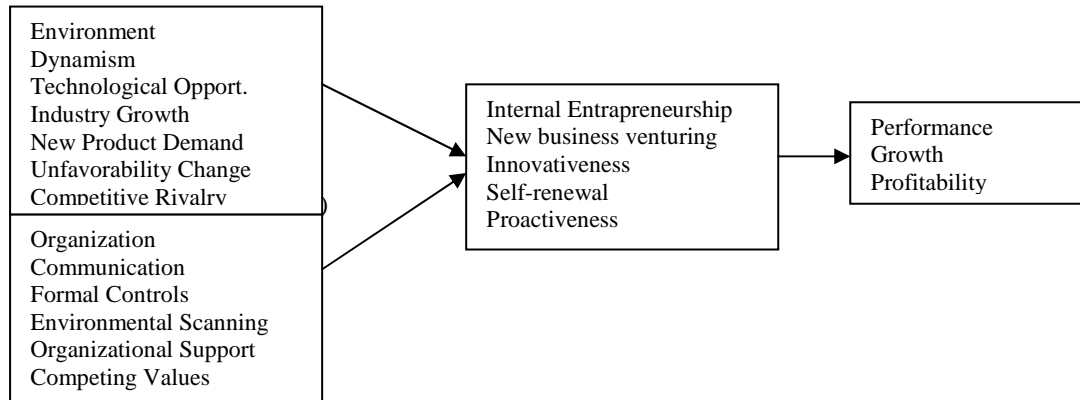
One cannot mention "entrepreneurial vigor" in a society where questions such as "what?", "how?" and "for who?" are answered in the same manner as the preceding generations. This situation might define why some countries show advance in economy and the others cannot even overcome the poverty threshold. (Hava and Erturgut, 2009:1) On the other hand, enlarging of entrepreneurs companies has been creating clumsy and slowness from official control systems to hierarchic cycle. Because at today, the quick transformations existing of the evolution of the human nature, society, and idea put forward the obligation of the concepts that are relevant to the 21 st. century paradigms (Soyşekerçi, 200: 3). In terms of small businesses, bureaucratic clumsiness Against to change has caused to loss innovative spirit, and to search for more flexible and free fields. This is the main reason makes small businesses more attractive. However, the primary concern for entrepreneurs is to produce goods or services. At this stage, being a low official control system depends on the entrepreneur's initiative. Because working hours are long and the company's concentration is based on the development of goods or services. (Kimberly & Miles, 1980:393).

Today, one of the most important problem in large and established companies is losing employees for whom created barriers for their innovative ideas. Sometimes this situation result in set up their own businesses. Because these employees /managers discoverial efforts and innovative pursuits often can not responded by their company. Sometimes they choices any other company generally small then former. (Daft, 1991: 776; Soyşekerçi, 2001: 19). Here is the thing existing there is dynamic tendency that originated from establishment. In this process, company expands it's competition areas and oppotunities with sources which created from inside. Even sometimes capital has used by the administrator, entrepreneur and management activities separated from each other because entrepreneur initiates the change. (Stoner & Freman, 1992: 152).

When the Company's resources reach at the point of maturity, internal entrepreneurship are emphasized than entrepreneurship in no longer. In this period developing new products, processes or services activities show up by

internal entrepreneurs by means of doing innovations. Also entrepreneurship in innovation is created. However, these reforms will be carried out under the framework of a separate organization. So this case loads heavy responsibility to employees because official actions and routine bureaucratic procedures such as re-doing public things may be slow down.(Bartol, 1991:797). Internal entrepreneurship (intrepreneurship) is popular especially in crises periods. Because in crises periods employers can determine their intrepreneurs as subcontractors instead of dismissing. Prevalencing of this, states must facilitate to establish business and should give up to consider entrepreneurs to herself as competitors (Titiz, 1998: 55). Positive effects of environmental and organizational effects to profitability and growth of entrepreneurship performance can be seen in Figure, 1.

**Figure 1,** The internal entrapreneurship model and its' direct effects



**4. THE STRUCTURAL DIFFERENTS BETWEEN ENTREPRENEURS AND INTERNAL ENTREPRENEURS**

In small business, entrepreneurs generally retain management structure and capital. As soon as the growth of the business, management and capital structure leaves. Especially in the field of organizational management appears a professional approach. On this issue, according to Paul H. Wilken who put forward distinction between management and entrepreneurship "entrepreneurship include to combine to make changes in production but management involves combining for producing". (Stoner & Freeman, 1992: 156) For example Steven Jobs established the Next Company (Fourth generation micro computer and powerfull than IBM&Apple) with his several friends after he departed from Apple company in 1985 (Stoner & Freeman, 1992: 156).

We can separate into three group the structural differents between entrepreneurs and internal entrepreneurs (intrepreneurs) First, entrepreneurs often turn their attention to technology and market share, but internal entrepreneurs focus on stabilities within the organization and customers as well. Second, although the entrepreneurs, avoid the organization's major structural problems, internal entrepreneurs bring solutions to this kind of problems in system. Third, internal entrepreneurs are coming from with a lower- income- levels than entrepreneurs, from the point of view of socio-economic. Additionally internal entrepreneurs's education levels are higher than entrepreneurs. This case can be linked organization's sanction necessities(when the company receive an employee, looked to make conditions at least faculty or MBA graduates. Major structural differences between entrepreneurs and intrepreneurs are seen in Figure 2.

**Figure 2,** Differents between internal entrapreneurs and entrepreneurs

Intrepreneurs	Criteria of Different	Entrepreneurs
Big company culture consistency support	Size	Small and new company new culture inconsistency legal business
Long term works High technology Large market	Successfull fields	Short term works Low technology Small market
Stabilized promotion	Award	fluctuating

## 5. THE CHARACTERISTICS OF INTERNAL ENTREPRENEURSHIP

*Environment analysis* is an important factor for building successful entrepreneurial. Dreamer leadership characteristics provides a privileged mission to follow happened outside for internal entrepreneurship. (Erçil, 1992). Thus, internal entrepreneurs as dreamer leaders, can drag people on their trail with extraordinary dreams. (the real world and while awake) In this way internal entrepreneurship calls visionary leadership (Akdemir, 2008) or transformational leadership (Erturgut, 2007:141-178). To be Leader through internal entrepreneurship can be simulated as a gardener. If you want tomatoes, you plant tomato, you water it, you hoe and you'll deal with it. You don't plant tomato like in the tomato plant. You intense to your own culture to grow. (Erçil, 1992: 18). Internal entrepreneurs strive to stimulate debate within the organization for keeping alive continuous development in organization. They Support to employees by clear and straightforward for taking encourage them. The other feature of them is to be persistent. Even though anybody doesn't give him to change about creating market share. Chuck House who internal entrepreneur of HP company, has created market share for the fast, economical, lightweight, low-resolution monitor without dreading and folling down. He has accomplished to create different markets for HP Company such as operating room, defense technology, educational institutions in different fields. (Erçil, 1992: 19). The constancy of change, and that the overwhelming changes occurring in the health care industry require flexibility and innovation (Goodwin, 1997: 71).

Internal Entrepreneurs, who not taking too much like entrepreneurs, reduce risk the minimum through producing goods and services supporting users, partners, capital owners, shareholders or distribution channels. They must be crazy about taking risk. Because taking risk complete their competence generally. Internal entrepreneurs who within a particular discoverial efforts, are not monotonous while they building their personal respect in organization. They work within the low cost and the highest learning goal in the logic of "be thrifty, stay flexible" (Pinchot Company, 2001). Internal entrepreneur always aware that a reaction would be occur towards his discoverial works. To withstand this kind of reactions, internal entrepreneur attempts to soften as much as possible and executes his work in secrecy for a while. In this way, he prevent the sabotage his innovational efforts in beginning of the work. Under that kind of perceptiveness, organizational culture which provide to collaboration and create taking risk thought among employees is dominated contrary to the traditional commant-control model. For example 3M Company has been producing Post-It-Note papers within 18 different colours, 27 different dimensions and 20 different quality or Levi's Company in San Francisco has been creating 65.000 different products within different brand, colour, design, size and cloth. Everybody is the entrepreneur under the internal entrepreneurial activity. When the values of Microsoft shares increasing in washington Redmond, everyone working all over the world, will receive a fis share from this. HP Company in California Palo Alto everyone takes bonus from secretary to high level managers at the same time according to three months performance values. Thus, organizational competence reaches maximum capacity and limited job descriptions liquidates itself. Businesses which based on the traditional task organization leaders seperated of the employees required their job identifications. Messages from the management to departments and workstations move down with the order chain. On the other hand, the leaders in an internal entrepreneurial event work by teams within the company that they adapt organize and renew themselves for an instant response. (Fradette & Michaud, 2000; Peters & Waterman, 1995). For example, in Nova company, managers act with the company's entrepreneurial experiences. Firstly Nova company's managers also gain experience by working for someone else like founders of company. However, some managers of Nova motivate themself to setting up their own small businesses while in school. Contrary to this, the another group have been working through internal entrepreneurship without left the company and their salaries. (Miller & Dees, 1991: 263).

A broad and widely used definition of intrapreneurship is entrepreneurship within existing organizations. A more specific and widely accepted definition of entrepreneurship in this sense is 'the process of uncovering and developing an opportunity to create value through innovation and seizing that opportunity without regard to either resources or the location of the entrepreneur' (Menzel et al., 2007:734). Ideal profile of Internal entrepreneurs can be summarized as follows Figure 3.

**Figure 3,** Ideal profile of internal entrapreneurs listed in decreasing order of priority

Vision and creativity
Initiative
Internal motivation
Autonomy
Risk taking
Internal control
Commitment and persistence
Market knowledge/customer orientation

## 6. SUCCESS STORIES ABOUT INTERNAL ENTREPRENEURSHIP

Companies of internal entrepreneurs are full of discoverial ideas that adapted from intrapreneurs' own capabilities. We can account for some of these examples that Edwin Land who discovered polaroid camera was studying Yale, Frederich Smith founded distribution service in one night for Federal Express, George D. Mestral who Swiss engineer and discovered selotype thanks to prickles attached his wool socks, and Arthur Fry who discovered Post-It-Note in 3M Company's research laboratories. These and other successful discoverers have different success stories. For instance Arthur Fry, Sözelimi had founded yellow sticky paper (post-it) as a result of observation of papers which scattered wind and flying with wind during the Sunday Liturgy when he was in front of the church choir in 1980. Just like in this story another company's intrapreneur has benefited from the dry and wet leaves stacking analogies. Thus, creative thinking has produced the following solution: "to put potato chips in a stowable mould before drying. Company sold the idea to only Procter & Gamble. In this example it is necessary to focus attention that the thing sold was an intellectual ability but not service or a material. Thus story of boxed chips Pringles was appeared as a result of successful individual effort. (Daft, 1991: 367). It is possible to show similar example for Wendy Black who internal entrepreneurs of Best Western International. He discovered the idea about putting into letters a single package that they sent company's 2800 different hotels. Thus his company decreased its postal service costs 600.000 \$ annually. (Daft, 1991: 368).

## 7. CONCLUSION

Today, the concept and practice area of entrepreneurship has changed. Because the model derivations about entrepreneurship like; women's entrepreneurship, social entrepreneurship, technological entrepreneurship, management entrepreneurship, internal entrepreneurship has contributed to entrepreneurship a versatile structure. However, the traditional entrepreneurs are persons that they venture to profit or loss risk and establish the company. Whereas internal entrepreneurs in existing company are move as non-monotonous manner and spontaneous style through their own capabilities. These people not only constitute the brains of the companies, but also form the company's patents and licenses. They are also the intellectual pioneers of company's goods and services. In this study, some leading companies intrapreneurial activities, intrapreneurial success stories, internal entrepreneurs discoverial achievements and diversity between entrepreneurs and intrapreneurs in basic vision and mission has discussed. As a result, internal entrepreneurs, constitute the basic discoverial activist character of companies.

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# IMPORTANCE of PURHASING FUNCTION AND CONTRACT MANAGEMENT in LOGISTICS MANAGEMENT

RAMAZAN ERTURGUT, TURKISH AIR FORCE COMMAND  
SERHAT SOYŞEKERCİ, ÇANAKKALE ONSEKİZ MART UNIVERSITY

## ABSTRACT

In our age logistics and logistics management terms have been receiving more importance as a result of becoming different necessities of relations between institution and businesses in addition to customers demands. Horizontal and vertical mergers of companies have contribute to this process. Logistics term is percieved as a military issue previously. Then it's considered a resricted field with "transportation and storage" activities. Today logistic has become vital function in terms of both institutions and firms. In parallely, purhasing activity has become different on the further side of it's classical meaning "support function" in logistic management. Besides, contracts which the most important devices to configure among parties and assist for distributing risks and responsibilities has been composing strategic competition advantage in logistics management contents.

This paper aims to give the purchasing and contract management functions side of theoritical backround in logistics management. In this frame the importance of contract and purhasing activity of logistics management is pointed out according to the new approachs. It will emphasize importance of purchasing and conractual issues and how this interrelated with popular business and logistics management. Another aim of this study is to provide a contribution to the small and medium sized enterprises to understand the importance of competition in logistics management.

**Keywords:** Logistics Management, Supply Chain Management, Purhasing, Contract

## 1. INTRODUCTION

The development of management thought is forcing us to become familiar with new applications. Recently, "Logistics Management" and "Supply Chain Management" terms have taken part in the business management concepts. Initially limited to transportation and storage and a military term that referred to as the field of logistics today, stock management, transport, material handling, packaging, site selection and order of activities includes taking has become. Production, trade and national economy will provide added value when considered in terms of the logistics sector is becoming an important sector. Especially, supplying materials and services that the most important inputs of small and medium-sized enterprises (SMEs) in appropriate quality, cost-effective, appropriate amounts, in a timely and appropriate place and show the continuity of this performance, depends on the efficiency of logistics management. (Özcan, 2008:275)

On the other hand the buyer-seller relationship in the business literature has been indicating increasing importance of the value creating (Erturgut, 2008) Because today's vendor companies, prefer suppliers who supply goods and services to market according to their own value that they contribute in their activities. (Bozkurt, 2003:173) Recent research on this issue, vendors in the supplier's decision-making has been emphasized the importance of the value it adds. (Parasuraman, 1997:154). Today, anymore even individual consumers ensure that addressing enterprises to such applications are to realize their responsibility and environmental protection by using the purchasing power in their hands (Aracıoğlu and Tatlıdıl, 2009:460) Perceived shape of supplying goods by buyers in the market, the supplier's ability to refresh the product, product presentation given to the supplier's vendor support,creates a positive way differences in costs in terms of both buyers and sellers. When contracts considered as the main devices that regulate Buyer-seller relationships in the all this cycle in parties by the contract, procurement and contract management issues, is held even more important place within the logistics management ever-expanding content. It will be useful to put their importance and relationship with each other of this concepts that under the logistics management In theory. Moreover, If this relationship does not perceived creation of private logistics mixed for enterprises with these activities may be difficult.

## 2. THEORETICAL FRAMEWORK

Logistics management area that integrates procurement and contract management activities also constitutes an important part of supply chain management at the same time. Here's a brief theoretical framework is presented regarding the a forementioned issues.

## 2.1 Supply Chain Management

Before defining supply chain management, to define what is supply chain expressed will be useful. With regard to the supply chain are to be run into a description of unity in the literature. Supply chain, which supplies raw materials, intermediate goods and final products translate it to them and distribute the final product to customers, is a network that formed with manufacturers and distributors. (Lee and Billington, 1992: 66). According to another description, the supply chain is a network that it composed of fulfilling the procurement process of materials, and then convert them semi-finished products and distribution channels they can reach customers through service and distribution options. Supply Chain Management is defined as the coordination and integration of materials, information and financial flows in a network that comprised of customers, suppliers, distributors and manufacturers are. (Ataman, 2002:35-36) Today, one of the most important paradigm of modern business management is the reality that it indicating enterprises can not exist as autonomous assets and it will be required to take place within a supply chain. (Karaçay, 2004:317) In other words, the business management has been transforming to "network competition" and it starts to turn supply chain competition instead of brand competition. Supply Chain Management provide a significant contribution to the productivity of enterprises from raw material production vendors to final product sellers production and distribution process as helping to funds and information flow management. (Güleş and at all., 2005:92)

## 2.2 Logistics Management

With the most lean meaning of logistics is movement and storage of all related activities between goods received point and consumption of the located point. (Sürmen and Aydın, 2005:54) According to this definition of logistics receives as a bridge function between production and consumption points which separatable from each other with time and distance. (Ballou, 1995: 39-54 and Alkusal, 2006: 3). According to another recognition of logistics is the entire activities that provide all physical assets from one location to another location, with the aim of the realization of overall business functions. (Emel and at all. 2004:59) Logistics, can surround business activities such as transportation, distribution, warehousing, materials classification and inventory management. (Ratliff and Nulty, 1996:1; Ugurlu, 2007: 12, in Özcan, 2008: 277)

It is known that origin of logistics based on the of military applications. In terms of military logistics is defined as , the procurement and administration of tactic weapons and powers to access strategic goals. (Baki, 2004 ; Erturgut, 2008) In both world wars, particularly the movement of military forces and military equipment subject has created significant advantages to the parties at the point of winning the war. In the recent past, logistics has been the most intensive service area for civilian and military companies during the Iraq war (www.fpiif.org, 16.04.2008) Contractual companies operating in logistics area, undertaken missions such as the last model of technological weapons, maintenance and repair additionaly high intelligence and moral duty to keep the psychological content also. (Yılmaz, 2005:54)

When it is concerned in terms of business science the logistics, flow and storage activities that provide access to materials, semi-products from parts and equipment business outside of the final product to business development, business and enterprise in action outside of the points. (Simchi ve diğ., 2000) The logistics management, is to planning, implementation and controlling process. for fulfillig customer requirements logistics operations and information about these activities as a cost-effective (Rondinelli and Berry, 2000:398) According to Council of Logistics Management (CLM) defininition logistics management is defines as "marrow storage and transmission planning and control process in order to meet customer needs and goods and services and get them the information effectively and efficiently..(Nillson and Waildrige:2002) All this starting from a theoretical framework, that can be expressed the scope of the logistics sector include transportation, warehousing, inventory management, order processing, packaging, purchasing, procurement and information services. Similarly administrative activities in the logistics sector can be grouped under headings such as;, manufacturing, purchasing, physical distribution, marketing and after-sales service organization. (Tekin at all., 2005:117)

Logistics is seperated as In-bound Logistics and out-bound logistics. In-bound Logistics including materials and semi-finished parts between production centers for logistics activities Out-bound logistics include logistics activities among production centers and brokers for complete pastries or end customers. (Emel at all., 2004:60)

## 2.3 The Importance of Logistics Management in Small And Medium Sized Enterprises (SMEs)

Rapid developments in information and communication technology and the related emerging as well as facility in working the decreasing costs of SMEs in the market and to preserve and to improve their place it is required for logistics management to enter into the system as a reformist device. It has been realised quite rapid developments in logisticsc field. Also new development in management branch put forward the logistics. Todays new logistics programs

have been assembling in universities in parallelly SMEs giving and deal with to logistics necessary importance . To be increased productivity and efficiency in logistics management in SMEs are advised to make these studies: (Özcan, 2008:294)

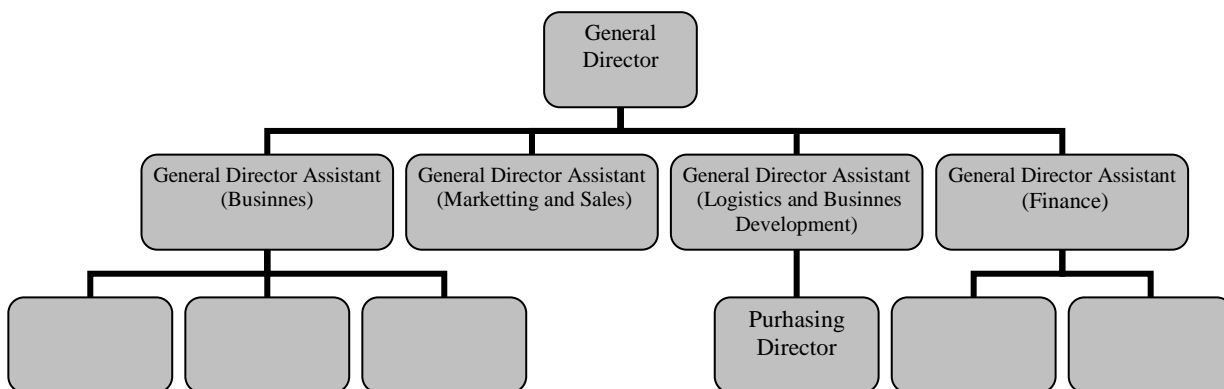
- Reverse logistics with 3.ve 4 party logistics works should be done.
- E-Logistics: They should take advantage of Computer software .
- Supply chain analysis, mapping, optimization techniques must be used.
- They must develop computer infrastructure for storage design and management In computer design.
- SMEs must giving enough importance quality control and six sigma for realizing logistics activity and and zero fault production thought must be dominated in organization.
- They must remove functions that dont have additional value to business for achieving Just In Time applications and zero fault production.
- They can give quick reaction to change and failure in company with controlling every logistics activity in computer surroundings.
- Just in time distribution system should be established for using purchased and existing equipment.
- They must take advantage of numerical methods in logistics management. (Transport Model, Store Location and Capacity Choice, Explorer Dealer Problem, Shortest Path Problem, Cargo, Installation Problem etc.)

## 2.4 Importance and Place of Purchasing Function in Enterprises

Because of earning operability about intensive technology Transport and storage activities in the enterprises, equipment processes is modiflicated and Logistics Management department has been came up. Even today a high percentage of businesses in developed countries logistics activities are carried out in the one-hand. Logistics management is carried out in some establishment at the level of assistant of general director (Özcan, 2008:298)

When the logistics activities added to company's organization as an administrative link purchasing department is located of under the logistic function. purchasing department are shown in Figure 1. in this type of organization chart. (Yılmaz, 2008:4) Accordingly, purchasing department manager's job is depending on logistics and business development manager. However, the procurement unit in the relationship with other horizontal and vertical departments on condition of mainly concentrated in finance department because of it's comprehensive and special duties in the enterprise.

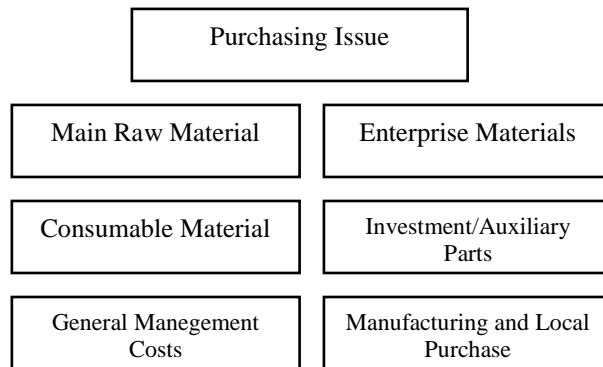
**Figure 1,** The location of the purchasing department in the firm's organization



Classification requirements of the procurement issues have emerged with the increase in the businesses benefit from outsourcing and information service. Classification of supply substances is shown in Figure 2, according to the purchase issues. It is seen in this classification that raw materials which entering in manufacturing process and other business and management costs are grouped.



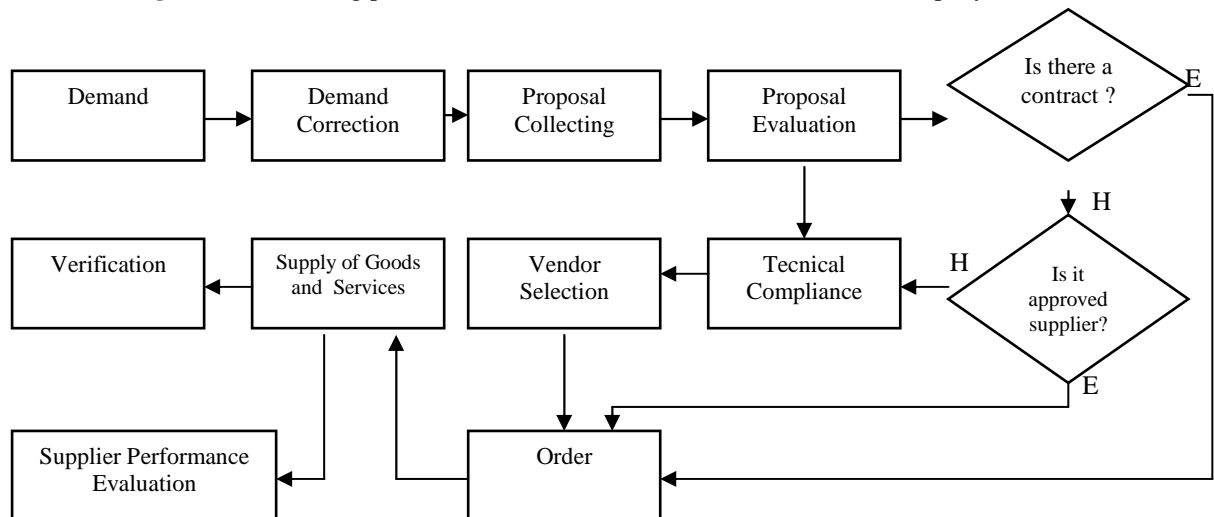
**Şekil 2,** Classification of supply substances according to the purchase issues.



When we evaluate in terms of organizational climate and business management, another important aspect of the purchasing function could be seen. In terms of most of the employers, rights started in this department are reach their customers as quality goods and services. In addition, if there is a problem in the functioning of this department started here can also effects the entire organization unrest. Planned, systematic and principled working purchasing managers of enterprises are unabandoned. These department's employees must be reliable, it's essential because most of suppliers visit to purchasing deparments and its managers. It also reflects image and prestige of entire enterprise. Especially sales representatives whose duties sale of suppliers want to do build a very amicable relationship. With these people, it must be adjust the dose of relations, and relations to be fair to all companies, business information not be deciphered are very sensitive issues.

Purchasing is the important cost factor that it effects final product and its quality. Competition and to be successful in competition, adressed the concerns to the procurement function and procurement process that it is important input of costs. In the process of purchasing or supply there is many processes which are responsible such as from identification of suitable suppliers, price agreements, determining the form of payment, products and industry research, to querying and market processes. The key point in the process of purchasing is the "contracts" that guiding goods and services procurement process. Process of purchasing and its connection with contracts at the company can be seen in Figure 2

**Figure 2,** Purchasing process and it's connection with contracts at the company



## 2.5 Contract Management and Its Importance in Enterprises

Contracts between the parties is the most important tools and especially help distribute risks and responsibilities contribute the configuration of relationships. Therefore, in the business world, especially in the last period to be able manage contracts effectively how a strategic competitive advantage, began to understanding better.

Contract are goal oriented, connected activities, unique and should be managed; They must be handled as a project because of this characteristics. A contract value measured by the trust relationship, make to truth in first time, and musn't be needed special measures. Contract in accordance with the texts of the parties will mutually prepare and can be written out or makes easy solution to prevent disputes. Contracts need to be considered in writing the particulars are listed below . (Kerestecioğlu and Acar 2006:14-21)

- Contract sufficiently clear and understandable or not.
- To Obeying to writing rules or not.
- Including all necessary issues must be in contract or not.
- Avoing unecessary details or not.
- Constitutioning in accordance and integrity contract within it own content or not.
- To Appropriate related lows and rules or not.
- Considering parties goals and demands adequately or not.
- Expressing parties rights and responsibilities wholly and clearly or not, issues should be taken into consideration.

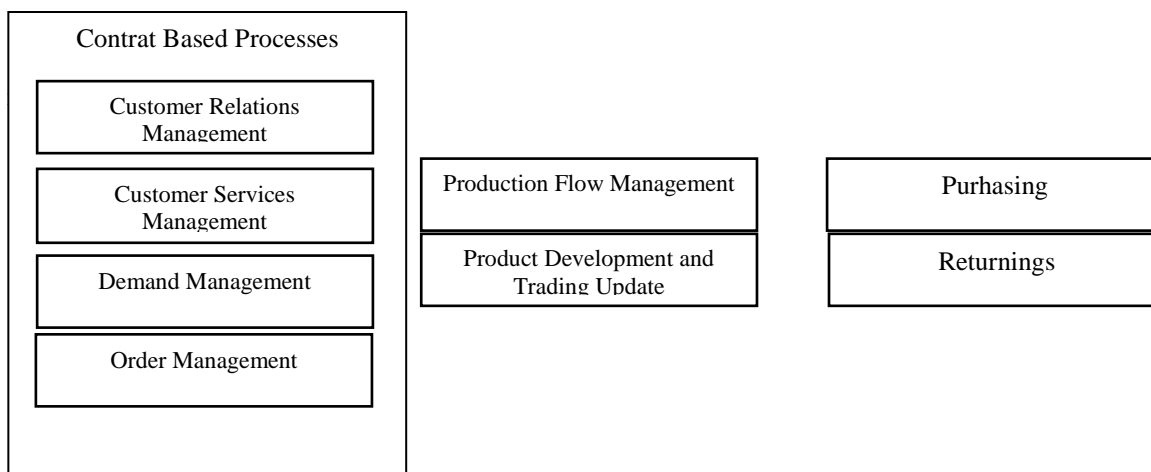
We can summarize contract management problems as related about function within the company and suppliers as follows. Even large companies use a contract culture, and it does not improve too much emphasis is not enough. Index comparison reports that obtained from depend on fixed price contract instead of raw materials price contract dont give healthy results. It was stated Contract management solutions worldwide annual endorsement to be around \$150 million. in 2005. (Doruk, 2005:5) Related to the effectiveness of contract management in the logistics sector as one of significant moves has made by Chrysler. Chrysler has given his transporter all his transport controlling authority. This is the the example of utilizing from outhsourcing in logistics sector at the same time. (Ataman, 2002:41)

## 2.6 The Relationship Between Purchase Function And Contract Management

Contract management solution emerged with requirement in supply chain management about regulating adjudication rules, and checking products prices in terms of agrement rules in beginning. In this regard Contract management is in the trend in terms of technology companies that provide services to an important field of activity. Because during preparing contracts proses recording some suggestions of purchasing suppliers management creates an advantages in terms of logistic management with effective purhasing. (Doruk, 2005:4-5)

Another subject that reflects relation between purchasing and contract management is related with key process in supply chain. For succesfull logistics management it is known this necessity that key supplying processes must be identified and managed effectively instead of funtion based administration in enterprise. (Cooper at all., 1997:1-14) It is understood that purchasing process must be positioned in supply chain process seperetaly and the other processes are depend on a contract. Key supply chain proceses has been given at Figure 3. Of these eight issues; it is understood that four of them related to direct contractual activity and one of the production management, one of research and development. Purchasing process is effected directly from contract based processes. "Returning" process is closely related to reverse logistics practices that include product recovery applications. Reverse logistics defined; as the role of logistics in product returns, source reduction, recycling, material substitution, reuse, waste disposal and refurbishing, remanufacturing, by Stock (2001:44-48), It is determined that reverse logistics (returns) in many sectors such as consumer electronics, publishing, catalog sales, has power to affect business profitability (Zieger, 2003' in Nakıboğlu, 2007:184)

**Figure 3, Key supply chain processes**



While the headlines relationship analyzes between project management it is useful to separate them in terms of contract related issues. Particularly in outsourcing project turning over contract management authority to anyone constitutes a risky a risky situation. in case Were done contract with hired consultants from the outside,contract management is one of the most critical processes in the success of the project manager. The situation is different for Procurement; Monitoring of these issues may be transferred to the purchasing department. However, purchase following occurs one of the main tasks of the project manager in some projects that success depends on continuous purchase like construction projects. When we consider purchasing activity in enterprise as supplier selection, raw materials, prices levels and specifications price and amount determining, choosing subcontractor who realize some parts of business, it can not deny that this strategic decisions must be including under contracts. (Tekin and at all., 2005:119)

To succeed purchasing process, all products related to the preparation of technical specifications and estimates of annual consumption should be given to the purchasing department. Some times purchasing managers and employees to be target for other department managers and this situation may create conflict in the enterprises. But department managers must plan exactly what they want quality and quantity of product before bring an accusation purchasing department. Purchasing managers are responsible for The next processes.

### 3. CONCLUSION

The main purpose of logistics management practices, is to realize long-term organizational objectives via the business to increase production capacity, the development of sensitivity to changes in the market and supply customers with the improvement of relations among those who take their work.(Yaman, 2001:133) For providing permanent sustainability in logistics management, organizational information must be share by all individuals who take part in supply chain activities and decision authority and source distribution must be looked over. In this way relations may create maximum value in enterprise.

In this study, it has been aimed to contribute to the current concept with putting forward literature review of relevant theoretical structure. For this purpose, purchasing and contract management activity which become important applications in logistics management, have been dealt with business profitability expectations in terms of applications has and contract management activities within the enterprise space, functioning and benefits offered to businesses the importance of this in content of the axis.

In Logistics service sector in the near future ahead expectation may have been important developments such as promotion and public relations activities to win the event, driving the use of external resources, withdrawal of foreign capital inflows and sector. (Babacan, 2009) Besides this, in the near future the progresses will be expected as follows; inventory management developed by suppliers stretch to consumers, and the commodity prices will be realized according to daily production and daily demand.(Ataman, 2002:41) Another expectations related with increasing enterprises responsibility about product recovery, environmental concerns in parallelly sustainable development concepts.

When it evaluated from the point of view of SMEs it is understood that purchasing costs have the highest share of the cost items. Recovering in this cost item effects not only products costs but also it's quality. Besides it is the emergence necessity that for enforcing logistics activity in SMEs ideal organization structure must be establish and it's basic working principles and authorities must be determine according to enterprise goals and vision. In addition just in time distribution system must be assembled in SMEs for using purchased material during requirement period.

In terms of contract management activities, to minimize disagreements, the implementation of international norms and standards in this parallel development is required.

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# LEATHER INDUSTRY E-COMMERCE AND E-MARKETING ENTREPRENEURSHIP

GONCA TELLİ YAMAMOTO, OKAN UNIVERSITY  
ESER EKE BAYRAMOĞLU, EGE UNIVERSITY  
BEKİR YILMAZ, EGE UNIVERSITY  
ÖZGÜR ŞEKEROĞLU, EGE UNIVERSITY

## ABSTRACT

In recent years, rapid developments in the Information Technology (IT) field and improvements of global communication networks enable all individuals to communicate without geographic boundaries around the world. As a result globalization has accelerated and communication between communities significantly increased.

Globalization process changes daily life all over the world. The economical and social aspects of exteriorization offers new opportunities and new commercial relations of brought by those opportunities require revising.

International trade takes place at the focal point for of globalization with the feature of country connections with economic value each other. Through international trade, products and services produced in different continents of the world are facing a cruel competition in another part of the world. This case is affected by negative conditions as well as affected by positive conditions.

Our world has been passing through a phase of economic crisis in both 2008 – 2009 and has even been continuing in 2010. The global crisis spread from financial markets to capital markets, and then to the real sector. The balances in national and international commerce are subject to reconstruction. This crisis also narrows down the global volume of commerce. As a natural consequence of the global economic crisis, the leather industry of Turkey and other developing countries are also susceptible to both direct and indirect impacts of the milieu of crisis. The leather sector is also in search of various means to overcome this crisis.

Considering all of its industrial inputs, the leather industry appears as a labor intensive industry which imports most of its raw materials, processes them into high value added products, and re-exports them. For this reason, it is directly influenced by the global economic crises which should not be considered only within the narrow perspective of the latest crisis, but also as an outcome of globalization and technological developments. In this context, the leather industry has come to a unique turning point. Especially the countries that suffer from the distress of being dependent to a single market such as Turkey have begun to focus on production and promotional activities in target markets for the sake of opening out to more dynamic markets. The attempts that are brought to the agenda to create a brand are its indication.

The gradual transformation of companies towards automation in the production processes, and towards transferring a portion of the company and product promotions to the Internet via computers may be considered as the early steps of e-commerce entrepreneurship in this regard. On the other hand, exclusion of the leather industry from the ongoing rapid developments in the information sector practically means the self slaughter of the leather industry. Moreover, in the sense of necessary e-commerce sales as well as supplies across boundaries in both local and global markets has become increasingly effective. Also as the development of Internet technologies become more widespread across countries while eliminating boundaries the concept of time also changed. These technological developments in the field occurred primarily due to the economy led to significant changes in all fields of life and the e-commerce as a new form of commerce has emerged in this process. The method of transferring information between two parties has changed with e-commerce. Information transfer used to be provided traditionally by direct personal contacts, phone, fax or mail. But with e-commerce, information has begun to be transmitted over computer networks.

This study aims to go through the methods by using electronic commerce for the Turkish leather sector which is in a difficult process, to give impetus to its development, to set out a marketing strategy for the development of the leather industry, enable it to gain the deserved place worldwide in the new age, and to put in place the benefit that modern information technologies can provide. In addition, with this study we implement a survey for leather companies that will generate a substructure for planning for the future of e-marketing road map.

**Key Words:** E-commerce, e-marketing, leather industry, information technology, global crisis

## 1. INTRODUCTION

Leather is one of nature's most elegant and at the same time most useful material. Leather is a natural material which is used for different purposes such as furniture as well as clothing etc since prehistoric times. Leather tanning today has become very modern due to the emerging technologies and machineries and leather has taken an important place in areas such as clothing, furniture, accessories, and footwear. In this way, leather which is known as a luxury product today has developed enough to cover many industries due to that reason.

The Leather sector is a labor-intensive sector. Turkey is in a position with a say in this sector after Italy. Particularly, 22 percent of sheep skin is processed by the Turkish leather sector in the world. The leather sector is among the first 10 with its share of 2.2 percent in the manufacturing industry and 1.5 percent share in employment around the country. The sector has a highly broad capacity in terms of information and the subsidiary industry plays a role of a bridge between the Middle East, Balkans and eastern and western Europe<sup>7</sup>. (ISO, 2004, s.6)

The leather sector in Turkey should be a challenging one in terms of its environmental and structural conditions, entrepreneur profiles, design skills, flexibility, speed and dynamism, installed capacity and modern technology, infrastructure, and experience in the world market.

In addition, the leather industry is one of the most dynamic sectors of Turkey's economy in terms of its export potential. In the total industrial production in manufacturing luggage and trade, the Turkish leather industry has a share of over 10 percent in the total production of the manufacturing industry, 1.5 percent in total employment and 1.3 percent in the total national. Exportation is the 10<sup>th</sup> biggest one among all industrial sectors. Essentially, in terms of production and export capacity, the Turkish leather sector has to have a greater share but this sector can not reflect its capacity sufficiently and a serious recession has been experienced in recent years. This recession which occurred in exporting has shown itself in the course of production and in the rate of capacity utilization. It may be considered that the Turkish leather sector is experiencing some problems in terms of entrepreneurship or following the wrong methods of approach excluding the big blow delivered to all sectors by the global crisis in Turkey<sup>7</sup>. (ISO,2004, s.6)

Today businesses live in an environment of continuous change. The leather industry in strategic and tactical terms is affected constantly by the social, cultural, technological, political and legal changes in the environment. The leather industry should keep pace with changes in the environment to be able to survive and to compete with its competitors. In the competitive environment, the leather industry is expected to be dependent on electronic trade as an important path to improve its current status and to improve export potential in light of the development of information technologies. Marketing activities and contemporary general trends following e-marketing efforts are the main issues which must be monitored carefully in the leather sector.

Leather and the leather products industry in the world and in Turkey has entered into a dynamic process in the last 25 years. The sector and our country's economy as well as the leather and leather products industry in the world have often had a place that cannot be ignored. In Turkey, traditionally a strong manufacturing culture exists in this sector. The driving force of development was increased in exporting in 1980 in the Western European market and the intensive suitcase trade to former Eastern Bloc countries in the 1990s. These years with investment in the sector created significant capacity and thus Turkey has come to a status of an important producing country in the world.

Following the crises in the sector experienced in Russia in 1998 and in our country in 2001, development decreased and investments stopped. In 2001, the effects of crisis have begun to decrease. During this process, while many sectors had a fast recovery, the leather and leather products sector has been slow in healing. During this period, in this sector, as a result of losing competition power, the rate of imports has decreased and exports have increased rapidly.

Finally, the current global crisis we are experiencing today also affects the leather industry significantly. The leather processing industry has been focused in the areas of "Istanbul-Tuzla, Istanbul-Menemen, Tekirdag-Corlu, Usak, the Bursa Leather Organized Industrial Zone, Balikesir-Gonen, Bolu-Gerede, Isparta, Hatay, and Manisa-Kula". Some of these firms work 12 months of the year, some of them are seasonal and some open and close on a monthly basis out of record.

Because of the global crisis which affects all over the world, in the Tekirdag's Corlu District Leather Organized Industrial Zone, 50 out of 113 factories which contribute 750 billion dollars to Turkey's exports annually have to suspend their production.

Since 2008, in the Izmir-Menemen Leather Free Zone which produce a big part of the sheep skin garment, 20 companies out of 127 which are active just use %30 of their production capacity. The situation is not much different for the other companies.

According to the Istanbul Chamber of Industry, in Turkey`s 500 Biggest Industrial Enterprises Year 2008 Report in 2008, the period after 2001 was evaluated as the most negative year. In the report, products (textile, apparel, leather, footwear) which were the leaders of the sector for years kept losing rates of import and decreased to % 5.5, but the position that was in the fifth raw didn`t change for the sector<sup>16</sup> (Star Gazete,2008).

Riding these negative developments of the last few years results in a requirement for investigation of the cause of the sector's decline amongst rival countries and evaluation of the sector`s future.

## 2. PROBLEMS THREATENING THE EXISTENCE OF THE LEATHER INDUSTRY AND SOLUTION RECOMMENDATIONS

If we classify under the main headlines the problems that threaten the presence of leather sector, it can be seen clearly that they accumulate under a particular framework as some of the economic fundamental problems, production problems (supply of raw materials, etc.), marketing problems, administrative problems (lack of capital, etc.), financial problems and environmental problems as issues collected in a certain context. The electronic commerce may be a solution to solve this problem for retail companies in the leather industry especially companies that produce leather for garment and footwear, and working for retail markets in terms of potential to create new markets.

The most important problems threatening the existence of the leather sector are in the table below:

**Table 1.** Problems Threatening the Existence of the Leather Sector

Being an economic crisis in the countries which contribute to foreign trade,
Focusing on a single market, and not able to evaluate opportunities along with bad management,
Short-term rapid growth of debt and debt which cannot be consolidated,
Not having standard products and not making continuous production,
Being insufficient in market and marketing activities,
Not being enough and no adequate encouragement, and increase in taxes,
Customs duties, a special consumption tax which is charged for leather increases the costs,
Dependence on foreign raw materials and leather chemicals,
Lack of domestic raw leather,
Not enough control for imported products,
Energy used in industry is quite high compared to competitive countries,
Because of countries like China, India, Pakistan, Bangladesh and others, they have lower labor force costs and worker costs cause an unfair competitive environment.
Not able to use enough commercial credit from banks,
High credit interest,
Long-term payments and delay problems concerning payments,
To have an unfair competitive environment because of not following and sales without a contract,
Environmental problems,
High costs of refining facilities in order to protect the environment,
Financial and economic problems which happen because of the global crisis,
Lack of R&D efforts and technology,
Most of the leather and leather made products exporter companies in Turkey are SMEs (small and medium size enterprises ) and lack of equity capital is insufficient against their competitors thus it`s difficult to apply new technologies.
Capital for enterprise is insufficient,
To be an obstacle for companies to maintain adequacy and quality in production and to expand foreign markets, to lose their working capital of business

The basic problems of economic development issues within the framework of the general economy are not only seen in the leather sector but can be seen in all sectors in a similar way.

The administrative problems are arisen from being family companies which forms the overall structure of Turkey, and in the incompetence of managers after a certain level in these kinds of companies.

The financial problems or economic problems are not only in the leather sector but also in other sectors of the many materials we import from abroad. In this study, the marketing problems and the solutions for these problems are mostly emphasized. And also, in this study the current status of the leather sector and e-marketing trends for the purpose of determining the basis of a comprehensive survey of the sector is made and sector issues and recommendations for their views concerning the solution is identified.

Marketing problems require the development of the market as well as marketing efforts and the issues of the apathy and failure of companies are caused by some of the basic input dependence on foreign taxation direct or reflected to the receiver, and payment problems concerning not receiving payments. In addition, production is mainly in terms of subcontracting work brought problems such as clumsiness and standard product development are among the highlights at a glance.

## **2.1 Dependency on a Sole Market and the Problems Faced in the Export to Russia**

One of the most important problems Turkey in the leather export industry is to being late in adapting to market variations. The sector has followed a strategy that is focused on the Soviet Union and CIS countries for many years. This region and then the Russia and Ukraine market-oriented strategy has been applied. The result has been to make things easily, but not being able to speak the language, and being used to working with an outsource.

Because of the geographical proximity to the Soviet Union and Ukraine and the political changes that still continue, many things have not fit in a standard way making these markets attractive in terms of importance. Not able to have diversity of market and to be dependent on a single market cause many problems. Especially in Russia, the Soviet Union completed the process of integration into world trade and exports to these countries as the former was seen as easy or profitable. Moreover, After Russia has become rich, branded products increased demands, and the situation such as the starter stage has been eliminated. The leather industry which provides its raw material needs through import and the high value added to products making it a large portion of the suitcase trade with northern countries has started to weigh on registered export after decreasing this trade gradually. After the Russian crisis in 1998, approximately half of its production exported to this market in which dependence on the single market has occurred due to a serious concussion in the sector.

The leather trade in luggage is concentrated during periods of market structure and easy market trends, and customers come and also easy to come and shop with their feet making language and communication issues resolved by the receiver due to factors such as it was. In addition, different foreign brands was not recognized by countries of the former Soviet Union. Today, the trend is gradually changing and customers are conscious. People in Russia and Soviet Union Countries can reach much information, prices, quality etc. easily and quickly via Internet. Therefore, companies are required to follow a wise strategy.

To overcome these problems, leather industry sub-sectors with the Sectoral Foreign Trade Companies (STFC) or other partners and target markets should go to the formation of joint action. Thus, the problems arising from internal legislation can be overcome more quickly with overseas promotion and marketing activities will also gain momentum. On the other hand, in 2005, the Turkish Leather Council (TCL) to establish a good breakthrough in terms of the presentation can be considered. This group has identified the U.S. market as the target market in the first stage. Then, set as a target market, especially in the footwear sub-sector, mainly in Japan, a variety of markets can be created to strengthen the image of "Turkish leather". This group's activities are funded by donations which are the one-thousand rate cuts of the export sector organizations and additional contributions. The first fruits of TLC activities have begun to be harvested by increasing domestic and touristic sales. These and these kind of joint promotional activities will be provided to be known as "Turkish leather" and will increase the market share in the world. However, together with the Sectoral Foreign Trade Companies (STFC) and the existence of TLC activities, total projects which strengthen the country image in the international markets are needed<sup>11</sup>.

The sector's performance is significantly dependent on exports. Therefore, changes in international demand affect the success of the sector. On the other hand, it is possible to open out a global market with e-marketing. Everyone can learn what others do in a short time in an environment where information is shared so fast. Therefore, being fast provides an advantage. Geographic location loses its importance during collaboration with business partners, the supply chain and customers. The relative place factor becomes less important and you can connect to people who you have never met before in electronic form, and that makes it possible to supply demand with lower cost. Time pressure is not an issue and stores work 7 days, 24 hours automatically, and also people communicate with each other according to their schedule. Through electronic commerce, administrators who want to make cooperation with their partners on the other side of the world do not care about time differences. In the digital world, to get and keep customer information is easy and cheap. Companies have great information sources. To transform these sources into information which is able to



give a direction to companies' future is difficult work. This information is transferred very quickly to customers also. Customers will pay the price of this information or such information which is provided by the supplier and that is considered to be an important benefit for them. Another advantage of the Internet media environment is the standards that are open for all the other company's software being used. Software programs approved by the international institutions of cooperation and sharing issues that may arise in working with problems will hamper quality features. Therefore, almost any company can go to a very easy way to collaborate. In e-business models and e-commerce which has come through as a result of improvement of electronic commerce makes creativity and imagination more important. Many different jobs based on creativity and imagination can be successful with this e-structure.

### 3. E-MARKETING

E-arketing creates some new opportunities for businesses as a marketing strategy, and provides to reach more customers with lower cost. First, create the necessary infrastructure is required in business.

E-marketing is defined in different ways by various individuals and organizations. According to the definition which is made by one of the important work done about e- marketing enterprise named Organization for Economic Co-operation and Development (*OECD*), individuals and institutions participated in writing text, audio, video, such as digitized data and these are processed on or off the network through to the transmission based on trade-related transactions called as e-marketing<sup>8</sup>.

According to World Trade Organization (WTO), e-marketing, production of goods and services, advertising, sales and distribution is done via telecommunications networks. According to the description, the process of trade can be divided into three main stages<sup>13</sup>.

1. Producers and consumers, or buyers and sellers under inquiry,
2. The order and payment following the order between the parties,
3. Distribution of goods to purchasers.

To define commercial transaction as e-marketing is enough to use one of them or all of these stages in electronic form. In the production stage, the current form of goods, software, services such as consulting services can be done completely over the Internet. Issues those are important today to use the Internet during shopping such as agreements, payments, billing and the documentation process can also be made via the Internet.

According to Turkey's Electronic Commerce Council (TECC), e-marketing is being made and the production of goods and services, promotion, sales, insurance, distribution and payment transactions are being made through computer networks. Electronic marketing is divided into three phases as commercial operations at one or all of the electronic media, advertising and market research through realization, and order payment or delivery<sup>5</sup>.

E-marketing, to improve business performance is the use of computer networks. Increased profitability, increased market share, customer services and products healing more quickly to the right course of distribution businesses are some of the benefits of e-commerce. E-marketing is not only ordering of products from the online catalog. It covers all of a business's aspects of electronic interaction. In short, in e-marketing, a business with all parties (customers, suppliers, government, workers, managers, etc.) process to develop communication and includes the use of information technology<sup>9</sup>.

E-marketing in the narrow sense, connects to customers or potential customers over the Internet by reaching out to them, and provides information on the activities of companies, brands, products and services. In the broadest sense, the needs of customers or potential customers and information gathered is to better understand and be able to make decisions according to demand for the future. In this context, the target customer base in the new economy is the internet user<sup>15</sup>.

If you decide to e-market business, and to create a needed e-marketing infrastructure inside an administration, investments should be made in four key areas.

- **Hardware Investment:** E-marketing requires purchases as first investment goods equipment: i.e. servers, routers and PCs, such as mobile phones.
- **Internet Trading:** Most appropriate network for access to the Internet service provider.

- **Investment Software:** An office must have established mandatory computer software and the electronic commerce software that has to be copied.
- **Electronic Payment Services Investment:** The price of the products sold on the Internet to be charged is usually based on credit card. Other than that, paypal, bank transfer to send the receipt, virtual pos, mobile payments and other payment methods are also used.

As mentioned above, only the infrastructure investments which are required to generate investments. These investments are concerned with business e-marketing activities to perform within its structure in real terms. Employees must be ready for electronic marketing. In summary, employees in enterprise e-marketing activities that are efficient in order to find the software in use are essential to have enough information.

E-marketing a web site without having to do anything beyond that is undoubtedly there. Primarily in e-marketing to make very clear, clear objectives must be required such as what type of customer will be addressed, or may be specified. As modern marketing strategies in electronic markets, the most important point is the customer. All transactions are focused on the customer. For this reason, great importance should be given to the customer's request. Also businesses should try to understand the needs of customers and must meet those needs<sup>14</sup>.

In this sense, the mass of trends in Internet shopping is becoming extremely important. E-marketing for the production of goods and services, marketing, distribution and payment of transactions to be done must be made in a closed or open network environment that can be seen in realization.

E-marketing is the most important topic of customer reviews and requests which can be made very quickly thanks to technological features. Fulfillments and measurement can be made concerning the real needs customer and can provide correct information. For the leather sector expressed above apply to all situations although some products (such as fur) are still to be taken in the classical style. Production due to the response to the market has shown that in the survey, there are 53 participants - that is 70% shop over the internet and 30% have not been identified. 47% of the participants "could not find it anywhere but the Internet", 26% said it "should be very cheap," 17% "buy because they do not have time" and with 10%, other questions were answered by bringing different comments: (convenience, all products are in front of my eyes that they allow for comparison, home delivery, and the responses also emphasize their differences from Internet shopping). The group was asked which of the leather products were purchased from the Internet and their answers were given as a percentage of 3% of clothing, 5% of all leather products, 6% of footwear, 14% of wallets, 15% of bags, 15% of accessories and 29% in the form of anything that was seen. According to these responses from the world leather and leather finished products with often still with the old method of marketing and company, e-commerce trends have been low yet customers via Internet shopping trends are not visible. With the question, "Do you take advantage of Internet banking services", 77% said yes, and 23% said no. A large part of the banking system accidents have occurred because of the lack of information that they use. A large part of the banking system injuries has heard about trust issues or uneasiness of usage because of the lack of information. "Do you find recommendation of Facebook reliable on products purchased" question answered as 58% said no in response.

### 3.1 Advantages and Disadvantages of Electronic Marketing:

Determining the correct strategy, targets companies that use the advantages of electronic commerce and take advantage of new business opportunities in the face of competition has the advantage. For business products, new ideas and the overall situation regarding access to information is very valuable. In the information society access to information through the Internet is a rational way<sup>6</sup>. (Hasiloğlu, 1999: 97)

E-commerce arguably has a potential to add a higher value to businesses and consumers in developing countries than in developed countries<sup>1</sup> (BBC News, 2003) Yet most developing country-based enterprises have failed to reap the benefits offered by modern information and communications technologies<sup>3</sup>. (Computer Economics, 2000: 1-3)

E-commerce for businesses and consumers in terms of communication and business rules provides many new ways. The greatest and the most important advantage of e-commerce is that it enables a business concern or individual to reach the global market. It caters to the demands of both the national and the international market as your business activities are no longer restricted by geographical boundaries. With the help of the electronic commerce, even small enterprises can access the global market for selling and purchasing products and services. Even time restrictions are nonexistent while conducting businesses as e-commerce empowers one to execute business transactions 24 hours a day and even on holidays and weekends. This in turn significantly increases sales and profit.

Electronic commerce gives the customers the opportunity to look for cheaper and quality products. Consumers can easily research on a specific product and sometimes even find out the original manufacturer to purchase a product at a much cheaper price than that charged by the wholesaler with the help of e-commerce. Shopping online is usually more convenient and time saving than conventional shopping. Besides these, people also come across reviews posted by other customers about the products purchased from a particular e-commerce site which can help make purchasing decisions.

For business concerns, e-commerce significantly cuts down the cost associated with marketing, customer care, processing, information storage and inventory management. It reduces the time period involved with business processes, re-engineering, customization of products to meet the demand of particular customers, increasing productivity and customer care services. Electronic commerce reduces the burden of infrastructure to conduct businesses and thereby raises the amount of funds available for profitable investment. It also enables efficient customer care services. On the other hand, it collects and manages information related to customer behavior which in turn helps develop and adopt an efficient marketing and promotional strategy<sup>17</sup>.

In every corner of the world even with geographical limitation, sales can take place. Electronic world trade is not limited to company size. Web pages that all companies have share equal opportunities. Where SMEs cannot reach with their own facilities to obtain information, reaching global markets and opportunities in this environment can be made possible with e-marketing.

Reaching new customers could not be possible with traditional methods of products and services. A greater market share can be made possible with the addition of a new sales channel. Service costs, or over the phone or service cost which is lower will provide significant cost advantages. For example, a customer came to the bank paying costs of \$2 and \$1 for phone and data services on the Internet, while it is possible to pay 20 cents. Decreasing advertising costs, decreasing delivery costs, delivering important things electronically, decreasing design and manufacturing costs, increasing market opportunities for products and services in renewing customers to deviate from the traditional methods provided.

The leather industry can provide advantages in terms of referring to the acceleration of global competition. Today's trading conditions for businesses outmaneuver competitors and customers to gain added value with the aim of the new economy must be brought and electronic commerce. Electronic trade value, manufactured products and related services to customers of enterprises provide detailed information, and traditional channels abbreviated to make rapid deployment and thereby businesses save on marketing costs to provide to its customers additional support and services. Given the creation of database, transaction prices drop, and stationery costs are reduced. Many eliminated the geographical boundaries transaction which is responsible for the waste of time. Leather products are consumed faster as for industrial properties they are not. In addition, end-user products offered are not used a year or more with long-term use and many textile products according to the product offer a higher price. In a sense, these products may be included in the prestigious product group. E-commerce products with prestigious brand presentation highlighting particular points can be observed. Leather sector to create global brands to market with the opening of this channel can reach a broader market structure.

The advantages of electronic commerce as well as the disadvantages are also present. This disadvantage can be listed as follows. Especially in our small-scale research or as can be seen on the Internet shopping, security and trust comes first. Dealers and agents eliminate the risk located in marketing. This situation exists in distribution channel intermediaries. Product to the customer at the desired price, quantity, quality and customer dissatisfaction not delivering in time may occur. Mail or courier delivery charges are added and sometimes consumers pay more than the services. Their consumers via the Internet giving the number of credit card purchases as a result are afraid. This is still an important security issue. Recently this problem can be overcome with the digital signature<sup>2</sup>. (Baki, 2000: 40).

#### **4. RESULTS**

Important structures and transformations occur both among sectors and countries by the impact of globalization in manufacturing sub-sectors in the world. In Turkey, an increase in income, changes in consumption patterns, with the EU customs union in the wake of increasing foreign competition, such as export-emphasis on the dynamics and development trends in the construction sectors have been effective. In such an environment, the sector for all segments related to the current situation and the determination of how our industry is waiting for a future is important.

Our world since 2008 in a period of 2010 to include the economic environment is undergoing a crisis. Global crisis in the financial markets, capital markets are then spread to the real sector. Domestic and cross-border trade balances are reestablished. This situation brings with it the shrinking of world trade volume. The economic crisis in the world as a natural result of this crisis affects the environment directly or indirectly. To exit from the crisis within the leather sector

is a desire. In many sectors, particularly Turkey's labor costs are quite high according to adverse competitiveness in exports from China and other Asian countries. It is difficult to find a qualified labor force in the industry and qualified staff providing vocational education for the upbringing of labor is insufficient. The lack of qualified business conditions in those cases can be directed to other sectors. Despite the many stages of export in foreign markets, still not enough distribution and marketing channels and new markets are not available making entry difficult. In addition, because of our leather sector dependent on outside economic conditions, unfair conditions of competition arise. Other than that, rival countries on energy prices face one of the factors of the unfairness of international competition. The development of the leather sector in particular and the suitcase trade with Russia under the influence of the accelerator has been fast between 1989-1994. This state of the economy from rapid growth has a positive effect. However, this rapid development strategy being based on systematic and not specific factors, still the world's financial crisis and Russia's economic crisis effects, and Turkey's economy on the impact of the crisis have also been added in the sector; thus, serious problems have emerged. These issues, more funding, management and marketing are weighted. The solution of these problems in the industry is calling for an alternative. One of these alternative solutions is electronic commerce<sup>12</sup>.

Companies to invest in and to provide feasibility studies being done, the leather sector technological innovation requires enough R & D efforts to be made, leather sector entrepreneurs and managers require more incentives to be developed and interest rates must be reduced with long-term credit facilities of the provision in the form of financial resources, and thus creation solution among them can be evaluated. The Turkish leather industry with the internet, electronic commerce vendors, trends, crisis affected, and how to determine the current situation with the aim of the comprehensive survey results obtained should be evaluated. On the other hand, screws, shoes, bags, leather goods, sheep clothing, leather and carpet production may take place efficiently. Survey of electronic commerce as a result of more specific projects in the leather sector can be achieved with vision is emerging.

Otherwise only in the companies making fur and fur suede production mode of production because of the lack of standardization in terms of hard sales purposes as electronic commerce would be difficult to take place in opinion have emerged.

Structurally, small and medium-sized companies consisting of the Turkish leather industry, the changing competitive conditions in the framework of international activities in order to maintain their investments in creating accelerated and organized leather industry began. New facilities engaged in organized industry in the region with significant increases in rawhide caused operational capacity and in the Turkish leather industry, capacity has an important position in the world<sup>12</sup>. Organized industrial zones, but raising capacity and infrastructure serves the healing sense. Institutional environment, but look out for when the crisis is to move to the new process is required. This is the beginning of e-commerce and e-marketing activities come from this.

The Turkish leather industry, the increase in the price of raw leather in foreign markets in cases where intense competition and competitive countries, especially the European market are confronted exist. However, a significant portion of the leather industry companies in the intense competition of the Western European market had come about as a result of negligence against Russia by Turkey. Higher than a single country market as a result of dependence in 1998 caused the economic crisis in the Russian Federation under the influence of the leather sector has been adversely affected<sup>10</sup>.

Turkey, especially leather, leather products and garments exports to maintain the current situation according to the global target should establish an e-marketing infrastructure. Creation of infrastructure maintains a keen interest on three sides. Of public infrastructure, industry partnerships and sector policies will be created with the cooperation of enterprises with e-media applications. E-platform applications are turned down suggestions(see Table2):

**Table 2. Applications of E-medium in leather and leather product trades as to entrepreneurship.**

<b>Applications of E-medium in Leather and Leather Product Trades</b>
<p><b>TRADE BETWEEN THE COMPANIES B2B</b></p> <p>To take place in the supply chains of global sellers, (like www.alibaba.com )</p> <p>Establishment of e-marketing infrastructure of the companies, participation to the supply chains in the same infrastructure and standards with the buyers,</p> <p>Various trends to be planned to provide necessary information furnishing</p> <p>Gaining acceleration in the supply chains, achieving cost savings and marketing advantages by e-marketing,</p> <p>Direct access to global market date and to place orders,</p> <p>Establishment of joint portals for marketing that is able to provide cooperation among enterprises (especially for gross orders or special products)</p>

## **ELECTRONIC SALES MARKET**

Participation to the sales markets constituted by global sellers

Establishment of necessary e-marketing infrastructure

Real time participation to the order collection, auction, selling, marketing processes of the buyers

## **RETAIL SALES**

E-marketing towards consumers

Establishment of customer oriented e-marketing environments in the stores/chains abroad

## **INTER-COMPANY TRADE B2B THE OTHER COUNTRIES**

Establishment by the local companies e-trade mediums oriented to the region/nearby countries for marketing, promotion, selling

Carrying out marketing/selling in the e-marketing environment

In the first stage of electronic commerce between business enterprises, determining the deficiency of companies concerning electronic commerce and giving several training sessions on this issue to relieve these deficiencies can be good starting point. For ensuring the necessary knowledge and equipment, this may be given various trainings periodically. An active working portal can be created for giving momentum cooperation between enterprises in the global leather industry. After the required e-marketing infrastructure has been created, participation of the leather industry companies should be ensured to that infrastructure. Within this structure, companies can be included into the marketing processes and they can benefit from the advantages of electronic commerce. Apart from these, final consumer-oriented applications in electronic form, and companies on the basis of the establishment of electronic stores, thereby increase potential customers abroad, especially to EU countries for e-store intended audience with the creation and increase in market share may be considered.

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# STUDY ON AGRICULTURAL PRODUCTION COOPERATIVE CHALLENGES IN IRAN'S ENTREPRENEURSHIP AND EMPLOYMENT ( HAMEDAN PROVINCE)

H. SAADI, BU ALI SINA UNIVERSITY

## ABSTRACT

The main purpose in this research study was analysis of survey problem's agricultural cooperatives (AC) on entrepreneurship and occupation in Iran (Hamedan province). At the present time, 1100 AC are active in Iran, which 32 of them have been established in Hamedan province. Research population includes all farmers that are members of AC in Hamedan province, i.e. 2253 farmers of whom 122 have been selected through sampling. The most important tool of collecting information in this research is questionnaire. Beside questionnaire, interview, observation and documentary studies have also been used. The precision of indices in the questionnaire or face validity have been confirmed by specialists. To study research reliability, the questionnaires were distributed among a number of farmers, the results were studied and Chronbach  $\alpha$  was calculated and found to be 79%- an acceptable figure. The results of research show that the most important problem o n AC in entrepreneurship and employment are: weak of entrepreneurship culture, weak of entrepreneurship education, lack of infracture, weak of capital for investment, lack of progressive motivation in rural area, weak of governmental support, dependent to central governmental, imconfidence to office manager and boarding manager.

**Keywords:** entrepreneurship. agricultural cooperatives, employment, Iran

## 1. INTRODUCTION

One of the discussions in recent years is for development of employment and there are lots of theories about it. Some known entrepreneurship as a kind of social decision making, which is implemented by economical innovators. In this definition, major role of the entrepreneurs is changing economical and social symbols. Jeffrey Timmons (2005) said that entrepreneurship is creating valuable insight from anything. Some declare that entrepreneurship means innovative, some said it means risk taking, and some know it as a synonym for creating a new business or development of the current trading. Entrepreneurship not only relates to individual innovations, but also it is explainable in organizational level (Thompson & Alvy, 2000). So, an organization could be an entrepreneur. In such an organization, forming employment by the usage of current resources is a main goal. It is evident that risk taking, cooperation of beneficiary groups, applying modern technology in implementing activities and the most important thing is considering to training are headings in organizations.

Agricultural production cooperatives are accounted in some ways as organizations, and parts of their efficiency and success, relate to their entrepreneurship and roles in rural employment (Ansari, 1992). These economical social units have important roles in dynamic and generating employment, decreasing risks of investment in agriculture and decreasing governmental costs in production. Researches show that investment profiting in companies is a lot more than private and service sections, in a way that Iran's Islamic Revolution's great leader declares that cooperation is one of the most fundamental solutions for fairness development and employment (Ministry of Cooperation, 2007). United Nations Secretary-General, because of International Day of Cooperation in 1995, said that cooperation is organizational instrument that could create generating employment (International Work Office, 1994). Basically, one of the strategic policies in forming agriculture cooperatives in the world is employment and entrepreneurship, and now 100 million people are working directly in the cooperatives (ICA, 2008). In French, four millions occupations are created in 21 thousand cooperatives (GNC Newsletter, 2007) and in Indonesia this figure was about 290 thousand occupations in 2004 (Ministry of Cooperative & SMEs, Indonesia, 2004).

Entrepreneurship in agricultural cooperatives, as other economical social movements, needs some backgrounds and preconditions to manifest. UN Development Program (UNDP, 2004), reported that development of entrepreneurship depends on formation of cultural, social and political infrastructures and making economical reforms. Different studies show that fulfillment of entrepreneurship in organizations, including productive cooperatives, following circumstances are necessary:

- 1- Development of Entrepreneurship Culture in Rural Societies and Cooperatives
- 2- Entrepreneurship Training in Cooperatives:
- 3- Existence of Appropriate Physical Environment in Cooperatives:

- 4- Human Resources and Partnership in Cooperative and rural areas
- 5- Possibility of Supplying Goods and services in Cooperatives
- 6- Advancement Motivation in Society:
- 7- Development of Infrastructures:

### **1.1 Agriculture productions cooperative in Iran**

Based on the information available in the office of agriculture productions cooperatives and peasants affairs (2006), 1100 production cooperatives have been established up to June 2006. These cooperatives have covered 4963 villages and have 278362 members and cultivate 275 million acres of cultivated land through dry farming and irrigation. Wheat and barely are almost cultivated in all production cooperatives. Hamedan is among the provinces of the country which is active in organization and establishment of agriculture productions cooperative. High standing of agriculture section in economy of Hamedan province, existence of productive and flat lands and most important of all interested and industrious farmers have provided the ground for development of agriculture productions cooperative.

### **1.2 Purpose statement**

Analysis of survey problem's agricultural cooperatives (AC) on entrepreneurship and occupation in Iran (Hamedan province) is primary purpose in this research study. Some of the secondary objectives accordingly include:

1. Describe farmers by personal, farming and social characteristics.
2. Describe factors are necessary in agricultural cooperatives for entrepreneurship and employment.
3. Describe the challenges of entrepreneurship in agricultural cooperatives.

## **2. MATERIALS AND METHODS**

The present research has been conducted as survey. In this method we have chosen and studied selected samples of population to study and analyze the frequency, distribution and ties among variables. In the survey research, the most general method to collect information is questionnaire. (Kerlinger, 1997). Beside questionnaire, interview, observation and documentary studies have also been used. Precision of indices in questionnaires or face validity have been confirmed by the specialists. In order to study research reliability, questionnaires were distributed among a number of farmers and their results were studied and  $\alpha$  Chronbach was calculated for them with 79% result that is an acceptable figure. Because in this research it is not possible to manipulate the variables and the researcher has only studied the relationships in between. Research population includes all agriculture users who are member of agriculture productions cooperative in Hamedan province (2252) of whom 122 people have been randomly selected and their opinions have been studied. Data has been defined regarding the nature of research. In the information description part, descriptive statistics such as frequency, percent, mediate, criterion deviation, variance, average and other cases have been used.

## **3. DISCUSSION**

### **3.1 Description of Personal Information about Research Samples**

Based on the research findings, the average age of the people of out study is 47.4 years (standard deviation= 11.96). The youngest sample was 22 years old and the oldest one was 80 in the city. Among the respondents most frequency was related to the illiterate samples (33.9%). The minimum frequency was related to the samples with high school diploma and higher degrees (4.8%). The average area of water lands for the people under study is 13.5 acres. (standard deviation= 15.68). In this regard the most amount of water land is 100 acres. Of course some have no water lands. The average area of land in the population under study is 13, 34 acres (standard deviation = 24). The major members of cooperatives are adults with low education. These characteristics increase the necessity of attention to the characteristics of adults in formation of cooperatives.

### **3.2 Challenges of Production Cooperatives in Iran's Entrepreneurship and Employment**

Entrepreneurship in cooperative means innovative applying of cooperative resources and facilities for reaching to business opportunities. According to the present study, Iran's agricultural production cooperatives could not have remarkable role in entrepreneurship and generating employment; while there is a high capacity in this field. But it should be under consideration that entrepreneurship in agricultural production cooperatives of Iran's rural community is almost a new concept and framework of cooperatives did not formed on this basis. According to the research's results, some of the challenges of entrepreneurship of agricultural production cooperatives are as follows:

### 3.2.1 First Challenge: not availability of capital and facilities

Results show that capital limitation about %41 is the first problem from among a lot of difficulties. Table (1). Agricultural production cooperatives in Iran have limited facilities and financial resources for investment. Absorption of governmental capitals is very difficult for the cooperatives. There is no possibility for absorption of risky capitals in most of rural places or it is very low. Moreover, far distances between some of rural places with adjacent cities make availability of villagers to money and capitals difficult.

**Table 1- Problems of production cooperatives from the viewpoint of members of cooperative**

Problems of cooperative	Frequency	Percent
Limited capital	41	33.6
Attitude of cooperatives toward major owners of village	16	13
Limited services (quality and variety of services)	14	9.13
Shortage of efficient manpower in cooperative	13	11.6
Not supporting the cooperatives by government	9	7.3
Failure of the board of directors	9	7.3
Lack of active participation of people in cooperative	7	5.7
Unfamiliarity with principles and objectives of cooperative	5	4
No authorization for cooperative	5	4
Lack of long-term planning	3	2.5
Total	122	100

### 3.2.2 Second Challenge: cooperatives tendency to government (reliance on government instead of reliance on themselves)

Dependency of agricultural production cooperatives to the government is an obstacle in forming entrepreneurship. Avoidance of governmental assistance (online, 2008) is necessary in flattening entrepreneurship. Under study cooperatives were dependant to the government and people assume that they are dependant to the government, especially spiritually and mentally. Results of the study demonstrate that request of governmental support is the most essential suggestion that people provide for improvement of the cooperatives' conditions (%32.8). Increasing of the cooperatives' capital is the next preference with governmental supports (%30.1).

### 3.2.3 Third Challenge: doubtfulness about cooperatives pillars (distrust crisis)

None of the organizations could promote in long-term, with the presence of doubts in human powers. Trusteeship, honesty and commitment make peoples to rely on organizations, and flourishing business and active work relations. In these cooperatives, there was distrustfulness especially towards board of directors widely. Distrustfulness is examinable from two aspects:

#### 3.2.3.1 Doubtfulness towards financial matters of the cooperative

According the results, %61.5 of the members declare that their knowledge about interests and losses of the cooperative is low and very low. Unawareness about financial affairs of the firms causes rumors about honesty of board of directors' members. It is evident that in such a condition, cooperation and continuous investment is improbable. Table 2

**Table 2- Opinions of people about the amount of awareness regarding company's financial status:**

Amount of awareness of company's financial status	Percent	Frequency	Cum frequency
Very low	44	35.5	36.1
Low	31	25	61.5
To some extent	34	27.4	89.3
High	12	9.7	99.2
Very high	1	0.8	100
No response	2	1.6	-
Total	124	100	-

#### 3.2.3.2 Distrustfulness or limited trust to the Cooperatives pillars

Results show that peoples' reliance towards board of directors and inspectors of the firms is average or low, but they rely on the managing directors to a large extent. Considering that the managing directors are often selected out of the members and villagers believe that it is governmental, reliance on these people is very high. Other cooperatives affairs, that high reliance on them is necessary for the firm's success, are average or low. The most important factor of distrustfulness towards cooperatives pillars is no active participation of peoples in general assembly. Participation of



farmers in general assembly is low and it is holding with the least members. First result of this process is selection of board of directors with narrow polls, while they are not supported by most of the peoples; first step for distrustfulness is formed in this level.

### 3.2.4 Fourth Challenge: weak trained members

Establishing and running an active economical unit needs familiarity with a wide range of knowledge and skills. In developing countries, the main reason for problems in cooperatives is lack of trained people and specialists and low level of members' knowledge. Data demonstrate that development of entrepreneurship needs at least three kinds of training in business, creativity and cultural- social fields (Kasih Y.C, 2007). And some declare that entrepreneurship training in cooperatives is in four fields of scientific, technical, management, entrepreneurship and staffs' skills, in which without considering these trainings, entrepreneurship fulfillment is impossible (Iyone, 2003). according to data, %50 of the agricultural production cooperatives' members do not attendance in each training courses. Undoubtedly, cooperative has no opportunity for growth and improvements of the members without training. Inattention towards training of other parts of the cooperative, especially board of directors, is obvious. Table 3

**Table 3- Frequency distribution of users based on participation in training class.**

Participation in training course	Frequency	Percent
Yes	62	50
No	62	50
Total	124	100

### 3.2.5 Fifth Challenge: weak informing in cooperatives

Despite of limitations in the cooperative's range of activities, most of the people are uninformed about programs of cooperatives and also time of convene. Weak informing cause pessimism towards cooperative's management and rumor about inefficiency of it. Results demonstrate that %37 of the people who are not participate in cooperatives' programs, declare that not informing about the time of meetings and programs is the main factor of their absence. Table 4

**Table 4- Reasons of non participation in programs and participation in sessions**

Reasons of non participation in programs and participation in sessions	Frequency	Percent
Lack of information about holding sessions and programs	37	37
Shortage of time	27	27
Interest of board of directors in non participation of some members	12	12
Not appearing at the village	16	16
Inappropriate behavior of the board of directors toward the people	4	4
Lack of interest in participation in group activities	4	4
Total respondents	100	100

### 3.2.6 Sixth Challenge: decreasing of participation and entrepreneurship cultural

Without enough consideration of entrepreneurship culture development, we are unable to reach to development and growth standards. In fact, it is entrepreneurship is a kind of social culture that protects and encourages entrepreneurship behaviors. Entrepreneurship, creativity (Jeffrey & Baron, 2006), responsibility, respondent and atone customers (Joseph & Igor, 1999 ) and risk taking. Capability of understanding changes and detection of opportunities, cooperation and group work, creativity and innovation, autonomous and responsibility and risk taking are components of the culture that are not achievable in short-term and percussion programs.

In some cooperatives, partnership motivation is decreasing. What is the cause of not participating, it is on the contrary to cooperation and group innovation. Cooperatives need complete sympathy of the members for growing and development; but because of weakness of cooperative culture, managing director, storekeeper, accountant and so are responsible for major affairs of the cooperative. Members do not account the cooperative as their house; this is one of the key elements for justifying unsuccessfulness of the cooperatives in creation of dynamic and movement in Iran's rural community.

### 3.2.7 Seventh Challenge: narrow knowledge of the members about principles and philosophy of formation of producing cooperatives (not existence of appropriate background for entrepreneurship)

In most of the cooperatives under study, villagers are not familiar with philosophy and necessity of cooperatives and believe that they are governmental and servicing. Results show that %56 of the subjects said that reason of establishment of cooperatives is just providing services and distribution. This way of thinking about objectives of establishment of the cooperatives is far from the reality.

### **3.2.8 Eighth Challenge: cooperatives tendency towards providing services and becoming far from producing and innovation**

According to the available data, the most important reason of referral of the people to cooperatives (%70) is receiving savings or benefiting from machinery services. In fact, from the people's viewpoint, providing services is the main responsibility of the cooperatives. Cooperatives tend to provide services in response to this need and accelerating of the responding. Nonetheless, cooperative provisions predict a wide range of activities for them, but they have not sufficient innovation and movement and also limit their activities to servicing. This long-term damage lower the position of cooperative as a servicing governmental institution, which is responsible to provide some services more easily in lieu of membership of the members. It is clear that in such a condition, cooperative detained from its major responsibilities. Mac Keland declares that advancement motivation is expanding entrepreneurship morale, reinforcing personal independence and creating effective self-reliance (Brockhaus & Horwitz, 2000). Various studies demonstrate that tendency of advancement in rural community is less than civic societies. Examinations show that not only special trainings are not provided, but also members are not trained sufficiently in primary fields.

### **3.2.9 Ninth Challenge: not availability Supportive Organizations from Entrepreneurship in Cooperatives**

Rural organizations could be entrepreneurship, when governmental institutions support them on the basis of codified regulations. Supportive institutions are effective especially in organizing, training and determination of kinds of movement. The most important supportive authority is Agriculture Organization in Iran. Now, cooperatives' portion is very low from research budget and human resources and economical social units are not supported seriously.

### **3.2.10 Tenth Challenge: not availability to Infrastructures**

Entrepreneurship without considering infrastructures is a motto. Supportive regulations, stability of provisions relates to employment, facilities with appropriate interest rate, training in different levels and fields according to didactic necessities about agricultural products, guaranteed prices and insurance and the like, predispose entrepreneurship development in the cooperatives.

Finding places for agricultural cooperatives has a especial role in the amount of entrepreneurship. Two features of physical environment effect on the cooperatives' entrepreneurship. First is the cooperatives' positional (village or villages that the cooperative is placed on). It is indicated distance of the cooperative from major markets and availability for customers, people, producers, data resources and organizations. Out villages have effects on different aspects of trading innovation and growth of rural business and employments. Second physical element is natural resources, agricultural lands and water resources under the cooperative's coverage. Natural resources and appropriate regional conditions provide opportunities to use and benefit from the environment and affect on entrepreneurship activities.

### **3.2.11 Eleventh Challenge: Possibility of Supplying Goods and services in Cooperatives**

If cooperatives supply goods with an appropriate price, they could create dynamic members with better cooperation in organization; because in this process, in addition to accelerating financial circles, it will provide satisfaction of the villagers and members. Now, local and regional markets do not grow in Iran's rural societies and are very small and limited. In these conditions, cooperatives should follow markets out of rural places and environs for supplying their goods inevitably. Availability of the markets is impossible for the cooperatives because of lack of appropriate communicational systems, difficulties in shipment, not availability of stores and springhouses in villages; and in spite of producing goods cooperatives supply them to the most available customers, which have not sufficient profit. Lack of not sufficient profit will cause members of cooperatives seek for individual markets for themselves; thus, their tendency of cooperation, which is necessary for success of this economical social institution, will decreased gradually.

## **4. SUGGESTIONS**

Agricultural production cooperatives could play role in rural areas as entrepreneurship organizations, provided that were considered more by planners of the country's cooperative systems. So, according to the context of the article, following suggestions are recommended to develop entrepreneurship:

- Government should provides necessary concerts for supplying and paying low-interest and long-term facilities to the cooperatives. Now, the banks need security, which is the main obstacle in applying the facilities.
- Origins of distrustfulness should be examined and analyzed. It seems that limited participation of members in selection of board of directors' members and not clearance financial matters (that mainly are because of unawareness about informing methods) may cause misgiving.
  - Selection of Efficient Peoples as Board of Directors
  - Codification of Distinct Regulations and Commitment to Implement Them-
  - Regular Evaluation of Cooperatives' Pillars

- It themselves. It is necessary to hold training and justifier courses to lead villagers' viewpoints towards active partnership.
- In order to develop entrepreneurship, cooperatives' principles and values should be taken seriously. Producing cooperatives are based on principles that are similar as ruling principles in other cooperatives of different sectors. Undoubtedly, a cooperative could follow its objectives, when it was bounded to the cooperative's principles and basis, which are included in the statute. Observance of the following cases provide necessary opportunity for other activities and actions, such as holding meetings regularly, in each situation, legality in holding the meetings especially attendance of the members, providing financial reports in every financial year, accurate explanation of responsibilities of the members, directors, board of directors and other cooperative's organs and so.
- Training is bases of entrepreneurship in agricultural production cooperatives. With regard to the fact that entrepreneurship in agricultural production cooperatives is almost a new concept for members and cooperatives' pillars, and there is no counseling about it, passing different training courses could provide necessary fields of its formation. Now, cooperatives have not enough training. Different aspects of producing cooperatives need training for familiarity and developing of entrepreneurship in various fields such as investment, risk taking, accounting, financial, technical and specialty, partnership, management, leadership and so. For success of the agricultural cooperatives, their managers should pass various trainings, especially financial courses, cooperative principles, decision making management and so.
- Cooperatives for developing entrepreneurship need serious protection of the government. Considering high investment in employment fields each year, it is necessary that parts of it lead to agricultural production cooperatives in rural employment. In governmental supporting, it should be under consideration that peoples should not dependant to it. Government should not interfere in partial and implementing affairs of the cooperatives except in investment, training and inspection.
- Cooperative system in Iran's rural areas, in addition to national values for growing in various scopes, especially entrepreneurship and creation, is according to the people's culture and customs. So, producing cooperatives in each region and province have their special problems. It is necessary to analyze their problems continuously. Consider that most of the exploration systems in Iran have origins in decades. These systems are managing according to individual viewpoints, and problems of collective and cooperative systems do not exist for them. So, Ministry of Cooperative should value researches in the scope of cooperatives.
- Applying desirably from the capacities of principal 44 of constitutional law, Islamic republic Cooperative Law and cooperatives' statute for growing of agricultural production cooperatives. Now, there are unknown capacities in law that are not applied.
- It is necessary to establish appropriate conditions by applying promoting methods and scientific conduction of innovation mechanism to rural community, before establishment of the cooperatives.
- Cooperative should be established in a region that was capable of benefiting from the system culturally, socially, agriculturally and in natural resources parts; then, people becoming familiar with cooperative philosophy, its elements and functions in a regular program. In this case, by using from knowledge of the specialists, codifying of a program will be possible.
- Entrepreneurship, innovation and risk taking are features that are more in young and graduated peoples. Young and graduated peasants in rural areas should be encouraged for membership in rural production cooperatives.

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# THE RELATIONSHIP OF RESILIENCE AND ENTREPRENEURIAL INTENTIONS

WUSTARI H. MANGUNDJAYA, UNIVERSITY OF INDONESIA

## ABSTRACT

Entrepreneurship is becoming a very relevant instrument to promote economic growth and development the country. Moreover, a career in entrepreneurship also offers significant opportunities for individuals to achieve financial independence and benefit of the economy by contributing to job creation, innovation and economic growth. However, in Indonesia there are only 0.18% of 220 million people who are entrepreneurs which is far less than 2 percent of the people.

In this regard, from a psychological point of view, the intention to become an entrepreneur has been described as the single best predictor of actual behavior (Ajzen, 1991). On the other hand, it is also understood that one of the characteristic to become a success entrepreneur is the person should be resilience. The question was raised whether there is a relationship between resilience and entrepreneurial intentions. To collect the data this study used the modified AQ Profile (Stoltz, 1997) to assess participants resilience and Entrepreneurial Intention Questionnaire (EIQ) developed by Linan & Chen (2006), which has been recently modified and validated, to measure entrepreneurial intentions amongst University of Indonesia students and employees.

This research was done amongst University students (N= 93) and employees (N=107). Findings indicated that there was no significant correlation between Adversity Quotient and Entrepreneurial Intention amongst University students. However, there is a significant correlation between Resilience (Adversity Quotient) and Entrepreneurial Intention amongst employees.

**Keyword:** Entrepreneurship, Entrepreneurial Intentions, AQ (Adversity Quotient), and Resilience.

## 1. INTRODUCTION

Entrepreneurship is becoming a very relevant instrument to promote economic growth and development the country. Moreover, a career in entrepreneurship also offers significant opportunities for individuals to achieve financial independence and benefit of the economy by contributing to job creation, innovation, and economic growth. A great deal of research has studied the reasons for creation of new enterprises and the entrepreneurial characteristics. In Indonesia itself a lot of things have been done in order to develop individuals to pursue entrepreneurial endeavors both for employees and students (high school and university students). An important question has emerged is why some individuals decide to pursue entrepreneurial endeavors while others do not. In this regard, understanding the factors that influence and shape individual's of starting a business is critical if programs and policies are to be developed to encourage entrepreneurial behavior. Previous research has identified the role of risk tolerance, income and preference for independence as being significant in the decision to be self-employed (Douglas & Shepherd, 2002). Individuals with more tolerance for risk and stronger positive attitudes toward income and independence are more likely to want to pursue an entrepreneurial endeavor. From a psychological point of view, the intention to become an entrepreneur has been described as the single best predictor of actual behavior (Janzen, 1991). On the other hand, it is also understood that one of the characteristic to become a success entrepreneur is the person should be resilience. The question was raised whether there is a relationship between resilience and entrepreneurial intentions. This paper explores the relationships between resilience (measures with Adversity Quotient) and entrepreneurial intentions in two types of group's employees and students.

## 2. THEORETICAL BACKGROUND

### 2.1 Entrepreneurial Intention

The entrepreneurial intention has been considered as the key element to understand the new-firm creation process (Bird, 1988). In this sense, entrepreneurial research has been conducted following two main lines; the personal characteristics or traits of the entrepreneur, and the influence of contextual factors in entrepreneurship (Robinson et al., 1991). According to the theory of planned behavior (TPB), entrepreneurial intention indicates the effort that the person will make to carry out that entrepreneurial behavior. It captures the three motivational factors, or antecedents, influencing behavior (Ajzen, 1991; Linan, 2004 in Linan et al., 2008). The three motivational factors are as follows:

- 1) Attitude toward start-up (Personal attitude – PA), refers to the degree which the individual holds a positive or negative personal valuation about being an entrepreneur (Ajzen, 2001, Autio et al. 2001; Kolvereid, 1996b in Linan et al. 2008). It includes not only affective (I like it, it is attractive) but also evaluative considerations (it has advantages).
- 2) Subjective norm (SN) measures the perceived social pressure to carry out or not entrepreneurial behaviors. In particular, it refers to the perception that “reference people” would approve the decision to become an entrepreneur, or not (Ajzen, 2001).
- 3) Perceived behavioral control (PBC) is defined as the perception of the ease or difficulty of becoming an entrepreneur. It is therefore, a concept quite similar to self-efficacy (SE) (Bandura, 1997 in Linan et al., 2008) and to perceived feasibility (Shapiro & Sokol, 1982 in Linan et al., 2008). All three concepts refer to the sense of capacity regarding the fulfillment of firm-creation behaviors. Nevertheless, recent work has emphasized the difference PBC and self-efficacy (Ajzen, 2002). PBC would include not only the feeling of being able to, but also the perception about controllability of the behavior.

In this case, Hisrich, Peters, and Shepherd (2008), mentions that entrepreneurial intention is: “*The motivational factors that influence individuals to pursue entrepreneurial outcomes*” (p. 58).

## 2.2 Resilience & Adversity Quotient

According to Stoltz (2000), *Adversity Quotient* is a “hardwired pattern of response to all and magnitudes of adversity, from major tragedies to minor annoyances” (Stoltz, 2000: 3.)

Stoltz (2000) mentioned that there are 4 CORE dimensions that make up the AQ; namely Control, Ownership, Reach, and Endurance.

### 1) Control

Control has two facets. First to what extent that you are able to positively influence a situation? Second, to what extent can you control your own response to a situation? Control is about 1). Your perceived ability to alter a situation, and 2) your Response Ability, which is the ability to control your own response to anything that may arise. In this regard, Control can be divided by two categories; a. delayed Response Control, and b. Spontaneous Response Control. In this regard, Control influences all that follows from adversity, as well as the price you pay from the moment it strikes. The greater the adversity, the greater the potential toll, and the more profound the benefits of positive influence and response control.

### 2) Ownership

Ownership helps us to redefine accountability in highly constructive and practical terms. The dimensions of your AQ assess the extent to which you take it upon yourself to improve the situation at hand, regardless of its cause.

### 3) Reach

Reach explores how far you let adversity go into other areas of your work and life. Reach determines how large you perceive the problem to be, or its apparent extent. Logically, the larger the problem appears, the greater its potential to induce fear, helplessness, apathy, and inaction.

### 4) Endurance

Endurance dimensions assess and describe how long one perceives the adversity will endure. Those with lower AQs are more likely to perceive adversity as enduring, and those with higher AQs possess an almost uncanny ability to see past even the most dire circumstances (Stoltz, 2000).

### 2.2.1 Quitters, Campers, and Climbers

Furthermore Stoltz (2000) also mentions that there are 3 types of people that can be categorized by their AQ score, namely: Quitters, Campers, and Climbers.

*Quitters* are the people who retired years ago but just never bothered to tell anybody. At some point Quitters were overwhelmed by the challenge of the ascent and gave up on their higher pursuits. They ignore, mask, or desert their basic core human drive to ascend and, with it, much of what life offers. Unfortunately for them, and for those around the Quitters often are bitter and depressed about their lot in life. They are resentful of the climbers, and even the Campers, around them. When adversity strikes, Quitters’ operating system freeze or cash.

*Campers*, for the most part, are retired Climbers. They get the job done sufficiently; they simply don’t drive as hard or sacrifice as much as they once did. They’ve lost the edge. Their operating system get bogged down, or they have reached some limits beyond which they seem unable to speed, capacity, and capabilities the once had. Campers represent half-tapped potential. At some point in their careers and live, they understandably got tired of the ascent up the mountain and they found a nice, comfortable place to sit out their remaining years. They have sacrificed their

highest aspirations and contributions for the security and stability they now may enjoy. I say “may” because, ironically, the mountain is far from stable. The campground is continually rocked by an avalanche of change that causes Campers great consternation and fear. More tragically, while Campers may have been successful in reaching the campground, once they abandon the ascent they gradually atrophy and lose their ability to Climb, assessing an incalculable cost on themselves and their organizations.

*Climbers* are dedicated to a lifelong ascent. Their operating systems drive an inner relentlessness that immunizes them from adversities. Climbers make things happen. They are tenacious and refuse to accept defeat for long. They step into the very fear that paralyzes so many others. Although they may face more adversity than others, they continue to think in terms of possibilities and rarely allow any internal factor or external obstacle to get in the way of their ascent. They are fueled by challenges and refuse to be insignificant in their work or their relationships. Because of their operating systems, they simply learn from each challenge, adapt, grow, and move on to the next mountain.

**Table 1: The Characteristics of High and Low AQ Scores**

Low AQ score	High AQ score
Give up	Be resilient in the face of adversity
Become overwhelmed	Be a top performer and sustain high performance
Become depressed	Be <i>authentically</i> optimistic
Not tap one’s full potential	Take necessary risks
Feel helpless	Thrive on change
Suffer illness	Remain healthy, energetic, and vital
Propagate the Nocebo Effect	Take on difficult and complex challenges
Get mired in problems	Persevere
Avoid challenging jobs and situations	Innovate to find solutions
Leave good ideas and tools unused	Be an agile problem solver and thinker
	Learn, grow and improve

### 3. METHODS & MEASURES

The empirical analysis has been carried out on two types of sample as follows: a sample of employees (N=107), who are at least has been working for two years, graduated from high school, and within the range of age 25-55 years old. The second group of sample is university students (N= 93) who has taken Entrepreneurship class as one of their subjects. These university students are from University of Indonesia, which is the best and largest university in Indonesia, and one of their visions is to become a worldwide research and entrepreneurial university. The Entrepreneurial Intention Questionnaire (EIQ) used for this study is a modified version of the one used by Linan and Chen and has been modified in Indonesian language (Bahasa Indonesia.) On the other hand, Adversity Quotient Questionnaire has been modified to Bahasa Indonesia from the AIQ used by Stolzt (2000.) Multiple correlations have been computed for each of the three motivational antecedents, plus three dimensions of AIQ.

### 4. RESULT & ANALYSIS

In order to know the profile of Entrepreneurial Intention for the students and the employees, Table 2, shows that in general most of the students have higher grade in EI compares to the employees.

**Table 2: Level of Entrepreneurial Intention (EI)**

Level EI	Students		Employees	
	N	%	N	%
Low	42	45.2	55	51.4
Medium	-		33	30.8
High	51	54.8	19	17.9
Total	93	100	107	100

It can be concluded that in general students have Entrepreneurial Intention higher than the employees'. This can be assumed that the employees are more reluctant to become entrepreneur compares to the students (especially for the students who took entrepreneurial class).

Moreover, it also can be said that the employees has more resilience (higher AQ) compares to the students'. In Table 4 it has mentioned that the number of low score of AQ is higher in the students rather than in the employees, and vice versa the number of high scores can be found more in the employees rather than in the students.

**Table 3: Level of Adversity Quotient (AQ)**

Level EI	Student		Employee	
	N	%	N	%
Low	54	58.1	31	29
Medium	28	30.1	51	47,7
High	11	11.8	25	23,3
Total	93	100	107	100

From the computed correlation between AQ and EI for the two groups it can be seen that there is no positive and significant correlation between AQ and EI for the students respondents and there is a positive and significant correlation (r: .462) for the employees.

**Table 4: Correlation between Adversity Quotient (AQ) and Entrepreneurial Intention (EI)**

	Student	Employee
R	.149	.462
R square	.022	.231
Sig.	.153*	.000**

\* Not significant

\*\* Significant at l.o.s. 0.05

In order to enrich the data of the correlation between AQ and EI, it also has computed the dimension of the Adversity Quotient and Entrepreneurial Intention.

**Table 5: The Correlation of dimension Adversity Quotient (AQ) and Entrepreneurial Intention (EI)**

	Student		Employee	
	R	Sig.	R	Sig.
Control & EI	.225	.033	.216	.028*
Ownership & EI	-.067	.521	.119	.231
Reach & EI	.035	.738	.066	.509
Endurance & EI	-.046	.661	.013	.898

\* Significant at l.o.s 0.05

From the results it can be concluded that there is a positive significant relationship (r: 0,462, l.o.s. 0.05) between Adversity Quotient and Entrepreneurial Intention for the employees, and there is no positive correlation between Adversity Quotient and Entrepreneurial Intention for the students. Furthermore it can be seen that from the computed correlation between CORE dimensions and Entrepreneurial Intention, it shows that only Control that has positive with Entrepreneurial Intention.



## 5. CONCLUSIONS, DISCUSSION, & RECOMMENDATIONS

### 5.1 Conclusions

From the results, it shows that at the employee data, there are a positive and significant relationship between Self Resilience/high AQ score and Entrepreneurial Intention, which mostly has strongly contributed by the Control dimension. In this regard, it means that with higher the AQ score, the higher also the score of Entrepreneurial Intention. On the other hand, based on the AQ score results, it can be seen that the employee in general can be categorized as Camper or Climber (has high AQ) score compares to the students.

The results also shows that university students is having more low scores in Adversity Quotient than in Entrepreneurial Intention, which as a result activities should be conducted to develop their score of Adversity Quotient, in order to be succeeded as a future Entrepreneur.

When we talk about the university students, the data shows that there is no positive significant correlation between Adversity Quotient and Entrepreneurial Intention and in general the score of AQ is in low level, but the employees seem has more lower scores compares to the students. The interesting results shows in the students' result which mention that they have quite high score in Entrepreneurial Intention but in general has low scores in Adversity Quotient, this score should be taken into thorough consideration, because if the students actually become entrepreneur but without the adequate supports from his attitude and traits (in this regard their resilience) then there will have some problems in the future. In this regard, university management should also equip the students not only with the development of their intention and skills as entrepreneurs but also equip them with soft skills needed as tough and competent entrepreneurs.

There is still much to be learned to really understand the mental process leading to the start-up decision namely demographical factors such as age, position (student or employee), as well as external factors. In this regard, a further research with larger and variation samples is recommended.

The main conclusion drawn from this study relates to a better understanding of the profile comparison between students and employee in the field Entrepreneurial Intention and Adversity Quotient. In this regard, it appears that to become an Entrepreneurship University, there should be many activities such as trainings, coaching, etc. to enhance the entrepreneurial intention in the university students.

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# CAREER PREFERENCES AND ENTREPRENEURSHIP TENDENCIES OF UNIVERSITY STUDENTS

NUR ERSUN, İSTANBUL COMMERCE UNIVERSITY  
KAHRAMAN ARSLAN, İSTANBUL COMMERCE UNIVERSITY

## ABSTRACT

In the world and in our country, entrepreneurship has been gaining more importance and is being emphasized as the crucial cornerstone of the economies. While the entrepreneurial spirit can be genetic, it is also acknowledged that family, environment, education and several other factors are important for its development. Universities, through their educational system can strengthen the entrepreneurial aptitude of the students, thus carry out an important mission in the formation of entrepreneurial spirit. In this survey, the entrepreneurial view points of senior students as candidates of future entrepreneurs and the impact of entrepreneurial factors on their entrepreneurial tendency have been examined. Besides the demographical features of the students, a questionnaire has been utilized to determine their entrepreneurial tendencies and the final data has been evaluated by using various statistical techniques. The findings revealed that a large part of the students consider working in the private sector or setting up their own businesses after graduation. Furthermore, a positive correlation was observed between entrepreneurial tendency on the one hand and the financial and educational status of the parents and the number of children on the other.

**Key words:** entrepreneur, entrepreneurship, prospective entrepreneur, university students, entrepreneurial tendency.

## 1. INTRODUCTION

Entrepreneurship has always had a vital function and place for the development of modern civilization. Any process of economic development is determined by entrepreneurs and their innovations (Kristiansen and Indarti, 2004: 55). Entrepreneurship and small business has been acknowledged as a fundamental component of economic growth and health (Plumly and al., 2008: 17). Latest scientific and technological developments rapidly changed the structures of the societies and consequently entrepreneurship based on the individual and the individual skills became more important (Erkan, 1993: 111). Entrepreneurship is more than the mere creation of business, ..... entrepreneurship is an integrated concept that permeates an individual's business in an innovative manner (Kuratko, 2006).

Entrepreneurship in classical terms used to be defined as the self-employed person conducting production by bringing together means of production and taking risk in pursuit of making profit (Emsen, 1996:154). However, it is now taken as a methodology to reach better-off situations through high levels of creativity (Titiz, 1999:11).

Entrepreneurs have motivation for success, take risk at reasonable levels, and are willing to take individual responsibility to reach a desired outcome (Moorhead and Griffin, 1989:20). They have the capability to interpret cases independently from casual ways of thinking and free from their own prejudices and take action following rapid decision making without exhaustion by possible dangers (Hinterhuber and Popp, 1992:105). The willingness of persons to take risk is defined through their threshold of endurance vis-à-vis risks and uncertainties. The studies indicate that entrepreneurs are more risk-lovers compared to other people (Raab and others, 2005:71).

Entrepreneurship is to have the capacity to sense the opportunities offered by our environment, to generate dreams from these senses, to realize these dreams into projects and bring them into life and to ease others' lives by creating wealth (Bozkurt, 1996:5).

While different definitions are to be found in scientific literature, the common point is that an entrepreneur is a risk-loving person capable of realizing the opportunities not seen by others and turning these into business ideas (Tekin, 2004:3). Entrepreneurship in this sense covers activities with the pursuit of realizing and exploiting opportunities, turning these into marketable ideas after investing skill, time, money, and effort, and implementing these ideas in competitive and risky markets (Kuratko, 1995:58). Therefore, it is a process of creating value (Thompson, 2004:244).

It is observed that the economies with higher entrepreneurial spirit and activity grow at a rate above the average. Leaving aside this positive impact of entrepreneurship on economic well-being level, following three developments contributed to its popularity in latest years (TUSIAD, 2002:19):

- 1) It is seen as a solution to unemployment;
- 2) It plays a vital role for the economies;
- 3) Its recognition in general as a result of developments in economy and business.

Entrepreneurship literature also underlines the role of the social context. The orientations and behaviors of students and young graduates are influenced by a number of personal and environmental factors (Lüthje and Franke, 2003: 137). As an example, researchers have shown the importance of the social status of entrepreneurial activities and situations (Begley and al., 1997) in the participant's environment. Particularly, empirical evidence for the relationships between the parental role model and preference for a self-employment career has been reported several times (Fayolle and al., 2006: 510)

The economic environment the entrepreneur lives in sets the economical conditions; the family structure, its roots, and education sets the sociological conditions; and subjective perception, work discipline, desire for success sets the psychological conditions. Entrepreneurship is formed as an outcome of different combinations of these three factors.

## **2. OBJECTIVE OF THE STUDY**

The objective of this study is to identify the entrepreneurial aptitude of senior undergraduate and vocational school students of a foundation university in Istanbul, to measure the impact of chosen diploma programs on the level of this aptitude, to find out the type of determining factors that is affected by this choice, and to observe the impact of demographic variables (gender, family, environment, income level and entrepreneurial history of the parents).

It is also aimed at developing suggestions to improve the entrepreneurial aptitude of students based on the results of the analysis and contributing to the literature in this field through the conclusions and comments.

## **3. IMPORTANCE OF THE STUDY**

Entrepreneurship is acknowledged as the "impulsive power" leading to economic development, job creation and social improvement. Thereby, this study is expected to contribute to the development of entrepreneurial aptitude of university students who are considered as "prospective entrepreneurs" in countries with large young population by examining their views and the factors they prioritize in this field.

## **4. CONSTRAINTS OF THE STUDY**

The fact that the survey was made in a single university, a foundation university and that such type of universities do not have a homogenous student profile regarding the socio-economic status although they have a population of limited enrollment compared to public universities can be considered as an important constraint.

Another constraint is the possibility of different perceptions by students of different diploma programs regarding the questionnaire. On the other hand, the outcomes revealed that different perceptions of question did not constitute an important problem in reflecting the general tendency.

## **5. RESEARCH METHODOLOGY**

The purpose of the research, sample population, sampling methodology, data collection methodology and finally research findings will be described under this section.

### **5.1. Population and Sample**

The universe of the study consists of third and fourth year students and vocational high school students of Istanbul Commerce University. Students in the survey are selected through a simple random sampling method. The sample consists of 426 students.

### **5.2. Data Collection Methodology and Tools**

Surveys on paper were distributed to students. Face to face survey methodology was not preferred due to the length of time required to conduct this type of questionnaire.

The survey consisted of 3 sections including demographic questions, information about future business and entrepreneurial experience. Entrepreneurial trends section was divided into 10 parts and questions in each section were measured with the one-to-five Likert scale.

Collected data was evaluated using Mann Whitney U and Kruskal Wallis non-parametric tests.

## 6. RESEARCH FINDINGS

Demographic characteristics of students, basic information regarding future work expectations, reliability of the scales created and the results of statistical tests are described in the research findings section.

### 6.1 Demographic Characteristics of the Students

The collected demographic data includes faculty and department, gender, high school type, places where students lived prior to attending university, family income, number of children in the family, education of the father and his profession and upbringing style of the student. Findings about demographics are presented in Table 1.

**Table 1. Demographic Characteristics of Students**

Demographic Characteristics		Distribution	Percentage
Department	Banking and Finance	110	27.0
	Tourism Management	107	26.3
	International Trade	69	16.9
	Vocational High School	61	15.0
	Business Administration	60	14.7
	Total	407	100.0
Gender	Male	229	54.0
	Female	195	46.0
	Total	424	100.0
High School	Regular High School	234	55.7
	Public/State School	90	21.4
	Private School	77	18.3
	Trade School	19	4.5
	Total	420	100.0
Places where students lived prior to attending university	Metropolis	265	63.2
	City	114	27.2
	District	40	9.6
	Total	419	100.0
Family Income	1000 or lower	27	7.1
	1001-1500	18	4.7
	1501-2000	50	13.1
	2001-2500	39	10.2
	2501-3000	59	15.5
	3001-4000	39	10.2
	4001-5000	44	11.5
	5001-6000	36	9.4
	6001 or higher	69	18.1
	Total	381	100.0
Number of Children	1	84	19.9
	2	230	54.4
	3	65	15.4
	4 or higher	44	10.4
	Total	423	100.0

<b>Education of Mother</b>	Elementary School	67	15.9
	Junior High School	42	10.0
	High School	200	47.6
	University	111	26.4
	Total	420	100.0
<b>Education of Father</b>	Elementary School	44	10.4
	Junior High School	39	9.2
	High School	152	36.0
	University	183	44.4
	Total	422	100.0
<b>Profession of Mother</b>	Housewife	240	57.4
	Retired	75	17.9
	White Collar	38	9.1
	Own Business	34	8.1
	Private Sector Employee	31	7.4
	Total	418	100.0
<b>Profession of Father</b>	Own Business	201	47.7
	Retired	102	24.2
	Private Sector Employee	92	21.9
	White Collar	26	26
	Total	421	119.8
<b>Upbringing Style</b>	Often Repressive	13	3.1
	Mostly Free	24	5.7
	Controlled	136	32.2
	Confidence – Based Free	250	59.1
	Total	423	100.0

Note: Total distribution is not equal to 426 because of answers missing on some questions.

The departmental distribution of the students is as follows: 27% Banking and Finance, 26.3% Tourism Management, 15% Vocational High School, 14.7% Business Administration, 9.3% International Relations and 7.6% International Trade.

Gender distribution: 54% male and 46% female. 55.7% are regular high school graduates. Prior to attending university, vast majority of students (63.7%) lived in a metropolis while 27.2% lived in a city. 18.1% of families have an income above 6001 TL while 15.5% have an income between 2501-3000 TL and 13.1% between 1501-2000 TL. 54.4% of families have two children. 47.6% of mothers have high school education while 23.8% have university degree. 38.9% of fathers have university education while 23.8% are high school graduates.

56% of mothers are housewives and 17.9% are retired. 46.3% of fathers work in their own business and 24.2% are retired. Distribution of the type of upbringing of students is: 59.1% confidence-based free and 32.2% controlled.

## 6.2. Findings Regarding Future Business Expectations

Under the heading of Basic Information about Future Expectations, questions were asked about the reasons for the choice of faculty or school, the kind of workplace students want to work in, the area/field they want to work in, most significant factors shaping their career preferences and whether they have targets beyond the next ten years. Findings are presented in Table 2.

**Table 2. Basic Information about Future Work Expectations**

		Distribution	Percentage
<i>Why did you prefer this faculty or school?</i>	<i>I believe that my department will help me earn the money and status I desire</i>	144	34.1
	I see my future more in independent work and I believe this department will provide it to me	113	26.8
	Other Reasons	70	16.6
	I selected my department randomly	54	12.8
	I believe I can find the relevant information and education in this department to help me maintain my family business	41	9.7
	Total	422	100.0
<i>What kind of a workplace would you like to work in after graduation?</i>	Private Sector	218	51.7
	Own Business	85	20.1
	Study Abroad	49	11.6
	Work in Public Organizations	21	5.0
	Other	19	4.5
	Father's Occupation	17	4.0
	Family Business	13	3.1
Total	422	100.0	
<i>Which field/area would you like to work in after graduation?</i>	Finance	83	19.6
	Tourism	78	18.4
	Other	76	18.0
	Foreign trade	71	16.8
	Marketing and Sales	56	13.2
	Accounting	23	5.4
	Academic Career	19	4.5
	Manufacturing – Industry	17	4.0
Total	423	100.0	
<i>What are the most significant factors shaping your career choice?</i>	High earnings	142	34.0
	Working independent – desire to achieve	126	30.1
	Personal satisfaction (respectability)	66	15.8
	Specific and regular work	51	12.2
	Fixed income and risk-free work	16	3.8
	Not to be unemployed	14	3.3
	To escape family pressure	3	.7
Total	418	100.0	
<i>Do you have targets beyond the next ten years?</i>	I have targets but I am open to new alternatives	231	55.3
	I have long term targets but I don't know how to reach them	106	25.4
	I have only short term targets, I have no idea about the future	57	13.6
	I plan my life daily	24	5.7
	Total	418	100.0

Note: Total distribution is not equal to 426 because of missing responses.

34.1% of students believe that their department or school will help them earn the money and status they desire. 26.8% of students believe that their department or school will help them get independent work. 51.7% of students want to work in the private sector after graduation. 20.1% want to have their own business. 19.6% of students want to work in finance and 18.4% in tourism. With respect to the most significant factors shaping their career choices, 34% of students want to have high earnings, 30.1% want to work independently and have a desire to achieve and 12.2% want to have specific and regular work.

### 6.3 Reliability of Scales

Eight different scales were used in the study to determine the entrepreneurial trends of students. 8 separate scale scores with values of 1-to-5 were collected and calculated for every student. Reverse conversion is performed for the expressions containing negative sense. With a more explicit expression (1) coded as (5), (2) coded as (4) and (3) as the value is included in the calculation process. Reliability analysis was carried out for each scale. Reliability is a concept which evaluates consistency and homogeneity for all the questions in a measuring tool. Reliability analysis is a method developed to assess the reliability of the measuring tools (Akgül ve Çevik, 2005:26). Reliability analysis results are presented in Table 3.

**Table 3. Reliability Analysis Results for Scales Used in the Study**

	Number of Questions in the Scale	Scale Mean	Scale Standard Deviation	Cronbach Alpha Coefficient
Perception Scale for Entrepreneurship Concept	4	15.561	3.456	0.641
Perception Scale Related to the Development of Entrepreneurship	7	27.521	5.958	0.895
Perception Scale for Building One's Own Business and Being Successful	6	25.021	5.856	0.935
Entrepreneurial Characteristics Scale	6	25.054	5.960	0.937
Entrepreneurship Barriers Scale	5	15.684	5.229	0.847
Necessary Entrepreneurial Skills Scale	5	20.420	4.701	0.908
Perception Scale for the Importance of Business Plan in the Entrepreneurship	4	16.274	4.041	0.922
Perception Scale for the Importance of Feasibility Report In Entrepreneurship	4	16.415	4.072	0.927

When Table 3 Cronbach Alpha Coefficients were examined, all scales were found to be highly reliable except the Perception Scale for Entrepreneurship Concept. Perception Scale for Entrepreneurship Concept was found to be reliable.

### 6.4 Normality Analysis for the Scales

Kolmogorow-Smirnow Z test was applied to determine analysis methods used to investigate the scale scores of students. The result of the Kolmogorow-Smirnow Z test indicates which tests to use; parametric or non-parametric. Kolmogorow-Smirnow tests determine whether distributions are equal to normal distribution. Test hypotheses are;

$H_0$  = Sample distribution is equal to normal distribution.

$H_1$  = Sample distribution is not equal to normal distribution.



**Table 4. Results for Kolmogorow-Smirnow Z Test**

		Perception Score for Entrepreneurship Concept (Score 1)	Perception Score Related to the Development of Entrepreneurship (Score 2)	Perception Score for Building One's Own Business and Being Successful (Score 3)	Entrepreneurial Characteristics Score (Score 4)	Entrepreneurship Barriers Score (Score 5)	Necessary Entrepreneurial Skills Score (Score 6)	Perception Score for the Importance of Business Plan in Entrepreneurship (Score 7)	Perception Score for Importance of Feasibility Report In the Entrepreneurship (Score 8)
N		424	424	424	424	424	424	424	424
Normal Parameters	Mean	15.5613	27.5212	25.0212	25.0542	15.6840	20.4198	16.2736	16.4151
	Std. Deviation	3.45604	5.95845	5.85620	5.95963	5.22941	4.70081	4.04124	4.07232
Most Extreme Differences	Absolute	.161	.161	.230	.227	.077	.219	.214	.216
	Positive	.100	.105	.198	.203	.050	.165	.178	.189
	Negative	-.161	-.161	-.230	-.227	-.077	-.219	-.214	-.216
Kolmogorov-Smirnov Z		3.322	3.313	4.742	4.673	1.580	4.512	4.398	4.458
P		.000	.000	.000	.000	.014	.000	.000	.000

P values are smaller than 0.05.  $H_0$  hypothesis is rejected for all of the scales. Score distributions are not equal to normal at the %95 confidence level. In this framework, calculated scores mean comparisons were made with the appropriate non-parametric tests.

### 6.5 Testing Study Hypothesis

Research hypotheses to be tested have not been rewritten for each score. Score names are shown in Table 4.

#### 6.5.1 Student Assessment According to Departments

Kruskal-Wallis test was used to examine whether student average scores differ among different departments.  $H_0$ : For 6 groups (Banking and finance, tourism management, vocational high school, business administration, international relations, international trade), average scores are equal.

$H_1$ : Average score differs from others at least for one group. (This hypothesis will be tested for each of the 8 scores separately.)

**Table 5. Kruskal Wallis Test Results for Average Score Differences According to Departments**

	Score 1	Score 2	Score 3	Score 4	Score 5	Score 6	Score 7	Score 8
Chi Square	18.951	17.403	15.472	10.592	11.374	7.049	5.398	17.207
Df	5	5	5	5	5	5	5	5
P	.002	.004	.009	.060	.044	.217	.369	.004

According to Table 5, p values for Score 4, Score 6 and Score 7 are higher than 0.05. Null hypothesis is accepted. This means that these scores don't differ among departments. P values for Score 1, Score 2, Score 3, Score 5 and Score 8 are smaller than 0.05. Null hypothesis is rejected. This means that these scores differ among departments. When average scores are examined, highest scores for Score 1 belong to Banking and Finance, for Score 2 to International Trade, for Score 3 to Banking and Finance and for Score 5 and 8 to International Trade.

#### 6.5.2 Student Assessment According to Gender

Mann-Whitney test was used to examine whether student average scores differ between genders.  $H_0$ : Female ( $\mu_1$ ) and male ( $\mu_2$ ) average scores are equal. ( $\mu_1 = \mu_2$ )

$H_1$ : Female and male average scores are not equal. ( $\mu_1 \neq \mu_2$ )

**Table 6. Mann-Whitney Test Results for Student Average Score Differences According to Gender**

	Score 1	Score 2	Score 3	Score 4	Score 5	Score 6	Score 7	Score 8
Mann Whitney U	22186.000	19524.000	19606.000	18886.000	21153.500	20747.000	18575.500	19341.500
Wilcoxon W	48521.000	45859.000	45941.000	45221.000	40068.500	47082.000	44910.500	45676.500
Z	-.022	-2.154	-2.097	-2.683	-.847	-1.181	-2.960	-2.350
P	.983	.031	.036	.007	.397	.237	.003	.019

According to Table 6, p values for Score 2, Score 3, Score 4, Score 7 and Score 8 are smaller than 0.05. Null hypothesis is rejected. This means that these scores differ between genders. Examination of average scores shows that female students have higher scores than males.

### 6.5.3 Evaluation According to High School and the Places Where Students Lived Prior to Attending University

The type of high school and the places where students lived prior to attending university have been studied. The result is that, the value **p value** (probability value) is higher than 0.05 for all score types. There fore, the null hypothesis that student scores do not differ based on high school type and the places where students lived prior to attending university is accepted at the 95% confidence level. In other words, high school type of students and the places where students lived prior to attending university are not statistically significant on average score differences.

### 6.5.4 Evaluation According to the Family Income of Students

Kruskal-Wallis test was used to examine whether family income of students results in a significant difference on their average scores. The hypotheses of the Kruskal-Wallis test are: **H<sub>0</sub>**: There is no significant difference between the means of 9 groups. **H<sub>1</sub>**: At least one group's mean is different.

**Table 7. Kruskal-Wallis Test Results for Average Score Differences According to Family Income of Students**

	Score 1	Score 2	Score 3	Score 4	Score 5	Score 6	Score 7	Score 8
Chi-Square	8.374	18.680	18.535	18.655	12.487	17.911	17.924	19.669
Df	8	8	8	8	8	8	8	8
P	.398	.017	.018	.017	.131	.022	.022	.012

According to Table 9, the p value (probability value) is higher than 0.05 for Score 1 and 5. Therefore, the null hypothesis that the scores of the students do not differ based on family income of students is accepted at the %95 confidence level. For Score 2, 3, 4, 6, 7 and 8, the p value is smaller than 0.05. Therefore, the null hypothesis that the scores of the students do not differ based on the education level of mothers is rejected at the %95 confidence level. In other words, the scores of students differ based on family income for Score 2,3,4,5,6,7,8. Examination of average scores indicates that students whose family income is between 3001 and 4000 TL get highest scores for Score 2,3,4,7 and students whose family income is between 1501 and 2000 TL get highest scores for Score 6 and 8.

### 6.5.5 Evaluation According to the Number of Children in the Family of Students

Kruskal-Wallis test was used to determine whether the number of children in the family of students results in a significant difference on average scores of students. The hypotheses of the Kruskal-Wallis test are: **H<sub>0</sub>**: There is no significant difference between the means of 5 groups. **H<sub>1</sub>**: At least one group's mean is different.

**Table 8. Kruskal-Wallis Test Results for Average Score Differences According to the Number of Children in the Family**

	Score 1	Score 2	Score 3	Score 4	Score 5	Score 6	Score 7	Score 8
Chi-Square	1.495	4.153	10.418	7.057	5.597	3.501	4.485	2.977
Df	4	4	4	4	4	4	4	4
P	.828	.386	.034	.133	.231	.478	.344	.562

According to Table 10, the p value (probability value) is higher than 0.05 for all Scores except Score 3. Therefore, the null hypothesis that the scores of students do not differ based on the number of children in the family of students is accepted at the %95 confidence level. An examination of average scores indicates that students from families with 4 or 2 children get the highest scores for Score 3.

### 6.5.6 Evaluation According to the Education of Mothers

Kruskal-Wallis test was used to determine whether the education of mothers results in a significant difference on average scores of students. The hypotheses of the Kruskal-Wallis test are:  $H_0$ : There is no significant difference between the means of 6 groups.  $H_1$ : At least one group's mean is different.

**Table 9. Kruskal-Wallis Test Results for Average Score Differences According to the Education of Mothers**

	Score 1	Score 2	Score 3	Score 4	Score 5	Score 6	Score 7	Score 8
Chi-square	2.926	12.940	13.624	13.052	4.770	7.835	7.298	17.617
Df	5	5	5	5	5	5	5	5
P	.711	.024	.018	.023	.445	.166	.199	.003

According to Table 11, the p value (probability value) is higher than 0.05 for Score 1, 5, 6 and 7. Therefore, the null hypothesis that the scores of students do not differ based on the education of mothers is accepted at the %95 confidence level. For Scores 2, 3, 4 and 8, the p value is smaller than 0.05. Therefore, the null hypothesis that the scores of students do not differ based on the education of mothers is rejected at the %95 confidence level. In other words, scores of students differ based on the education of mothers. An examination of the average scores indicates that the students whose mothers have an elementary school education get the highest scores for Score 3, 4 and 8 and the students whose mothers have a university education get the highest scores for Score 2.

### 6.5.7 Evaluation According to the Education of Fathers

Kruskal-Wallis test was used to determine whether the education of fathers results in a significant difference on average scores of students. The hypotheses of the Kruskal-Wallis test are:  $H_0$ : There is no significant difference between the means of 6 groups.  $H_1$ : At least one group's mean is different.

**Table 10. Kruskal-Wallis Test Results for Average Score Differences according to the Education of Fathers**

	Score 1	Score 2	Score 3	Score 4	Score 5	Score 6	Score 7	Score 8
Chi Square	2.212	2.405	11.162	3.411	9.150	1.837	1.896	12.948
Df	5	5	5	5	5	5	5	5
P	.819	.791	.048	.637	.103	.871	.863	.024

According to Table 12, the p value (probability value) is higher than 0.05 for Score 1, 2, 4, 5, 6 and 7. Therefore, the null hypothesis that the scores of students do not differ based on the education of fathers is accepted at the 95% confidence level. For Score 3 and 8, the p value is smaller than 0.05. Therefore, the null hypothesis that the scores of students do not differ based on the education of fathers is rejected at the 95% confidence level. In other words, the scores of students differ based on the education of fathers. An examination of average scores indicates that students whose fathers have an elementary school education get the highest scores for Score 3 and students whose fathers are literate get the highest scores for Score 8.

### 6.5.8 Evaluation According to the Profession of Mothers and the Upbringing Style of Students

The profession of mothers and the upbringing style of students have been evaluated by Kruskal-Wallis test to find out if average scores of students differ. For all scores the **p value** is higher than 0.05. Therefore, the null hypothesis that the scores of students do not differ based on education of mothers and their upbringing style is accepted at the 95% confidence level. In other words, scores of students do not differ based on the education of mothers and their upbringing style.

### 6.5.9 Evaluation According to the Profession of Fathers

Kruskal-Wallis test was used to determine whether the profession of fathers results in a significant difference on average scores of students. The hypotheses of the Kruskal-Wallis test are:  $H_0$ : There is no significant difference between the means of 5 groups.  $H_1$ : At least one group's mean is different.

**Table 11. Kruskal-Wallis Test Results for Average Score Differences Among the Profession of Fathers**

	Score 1	Score 2	Score 3	Score 4	Score 5	Score 6	Score 7	Score 8
Chi-Square	5.267	7.815	11.254	8.964	1.037	12.541	12.306	6.349
Df	4	4	4	4	4	4	4	4
P	.261	.099	.024	.062	.904	.014	.015	.175

Examining Table 14, the p value (probability value) is higher than 0.05 for Scores 1, 2, 4, 5, and 8. Therefore, the null hypothesis that the scores of students do not differ based on the profession of fathers is accepted at the 95% confidence level. For Scores 3, 6 and 8, the p value is smaller than 0.05. Therefore, the null hypothesis that the scores of students do not differ based on the profession of fathers is rejected at the 95% confidence level. In other words, scores of students differ based on the profession of fathers. An examination of the average scores indicates that the students whose fathers are private sector employees get the highest scores for Scores 3, 6 and 7.

## 7. CONCLUSION

Throughout the world, student interest in entrepreneurship as a career choice is growing, while interest in traditional professional employment in big business is gradually declining (Kolvereid, 1996: 46).

Improving entrepreneurship is one of the ways that will help Turkey to guarantee its place in the new economy and to diminish the economic disparity it faces in comparison to developed countries. Generation of persons and enterprises with entrepreneurial mentality will pave the way to an economy that is more productive, innovative, competitive, creative, and flexible. Therefore, the level of welfare will increase as long as the private initiatives based on competition, so-called “**free entrepreneurship**” is consolidated.

While there is a sharp shift from industrial society to information society, the capability of individuals and countries to remain “**above competition**” depends on the discovery of their entrepreneurial potential. Therefore entrepreneurship is recognized as the “**impulsive power**” leading to economic development, job creation, and social improvement.

Until recently, the determining factors used to be weighted as 30% for academic and technical knowledge, 34% for practice and experience, 36% for individual characteristics either natural or acquired, while the role of education was also acknowledged. The shift to the information society changed the percentages in favor of the first component and the entrepreneurship of the 21<sup>st</sup> century started to be defined as “**informatics entrepreneurship**” (Şenocak, 1992:181).

This field of multiple interests draws attention from the whole society, especially from academicians and professionals (Özbilgin and other, 2005:2000). A deep examination of literature showed that numerous factors playing role in development of entrepreneurship were taken into account during previous studies. Potential to earn income, impacts of family and education, desire for prestige and social status, professional satisfaction, gaining assets, opportunity for admission or self-employment, and enthusiasm for occupation can be counted as some of the outstanding factors (Paolillo and Estes, 1982:789).

Personality is a principal factor affecting entrepreneurship which gives individuals the initial courage to turn their ideas into concrete projects and the persistence to preserve their desire for success (Naffziger, 1999:22).

To initiate an enterprise; opportunities need to be identified, a business plan needs to be developed, the processes like administration and supply of necessary resources need to be revised (Hisrich and Peters, 1992:30). Besides, upgrading personal interests, desire for economic benefit and profits and the need for success as a psychological variable are basic motivations for initiation of entrepreneurship.

According to the outcome of the survey, the majority of students of 34.1% believe that the program they are enrolled will provide them the income level and status they desire, while 26.8% see their future in self-employment. When asked about the field they are willing to work after graduation, 51.7% expressed their preference in favor of private sector, followed by 20.1% planning to start up their own business. Furthermore, high level of desire for “high income” and “working independently” can be considered as a reflection of their entrepreneurial tendency. These results should be interpreted as an indication of students’ willingness to “**create jobs**” rather than “**looking for jobs**”.

Under the concept of entrepreneurship lies a **masculine** image created by actions such as eagerness, boldness, courage, self confidence, risk taking. Therefore, gender was expected to have an important impact on entrepreneurial activity which was disproved by the survey results. On the contrary, scores of girls with regard to the determining factors of

entrepreneurship indicated higher results. It is possible that the more active involvement of women in business, their growing interest in entrepreneurship, and consequently birth of “business woman” concept as opposed to “businessman” are underlying factors.

Therefore, it will be better to look at the future rather than the past, when the relationship between professional tendency and entrepreneurship is analyzed from the gender perspective. Because female entrepreneurs are expected to stand out in business world with their emotional qualifications such as tolerance, reconciliation, tenderness, patience, and readiness to share.

Another factor that was taken into consideration was the environment they were living in before the university and the type of high schools they graduated. However, these factors turned out not to be important, upon the study based on the expectation of higher entrepreneurial tendency in individuals born and having lived in rural areas.

While the entrepreneurial spirit can be genetic, family, environment and education do also contribute to its development (Bird, 1993:15). The impact of the family is determined by the social and economic conditions. Entrepreneurs mostly rely on their own knowledge, experiment and capital. Therefore, young people from families with low income level are expected to have a motivation for search of “**assurance**” and tend to take jobs in public sector providing a fixed and periodic income. This expectation was confirmed by the survey and the students from high-income segment turned out to have higher entrepreneurial tendency.

Regarding the number of children in the family, it is evident that their means to raise children and to prepare a future for them decline with the increasing number. This fact led to the assumption that the children of families with fewer children will have lower tendency for entrepreneurship. The survey showed that this tendency was mostly observed in students with families of four children, followed by those with two children.

With regard to the impact of the education levels of parents in the entrepreneurial willingness, surprisingly children of primary school graduates children were observed to be more eager to have his/her own business. On the other hand, mothers’ occupation and their way of growing up turned out not to be influential on their children’s entrepreneurial willingness.

Since taking over the father’s business is considered to be an important factor, its relation to the children’s choices of occupation was measured as well. Apparently, the children of fathers working in private sector have higher entrepreneurial tendency compared to others. This shows that starting up one’s own business is seen as a solution vis-à-vis the difficulty of finding a job with a fixed income either in public or in private sector.

Entrepreneurship is acknowledged as the cornerstone of the economies. Therefore, encouragement of university students in this direction will pave the way to well-educated enterprise owners and more competitive products and services by increased quality, design, and customer satisfaction. To conclude, this study shows that the creative qualifications of students need to be developed through education in universities in order to encourage them for entrepreneurship. To foster entrepreneurship, specialised courses have become increasingly common in tertiary institutions and enterprise education has been promoted to encourage entrepreneurial behavior (Peterman and Kennedy, 2003: 131). This way, the number of entrepreneurs can be increased, there by contributing to bring our contry to a leading position.

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# ARE TURKISH BUS PASSENGER TRANSPORTATION COMPANIES AWARE OF STRATEGIC THREATS AND OPPORTUNITIES COMING FROM TURKISH AIRLINE SECTOR: A FIELD STUDY

BİLÇİN TAK, ULUDAĞ UNIVERSITY  
DUYGU ACAR, ULUDAĞ UNIVERSITY  
UMUT EROL, ÇANAKKALE ONSEKİZ MART UNIVERSITY

## ABSTRACT

This study aims to examine how the Turkish bus passenger transportation companies perceived their environment . Based on organization and environment literature (Burns and Stalker, 1961; Emery and Trist, 1965; Thompson, 1967; Lawrence and Lorcsh, 1967; Dill, 1958; Duncan, 1972, Pfeffer and Salancik; 1978) a field study conducted. Milliken (1987) typology of environmental uncertainty was used for research design. Results showed that % 12 of Turkish bus passenger companies are not aware of the threats coming from Turkish airline sector(state) , % 19 of them do not think the progression of domestic airlines can affect or threat their business (effect) and % 51 of them have not planned any strategic response against airlines companies threats (response). Research limitations and suggestions for future studies were also discussed.

**Keywords:** perceived environmental uncertainty, strategic response, bus passenger transportation companies, airlines, Turkey

## 1. LITERATURE REVIEW

Relationship between organization and its environment has been a fundamental subject in organization theory literature. "Organizational environment" is defined as all elements that exist outside the boundary of the organization and have the potential to affect all or a part of the organization. (Daft, 2004).Duncan (1972) also defined the "environment" as the concerned social and physical factors outside the boundary of an organization that are taken into consideration during organizational decision-making. The environment can be divided in two layers: task environment and general environment. Task environment includes the elements and sectors which affects the organization and its business strategy directly such as competitors, suppliers, customers. General environment includes sectors that not have a direct impact on the organization but have effect indirectly such as economic, political and social sectors.

Organization's environment is a major source of uncertainty for managers, responsible for establishing external opportunities/threats and organizational decision making. Therefore, the concept "uncertainty" has been a central element of the organizational theory literature.

In environmental uncertainty literature the term "environmental uncertainty" has been used both as a descriptor of a state of organizational environment and as a descriptor of a state of a person who perceives himself/herself to be lacking information about the environment. The term environmental uncertainty is defined in two perspectives: Some theorists' characterized environment in terms of how objectively uncertain they are and others studied the concept as a perceptual phenomenon. But the most common definitions cited by the organization theorists are the ones which environmental uncertainty is studied as a perceptual phenomenon. Three common definitions are (Milliken, 1987):

- (1) An inability to assign probabilities as to the likelihood of future events. / Duncan.1972; Pfeffer&Slancik, 1978; Pennings, 1981)
- (2) A lack of information about the cause-effect relationships (Lawrence&Lorsch, 967 Duncan, 1972 ;)
- (3) An inability to predict accurately what the outcomes of a decision might be (Duncan, 1972; Schmidt&cummings, 1976)

About the concept "environmental uncertainty", numerous conceptualizations have been explored in the literature. But two of them were the dominant ones; information uncertainty and resource dependence theory. The information uncertainty perspective is built on the assumption that uncertainty appears from a lack of perfect information about the environment. (Lawrence and Lorsch, 1967; Thompson, 1967; Duncan, 1972; Milliken, 1987) Lawrence and Lorsch (1967) and Duncan (1972) both argued that imperfect knowledge about the environment created uncertainty for firms. It was also posited that managers would perceive the environment under the influence of their training and personal characteristics. Therefore, perceptions played a significant role in determining the amount of uncertainty managers

perceived in the environment. Lawrence and Lorsch (1967) defined three components of environmental uncertainty. The first component was the lack of clear information about the external environment. The second component was the length of time for results of feedback after strategic action and the last component was the general uncertainty about causal relationships. Duncan (1972) argued that “uncertainty and the degree of complexity and dynamics of the environment should not be considered as constant features in any organization. Rather, they are dependent on the perceptions of organization members and thus can vary in their incidence to the extent that individuals differ in their perceptions” (Duncan, 1972). Consequently, According to Lawrence and Lorsch (1967), and Duncan (1972) it was impossible for an organization to have perfect knowledge about its environment and this lack of information causes uncertainty for the organization. In addition, the threats and opportunities that managers perceived to exist in the external environment determined a firm’s strategic actions and strategic options. The other perspective about the concept environmental uncertainty is “Resource Dependency”. Resource Dependence Theory is based on the construct that organizations are dependent on limited resources in the environments for survival. A lack of control over these resources creates uncertainty for firms operating in that environment. According to Pfeffer and Salancik (1978) there are three factors that influenced the level of dependence of organizations on particular resources. First, the overall importance of the resource to the firm was critical in determining the resource dependence of the firm. Second, the scarcity of the resource was also a factor and last, another factor influencing resource dependence was the competition between organizations for control of that resource. Together, all three of these factors acted to influence the level of dependence that an organization had for a particular resource. Within the resource dependence school, the environment was seen as the source of scarce resources that were critical to a firm’s survival. It was the lack of control over these critical resources, rather than a lack of information, that gave rise to environmental uncertainty. Environments that contained high levels of resources were perceived as less hostile to the stability of organizations, whereas those with low levels of resources acted to increase the intensity of competition among firms. Accordingly, resource dependence theorists argued that in order to reduce the impact of this environmental uncertainty on organizational performance, it was necessary for organizations to develop and sustain effective relationships with their external environment.

### **1.1 Measuring Uncertainty**

Burns and Stalker studied twenty English and Scottish industrial firms to determine how their organizational structure and managerial practice might differ based on different environmental conditions. (Burns and Stalker: 1961) Burns and Stalker analyzed the factor environment with two key dimensions: technology and rate of change in the market. They labeled the two structures as organic and mechanistic. Mechanistic structures were characterized by high complexity, formalization and centralization. Organic structures were relatively flexible and adaptive, loosely defined responsibilities rather than on rigid job definitions, low formalization, lateral communication, influence based on expertise and knowledge rather than authority. They believed that the most effective structure is one that adjusts to the requirements of environment. It means that using design of mechanistic in a stable and certain environment and an organic design in a turbulent environment. However, they recognized that mechanistic and organic designs are defines the two ends of a continuum. So, no organization is purely mechanistic or organic, but moves toward one or the other. (Robbins: 1990) As a conclusion, they emphasized that one was not preferred over other. The nature of organization determined which structure is superior.

Emery and Trist identified four kinds of environment: (1) placid-randomized, (2) placid-clustered, (3) disturbed-reactive, and (4) turbulent field. They described each one as increasingly more complex than the previous one.

- (1) In the placid-randomized environment changes takes place slowly and the uncertainty is low so decision-making does not require emphasis to the environment.
- (2) In placid-clustered environment changes develop slowly, but threats are clustered, not random.
- (3) Disturbed-reactive environment is much more complex then the previous two.
- (4) Turbulent field environment is more the most dynamic and highest uncertainty. In this type of environment, eenvironmental elements are increasingly organized and interrelated.

Lawrence and Lorsch went beyond the work of Burns & Stalker and Emery & Trist about searching more relations between environmental differences and organization structures. They asked the question: Which organization structure is more efficient under different environmental requirements?

Lawrence and Lorsch looked at two dimensions: differentiation and integration. The dimension differentiation is about different attitudes and behaviors among the managers in various departments. Lawrence and Lorsch argued that managers will differ in their goal orientation, time frame and interpersonal orientation. Differentiation causes a difficulty about getting agreement. Therefore, the degree of differentiation becomes a measure of complexity and indicates greater complications and rapid changes.



The other dimension, integration is about the quality of collaboration among interdependent units and departments. It is needed to overcome differentiation and achieve unity of effort among units.

As a result of their research they emphasize that, the organization unit's structure can differ one department to other related to characteristics of environment with which it interacts.

Lawrence and Lorsch's research concluded that organizations perform better when the levels of differentiation and integration match the level of uncertainty in the environment. Organizations that performed well in uncertain environments had high level of both differentiation and integration, while those performing well in less uncertain environments had lower levels of differentiation and integration. Thompson (1967), in *Organizations in Action*, argued "uncertainty appears as the fundamental problem for complex organizations and coping with uncertainty, as the essence of the administrative process" (Thompson, 1967, p. 159). He conceptualized a firm's external environment in terms of two main dimensions: heterogeneity/ homogeneity and stability/dynamism. A heterogeneous environment consisted of many elements that were different in nature; a homogeneous environment contained very similar elements. The stability/dynamism dimension referred to the rate of change present in the environment. A dynamic environment changed at a very rapid pace and thus created a great deal of uncertainty for firms; a stable environment typically remained unchanged and was therefore more predictable. Duncan (1972), employing the works of Emery and Trist (1965) and Thompson (1967), also argued that there were two main dimensions along which the environment could be measured. Duncan called these the simple-complex dimension and the static-dynamic dimension. The simple-complex dimension measured the number of factors that were present in the environment. A simple environment consisted of a small number of key factors; a complex environment contained many different defining factors. The static-dynamic dimension of the environment was concerned primarily with the amount of change in these factors. A static environment experienced little or no change, while a dynamic environment was in a constant state of change. Building on the work of Lawrence and Lorsch (1967); Milliken (1987) suggests that there are at least three different types of uncertainty about the environment which can be experienced by organizational administrators as state, effect and response uncertainty. State uncertainty is a perceptual uncertainty about the state of the environment. In this type administrators perceive the organizational environment or a particular component of the environment unpredictable. Milliken notes that state uncertainty appears in the lack of information about the nature of the environment. State uncertainty is an incomplete understanding of the interrelationships between elements in the environment and means that one does not understand how components of environment will be changing. In a further study of Milliken (1990), she theorized that state uncertainty mapped with the "scanning" phase of the Daft and Weick model (1984). The second type, effect uncertainty appears in the lack of understanding in cause-effect relationships. Milliken defined effect uncertainty as an inability to predict what the nature of the impact of a future state of the environment or an environmental change will be on the organization. She theorized that state uncertainty mapped with the "interpretation" phase of the Daft and Weick model (1984). The last type of uncertainty in the Milliken's (1987) model is "response uncertainty" Response uncertainty is a lack of knowledge of response options or an inability to predict the consequences of a response choice. Milliken believes that response uncertainty is experienced in the context of a need to make an immediate decision. Milliken (1990) believes that response uncertainty fits with the responding phase of the Daft and Weick (1984) model.

## 2. STUDY

In order to examine whether the Turkish bus passenger transportation companies perceive threats originated from their environment a field study conducted. Milliken (1987) typology of environmental uncertainty was used for research design.

### 2.1 Data and Method

Data was obtained from 108 bus passengers transportation firm's managers located in Bursa by using structured interviews. Based on Milliken's typology a measure was developed for this study. It consists of three dichotomized, as yes or no, and two open-ended questions. The dichotomized questions are:

- (1) Are you aware of what is happening in Turkish air transportation sector?
- (2) Do you think the progression of domestic airlines can affect on or threats your business?
- (3) Have you planned any strategic response against airlines companies' threats ?  
If the respondents answers the last two questions as *yes* , then we asked them;
- (4) "Please explain how and to what extent the airlines companies threat you? " and
- (5) "Please explain what kind of strategic responses have you planned? in order to get detailed information.

### 3. RESULTS

Results are summarized as shown in Table 1, Table 2 and Table 3. Table 1 shows that % 12 of Turkish bus passenger compaies are not aware of the threats coming from Turkish airline sector (state) , % 19 of them do not think the progression of domestic airlines can affect or threat their business (effect) and % 51 of them have not planned any strategic response against airline companies threats (response).

**Table 1: Distribution of environmental uncertainty types perceived by managers**

Types of uncertainty	Questions	Percentages (%)	
		Yes	No
STATE	1.Are you aware of what is happening in Turkish air transportation sector?	88	12
EFFECT	2.Do you think the progression of domestic airlines can affect or threat your business?	81	19
RESPONSE	3.Have you planned any strategic response against airlines companies threats?	49	51

Table 2 shows how do managers perceive the start up of Turkish airline companies and what are their perceptions about the effects or threats coming from this start up. Results show; % 39 percentages of managers think that this start up decreased their market share in the sector. % 27 percentages of managers think that the consequence of this start up was the competitive advantage decline. Besides, % 17 percentages of managers noted that they have made loss after the progress in Turkish airline sector. Remarkably % 12 percentages of mangers think that the start up of airline sector had only local affects. According to them only the long distance expeditions were affected by the progress in Turkish airline sector because airlines doesn't preferred in short distances by the passengers because of the high prices of plane tickets. Another remarkable result is that; some of the managers perceive the progress in the airline sector as suicidal threats for the small firms.

**Table 2: Distribution of strategic effects perceived by managers**

Types of Effects	Frequencies	Percentages (%)
Market Share Decline	29	39
Competitive Advantage Decline	20	27
Increased Loss	13	17
Local affects only	9	12
Suicidal threats for the small firms	3	4

As mentioned above only 49% of the respondents reported that they have a plan including strategic responses to airline companies' threats. Table 3 shows the types of strategic responses preferred by the firm managers. It is clear from Table 3 that the vast majority of these managers (%65) preferred low price strategy and making discount on ticket prices as a response. The other responses preferred by the managers are trying new expeditions (%10) and increased service quality (%4). Findings also show that some of the managers both made discount on ticket prices and increased service quality (%15) and both made discount on ticket prices and tried new expeditions (%6).

**Table 3: Distribution of strategic response types preferred by managers**

<b>Types of Responses</b>	<b>Frequencies</b>	<b>Percentages (%)</b>
Discount on Ticket Prices	31	65
New Expeditions	5	10
Increased Service Quality	2	4
Both Discount and Service Quality	7	15
Both Discount and New Expeditions	3	6

#### 4. CONCLUSION

Results suggest that % 88 of bus transportation companies are aware of the speedy growth of Turkish airlines companies. The 81% of the respondents reported that airlines companies threaten them. The remarkable findings of our research are that 51% of the bus transportation companies had not planned any strategic response to this challenge. In conclusion, despite the fact that Turkish bus transportation companies have realized that there is a threat originated from Turkish Domestic airlines start-up, they have not developed any strategic response in compliance with strategic management literature.

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