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Network Organizations in the Turkish Textile Sector

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Abstract

This paper examines the network organizations in the Turkish textile sector. The disadvantage factors such as limitation of the development of enterprise capabilities, co-ordination problem, dependence on the ordering company, undervaluing alternative investments and future opportunities are investigated and ordering company pushes the enterprise for competitive prices in contract manufacturing textile sector in Denizli, Turkey. Besides, the research identifies how leader firm's decisions affect the contract manufacturing textile firms. "Weakness of competitive power about brand" and "difficulty of opening to foreign markets with brand" appear as the most important factors for Denizli textile firms to contract manufacturing. Also, level of cooperation and trust among Denizli textile firms is found low. In the light of the data the contract manufacturing firms' problems are discussed and suggestions for future research are presented.

Key words: network organization, co-operation, globalization, contract manufacturing, Turkish textile sector.

JEL Classification: L 14, L 67.

1. Introduction

The rapid development of textile sector in Denizli has been an important factor that motivated the rapid improvement Turkey achieved in the area of textile industry. While weaving production has been manual or semi-automatic and has been marketed within the country until 1980s, discovery of foreign markets in 1980s led to establishment of new and modern plants. As a result, Denizli region exportation has grown bigger year by year, approximately reaching. Currently, an immense activity of textile production featuring mainly towels, bathrobes and bed sheets is underway at modern plants in the textile districts in Denizli, and these products are exported to more than 100 countries.

The exportation capacity of towels and bathrobes, which are the top two items of textile and clothing export products of Denizli, has reached 60% of total amount of exports that Turkey summed up on these products. Textile products of Denizli are exported primarily to EU countries such as Germany, United Kingdom and France as well as to other developed countries such as the USA and Canada.

In particular, bathrobe exports to the USA are significant. Approximately 40% of bathrobe import by the USA from all countries is from Turkey, and 70% of it is made from Denizli. In 1980s one billion US Dollars export took place parallel to the rapid production increase in Denizli (DETKİB, 2007).

Denizli is a city in which enterprises (SMEs) constitute 45% of all firms in the textile manufacturing sector (DTO, 2004). In Turkey, there are a few studies based on "structure of Denizli textile firms", "as a global firm" and "economics effects" of Denizli textile sector (see İrmiş, 2003; Özüğür, 2004; Özcan, 1998; Durak, 2005). This paper examines disadvantages of contract manufacturing and leader- contract manufacturing firms' relationship for strategic decisions in Denizli, Turkey.

Small and medium sized enterprises are experiencing problems due to having limited information, finance, technology, administration and experience when reacting to rapid changes. Therefore, this situation gains importance for co-operation between firms. Previous division of labour, which

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firms project within themselves, transforms into various co-operation and showing mutual activities such as network organizations where related firms of different countries join worldwide. One of the new organization models that have formed in 21st century is network organization which is more sensitive for contractors' requests and preferences, fast, rapidly reacting to environmental changes, flexible, simple and is not central. Network organizations that can be identified as cluster companies arranged by market mechanism or specialized branches form a typical organization structure of globalization process instead of traditional firms with stiff command and order (Miles and Snow, 1992).

This study examines disadvantages of contract manufacturing for developed countries' firms through network organizations.

There are two research questions in this paper. These are:

1. What are the disadvantages of contract manufacturing in the context of network organizations?
2. How leader firms influence the strategic decisions of contract manufacturing firms through network organizations?

In the study, disadvantages of contract manufacturing Denizli textile firms and effect of the leader firm on the firms' decisions are discussed; and suggestions for the contract manufacturing textile firms are presented.

The paper will proceed as follows. First, a literature review with concept and arguments from international business and Turkish literature is presented. After that follows the methodology section in which the sample and variables of empirical study are presented. Then the findings about disadvantages of contract manufacturing and effects on their strategic decisions of Denizli textile firms are investigated. The hypotheses analyses are examined. The paper ends with a brief discussion.

2. Literature Review

Network theory concept, which is emerged from socio-psychology and organizations, has been the first used to define relations between individuals (Tseng et al., 2002). Since 1980's network concept has come forth widely in strategic management and operating organizations. There are many definitions for network in literature. According to one definition, network organizations can be defined as cluster companies arranged by market mechanism or specialized branches instead of stiff command and order (Miles and Snow, 1992). According to another definition, network organization is a type that has distributed work, activities and resources required to produce a service or a good to different firms in a single organization (Koçel, 1998). Network organization is a set of reciprocal interactive operations depending on external cooperation that is not conducted with hierarchic command (Bianchi and Bellini, 1991). In the case of network partners, members are interdependent since "high specific and complementary assets" are involved in the transaction but they stay autonomous (Staropoli, 1998).

Network appears as a model that is arranged by especially Japanese firms (Zeffane, 1995). All these definitions focus on two key concepts. First key concept is a mutual interaction between exchange and relations. Second key concept is a resource flow formed between the independent units that form the network (Jones et al., 1997). Although the formation of network can be formed by transaction cost theory, it depends on resource dependence theory (Child and Faulkner, 1999). A member of a network provides a supplementary and synergic function for the other members of the network (De Burca, McLoughlin, 1998). Successful networks combine the resources of two or more firms with complementary competencies (Miles and Snow, 1995).

There are similarities between the classic organization structure and network structure. Firstly, both of them act rationally within the concept of operating and make decisions through economical reasons. Secondly, both of them are based on co-operation and specialization. However, whereas co-operation and specialization occur in one organization, they occur between various organizations in a network organization structure (İrmiş, 2003).

Network organizations are different in a few ways from the previous organization models (Miles, Snow, 1992). These are: every enterprise is dependent on resources that are controlled by other organizations. Firms in a network are exchanging resource, product and service with a reciprocal relation. Especially the increasing usage of internet is providing different environments that activities such as supply, production and marketing are suitable (Jallat, Capek, 2001). In traditional market, organizational hierarchy or price mechanism provides model co-ordination, but it is provided by interaction in network organizations (Naude, Turnbull, 1999).

Networks are backbones of new organization models. Network organizations are based on the power of information therefore; they have the ability to establish widely and they can spread (Castells, 1996). The basic of this organization model is that horizontal co-ordination is prior to vertical hierarchy (Schweiger, 2003). In many researches about modern organization theories in 90's, it has been stated that future organizations shall have high flexibility, low level of hierarchy and a strong communication (Nikolenko et al., 1996). Due to the formation by flexible and specialized units, network organizations have the opportunity to renovate in short time and research capabilities. It gives the opportunity to get good return on investment by joining the opportunities of others with a little capital and no fixed investment (Zeffane, 1994).

Although network organizations utilizes external specializations they also have some disadvantages of being too much dependant, undervaluing future business chances, over expansion and forming of hierarchic structure by being the leader organization (İrmiş, 2003). One of the necessary agents in a network organization is trust (Rivera, Rogers, 2006). For example, societies with high level of trust as Japan have formed social network structures before their information technologies have developed so far (Bhappu, 2000). Also one critical element that has been strongly linked to performance in strategic partnership is trust (Adobor, 2003). A lack of trust between the parties is one of the barriers to effective collaboration (Powell et al., 1996). Effective communication stands in the forefront in network organizations (Bush et al., 1991).

Network organizations and corporations have evolutionary qualities (Osborn and Hagedoorn, 1997). According to American business world history, four types of organizations, namely functional organization, divisional organization, matrix and network organization, appear (Miles and Snow, 1992). The basic reasons for network organizations to come forth are to be flexible to reduce the indefiniteness, to provide speed and information, and to provide the opportunity to pass to resources and capabilities that the enterprise cannot have by it (Child and Faulkner, 1999). Lower transaction costs of organizing vertical corporate networks increase the size of networks and reduce the concentration on supplier markets. The distinction of the networks bases on the kind and the intensity of the relationship between the members, the hierarchical control and strategic leadership of core firms within the networks and executive character of the networks (Becker and Peters, 1996). Network organizations among developed and underdeveloped countries have vertical organization structures rather than horizontal. So, hierarchical control and strategic leadership of network organizations are affected by developed countries' core firms in network organizations (İrmiş, 2003). Miles and Snow (1992) have noted that some core firms attempt to specify the processes that the network member must use. Even core firm can ultimately find itself "managing" the assets of its partners and accepting responsibility for their output. In effect the core firm is converting the network into vertically integrated functional organizations (Miles, Snow, 1992).

Based on these assumptions, the study attempts to analyse following hypotheses:

H1: At least, one mean importance level of disadvantages that occurs as a result of contract manufacturing for foreign (leader) firms is statically differing.

H2: Denizli contract manufacturing firms' strategic decisions were effected by ordering (leader) firms at moderate level.

H3: Denizli textile firms have different moderate level of cooperation among themselves.

H4: Denizli textile firms trust leader firms more than each others.

3. Research Methodology

The study is a combination of theoretical and empirical work. The research population is 181 small and medium sized contract manufacturing textile firms in Denizli, Turkey.

Data were collected from 150 textile firms using a questionnaire. Face to face interviews with the top managers or the owners in office were conducted in 40 out of 150 firms. 110 surveys were mailed to firms' top managers or owners. Only 45 of them were returned. For that reason, the response rate was 57%. The hypotheses were tested for 85 firms. In the data analysis phase, SPSS 12.0 software program was used.

Two groups of statistical methods were used. Findings obtained in the first group, are presented as descriptive tables. In the second group, to evaluate the hypotheses, Anova Test is used to investigate disadvantages of contract textile manufacturing firms. Also, One Sample T-test is used to investigate strategic decisions effects of leader firms, co-operations and trust among contract manufacturing firms in Denizli.

The hypotheses were tested at the 95% significance level ($p < 0.05$). In the light of data, the disadvantages of contract manufacturing Denizli textile firms are discussed and solutions suggestions were presented. The most important limitation of the research is that it was not possible to make interviews with some of the top managers or the owners. The Cronbach Alfa coefficient of the questionnaire survey is 0,76.

4. Findings

Findings reveal the disadvantages of contract manufacturing obtained from questionnaire and result of the hypotheses tests.

Disadvantages of Contract Manufacturing

Through the questionnaire applied, 65 contract manufacturing firms were asked to list disadvantages according to the degree of importance (1 to 5, not important, very important). According to the descriptive analysis, "ordering company pushes the enterprises for competitive prices" is found as the most disadvantages factor of contract manufacturing ($\bar{X} = 4,69$). The second disadvantage factor is "dependence on the ordering company" ($\bar{X} = 3,76$). The least disadvantage factor is found "coordination problems in network organizations" ($\bar{X} = 2,27$).

All the descriptive disadvantages factors are presented in Table 1.

Table 1

Disadvantages of Contract Manufacturing

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean	
					Lower Bound	Upper Bound
1. Limitation of the development of enterprise capabilities	65	3,0000	1,42522	0,17678	2,6468	3,3532
2. Co-ordination problem	65	2,2769	1,16603	0,14463	1,9880	2,5659
3. Dependence on the ordering company	65	3,7692	1,14249	0,14171	3,4861	4,0523
4. Undervaluing alternative investments and future opportunities	65	3,3846	1,24615	0,15457	3,0758	3,6934
5. Ordering company pushes the enterprise for competitive prices	65	4,6923	0,76899	0,09538	4,5018	4,8829
Total	325	3,4246	1,41356	0,07841	3,2704	3,5789

Miles and Snow (1992) stated that dependence to the ordering company is one of the main causes of failure of network organizations. Irmis (2003) found out similar findings in her study. According to her study, “ordering company pushes the enterprises into competition with the other firms in Denizli with low profit” is the most important disadvantage factor of contract manufacturing.

Results of Hypotheses Tests

H1: At least, one mean importance level of disadvantages that occurs as a result of contract manufacturing for foreign (leader) firms is statically differing.

Table 2

Disadvantages of Contract Manufacturing (Anova)

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	209,618	4	52,405	38,305	,000
Within Groups	437,785	320	1,368		
Total	647,403	324			

According to the Anova test result (P=, 000) the hypothesis is accepted (p<0.05). In other words, at least one mean importance level of disadvantage factor is statistically differing.

Levene Test was applied to find out if the variances are homogeneous.

Table 3

Test of Homogeneity of Variances (Disadvantages of Contract Manufacturing)

Levene Statistic	df1	df2	Sig.
14,222	4	320	,000

According to the test of homogeneity of variance result of the test (P=, 000), p<0.05. Therefore variances are not homogeneous. The hypothesis is accepted. Variances of disadvantage factors are different.

To find out the origin of differences, Tamhane T2 and multiple comparison method were used. So, Tamhane T2 test has been applied to the data.

Table 4

Disadvantages of Contract Manufacturing (Tamhane T2)

(I) Disadvantages	(J) Disadvantages	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
1. Limitation of the development of enterprise capabilities	1					
	2	0,72308(*)	0,22840	0,019	0,0720	1,3742
	3	-0,76923(*)	0,22656	0,009	-1,4152	-0,1233
	4	-0,38462	0,23482	0,666	-1,0538	0,2845
	5	-1,69231(*)	0,20087	0,000	-2,2676	-1,1171
2. Co-ordination problem	1	-0,72308(*)	0,22840	0,019	-1,3742	-0,0720
	3	-1,49231(*)	0,20248	0,000	-2,0691	-0,9155
	4	-1,10769(*)	0,21168	0,000	-1,7108	-0,5046
	5	-2,41538(*)	0,17325	0,000	-2,9103	-1,9205

Table 4 (continuous)

3. Dependence to the ordering company	1	0,76923(*)	0,22656	0,009	0,1233	1,4152
	2	1,49231(*)	0,20248	0,000	0,9155	2,0691
	4	0,38462	0,20969	0,511	-0,2128	0,9821
	5	-0,92308(*)	0,17082	0,000	-1,4109	-0,4352
4. Undervaluing alternative investments and future opportunities	1	0,38462	0,23482	0,666	-0,2845	1,0538
	2	1,10769(*)	0,21168	0,000	0,5046	1,7108
	3	-0,38462	0,20969	0,511	-0,9821	0,2128
	5	-1,30769(*)	0,18163	0,000	-1,8269	-0,7885
5. Ordering company pushes the enterprise for competitive prices	1	1,69231(*)	0,20087	0,000	1,1171	2,2676
	2	2,41538(*)	0,17325	0,000	1,9205	2,9103
	3	0,92308(*)	0,17082	0,000	0,4352	1,4109
	4	1,30769(*)	0,18163	0,000	0,7885	1,8269

* The mean difference is significant at the .05 level.

Table 5

Multiple Comparisons of Disadvantage Factors

Methods	1. Limitation of enterprise capabilities	2. Co-ordination problem	3. Dependence on the ordering company	4. Undervaluing investments and future opportunities	5. Pushing for competitive prices
1. Limitation of enterprise capabilities	-	*	*	-	*
2. Co-ordination problem	*	-	*	*	*
3. Dependence on the ordering company	*	*	-	-	*
4. Undervaluing investments and future opportunities	-	*	-	-	*
5. Pushing for competitive prices	*	*	*	*	-

(* is different, - is not different)

In Table 4 Tamhane T2 results are given. Accordingly, the disadvantage stated with fifth factor “the ordering company pushes the enterprise into competition with the other firms that provides contract manufacturing and causes low profit” is the most important factor. The expressions of some managers interviewed: “the companies in Denizli are competing with each other, not other countries” are supporting this statement. “Becoming dependant to the ordering company the enterprise is undervaluing the alternatives and future opportunities” appears to be the second important factor. The expressions “the ordering companies are interfering so much that it feels like the enterprise does not belong to us” and “we can not address the famous brand, there are middleman and also their middleman” support this result.

The limitation of contract manufacturing for the capabilities of enterprise forms an average disadvantage. The least important disadvantage appears to be co-ordination problem in network organizations.

Table 6

Ordering firms' effect on contract manufacturing firm's strategic decisions

	N	Mean	Std. Dev.
Ordering firms' effect	79	3,59	1,104

Ordering firm effect is more than average ($\bar{X} = 3,59$).

H2: Denizli contract manufacturing firms' strategic decisions were effected by ordering (leader) firms at moderate level.

Table 7

Ordering Firms' Effects on Strategic Decisions (One Sample T-Test)

	Test Value = 3					
	t	f	Sig. (2-tailed)	Mean. Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Ordering firms' effect	4,791	78	0,000	0,595	0,35	0,84

The hypothesis is accepted ($p < 0.05$). In determining the strategic decisions of Denizli textile firms, the ordering firms have over average effects. Similarly, some of the top managers or the owners said that leaders firm' managers came to firms in Denizli, controlled and examined buildings and goods, inspected the employees. In interviews, some of them said that "which label we must use" and "which country must bought it" are determined by the ordering firms. Similarly Clarke and Hallsworth have noted (1994): networks are built on social relations between individual members and they are held to be important because they can influence those members' attitudes and patterns of behaviour. Noble has noted (1999) that leadership can play a critical role in determining the success or failure of strategic implementation.

H3: Denizli textile firms have different moderate level of cooperation among themselves.

Denizli textile firms have less than moderate level of cooperation among themselves ($\bar{X} = 2,07$).

Table 8

Level of Cooperation Among Denizli Textile Firms

	N	Mean	Std. Dev.
Cooperation among Denizli Textile firms	85	2,07	1,100

Table 9

Level of Cooperation Among Denizli Textile Firms (One Sample T-Test)

	Test Value = 3					
	t	f	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Cooperation among Denizli Textile Firms	7,792	84	0,000	-0,929	-1,17	-0,69

The hypothesis is accepted ($p < 0.05$). Level of cooperation among Denizli textile firms is lower than moderate level ($\bar{X} = 2,07$). In interviews some of the managers said that cooperation among Denizli textile firms goes on average 3 years.

H4: Denizli textile firms trust leader firms more than each others.

Table 10

Trust Level Among Denizli Firms and Leader Firms

	N	Mean	Std. Dev.
Trust in the leader firms	75	3,40	0,854
Trust in the Denizli firms	85	2,86	1,060

Denizli textile firms' managers trust more to the leader firms managers than each others.

Table 11

Trust Level of Denizli Firms and Leader Firms (Independent Two Samples T-Test)

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	f	Sig. (2-tailed)	Mean Difference	Std. Error Difference	99% Confidence Interval of the Difference	
									Lower	Upper
Trust in the leader firms	Equal variances assumed	1,670	0,198	3,526	158	0,001	0,541	0,153	0,141	0,941
	Equal variances not assumed			3,573	156,771	0,000	0,541	0,151	0,146	0,936

The hypothesis is accepted ($p < 0,01$).

Trust in the leader firms is more ($\bar{X} = 3,40$) than the trust in Denizli firms ($\bar{X} = 2,86$) statically.

5. Discussions and Conclusion

Among the reasons of Denizli textile firms making contract manufacturing “weakness of competitive power about brand” and “difficulty of opening to foreign markets with brand” appear as the most important factors. Besides 90% of Denizli textile firms do not have brands overseas consequently this factor supports the result. Personal in office interviews showed that the expectations of managers about “brand” within the cooperation of university-industry are the first priority (İrmiş, 2003). Guaranteeing particular orders gives the second priority for contract manufacturing. Restrictions about marketing and ease of contract manufacturing appear as the third priority for contract manufacturing reasons. The least stated reason for contract manufacturing is the rapid market changes. Cost and price factors have equal importance and they are the least important factors for competitive superiority (Durak, 2005).

Among the disadvantages of contract manufacturing, the most important disadvantage is that “ordering company pushes the enterprise to competition with other contract manufacturing firms and causes low profit”. The second disadvantage is “being dependent on the ordering company, under-

valuing alternative and future business opportunities". "Limitation of enterprise capabilities" has secondary importance for contract manufacturing. The least important disadvantage is coordination problem.

The result is supported by the low labour costs in Far East countries (such as China, Thailand, Pakistan and India) which provide the world markets with their cheaper goods. Global competition focuses on cheap costs. For example, the options of cheap labour charges in countries such as Mexico, Korea and Taiwan drive American manufacturers to overseas countries instead of searching solutions (Baker, 1994). Especially developed information societies such as USA, England, France and Italy conduct their production relations with developing or undeveloped countries' firms where charges and raw material are cheap. Due to the reasons that textile industry has features such as low value added, low quality employment and pollution, etc. developed countries cannot conduct manufacturing these products themselves. Instead, they prefer other developing or undeveloped countries' conducting their textile business through their defined charges and qualities (Eroğlu, 1998). For example, other firms (subcontractors) in Taiwan in the name of related brand and main firms manufacture American Nike and German Adidas sport equipments. Again, world famous clothing brands such as Metro, Tesco, Adidas and Victoria's Secret have some of their manufacturing firms in Denizli where labour charges and raw material are cheap. And strategic decisions of Denizli textile firms were effected by leader firms highly. Developed information countries (such as USA, England, France and Germany) headed towards value added products such as knowledge possession, product designs, contract tendencies, research and development, high-technology production. For example, the most important factor that Nike is keeping the leadership of market is their ability to develop new models rapidly for market tendencies and giving greater importance to research and development investments (Miles, Snow, 1992).

The following could be the possible solution suggestions for Denizli textile firms' problems:

The weakness of competition power of Denizli textile firms about brand and difficulty of opening to overseas markets appear as the most important reasons of contract manufacturing. Approximately 90% of Denizli textile firms do not have their own brands (Durak, 2005). Therefore, they make contract manufacturing for some famous brands overseas. Joint research and development foundation and associate investments on being a brand will have important contributions for Denizli textile firms. In this concept, importance should be given to industry-university cooperation for creativity and sharing of information on many areas such as research and development activities, strategy development, forming a brand, etc. Personal in office interviews have shown that managers have important expectations from university especially about forming a brand and R&D activities. Also, level of trust and cooperation among Denizli textile firms is low.

The companies that are ordering firms in Denizli form a competition especially on charges and they cause the firms in Denizli to have low profits. They cause undervaluing the alternative investments staying dependant on the ordering enterprise. Consequently, joint research and development foundation and joint investments with other firms will reduce this dependence significantly and will have important contributions to Denizli textile firms. How the active collaboration and relationships get better among Denizli textile firms and get brands can be examined at the future research.

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