

**VARIETIES OF CAPITALISM IN DEVELOPING ECONOMIES: THE CASE OF TURKEY
AS A HIERARCHICAL MARKET ECONOMY**Assoc. Prof. Hasan BAKIR (Ph.D.)^{*} **ABSTRACT**

There has been much criticism of the literature related to the main types of varieties of capitalism. The aim of this article was to develop the discussions on the varieties of capitalism and to determine the place of Turkey, the position of which has been defined as uncertain in the varieties of capitalism classification. In line with these debates, the article examines Turkey's position within the expanded varieties of capitalism literature, in which Hierarchical Market Economies have emerged as a distinct category. The results obtained from this analysis show that Turkey has the characteristics of a Hierarchical Market Economy. It is possible to observe the characteristics of Hierarchical Market Economy in family businesses, industrial relations, the role of the state, education and the impact of multinational companies in Turkey.

Keywords: *Varieties of Capitalism, Hierarchical Market Economy, Political Economy, Family Businesses, Multinational Companies.*

JEL Codes: *P00, P50, E02, B10.*

1. INTRODUCTION

The Varieties of Capitalism (VoC) approach, defined by Hall and Soskice (2001), is one of the most influential works in the field of comparative political economy (Feldmann, 2019: 3-4). Hall and Soskice used a long political-economic tradition to formulate macro-characteristics of national political economies. Hancké, Rhodes and Thatcher (2007) emphasized that the VoC is associated with the macro-characteristics of national political economies. However, it is underlined that its main contribution is to provide micro-foundations to a more general theory of cross-national capitalist organization. By placing the firm at the center of the analysis, the VoC shows the relationship between the competitiveness of the firm and the institutional comparative advantages of national economies. Therefore, these foundations make their approach relevant to business history (Sluyterman, 2015; Iversen, 2010: 664; Hancké et al., 2007: 5). The structure of comparative advantage is shown in terms of key institutional complementarities between labour relations and corporate governance, labour relations and the national

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training system, and corporate governance and inter-firm relations. These relationships determine the degree to which a political economy is, or is not, coordinated (Sluyterman, 2015; Hancké et al., 2007: 5). Hall and Soskice introduced the two fundamental types of coordinating mechanisms: Liberal Market Economies (LMEs) and Coordinated Market Economies (CMEs) (Iversen, 2010: 665). Therefore, the VoC approach is focused on the two different market economies. However, the question has been raised whether this classification can be used to explain market economies in different parts of the world (Feldmann, 2019: 3-4). Discussions have contributed to the development of the classification. Some criticisms, such as being firm-centered and neglecting the state, have also been directed to the related literature. These criticisms and discussions help to eliminate the above-mentioned deficiencies. In this way, this narrow classification of the VoC literature has been expanded (Dale and Unkovski-Korica, 2023; Mackenzie, Perchard and Miller, 2021; Yagci, 2021; Feldmann, 2019: 7-8; Mariotti and Marzano, 2019). Over the past decades, there has been an increase in the number of studies on the VoC. Researchers have used the VoC approach to describe different forms of capitalism in Southern Europe, Latin America, Eastern and Central Europe, and Asia (Chu and Kong, 2024; Schedelik, Nölke, Mertens and May, 2021: 1; Kıran, 2018: 42; Witt and Redding, 2013). As Wilkins (2010) mentioned, many types of capitalism have coexisted and continue coexist. For instance, the VoC approach includes communist China as a Chinese model of state capitalism (Wilkins, 2010).

It is emphasized that the analysis of Turkey is important at this point. Turkey, which is included in the analysis as a developing country, is today classified among the countries the middle-income level in terms of national income. In this context, it has been stated that the VoC approach, which examines the developed countries, will also help to understand the political economy of Turkey. In addition, the importance of state in the VoC literature has been emphasized in some studies (Dale and Unkovski-Korica, 2023; Xia, 2021). In this context, the analysis of Turkey will also meet the criticisms of excluding the state in the VoC approach because the Turkish economy is defined as an economy in which the state is active in the economy (Tulun and Oktem, 2012: 3-4). In addition to this, it can be possible to evaluate the VoC in emerging markets by analyzing business structures (Miller, 2010). Thus, the interaction between business and state in different types of capitalism (MacKenzie et al., 2021; Pittaki, 2021; Verhoef, 2021) can be analyzed by using the example of Turkey as an emerging market. Finally, Turkey has an open economy. Therefore, the pressures and opportunities of globalization (Sluyterman, 2015: 2) can be evaluated through Turkey.

The purpose of this study was to expand the contribution to the VoC literature. There has been much criticism of the literature related to the main types of varieties of capitalism. These criticisms have caused many factors were considered when analyzing the literature. While doing this, state intervention and business-state relation were taken into account. In this context, it was aimed to evaluate developments in Turkey using the VoC approach, and thus the dual classification of capitalism has been expanded, and Dependent Market Economies (DMEs), Mixed Market Economies (MMEs) and

Hierarchical Market Economies (HMEs) have been introduced. From this point, Turkey's institutional components were evaluated in an effort to clarify the position of Turkey, which has been described as uncertain in the relevant literature. In the first part of the study, the VoC literature and the developments are evaluated. In the second part of the study, features of VoC such as the role of the state, family businesses, industrial relations, education and the impact of multinational companies (MNCs) are considered. In this way, it can be analyzed in which classification Turkey should be evaluated. The outcomes are discussed in the conclusion part of the study.

2. FROM TWO TO MORE VARIETIES OF CAPITALISM

Economies are classified into LMEs and CMEs in the VoC approach and the first studies about the VoC were implemented in developed countries. However, it does not seem possible to categorize all the countries in the world around these two classifications, as each country has its own characteristics (Feldmann, 2019: 10; Kiran, 2018: 42; Tulun and Oktem, 2012: 3; Thelen, 2010; Herrigel and Zeitlin, 2010; Schmidt, 2007: 9). Therefore, some countries still remained uncertain. For example, Turkey is among the countries that maintain this ambiguous position. In the study of Hall and Soskice (2001), Turkey's position is defined as an ambiguous position (Tulun and Oktem, 2012: 3).

On the other hand, countries in Southern and Eastern European have attracted the attention of researchers as different forms of capitalism (Schneider, 2009b). Similarly, the literature has been developed with the inclusion of Latin America, Asia (Carney, 2016) and Africa (Verhoef, 2021). This development has led to the inclusion of previously neglected factors. Schneider (2009a; 2009b) developed the literature, taking into account resource distribution mechanisms such as markets, negotiation, network and hierarchy (Bresser-Pereira, 2012: 24). In this context, MMEs, which are used to define Southern Europe, are generally a model that is heavily influenced by regulation and state intervention (Tulun and Oktem, 2012: 5-6). Molina and Rhodes (2007: 223) stated that the state plays an important role in these countries, and Schmidt (2007: 11) emphasized that the state comes to the forefront in France, Italy and Spain. Therefore, these economies can be defined as a market economy under the influence of the state, known as State-Influenced Market Economies (SMEs).

The VoC approach has been applied to the countries of East Central Europe (ECE), and there has been an increase in the analyses made of Eastern European Countries. Some studies have stated that the ECE countries complied with CMEs, while others have stated that they complied with LMEs. There are also studies showing the ECE countries in a third category, known as hybrid or mixed models that contain the characteristics of these two classifications. However, rather than this classification, Nölke and Vliegenthart (2009) proposed another definition of capitalism for this group of countries, called the Dependent Market Economy (DME). These DMEs have comparative advantages in the manufacture and assembly of complex and durable consumer goods. These advantages are related to skills, cheap labour, technology transfer through foreign international investors, and capital supply through foreign

direct investments (Nölke and Vliegthart, 2009: 672-676). In addition to this, Schneider (2009b) applied the discussion of VoC to Latin America. In this context, Schneider stated that HME covers many countries of Latin America, and four basic features of HME were defined sequentially as differentiated business groups, individual labour relations, MNCs, and an unskilled workforce.

It is stated that HME and DME are very close to each other. However, Tulun and Oktem (2012) emphasized that the main problem of HME is the lack of institutional complementarity that will increase economic performance (Tulun and Oktem, 2012: 7). It means that legal institutions do not work in HMEs because laws are not main driver of the firm's behavior. Therefore, organizations have more important role than institutions in HMEs. It means that these organizations establish strong links with governments and obtain advantages so HME creates inequalities (Saucedo-Acosta, Salinas Aguliar and Díaz Pedroza, 2019: 15). Brazil was analyzed in this context by Nölke. At this point, it is determined that foreign direct investments and public authority are quite effective in the country. However, unlike DMEs, national capital is also active in HMEs (Nölke, 2010: 3).

Schneider emphasized the important role that MNCs play in Latin American countries but did not evaluate the impact of these companies on the innovation process. Moreover, the importance of diversified business groups in the Latin American economy was also emphasized and it was stated that these countries had hierarchical control over thousands of different companies. The presence of family-owned business in the Latin American economy has also been revealed as another hierarchical relationship type, and patronage relationships between the state and companies have been added to the characteristics of these countries (Kıran, 2018: 42-43; Saucedo-Acosta, Rullán and Villafuerte Valdés, 2015; Tulun and Oktem, 2012: 7). The absence of intermediary institutions in employment relations has led to the individual movement of labour. Therefore, it is possible to evaluate the low level and decreasing rates of unionization and the size of the informal sector in this context. Finally, the low level of education is a common feature of these countries (Schneider, 2009b: 555-557). Hence, this model is described with atomistic labour relations and a low skilled workforce. It has also been underlined that firms of this type of capitalism undertake sectoral specialization. For example, while MNCs deal with manufacturing industry and technology-intensive sectors, local family-owned businesses are interested in non-tradable areas and extraction of natural resources (Schedelik et al., 2021: 3). Besides Latin America, this model suggested by Schneider can be applied to other regions such as Southeast Asia, Turkey and South Africa (Saucedo-Acosta et al., 2019: 15). Similarly, Saucedo-Acosta et al. (2019) classified the Balkan region as a HME by using Schneider's characterization.

The weakness of trade unions, low investment in education and innovation, political patronage, and the importance of MNCs are the general common features of developing economies, including Turkey. The different weights of these features between countries also lead to the emergence of different types of capitalism (Kıran, 2018: 44). With these new classifications, the narrow classification of VoC has been expanded with development from the rigid binary structure (Nölke and Vliegthart, 2009:

673). Therefore, the main purpose of this study was to determine under which classification Turkey is located. This will make it possible to apply the analysis of the VoC approach not only to developed countries but also to developing countries.

3. TURKEY AND VARIETIES OF CAPITALISM

Many comparative institutional frameworks have been developed to draw attention to the varieties among capitalist societies. The emphasis on the VoC shows these differences. Institutional inertia and path dependence have been emphasized to show different types of capitalism (Buğra and Savaşkan, 2015: 24). However, other scholars have suggested a wider comparative framework by underlining the subsistence of the other varieties of capitalism where the state's role is much more important. Schmith (2009) broadens the analysis beyond the institutions or incentive structures that define the nature of state-society relations and extends it to the political role of different actors. Thus, it can be said that political parties can remodel the state and its intervention in the economy and society. The same approach can be extended to the study of business associations as political actors. For example, business associations appear as political actors because they affect political parties by taking part in the formation of economic and cultural cleavages. Thus, they characterize the political economy of each country. It might be expected that business associations' power and influence can increase if the power of a political party that uses the same ideological framing with these associations. In this context, business associations might also play a role in controlling or contributing political tensions and conflicts that affect the society (Buğra and Savaşkan, 2012: 29-31; Schmith, 2009).

Feldmann (2019: 2) underlined that the application of the VoC approach to Turkey, which is a developing country, will be important in terms of reviving interest both in the VoC approach and in understanding the importance of institutions in economic development. In terms of development literature, Turkey is a model in which the state's effectiveness in the economy (developmental state) comes to the fore. Therefore, the debate arises whether Turkey should be included as a State-led Market Economy (SME) (Yağci, 2021; Tulun and Oktem, 2012: 8; Schmidt, 2009; Schmidt, 2007). In addition to this, Buğra and Savaşkan (2012) emphasized the society shaping role of politics in the discussion of the Turkish business environment under the rule of the AKP (Buğra and Savaşkan, 2012: 31).

Ozel (2011) aimed to classify Turkey in the developing country groups, especially BRIC, in terms of market economy classification, and emphasized that Turkey strikingly resembles Brazil in this country classification. Therefore, Ozel (2011: 68) stated that Turkey should be evaluated in the same group as Brazil in the context of the literature on the VoC. Similarly, Kıran (2018) defined Turkey as a HME, including Turkey in this classification in the same way as Latin American countries (Kıran, 2018: 43; Schneider, 2009b: 555). Therefore, the aim of this study was to determine the type of capitalism that Turkey can be classified as, by analyzing the institutional components of Turkey. In addition to this, this study has contributed to the emergence of different types of capitalism by also underlining the

importance of the role played by the state and state-business relations. In this way, a wider comparative environment was created while underlining the differences (Buğra and Savaşkan, 2015: 24). For instance, firms, such as family business, managerial enterprise and state-owned companies, can help explain for differences in capitalism within countries (Wilkins, 2010: 641). In this context, it can be started to investigate with family business in Turkey to analyze in which classification Turkey should be evaluated in the VoC approach.

3.1. Family Businesses in Turkey

The Voc literature has become one of the most influential explanations of how national institutions lead to differences in economic behaviour across countries. Based on the VoC literature, it can be theoretically derived a consistent set of institutional indicators that can explain differences in entrepreneurship types between countries. Therefore, it can be said that different varieties of entrepreneurship exist in the VoC. In other words, entrepreneurship takes different forms because the core institutions shaping different types of entrepreneurships (Dili, Elert and Herrmann, 2018). These different structures will later lead to the emergence of different enterprises such as state-owned or privately owned enterprises in the VOC.

For instance, whereas state-owned enterprises (SOEs) internationalize more than privately owned enterprises (POEs) in the CMES, SOEs internationalize less than POEs in the LMEs. On the other hand, they exhibit inconsistent behavior in state-influenced market economies (Mariotti and Marzano, 2019). Starting from this point of view, it can be said that one of the features of HMEs is the dominance of the family-owned diversified business groups. Like the grupo economicos in Latin America, large family conglomerates in Turkey, unlike DMEs, constitute the dominant form of corporate governance. With this feature, Turkey is associated with the Latin American model, that is, it is classified under HME (Kıran, 2018: 43). For instance, in 2005, 26 of the 50 largest enterprises in Turkey were family-owned business groups (Colpan and Jones, 2016). In other words, the dominant corporate form among large private domestic firms were the family-owned and controlled diversified business group (Schneider, 2009b: 555) known as holding companies.

Diversified business groups are divided into two groups in Turkey. The first of these are Koç Sabancı, Eczacıbaşı, Çukurova, Borusan, and Yaşar Holdings, which emerged in the 1920s and 1950s. Others are holdings such as Zorlu, Sanko, Ciner and Fiba, which were established after the 1980s. The companies in the first group are large enterprises operating in the heavy manufacturing industry. During the import substitution period, investments were made in this area, and an advantage was gained over the companies that would later enter these areas. Since the companies in the other group could not enter these areas, they operated in the financial and service sectors. As a result of the liberalization process experienced after 1980, businesses in both the previous and later groups continued their growth

processes through partnerships with MNCs. In addition, public enterprises were purchased through privatization by them (Kıran, 2018: 45).

Table 1. Top 10 Largest Industrial Companies in Turkey

	1993	2002	2007	2010	2019	2020	2021
1	TÜPRAŞ	TÜPRAŞ	TÜPRAŞ	TÜPRAŞ	TÜPRAŞ	TÜPRAŞ	TÜPRAŞ
2	TEK	EÜAŞ	Ford	Ford	Ford	Ford	Ford
3	TEKEL	Arçelik	EÜAŞ	TOFAŞ	Toyota	Oyak Renault	Star Rafineri
4	TOFAŞ	Vestel	Toyota	Oyak Renault	Oyak Renault	Toyota	Toyota
5	Arçelik	TOFAŞ	Oyak Renault	Arçelik	Star Rafineri	-	İskendurun Demir Çelik
6	Oyak Renault	Erdemir	Arçelik	Toyota	Arçelik	Star Rafineri	--
7	TSF	Oyak Renault	Erdemir	EÜAŞ	TOFAŞ	Arçelik	Ereğli Demir Çelik
8	Erdemir	TSF	Vestel	Hyundai	İskendurun Demir Çelik	TOFAŞ	Arçelik
9	Petkim	TEKEL	TOFAŞ	İçdaş Çelik	-	Ereğli Demir Çelik	Oyak Renault
10	MKE	Aygaz	Aygaz	İsdemir	Ereğli Demir Çelik	İskendurun Demir Çelik	TOFAŞ

Source: ISO, 2021; Sak, 2017

In 1993, 7 of Turkey's 10 largest industrial enterprises were public enterprises. By 2002, this number had decreased to 5. Until 2002, only Vestel and Aygaz were added to Tofaş, Arçelik and Oyak-Renault, which were among Turkey's largest industrial establishments and leading private sector companies. However, in 2007, the number of public enterprises decreased to 1. Elektrik Üretim A.Ş remained the only public enterprise in the 2016 list. From 1993 to 2007, 9 of the top 10 industrial establishments were private companies and remained so (Sak, 2017). In 2020 and 2021, public institutions were not included in the list announced.

Despite this change in Turkish industry, there is only one thing that has not changed, which is the presence of the same companies in the 500 largest companies list published by the Istanbul Chamber of Industry (ISO). Although public enterprises were privatized, this privatization could not go one step further. For instance, Tüpraş, Erdemir and İsdemir are still operating as the same companies. That is, the firms are the same firm, and the goods are the same goods. In addition, it can be seen that many private companies in 1993 (e.g., Tofaş, Oyak-Renault, Arcelik, Ford, Vestel, Toyota), still retain their position today. From this perspective, it can be said that Turkey could not progress beyond a few holdings established in the 1950s (Sak, 2017).

Nevertheless, the importance of business groups defined as holdings in the Turkish economy is obvious. Colpan and Jones (2016) stated that more than half of Turkey's 50 largest enterprises are included in these holdings. Furthermore, it was determined that one fourth of the 500 largest companies were MNCs and the rest were family-owned conglomerates. Although it was stated in this research

conducted in 2015 that the existence of public enterprises continues (Kıran, 2018: 45), when the above table is taken into account, it can be seen that public enterprises have been privatized. However, as Sak (2017) stated, these privatizations caused the existing holdings to grow even more. Considering the ISO 2019 report of the 500 largest enterprises in Turkey, 35 of the 50 largest enterprises consist of enterprises affiliated to family holdings or partnerships with MNCs, whereas only seven companies consisted of a hundred percent foreign capital. Therefore, it is possible to say in this context that the largest enterprises in Turkey in 2019 were owned by family holdings. At this point, it can be said that family-owned businesses continued their activities in the Turkish economy by investing in themselves, purchasing public enterprises and establishing partnerships with foreign capital. Nothing changed in 2020 and 2021, and the first ten companies in the announced list continued their existence.

It has been underlined that these diversified domestic business groups account for 57 percent of the total employment among the top 50 enterprises. For foreign companies, this rate is 8 percent. It has also been underlined that these holdings operate in a wide range of areas from production to finance and services. With this expansion, the control of families over sub-companies has been achieved by centralizing the decision mechanism. In terms of finance, intra-group savings come to the fore rather than foreign direct investments. For example, the share of the stock market in business finance in Latin America is quite low. Although the volume of the stock market increased after the liberalization process in the 1990s, its share in financing investments is still small. The common type of investment financing in Latin America is the savings of companies or transfers between holdings. Similarly, the main source of finance in Turkey is intra-group accumulations rather than direct foreign investments. In other words, these groups in Turkey base their investments on the income of independent companies within the group and their own banks. This is a feature of HME (Kıran, 2018: 45).

3.2. Employment Relations in Turkey

The main issue focused on the labour side in HMEs is the absence of intermediating employment relations institutions. In addition, due to the size of the informal sector, the small share of unions and the decreasing unionization rates are also important at this point. Labour turnover is quite high, so workers cannot establish long-term relationships with companies. The size of the informal sector results in the workforce being deprived of legal protection processes. In addition, unions do not function as an institutional mechanism to ensure coordination between employers and workers due to intense state and political intervention. Therefore, all these factors have changed the balance of power in favor of the employer and provided them with hierarchical control (Schneider, 2009b: 556-563). The unionization rate of HMEs is low, and the collective bargaining mechanism is lacking (Kıran, 2018: 46; Hassel, 2014: 7).

It is possible to observe a dual structure when looking at the labour markets of Brazil, which is included in HMEs. On the one hand, there is the high-paid, organized and job-safe working class, while

on the other, there is the working class with no job security, where informal employment is embodied. It has been observed that small and medium-sized enterprises have established a close relationship with the informal sector, and this close relationship is attributed to cost advantages (Nölke, 2010: 9).

Table 2. Collective Bargaining and Union Density (%)

		Union Density			Collective Bargaining Coverage		
		2005	2019	Percentage Change(%)	2005	2019	Percentage Change(%)
LME	United Kingdom	27	23.5	-12.96	35	26.9	-23.14
	United States	12	9.9	-17.5	13.7	11.6	-15.3
CME	Germany	21.5	16.3	-24.18	64.9	54	-16.79
	Austria	33.8	26.3	-22.18	98	98	0
HME	Italy	33.8	32.5	-3.84	100	100	0
	Greece	24.1	19	-26.84	100	14.2	-85.8
	Spain	15.5	12.5	-19.35	76.8	80.1	4.29
HME	Mexico	16.9	12.3	23.12	10.8	10.4	3.70
	Turkey	10.3	9.9	-3.88	10.3	8.5	-17.47
DME	Poland	23.8	13.4	-43.69	18.9	13.4	-29.10
	Czech Rep.	19.1	11.4	-40.31	38.2	34.7	-9.16
	Slovak Rep.	23.5	11.3	-51.91	40.0	25	-37.5
	Hungary	17.3	8.3	-52.02	24.8	21.8	-12.09

Source: OECD, 2021

While some of the workers in the labour markets benefit from legal employment protection regulations, others are deprived of this protection. In the Turkish labour market, known as a segmented labour market, public officials and mostly well-educated people benefit from this protection. In other words, while these types of employees are protected as in CMEs, others are unprotected as in LMEs (Tulun and Oktem, 2012: 13-14).

Unions are weak and fragmented in Turkey, as in Latin America, which is given as an example of HMEs. Factors such as high turnover rate, and low coordination between informal sectors and industries have contributed to the formation of this structure. Although the regulations for the labour market in HMEs are higher than in DMEs, there is a low probability of the implementation of these regulations. As mentioned above, the existence of a high level of informal sector reflects the problems experienced in practice. As a result of state control in HMEs, the power of labour unions was weakened by law. In order to eliminate these difficulties, union leaders have tended to increase their political influence by connecting with political actors (Kıran, 2018: 46; Schneider, 2009b: 562-563). Labour relations have been affected negatively by high labour turnover, weak unions and the existence of informal sectors. All these developments have changed the balance of power in favor of the employer and provided them with hierarchical control (Schneider, 2009b: 563).

In this context, it can be said that employees began to lose their secure positions while the neo-liberal orientation of the Turkish economy gained momentum in 1980s. For example, According to Çelik

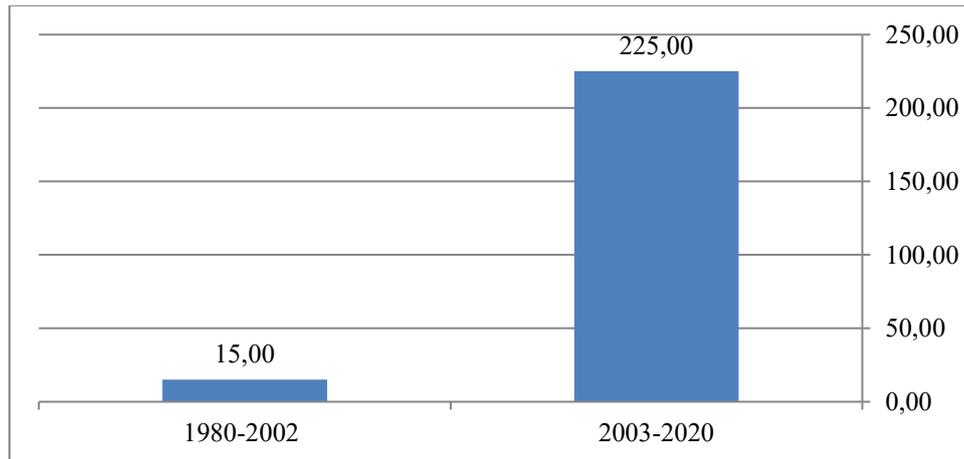
and Lordoğlu (2006: 28) the number of unionized workers decreased dramatically during this period. With the 2001 crisis, the privatization process accelerated, and flexibility policies in labour markets came to the fore in order to increase the competitive structure of the private sector. With the introduction of Labour Law No. 4857, flexible working forms were placed on a legal basis. As a result, the high level of unregistered employment and the low union rates in Turkey have caused the unions in Turkey to be more atomistic than in Latin American countries (Kıran, 2018: 46-47).

3.3. Foreign Investment, Multinational Corporations and State

Contrary to hypothesis that CMEs cannot attract as many FDIs as LMEs; the VoC literature indicates that CMEs are not only causing more outward FDIs but rather they are also attractive to inward FDIs (Kobrak, Oesterle and Röber, 2018). Therefore, it can be said that FDIs can be motivated by different capitalisms.

During the 20th century, foreign firms made significant direct investments in Latin America. This capital, which was directed to raw materials and railway construction at the beginning of the century, later turned to infrastructure investments and basic public services. However, with the prominence of the market-oriented approach, it was determined that investments directed towards infrastructure and services shifted to the field of finance (Schneider, 2009b: 560). Turkey increased its share in international direct investment across Europe from 3 percent in 2019 to 3.1 percent in 2020, despite the serious effects of Covid-19. While the total international direct investment inflow in Turkey was only 15 billion dollars in 2002, this figure increased to 225 billion dollars in the 2003-2020 period (Figure 1) (Presidency of the Republic of Turkey Investment Office, 2021).

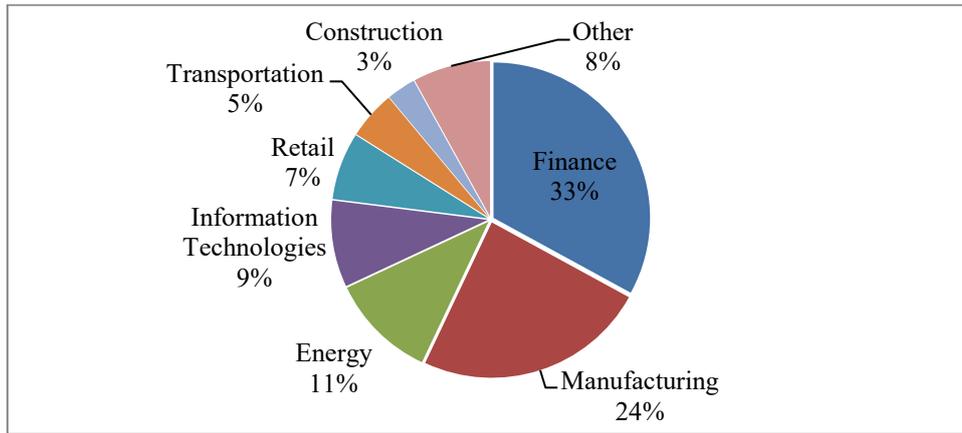
Figure 1. International Direct Investment Inflow to Turkey (Cumulative-USD)



Source: Presidency of the Republic of Turkey Investment Office, 2021

The finance and manufacturing industries are among the sectors that attract the most international direct investment in Turkey. This can be clearly seen in Figure 2. This supports the argument above that international investments prefer manufacturing and finance in Turkey.

Figure 2. Sectors Attracting the Most International Direct Investment (2003-2020)

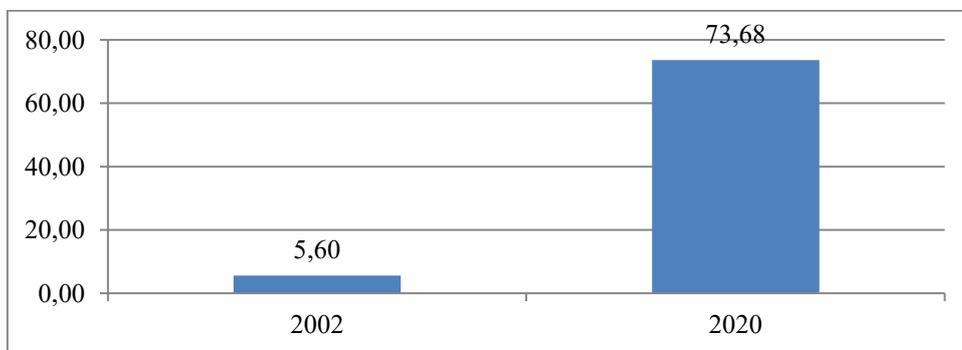


Source: Presidency of the Republic of Turkey Investment Office, 2021

MNCs can change the nature of capitalism in host countries. Therefore, they are very important actor for host countries. It can be emphasized that MNCs can accumulate and allocate capital. Hence, capitalism can be defined as a system relying on multinational enterprises. In this context, it can be said that MNCs have to be recognized as central to the global system (Wilkins, 2010: 639-640). In this context, while the number of MNCs in Turkey was 5,600 in 2002, it reached 73,675 by the end of 2020 (Figure 3). Moreover, MNCs are especially observed among the largest firms. Thus, the share of MNCs in the sales of the 500 largest companies in the 1990s and 2000s was between 30 and 40 percent (Schneider, 2009b: 560).

MNCs can be family firms; they can be state-owned business; they can be publicly traded enterprises. To understand MNCs, it should be taken into account their roles in distribution and purchasing, manufacturing and financial services. While MNCs send across borders technologies and knowledge, they become a basis for taxation; they are a generator of revenue for local and national host governments within countries (Wilkins, 2010: 641-642).

Figure 3. Number of MNCs



Source: Presidency of the Republic of Turkey Investment Office, 2021

When the list of Turkey's Top 500 Industrial Enterprises is examined, it can be seen that ten of the companies in the top fifty are private-foreign partnerships. In other words, it can be stated that MNCs continue their activities in Turkey together with local companies (Table 3). Therefore, it can be said that MNCs administered in hierarchical fashion in terms of coordination functions. This hierarchical relation explains how technology transfer, capital for investment and relationships with suppliers and customers occur (Schneider, 2009b: 560).

Table 3. First 500 Large Companies

First 500 Large Companies		Companies	Sales from Production (TL)
Year of Foundation	Order		
2020	2019		
<u>2</u>	<u>2</u>	Ford Otomotiv Sanayi A.Ş.	45.223.467.516
<u>3</u>	<u>4</u>	Oyak-Renault Otomobil Fabrikaları A.Ş.	31.241.977.176
<u>6</u>	<u>5</u>	Star Rafineri A.Ş.	24.030.141.769
<u>8</u>	<u>7</u>	TOFAŞ Türk Otomobil Fabrikası A.Ş.	20.718.883.453
<u>14</u>	<u>12</u>	Hyundai Assan Otomotiv San. ve Tic. A.Ş.	11.898.882.338
<u>17</u>	<u>20</u>	BSH Ev Aletleri San. ve Tic. A.Ş.	10.088.239.812
<u>26</u>	<u>25</u>	Unilever San. ve Tic. T.A.Ş.	7.295.482.773
<u>28</u>	<u>27</u>	Borçelik Çelik San. Tic. A.Ş.	6.809.491.293
<u>37</u>	<u>56</u>	Türk Traktör ve Ziraat Makineleri A.Ş.	5.326.618.681
<u>51</u>	<u>45</u>	Coca-Cola İçecek A.Ş.	4.117.019.413

Source: ISO, 2021

The dominance of MNCs also affects the relationships between firms. This effect can be seen quite clearly in DMEs, whereas for HMEs, the relationship between the state and holdings is remarkable. It is important in this context that the interest groups formed by the capital are supported by the state. Although business groups have become more integrated with global markets and will reduce their dependence on government support in the coming period, it cannot be said that the effect of the government on the market has completely disappeared. In this context, the integration of TÜSİAD (Turkish Industry and Business Association) with global markets after the 1970s is important. The relationship between large enterprises and the state continued with the support of these enterprises by the state and the continuation of their activities under the auspices of the state. This relationship between the government and capital groups has led to the deepening of competition in the economy. In this context, MUSIAD (Independent Industrialists and Businessmen's Association), which is a rival capital organization of TUSIAD and where conservative capital meets, is the organization that has felt this state support most in recent years. MUSIAD has come to the fore with political support behind it as a result of its close relations with the Justice and Development Party (AKP) government. Therefore, conservative bourgeoisies supported the AKP, while the AKP provided the facilities for this capital organization when it came to power. In this process, the spread of industrial production in provincial

cities has also attracted a lot of attention. This situation, which was named Anatolian Tigers by the popular press, is important in terms of showing both the political changes and the changes in the structure of capital. The Anatolian Lions Businessmen Association (ASKON), which is also a conservative employers' association, can also be evaluated in this context (Kıran, 2018: 47; Buğra and Savaşkan, 2015: 19; Gumuscu and Sert, 2009). Some studies have established a causal relationship between the birth of the neo-conservative bourgeoisie and the coming to power of AKP (Buğra and Savaşkan, 2015: 21). Therefore, it can be said that the relationship has changed from this causal relationship to a mutually supportive relationship.

The existence of these organizations as non-market coordination is an important feature of HMEs. Due to this non-market coordination structure, companies benefit from financial, human and information resources. In Turkey, it can be seen that companies within these employer organizations are clustered based on ideological and religious criteria. In this context, while the state has a strong influence on the market, an increasing number of businessmen are participating in contemporary politics. Therefore, despite the liberalization processes carried out after 1980, the relationship between the government and market actors continues (Kıran, 2018: 47).

3.4. Education and Training Systems

Education and training systems in DMEs differ from those of LMEs and CMEs. DMEs mostly take into account the wishes of MNCs and aim to meet these demands, whereas in Turkey, the demands of diversified business groups, namely holdings, come to the forefront. Thus it can be observed that holdings have established their own training and development centers (Kıran, 2018: 47; Colpan and Jones, 2016: 81-82; Nölke and Vliegenthart, 2009: 686).

Unlike nationally owned firms in Latin America and Turkey, MNCs in DMEs are not concerned with human capital development. In other words, employers do not want to bear the additional costs associated with the training of workers. Therefore, DMEs do not have dominance in public vocational training as in CMEs, nor do they provide high quality general skills education as in LMEs. However, when compared to DMEs, it is possible to talk about investments in human capital made by local companies in Turkey (Kıran, 2018: 47-48; Nölke and Vliegenthart, 2009: 686).

In MMEs, firms do not invest in human capital. For example, it has been emphasized that the weakness in social protection in Southern Europe hinders investment in human capital, which in turn harms the innovation process. In HMEs, on the other hand, firms generally abstain from investments in the training of workers, because both the temptation of employees to move to rival companies and the political-economic instability cause an increase in turnover rate, preventing the investments of the companies in this area (Kıran, 2018: 48; Schneider, 2009b: 564; Molina and Rhodes, 2007: 226).

Therefore, access to secondary education and vocational education is low in countries in HMEs group, such as Turkey, and the state's contribution to human capital is lagging behind that of developed countries (Kıran, 2018: 48). Schneider (2009b: 556) stated that one of the important shortcomings of HMEs is the lack of institutional structures that will foster greater investment in skills and training. Despite the developments at this point, it has been stated that the level of education remains low and public and private investments in training remain at a very low level. For example, while job-training LMEs are market-based, CMEs are based on negotiations, and in Latin American countries classified as HMEs, it is provided unilaterally by firms or business associations (Schneider, 2009b: 556-557). Therefore, low government spending on education and low secondary school graduation rates lead to the emergence of unskilled labour force. This unskilled labour force cannot find an appropriate job (Kıran, 2018: 49).

Table 4. Government Expenditure on Education (% of GDP)

		Government Expenditure on Education (% of GDP)			Share of Population with Tertiary Education (Completed Tertiary)			The Distribution of PISA outcomes (2018)		
				Percentage Change (%)		Percentage Change	Reading	Maths	Science	
							487*	489 *	489 *	
LME	United Kingdom	5.03 (1971)	5.63 (2015)	12	4.42 (1970)	15.31 (2010)	246	504	502	505
	United States	5.42 (2010)	4.99 (2014)	-8	11.39 (1970)	26.76 (2010)	135	505	478	502
CME	Germany	4.41 (1994)	4.93 (2014)	12	1.59 (1970)	13.14 (2010)	726	498	500	503
	Austria	4.15 (1970)	5.45 (2014)	31	1.45 (1970)	9.37 (2010)	546	484	499	490
MME	Italy	3.38 (1970)	4.08 (2014)	21	1.25 (1970)	6.84 (2010)	447	476	487	468
	Greece	1.55 (1970)	3.96 (2005)	156	3.73 (1970)	22.50 (2010)	503	457	451	452
	Spain	1.84 (1970)	4.28 (2014)	133	2.28 (1970)	14.96 (2010)	556	---	481	483
HME	Mexico	2.27 (1989)	5.33 (2014)	135	1.55 (1970)	9.81 (2010)	533	420	409	419
	Turkey	4.35% (1978)	4.37% (2014)	<1	0.74 (1970)	5.28 (1970)	614	466	454	468
	Brazil	4.47 (1995)	5.95 (2014)	133	1.24 (1970)	5.63 (2010)	354	413	384	404
DME	Poland	3.89 (1991)	4.91 (2014)	26	2.74 (1970)	11.37 (2010)	315	512	516	511
	Czech Rep.	3.78 (1992)	3.99 (2014)	6	1.73 (1970)	7.59 (2010)	339	490	499	497
	Slovakia	5.38 (1992)	4.65 (2015)	-14	1.70 (1970)	8.76 (2010)	415	458	486	464
	Hungary	5.88 (1991)	4.63 (2014)	-21	4.02 (1970)	15.38 (2010)	283	476	481	481

*OECD Average, Source: OECD, 2021; OWD, 2021

As can be seen from the table, the ratio of public expenditure on education to GDP is around 4 percent in Turkey. In the second column of the table, information about tertiary education is given, showing the percentage of the population over 14 years of age, who complete tertiary education. While this rate was around 30 percent in South Korea in 2010, the rate of completing third level education is less than 1 percent in the poorest regions of the world (OWD, 2021). Examining the 2018 results of the PISA test, which is organized by the OECD every three years and evaluates the knowledge and skills gained by students in the 15-year-old age group, it has been observed that Turkey remains below the OECD average. These results are interpreted as 15-year-old students in Turkey lack important skills (Öztürk, 2019).

Therefore, the effect of education quality on human capital can be determined by looking at PISA scores. For example, considering the impact of education quality on long-term economic growth, the importance of science and mathematics test scores has been evaluated in this context. Barro stated that mathematics and science scores are positively correlated with long-term economic growth. As shown in the PISA study in 2003, Turkey was the country with the lowest mathematics score among OECD countries, whereas by 2008, mathematics test results of children in Turkey had increased (Kıran, 2018: 49; Barro, 2001).

At this point, it is noteworthy that HMEs, DMEs and MMEs have below-average mathematics performance (Kıran, 2018: 49). Therefore, considering the explanations above, the low scores indicate that the quality of education is not at a sufficient level, and therefore, human capital has not reached the desired level. This has a negatively effect on the innovation process and subsequently, the long-term economic growth. Yılmaz and Saracoglu (2016: 420) underlined that Turkey's human capital is insufficient in terms of quality and quantity, which will not enable Turkey to create an innovative and competitive economy to reach the level of a developed country. In addition, while Ozyigit and Eminer (2011: 565) concluded that educated people and a strong economy are a prerequisite for attracting foreign direct investors to the country, but as a result of their analysis, it was stated that foreign direct investments do not have a long-term effect on per capita economic growth and human capital.

In addition, the experiences in the school-industry match show the quality of education. For example, 10 percent of the total unemployment rate in Turkey consists of secondary school graduates and higher education graduates. This is presented as an indicator of the low quality of education. In contrast to DMEs, countries such as Mexico, Chile, Greece, Spain, Portugal and Turkey where there are HMEs and MMEs, have serious unemployment problems around between 16 % and 22 % of the total unemployment (Kıran, 2018: 48). For example, the November 2020 unemployment report of the Turkish Statistical Institute (TUIK) stated the number of unemployed people aged ≥ 15 years to be 4 million 5 thousand people and the unemployment rate was 12.7 percent. In the same report, it was underlined that the unemployment rate among the young population was 24.9 percent. According to the determination of the Young Unemployed Platform, the number of young people not in the workforce who graduated

from university in this period was 960 thousand. In addition, there were stated to be 1 million 269 thousand young people not in the workforce who had graduated from university and remained economically inactive as they were not applying for new jobs for reasons such as losing hope of finding a job. Although this has been associated with Covid-19, the quality of education debate can also arise from the situation experienced, since problems related to youth unemployment have also been seen in the past.

In a study by Srour, Taymaz and Vivarelli (2013: 1), it was reported that Turkey needs a skilled workforce 5 or 6 times greater than the unskilled workforce. It was also stated that the gap between skilled and unskilled workforce employment has widened, and it was emphasized that local and imported technologies have increased the demand for skilled labour (Srour et al., 2013: 1). Hirshleifer, McKenzie, Almeida and Ridao-Cano (2016: 2117-2144) analyzed the effect of vocational training programs on unemployment in Turkey and stated that the effect of these training programs on employment was positive in the first year, but the average effect was lower than expected in the subsequent period and was statistically insignificant. The effects of vocational training programs carried out by the Turkish National Employment Agency (İŞKUR) for the unemployed in Turkey were analyzed, and it was concluded that those who benefit from these programs increase their chances of being employed by 2 percent. In this context, it is stated that Turkey's low labour productivity is related to human capital. Nevertheless, Turkey's labour productivity is higher than that of Latin American countries such as Chile, Mexico, Colombia, Argentina, Venezuela and Brazil, and some Southeast Asian countries such as Malaysia and Indonesia (Yılmaz and Saracoglu 2016: 393-398).

Therefore, the importance of education and vocational training is obvious. In this context, state investments related to education and vocational training in Turkey are complementary to the needs of family-owned business groups (Kıran, 2018: 48). Kim, Kandemir and Cavusgil (2004) stated that family-owned business groups also invest in training programs and the education of their employees (Kim et al., 2004: 17). Compared to the HMEs of Latin America, it has been observed that the holdings in Turkey have a higher tendency to invest in the training and education of their employees. For example, Bonaglia, Colpan and Goldstein (2008) stated that Arçelik, operating under Koç Holding in Turkey, made investments in training with 25-hour programs for workers and more than 40 hours a year for engineers (Bonaglia et al., 2008: 12).

3.5. Innovation

Each country has demand different types of innovation because of their different economic conditions. For instance, after the fall of the Berlin Wall, Eastern European economies transformed their economies into a market one. Most of them chose to liberalize their economies. In this context, Nölke and Vliegthart (2009) emphasized Eastern European economies as DMEs (Saucedo-Acosta, Montalvo Romero and Villafuerte Valdés, 2018: 160-161). In DMEs, innovation activities are carried out at the

headquarters of international firms and then transferred to subsidiaries. Therefore, it is not possible to talk about creating technology in subsidiaries, as they are content with adopting existing technology. For example, 70% of research and development (R&D) expenditure in Hungary is provided by foreign-controlled firms, which shows that innovation in these market economies is not creative but imitative. However, in HMEs, the main actor that comes to the fore in the innovation processes is the state. With expenditure of 0.5 percent of GDP on R&D activities in HMEs, it has been observed that the largest investor in this field is the state. However, patent applications for DMEs remain at a very low level when compared to LMEs and CMEs. A similar interpretation can be made for HMEs. It is said that the distance in innovation between the DME and HME may not be very large when they are compared with the CME and the LME. Therefore, the low level of R&D expenditure in these country groups also explains the low level of patent applications. (Kıran, 2018: 49; Saucedo-Acosta et al., 2018: 182; Nölke and Vliegthart, 2009: 688-689). Similarly, Schneider noted that R&D expenditure in HMEs rarely exceeds 0.5 percent of GDP and stated that MNCs invest in areas that require advanced technology, while local business groups focus on goods and services sectors that require lower technology. This means that diversified Business Groups in HMEs prefer to invest in commodities or simple manufacturing. Therefore, they require less skilled labour. For instance, the inefficiency in the allocation of resources to R&D activities in Latin American countries during the 2000s can be evaluated in this context (Saucedo-Acosta et al., 2018: 182; Schneider, 2009b: 567).

Table 5. R&D Activities (% of GDP) and Patent Application (per million inhabitants)

		Gross Domestic Expenditures on Research Development			Patent Application		
		2010	2018	Percentage Change (%)	2010	2015	Percentage Change (%)
LME	United Kingdom	1.64	1.72	4.87	91.2	96.6	5.92
	United States	2.73	2.82	3.29	145.8	165.8	13.71
CME	Germany	2.73	3.13	14.65	225.4	221.7	-1.64
	Austria	2.72	3.14	15.44%	168.3	178	5.76
MME	Italy	1.21	1.42	17.35	52.9	59.3	12.09
	Greece	0.59	1.18	100	7.9	9.5	20.25
	Spain	1.36	1.24	-8.82	40.6	38.2	-5.91
HME	Mexico	0.49	0.31	-36.73	2	2.8	0.4
	Turkey	0.79	1.03	30.37	7.6	13.6	78.94
	Brazil	-	-	-	2.9 (2014)	3.3	13.79
DME	Poland	0.72	1.21	0.68	7.3	13.9	90.41
	Czech Rep.	1.33	1.93	45.11	14.4	23.5	63.19
	Slovakia	0.61	0.83	36.06	9.1	11.2	23.07
	Hungary	1.13	1.53	35.39	24.2	26.3	8.67

Source: OECD, 2021

In Turkey, investment spending on R&D activities by private business groups has been on the rise since 2001 and government spending in 2014 was seen to have doubled. It has been observed that the state provides funding support to small and medium-sized companies and newly established companies in innovative sectors. Financial support provided by KOSGEB can be evaluated in this context. Although it is below the OECD average, the contribution of the state to R&D activities has gained importance since 2004 in line with the Vision 2023 project (Kıran, 2018: 49; Bonaglia et al., 2008: 7).

In the 2003-2023 Strategy Document, innovative investment areas were determined in order to increase the international competitiveness level of Turkey by 2023. These areas are respectively Information and Telecommunication, Biotechnology and Genetics, Nanotechnology, Energy and Environment, Mechatronics, Manufacturing Process, Materials and Design. These sectors are associated with radical innovative processes and underline the need for the institutional environment to achieve the desired goals. Some universities in Turkey have established incubation centers (SUCOOL, Cyberpark, Teknokent etc.) with the funds received from the government. It is aimed to create innovation-based initiatives in these centers (Kıran, 2018: 49; Lazonick, 2010: 676).

Although the support of the state is emphasized, 45 percent of international patent applications in Turkey are from diversified business groups and individual applications. The White Goods Industry is characterized as an increasingly innovative process, and companies in the industry have been investing in research and development for more than 50 years. For example, Arçelik, a subsidiary of KOÇ Holding and the third largest manufacturer of household appliances in Europe, makes the highest investment in R&D activities in Turkey. Arçelik, which first established its research and development center in Turkey, later established similar centers in high-income countries, thereby aiming to get closer to the latest technologies. Considering the institutional complements in HMEs, two features of the Arçelik example stand out. The first of these is the determination of the company's strategy within the group. The CEO and Koç Holding family members are influential in decisions, so there is a top-down hierarchical relationship. Secondly, the source for innovative investments is provided from the intra-group capital markets (Kıran, 2018: 49-50; Colpan and Jones, 2016).

4. CONCLUSION

Some studies on the VoC have led to the emergence of different types of capitalism. These studies offer new conceptual and theoretical innovations to analyze the distinctive institutional foundations of capitalism in countries. In this context, focusing on hierarch facilitates the incorporation of factors such as the state and MNCs that have been common in latest analysis in this literature, yet they are absent in most analyses of the VoC. In addition, elements of hierarchy in several spheres of economy can be seen in labour markets and business groups. For instance, MNCs and business groups can organize hierarchically in the spheres of economy such as employment, investment and technology transfer and

hierarchy in labour market can be supported by the state. Finally, it was emphasized as one of shortcomings of liberalization in the 1990s that market reforms in trade, privatization and deregulation often resulted in more hierarchy than market. Therefore, the core features of HMEs seem prominent in some middle-income countries. One of these countries is Turkey (Schneider, 2009a; 2009b). Overall, these debates indicate that although Turkey's position in the VoC literature has often been defined as ambiguous, its institutional structures display significant hierarchical characteristics.

In this context, the aim of this article was to develop the discussions on the varieties of capitalism and to determine the place of Turkey, the position of which has been defined as uncertain in the VoC classification. Turkey can be classified as a HME because hierarchical relationships can be observed both in industrial relations and in the boards of directors of family-owned businesses. It is also possible to evaluate the shaping of the education system according to the needs of business groups in this context (Kıran, 2018: 50). In addition to this, it is highlighted the importance of the role of state and business-state relation in this article. Therefore, it is possible to observe the characteristics of HME in family businesses, industrial relations, the role of the state, education and the impact MNCs in Turkey. Consequently, as emphasized by Schneider and Kıran, the defining features of HMEs are grounded in hierarchy, and Turkey can therefore be considered to share the core characteristics of HMEs.

At this point, the criticisms put forward are grouped under three headings. The first of these is that the holding structure is not unique to Turkey or other HMEs, as these structures consisting of diversified business groups can be observed in many countries. The most noteworthy point here is the underdevelopment of the institutions faced by these countries. The second criticism related to the increasing importance of the stock exchange and the state's effort to create venture capital for small and medium-sized enterprises, has revealed the debate on whether Turkey has become a LME. The third criticism is in the context of the gradual Americanization of family businesses in Turkey in terms of both management and finance methods, that is, their orientation to LME (Kıran, 2018: 50).

The criticisms are not limited to these points. Considering the globalization experienced and the dominance of MNCs over countries, it can be seen that Turkey is sometimes defined as a dependent country in this context. However, it can also be seen that international companies and local businesses create partnerships in certain business areas. For example, Koç Holding announced the cooperation of Arçelik with LG, and the cooperation with Ford Motor Company in Ford Otosan. The Sabancı Group cooperation with Bridgestone in the tyre business and Heidelberg Cement in chemistry can also be evaluated in this context, as can the partnership established by Doğu Group with foreign automotive companies. In addition, the subsidiaries of holdings, international companies and joint ventures are usually hierarchically controlled (Tulun and Oktem, 2012: 16-18). These examples suggest that, rather than exhibiting unilateral dependency, the Turkish economy is characterized by multilayered hierarchical coordination mechanisms linking domestic and international actors. Therefore, it can be

said that hierarchy rather than dependency, plays an important role in the Turkish economy. In other words, hierarchy has emerged as a defining feature of economic organization in Turkey.

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