

## **Understanding and Measuring the Role of Investors' Social Capital Level in the Development Process: A Case Study from Turkey\***

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**ABSTRACT:** Social capital plays a crucial role in the development processes of every country. Diyarbakır, a metropolitan city in Turkey, and her hinterland had always been – and still is – one of the most developed centers of Anatolia and Middle East. But the city is experiencing a continual relapse more than a century, despite the unique social capital inheritance. Within this context, a survey was prepared to probe this issue from a different perspective and was conducted to a group comprising the city's main 500 investors for identifying their actual social capital level. Multiple Regression Analysis was implemented to the questionnaire data ranged within Likert scale. Results of the analysis indicated that an increase of 1 unit in networks, trust and norms variables led to an increase of 0,246089, 0,305418 and 0,448925 units in social capital respectively. This finding is contrary to the pre-estimations, which envisaged norms to be the least effective factor among other components.

**Keywords:** Economic Development; Social Capital; Investment; Regional Economics; Multiple Regression Analysis.

**JEL Classifications:** C51; E22; L26; O16; P25; R11

### **1. Introduction**

Among the scholars of social sciences, there has been an increasing acceptance about the point of view stating that determinants of development have a complex nature and the efforts to explain this complexity cannot be reduced to the context of a single field of study. It has been more and more widely acknowledged that development is a research area which is at the intersection point of various disciplines.

Due to the inadequacies of classic methods and mechanisms to proclaim development, the enthusiasm to explain the origins of differences in the development processes from various dimensions paved the way for miscellaneous points of views. The common point of this progression tried to explain the reason of the aforementioned differences in development levels by the lack of capital. And the researches on the topic focused on physical capital, financial capital, human capital and finally on social capital respectively, which was qualified as the “Missing – Link” (Grootaert, 1998: 1). The significance and valence, which social capital deserved long ago, was handed it to just only two or three decades before the present day. Despite elusiveness in its scope and borders, divergences about definitional matters and inadequacies in the affairs related with its measurement, social capital became a key concept day by day in the admission of mutual dependencies and interconnections between social and economic issues.

The concept is increasingly being subject to intellectual debates and academic researches day after day in entire world, especially from the beginning of 1980s. Despite the fact that capital is a traditional economic concept, the links (of social capital) established with economic capital theory have been very weak. It was not until the middle 1990s that many economists began to discuss the concept of social capital. Since then the literature has expanded considerably, even within economics (Westlund and Bolton, 2003: 78).

But it will be unfair to allege that social capital became popular in Turkey simultaneously with the world. Significant interregional developmental differentialities can be observed in Turkey even at the first glance. This reality cannot be explained simply by the lack of only physical and human

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capital. In spite of all efforts and precautions taken by both public and private sector, the development gap between developed and underdeveloped regions of the country somehow is not balanced up to the present date.

In terms of social capital, Diyarbakir is a noteworthy and remarkable case since the city has got unique geographic, economic, social and cultural advantages, relatively qualified labor force, natural resources and infrastructure. Additionally, Diyarbakir has got a sui generis historical heritage, arising from being subject to incessant human settlement more than 10.000 years. The city had always been one of the main centers of Anatolia and Middle East for centuries on the account of the aforesaid morphological supremacies. Diyarbakir had entered into the domination of 26 different sovereign authorities and had been subject to the settlement of many communities from various ethnic, religious, cultural and lingo origins. As a result of this rich background, a significant accumulation of social capital was generated.

But the city unfortunately experienced a continuous decline in terms of development for a period more than a century, which extant up to the present date, in spite of all gracious attempts to stop the downturn. Against all the odds, Diyarbakir is still one of the preeminent candidates among the cities publicly supported to be centers of attraction. Consequently, this study is carried out to clarify the reasons of the aforementioned failures from a distinctive perspective and introduce the role of social capital – particularly investors' –, which has got an unignorable potential to play a fundamental mission in the development efforts of the city at any time thereafter. Significance and novelty of the study is its being the first research implemented on the topic.

Within this context, in the first section of the study, the conceptual framework and debates, scope and the actual significance of investors' social capital is outlined by basing upon the exemplifications from the literature. Secondly, the main goal, novelty and significance of the study and the hypothesis derived from the assessments of the current situation are propounded and the method followed to test and concretize the assumption is explained.

In addition, a questionnaire – which included questions to enlighten the basic indicators of social capital such as networks, trust and norms ranged by means of Likert scale – prepared for the purpose of evaluating the social capital level of investors in Diyarbakir is applied to a group comprising the main 500 entrepreneurs of the city. And 434 of them, which provide the necessary requirements of the project, were taken into consideration in the assessment process. Afterwards, Multiple Regression Analysis was implemented to the questionnaire data ranged within Likert scale. By the application of this method, the relationships between the variable dependent social capital and independent variables of networks, norms and trust and the interaction grades among them were revealed.

Third section, which constitutes the backbone of the study, elaborates the conclusions of the questionnaire and the Multiple Regression Analysis. The results are illustrated by the utilization of tables and graphs. The results of the regression analysis points out that the social capital levels of investors in Diyarbakir depend on 25 % in networks, 30 % on trust and 45 % on norms. This conclusion does not match with the domestic and foreign studies of the literature, most of which identify social capital with trust or networks. This indication constitutes the novelty of the study that will enlighten policy makers in their efforts to strengthen the social capital of the city. Consequently, a final assessment is carried out and proposals and recommendations based on the results of the study are manifested.

## **2. Conceptual Framework of Investors' and Entrepreneurs' Social Capital**

Investment is doubtlessly the most important and crucial variable in economics. It only stands to reason that the civilization built up by human from the first day of occurrence in the world up to the present date is by the virtue of investments. The development of every country is also strictly and deeply bound up with investments, because without investments human progress would have presumably been halted. The functioning of economy is based on the enhancement of the capacity of producing goods and services – namely economic growth – and therefore in real terms and by a narrower sense, expanding stock of goods and services that will be used to produce others is the principal objective of every economic decision or policy makers. Consequently, whether public or private, investors are the key and non-excludable actors of a country's economic development.

Stimulating investments constitutes the backbone of every country's economic policies and every effort compatible with this inclination is welcomed worldwide.

The net increases in the investments make positive contributions to capital stock of countries. In addition to physical and human capital, this phenomenon is also valid for social capital. Social capital is viewed as a key facilitator of resource exchanges (particularly knowledge) both within and between firms (and also all economic actors), and therefore, an important driver of value creation. The more firms (and also all economic actors) can build and leverage social capital in their internal and external relationships, the argument goes, the greater will be the potential value creation benefits that firms can expect as a result (Maula et al, 2003: 117–118).

This section is a review of the literature on the studies of investors' and entrepreneurs' social capital. It is comprised of three subtitles. First of all, definitional matters about social capital are discussed. Secondly, debates about the types of investors are outlined. And finally, the further researches about the interaction and relations between social capital and specific topics – such as innovations, community and rural development, investor behaviors in certain markets etc. – are mentioned briefly, as follows.

### **2.1. Definitional Matters**

At the primordial of the study, it must be emphasized that comprehensively defining social capital and making an analysis starting from its etymology and the semantics is not the main goal of this research. Therefore such an analysis does not take place within the scope of this paper. But it is envisaged that a brief touch on the subject is essential, because some aspects of the term is still seems to be unacquainted to relevant spheres, particularly policymakers and their executors in charge of development.

First of all, it must be underlined that it is not possible to quote a single definition of social capital, since no general agreement or consensus cannot behold in the literature. Lesser (2000: 4) pointed out that in the realms of political science, sociology and economic development, there are a plethora of definitions for social capital and advised to look over the extensive list of definitions gathered up by Adler and Kwon (1999: 2). Among the annotations given in Adler and Kwon's list, definitions of Bourdieu (1985: 248, 253), Bourdieu and Wacquant (1992: 119), Fukuyama (1995: 10, 1997: 378), Putnam (1995: 67) and Coleman (, 1988: 98, 2000: 16) come into prominence. In addition to them, Burt's (1992: 9) and Grootaert and Bastelaer's (2002: 4) and Robison et al. (2002: 19) contributions must not be omitted. Quoting to Adler and Kwon (2002: 19), Sørheim pointed out that while definitions of social capital are broadly similar, they vary in terms of whether their primary focus is on: (a) the relations an actor establishes and develops with other (external) actors, which could be labeled as the bridging view of social capital; (b) the structure of relations among actors within a community or collective, which could be labeled as the bonding view of social capital; or (c) frameworks that include both type of linkages, neutral to internal or external dimensions (Sørheim , 2003: 340).

The term “social capital” is derived by merging the aforementioned two words. The semantics of the term originates from sense of “social” and “capital”, reflects and outlines the spirit of the characteristics of them. But the concept incorporates somehow a different meaning which is above and beyond their original roots. “The first explicit use of the term in approximately its present connotation seems to have been in the United States by Hanifan (1916)” and the concept had been subject to a vast number of researches in a wide range of sciences – including positive sciences like medicine & health – and had been enriched by the discussions within those disciplines in which the concept of social capital has so far been chiefly developed, that is to say “sociology and to a certain extent political science and business economics” (Westlund and Bolton, 2003: 77–78).

When the matter is approached from another perspective, defining social capital as a sort of capital is still a controversial issue (Yokoyama and Ishida, 2006: 12). Such a leading economist as Solow (1997) has even questioned whether social capital can really be analyzed within the same conceptual apparatus as traditional capital (Westlund and Bolton, 2003: 78). Solow (2000) also criticized that “social capital” is not a “capital (which) stands for a (purposefully reserved) stock of produced or natural factors of production that can be expected to yield productive services for some time” (Yokoyama and Ishida, 2006: 12). Sakurai underlined that economists argue “social capital” is not really like capital in economics and quoted to Arrow's (2000) statement which alleged that “it (social capital) does not meet the definition of capital used by economists in particular aspect of

deliberate sacrifice in the present for future benefit” (Sakurai, 2006: 218). Additionally, Arrow (2000) even urged “abandonment of the metaphor of capital and the term ‘social capital’,” reasoning that human networks/organizations are not built up for economic purposes, but building and enjoying existing social relations have intrinsic values to the participants (Yokoyama and Ishida, 2006: 12).

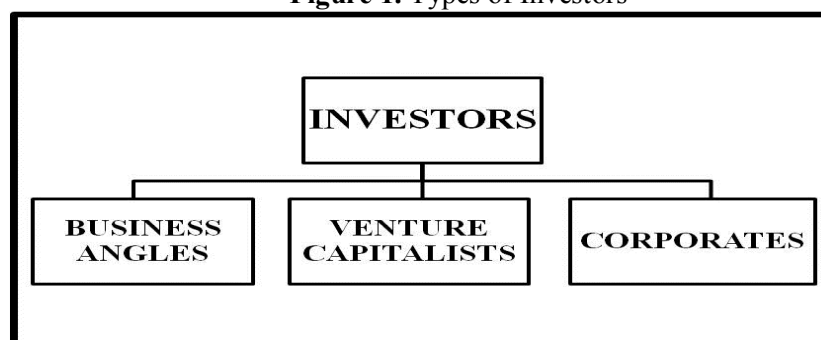
On the other hand, Robison et al. (2012), who dealt with the above mentioned debates, manifested that social capital has emerged as a paradigm capable of bridging across various social science disciplines. They defended that although its adoption by social scientists from different disciplines led to multiple and often conflicting definitions, the term “social capital” is appropriate and useful to describe resources associated with interpersonal relationships involving sympathy, because these relationships can claim nearly all of the properties commonly associated with other forms of capital and when defined as sympathy, social capital has many important capital-like properties including transformation capacity, durability, flexibility, substitutability, opportunities for decay (maintenance), reliability, ability to create other capital forms, and investment (disinvestment) opportunities (Robison et al., 2002: 1–2). Furthermore, Westlund and Bolton stated that economic networks can be regarded as capital in which investments have been made and also came to the conclusion that in the main, social capital can be analyzed in the same way as other capital but it has some important special attributes (Westlund and Bolton, 2003: 82, 77). Thus, social capital is a useful concept to understand the role of community since it considers community characteristics as flexible and assumes that they are the results of capital formation. It means that social capital, just like physical capital and human capital, is an accumulation of past flows of investment less past flows of depreciation and is somehow measurable (Sakurai: 2006: 217).

## **2.2. Debates on the Classification of Investors**

Every business owner has to find sufficient funds or resources to start, continue and expand their operations. These funds are raised via formal or informal capital or financial markets and their derivatives. Therefore, it is essential to mention very briefly about the types/classifications of investors and entrepreneurs, since the social capital components has got different effects on them with diverse qualifications.

A detailed classification by European Private Equity & Venture Capital Association (EVCA) categorizes the types of investors as: corporate investors, endowment, family office, foundations, fund of funds, other asset manager, government agencies and sovereign wealth funds (EVCA, 2012: 6). But although various nomenclature is built up for investors, the three most common types of investors are generally referred as angel investors, venture capitalists and corporates. ... Typically, angels are best suited to businesses in their earliest stages, venture capitalists to later stages, and corporate investors at the end, but of course there are exceptions (NZ Trade and Enterprise, 2009: 19). This classification, which is more suitable for practical and pragmatic concerns of daily life, is illustrated in Figure 1.

**Figure 1. Types of Investors**



All of the above mentioned classification main is of particular concern to private equities, which Missankov et al., (2006) state by quoting to British Venture Capital Association (BVCA) that; in the UK, Continental Europe and much of the rest of the world, private equity means the equity financing of unquoted companies at many stages in the life of a company from start-up to expansion together with management buy-outs and buy-ins of established companies that have real growth potential which can be enhanced with private equity support. “Venture capital” is a subset of private equity, covering early stages of funding from seed to expansion capital. The key elements of private equity

and venture capital are investments in unquoted companies, equity capital by nature, medium to long term and targeted at companies with growth potential, which can ultimately be realized through trade sales or flotation on the public markets (Missankov et al., 2006: 9). Private equity investments comprise the money invested in the firms which have not gone to public and as a result of this; they are not announced on any stock exchange. The investors of private equities are mainly paid up when the enterprise goes to public, it is sold out or merged with another enterprise or its capital structure is changed. From this perspective, another classification of private equity investors includes “formal” (venture capitalists) and “informal” (business angels) investors (Filatotchev et al., 2006: 1).

Quoting to a study which he realized together with his colleague Landström in 2001, Sørheim categorized informal investors in accordance with the investors’ investment activity and competence using four categories for informal investors: (a) Lotto investors (low activity, low competence); (b) Traders (high activity, low competence); (c) Analytical Investors (low activity, high competence); and (d) “pure” Business Angels (high activity, high competence). Their empirical findings suggest that there are considerable differences between the four categories of investors in terms of, for example, the use of information sources, involvement in the company, co-investing, time horizons and geographic preferences. It can be argued that ‘pure’ business angels represent ‘best practices’ as they have a high level of investment activity, managerial and/or entrepreneurial competence, a high propensity to co-invest, are often ‘lead investors’, use personal and business networks as their main information sources, and are actively involved their portfolio companies. For these reasons this group can be argued to be the most interesting and most important category of investors and justifies the compilation of more in-depth knowledge about how they operate in the informal venture capital market (Sørheim, 2003: 343).

But it is still impossible to demarcate the types of investors and especially their sub-branches by uncontroversial boundaries and make reference to single definitions for each of them. This particular point mainly originates from the characteristics of different societies or nations, the cognitive paradoxes and insufficiencies in laying the landmarks to distinguish the terms from each other. Based on the different ways of defining and demarcating the object of study in informal venture capital literature, Avdeitchikova et al. (2008) summarized their reasoning by presenting four main definitions as shown in Table 1.

**Table 1.** Definitions of Actors on the Venture Capital Market

Institutional venture capitalists	Investors carrying out professional investments of long-term, unquoted risk equity finance in new firms, where the primary reward is eventual capital gains supplemented by dividends (Wright and Robbie 1998).
Business angels	High net worth individuals who invest a proportion of their assets in high-risk, high-return entrepreneurial ventures (Freear et al., 1994). Apart from investing money, business angels contribute their commercial skills, experience, business know-how and contacts, playing a hands-on role in the company (Mason and Harrison 1995).
Informal investors	Private individuals who invest risk capital directly in unquoted companies to which they have no family connection (Mason and Harrison 2000). Thus, informal investors include business angels as well as private investors who contribute relatively small amounts of money and do not take an active part in the object of investment.
All non-institutional venture capital investors, including family and friends	Investors making investments in start-ups not founded by the investor him/herself, i.e. including family investments, investments by friends, colleagues, etc., but excluding investments in stocks and mutual funds (Reynolds et al., 2003).

Source: Avdeitchikova et al. (2008: 376–377).

As mentioned in the table, the first group of investors –namely business angles – often takes part in the commercialization of the entrepreneurial venture during the very early stages in the life cycle of the venture (Sørheim, 2003: 341), mainly invests in the initial or establishment process of

ventures, industries or sectors, particularly to the ones with a high growth potential which use high/new technologies or deal with innovations, i.e. electronics and bio-technology.

According to DG (The European Commission's Directorate-General for Enterprise and Industry Enterprise), a business angel is a knowledgeable private individual, usually with business experience, who directly invests part of his or her personal assets in new and growing unquoted businesses. Besides capital, business angels provide business management experience for the entrepreneur ... Business angels play important roles in the economy and in many countries constitute the largest source of external funding, after family and friends, in newly established ventures. Business Angels provide both financing and managerial experience, which increase the likelihood of the survival of startup enterprises (CSES, 2012: 1, 4) and play a critical role in the creation of an entrepreneurial climate (Mason and Harrison, 2008: 309). The involvement of business angels, in some cases, can also be of vital importance in attracting other types of capital such as debt financing or institutional venture capital (Sørheim, 2003: 337). In the contemporary literature, it is possible to propound that Professor William Wetzel's studies on business angels come into prominence. In his pioneering work "Angels and Informal Risk Capital", Professor William Wetzel showed that business angels shared some common traits; they were typically wealthy, self-made, male, highly active investors who invested in close geographical proximity to their home, and relied heavily on their network of friends and business associates. In addition, business angels were found to be an important source of external seed capital and, not least, showed a strong interest in financing technology-based ventures. Wetzel's work can be regarded as the first serious attempt to "put some boundaries on our ignorance" and gain better understanding of what at that time was a largely neglected phenomenon (Avdeitchikova et al., 2008: 372).

But the principal conflict on the issue is the inconstancies in including (e.g. Reynolds et al, 2004: 58, 64) or excluding (e.g. Mason and Harrison, 2000: 221, Politis, 2008: 127) the investors from the family or relative circles in the context of business angels. There are good reasons for differentiating between friends and family and Business Angels. The main argument is that family-related investors are driven by fundamentally different motives, such as kinship, social obligation, and reciprocity, rather than just commercial factors. As a result, they exhibit different behavioral patterns (CSES, 2012: 4).

In their commonly cited definition, Mason and Harrison state that "A business angel is defined as an individual acting alone or in a formal or informal syndicate who invests their own money directly in an unquoted business in which there is no family connection, and who, after making the investment, takes an active involvement in the business (as an advisor or board member, for example) directly or via a co-investor". And they introduce a new term "pure business angle", who is generally, commercially motivated and driven by expectations that there will be a financial return on the investment (although some angel investors do on occasion trade-off commercial returns for other social or altruistic motivations). They postulate that these meritocratic investors are distinguished from informal investors, a broader category that includes business angels but also includes investors motivated by primarily non-commercial motives (particularly family connections), described as "love money" or "affinity investing". While both are important, only "pure" business angel money is potentially available outside family and personal connections and is the primary focus of public policy interest (Mason and Harrison, 2008: 2).

On the other hand, The Global Entrepreneurship Monitor (GEM) project alleged that family investment had a more significant share than the investments of business angels in various countries (for example, United Kingdom) (Reynolds et al., 2004). But Avdeitchikova et al. (2008) point out that the exclusion of family and friends from the definition of informal investors is not uncontroversial. Thus, the definition incorporates all non-institutional venture capital investments in unquoted businesses, including family and friends. Quoting to the informal investors definition of Mason and Harrison (2000) in Table-1, they note that investments made by close relatives and friends are based on considerations and criteria other than those that external investors apply and, therefore, family-related investments should be excluded. This is not to deny the importance of family funding in the financing of newly established ventures – family and friends are likely to be the major source of external funding for new ventures (Avdeitchikova et al., 2008: 376).

The second type of investors is venture capitalists. Like the other concepts or terms mentioned above, also there is not a consensus on an indisputable definition of "venture capital", which is a

different form of financial intermediation, focusing on the provision of equity financing to private companies (Becker and Hellmann, 2003: 3). One of the most cited definition, which is made by EVCA states that is organizational units or people:

- who can prove substantial activity in the management of equity or quasi-equity financing for the start-up and/or development of small and medium-sized unquoted enterprises that have significant growth potential in terms of products, technology, business concepts and services;
- whose main objective is long-term capital gains to remunerate risks;
- who can provide active management support to investees (EVCA, 2005: 4). Additionally, Fredriksen, who defined “venture capital” as “the name given to money invested in business enterprises that do not have access to conventional sources of capital such as stock markets, banks etc.” and “venture capital firms” as “organizations which invest equity capital in high-risk projects and supply management resources and the investment is time limited”. Quoting to Maier & Walker (1987), he distinguished venture capital from other investors as stated below:
  - It involves potential equity participation for the venture capitalist either through direct purchase of stock or through warrants, options or convertible securities.
  - It is a long-term investment discipline in which the venture capitalist usually must wait 5-10 years for significant returns.
  - The venture capitalist generally has an active involvement with the company in which it invests.

In addition, Fredriksen stated that before the World War II, the primary source for risk capital or venture capital were wealthy families or partnerships of affluent individuals looking for capital gains. To name one example, the Rockefeller family has founded several venture capital pools, and another venture capital group was based on the private fortune of a wealthy European family that has been operating for centuries (Fredriksen, 2009: 2, 6, 14–15), quoting to Batler (1973).

The homeland of venture capital in the contemporary times is the United States of America. The foundation American Research and Development Corporation (ARDC) in the year 1946, which is accepted to be the first accredited legal institution worldwide in this field, is the one of the most important development in the history of venture capital. By the effects of incentive implementations and legal regulations such as tax advantages and enablement of using pension funds, the venture capital sector became an non-ignorable financial resource, particularly for electronics and relevant industries and services. Despite the significant decline in the stagnation process in the 1970’s, the venture capital sector managed to recuperate from the down turn in the 1980’s thanks to the appropriate precautions and starting from United Kingdom and Sweden, venture capital ranged over worldwide.

The major differences between institutional venture capital and business angels are outlined by Avdeitchikova et al., (2008) in Table 2.

**Table 2.** Institutional Venture Capital Compared to Business Angels.

<b>Key Features</b>	<b>Institutional Venture Capitalists</b>	<b>Business Angels</b>
Source of Funds	Primarily institutional investors who act as limited partners invest others’ money.	Private individuals that invest their own money.
Responsibility	Limited personal financial responsibility but responsibility to management and owners.	Significant personal financial responsibility.
Investment Experience and Capacity	Considerable investment experience and investment capacity.	Little investment experience and limited investment capacity.
Time for Due Diligence	Extensive time for due diligence.	Limited time for due diligence.

Source: Avdeitchikova et al., 2008: 376–377.

The last category of investors is corporates. They invest in other firms or enterprises – including the operations to acquire the control of the invested entity – or branches of large scaled companies or holdings, which are specialized in investment facilities for the purpose of establishing relations and strategic partnerships with relative small companies with a high potential of growth. They mainly have

got an institutional character and generally undertake the mission of being intermediaries between lenders and borrowers. Due to their enormous potential to collect funds and critical status in economic and the social life, they have got elaborately arranged legal infrastructure and robust regulatory regimes, which are strictly controlled by governmental bodies. The amount which determines their limits also vary from one country to another. These corporate funds have similar missions and are staffed by individuals with backgrounds resembling those in independent organizations. But the organizational and incentive structures in corporate funds are very different: most are structured as corporate subsidiaries and have much lower incentive-based compensation. In this respect, corporate funds differ dramatically from both independent venture organizations and funds associated with commercial and investment banks (Gompers and Lerner, 2000: 20 – 21).

Finally, two related terms – which are genesis of USA – will be mentioned within the framework of the literature review. Firstly, many entrepreneurs may want their companies to issue securities (e.g., stock) to investors, but do not desire to be ensnared by registration and reporting requirements under the securities laws. These requirements can be onerous and complex and impose enormous compliance and financial reporting burdens on subject companies. To avoid the complexities imposed under the securities laws, most private companies attempt to qualify for one or more exemptions from the registration and reporting requirements. Embedded in certain exemptions is the concept of the “accredited investor.” Accredited investors may participate in certain types of higher risk investments including seed money, limited partnerships, limited liability companies, hedge funds, private placements, and angel investor networks. The term generally includes wealthy individuals and organizations such as banks, insurance companies, significant charities, some corporations, endowments, and certain retirement plans (Zell: 2012: 1).

Second term to be mentioned here is sophisticated investors. A sophisticated investor is a person who is not an accredited investor, but who has such knowledge and experience in financial and business matters that he is capable of investigating evaluating the merits and risks of the prospective investment (Carlson et al., 2003: 25). An accredited investor is not the same as a sophisticated investor. The term accredited investor is specially defined by (federal) securities laws while the term sophisticated investor has no precise legal definition. Both terms generally refer to an investor who has a sufficiently high degree of financial knowledge and expertise such that he/she does not need the protections afforded (by the SEC – Securities and Exchange Commission). An investor who is considered sophisticated, might not meet the precise definition of an accredited investor (Dean, 2007: 113 – 114).

### **2.3. Further Researches about Investors' and Entrepreneurs' Social Capital on Specific Issues**

The focus of development efforts has evolved from building up of simple physical (financial resources and infrastructure) and human (education and technology transfer) capital to the creation of social capital (organizational/institutional development and trust/networks/norms among people) (Yokoyama and Munakata, 2006: 3). The concept of social capital has become increasingly popular in a wide range of social science disciplines. A growing number of sociologists, political scientists, and economists have invoked the concept of social capital in the search for answers to a broadening range of questions being confronted in their own fields (Adler and Kwon, 2002: 17). As a result of this inclination, a vast literature had been developed on social capital. Therefore by a selective approach, the literature review on the topic within the context of this study necessarily had to be limited to the dimension dealing with the various aspects of social capital – investor/entrepreneur relationships.

Social capital plays an important role in investment processes and also possesses a significant potential for the further stimulation of investments of any society. Majority of the studies carried out by various scholars for analyzing the social capital of investors and entrepreneurs set off to analyze the nature of social capital and its components – namely trust, networks and norms – from the point of view of investors and entrepreneurs in specific countries, regions or settlements around the world and make comparisons between specific sample cases [For example, see Asian Productivity Organization's report of the APO Survey and Symposium on Redesigning Integrated Community Development 2003–2005, collected into a book under the name: “Potential of Social Capital for Community Development” (2006)]. The impact of social capital in the decision making process and determine guiding principles is the main concern of the researches. Additionally, investor and entrepreneur behavior in certain types of markets – mainly capital markets, stock markets and their derivatives– had also been studied or behavioral characteristics of definite investor and entrepreneur groups had been



focused on. The impact of social capital on various topics such as innovation or information asymmetries is among the areas of research in economic literature. The key concerns in all of these studies are to understand the social motives leading people to invest, their role in economic development and utilizing from social capital as a stimulator of welfare level.

Within this context, a significant field of research about the relationship between investors and social capital is on community and rural development. Sakurai studied role of social capital in economic development basing upon evidence and specific issues. He discussed the roles of social capital in economic development, particularly in terms of three categories of local public goods that communities can supply – namely common property management, market development and social security nets. ... In the case of common property management, structural social capital created by establishment of formal forest users groups in Nepal facilitates collective action to protect their community forests. Then, as for market development, the case of milled rice market in Ghana is presented, where millers' clusters in urban area foster bonding social capital among them and bridging social capital with rice producers. ... All the examples demonstrate positive effects of social capital on community development (Sakurai, 2006: 234).

Another notable study was carried out by Westlund and Bolton about local social capital and entrepreneurship. The authors dealt with the capital aspects of social capital in the economic sense from productivity, vintage, accumulation and maintenance, rights of possession versus public goods complexity and level of aggregation perspectives. They pointed out that their paper was a more or less first attempt to combine elements such as social capital, entrepreneurship, and spatially bound producer surplus in a common analytical framework. They have shown that social capital – although the concept has been developed within other disciplines – in most respects can be compared to other forms of capital and analyzed in the same way as them. Contrary to Coleman, the scholars have underlined the dualistic character of social capital due to functioning for good or bad, depending on the situation and the actors' objectives and in the economist's perspective social capital may lead up to productive or counter-productive effects. Westlund and Bolton also sketched an outline model of how the spatially-defined producer surplus and consumer surplus form a place surplus, and of the role played by social capital in the creation of the producer surplus. They "reread" Schumpeter and showed that he was aware of several aspects of what is denominated as entrepreneurship-inhibiting and facilitating aspects of social capital (Westlund and Bolton, 2003).

Glaeser et al. (2002) point out that a standard optimal investment model can be used to analyze an individual's decision to accumulate social capital. They analyzed six facts that supported the predictions of their individual based approach: (1) social capital first rises and then falls with age, (2) social capital declines with expected mobility, (3) social capital rises in occupations with greater returns to social skills, (4) social capital is higher among homeowners, (5) social connections fall sharply with physical distance, (6) people who invest in human capital also invest in social capital. They failed to find robust evidence that social capital investments fall with the value of time or that geographic/religious groups generate social capital complementarities (Glaeser et al., 2002: 437).

Akcomak and Weel studied the relationship between social capital, innovation and growth based on the data from Europe. They modeled and identified innovation as an important mechanism that transformed social capital into higher income levels. In an empirical investigation of 102 European regions in the period 1990–2002, they showed that higher innovation performance was conducive to per capita income growth and that social capital affected this growth indirectly by fostering innovation. Their estimates suggested that there was no direct role for social capital to foster per capita income growth in their sample of European Union countries. Based on the data of their sample, they also denoted that;

– The higher social capital stock is, the higher the willingness of investors to provide venture capital. In addition, social capital stock is a determinant of the translation of ideas into new knowledge,

– Investments are more productive in high social capital regions,

– Risk averseness of investors, highness of internal capital constraints in a competitive market, highness of monitoring costs, hindering of financing of research and development because of information asymmetries and moral hazard problems are the examples for different types of risks in innovation projects. Social capital may undertake a mission in lowering them by preventing egoistic behavior due to the enforcement of informal norms, displaying the reputation of the firm by all means

to the investors for the evaluation process of pre-financing and enabling less monitoring and information gathering costs thanks to the establishment of relations on trust (Akcomak and Weel, 2009: 544).

Batjargal (2005) states that social capital... is an important explanatory variable of entrepreneurial performance, because it enables entrepreneurs to recognize opportunities, access diverse information and resources in a timely manner, reduces transaction and monitoring cost, enhances learning and interpersonal trust, and promotes cooperation in and among others ... He analyzed the social capital of entrepreneurs and venture capitalists in two largest transition economies – China and Russia and found out that social networks of the Chinese entrepreneurs are smaller in size, denser in structure, and more homogeneous in composition compared to networks of the Russian entrepreneurs due to the institutional and cultural differences between the two countries. Furthermore, the study revealed that dyadic (two-person) ties are stronger and interpersonal trust is greater in China than in Russia (Batjargal, 2005:1).

Another remarkable research was conducted by Sørheim (2003), which is about the pre-investment behavior of experienced Norwegian business angels using insights from social capital theory. The study was based upon the data obtained from the five business angles. A presentation of the empirical findings with regard to the identification and evaluation of investment proposals and an interpretation of how the empirical findings are related to the conceptual background of the study were realized. Conclusions of Sørheim are outlined as below:

- To a large extent, the previous track record of business angels determines how they operate in the informal venture capital market. It is quite rational for individuals whose main experience stems from a specific region to make the overwhelming majority of their investments in this region. It is this regional track record that gives them a competitive advantage in the informal venture capital market.

- This reasoning seems to be valid with regard to individuals with industry specific experience, where a regional track record is supplanted by an industry specific record: they are oriented towards industry rather than geographic proximity.

- These industry specific investors take care of the initial screening themselves to a large extent, whereas regional investors are generalists who rely on information provided by their regional networks. The business angels of the study are very much concerned with creating common ground with entrepreneurs and potential co-investors.

- The structural dimension plays a key role when accessing and sharing relevant information within regional or industry networks.

- The relational dimension is to large extent related to the perceived trustworthiness of the investor, for in order to be considered trustworthy the investor must establish a positive reputation (track record) within an industry or regional context.

- With regard to the cognitive dimension, the creation of common ground is a necessary antecedent for developing trustworthy relationships with potential entrepreneurs as well as potential co-investors.

- The three dimensions are interrelated. This means that both the bridging and the bonding view of social capital must be integrated in order to better understand the pre-investment process among business angels (Sørheim, 2003).

As mentioned above, investor and entrepreneur behavior in certain types of markets from the perspective of their social capital level is one of the major areas of research in the literature. Within this context, researches on information asymmetries for different economic actors in various types of market are one of the most significant topics which grip the scholars' attention. For example, Filatotchev et al., (2006) studied the impact of founders' ownership, social capital and investors on initial public offer stock market performance. According to them, underpricing, which originates from information asymmetries, is one of the most critical managerial problems that entrepreneurs face up with at the initial public offer process. They stated that if the entrepreneur could send appropriate signals to key investors so that the investors understand the full potential value of the venture, they would communicate to investment bankers and others coordinating the listing of the stock that they were willing to pay a higher offer price for the stock. They also denoted while signaling theory and the ability of entrepreneur's actions to impact underpricing was theoretically rationale, the evidence that entrepreneurial managers could successfully send such signals was limited. Specifically they examined

the level of entrepreneurial ownership in the venture and the entrepreneur's potential social capital. From a perspective based on social capital, they assumed that the greater the level of;

- a founding entrepreneur's outside directorships,
- venture capitalists' retained ownership in the new venture,
- business angels retained ownership in the new venture,

lead to lower levels of underpricing of the venture's initial public offer. As the regression results related to their hypothesis alleging that "the greater level of a founding entrepreneur's outside directorships, the lower levels of underpricing of the venture's initial public offer" clearly indicate, cognitive and institutional aspects of founders' extra-organizational links may be another set of very potent signals that investors consider when evaluating the quality of an initial public offer. Other significant findings of the research are outlined below:

– Business angels' retained share ownership represents a more powerful signal of the venture's quality than venture capital investment.

– Business angel involvement mitigates ex ante information asymmetries between emergent external investors and the venture, and this has important implications for entrepreneurial ventures that plan to go public at later stages of their life-cycle.

– No evidence was found for the expectations which envisaged that the reputable investment banker hired to conduct the initial public offer impact the level of the underpricing and that high profile investment firms who underwrite the initial public offer may signal greater value.

– Founders' characteristics, such as retain share ownership and external board "interlocks" may have significant effects on investors' perception of the IPO's value (Filatotchev et al., 2006).

Moreover, different aspects of information asymmetry were studied from various perspectives in the literature. For example, Cormier et al. (2009) investigated the impact of precision attribute of social and human capital disclosure on information asymmetry between managers and investors. Their results from simultaneous equations indicate that quantitative verifiable (hard) disclosure is associated with less share price volatility and with a higher Tobin's Q for social capital disclosure as well as for human capital disclosure. However, indicative unverifiable (soft) disclosure is marginally associated with a reduction in share price volatility and an increase in Tobin's Q for human capital disclosure. As expected, firm size attenuates the impact of disclosure on information asymmetry. Furthermore, consistent with the nature of their disclosure, it does appear that firms take into account ultimate costs and benefits to shareholders when determining the extent of their disclosure. Variables that proxy for information costs are generally associated with quantitative disclosure. They also documented that efficient governance leads to more transparency in quantitative human capital disclosure while the extent of CEO option pay leads to less transparency in social capital disclosure, either soft or hard (Cormier et al., 2009: 72). Their assessment of the informational properties of different disclosure elements according to their precision attribute, that is, indicative, qualitative, or quantitative; substantiation of the differential effect of information precision in its effect on information were significant contributions to the literature.

At the end of this section, the first point to be emphasized is the classification Sørheim (2003). In his research, Sørheim underlined that conceptual framework on the topic may deal with three specific aspects of social capital: a structural, relational and a cognitive dimension. The structural dimension of social capital is strongly related to "network ties" and the fact that these ties may provide valuable information. The relational dimension of social capital is related to trustworthiness and motivation. Finally, the cognitive dimension concerns to what degree the individuals involved have a common understanding, a shared vision. (Sørheim, 2003: 339–340). Myint et al., (2005) also pointed out that it is further distinguished between three facets of social capital, being structural, relational and cognitive. Structural social capital describes the configuration of linkages between people and units, while relational capital describes the personal relationships that people have developed through a period of interaction. Key factors in this type of capital are trust and trustworthiness based on a history of successful exchanges (Myint et al., 2005: 166).

In the light of the classification above, let's take a step further and make new regimentation. When the aforementioned classifications above are conceived, it is possible to classify the structural social capital element, namely "networks" in the first, relational social capital component, namely trust in the second, and the cognitive social capital component, namely "norms" in the third category. Within the framework of literature review above and the answers given by the target group to the

questionnaire of the study, the “primary”, “secondary” and “tertiary” effects of these components on the types of investors are revealed in Table 3.

**Table 3.** Table of Priority Relations between Investor and Social Capital Types

	<b>Business Angles</b>	<b>Venture Capitalists</b>	<b>Corporates</b>
<b>Structural Social Capital</b>	Primary	Secondary	Secondary
<b>Relational Social Capital</b>	Secondary	Primary	Tertiary
<b>Cognitive Social Capital</b>	Tertiary	Tertiary	Primary

Within this context, when exceptions put a side, it is possible to state that networks and trust play a more important role at the initial stage of investments, while norms dominate the later phases of decision making processes. The effect of cognitive social capital may be particularly important for market development since contract enforcement is indispensable for it (Sakurai, 2006: 218).

### **3. Determining the Social Capital Level of Investors in The Development Process of Diyarbakir**

#### **3.1. Purpose of the Study**

Social capital, which consists of the features of social phenomena such as trust, social norms and networks, is among the basic dynamics of development process. It enables the common activity of actors in collaboration with each other in an effective manner for the purpose of ensuring common goals and public weal. In this study, the trust level of the investors in the province of Diyarbakir to the other counterparts, their partners, employees, relatives, local communities, public institutions and their potential to do work based on trust are discussed. It is also aimed to determine the capability of the investors to interoperate within civil society organizations, public institutions and to work in collaboration with other investors. The intention, leverage and tendency of investors to serve as a public benefactor rather than looking out for themselves is tried to be measured. The determination of shared values and the norms of reciprocity that facilitate the collaboration between investors are intended as well. After the determination of the investors' level of social capital in Diyarbakir based on trust, network and norms, the objective of the study is to evolve policy recommendations in order to contribute to the improvement of this level by enhancing social capital and direct these efforts to the path of to development.

#### **3.2. Method**

Before starting to introduce the method of the study, it is essential to touch on the “entrepreneur vs. investor” debates. What is the difference between investors and entrepreneurs? Both of them are known to be risk takers. Both of them also help our economy grows by making the business sector booms. They may overlap in some aspects, but the two are different from each other. The following are the differences and dissimilarities between an investor and an entrepreneur:

1. An entrepreneur focuses on a new business idea, while an investor may focus on existing business ideas.
2. The entrepreneur usually approaches an investor to finance the equity of his business, while an investor approaches an entrepreneur, whom is potentially profitable, to invest money and earn income from his or her investment.
3. An entrepreneur contributes idea and passion (but may also invest money), while an investor primarily invests money on the business.
4. An entrepreneur is passionate and dedicated to his idea and would stick to it despite suffering some losses or period of breakeven, while an investor is practical and reasonable to an idea and may leave it when losses occur.
5. An entrepreneur is usually optimistic to his business, while an investor is more pessimistic and more focused on the things that might go wrong in the business.
6. Entrepreneurs view more on the qualitative side of business, while investors view more on the quantitative or financial side of the business.

7. An entrepreneur, when starting a business, expect many things (both quantitative and qualitative), while an investor, when investing his or her money on a business, expects more on the ROI (return on investment).

8. Entrepreneurs don't necessarily focus on calculating the most approximate figure of return on a business, while investors usually calculate the return of business and arrive at an approximated or estimated figure.

9. Entrepreneurs could start entrepreneurship even without money, while money is a necessity for investors to start investing.

10. Although they can be both owners of a business, an entrepreneur manages the business and knows it more from its sales and operation to the feelings and behaviors of its employees and customers, while an investor may only know the business based on the financial and quantitative reports of the business.

Remember that although entrepreneurs and investors differ from each other, they need each other and they can be a great team to build a successful business. Furthermore, an entrepreneur can also be a financial investor of his or her own business; while an investor can also be more involved in the business he or she has invested (Abrugar, 2012).

To determine the level of social capital level of investors in Diyarbakir, a project was prepared for embodying in the social capital components and testing the hypothesis produced. Within this context, a target group was specified in cooperation with Diyarbakir Chamber of Commerce and Industry and the 500 companies that have the largest financial turnover were selected from the data base of the Chamber, which contains more than 2.000 corporations. Afterwards, 66 of them, who did not have a financial contribution to the enterprise's capital, did not invest money or whose "entrepreneurship" characteristics outweigh to "investor" aspects, were excluded from the scope of the project. The members of the excluded group were not shareholders, did not personally invested in terms of physical/financial capital or mainly participated the production process only by intellectually or their labor force. To be more precise, 434 members of the target group were found to be adequate in terms of sufficient equity capital.

After the determination of target group, the detailed questionnaire prepared for the purpose of exposing the investors' social capital level comprehensively and was applied to them. To sum up, the first part of the questionnaire includes 16 classic survey questions arranged for the purpose of revealing the demographic structures of the investors in Diyarbakir. In the second part of the questionnaire, 49 propositions exist within a 5-point Likert scale in order to measure the various perceptions and attitudes of the investors related with social capital components – namely networks, trust and norms. The propositions were answered in the range of "1 (I totally disagree)" to "5 (I totally agree)". The data obtained within the scope of the research was evaluated by the 15.0 statistical package program, analysis were made by using appropriate tests, and the results were supported by tables and graphs. Additionally, Multiple Regression Analysis was applied to the survey data. The relation between the dependent variable social capital and the independent variables networks, norms and trust, and the degrees of these relationships were tried to be determined by the Regression Analysis. The effectiveness and validity of the linear multiple regression equation obtained was tested by using a variety of methods, thus it was aimed to obtain the best equation explaining social capital.

## **4. Findings**

### **4.1. Findings Related to the Demographic Characteristics and Social Capital Perceptions of Survey's Participants**

#### **4.1.1. Classic Questions**

The classification of the answers indicating the marital status of the investors in Diyarbakir shows that 79 % of them are married, 20 % unmarried, and 1 % widowed or divorced. Since the high rate of marriage develops greater awareness of familial and social issues in general, this point can be evaluated as an element that contributes positively to social capital.

The classification of the answers of the participants asked for finding out their education level indicates that 74 % of the investors in Diyarbakir are not graduated from a university. More specifically, 2% of them are literate, 35 % are graduated from primary schools, 35% are graduated from general high schools, and 2% are graduated from vocational high schools. And the percentile of 26 %, which shows the ratio of investors graduated from a university, consists of a 7 % percentage of

associate degree graduates. An impressive finding of the survey is only 3 of the target group have post graduate degrees. The aforementioned results point out that the relatively low level of investors' educational status is in line with the general low level of Southeastern Anatolia.

A critical indicator determined by the survey denotes the ownership profile of the companies in the target group, which exposes that 53 % of the companies, has got only one owner. And 47 % of them have at least two partners. If the ability to work and decide together by mutual consultation in the operation process of the firm is accepted as an indicator of higher levels of social capital, it can be said that the social capital level of the Diyarbakir investors is negatively affected within this respect.

Another significant outcome of the survey points out that only 15 % percentage of the company owners in Diyarbakir have investments in other cities and 85 % of the companies have investments only in Diyarbakir. This ratio indicates that the level of bridging social capital of investors in Diyarbakir is low.

Among the reasons of local investors who divert their investments elsewhere out of Diyarbakir instead, proximity to market constitutes 27 % and together with other factors including private and familial causes which reach up to 27 %, a total of 54 % is attained. The other reasons on the issue with lower rates are being hometown – 13 %, proximity to raw materials – 11%, appropriate land and infrastructure opportunities for industry – 9 % and existence of qualified staff – 6 %. When all of these reasons are taken into account, it is possible to allege that the investors of Diyarbakir invest out of the city rather for practical and pragmatic reasons and the information obtained through their own network connections has got a deterministic effect in the realization process of their exterior investments. The vast majority of the target group who do not have investments out of Diyarbakir attribute this choice just by the preference of the city's being their hometown. The percentage of investors who declare this reason reaches up to 92 %. The studies in the literature about the similar issues postulate that the social capital levels of introverted groups are low. Parallel to this inclination, the great predominance of the above mentioned investors plan to assess their future investments also in Diyarbakir. The 83 % of target group have positive views, 10 % have negative views contrarily and the rest are dubious in utilizing their future investments in Diyarbakir. The high rate of willingness to reinvest in Diyarbakir can be interpreted as a high social capital level among the current investors.

Another principle indicator of social capital level is membership of Civil Society Organizations (CSOs). Although almost all members of the target group are members of at least one CSO, memberships just remain on paper. The majority of investors in the target group, which reaches up to 88%, has neither worked for in cooperation with any CSOs, nor taken part in or directly supported the projects carried out by CSOs so far. This can be accepted as a sign of low social capital level of the investors. Additionally, only 29% of the participants of the survey declared that they are systematically in touch with businessmen/businesswomen associations. The most considerable leverages gained by remaining in communication with the aforementioned associations are expressed as receiving counseling services (10 %), extension to new markets (3 %) and other benefits such as exchange of ideas and socializing (8 %). This data is in line with the conclusion which reveals that the investors in Diyarbakir generally do not work in concordance with or carry out joint projects with CSOs.

And finally, 41 % of the target group members stated that if they had opportunity, they would prefer to spend their money in mosque construction projects, 29 % in building schools, 9 % in opening culture and art centers, 2 % in bringing sports centers into service and the rest 19 % doing others types of charity works such as giving out alms, zakat or constructing meal centers etc. This propensity reveals that addictions of making gratuitous investments for social welfare are substantially influenced by customs and traditions and religious/moral sensitivities are the strongest predictive factor in making preferences among the above mentioned choices of charity works.

#### **4.1.2. Likert Scale Questions**

Likert scale questions enable significant clues for comprehending and evaluating the current social capital level of investors in Diyarbakir. The results derived by aggregation and classification of the questions of the survey are outlined below:

A majority reaching up to 76 % of the participants express that they will share innovations, which lower costs and increase efficiency, with the other companies operating in the sector with them. In addition, 89 % of investors in Diyarbakir take into consideration of the ideas of the partners in the

decision process about their business. These can be accepted as an indicator of relatively high level of social capital in terms of reciprocity and norms secondarily.

One of the most important components of social capital is norms. 59 % of the target group takes into consideration of their paterfamilias', predecessors' or notable relatives' ideas/ recommendations, which can be interpreted as a sign of high level social capital in terms of norms. Also % 82 of the investors in the target group participates in the opening ceremony of a new company or at least send wreath or flowers when they miss out. A majority of 71 % of them even state that if they receive a news of death during a business meeting, they will break up the meeting and deal with the funeral and relevant procedures. Together with the general sensitivities of Southeastern Anatolia region such as joining wedding ceremonies, circumcision feasts or expressing their condolences personally to the relatives of the deceased acquaintances at the places dedicated and designed for this purpose, this inclination can be considered as an evidence of strong social capital components in terms of norms & values and partially networks.

Moreover, nearly 90 % of the investors in the target group envisage that the investment they will make in Diyarbakir will strengthen their reputations and level of knowledge, and skills and experience level is more important than close relationship in the selection process of personnel for their business. A majority of 82 % express that they will do their best to help a company experiencing awkward situation or shortages for the future of the sector. Similarly, % 81 of the investors declare that they will do their best not to dismiss their personnel if they experience decreases in the profit of their companies. Also 43 % of the investors state that they will dismiss their relatives or acquaintances lastly in unavoidable cases.

Probably the most astonishing result of the survey manifests that language, religion, race, country and gender differences are not important in business life for the 92 % of the participant investors in Diyarbakir. This is a very critical indicator of social indifference. All of these indicators point out to a relative high level of social capital in terms of norms and values. The above mentioned inclinations also reinforce and strengthen social capital, deepen universal and professional business rules in Diyarbakir.

Another component of social capital is networks. 54.5 % of the investors in target group declare that the basic information source for them in their decision-making process of investment is the experiences of other investors. This propensity can be accepted as a sign of high-level interior/exterior network communication and mutual trust environment.

Besides, the answers given to the questions in the survey propound that 70 % of the investors prefer to be in a permanent and continuous cooperation with the Chamber of Commerce and Industry, other public or para-governmental agencies and associations in Diyarbakir in their decision making process of investments. Additionally, percentage of the usage of social networking sites such as facebook, twitter, youtube, google+, netlog.com, myspace, hi5, badoo, linkedin etc. among the members of target group in their business reaches up to 68 %. Also 82 % of the investors in the target group believe that participation in trade fairs will provide new opportunities in their business and 77 % of investors prefer to participate in trade fairs together with the other companies in their sector. 65 % of investors in Diyarbakir think that amalgamation of companies is useful for developing their businesses, increasing their market share and profitability. 68 % of the participants of survey state that they will not be annoyed if their partner continues to operate in the same sector in a different place in the case of disruption of partnership. % 91 of the investors who are members of the target group of the survey believe that dealing with the problems of all of their employees out of working hours, independently of their positions, has got a crucial importance in business life. Also 76 % of the investors in Diyarbakir wish to deal with the activities of a CSO when he/she is not appointed a task such as presidency or directorate in that CSO shows that the social capital level is high in terms of networks.

Furthermore, 72 % of the participants allege that they have got ability to receive price reduction by reduction by using their social relationships in procurement process of goods and services for their business. When the above mentioned signs are taken into consideration totally, these can be acknowledged as powerful social capital components especially in terms of network connections.

The last component of social capital which has to be mentioned within the context of the study of social capital is trust. Among the contributors of social capital literature, the predominant opinion states that trust is the most distinguished component of the concept. The survey results show that

approximately the two third of the investors in Diyarbakir trust their employees exactly in fulfilling their duties by themselves without the need for a supervisor's control. 61 % of the investors in the target group state that, they don't have more problems in their business when they work with people with whom they don't have first degree or collateral consanguinity. This inclination is contrary to the general prejudice which alleges that employers will experience more problems when working together with personnel who they don't have consanguinity relationships in comparison to working with acquaintances.

Furthermore, 81 % of the members of the target group give priority to the candidates who have participated in various certificate programs in recruitment processes. This is a significant sign of trust to the institutions that issue certificates and also propounds that competence is more important than acquaintance relationships, which can secondarily be accepted as a norm in terms of professionalism in business life.

Additionally, the percentage of investors in the target group who prefer to lose property or money rather than the trust of people reach up to % 57. Also 75 % of the participants of the survey declare that their willingness to pay their taxes exactly and on time increase when they witness the funds generated by their payments are used in proper expenses and the quality of public services are enhanced.

Up to this point, the advantageous characteristics of investors which strengthen and stimulate their social capital level are outlined. As well as strong aspects which enhance their social capital level, investors in Diyarbakir also have got foibles that negatively influence the social capital components. For example, 77% of the members of the target group believe that titles such as president, director etc. will rise up their reputation in business spheres facilitate their profession. But this finding is incoherent with the foresight which states that personal qualities and competence should be more important than titles and giving importance and priority to titles lowers the social capital level.

Additionally, the 83 % of the participants of the survey prefer to carry on business with the firms in Diyarbakir in their operations and transactions. This can be accepted as an indicator of introversion.

57% of the investors in Diyarbakir who participate the survey think that the relevant institutions and organizations dealing with permits and licenses for investment do not act objectively. Besides, 65 % of them also believe that there are redundant bureaucratic and red tape applications in those institutions, which constitute the major sources for corruption. These can be accepted as signs of distrust to the aforementioned institutions.

Finally, it must be emphasized that relending to any mutuary without withdrawing the sum of the debt is an indicator of a high level of social capital in terms of trust. But contrary to this inclination, 83 % of the investors in Diyarbakir are reluctant to lend again before the fund they loaned is repaid.

#### **4.2. Multiple Linear Regression Analysis**

A simple linear regression is carried out to estimate the relationship between a dependent variable, Y, and a single explanatory variable, x, given a set of data that includes observations for both of these variables for a particular population. ... In multiple linear regression, there are p explanatory variables, and the relationship between the dependent variable and the explanatory variables is represented by the following equation:

$$y_i = \beta_0 + \beta_1 x_{1i} + \beta_2 x_{2i} + \dots + \beta_p x_{pi} + e_i$$

where:

$\beta_0$  is the constant term and

$\beta_1$  to  $\beta_p$  are the coefficients relating the p explanatory variables to the variables of interest (Tranmer and Elliot, 2008: 3, 7).

In our study, the mean of 49 questions, which are addressed to the participants of the survey via a form designed within the format of a Likert scale for the purpose of determining the social capital level of investors in Diyarbakir, constitutes the dependent variable, namely "social capital". In addition, the means of the questions related with networks, trust and norms constituted the independent variables. While obtaining the means, 20 % weight was given to "1- I totally disagree," 40 % weight to "2- I agree a little," 60 % weight to "3- I agree," 80 % weight to "4- I agree a lot,"



and 100 % weight to “5– I totally agree”. MiniTab 14.12 computer program was used during the regression analysis. Our purpose was to test the hypothesis “The social capital level of investors in Diyarbakir are determined by trust, networks and norms components respectively”. The results of the calculations for this purpose, namely means, average standard derivations, standard derivations of variables and variance analysis are denoted in table format are given in Table 4 and 5 as follows.

$y$  =Social Capital,  $X_1$  =Networks,  $X_2$  =Trust,  $X_3$  =Norms.

**Table 4.** Basic Statistics

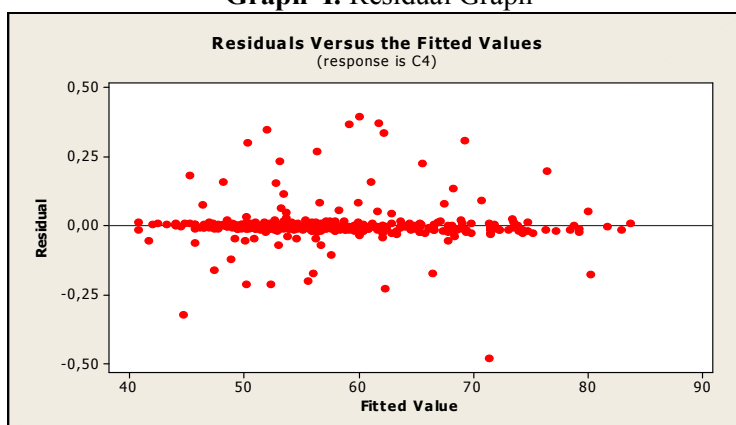
Variable	Mean	Average Standard Deviation	Standard Deviation
$X_1$	58,037	0,476	9,923
$X_2$	50,785	0,445	9,279
$X_3$	61,021	0,492	10,251
$y$	57,162	0,397	8,277

**Table 5.** Variance Analysis

Source	s.d	KT	KO	F	p
<b>Regression</b>	3	29658,7	9886,2	2131789,86	0,000
<b>Error</b>	430	2,0	0,0		
<b>Total</b>	433	29660,7			

In addition, graphical illustration of residuals versus the fitted values is also given below in Graph-I:

**Graph-I.** Residual Graph



The  $p$ -value (0,000) in the table of variance analysis indicates that that the model estimated by regression method is at a significance level of  $\alpha = 0,05$ . This shows that at least one  $\beta$  coefficient is different from zero. When the basic statistics obtained for data are contemplated, it can be said that although Universal F is big enough, there are no effective or contrary values since the Cook distances related to residuals are smaller than 1. And examination of the observation distances (Leverage) point out that there could be a few extreme values, but the analysis on their effects in the residual graphs show that they are not worth to take into consideration. The spread of residuals around a line testifies that problems of nonlinearity and changing variances do not exist.

The calculations about the relations between the variables are given in Table 6.

**Table 6.** Table of Relations

	$X_1$	$X_2$	$X_3$
$X_2$	0,468		
$X_3$	0,525	0,577	
$y$	0,747	0,801	0,908

When the variables are examined in twos, it is seen that the correlation coefficients are small and therefore variance inflation factors (VIF) should be researched for the analysis of multi-connection.

$$VIF_1 = 0,0034, VIF_2 = 0,0037, VIF_3 = 0,004$$

Our VIF values are quite small. it is not possible to talk about multi-connection effect when  $VIF < 10$ . Additionally, since  $d = 1,80188 > d_u = 1,80$  is for autocorrelation, it is not possible to mention about the existence of auto correlation with  $\alpha = 0.05$ .

On the other hand, regression equation is formulated and estimation table is generated as below in table 7:

$$y = - 0,0248 + 0,246X_1 + 0,305X_2 + 0,449X_3$$

**Table 7.** Estimation Table

	Estimation	Standard Error	<i>t</i>	<i>p</i>
Constant	-0,02478	0,02311	-1,07	0,284
$X_1$	0,246089	0,000399	616,92	0,000
$X_2$	0,305418	0,000444	687,15	0,000
$X_3$	0,448925	0,000418	1074,51	0,000
$\hat{\sigma} = 0,0680994, R^2 = \% 100, Adj\_R^2 = \% 100$				

The *p*\_values of 0,000 in the estimation coefficients point out that the dependent variable and the independent variables significantly related. Moreover, the 0,284 value in the constant coefficient denotes that the relation between the dependent variable and constant is not very important in the significance level of  $\alpha = 0,05$ . A regression equation without constant may be preferred when necessary.

$R^2$  value explains that the independent variables may account for the dependent variables with a value close to 100%; and  $Adj\_R^2$  value explains the reason of the number of estimators in the model with a value close to 100%. Both of these values confirm that the model fits the data very well.

## 5. Conclusion and Remarks

The experiences in almost every part of the world point out that the capability of investors to be more successful economically does not solely depend on their economic performances. As a result of this consensus, researches on the other factors which are envisaged to have direct or indirect effect on economic development gained acceleration for testing and revealing nature of the relationships between them. Social capital concept is one of the most significant outcomes which were gradually introduced to economic literature as the results of these researches carried out within the perspective of discovering the other factors affecting economic development.

Within this context, the analysis of the data obtained as a result of the survey, the mean of the answers given to Likert-scale questions was taken and it has been determined that the average social capital level is 57 % for the investors in Diyarbakir, which nearly corresponds to "I agree" choice.

The most significant outcome which was derived from the regression analysis indicated that the social capital level of the investors in Diyarbakir depends on networks at a rate of 25 %, on trust at a rate of 30 % and on norms at a rate of 45 %. When the literature studies are analyzed, it is comprehended that the social capital is identified with trust, and even used interchangeably. However, in our study, it was found that this inclination was not valid for the investors in Diyarbakir, and the factor affecting social capital most were the norms. In the model, it is seen that an increase of 1 unit;

- in the networks variable causes an increase of 0.246089,
- in the trust variable causes an increase of 0.305418,
- in the norms variable causes an increase of 0.448925,

units on social capital. In addition, various tests have been applied to measure the validity and performance of our regression equation, and as a result, it has been revealed that the variables consisting of networks, trust and norms explain social capital at a very good level of competence.

At this point, it must be admitted that the target group of the research does not fit the main types of investors mentioned in the literature review section, namely business angles and venture capitalists. Corporates of national and international scale mainly have got relatively non-productive investments

in sectors such as retail trade. Additionally, 53 % of the participants do not have partners, while the 64,2 % of the remaining 47 % have 2 and 25,5 % of the remaining 47 % have 3 partners. Furthermore; 71,1 % of the partners have got consanguinity with each other. Therefore, the investor characteristic of the target group rather fits the fourth group of Avdeitchikova and colleagues' classification given in Table-I; namely non-institutional venture capital investors, including family and friends.

As underlined before, according to the majority of researchers, the most crucial factors of social capital are components of networks and trust. With the increase in the components of networks and trust, cooperation, honesty and information sharing levels increase, and the social complexity decreases by provision of coherence in business life. But in our study, it is found out that there are significant distresses and deviations from the normal level of relations both between public and private sectors and even within the private sector. Undoubtedly, the one of the main reason for this status is the lack of mutual trust. On the other hand, mutual trust should be established in the relations both between public-private sectors and within private sector. Therefore, prerequisite for establishing relationships based on trust is the elimination of mutual prejudices.

From this perspective, it can be said that particularly the itinerary for elimination of prejudices and establishment of trust relations is strictly related with strengthening the network relationships. The increase in the homogeneity of networks led them to be a mechanism of social support when individuals are faced up with difficult or ambiguous situations. As a result of this inclination, they usually prefer to ask help from people who have similar features with them. These circumstances lead people to move around in the borders of the same network, and as a result of this manner, the benefits which can be obtained from the people outside this network cannot be achieved unless the network becomes more homogeneous. A more open structure integrated with the region and the country should be established for the investors to increase their social capital levels. The way to achieve this goal is to organize more events related with business and trade such as fairs, congresses, symposiums, meetings and so on, make more foreign investors participate in these events, and increase the level of participation of the investors in international organizations. In addition, the facilities to benefit from public, semi-autonomous and private network institutions must also be made at the investors' disposition at minimal cost. The promotion of voluntary participation in networks, increasing the level of the usage of mass media instruments, especially the internet, and training the investors in this field are of policy recommendations which can be implemented.

Participation in civil society organizations, which is a crucial requirement of effective democracy, and involvement in management procedures should be supported by any means. But there is a lot to do in this field; because even in certain cases in which membership to CSOs are made obligatory by laws, there are still many examples of memberships that remain just on paper. The willingness of the investors, who have not done a joint work with CSOs yet, should be well appreciated, and their intentions to carry out joint projects should be implemented in concrete applications of daily life. However, sometimes CSOs are unable to adequately fulfill their duties. This situation is an obstacle for the development of the level of social capital. In order to remove this obstacle, the establishment and sustaining procedures of CSOs such as charity foundations and chambers or unions of regional scale should be facilitated. By the means of this course of action, the social capital level of society would increase by participation in voluntary entities and civil society organizations. The ability for the emergence of a positive synergy among these actors depends on mutual complementariness and closely interlocking and being articulated with each other. And in order to put this positive synergy into practice and enable it to generate positive results, the public institutions should play a pioneer role and mission in comparison with the other actors.

Quoting to Portes and Landolt (1996), Westlund and Bolton pointed out that common norm create conformity, which implies restrictions on both individual freedom and business initiative (Westlund and Bolton, 2003: 78). Therefore, information and experience sharing and training should be accentuated to harmonize the modern and universal norms of business life with the idiocratical norms of countries, regions, and among the efforts in this field, a special sensitivity and attention should be paid for the norms of business and commercial life.

Consequently, it must be emphasized that the efforts to strengthen social capital in Diyarbakir should focus on norms, since norms are the predominant component on the social capital level of the city according to the results of the survey. So, maintaining the domination of the norms of modern business life and introducing the sui generis characteristics, sensitivities, norms and values of

Diyarbakir and Southeastern Anatolia Region to the other parts of the country and the world should be the key factor in policy determination process. A road map should be prepared by the participants of public and private sector representatives. Investors who have got to be a business angle or venture capitalist potential due to their business background in Diyarbakir, but had to leave the city due to various reasons such as security, may play a key role in the development process of the city, since they know the norms and characteristics of the region. Establishment of an environment of trust and strengthening network relationships should also not be neglected. With the close cooperation environment of public and private sectors which have indicated a significant increase in the last decade, Diyarbakir may again be the most strong development pole of the entire region.

It can be expected that the achievements in the efforts to realize the above mentioned aspects will both reverse the flight of capital from the city and enable a significant flow of capital out of Diyarbakir, region and the country. Therefore, social capital's enhancement can be accepted a non-ignorable factor for the success of the aforementioned hybridization and cohesion/integration of capital via company marriages, which are envisaged to be the sine qua non provision targeting the economic development of the city.

## **6. Policy Recommendations**

Further specific policy recommendations on the topic are outlined below:

- Organizing briefings, seminars and conferences for informing and shifting the attention of business spheres on social capital and the importance and benefits of the concept,
- Contacting face to face with the managers of the SCOs of business spheres and establishing a continuous, methodic and systematic relation with them for the purpose of achieving their contribution on the issue,
- Developing relationships between investors and SCOs and enabling an adequate environment for active participation of investors to SCO activities, carrying out joint projects and promotion of memberships to SCOs,
- Enabling the participation of investors in Diyarbakir to national or international congresses and fairs and provide them the opportunities of taking part in new social networks and developing their abilities to generate and use new information channels,
- Paving the way for investors and entrepreneurs to join the current common share-based platforms such as Karacadağ Development Agency Development Board, City Council and Tourism Platform etc. actively,
- Establishing alternative platforms for public officials and investors to directly communicate with each other and arrange periodic meetings between each other for the purpose of breaking down the prejudice of investors stating that public institutions do not treat applicants objectively in official transactions,
- Contacting with businessmen who had a business background in the city, but had to leave the city due to various reasons and encouraging them to reinvest by eliminating the factors which led them to migrate,
- Investors and representatives of financial institutions should be brought together under the same roof. Within this context, institutions like Small and Medium Enterprises Development Organization (KOSGEB) and Karacadağ Development Agency that provide financial support should also promote projects targeting to stimulate business opportunities and increase the participation of trade fairs out of Diyarbakir,
- Opportunities to examine on site on the successful sample cases of consolidation and merger of corporations should be provided to investors of Diyarbakir by public institutions and CSOs.

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