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## The Effect of Institutionalization on Firm Performance

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### ABSTRACT

It is a necessity for enterprises to survive in an increasingly competitive and globalized environment, to develop, to be able to sustain their assets and to be able to be transferred to the next generation, to achieve an institutionalized level of business. It is clear that the way of achievement for businesses is the institutionalization. In this quantitative research, the impact of institutionalization on business performance was analyzed in Small and Medium Sized Enterprises (SMEs). The hypothesis was tested using Explanatory Factor Analysis and linear regression techniques based on available data from 295 randomly selected employees working in manufacturing enterprises. As a result of the research, it was stated that the flexibility component of institutionalization structure had an essential effect on both financial and non-financial business performances. It was also concluded that the components of professionalism, simplicity, transparency and consistency are only essential effects in terms of non-financial business performances.

*Keywords:* Institutionalization, Small and Medium-Sized Enterprises, Business Performance

### Introduction

Small and Medium-sized Enterprises (SMEs) have undertaken the task of being the cornerstones of socio-economic development around the world (Sabuncuoğlu & Tokol, 2013). They have an important place in the development of the economy and in job creation (Küçük, 2005; Özbek, 2008). According to Turkey's Statistics Institute data (TUIK, 2014), SMEs constituted 99.8% of total venture in 2012, 75.8% of employment and 59.2% of exports.

SMEs that are highly important for national economies should be supported and developed so that they can have a high operating performance (Eminoğlu, 2011; Koçyiğit, 2010). In an intensive

competitive environment, institutionalization has an important place in the ability of businesses to survive, keep up with change, competition, growth of market share and a positive business image.

The assurance of having high performance in SMEs is to become an institutionalized business. However, SMEs do not give enough attention to R&D activities (Diken, 2007). Administratively, they go through bureaucratic obstacles and have marketing problems (Diken, 2007; Ekinçi, 2003). They are technologically inferior and have problems in finding qualified managers and work force, which are qualities of a successful business (Oktav & Önce, 1990). They also have deficiencies in professionalism and in accessing and using information (Ekinçi, 2003; Oktav & Önce, 1990).

It can be said that lack of institutionalization is one the core deficiencies that SMEs have. It has been observed that there is a limited number of studies in literature on determining the relationship between institutionalization and business performance in SMEs. Therefore, the aim of this study is to answer the research question "Does institutionalization influence business performance of SMEs?" and to determine the effects of institutionalization on business performance in SMEs.

## **Conceptual Framework**

### **Small and Medium-sized Enterprises**

There are many definitions made on small and medium sized enterprises in the literature but there is no common definition (Akgemci & Çelik, 2010; Kahraman, 2012; Zengin, 2010). The definition of SME made in Turkey by "The Regulation on Definition, Qualifications and Classification of Small and Medium Sized Enterprises" published on the Official Gazette dated November 18, 2005, numbered 25997, and enacted on May 18, 2016. According to this regulation which is occasionally amended, an SME is a business with less than 250 employees and with annual net sales proceeds or financial balances not exceeding 40 million Turkish Liras (TL) for the year 2017. Businesses with more than 25% of their capital or voting rights under the control of a public institution or entity are not considered to be SMEs even if they are within these limits (Kosgeb, 2011).

In the 2012 amendments of the regulation, classified SMEs as micro enterprises, small enterprises and medium-sized enterprises (Resmi Gazete, 2012). Micro-enterprises are those with less than 10 employees and have an annual balance of less than TL 1 million. Small businesses are those with less than 50 employees and an annual balance of less than TL 8 million. Medium-sized enterprises are those with less than 250 employees and with an annual balance of less than TL 40 million (Demirsel, 2006; Gürbüz & İnce, 2016).

SMEs provide significant advantages to entrepreneurs in terms of competition. SMEs are more courageous and enthusiastic about coming up with new ideas and introducing new products to the market (Kınaytürk, 2006). Such businesses exceptionally identify the local market they are in, they identify the market characteristics and requirements and are more closely related to the buyer-sellers in the market compared to large businesses (Çatal, 2007; Çelik & Akgemci, 2010; Türk, 2007).

SMEs are more flexible in terms of production, marketing and servicing compared to large businesses (Kınaytürk, 2006). This flexibility of SMEs enables them to keep up with changes that may occur in the external environment. Thus, they are able to survive many negative circumstances they encounter in the outside environment with less harm (Çatal, 2007; Kahraman, 2012).

SMEs are usually established as family businesses, management is mostly gathered under one person. They are often established and tried to be sustained by entrepreneurs investing with their own equity (Gümüştekin, 2005; Koçyiğit, 2010; Tutar, 2009). SMEs generally have low operating capital and insufficient equity capital (Diken, 2007). Organization, production, technology, marketing, distribution, inability to find qualified personnel, lack of specialization, management and managerial inadequacies are the main problems faced by SMEs (Aksoy & Tikici, 2009; Emecen & Çiçek, 2016; Oktav & Önce, 1990; Yüksel, 2014).

The desire of owners and partners in SMEs to keep management under control, having a negative attitude towards change, decisions made that are not based on economic and scientific data and the inadequacies of managers within the enterprise in terms of education cause SMEs to face emphatic problems (Ekinci, 2003; Yüksel, 2014). In addition, disharmony between business partners and elderly members given the ear in family businesses leads to extensive problems in business management. Decision-making is difficult for businesses managed in this way and the likelihood of making wrong decisions increases (Yüksel, 2014). Business owners who do not have enough knowledge and experience on technical and production processes, and they do not make any effort to overcome their shortcomings.

Since SME owners are the primary managers, they generally do not want to have a secondary manager, and they avoid delegating authority to their employees. Such situations cause the enterprise to lose its flexibility and vitality (Dane, 2010). The main disadvantages of SMEs is their lack of management and managerial problems, lack of qualified staff, lack of an expert team or consultants, organizational problems and the lack of administrative, technical, consultancy and guidance services (Çatal, 2007; Kahraman, 2012).

It is seen that SMEs have difficulties in fulfilling the marketing function. On the basis of this, is that business owners try to care for customers directly. When new competitors enter the market as well, market share of the enterprise decreases over time and the enterprise is condemned to downsize (Oktav & Önce, 1990; Yüksel, 2014).

SMEs also have difficulties in hiring qualified personnel (Diken, 2007). Since SMEs also operate in different fields they need versatile qualified personnel, in order for the enterprise to prepare aqua rate orders and on time (Müftüoğlu & Durukan, 2004). Recruitment of qualified personnel to the enterprise may necessitate to incur excessive wages and high up-front costs. SMEs have difficulty in hiring qualified personnel since they avoid high costs (Diken, 2007; Kahraman, 2012).

In SMEs, the owner and the manager are generally the same person. For this reason, the authorities are gathered under one person and decisions are made by him or her (Ekinci, 2003; Küçük, 2005). In such an organizational structure, employees avoid taking responsibilities and risks since they do not have any authority. They are also prevented from interfering in case of an incident. As a result, many tasks are hindered while sufficient and desired levels of efficiency cannot be achieved (Ekinci, 2003).

When all of the above listed problems faced by SMEs are evaluated from a broad perspective, it is understood that institutionalization is generally the root of all this problems (Kahraman, 2012).

## **Institutionalization**

Institutionalization is a dynamic process created by enterprises trying to adapt to change, as a result of sensitivity of enterprises towards environmental change (Özgen & Şanal, 2013). Institutionalization is how enterprises create their own methods of doing business by setting certain rules, standards and procedures within, without being dependent on individuals (Karpuzoğlu, 2001). Institutionalization is the identification of relations between the systems in the business, distribution of tasks and the role of employees (Bulut & Temel, 2008).

A certain workload and bureaucracy that naturally occurs in businesses requires the enterprise to institutionalize in order to sustain its own structure (Yıldız, 2010). Institutionalization in large enterprises is necessary to preserve size, but if bureaucracy and workload in small enterprises begin occupying more time and effort than the tasks themselves, the practicality and flexibility of enterprises may be reduced and the enterprise may become clumsy and bulky (Develioğlu, 2009). The aim of institutionalization is to maintain the continuity of the business as a result of a planned management system to be established which ticks like a clock even if the managers change (Develioğlu, 2009; Karpuzoğlu, 2001).

Scientific studies on institutionalization started with the works of Merton in 1949 on establishing functional structures (Sözbilen, 2012). Merton (1940) conducted his research on experimental tests and functional logic for organizations and gathered his ideas under "Function Theory". The functional approach emphasizes that organizations have two common characteristics (Sözbilen, 2012). Firstly, it pointed out that there are different elements in the structure of the organization, and secondly that there should be a balance between the non-functional outcomes of the structural arrangements. The realization of these two characteristics is based on the assumption that all structural elements of the system should be integrated in relation to their parts and there should be structures useful for social system functions (Akkuzu, 2015).

Institutionalization theory facilitates the legalization of organizational structure (Dereköy, 2015). The genesis of institutionalization theory is based on the "Institutional Organizations Model" developed by Philip Selznick (1996), a professor of law and sociology. According to the model, the goal is not the tools that organizations have but its survival (Sözbilen, 2012). Organizations that win the struggle of survival are institutional organizations. Institutional organizations are organizations that can develop their own specific qualities in order to create competitive advantage and are able to invest in their capabilities and capacities and that can adapt their formal structure, internal processes and strategies to new situations and conditions as a result of interaction with other organizations (Kurt, 2009). Selznick (1996) defined institutionalization as the process by which organizations assume a different identity and becomes a sensitive and flexible organism as a result of social needs and pressures (Atila & Küskü, 2016).

Zucker (1987) defines institutionalization as socially, the process of transmission of reality by individual actors and more or less acceptance of social reality at any point in the process (Dinçer and Yıldız, 2016). Zucker also defines institutionalization as reaching a consensus on what is right and wrong, and developing meaningful behaviours. Thus, businesses become legitimate and harmonious with the environment by giving direction to their actions (Sözbilen, 2012).

Meyer and Rowan (1977) argued that traditional theories, monolithic rational evaluations such as the definition, control and coordination of organizational activities, have a significant impact on organizational success (Sarica, 2015). He also pointed out that formal organizational structures emerged as a reflection of rational institutional rules and that the resulting institutional rules are highly complex and that the complexities depend on the increasingly complex structures of organizations, the generalizability of social accounts and modern state structures (Sözbilen, 2012).

DiMaggio and Powel (1983) stated that in organizational theory, organizations are seen as social entities, and therefore they aim to survive by conforming to the expectations of the organizational environment. Organizations interacting with each other are increasingly trying to resemble each other (uniformity), but they can change their goals due to changing conditions in order to improve their performances, their productivity and keep up with innovations (Sözbilen, 2012). Organizations are driven to uniformity by two fundamental reasons: to gain legitimacy, and then to keep their existence safe (Arslan & Saylı, 2006; Kurt & Görmüş, 2010). On the other hand, there are three mechanisms that lead organizations towards uniformity. The first of these mechanisms is coercive uniformity resulting from political influences, laws and legal rules and legitimacy problems. The second one is imitator uniformity, arising from similar reactions to uncertainty and lastly, is regulatory pressures arising from the desire for professionalism (Dinçer & Yıldız, 2016; Görmüş & Kurt, 2010; Sözbilen, 2012).

According to Alford and Friedland (1985), institutionalization approach focuses on the difference in belief systems. He points out that there is no consensus on which beliefs are true for which behavior in belief system, just as there cannot be harmony among different organizations. In such a case, groups and people can impose different meanings on social concepts in order to protect their own interests. When this is taken into account in terms of a business considering its own interests, it emerges as changing and shaping the organizational environment in line with its capabilities (Sarica, 2015; Sözbilen, 2012).

### **Dimensions of Institutionalization**

The dimensions within the concept of institutionalization have been investigated by researchers in different ways. The Organization for Economic Co-operation and Development stated that an institutional management can be developed within the framework of fairness-equality, transparency, accountability and responsibility (Gül, 2012). Apaydın (2008) and Yıldız (2010) defined the concept of institutionalization in terms of formalization, professionalism, transparency and consistency. Acar (2014) and Karpuzoğlu (2001) evaluated the concept of institutionalization in four main dimensions; simplicity, differentiation, flexibility and autonomy.

By virtue of the simplicity aspect of institutionalization, businesses can achieve a higher returns at a much lower cost by avoiding unnecessary costs (Acar, 2014). But one of the biggest problems of businesses is having excess bureaucracy and a complex organizational system. Nowadays, business decisions need to be taken much more quickly. In order to make quick and correct decisions, bureaucracy within the enterprise needs to be minimized. Therefore, businesses should aim for a simple structure when they are established (Acar, 2014). Having a simple organizational

structure in an enterprise shortens the completion time of tasks and increases operational efficiency (Karpuzoğlu, 2001).

Today's businesses are constantly interacting with their surroundings. The constant increase in the rate of environmental change brings about an environment of uncertainty. In an environment of uncertainty, businesses have difficulties maintaining their continuity and risk their progress and evolution. Businesses can spot opportunities in the market if they can flexibly deal with uncertainties and can grow if they utilize these opportunities (Çatal, 2010; Karpuzoğlu, 2001). The fact that an enterprise is flexible in terms of adaptation to its environment suggests that its level of institutionalization is high, and the fact that an enterprise is inflexible suggests that its level of institutionalization is low (Karpuzoğlu, 2001).

Organizations with high levels of institutionalization have their own characteristics and a particular institutional identity (autonomy) (Karpuzoğlu, 2001). Autonomy is a concept that includes elements such as name, logo, letterhead, and design of vehicles and general view of its operation building, interior decoration, behavior of sales personnel, unique management style, profile and quality of management within the organization, and its production and service concept. The fact that an enterprise with an autonomous structure gains an institutional identity that contains non-visual expressions (social, political, economic attitude) beyond the stated visual expressions demonstrates who the enterprise is and how it is perceived by the environment (Karpuzoğlu, 2001).

It is necessary to define the relationships within an enterprise, and create written job descriptions by defining the duties, authorities and responsibilities of all the employees within an enterprise (formalization) (Dağlar, 2015; Tutar, 2009). Formalization has an important place in the institutionalization of enterprises and the removal of management from individuality and attaching it to certain rules and standards (Alpkan & Doğan, 2008; Apaydın, 2008). Formalization facilitates control of employees' actions and reduces conflicts (Dündar, 2010).

Employment of professional personnel in management and development of a business climate by supporting the characteristics of professional workers is essential in the business (professionalism) (Apaydın, 2008; Dağlar, 2015; Yıldız, 2010). According to the “dimensions of professionalism,” professionals are employed and a professional management climate culture is formed. Professionalism affects all work and behaviors in an enterprise and make sure that employees work in harmony with one another, strengthen, coordinate and better understand and implement the business strategy (Dündar, 2010). Businesses having professional teams, with professionals completing tasks are able to react better to the changes that may occur by following closely the changes taking place in their surroundings and in other businesses (Dağlar, 2015).

It is necessary to transfer the information on the actions of enterprises to concerned persons and interest groups in full, correctly and without prejudice (transparency) (Apaydın, 2008; Yıldız, 2010). Transparency increases the reliability of businesses. Transparency positively affects business performance since other companies tend to do business with reliable enterprises (Apaydın, 2008).

Businesses should react similarly to the same situations with other businesses in the same sector, keep their promises, and their activities should be in line with their mission, vision, and strategy

(consistency) (Apaydın, 2008; Dündar, 2010). Consistent businesses are perceived as trustworthy businesses both by employees and interest groups.

### **Institutionalization in SMEs**

SMEs are faced with many problems due to their structure (Diken, 2007; Ekinçi, 2003). SMEs either barely perform research and development activities or do not perform at all before or after an investment (Diken, 2007; Oktav & Önce, 1990). They face administrative bureaucratic obstacles and have marketing problems both inside and outside (Oktav & Önce, 1990; Aksoy & Tikici, 2009). There is technology inadequacy. They have difficulties finding qualified managers and workers, securing capital, supplying raw and auxiliary materials. They have insufficiencies in professionalism, and ability to provide and use information (Oktav & Önce, 1990; Aksoy & Tikici &, 2009).

SMEs in Turkey have a very important place in terms of national economy (Küçük, 2005; Pazarcık, 2004; Aksoy & Tikici, 2009). When the structure of SMEs is examined, it is seen that the vast majority are family businesses (Özer, 2007; Pazarcık, 2004). Although family businesses and SMEs have conceptually different definitions, these two concepts are often used synonymously (Pazarcık, 2004). SMEs have a number of disadvantages that hamper their institutionalization. When the obstacles to institutionalization are viewed from a general point of view and from the perspective of family businesses, they can be summarized as follows: Nepotism, problems in selection of successors, uncertainty in distribution of duties and responsibilities in the enterprise, conflict of family interests and business interests, family conflicts, and continuation of traditional management approaches and techniques (Özer, 2007). When institutionalization is examined in terms of SMEs as family businesses; it seems that institutionalization is necessary so that boss-manager relations can be regulated in a way that affects employee productivity positively. Inadequate division of labor and specialization in SMEs, entrepreneurs working in person, and insufficiencies in implementation of management techniques makes institutionalization even more important for SMEs (Tikici & Uluyol, 2006).

Like all businesses, SMEs require certain changes in order to adapt to the environment, and they make this change through institutionalization. Results targeted by institutionalization show what businesses expect from this process. Businesses want to reach some targets through institutionalization. Some of these targets and objectives are legitimacy, being predictable, achieving stability, increasing resources and being harmonious (Tutar, 2009). As in all businesses, institutionalization in SMEs is characterized by the need for qualitative change and restructuring in the functions of management, marketing, production and financing during growth periods in which the need for financing increases (Çiftçi, 2006).

An SME that wants to be institutionalized needs to set a mission and vision during the institutionalization process. This mission and vision will be embraced by everyone and institutionalization will be achieved and a strong culture will be formed within the enterprise (Karpuzoğlu, 2001). SMEs who take steps towards institutionalization will contribute to the development of an organizational culture and finding solutions to problems that will create conflict in the enterprise by holding regular meetings and ensuring that participation in these decisions is

high and workers are informed correctly (Özer, 2007). SMEs should not only establish a system, they should also follow the system they establish and ensure its correct operation. As a result of these institutionalization activities of SMEs, they will be able to establish institutional trust within the business environment (employees, public opinion, suppliers, customers, etc.) (Özer, 2007).

### **Operational Performance**

In short, performance is the level of reaching goals and targets at the end of a certain period, and the achievements as a whole (Akal, 2000; Barutçugil, 2002; Başat, 2009; Ayar, Keskin & Zehir, 2016). Operational performance is defined as the ratio of output the business has created over inputs for activities that have been performed in line with business objectives over a period of time (Avcı, 2005; Yücel, 2010). It is seen in literature that operational performance is evaluated based on financial and non-financial factors (Ağca & Tunçer, 2006; Demirel, 2007; Uygur, 2009).

The financial dimension reveals the difference between the financial position planned by the management and the actual financial position (Ağca & Tunçer, 2006). Financial performance measures demonstrate whether an enterprise's strategy and its execution and implementation of this strategy have contributed to the development of the enterprise (Demirsel, 2006; Uygur, 2009; Yiğiter, 2009). The financial dimension is useful in summarizing the measurable economic consequences of previously performed activities and their current status (Uygur, 2009). Financial performance measures can be viewed in dimensions and measurements such as profitability, share value, sales growth rate, cost management and financial ratios (Yiğiter, 2009).

Profitability is considered as one of the important dimensions of financial performance and affects the liquidity and capital structure of enterprises (Ata & Yakut, 2009). Profitability is measured in three ways: profitability of assets (dividing net profit by total assets), equity profitability (ratio of net profit to equity capital), and profitability of investments (return on investment) (Yiğiter, 2009). Share value is one of the main objectives of a business and is a very important performance indicator for success (Külter & Demirgüneş, 2006; Yiğiter, 2009). Sales growth rate is the change in sales figures compared to the previous period. It is found by subtracting sales of the previous period from the sales of the last period, and dividing this value by the sales of the previous period (Yiğiter, 2009).

Cost management is very important, especially in an intense competitive environment, for providing advantages to enterprises against their competitors. Effective decision making in a competitive environment increasing the efficiency of production factors and calculating the cost of goods and services in a healthy way are among the main objectives of cost management (Alkan, 2001; Yiğiter, 2009). Financial ratios provide information about the financial status of the enterprise using financial statements, and enable detailed information to be obtained about the enterprise by examining and evaluating the results of activities (Dumanoğlu & Ergül, 2010; Yiğiter, 2009). Financial ratios are liquidity ratios, financial structure or indebtedness ratios, efficiency or activity ratios, profitability ratios and market-based ratios (Aydemir, Demirtaş & Ögel, 2012).

Non-financial dimensions and measures include perceptions of measures such as customer satisfaction and loyalty, brand value, retention of talented employees, process innovations,

information acquisition and use, and change management (Altuntaş & Dönmez, 2010; Yiğiter, 2009). Customer satisfaction, customer retention, new customer acquisition, customer profitability and market and customer shares in targeted segments are highly important (Ağca & Tunçer, 2006; Avcı, 2005; Özbirecikli & Karaömer, 2016; Uygur, 2009).

Internal process includes the techniques, methods and programs that enable and improve the distribution of goods and services. Whether the enterprise works with effective methods or not, it can be examined with this process. Internal process includes tools and systems that increase the flow of information within the enterprise, investments of the enterprise, and methods that increase organizational ability to do business (Özbirecikli & Karaömer, 2016; Uygur, 2009). With this method business attract and retain customers in the target market (Özbirecikli & Karaömer, 2016; Uygur, 2009).

Learning and development is investigated under the headings of employee satisfaction, revenue per employee, strategic work completion rate, rate of accessing strategic information, and percentage of compliance of personal goals (Ağca & Tunçer, 2006; Demirel, 2007; Karaömer & Özbirecikli, 2016; Uygur, 2009). The ability of businesses to achieve high goals related to financials, customers and processes depends on their learning and growth capabilities (Ağca & Tunçer, 2006). In order to keep pace with the rapidly developing technological developments in today's economic environment and to realize long-term plans, businesses should give importance to the learning and development dimension. Because, in a ambitious environment, creating positive value to the customers and shareholders of businesses depends on continuous improvement of their capabilities (Karaömer & Özbirecikli, 2016; Uygur, 2009).

The effects of institutionalization on operational activities and performance are considerable (Roering, Ruekert & Walker, 1985). In institutionalized enterprises, jobs and tasks are in order, duties and responsibilities of employees are determined in writing, conflicts within the enterprise are reduced, control and coordination mechanisms are used effectively, costs are reduced and operating performance is positively affected (Zengin & Akkoyun, 2015). In previous studies, it has been seen that not enough attention is paid to sub-dimensions of institutionalization and operating performance, and the non-financial performance dimension is generally neglected (Apaydın, 2008; Karpuzoğlu, 2001; Toklu, 2010; Yıldız, 2010). Based on this, the following hypothesis (H1) has been proposed:

H<sub>1</sub>: There is a positive relationship between institutionalization and operating performance.

## **Research Method**

This study is a quantitative research. Survey technique was used as a data collection tool in the research. The questionnaire was developed based on scales in literature with previously tested validity and reliabilities. The questionnaire used in the research consists of 3 parts. The first part of the questionnaire contains demographic information, the second part contains the institutionalization scale, and the third part contains the operating performance scale.

Simplicity dimension of the institutionalization scale was tested by using the 4 item scale developed and used by Perçin (2008), flexibility dimension was tested by using the 4 item scale developed by Rohrbaugh (1981) and used by Kurgun and Bağran (2013), autonomy dimension was tested by using the 5 item scale used by S. Doğan (2002) and Kesici (2014), 4 item formalization and 8 item

consistency scales were tested by using the scale developed by Wallace(1995) and used by Apaydın (2008), transparency dimension was tested by using the 6 item scale developed by Çınar (2014) and professionalism dimension was tested by using the 9 item scale developed by Şahman, Tengilimoğlu, and Işık (2008). Institutionalization scale consisted of 40 items in total. It is a 5-Likert type scale ranging between “1=Absolutely disagree” and “5=Absolutely agree”. Cronbach’s Alpha coefficient of the scale is  $\alpha = 0.93$  and has a high internal consistency.

For the operating performance scale, the 14 item scale used by Çetinkaya, Ergül and Uysal (2014) was used. This scale contains 5-Likert type statements with responses ranging between “1=less than 10%” and “5= more than 55%”. Cronbach’s Alpha coefficient of the scale is  $\alpha = 0.93$  and the scale has a high internal consistency.

The research population was SMEs located in the industrial zone and operating in the manufacturing industry in Konya, Turkey. Research samples consisted of randomly selected employees working in manufacturing enterprises registered at the Konya Chamber of Commerce. In the study, 295 valid returns were obtained. This satisfied a return number of more than 10 times responses per variable as suggested in the literature (Gürbüz & Şahin, 2014).

The validity of the questionnaire was ensured by the recommendations of 7 different experts and academicians. A pilot research was conducted with 29 participants. The measures and questionnaire were given its final form according to the results obtained from the pilot research. Results of the pilot survey revealed that the scales were reliable and internally consistent (Başat, 2009; Dündar, 2010).

### Demographic Findings

Table 1 shows the demographic characteristics of the participants. According to the results of the analysis, majority of participants are male. Participants married and over 30 years old show that they have a certain level of experience. The fact that the vast majority of participants have high school or higher education degrees shows that the enterprises are managed by educated people. The fact that the vast majority of participants have worked in the enterprise for over 10 years shows that the employees are experienced.

Table 1  
*Demographic Findings (n = 295)*

	n	%		n	%		
<b>Gender</b>	Male	292	98,98	<1 Year	1	0,34	
	Femal	3	1,02	1-3 Years	14	4,75	
	Total	295	100	4-6 Years	36	12,20	
<b>Marital Status</b>	Married	282	95,59	<b>Operating Period of Enterprise</b>	7-9 Years	24	8,14
	Single	12	4,07		≥10 Years	220	74,58
	Unanswered	1	0,34				

				<10	125	42,37	
	18-29	32	10,85	10-49	126	42,71	
	30-39	110	37,29	<b>Total Personnel Working in Enterprise</b>	50-99	33	11,19
	40-49	97	32,88	100-249	7	2,37	
<b>Age</b>	50-59	43	14,58	≥250	2	0,68	
	60-69	10	3,39	Unanswered	2	0,68	
	70 +	1	0,34	Elementary school	34	11,53	
	Unanswered	2	0,68	Middle School	38	12,88	
	Woodworking, Paper & Products	11	3,73	<b>Educational Status</b>	Associate Degree	28	9,49
	Glass, Cement and Soil	2	0,68	Undergraduate	76	25,76	
	Electricity, Electronics	7	2,37	Graduate	31	10,51	
	Construction	8	2,71	Doctorate	1	0,34	
<b>Sector in which the Enterprise Operates</b>	Chemical, Petroleum and Plastics	22	7,46	<1 Year	6	2,03	
	Mining	2	0,68	1-3 Years	26	8,81	
	Machinery, Metal, Manufacturing	209	70,85	4-6 Years	51	17,29	
	Automotive and sub-industry	32	10,85	7-9 Years	36	12,20	
	Textile, Ready to Wear, Leather	2	0,68	≥10 Years	176	59,66	
	Unlimited Company	8	2,71	<1 Million TL	100	33,90	
<b>Legal Status of Enterprise</b>	Incorporated Company	39	13,22	1-8 Million TL	148	50,17	
	Limited Company	222	75,25	8-40 Million TL	43	14,58	
	Sole Proprietorship	26	8,81	40-100 Million TL	4	1,36	

Majority of the enterprises participating in the study have been operating for over 10 years. The majority of enterprises are small businesses with 1-49 employees. The enterprises are mainly limited liability companies operating in the machinery and metal manufacturing sector with an annual turnover between 1 and 8 million Turkish Liras (TL).

### **Institutionalization Scale Explanatory Factor Analysis**

Explanatory Factor Analysis is a multivariate analysis technique that can reduce a high number variables to fewer components based on the relationships between variables (İslamoğlu & Alniaçık, 2014, p. 395). Explanatory Factor Analysis helps in understand the relationship among concepts in a data set by revealing the relationship structure of the basic dimensions of a data set consisting of a large number of variables (Doğan and Başoçku, 2010).

Explanatory factor analysis for the institutionalization scale yielded eight different components. Table 2 shows the results of explanatory factor analysis of the Institutionalization scale. The Kaiser-Meyer Olkin (KMO) sample adequacy test value was found to be 0.875, which is at a good level. The fact that the KMO value is higher than 0.80 also indicates that the variables are related to one

another and share common factors. Bartlett's Test of Sphericity, which tests the hypothesis that the correlation matrix is equal to the unit matrix, revealed a significant  $\chi^2$  result ( $X^2 = 4550.506$ ,  $df = 528$ ,  $p < 0.000$ ), indicating that factor analysis can be applied to the variables.

Table 2  
Institutionalization Scale Explanatory Factor Analysis

Components and Items	Factor Loading	Eigen value	Variance Explained	$\alpha$
<i>Component 1: Transparency</i>				
Promotions in the enterprise are made based on the performances of the employees and their talents	0,750	10,186	%30,866	0,85
There is division of labor and specialization in the management of our enterprise	0,715			
Employees are awarded according to their ability to perform tasks and their talents	0,663			
When a task is assigned, it is assigned to the right person without any discrimination	0,623			
Salaries paid in the enterprise are fair and adequate	0,589			
Introductory information about the enterprise is provided to each new employee	0,580			
<i>Component 2: Professionalism</i>				
We have an accountable, transparent and reliable management approach in our enterprise	0,713	3,192	%9,673	0,80
Top management establishes transparent and trust-based relationships with employees	0,712			
Information is easily accessible by authorized persons and organizations in our enterprise	0,706			
Transactions are recorded in accordance with sectoral, professional and government standards	0,673			
Our enterprise is certified by generally accepted quality standards such as ISO 9001	0,578			
<i>Component 3: Formalization</i>				
There are task related written procedures (operation instructions) in our enterprise	0,851	2,176	%6,595	0,88
There are written materials (booklets, guides, etc.) that explain the procedures and rules of all tasks carried out in our enterprise in detail	0,850			
There are written materials (booklet, etc.) that inform the employees in our enterprise	0,826			
There are written job descriptions in our enterprise	0,773			
<i>Component 4: Consistency</i>				
In general, similar reactions are given to similar situations and events in our enterprise	0,776	1,849	%5,603	0,84
In our business, rewarding and punishment are applied in similar conditions without discrimination	0,745			
Business processes are in line with business strategy	0,541			
Administrative decisions are made in accordance with vision, mission and strategy of the enterprise	0,529			
The actions, processes and structures applied in our business are not different from what is said to external auditors	0,523			
<i>Component 5: Simplicity</i>				
The procedures in our enterprise are clear and there are rules that must be followed carefully	0,785	1,437	%4,354	0,80
In our business, every personnel is placed in the position where they will contribute the most according to their knowledge, ability and experience	0,783			
In our enterprise, responsibility of personnel is directly proportional to their authority	0,723			
<i>Component 6: Flexibility</i>				
We respond quickly and positively in emergency situations	0,761	1,211	%3,669	0,77
We are sufficiently flexible to undertake new assignments	0,752			
We adapt quickly and easily to top management's new demands	0,669			
We can mostly work during crisis periods	0,605			
<i>Component 7: Autonomy</i>				
Vision and mission statements have no effect on the behavior of employees	0,863	1,087	%3,295	0,80
Until today, there was no need for a mission or vision statement from the enterprise	0,807			
Even if there is a written vision or mission statement, nobody will take it into account in practice	0,785			
<i>Component 7: Development</i>				

Regular in-service training activities are carried out in the business	0,710	1,015	%3,075	0,70
Opinions will be taken from professional advisors in deciding on new recruits	0,614			
Successful results are appreciated and rewarded in the enterprise	0,539			

“Basic axes” factor analysis based on the “varimax” vertical rotation method was applied to the scale. As suggested by Hair et al. (1998), those with a factor load of 0.50 or higher were gathered together. The explanatory factor analysis of the institutionalization scale revealed that the scale had eight components. The components were named "transparency", "professionalism", "formalization", "consistency", "simplicity", "flexibility", "autonomy" and "development". It was found that components of the institutionalization scale represented 67.129% of the total variance. Compound variables were generated for the scale components and these compound variables were taken into account in subsequent data analyses.

### Operating Performance Scale Explanatory Factor Analysis

Explanatory factor analysis was carried out to determine the relationship between the variables of operating performance scale (Table 3). In the explanatory factor analysis, it was seen that the KMO value indicating the sufficiency of the sample size was determined as 0.918, which is at a good level. Bartlett's Test of Sphericity, which tests the hypothesis that the correlation matrix is equal to the unit matrix, revealed a significant  $\chi^2$  result ( $X^2 = 1996.394$ ,  $df = 66$ ,  $p < 0.000$ ), indicating that a factor analysis can be applied to the variables. In the analysis, two statements ("in the last three years, at what level did average personnel rewarding in your enterprise increased on average" and "in the last three years, at what level did personnel satisfaction increased in your enterprise on average") were excluded from the scale since they predicted two different components at a high level.

Table 3  
*Operating Performance Scale Explanatory Factor Analysis*

Components and Items	Factor Loading	Eigen value	Variance Explained	$\alpha$
<i>Component 1: Non-financial indicators</i>				
In the last three years, at what level did the quality of products/services offered to customers increased on average	0,854			
In the last three years, at what level did the competitiveness of your enterprise increased on average	0,796			
In the last three years, at what level did the image of your enterprise increased on average	0,768			
In the last three years, at what level did the satisfaction of your suppliers from your enterprise increased on average	0,743	6,240	%51,998	0,91
In the last three years, at what level did the satisfaction of your customers from your products/services increased on average	0,742			
In the last three years, at what level did your enterprise developed new products on average	0,724			
How much the new product and services launched by your enterprise increased on average in the last three years	0,535			
<i>Component 2: Financial indicators</i>				
How much has your business revenue increased on average in the last three years	0,877			
How much has your profits increased on average in the last three years	0,846	1,025	%8,545	0,87

How much has your market share increased on average in the last three years	0,733
How much has your financial power increased on average in the last three years	0,726
How much has your business revenue increased on average in the last three years	0,877

“Basic axes” factor analysis based on the “oblimin” steep rotation method was applied to the scale. As suggested by Hair et al. (1998), those with a factor load of 0.50 or higher were gathered together. The explanatory factor analysis of the operating performance scale revealed that the scale had two components. The components were named "non-financial performance indicators" and "financial performance indicators". It was found that the components of the scale represented 60.54% of the total variance. Compound variables were generated for the operating performance scale components and these compound variables were taken into account in subsequent data analyses.

### Linear Regression Analysis

Regression Analysis is the estimation of the behavior of a dependent variable using a model. In Regression Analysis, a coefficient determines how the independent variables affect the dependent variable. This coefficient is called the regression coefficient of the variable and it indicates the degree of dependence. What is important here is the presence of a causal relationship between the affecting and the affected. It is used to measure the magnitude of relationship between variables (Gürbüz and Şahin, 2014).

Prior to the regression analysis, a correlation analysis was performed to determine the relationship between the variables predicting the regression model. According to Pearson correlation analysis results (Table 4), it was seen that inter-variable relations were significantly positive and moderately strong.

Table 4  
Pearson Correlation Analysis

	1	2	3	4	5	6	7	8	9
Professionalism	1								
Transparency	1,000**	1							
Formalization	0,343**	0,343**	1						
Consistency	0,648**	0,648**	0,285**	1					
Flexibility	0,428**	0,428**	0,264**	0,431**	1				
Simplicity	0,499**	0,499**	0,201**	0,521**	0,448**	1			
Autonomy	-0,043	-0,043	0,147*	-0,085	0,193**	-0,051	1		
Development	0,291**	0,291**	0,425**	0,334**	0,295**	0,208**	0,200**	1	
Non-Financial	0,167**	0,167**	0,101	0,208**	0,216**	0,169**	-0,002	0,066	1
Financial	0,074	0,074	0,020	0,097	0,128*	0,064	-0,009	0,064	0,676**

\*\* . Correlation significant at the 0.01 level (2-tailed). \* . Correlation significant at the 0.05 level (2-tailed).

Linear regression analysis was performed to determine the relationship between institutionalization and the "non-financial indicators" dimension of operating performance (Table 5). In the linear regression analysis through input method, it was determined that variances of the dimensions of transparency, consistency, flexibility and simplicity explained a significant part of the dependent variable "non-financial indicators", whereas the variances of formalization, autonomy and development dimensions did not explain the variance of "non-financial indicators".

Table 5  
*Regression Analysis of Institutionalization and Non-Financial Indicators*

Model	R	R <sup>2</sup>	R <sup>2</sup> Adjusted	Std. Error	Dependent Variable	F	p	B	t	p
Professionalism	0,167	0,028	0,024	0,13734	Non-Financial Indicators	8,352	0,004	0,174	2,890	0,004
Transparency	0,167	0,028	0,024	0,13734		8,352	0,004	0,167	2,890	0,004
Formalization	0,101	0,010	0,007	0,13857		3,032	<b>0,083</b>	0,101	1,741	0,083
Consistency	0,208	0,043	0,040	0,13624		13,203	0,000	0,208	3,634	0,000
Flexibility	0,216	0,047	0,044	0,13599		14,339	0,000	0,216	3,787	0,000
Simplicity	0,169	0,029	0,025	0,13728		8,633	0,004	0,169	2,938	0,004
Autonomy	0,002	0,000	-0,003	0,13929		0,001	<b>0,974</b>	-0,002	-0,033	0,974
Development	0,066	0,004	0,001	0,13899		1,264	<b>0,262</b>	0,066	1,124	0,262

The results of the linear regression analysis conducted to determine the relationship between institutionalization and the "financial indicators" dimension of operating performance are given in Table 6. In the linear regression analysis using the input method, it was determined that the variance of only flexibility dimension explained a significant portion of the dependent variable "financial indicators", while the variance of all other institutionalization dimensions failed to significantly explain the variance of the dependent variable "financial indicators".

Table 6  
*Regression Analysis of Institutionalization and Financial Indicators*

Model	R	R <sup>2</sup>	R <sup>2</sup> adjusted	Std. Error	Dependent Variable	F	p	B	t	p
Professionalism	0,074	0,005	0,002	0,16140	Financial Indicators	1,595	0,208	0,074	1,263	0,208
Transparency	0,074	0,005	0,002	0,16140		1,595	0,208	0,074	1,263	0,208
Formalization	0,020	0,000	-0,003	0,16181		0,119	0,730	0,020	0,345	0,730
Consistency	0,097	0,009	0,006	0,16108		2,764	0,097	0,097	1,663	0,097
Flexibility	0,128	0,016	0,013	0,16052		4,828	<b>0,029</b>	0,128	2,197	0,029
Simplicity	0,064	0,004	0,001	0,16152		1,193	0,276	0,064	1,092	0,276
Autonomy	0,009	0,000	-0,003	0,16184		0,025	0,874	-0,009	-0,158	0,874
Development	0,064	0,004	0,001	0,16151		1,208	0,273	0,064	1,099	0,273

According to the results of linear regression analysis, the hypothesis (H<sub>1</sub>) proposed in the research was partially supported.

### **Discussion**

In this study, the effect of institutionalization on operating performance was investigated. In previous studies, only some dimensions of institutionalization and operating performance were studied (Apaydın, 2008; Dündar, 2010; Karpuzoğlu, 2001; Yıldız, 2010). Unlike previous studies, all dimensions of institutionalization proposed in the literature were taken as a whole in this study, and its effect on operating performance was investigated.

In comparison with previous studies, there are both similar and different findings in this study. Previously, Yıldız (2010) investigated the effects of objectivity, transparency and professionalism dimensions of institutionalization on operating performance. It was found that objectivity, transparency and professionalism dimensions of institutionalization positively affected financial and non-financial performance dimensions of operating performance. In our study, it was found that simplicity dimension of institutionalization only affected non-financial performance. Apaydın (2008) stated that there was no correlation between the formalization dimension of institutionalization and financial indicators and that formalization did not affect performance. Similarly, we found out that there was no significant relation between formalization and financial and non-financial indicators.

Dündar (2010) investigated the effects of institutionalization levels of enterprises and professionalization on operating performance. According to the results of his study, it was found that professionalization had a positive effect on operating performance. In this study, we found out that the professionalism dimension of institutionalization positively affected non-financial performance but had no effect on financial performance. In his study, Apaydın (2008) stated that professionalism dimension of institutionalization improved non-financial performances. Our study also showed that professionalism is related to non-financial performance, whereas it is not related to financial performance indicators.

In his study, Karpuzoğlu (2001) stated that flexibility dimension of institutionalization increases performance. In this study, it was also determined that the flexibility dimension positively affects both the non-financial and financial performance of the enterprise. Apaydın (2008) stated that the consistency dimension of institutionalization had weak but positive effect on non-financial performance but had no effect on financial performance. Similarly, we found that consistency had a positive effect on non-financial performance, and no effect on financial performance.

### **Conclusions and Recommendations**

In this study, a positive relationship was found between the simplicity dimension of institutionalization and operating performance. Simplicity shortens the completion time of tasks in an enterprise and enables everyone to understand a topic in the same way, thereby increasing operational efficiency. Achieving a lean and simple organizational structure by eliminating redundant procedures and complexity of business operations will provide many benefits to

businesses in terms of efficiency, agility, speed and low cost. Therefore, it is very important for owners and managers of enterprises to establish a simple organizational structure.

A positive relationship was found between the flexibility dimension of institutionalization and both financial dimension and non-financial dimension of operating performance. Flexibility allows businesses to see opportunities in the market in times of uncertainty, assess these opportunities, and respond quickly to reactions and demands coming from the outside. A high level of flexibility allows enterprises to carry out their business in an environment of uncertainty and respond quickly and on time to incoming demands and requests. The findings of this study revealed that business owners and managers should take necessary measures to create a flexible organizational structure. A positive relationship was found between autonomy dimension of institutionalization and operating performance. Business owners and managers try to create a unique identity for their own businesses and to create an autonomous structure in their organizations by acting freely in their managerial and executive decisions through the mission and vision of the enterprise. Businesses that cannot form an autonomous structure fail to go beyond being imitators of other businesses and cannot be independent. Within the context of the autonomy dimension, it was found that an institutional identity or distinguishing characteristics from other businesses provides many benefits to an enterprise in terms of product quality, growth of market share, increase in total sales, and releasing products to markets before competitors by carrying out new product and service projects. The findings of this study revealed that business owners and managers must have a mission and vision specific to their own business and thus gain a different identity from other businesses. No relationship was found between the formalization dimension of institutionalization and the financial performance dimension and the non-financial performance dimension of operating performance. Formalization is the process of taking business management from individuality and setting up certain rules and standards. Formalization improves learning and innovation by establishing coordination within businesses and also facilitates the control of employees' actions. The presence of written materials that inform employees in the workplace, job-specific written procedures and job description forms provides many benefits to the enterprise. Business owners and managers need to take these factors into account in their managerial decisions. In this way, business owners and managers will be able to facilitate the actions of employees, and they will have information about who does what within the enterprise.

It was determined that there was a positive relationship between the professionalism dimension of institutionalization and the non-financial dimension of business performance, whereas no relationship was found between professionalism and financial dimension of operating performance. Professionalization affects working groups and behaviors in the enterprise and enables business strategies to be better understood and implemented by everyone by establishing coordination. As a result, it enables employees to work in harmony with each other. Within the scope of professionalism, division of labor and specialization in business management and promoting employees based on their talents and performances provides many benefits to the enterprise. Our results indicate that business owners and managers should act based on objective criteria when placing the right people at the right position and if necessary receive support from experts.

It was determined that there is no significant relationship between the development dimension of institutionalization and financial and non-financial performance dimensions of operating performance. Within the scope of the development dimension, regular in-service training for employees, consulting professional consultants during recruitment, and recognition of successful works provides many benefits to the enterprise.

It was also determined that there is a positive relationship between the transparency dimension of institutionalization and non-financial performance, whereas there is no significant relationship with financial performance. Transparency is the precise, accurate and unbiased transfer of information about an enterprises activities to related persons and the society. Within the scope of transparency dimension, easy access to enterprise information by authorized institutions or organizations, compliance with the standards determined by professional and state authorities, being accountable, and the management establishing transparent and trust based relations with employees increases the reliability of businesses. It was out found that transparency provides significant benefits to enterprises since other businesses want to work with fully reliable partners. Our results have shown that business owners and managers must take necessary precautions to increase the transparency and reliability of their enterprises.

Although a positive relationship was found between the consistency dimension of institutionalization and non-financial performance, there was no significant relationship with financial performance. Consistency refers to an enterprise keeping its promises, business activities complying with its mission, vision and strategy and giving similar responses with other businesses in time of similar situations and events within the sector. Keeping the promises made to customers and employees and being consistent in the decisions making provides important benefits to enterprises in terms of production, turnover, and in the market by increasing the reputation of the enterprise. Findings of our study revealed the need for business owners and managers to display consistent behaviors.

This research was limited to the enterprises categorized as SMEs operating in the organized industrial zones of Konya province center. Similar studies can be conducted in different provinces or regions and comprehensive comparisons can be made. This is a quantitative study. Qualitative research methods (interview, focus groups and observation) can also be used to evaluate the impact of institutionalization on operating performance.

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