Innovation *qua* Survival:
Organizational Innovation under the Mafioso States in South Korea, Turkey, and Thailand

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Abstract

The apparent tendency for firms to expand their size through diversification and ownership concentration has been observed widely in many developing countries with authoritarian political leadership, as were the cases in South Korea, Turkey, and Thailand. This paper addresses the question of whether organizational size was the result of innovation strategies taken up by the firms to attenuate organizational environment that had been hostile to business. Previous studies pointed out the existence of hostile market intervention under the Mafioso states mostly in rapidly developing countries that either boosted economic development through innovation or killed all entrepreneurial incentives.

The term "Mafioso state" was first introduced by sociologists who studied European state-building and organizational innovation. The Mafioso state was an innovative state organization that created rent by forcing the firms to innovate and accumulate assets. This form of state-business relations was particularly rampant in South Korea (1961-1987), Turkey (1950-1990), and Thailand (1947-1973), where big business conglomerates dominate the market as a result of the Mafioso mode of innovation.

Therefore, this paper takes the size of firms as a dependent variable, a result of organizational innovation that has taken place throughout firms' continual interaction with the Mafioso state. This differs from mainstream organizational innovation research that takes size as an independent variable in decision-making regarding innovation and R&D investments. We find that organizational innovation that boosts up economic growth in a rapid fashion is possible under the Mafioso state, only when it provides pressures of organizational innovation in the form of competitive rent seeking. We posit that competitive rent seeking starts from a policy network between the Mafioso state and its clientele business groups where the state protection of the latter is competitively awarded based on business performance and the total amount of legal and illegal political donation to the former.

The paper is organized first to discuss theoretical issues regarding organizational innovation under the Mafioso state and second to analyze the cases of South Korea, Turkey, and Thailand. We conclude that these three Mafioso states achieved different levels of economic growth through corporate innovation, due to the varying degrees of success in generating pressures for organizational innovation on the one hand and corporate competition within an efficiency policy network on the other.

1. Introduction

The concept of the Mafioso state has not stimulated much theoretical attention in the study of innovation. However, it continues to be an interesting concept that can explain innovative changes occurring both in organizational and inter-organizational levels [1, 2, 3, 4]. The concept can be traced all the way back to Schumpeter, who said that organizational innovation occurs when external pressures from the environment and the state work as a whip that coerces each organization to be continuously innovative for survival [5]. Market competition as an incentive for innovation is not the only one that corporations face in the market—often, the state performs the role of an external whip with which it can coerce the innovative performance of a firm [6, 7].

This concept of external control of a firm is not a novel thing [8]. However, the Mafioso state concept highlights the role the state plays as an external threat to the corporation that, in return, has to neutralize such threat through organizational innovation. This fact has never been a proper topic of interests among innovation specialists or organization theorists. The lack of interests in the state among organization theorists is a problem that has been with us for a long time [9]. The other benefit of the Mafioso state concept is to be able to track down an economic logic of the political initiative of the so-called developmental state that theoretically remained as a black box, and therefore, could not explain the growth pattern of some of the most successful developmental states that sustained high levels of innovation and growth in the world market. In the developmental state hypothesis, growth is justified by the efficiency of the bureaucrats, although no economic theory could confirm such efficiency within highly bureaucratized corporate organizations or strong states [10]. In fact, product cycle theory could explain better than the developmental state as far as the former could clarify the mechanism of technology and innovation transfers from the US to East Asian countries.

The Mafioso state model acknowledges the importance of the state, although it does not bank on the efficiency of the bureaucrats to explain the economic logic of innovation in Japan, South Korea, Taiwan, Hong Kong, and Singapore. The economic logic of the developmental state is not the rational macroeconomic planning by government agencies. It is the pattern of economic interaction between state and corporate leaders in achieving or failing to achieve innovation. Economic incentives in the form of rent that the state officials can provide to the corporate counterparts are measured by the amount of threat that can be offset only by the amount of innovation in the form of firm size. The total size of the rent created is the political donation paid for by the corporations in the form of either legal or illegal forms of monetary extraction. In order to pay extractions, firms must generate the revenue (i.e., surplus and debts) of either equal to or larger than the total amount of the extraction coerced by the state officials. The economic outcome of this model is the large size of the corporations in our samples and economic growth due to organizational innovations.

The organization of this paper is to introduce the theoretical backdrop of the Mafioso state model and proceed to comparative case studies of South Korea, Turkey, and Thailand to highlight the similarities and differences of the Mafioso states in the developing economies. South Korea has shown the most effective and efficient form of the Mafioso state, where rent created by the state was the largest, and the size of corporations was the biggest among the three countries. Turkey provides an example of failed Mafioso state, where the rent created by the state only fattened the state sector. Finally, Thailand is a case of the Mafioso state that was taken over by the private sector, despite the rent created by the state actors.

2. Mafia States and Organizational Innovation

To reiterate our hypothesis, there is a possible linkage between the different types of Mafioso state and the final organizational form of private business corporations. This linkage holds a key to understanding the innovation structure of the entire state-led developmental program (i.e., policy networks). Briefly, the Mafioso state in South Korea created the chaebol, an organizational innovation that was critical in promoting innovation for economic development, whereas the Mafioso state in Turkey engendered the Holding, an organizational development that was not sufficient enough to induce economy-wide innovation. Finally, the Mafioso state in Thailand formed financial conglomerates that took over the state, which proved ineffective in maintaining the mafia clientele network, or policy network.

The Mafia state is a *stable* alliance between enemies in the marketplace. The mafia analogy works like this. The state bureaucrats act as hostile mafia members against street merchants, demanding illegal fees for protection. Simultaneously, without such an alliance in the marketplace, street vendors would not be able to continue their business, unless they defy the mafia in a unified manner. Often, they fail to maintain unity, for mafia threats work as incentives to defect. Over a period of time, these street vendors on a collective level react differently to the mafia—they develop various organizational forms.

In modern Mafioso states, four general patterns of Mafioso state-business interaction exist—(1) victor Mafioso states, (2) top-down Mafioso states, (3) bottom-up Mafioso states, and (4) defeated Mafioso states. Since none of South Korea, Turkey, and Thailand belong to either the victor Mafioso or defeated Mafioso state groups, we will focus on the top-down and bottom-up Mafioso states. The *top-down Mafioso state* initially demands market actors to seek state protection. State bureaucrats are not willing to provide business permits or legal protections (e.g., property rights) to market actors if businesses or business owners do not remit extracted payments (i.e., illegal forms of rent) to the former. The top-down Mafioso policy network is rampant when state bureaucrats successfully create the prisoner's dilemma situation among the market actors. The banking sector, mostly owned by the state, is one key element of the top-down Mafioso state. When the sole source of capital is in the state bank, faction among the capitalist class is rampant. As we will show in our case studies, market actors are forced to give up the option of relying on market mechanisms (e.g., price) or social institutions of trust and rush to the state bureaucrats for protection under the prisoner's dilemma.

The top-down Mafioso state invites strong resentment from the business sector, which then hunts down every possible option of countervailing state hostility. Business actors do not remain mere lame ducks and will utilize every other option available in order to be less dependent upon the Mafioso state apparatus. Diversification with centralized ownership has proven to be very effective for this purpose (i.e., conglomeration), because the growing size and power of the business can neutralize state hostility. More importantly, when either external or internal forces challenge this type of Mafioso state, business actors show every interest in abandoning the state-client relations [11, 12]. Furthermore, intra-business competition intensifies, because the Mafioso state plays business organizations off against each other (prisoner's dilemma).

The bottom-up Mafioso state emerges when market actors voluntarily rush to the state and demand the latter to protect them. The state is not necessarily hostile to market actors (sometimes even friendly to them), and the prisoner's dilemma is non-existent. However, state bureaucrats become mafia 'hit-men' who are hired by market actors. The reverse prisoner's dilemma, where bureaucrats do not act according to their rules (because they do not trust each other), is rampant. This is mainly because the banking and financial sectors are under private control. Sources of money derived from private hands eventually corrupt the bureaucrats (the reverse prisoner's dilemma). Due to this reverse prisoner's dilemma bureaucrats accept briberies from market actors. Under this situation, factions of bureaucrats develop depending on their clients. This type can be found in most underdeveloped, rent-seeking, societies. The bottom-up Mafioso state tends to maintain a friendly state-business interaction, although the Mafioso state itself becomes very unstable due to the divisions within the ruling elites. This may be avoided if specialization proceeds within the business sector, which then is represented and protected by the segmented elites (i.e., specialized clientele). Business specialization also entails monopolistic market structures with minimal competition between economic power holders. Either way, however, the state-business collusion of this form will corrupt the entire state well to the core. Furthermore, this type of state-business interaction can easily be a target of external challenge, since the state is weak and corrupt, and the business sector is not interested in developing new technologies due to protected monopoly markets.

The top-down Mafioso states have historically demonstrated their uniqueness in inducing innovation among business actors. When the Mafioso mode of extraction is initiated by the state, market actors strive to find ways of coping with the hostile environment [13]. Although cooptation is a common form that appears in the initial phase of economic development, market actors soon resort to size expansion to reduce their reliance on the hostile state. Innovation here, thus, refers to organizational innovation, given the fact that all business organizations can obtain technological innovation through piracy, state-run research and development (R&D) projects (if the state decides to subsidize R&D through policy networks), or technology transfers from foreign direct investments. The result of organizational innovation is enterprise diversification, a clear tendency in South Korea, Turkey, and Thailand.

However, we must note the different degrees of innovation achieved by these three countries. All three countries maintain centralized corporate ownership with a high degree of diversification, due to the military states that had actively intervened in the market by means of top-down market bypassing. However, the South Korean military Mafioso had by law prohibited the chaebol from possessing holding companies. Consequently, although chaebols do maintain family ownership and control subsidiaries, it is done through family stock concentration and/or inter-member firm stock ownership (i.e., subsidiaries own each other's stocks). Turkish conglomerates, on the other hand, maintain direct family ownership and the control of subsidiaries through holding companies, which most closely resembles the pre-war Japanese zaibatsu (i.e., relatively weak organizational innovation). Thai financial conglomerates are informal gathering of family-owned companies clustered around a centralized banking firm. These resemble both the Japanese keiretsu in terms of informal alliance of member firms and the Taiwanese family firms in the sense that both financial institutions and manufacturing firms are owned and controlled by families.

Chaebols, Holdings, and Financial Conglomerates all achieved a certain level of innovation, as all three countries demonstrated economic growth. However, the level of economic growth through innovation in the manufacturing and trade sectors are widely different, as South Korea leads the group (PGDP US$9,700), followed by Turkey (US$2,885) and Thailand (US$1,840). Although the variation in levels of innovation derives from several factors, we want to emphasize the differences in the state-business relations, especially the severity and consistency of state hostility to business.

In Thailand, for instance, severity of state hostility to Chinese business was as serious as that of the Korean military government, although consistency was not guaranteed because of the factional in-fights within the Mafioso state. This resulted in the corruption of state officials, leading to the monopolization of the financial conglomerates in the Thai market. Furthermore, the Thai Mafioso state did not nationalize the banks, an important mechanism of control in the top-down Mafioso state. Although monopolies had to innovate to be more profitable, they were less successful than their Korean counterparts that faced more severe competition both in the domestic and international export markets. In Turkey holdings achieved organizational innovation through active diversification and heated competition among themselves. However, the Turkish military also suffered from lack of cohesion and consistency in applying hostility to big business. The banning of the holding company system never happened in Turkey. Banning the holding company system and subsequent search for alternative forms of corporate governance existed both in post-war Japan and Korea, where organizational innovation meant business survival [14]. Unlike South Korea, the Turkish military, except for the Kemalist republic and the 1960 military state, had not directly ruled the country, albeit playing critical roles only in the backdrop. The Kemalist republic was mainly interested in the nationalization of foreign firms, while the 1960 military state could not last long due to political instability. Subsequent military coups in 1971 and 1980 encountered similar fates, and the military is now playing only a behind-the-scene role in every major political decision-making [15]. In addition, the Turkish military leaders became capitalists themselves by managing their own Holdings.

The Korean success had two critical factors that neither Thailand nor Turkey had—severity and consistency of the Mafioso hostility to business. On top of that, the top-down Mafioso state could nationalize banks and put a ban on the holding company system, because the leaders of the state demonstrated cohesion and unity that was hard to find in either Turkey or Thailand. Furthermore, the Korean case illuminates an ideal case of the top-down Mafioso state, where macro economic policies benefited only those that survived competition between the chaebols through organizational and technological innovation. Therefore, elite conflict or stability serves as a critical mechanism of maintaining the top down Mafioso state, as it is the central factor of inducing organizational innovation for local firms. Although state hostility toward big businesses, which was typical in top-down Mafioso states, was sufficient to force the market actors to seek innovation, the degree of state intervention in the market still determined the degree of organizational innovation. This point has rarely been a theoretical focus among scholars on third world development. The rest of the paper offers a comparative case study of South Korea, Turkey, and Thailand.

3. Case Studies

3.1 South Korea

The chaebol (literally, families with a lot of wealth) officially appeared in South Korea in 1953 when Samsung added a sugar refinery factory to its trading company [16, 17]. A handful of chaebols in the 1950s and the 1960s, all under state protection, were mere receivers of the U.S. dole (e.g., classical import substitution). In less than four decades, however, about thirty large chaebols have come to produce more than 80 percent of the total South Korean GDP [18, 19].

The chaebol's domination within the South Korean economy, along with the recent fervor for internationalization via foreign direct investment, indicates high levels of business and organizational diversification within each chaebol. Chaebols are highly diversified business units each owned and controlled by a single person: the chairman [17]. In a typical South Korean chaebol, the chairman is either the founder or his familial successor.

Behind the success story of the chaebol is the untold saga of its troubled interaction with the military states. In 1995, we interviewed five high-ranking chaebol officers. When asked "Which environmental factor do you think has been the most critical to your enterprise group?", four of the officers answered: "it has been the state" or "it has been the government." If the state is one of the most important environmental factors affecting business, then the proactive managerial response to it, needs theoretical attention.

Chaebols had been market monopolies with holding companies until the 1961 military coup. Unlike the post-coup chaebol or the Turkish holdings, chaebols prior to the 1961 coup had not pursued diversification, as they mostly concentrated resources in specialized markets. The military junta established under the leadership of Brigadier General Park Chung Hee, relentlessly eradicated what it perceived as corruptive elements of the previous civilian regime, most importantly in the area of big business. Samsung, then the largest chaebol, had to contribute its banking sector and Honam Fertilizer (valued at fifteen billion won) to the state. Twelve of the other chaebols also had to pay similar fines under the Illicit Wealth Accumulation Law [20, 21]

The confiscation of private property from capitalists involves enormous risk on the part of the state rulers. The threat of what economists call "deadweight loss" is always present [22, 23, 24, 25]. Thus, chaebols faced a choice of whether to buy protection or to divest. In the end, a collective decision to divest from the market did not happen, because chaebol owners could not trust each other. Consequently, those who could buy protection bought it, and those who could not, perished from the market. For example, Lee Byung Chul, then the owner of Samsung, asked the state to approve Samsung's investment plans and supply foreign aid for the projects. In return, Lee promised to share the profit with General Park [26]. This payment was not taxation or political contribution. It was an illegal means of extraction of money from business leaders (i.e., slush funds). Park happily accepted this arrangement, and a new state-business relation was born.

Gambetta [27] explains the birth of the mafioso state succinctly in the following fashion:

> [In] the example [...] of South Korea, [...] an authoritarian and military rule, [...] in itself monopolistic, would not tolerate local monopolies [i.e., the 1950s chaebol]. In a sense, this implies that in order to get rid of the mafia, what we need is simply another—bigger and better—mafia.

From the chaebol owners' standpoint, the military state was the most important source of environmental uncertainty that had to be controlled. There are two reasons for this observation: First, the chaebol had to create enough wealth to meet the extraction demand from the state; and, second, it had to grow big in size so that the Mafioso would not destroy it whimsically. Samsung's founder understood this very well, and he opted for diversification. In our 1995 interview with the Head of Chairman's Office at Sunkyoung Group, he explained the logic of diversification in the following way:

> When you are small, all kinds and levels of bureaucrats want to visit you and demand exacted payments. District police chiefs, district fire chiefs, district tax chiefs, district utility chiefs, and others are such thieves. But if you acquire two or three more subsidiaries, then these low-level gangsters are replaced by Seoul police chief, Seoul tax chief, and so on. And if you acquire ten more, then you directly deal with section chiefs in state ministries. Finally, if you become big like us, the chairman bypasses all the middle bosses and directly talks to the real boss, the President.

Throughout the 1960s and the 1970s, chaebols struggled to steal each other's markets and to secure government loans for new ventures. During the period of 1975-1979, 152 new corporations came into being with 173 firms bought out, 13 companies merged into larger ones, and 17 joint ventures were formed [28]. In 1977 the Blue House (the presidential residence) collected 356 million won from the chaebol, followed by 865 million won in the next year [29]. Situations under the second military government (1979-1987) did not change much. In 1985 the military government seized the control of Kukje, which was, at that time, the sixth larger chaebol, and sold it to other chaebols or independent firms. This was another attempt at creating the prisoner's dilemma. As state hostility continued, exacted payments also resumed. In 1982 major capitalists were asked to donate 1.1 billion won, followed by 2.04 billion won in 1984. Figures for 1985 and 1986 are 1.14 billion won and 2.04 billion won, respectively [29]

Diversification without a holding company system under the top-down Mafioso state was effective in protecting the chaebol from the military's hostile and arbitrary intervention in its day-to-day business. Most importantly, however, diversification was pivotal in inducing innovation, as the chaebol could utilize the economies of scale, exploit the oligopolistic position in the market, generate technological spin-offs from other member firms, and control agency problems through centralized governance. The banning of the holding company system, which was not found or realized in Thailand or Turkey was particular in the case of South Korea. The absence of the holding company system, along with competition among chaebols necessitated both organizational innovation and technological innovation. The most important mechanism of innovation was the Mafioso policy network, wherein the state underwrote large sums of financial loans for the competing chaebols to achieve both forms of innovations. This policy network was made possible because the Mafioso state maintained leadership unity and elite cohesion, unlike its Turkish or Thai counterparts. The Korean military regimes, on the other hand, enjoyed a high degree of unity through a stable governance structure that lasted for eighteen years (during the first military regime) and seven years (during the second military regime). Furthermore, the transition to democracy in 1987 did not disrupt this elite cohesion and unity within the ruling parties, until the 1997 presidential election when the first opposition candidate was elected.

The advantage of a stable Mafioso policy network was the separation of politics from business, a point of demarcation that was not fully institutionalized in Turkey or Thailand. In addition, the prisoner's dilemma among chaebol owners worked, not as an incentive for defection, but an incentive for innovation. The stable Mafioso state, being the owner and controller of the nationalized banks, could provide chaebols with monetary incentives for innovative cooperation, despite the stiff competition among chaebol owners. The legacies of the separation of politics from business and innovation amid stiff competition continue in South Korea even if targeting by the Mafioso policy network still exists. From the business perspective, the big size was beneficial in securing such governmental incentives and guarding themselves from stiff competition. Bigness in size also contributed to the corporate success in the export market using their own brand names. This was not realized by either the Turkish or Thai corporations.

The financial crisis that swept through South Korea in 1997 opened up debates on the banking sector reform. The privatization of the banking sector signaled the end of the monetary incentives for the chaebols' ventures in organizational and technological innovations. However, during last five years, the chaebols pursued their own organizational reforms that included beefing up the financial wing of their corporate groups. In such a manner, similar to Japanese fashion, the chaebols also asked for the lifting of the ban on the holding company system, so that they could own and control universal banks under the chaebol tutelage. The universal bank drive by the chaebol met a strong resistance from the NGOs that demanded stricter auditing of the chaebol corporations, including the introduction of a new corporate governance structure with external auditing and controlling facilities. Whether the chaebol will be able to become the biggest Mafioso of their own by acquiring the banking institutions of Korea is yet to be determined. At present, the clout of the South Korean conglomerates is influential enough to lead the country toward the birth of a new Mafioso policy network that will replace the top-down Mafioso scheme.

3.2 Turkey

As an innovative state organization, the Turkish Mafioso state forced, to some extent, the firms to innovate and accumulate capital. This innovative drive has, however, not been as efficient and productive as that in South Korea. While the Turkish economy (measured by the level of economic development and per capita income) was much better than that of South Korea in the 1950's, South Korea outperformed Turkey in terms of the level of economic growth in less than half a century. The difference was the result of the external whip of the Mafioso state for business performance. The external whip resulted in creating the chaebol in South Korea, holdings in Turkey, and financial conglomerates in Thailand.

Holding refers to the unity of diversified family enterprises owned and controlled by the head of the extended families. It is an umbrella organization unifying and controlling family enterprises under a single roof. Except a couple of holdings, all influential holdings in Turkey have a diversified business structure operating in different economic sectors.

Turkish "Holdings" officially emerged in 1955 when Deva Holding and Sinai and Mali Yatirim (Industrial and Financial Investment) Holding officially came into being [30]. This was made possible due to the privatization of the public corporations by the first civilian government under the leadership of the Democratic Party. However, more important and powerful holdings emerged only during the military states, beginning from the 1963 inauguration of the Koc Holding. By 1969 Turkey had thirty-three holdings, and the number grew to six hundred forty in less than three decades [30].

The role that the Turkish holdings play in both domestic and international markets is noteworthy. The Koc Holding, a member of Fortune 500, now has eighty-one subsidiaries, many of which are leading enterprises, while the second largest holding, Sabanci, has forty subsidiaries [30]. According to the 1994 records of the MCI, Sinai and Mali yatirimlar Holding had fifteen subsidiaries, Eczacibasi Holding had twenty-three, Kutlutas Holding had eighteen, Yasar Holding had twenty-three, Enka Holding twenty-six, and OYAK currently has twenty-five subsidiaries. Each holding has a diversified business structure and is operating in various sectors of the economy. Unlike South Korea, however, consortia of holdings exist, based on mutual stock ownership, an important characteristic of the Japanese keiretsu. For instance, Sabanci Holding and Sinai ve Mali Yatirimlar Holding bought each other's shares in 1994 and 1995 [30].

As in the case of South Korea, in Turkey, the state also constitutes the most important environmental uncertainty to business. Business newsletters, press releases and business closed-door meetings are full of complaints about the structure of the state and state policies. In Turkey all holding leaders and managers that we interviewed in 1997 pointed out that the state is the most important business environmental factor.

As we said earlier, however, the Turkish military state failed to create a stable top-down Mafioso state, because three different military coups occurred in a span of two decades. The Kemalist republic, despite successfully completing the state-building process in Turkey amid imperialist invasions, pursued state monopoly by confiscating most foreign owned corporations [31]. The 1923 Economic Congress in Izmir legitimated the nationalization of railways, telecommunication, port facilities, and mining and textile corporations, most of which had been in the hands of foreigners [32]. In addition, the state also made clear efforts at weakening small industries owned and controlled by Greek, American, or Jewish entrepreneurs [33].

The Kemalist economic intervention, thus, resembled the Nationalist (KMT) economic policy on Taiwan throughout the 1950s and 1960s. Unlike Taiwan, however, the capitalists revolted (i.e., deadweight loss), and by 1946 they could destroy one-party dictatorship under the Kemalist People's Party and installed a pseudo-democracy under the leadership of the Democratic Party (DP), which represented landlords and capitalists [34]. Because of this DP-capitalist nexus, the new civilian state was nothing but a bottom-up (thus, corrupt) Mafioso state, selecting recipients of foreign doles based on that network [35]. Deva Holding and Sinai & Mali Yatirim Holding fully took advantage of this bottom-up Mafioso state.

Corruptive state-business collusion under a pseudo democracy invited further political instability, including a military coup on 27 May, 1960. The military officials controlled key posts in the government and arrested the President, Prime Minister, and the cabinet members. The death of DP meant the concurrent demise of the early holdings and their interest organization, the Chamber of Commerce and Industry [36].

Unlike South Korea, however, this 1960 military regime did not sell protection to former DP-aligned holdings. In its stead, the new top-down Mafioso bred and protected new holdings. Bigger holdings began to emerge, and their owners soon started a diversification drive in a similar scale to that of the South Korean chaebol under the first and second military states. Although we do not have tangible data regarding the actual amount of the extracts the military government had collected in exchange for protection during this era, our interviews with the managers of major holdings acknowledged such payments.

For instance, the Enka Holding owner, Tarik Sara, pointed out that one had to pay illegal fees to the state in order to survive in the market. He made it clear that the illegal extracts were much more than ordinary bribes:

> The illegal extracts are the amount of the money that one has to pay the state to do *legal* business in the market. The bribe is the amount of the money that one pays the state to do *illegal* business [37] (emphases ours).

Another holding leader, Lokman Kondakcı, pointed out that without getting a state support it would not be possible to accumulate capital or even just to stay in the market. He also stressed that "bribe is the rule not the exception in state-business interaction" [38].

Another proof was the attempt to assassinate the chairman of Emlak Bankasi, a state-owned bank by a mafia hit-man. According to the court findings, the bank chairman received a huge amount of illegal extracts in return to advancing credits to a holding company [39]. Although the assassination is uncommon, extracting payments has been a common rule in Turkey, just like in South Korea. This augurs that the Turkish holdings were yet another form of highly diversified and centralized form of big business organizations that intended to fend off whimsical state hostility during political instability.

The first military government in 1960 did not last more than three years, and in 1971 another coup broke out. This new military state, however, could not destroy the holding formed in the previous decade, mainly due to their sheer size and market power in the Turkish economy. Furthermore, these holdings formed a new interest group under the title of the Association of Turkish Industrialists and Employers [Turkiye Snayici ve Isadamlari Dernegi – TUSIAD], [40]. TUSIAD confined its membership only to large holdings, such as Koc, Sabanci, Tekfen, Eczacibasi, and Yasar Holdings [41]. All in all the diversification efforts paid off, and these holdings further sought new markets for investments, while continually paying illegal extracts as protection fees. This was, again, necessary because most large banks were in the hands of the Mafioso state, just like the South Korean case.

Like the previous military regimes, this second one, too, could not survive more than two years due to political instability, and the third military coup occurred in 1980. The absence of trust between the Mafioso state and these holdings can be demonstrated by the fact that the latter openly endorsed the new military government, instead of supporting the old one. For instance, Koc Holding's owner, Vehbi Koc, sent a letter to the new military leaders to publicize his support [40]. Other holdings appointed the retired military generals of the new military state as board of directors. However, the third military state did not intend to rule the country directly, unlike their precedents. A national election was held in 1983 under the close supervision of the military.

The election resulted in a clear victory of the Motherland Party. The Motherland Party embarked on a new era of state-business interaction through various market liberalization measures [42]. Indeed, the Motherland Party leader, then Prime Minister Turgut Ozal, was the president of MESS (Metal Sanayicileri İsverenleri Sendikası/ Metal Industry Emloyers Union) and an active member of TUSIAD, and this fact alone signaled the victory of the capitalists in their battle with four different military states (or Mafioso states).

Although this victory failed to blot out the military from politics, Ozal's new economic program had certainly shifted the military's legacy of hostility to business to a new tradition of state-business fellowship [43]. The new tradition differed from the South Korean civilian leaders during the post-democratization politics, all of whom lacked any such linkage with the capitalists (and thus, not interested in building a state-business fraternity). This also implies that one consequence of the diversification drive and size expansion was in fact strengthening the big business and their owners in the political realm.

The existence of the military as a backdrop organization that supervises and protects the civilian regime in Turkey, however, makes this transition to market liberalism sluggish and even reversed. Some holdings still prefer political solutions to economic ones in order to receive state-sponsored business contracts. For instance, Havas, a subsidiary of Yazeks Holding, providing ground maintenance and food catering services at the airports in Turkey, sought monopoly business rights in exchange of the extracts paid to the state and the incumbent government [44, 45].

We should underline the following points that may locate the Turkish case in its comparative position vis-à-vis the cases of South Korea and Thailand. First, the Turkish business leaders reacted to the Mafioso state by creating holdings that were not as efficient or productive as chaebols in South Korea. Second, the Turkish Mafioso state used extracts taken from business to make investments in various sectors of the economy, including but not limited to agro-business (e.g., producing sugar, meat, dairy products), textile (e.g., ready to wear dresses, carpets), heavy industry (iron and steel factories), petroleum (refinery and gas stations), construction (cement, wood products), aero firms, insurance, and banking companies. All of such capital investments turned out to be inefficient and unproductive. Such enterprises have been widely used for political patronage relations, which is another characteristic of a Mafioso state [46]. Finally, the Turkish military itself founded its own holding: OYAK. Oyak was initially founded after the 1960 military coup as a social security organization for the military personnel. In a short period of time, however, it turned out to be a huge capitalist enterprise. It has currently twenty-five subsidiaries operating in the following sectors: car manufacturing and marketing; construction industry; financial sector; agricultural sector; and service sector. The military state, instead of distinguishing politics from economics, heavily involved in market via Oyak. A recent drive in January 2002 by the Turkish government made the Oyak group one of larger banks in the country. The Turkish state in late 2001 confiscated six previously privatized banks and united all of them under the name of Sumerbank and transferred the Sumerbank with 135 branches and all its assets to the Oyak Bank. Oyak Bank, thus, became one of the pioneering financial institutions in the country.

Before we analyze the case of Thailand, let us conclude the case of Turkey that the Turkish businesses have not been successful and not venturous enough to act in a unified manner to defy the Mafioso state in Turkey and install their own power, simply because they are still acting under the prisoner's dilemma. Whether the privatization of state banks and state enterprises will change the situation is something which needs to be observed and analyzed in the years to come.

3.3 Thailand

Similar to South Korea and Turkey, the Thai state from 1957 to 1973 created the most important environmental uncertainty to business. State hostility to business in the form of anti-Chinese policies under the rule of Phibul government reduced most Thai firms to pariah entrepreneurs. Although the anti-Chinese policies subsided in later periods, the Mafioso-style governance continued under the leadership of Sarit Thanarat, Prime Minister of the military government from 1958 to 1963—"A less flattering but just as accurate a portrayal is that of a Mafia godfather dispensing favors to those who supported him and the full force of power for those who stood in the way" [47]. In the top-down Mafioso state model, political rulers translate their power into wealth by selling protection to business, instead of establishing their own business. Entrepreneurs then respond to it by organizational innovation. In Thailand Chinese businessmen were able to expand their businesses under the anti-Chinese policies in the late 1940s and the 1950s by buying protection from the leading government officials [48].

Due to the anti-Chinese policies, the organizational innovation started under the rule of Phibul government that saw the birth of Thai conglomerates. Thai financial conglomerates have three different origins [49, 50]. Some had their roots in the 1900s, incorporating the crown and senior aristocrats into their shareholders (e.g., the Siam Cement Group), while other conglomerates emerged from the big rice-trading families of the 1930s (e.g., the Lamsam, and Wanglee families). Most important among them are the families that emerged with new banks in the 1940s. It is this third group of conglomerates that formed the largest group in Thailand, and, thus, most powerful throughout the 1950s and the mid-1980s.

The organizational pattern of the third group of conglomerates has diffused ownership with a tight bondage with centralized banking institutions that own shares of the conglomerates. In this sense, Thai conglomerates achieved organizational innovation by mixing (either deliberately or unintentionally) the Korean chaebol and the Japanese keiretsu structures. Thai conglomerates secured protection (i.e. licenses, promotional privileges, government contracts, and other crucial favors) through the Mafioso clientele. They had access to capital through their main banks, which were not only the sources of capital but also the centers of conglomerate decision-making [49, 51, 52]. Banks, thus, served as the Japanese-style *shachōkai*, or the presidential council. The role of the conglomerate banks was more than that of banks; they worked as investment houses, informal chamber of commerce, and business consultants. Even though the government did not ration credit, big banks with conglomerate affiliation did. These banks often acted as the planners and consultants of their informal member firms. Bank decision-making involved spotting firms with high growth potential and allocating funds to their networked allies to invest in those firms [52, 53]. However, similar to Turkey, corrupt Thai politicians opened up their own businesses during the period of organizational innovation, making the overall economy unhealthy.

Diffused ownership and alliance with centralized banking institutions proved to be effective in fending off state hostility during the rapid growth period in Thailand. As we argued earlier, this alliance between private banks and conglomerates is similar to the keiretsu. Diffused ownership, however, was different from the Western sense of the term, because ownership is shared by members of close networks, mostly within the Chinese community of Thailand. Diffused ownership resembles that of the Taiwanese family firms. The outcome of diffused ownership and alliance with banking institutions was a trend away from top-down Mafioso to bottom-up Mafioso policy network, in which business owners were less and less dependent on the state. Each conglomerate had a cluster of companies grouped around its core interest, generally diversifying ventures into related fields. Similar to Taiwanese family firms, Thai conglomerates enthusiastically entered into joint ventures with foreign capital that gave them access to technology, expertise, and markets [52]. The Bank of Bangkok was a good example to show the structure of this form of conglomerate, where the entire conglomerate was dominated by a small number of families: the Sophonpanich family in banking and investment; the Chiratiwat with a base in retailing; the Srifuengfung in glass, chemicals, and engineering joint ventures with the Japanese; the Sukree and Saha-Union in textile ventures with the Japanese; the Phornprapha assembling Japanese automobiles and then extending further into car parts and components; the Chiaravanont family spreading its agribusiness empire out from Thailand to the region; the Techaphaibun in banking, insurance, and liquor [51]. In each group, the clusters of firms around the major banks functioned as powerful lobbies for all forms of useful government assistance, and these conglomerates were assisted by links with the military elites who controlled the state [52].

This form of conglomerate illustrates a high level of cooperation among businesses in Thailand. Such cooperation is not usually a feature of top-down Mafioso policy network, where the state normally plays firms off against each other—i.e., prisoner's dilemma [54]. Part of the reason for cooperation within the Thai financial conglomerates was due to the tradition of trust and mutual assistance fostered with in the immigrant community [52]. They were able to join together mainly because of the political rivalry among the political elites, which ensured that businesses could find a corrupt elite to buy protection from [55, 56]. This made it impossible for the state to create the prisoner's dilemma among businesses, especially when the banking and financial sector were under the control of private sector. The political rivalry meant that the state failed to create the prisoner's dilemma among businesses, and under this situation the corrupt officials were developing dependence on their clients (i.e. bottom-up Mafioso clientele) due to the prisoner's dilemma among corrupt officials (i.e. the reverse prisoner's dilemma) [54]

The reason for the reverse prisoner's dilemma within the top-down Mafioso policy network was similar to that of Turkey—political instability due to the absence of one dominant mafia group within the state. The reverse prisoner's dilemma was evident at least from 1970, when Thai politics was dislodged mostly by faction in-fights within the ruling military cliques. The narrow policy network dominated by the leading military figures and bureaucrats without any genuine power competition through political parties was replaced by contending subgroups that even threatened another turnover by military means [57]. Since political competition was intense, having links with the incumbent Mafioso was not enough to guarantee the businesses security. The intense competition between elite groups also made the political power of the incumbent Mafioso volatile. Business interests were thus left with unstable protection from the Mafioso state [47]. In 1957, for example, when Sarit took over power from Phibul, Chin Sophonpanich, the founder of Bangkok Bank, who had a strong connection with Phibul's regime, was forced to leave Thai for Hong Kong, even though his bank was left unscathed.

To neutralize these uncertainties, Thai capitalists had to make connections with more than one potential Mafioso groups within the state. Sukree, or the Thai Blanket Industry group, is a paradigmatic case of survival by being a "tertius" in the network of two political rivalries. It is openly acknowledged that Sukree had close ties with military officials, which enabled him to take control of a spinning and weaving mill formerly owned by the government [56]. Unlike other financial conglomerates, however, Sukree managed to maintain networks with both of the competing political factions—the Phibul and Sarit cliques. When the Sarit faction took over the Phibul government in 1957, Sukree's tertius role paid off, as he could continue his business. Unlike Turkey, however, Thai financial conglomerates could maintain trust between different families of the same Chinese origins and exploit the richness of structural holes when the elite factions within the government were divided and intensely struggling with each other. These two factors induced the rise of and domination by the Thai conglomerates from the 1960s to the mid-1980s, by successfully incorporating the centralized banking sector within the financial conglomerates. The semi-independence of the financial conglomerates, however, did not induce splendid levels of innovation, because most of them secured large market shares in the form of monopoly or oligopoly. This is the main difference from the South Korean case. For innovation Thai conglomerates turned to foreign multinationals that would transfer technologies on the basis of joint ventures.

Indeed, from the mid-1980s, the role of the large conglomerates in the Thai economy has rapidly changed. Multinational firms took a much larger role than their Thai counterparts in export-led industrialization [53]. When the Thai economy was booming on manufactured exports in the early 1990s, most of the financial conglomerates continued to serve the domestic market [52]. The lack of incentives from state hostility to pursue organizational innovation all but disappeared in the mindset of these financial conglomerates. The large sum of foreign assistance funds that found their way into Bangkok ended up in real estate speculation. Technology upgrade was deemed less opportune than technology upgrades, as was the case of the Sukree group that had to shut down its Thai Melon Textile and Thai American Textile in 1998 due to lack of innovation and efficiency [56].

The evolution from the top-down to bottom-up Mafioso state was certainly responsible for the lack of continued innovation in Thailand. The state-business relations shifted in the 1970s, when social forces (e.g., radicals of students) tried to wrest power away from military elites, and US tutelage declined due to the dissolution of the cold war. The Thai military had to give way to a transitional form of "semi-democracy"—the coexistence of an elected parliament and a military elite as a prime minister [52, 58]. This pseudo-democracy, however, failed to eradicate corruption from the Mafioso policy network. Indeed, the opening of the parliament paved its way to machine politics of Thai sort, where business leaders maintained their political links by becoming manipulators and sponsors of new political parties [51, 52, 59, 60]. The election of Prime Minister Takshin epitomized the victory of business in Thai Mafioso policy network. The parliament was reduced to an arena of competition between different business interests [60].

4. Conclusion

Our comparative analysis of organizational innovation in South Korea, Turkey, and Thailand produced the following conclusions about the relationship between macro policy networks and the corporate decision making regarding innovation. First, regional differences in the degree of growth through private sector innovation depended largely on the patterns of state-business relations. We identified the pattern of state-business interaction in all three countries as that of the top-down Mafioso state. The conceptual clarification of the term emphasized the existence of the prisoner's dilemma among business owners who faced substantial hostility from state sector leaders, most of whom military rulers who wanted to create rent through some sort of forced extortion from the business leaders in exchange of protection—i.e., the Mafioso clientele. We found that in all three cases of top-down Mafioso policy network, corporations reacted to it through size expansion in order to neutralize the hostility on the one hand and exploit the benefit of the big size on the other, on the belief that even the top-down Mafioso states cannot destroy big clients.

Second, the content of organizational innovation within these three cases differed, as South Korea produced the chaebol, Turkey the holding, and Thailand the financial conglomerates. Again, we argued that the reason for this local variation depended on the nature of the top-down Mafioso state. The severity and stability of the Mafioso threat was crucial in what Schumpeter called "creative destruction." In the case of the South Korea, the Mafioso state banned the holding company system, by destroying the old chaebols under the tutelage of the civilian bottom-up Mafioso state. This had given added pressures to the chaebol leaders to search for a new organizational form. The current structure of the Korean chaebol is the outcome of this commitment to organizational innovation. The chaebol organization was suitable form of corporate survival without a holding company or main private banks. However, the Turkish and Thai Mafioso states did not destroy the old organizational structure of the private firms, as the holdings and the family-owned financial conglomerates persisted. Although no substantial creative destruction of the existing organizational structures of the firm occurred in Turkey and Thailand, there, too, organizational expansion in terms of size occurred for the economic rationale we clarified above.

Third, we argued that the severity and stability of the top-down Mafioso threat in the form of a policy network in large part depended on the nature of elite interaction within the state itself. South Korean ruling elites demonstrated a high level of cohesion and solidarity in part because of the intra-regional alliances between military generals (i.e., their home towns were in the same province), school network (i.e., from the same military academy), and their similar economic background (i.e., poor peasant class). The role of the internal surveillance system through the Korea Central Intelligence Agency and the Military Security Command was to ensure elite cohesion and unity. However, elite disunity and factional in-fights were the norm in Turkey and Thailand. This can be gleaned from the short-lived military coups in Turkey and Thailand. When ruling elites within a top-down Mafioso state are in disarray by factional politics, they lose the momentum of introducing formidable threats with which they can drive the private sector firms (i.e., their clients) to better performances and, hence, more exacted payments. The lack of elite cohesion was evident in Turkey and Thailand, where no new organizational innovation, except size expansion, was possible. Nonetheless, the existence of the top-down Mafioso consolidated the holdings and financial conglomerates of a larger size.

Fourth, the performance of growth through innovation depended on the nature of the policy network in each Mafioso state. The role of the policy network was to introduce various macro and micro economic policies that would foster economic growth through innovation. The outcome of the Korean style policy network was to encourage domestic innovation with foreign capital supplied by the top-down Mafioso state. The domestic innovation was to protect the domestic market from foreign imports (i.e., import substitution) and to market domestic products overseas (i.e., export industrialization). The benefit of this strategy was to engender Korean brands in the world market by increasing the value of Korean export products (i.e., technological innovation). However, no policy network in Turkey and Thailand encouraged the Korean style export industrialization drive. Instead, the Turkish and Thai policy networks encouraged joint ventures with foreign multinational firms for technology transfers. This was in part because state officials in the Mafioso policy network were co-opted by the business interests that tried to maximize profits through monopoly positions in the domestic market. The lack of the unity within the ruling clique of Turkey and Thai also tried to cash in on quick domestic ventures, instead of seeking long-term benefit of export industrialization. Ironically, therefore, it was the foreign multinational firms that saw the opportunity of export industrialization in Turkey and Thailand through factory relocation to exploit the low costs of labor and natural resources.

The Mafioso state model of economic growth and innovation has not received much attention from the scholars on innovation. However, case-oriented studies like this one can be very helpful in revealing the benefit of the model. It explains the differences of the corporate organizational structures in developing countries, let alone the magnitude of growth achievement of each developing country. We posit that further studies in this direction can develop more sophisticated conceptual tools of expounding the internal workings of the Mafioso state formation and performance in economic growth. A new focus on the evolution or disintegration of the Mafioso state after the completion of economic development is also warranted.

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