Asymmetrical power relations and upgrading among suppliers of global clothing brands:
Hugo Boss in Turkey

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Abstract
When a relatively powerless clothing supplier encroaches on the core competence of its dominant network partner and emerges as a competitor in its own right, this calls for detailed documentation and explanation. In this paper, we provide such an explanation through inquiry into the Turkish firm Sarar. A 13-year manufacturing contractor of Hugo Boss, it withdrew from its partnership with the German lead firm in 1998 and has since created its own brands of men’s suits that are now sold at home and abroad. After the withdrawal, Hugo Boss established its own manufacturing facilities in Turkey. Here we investigate the relevancy of the national origin of the lead firm Hugo Boss and of the broader institutional and market setting of the post-1980 Turkey in which the relationship between the two firms was embedded. The findings are in some tension with the organizational frameworks that are frequently used to describe the clothing industry.

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1. Introduction
In the 1990s, Gereffi (1994, 1999) characterized the business ties between lead clothing firms and their suppliers (increasingly from partially industrialized countries) as asymmetrical power relationships. The description was based on an insight into the growing importance of global buyers (mainly retailers and brand-owners, or ‘manufacturers without factories’) as key drivers of the globalization of the clothing industry (Gereffi, 2005). Since Gereffi’s characterization, upgrading—i.e. the manner in which supplier firms (and countries) try to improve their positions in the global economy—has been described primarily in terms of power asymmetries and opportunities for learning through networks. It has been generally accepted that the contracted manufacturers who operate as suppliers upgrade within production but face discouragement and even obstacles when it comes to moving into design, marketing, branding and retailing. The latter (functional upgrading) has been viewed as encroaching on the core competence of the lead firms. The unequal partition of
the total value-added along the commodity chain is believed to be well-protected by lead firms with brand-name prominence in major world markets as they construct and reproduce barriers to entry. Klein (2000) calls these firms ‘brand bullies’ (cited in Gereffi, 2005; also see Kaplinsky, 2000; Schmitz and Knorringa 2000; Humphrey and Schmitz 2001, 2002; Gereffi, et al. 2002b; Bair and Gereffi, 2003).

This framework [‘the organizational approach’ as Gereffi (2005) puts it] should not be taken too literally as a description of reality. While the general thrust may be accurate, characterizing an entire set of network relationships in a uniform manner is fraught with difficulties. First of all, there is an Anglo-American bias in observations based on lead firms such as J.C. Penney, Liz Claiborne, Gap, Levi Strauss and Ralph Lauren, coupled with an expectation of convergence in firm strategies as lead firms elsewhere are supposed to increasingly resemble their Anglo-American counterparts. Gereffi (2005, 170) believes that ‘the competition among firms from different business systems in overseas markets tends to diminish the influence of national origins on firms’ behavior.’ Many others, on the other hand, argue that firm practices are still strongly influenced by nationally specific market rules (see Gertler, 2003 for an overview). For example, Whitley (1992, 276, 277) writes that ‘[t]here is no innate competitive logic in global markets that determines efficient strategies and patterns of organization which all successful firms have to follow . . . [all] depends on the institutional structures . . . and the relative balance of power between firms and institutions in home and host countries.’ Both approaches need more empirical scrutiny. It is not completely clear to what extent French (for example Louis Vuitton), Italian (for example Gucci and Armani), German (for example Hugo Boss) lead firms and others maintain their distinctive features in the face of global competition.

Secondly, the emphasis on the buyer-drivenness of the clothing networks ‘simplifies the richness and varying spectrum of intra-sectoral power relationships and interconnections between firms’ (Hassler, 2003, 517). The business ties between the lead clothing firms and their suppliers are indeed asymmetrical. However, this does not necessarily mean that buyers have automatic power over their suppliers. The unequal distribution of power only signifies the greater degree to which one party (in this case the buyer) may influence the conduct of others (in this case the suppliers)—‘nothing more, nothing less’ (Allen, 2003, 27). Power is not something possessed or held in reserve by the lead buyer firms. In fact, even the resources and abilities that make some firms “brand bullies,” in the words of Klein (2000—cited in Gereffi, 2005) ‘move, can be lost or may simply evaporate’ (Allen, 2003, 36). Lead firms are powerful only when they successfully exercise their capacity to influence the conduct of their suppliers as, for example, they try to encourage them to upgrade within production and prevent them from entering into areas where they can collect real rents. This conceptualization calls attention to the subtle distinctions of power as opposed to the generalized sweep of relations, and helps us avoid a degree of fatalism: we do not expect events to necessarily pan out in favor of the powerful buyer every time the powerful tries to influence the less powerful (for this conceptualization of power, in addition to Allen, 2003, see also Dicken et al., 2001, 92–95). Focusing on the exercise of power (successful or otherwise) also allows us to consider the dynamism and fluidity within the power relations as these relationships are constantly constituted, transformed, and reproduced by firms with strategic intent (Smith, 2003).
It is important to note that it is not clear exactly how lead firms construct and reproduce barriers to entry within their competency areas, especially considering the fact that contracts between firms in the clothing industry are relational (informal agreements backed by promise and reputation rather than law) and that networks (groups of firms linked via such contracts) lack the legal capacity to transact as entities (DiMaggio, 2001; Kraakman, 2001). By the same token, the focus of the literature on retailers and marketers (such as Liz Claiborne) and the subsequent neglect of the lead firms with manufacturing competencies of their own (representing neither purely buyer nor producer-driven aspects of the industry) do not do justice to the diverse set of relationships. Moreover, product categories matter. For example, there are important differences between firms manufacturing or sourcing basic or standard clothing items that need to be replenished regularly and others dealing with high-fashion items whose consumption has a more puzzling logic.

Recently, an unexpectedly significant degree of upgrading amongst firms towards the end of supply chains has been observed in unlikely places (Pellegrin, 2001; Smith, 2003; Tokatli and Kızılgu¨n, 2004). This is an emerging reality that is in tension with the framework described above. Still, and for the most part, the rest of the empirical literature supports Gereffi and his colleagues (see, for example, Knutsen, 2004 for Vietnam and Sri Lanka; Gereffi et al., 2002a for the Caribbean Basin countries; and Gibbon, 2000 for Mauritius). Thus whenever a relatively powerless contracting firm in a country such as China or Turkey encroaches on the core competence of its dominant network partner by entering into design, branding, marketing and retailing and emerges as a competitor; this calls for detailed documentation and an explanation as to how the encroachment has occurred. Such an explanation should clearly concern itself with the nature of the power relations between the two firms—how they change over time, how they might reflect the national or business origins of the lead firms in question, and how they might be influenced by the institutional contexts within which networks are located (Whitley, 1999, 2001; Hassler, 2003). Moreover, this should be done without letting the individualistic characteristics of the firms themselves disappear ‘in the sea of network relations’ (Yeung, 2005; Hess and Yeung, 2006). Just because a country is somehow ‘plugged’ into global production networks does not necessarily guarantee a positive developmental outcome (Coe et al., 2004). Similarly, the fact that a local firm has found a way to connect itself to the global webs of production does not necessarily guarantee upgrading. What goes on inside firms also matters. For example, management practice is always the ‘final ingredient in enhanced performance’ (Abernathy et al., 1999, 258). In other words, as Yeung (2005) points out, a good explanation requires an understanding of the complementary fit between firm strategies and structural imperatives. The first arises from the fact that individual firms almost always have some room for autonomous action, and that with regard to management practice firms are all different from each other. The second arises from the fact that firms are now increasingly parts of networks with unequal relationships.

Here we provide such an explanation within the context of an inquiry into the Turkish firm Sarar, a 13-year manufacturing contractor of Hugo Boss (the then German-based brand-owner and retailer of men’s suits—currently controlled by the Italian group Marzotto). In 1998, Sarar withdrew from its partnership with the German
firm and subsequently created its own brands of men’s suits. These brands (called Interview, C.C.S. and Sartoria) are now manufactured at four Sarar factories with approximately 4,000 employees in Eskişehir, Turkey. They are sold in stores in the country and abroad including Sarar’s own stores in Turkey, Germany and the United States. Hugo Boss was dismayed by the withdrawal of Sarar and responded by establishing its own manufacturing facilities in Turkey, which now consist of three factories in Izmir with approximately 3,000 employees that manufacture about a quarter of the globally sold Hugo Boss brands (called Boss, Hugo and Baldessarini).

The paper is organized as follows: the first section concerns itself with the assumptions made in the literature, especially in the 1980s and 1990s, about the contracting and sub-contracting relationships and the subsequent bargaining situations between lead firms and their suppliers. Here the focus is on the assumptions which led to the expectation that, despite globalization, the manufacturing of high quality fashion items, especially those retaining many of the elements of tailoring—such as men’s suits—would remain in the United States or Europe. The same section also provides information on how these relationships have recently been changing as a number of small contractor firms in countries such as China and Turkey have gained the competence to manufacture intricately worked high quality garments for the world’s most powerful brands and moved into own-branding and retailing. The rest of the paper, after brief sections that set up both the conceptual framework and the context in which Hugo Boss and Sarar can be discussed, tells the story of these two firms during their 13-year partnership as well as the resultant break-up.

2. Industrial upgrading and global production networks

2.1. Background—lead firms

In the clothing industry, the power of the large, lead firms has been growing as they capture more and more of the global market share and exploit economies of scale at unprecedented levels. In fact, even the definition of ‘large’ has been changing: ‘[W]hereas a company doing [US]$100 million of annual business was large enough to survive in the early 1990s, by 1999 only firms operating at the [US]$2 billion mark were secure and thriving’ (Conrad, 1999 cited in Collins, 2003). The power of a significant number of such firms can be credited to a single brand (even though more and more of these large firms are now pursuing multi-brand strategies), some single brands being valued beyond the $2 billion mark. For example, in 2004, the brands Gap, Louis Vuitton, Gucci, Chanel, Levi’s, Armani, Prada and Polo Ralph Lauren were all valued between $2.1 billion and $7.9 billion, with about a third of their earnings being derived from outside their home countries (BusinessWeek, 2004).

All this points to industry concentration as a diverse group of lead firms owning powerful brands increasingly dominates the global market. The diversity arises in part from the fact that the firms behind these global brands have different national and

1 The paper is based upon interviews with 20 key informants and firm representatives of Turkish clothing manufacturers as part of a larger ongoing research project partially financed by the Scientific and Technical Research Council of Turkey (TÜBİTAK). Interview material was extensively triangulated with material from Turkish language secondary sources. It must be noted, however, that despite repeated attempts to interview Sarar management, the firm declined these requests—hence all material relating to Sarar is obtained from sources external to the firm.
business origins. For example, the brands Gap, Levi’s and Ralph Lauren are owned by US based lead firms, while Louis Vuitton is owned by a French firm, Gucci and Armani are owned by Italian firms and Hugo Boss, until recently, has been owned and controlled by a German firm. This distinction is important. As mentioned before, there is no consensus in the literature on whether or not national business systems (whether home or host) remain the constituting unit of the international economy, with the more efficient systems challenging the less efficient ones (for the argument see Whitley, 1992). Or do firms from the same national business system show contradictory patterns as they confront global markets, as in Gereffi (2005, 178)?

The lead clothing firms are also diverse in functions they perform. Many of the world’s lead firms are essentially marketers and retailers with no manufacturing facilities, but some (such as Levi Strauss, VF Corporation and Hugo Boss) are brand owners with past or current manufacturing competencies. This last distinction is important because there are suggestions in the literature that retailers and marketers rely on global full-package sourcing networks, while branded manufacturers focus on assembly using imported materials (see Gereffi and Memedovic, 2004, 68 for the distinction)—another thesis which needs empirical scrutiny.

Interestingly, as concentration increases, the vitality of small manufacturing firms in geographically diverse and partially industrialized countries also seems to be increasing. Manufacturing of global brands (even when they are owned by firms with manufacturing competencies) is increasingly being contracted and sub-contracted to small firms in partially industrialized countries such as China, Turkey, Mexico and India. Many firms in these countries are now even capable of receiving detailed specifications from the brand owners and then taking responsibility for acquiring the inputs and coordinating all parts of the production process. They then provide the brand owners with finished garments, sometimes even with attached price labels. ‘When a few giants…dominate, they leave plenty of crumbs for small firms…to pick up. In some cases, this process results in giant and small firms with complementary interests…Ironically then, industrial concentration and vital small firms may go hand in hand, so long as the giants find [contracting and] subcontracting a useful approach…’ (DiMaggio, 2001, 224–225).

2.2. The contracting and sub-contracting relationships

Contracting relationships in the clothing industry received considerable scholarly attention during the 1980s. Even though, in retrospect, it seems an implausible idea, many students of the industry then assumed that the expertise necessary for high quality items, such as men’s suits, was possessed only by US and European firms and workers. Therefore, it was predicted that countries outside the United States and Europe would grow their production volume in medium and low quality production, while high quality fashion items (especially those retaining many of the elements of tailoring) would remain in the United States or Europe (Waldinger, 1986; Zeitlin and Totterdill, 1989). The idea has lingered. For example, Agins (2000) wrote in the 1990s

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2 The controversy is basically between two theoretical orientations: institutional (for example: the literature on ‘varieties of capitalism’) and organizational (for example: the literature on ‘global production networks’). See Gereffi (2005) and Gertler (2003) for these orientations as well as the literature on attempts to bridge the gap between the two.
that the trends of the decade (the ‘classics,’ ‘simple chic,’ and ‘minimalism’) made it easier for designers to execute production in the far-flung factories of China, Hong Kong, South Korea and Mexico, implying that if the trends had required more tailoring, the prospects for firms in such countries would have been different. In these countries, even the managers, not to mention the workers, were thought to be disadvantaged because they had never purchased high quality garments themselves and consequently did not know how they should look or feel (Abend, 2001 cited in Collins, 2004).

Only firms in London, New York, Paris and Milan supposedly had the expertise necessary to provide design input and flexibility for high end, fashion items. Design had to stay in the fashion centers: ‘Close to rapidly shifting fashion fads, able to copy the latest trends while adding that little je ne sais quoi of difference,’ Paris and New York ‘abet quick communication about design changes’ (Green, 1997, 2). Also, it was assumed that firms in partially industrialized countries had long lead times, minimum production runs that were too large and poor quality control (Waldinger, 1986; Zeitlin and Totterdill, 1989). They were technologically backward; and it was not clear how they could possibly improve. After all, fabricating technologies in clothing were ‘notoriously archaic and remain[ed] essentially at the rudimentary level of such simple mechanical devices as the cutting knife and sewing machine’ (Scott, 1984). In addition, although rents were increasing in cities such as New York (Waldinger, 1986), firms in partially industrialized countries had even more serious obstacles: for example, newly emerging technologies (such as sophisticated computer-aided design systems) were probably too expensive for these firms, as they were for small firms in cities such as London (Zeitlin and Totterdill, 1989).

Thus, when it was noticed towards the late 1980s that retailers (a group of lead firms whose importance had been increasing both in Europe and the United States) were changing strategy towards increased variety and fashionability across a number of market segments, this was considered a new and potentially favorable opportunity for firms in the industrialized core (Zeitlin and Totterdill, 1989, 156). Perhaps the retailers’ changing strategy towards fashionability would reverse the industrial decline, especially in the United States and Europe (Scott, 1984, 19, 1988). This expectation, for the most part, turned out to be a little too optimistic.3 As retailers increased their demand for better-quality, more fashionable garments, and as technological developments made possible the production of a variety of styles in shorter runs, the balance of the competitive advantage with respect to high-end products started to tilt towards rather than away from low-wage suppliers in partially industrialized countries. In fact, especially in the 1990s, more and more firms from countries such as China and Turkey appeared with the competence to manufacture intricately worked, high quality garments with the required production flexibility.

3 Until recently, the Spanish Zara was a case which tended towards reconfirming that expectation: the flagship company of Inditex had the reputation of being ‘a home-sewn exception to globalization,’ keeping its own vertically integrated facilities in Spain and relying on its near-by suppliers in Spain and Portugal. Currently, however, even Zara’s 21 factories, each of which is separately managed, are expected to bid against supplier bids from factories all over the world (Fraiman et al., 2002), and the retailer is now one of the largest buyers in Istanbul. Thus it is not an exception anymore (compare with Bevan, 2001; Gibbon, 2001; Bonnin, 2002).
Since then, the idea that the expertise necessary for high quality items is possessed only by US and European firms and workers has become even more antiquated. Lead firms have increasingly noticed that countries such as China and Turkey are exactly where quality can be found because of the availability of a large supply of highly skilled tailors who have only recently been pushed out of business by large companies. For example, since 2000, a US manufacturer of men’s suits has been sending his son to Turkey to recruit the master tailors he needs in Tennessee, where he manufactures suits that retail for between $800 and $2,900 under different labels including Paul Stuart (The Wall Street Journal, 2005). The son explores Istanbul looking for signs that say ‘Terzi,’ or tailor. The company now has dozens of Turkish tailors who appeared for interviews in Istanbul ‘with threaded needles stuck in their lapels and passed the ultimate test: hand-stitching a buttonhole into a suit jacket’ (ibid.). However, the more likely way of benefiting from low costs and skills in those countries is to establish business ties with firms from such countries, ties that Gereffi (1994) characterizes as asymmetrical power relationships.

2.3. Power asymmetries

At the root of the asymmetry lies the fact that in clothing what matters most is not low value-added manufacturing but high value-added areas such as design, branding, marketing and retailing, precisely the core competence areas of the large firms (Gereffi, 1994, 1997, 1999). These firms allow their contractors and sub-contractors to do the low value-added manufacturing, but control the high value-added areas. By doing so, they generate the bulk of the value within a given network and capture it for their own benefit increasingly on behalf of their shareholders and, more generally, for the economy in which they are headquartered (Gereffi 1994, 1997, 1999; Schmitz and Knorringa 2000; Humphrey and Schmitz 2001, 2002; Bair and Gereffi, 2002, 2003; Gereffi et al., 2002). The result is an unequal partition of the total value-added along the commodity chain in favor of lead firms.

More often than not, those who already dominate the industry are in a good position to defend their positions. They generate such returns that they can afford lavish advertising budgets, conduct promotional campaigns and own sophisticated and costly information technologies. Moreover, they can shape their strategies around international trade regulations and national trade and trade-related policies (as well as influence these policies through lobbying activities) in order to gain access to markets and avoid or manipulate quotas and tariffs. For example, they can relocate production from one country whose annual quota is exhausted to another whose quota has not been filled or that is not bound by quotas, in the process playing off different producers and governments against each other (Gereffi 1999; Dicken and Hassler 2000).4 They have the ability to collect and process information on a global basis, an asymmetry which affords them very strong bargaining positions (Gereffi, 1997, 1999; Coe et al., 2004). On the other hand, manufacturers and governments in a large number of

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4 The quotas that structured the global industry were lifted by 2005. As some suspected, however, they are making a come back. For example, on January 9, Turkey decided to put emergency import quotas on 43 categories of Chinese textiles. Soon afterwards, the European Commission and the United States began the process of reintroducing import quotas for a number of categories of Chinese products (The Economist, 2005a).
countries are in constant competition with each other for contracting and subcontracting orders and for foreign investment. Moreover, production has low entry barriers, and firms at the point of production have little control over the industry. All these characteristics make clothing a buyer-driven industry as opposed to a producer-driven one (Gereffi, 1994).

Moreover, conventional wisdom suggests that when large and superior firms enter into contracting and subcontracting relationships with small and inferior firms, the large automatically exploits the small. Today, however, as Dicken (2005) points out, so much has changed that the idea of the large automatically dominating and exploiting the small may be a simplistic assumption. Among what has changed, there are technological developments. Consider, for example, the fact that sewing machines have recently rivaled computers in terms of their fast-moving technology, as manufacturers such as Brother, Juki and Pegasus compete to be on the cutting edge of technology. A recent innovation has been oil-free sewing machines that eliminate the risk of stains (Apparel Magazine, 2004a). A sound high-tech factory portfolio (‘wow high-tech machinery,’ in the words of a vice president of a Central American supplier—cited in Apparel Magazine, 2004a) matters and is much more accessible than it was in the 1980s. High-end computer-aided design (CAD) software is now substantially more affordable. Consequently, some Shanghai manufacturers are now among the most highly automated in the world (Apparel Magazine, 2004a), and the quality of some Chinese garments is as high as that of Italian garments (The Economist, 2005b). Moreover, quality control is now easier due to the proliferation of quality management and quality certification and monitoring systems with codes of conduct. The advent of the Internet and its rapid global adoption has led to a breakthrough in lead firm-supplier relationships. Suppliers in distant places have

5 The following from a consumer report on the Internet is telling: ‘You’d think sewing machine technology doesn’t move too quickly, but since our last report, these handy units have rivaled computers and DVD players in terms of fast-moving technology... The new top-of-the-line computerized machines... are so new, however, that professional reviewers haven’t been keeping up.’ See http://www.consumersearch.com/www/house_and_home/sewing_machines/downloaded 15 November 2004.

6 This was indicated by a vice president of Brooks Brothers when he described how a recent sourcing partnership with a Chinese supplier was sealed: ‘As I toured their plant, I looked at the finishing and washing equipment and I was not about to allow our product to come through those lines. There was simply too much margin of error. Their response was they would buy state-of-the-art equipment specifically for us. They did, and it’s been fantastic’ (cited in Apparel Magazine, 2004a).

7 For example, Fashion CAD pattern making software for garment manufacturing (including pattern design, grading, detailing, market layout and CAD drafting) costs just over US $1,000 including maintenance and delivery. Furthermore, bargains are becoming more and more impressive every year; in 2002, an annual license for Auto CAD could be purchased for US $125 (based on a three-year-contract), compared with a list price of over US $3,000 (University of Wisconsin, Madison, 2002).

8 For example, Liz Claiborne in the mid 1990s began a ‘supplier certification’ initiative which required its subcontractors to use information systems that were compatible with its own, to institute specific quality control procedures, to buy fabric and other components from designated sources, and to follow a ‘code of conduct’ in labor relations (Collins, 2003, 120). Similarly, Marks & Spencer’s suppliers in Turkey are now being continuously inspected on a variety of matters ranging from working conditions (including sensitive issues such as the use of child labor) to safety (including the process of looking for broken needles in finished products for customer safety) (Wrigley, et al., 2006). These and similar requirements are now incorporated in the form of multi-purpose rules within industrially certified quality assurance systems (Gibbon, 2002).
become just a ‘flick of a mouse’ away from the lead firms, as personal relationships have taken a back seat to more efficient, technology-driven methods.\(^9\)

### 2.4. Learning and change in asymmetrical power relations

Relationships between firms vary over time, not only because of technological developments but also because of the constantly changing competencies of firms through learning processes. Research suggests that there are two important components involved in such learning. As explained by Bessant (2005), the first component involves the accumulation and development of a basic knowledge or competence base. As the basic competence improves, the newly generated knowledge is utilized in terms of product or process related innovations.\(^10\) The second is the long-term development of a capability for learning and continuous improvement—learning to learn (metalearning) or the capability of change (see also Güttel, 2006 for both components).

In the recent years, supply chains have come to be seen as a mechanism to promote learning. There is already a rich literature discussing this specific variant of learning. See, for example, Humphrey and Schmitz (2002) for the inter-firm learning that occurs between lead firms and their contractors and subcontractors, as well as Pellegrin (2001) for a specific case study of inter-firm learning between Hugo Boss and OP Prostejov, its Moravian contractor. Here we do not have much room to discuss the mechanisms of inter-firm learning. However, two points should be made: first, learning is not automatic. Why some firms can make use of the same supply chain and learn enough to gain and sustain a competitive advantage by upgrading capabilities, and some fail to do so is a difficult question to answer. First, as explained by Humphrey and Schmitz (2002), the ability to invest in the acquisition of new competencies is critical. Understanding why some supplier firms can come up with funds to make risky investments and some cannot requires that we investigate, among other factors, the particularities of the business environments—a subject which we will discuss later. For example, some firms in certain business environments can sometimes have particular opportunities to make ‘easy money’ and then successfully transfer this easily made money into the acquisition of new competencies. Also as Bessant (2005) discusses in detail, what goes on inside firms is an essential part of the picture but not always easy to understand. Some firms fail to recognize the need to learn, some recognize the need but choose to ignore or discount it, and some try but somehow stumble at the first hurdle. Also, firms sometimes fail to learn from others because they are locked into an incomplete cycle of experiment or experience, or because they fail to organize and mobilize learning skills. It is even possible that sometimes they learn but do not know what to do with the knowledge because of their inability to describe or articulate what they learn. As Güttel (2006) explains, firm competencies are routines (processes) based

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\(^9\) One of the most recent developments in this respect has been the development of online exchange systems such as GNX (used by Sears and others), WWRE (used by Target and others), and 7thOnline (used by 28 major brand-owners and retailers) that help lead firms expand their supply base and automate their supplier pre-qualification processes (Apparel Magazine, 2003; Apparel Magazine, 2004b).

\(^10\) As Pellegrin (2001)—as she cites Ernst et al. 1998, 13—and Humphrey and Schmitz (2002) explain if a capability is new to a firm, it should be considered innovation even if it existed elsewhere previously.
on systems of rules (structures) which are grounded in the corporate culture, and dysfunctions of the corporate culture also complicate the picture.

A second point is that learning is a reciprocal process and creates not only opportunities for upgrading among contract manufacturers as they learn from their lead firms, but also generates prospects for lead firms. For example, lead firms learn from their contractors and subcontractors the intricacies of operating in a specific environment, something which may in the future create opportunities for direct production in these environments.

In the clothing industry, improvements in basic competence occur when contract manufacturers learn along the lines of the quality of the production process, the consistency and quality of the product and the speed of response. They may then upgrade within production improving along the dimensions of quality, flexibility, productivity and punctuality, provided that they have resources to invest, and that their corporate culture allows such successful upgrading. However, this sort of upgrading by manufacturers is also in the interest of the lead firms and, therefore, does not radically alter the power asymmetry between themselves and their lead firms. A more important variant of learning occurs when the motivation for learning for manufacturers ceases to be the sense of shared purpose with the lead firm and supplier firms start learning for themselves. For example, eventually all manufacturers learn that in the clothing industry profits accrue to retail and brand-holding firms and that a command of fashion is indispensable. After all, the full-package manufacturer attaches a price tag of, say, $200 to a jacket that it is selling to the lead firm for $47. However, merely knowing this does not complete the learning cycle. Only when manufacturers learn how to successfully encroach on the core competence areas of the lead firms and capture some of the real rents, do they have a chance of succeeding in the global market.

Real rents are now increasingly found in areas outside production. What the manufacturing suppliers of, say, Liz Claiborne or Hugo Boss need to do, then, is to show strategic intent, learn as much as they can during the full-package manufacturing experience (by benefiting from knowledge that was willingly transferred to them by the lead firms or unintentionally leaked), and successfully move into design, branding and retailing. This requires that manufacturers find out where exactly the fragilities in the power relationships are and how the consequences of the unbalanced distribution of power between themselves and the lead firms can be mitigated.

The lead firms try to defend their positions by constructing and reproducing barriers to entry at their competence areas. However, the exact shape and form of the barriers are not clearly elaborated and exemplified in the literature, and there is no reason to assume that lead firms are always able to be successful. In fact, large firms ‘are often loose coalitions of competing or even opposed interests, ill thought-out plans, and grudging implementations held together by inspired acts of improvisation. And things really do fall apart on a fairly regular basis—and not just because of market downswings’ (Thrift, 2003, 140, 141).

A few manufacturing firms have already managed to put the necessary capital and organizational capacity together, exploited the fragilities in the power relationships,

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11 The figures come from a Turkish full-package supplier of the British Marks & Spencer and the American Banana Republic, Limited, Express and Ann Taylor. The figures are consistent with what Dikmen (2000, 215, 243 cited in Somel, 2004) found in 1999: Turkish manufacturers charge their lead firms 20–25% of the final price of the products (of which a little over 10 percent being their own profit).
and turned themselves into brand-owners and retailers, not only in a handful of high-performing economies like South Korea, Taiwan, Hong Kong and Singapore but even in more unlikely places (Pellegrin, 2001; Smith, 2003; Tokatli and Kızılgün, 2004). Clearly, even when the relationships between lead firms and their suppliers are asymmetrical, not every single supplier firm’s fate can be predicted. As DiMaggio (2001, 212) puts it, ‘there are networks and there are networks.’ In other words, the extent of explicit coordination among partners and the degree to which some actors are capable of dominating others may differ from one network to another even though dominance and control issues are enduring. Moreover, what DiMaggio (2001) states for networks is also valid for firms themselves: ‘there are firms and there are firms’ (see also Abernathy et al., 1999, 243–261 on why some suppliers perform better than others).

Second, learning changes power relationships. As Humphrey and Schmitz (2002) explain, every time manufacturers acquire new capabilities and explore new markets, power relationships change. Here it is essential to remember that power is relational (the exercise of power by one party depends on the powerlessness of the other) and that it is not an inherently possessed quality but rather ‘the emergent effect of social practice’ (Yeung, 2005, 45). For example, a supplier can take a design supplied by a lead firm and then make adaptations and use the modified design to supply other customers in other markets (Humphrey and Schmitz, 2002). Moreover, suppliers negotiate and act differently on tensions originating from power relations so that success or failure for a specific contractor cannot be predicted a priori. This position is very much in line with the ‘relational networks’ approach in the economic geography literature which focuses on the importance of understanding the complementary fit between structural imperatives and firm strategies without privileging either (Dicken et al., 2001; Henderson et al., 2002; Yeung, 2005).

The above conceptualization requires that in any research concerning the clothing industry, both the uneven nature of the power relations between lead firms and their contractors, and the fluidity of these relations should be explored. However, as Smith (2003) also admits, empirically researching power relations is a very difficult task and sophisticated arguments about the nature and fluidity of power relations are usually followed by findings such as whether contracts are long-term or short-term, how the final value is distributed between lead firms and contractors (using price measures as a proxy for value), and whether contractors functionally upgrade or not. The nature of the empirical material almost never allows researchers to articulate the learning mechanisms that change power relations between lead firms and their suppliers at the same depth as the theoretical arguments because of the unwillingness or inability of decision makers in firms to describe or articulate to researchers what they learn from others. It is, therefore, still an open question exactly how fluid power relations are and how this fluidity actually alters bargaining situations within networks. However, at least, researchers are now equipped with useful conceptualizations of learning and power, and thus the increasing competencies (with regard to vitality, flexibility, punctuality, productivity and quality) of the large number of small contractor firms in countries such as China and Turkey no longer surprise them.

The following account of Sarar and Hugo Boss provides a case study of the changing configuration of a buyer and a supplier and tells a story of how the Turkish Sarar was able to move away from dependency on contract export production for Hugo Boss and to move into own brand manufacturing. The case study indicates that inter-firm learning sometimes creates such opportunities for contracted manufacturers that
seemingly powerless manufacturers can go beyond upgrading within production by supplementing their production expertise with the design and then sale of their own branded clothing at home and abroad. In the process this case study confirms that the national origins of the lead firms (in this case German), and the broader institutional and market setting in which the relationships are embedded (in this case the context of post-1980 Turkey with all its particularistic attributes that both Sarar and Hugo Boss confronted and responded to) are all relevant. More generally, neither firm-specific factors, nor local or global dynamics automatically bring about beneficial or detrimental consequences for any specific firm; and that a recognition of the complex positionality and variable power and bargaining relationships of firms within such networks is essential.

3. The case of Hugo Boss and its Turkish supplier Sarar

3.1. Institutional factors

Even though it is currently controlled by the Italian group Marzotto, in 1985 when Hugo Boss first entered into a partnership with Sarar it was a ‘German’ brand-owner and retailer of men’s suits. As such, it shared with other German firms certain powers and liabilities. For example, there are no sweatshops in Germany because of the highly regulated labor market and the strength of trade unions as well as the organized nature of immigration (Wortmann, 2005). Also, German firms can be more ‘patient’ (Sorge and Streeck, 1988 cited in Wortmann, 2005; also see Christopherson, 1993) whereas firms in the United States and United Kingdom have increasingly been managed in the interests of their shareholders, and thus driven by financialization. German firms thus feel relatively less pressure to obtain high short-term returns on capital—even though it is possible that pressures which were brought to bear on the German model in the late 1990s by global economic forces have already complicated the picture (Clark and Wojcik, 2003). At this point there may be a number of German models, instead of only one, each being more or less tuned to global financial imperatives. Still, German firms are at least believed to enjoy the same institutional framework ‘which provides them with multiple support structures and gives them access to capital, human resources and technical know-how on very favorable terms, as well as encouraging them to combine these resources in a highly productive way’ (Lane, 1992, 92).

Also, German firms in general, and German clothing firms in particular, started relocating their manufacturing functions to low-cost countries much earlier than UK or US-based firms (Fröbel et al., 1980). ‘Already by the 1970s, around 70% of German clothing firms were involved in some offshore production, utilizing both foreign sourcing and varying degrees of equity participation in roughly equal measure’ (Lane and Probert, 2004, 12). This is very different from the United Kingdom, for example, where foreign sourcing on a grand scale did not start until the 1990s. Moreover, German clothing firms are larger, more skill-intensive, more productive, and more specialized in the manufacturing of high-quality brands for the upper-middle market

12 In the literature, there is no consensus on whether there still is a distinctive German model of corporate governance and financial structure. Some argue that the pressures of global economic forces in the late 1990s (resulting in changes in ownership structure and informational transparency among others) have turned the model into a rhetorical device (Clark and Wojcik, 2003; Wrigley and Currah, 2003).
(than, for example their counterparts in the United Kingdom). Consequently they ‘have more power resources of their own.’ In other words, they are less dependent on domestic retailers. The implication is that they do not experience the buyer-drivenness of the industry as much as the US and UK-based firms do (Lane and Probert, 2004, 23).

Perhaps more importantly, German manufacturers, especially those who are specialized in high-quality, tailored products such as Hugo Boss, have the reputation of establishing close and long-term technological and organizational cooperation with their suppliers. ‘The geographical closeness to the manufacturing locations in Eastern Europe and in the Mediterranean [including Turkey] allows the manufacturers various technical support measures, among them the deployment of their own technicians—permanent or traveling—or the training of employees at headquarters in Germany’ (Wortmann, 2005, 9).

In 1985, when Hugo Boss entered into its partnership with Sarar, the institutional fabric of Turkey could not have been more different from that of Germany. One of the main differences between Turkey and Germany was the adversarial and unpredictable characteristics of the Turkish business atmosphere—an instance of what Whitley (2001) calls ‘particularistic’ environments. According to Whitley (2001) these characteristics are typically produced by a combination of a predatory state and weak collective intermediaries, and norms governing economic transactions and signal rapid politically induced change and economic instability. In ‘particularistic’ environments, firms and organizations become ‘opportunistic.’ In fact, the business environment was then so ‘particularistic’ that if Hugo Boss had directly invested in Turkey (instead of entering into a contracting relationship with a Turkish firm), the German manufacturer would have found the experience overwhelming. As research elsewhere also indicates, ‘fixing of capital in place…[in countries similar to Turkey] brings with it intense vulnerability to the vagaries and exigencies of [such] “particularistic” business environments…[and] inevitably implies dealing with…“opportunistic” firms and organizations’ (Wrigley and Currah, 2003). Establishing partnerships with domestic firms from these particularistic business systems exposes foreign investors to sometimes insurmountable unpredictabilities.13 On the other hand, imagine the difficulties of facing the ‘frequently murky financial-political nexus’ at the heart of these particularistic environments without local partners (ibid.).

Murkiness was indeed one of the particularities of the business environment in post-1980 Turkey, partly stemming from the relationship between the state and the private sector. For example, it is worth mentioning that, during the 1980s, government subsidies on manufacturing exports were so high that they averaged around 25% of the foreign currency value of the manufactured exports, reaching a peak of 35% in 1983 (Yeldan, 1995). In fact, in the 1980s, export subsidies ‘exceeded the level of corporate taxes paid throughout the decade (with the single exception of 1986)’ (ibid., 50). The most important component of the subsidy was a production tax rebate which led to ‘export-oriented rent seeking’ through over-invoicing of exports or so-called fictitious exports.

13 The account by Wrigley and Currah (2003) of the Dutch retailer Ahold’s encounter with ‘particularistic’ business environments in Latin America elaborates on the stresses and distinctive challenges posed by such environments. The economies in Latin America turned out to be comprised of formal institutions too weak to provide the basis for predictable outcomes even for the world’s third largest retailer which partly explains Ahold’s 2003 decision to withdraw from South America.
Since then, rent-seeking has been almost a permanent feature of the economy, partly because businesses were long forced to live in a high and chronic inflationary environment, with interest rate changes and devaluations being a part of daily life. Domestic firms had to develop defensive strategies to mitigate effects of inflation, including currency substitution that gave businesses a sense of protection. Another strategy was the utilization of the remarkable returns on short-term capital financing (the so-called ‘hot money’ investments) offered by the combination of very high inflation and very high real interest rates. Among the more popular short-term investments were the Turkish Lira Repurchase Agreements (repo transactions) that were very profitable due to very high real overnight interest rates (Akat, 2000). Turkish firms developed the habit of delaying wage payments and investing the money in the money market. Similarly, if a firm could hold on to what it owed to a network partner for an extra day, those repo transactions could offer interest rates averaging around 25% 1999 (Akat, 2000). The result was growing non-operational profit opportunities, especially for large firms, creating the unnatural situation of firms increasingly acting as rentiers. Economists calculated that in 1994, about two-thirds of total profits and in 1995 nearly half of the total profits of the largest 500 firms in Turkey were from non-operational sources such as interest (Erzan and Filiztekin, 1997).

In an environment where non-operational profits exceed operational ones, state-business relationships become more and more particularistic as the former starts developing some ‘Mafioso’ characteristics and the latter ‘corrupt’ tendencies (Oh and Varçın, 2002). For example, the privatizations of the 1990s, which included the largest publicly owned textiles complex Sümerbank, are usually explored by the economists within a context of ‘corruption, rent-seeking, and unlawful episodes aimed at transferring public property to the domestic and international capital at fire-sale prices’ (Yeldan, 2005, 30), a point which only adds to the ‘particularistic’ business environment.

Yet another particularity appeared when an unofficial trade between Turkey and Russia (called the ‘suitcase trade’ in Turkish and the ‘shuttle trade’ in Russian) emerged after the dissolution of the Soviet Union into 15 nations in 1991, and approached an annual volume of US $10 billion in the mid-1990s (Yükseler, 2002).

In such an environment, some firms were able to successfully act as rentiers, and take advantage of speculative money markets, illegal trade opportunities and privatization decisions, while others (probably including some foreigners whose backgrounds in stable economies did not prepare them for such ‘interesting’ opportunities) were vulnerable in the face of an extremely unpredictable business environment.

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14 OECD (2001, 66) found the domestic firms’ way of dealing with the particularistic environment “very sophisticated.” The steady fall of the real value of the Turkish Lira in circulation, in absolute terms, from the equivalent of 4.6 billion dollars in 1979 to 3.6 billion dollars in 1999 reflected the slow replacement of the Turkish Lira, in daily life, by hard currencies, such as the US Dollar and the German Mark. In such a business environment, firms which paid their employees and suppliers in the domestic currency while receiving hard currencies such as German Marks or US dollars from their buyers find themselves in a very advantageous position. Consider, for example, how much the profits of a firm would increase if its earnings were in foreign currency and costs were in Turkish Lira when between January and April 1994, the exchange rate fell from 19,000 TL/US$ to 38,000 TL/US$. By the same token, consider how much the profits of the same firm would further increase when following the most recent crisis in 2000, the currency lost over a third of its value yet again (The Economist, 2001).
The Hugo Boss/Sarar partnership and consequent developments should be understood within this context.

3.2. The Hugo Boss/Sarar partnership

In 1985, Hugo Boss entered into a supply relationship with Sarar Giyim, a Turkish firm with a history since 1944 of hand-made tailoring. The relationship was to be managed by ‘contact not contract,’ that is by coordination and control achieved by dense flows of information and material (Gibbon, 2001, 186). These relationships work well when there is an asymmetry between the firms because of the obvious non-legal sanctions in play—the most important being the manufacturers’ crucial need for repeat orders. The contract between Hugo Boss and Sarar, if it can be called that, was at best a ‘relational contract,’ (i.e. an informal agreement with the idea of ‘getting the job done’ backed by promise and reputation, not law) and was open to reinterpretation and updating by the parties without any guarantee of flawless coordination or control. In other words, the agreement was ‘self-enforcing’ (in the sense that each firm’s concern for its reputation had to outweigh that firm’s temptation to renege on the contract), and lasted as long as it remained feasible and valuable which, in the case of Hugo Boss and Sarar, turned out to be 13 years (Gibbon, 2001).

For the 13 years, Sarar, as part of Hugo Boss’ global supply chain, manufactured fashionably tailored suits on a cut-and-make basis using fabrics, trimmings and specifications provided by Hugo Boss. The relationship was an asymmetrical relationship in a ‘buyer-driven’ commodity chain with the main leverage exercised, ‘at the design and retail ends of the chain,’ by Hugo Boss. Whilst Hugo Boss accounted for a large percentage of the total sales of Sarar; the Turkish manufacturer, as one of hundreds of Hugo Boss contractors and sub-contractors, only accounted for a small percentage of the German firm’s sales (less than 5% of Hugo Boss’ total production capacity even during the periods when Sarar manufactured 15,000 tailored suits per month for Hugo Boss).

Thus, Hugo Boss exerted pricing control over Sarar; passed the risks and responsibilities of the slightly imperfect items to Sarar; dictated the specifications of suits; decided when and how these suits were manufactured; and, perhaps more importantly, exerted asymmetric information control with regard to research, design, sales, and marketing issues in the niche of fashionable men’s suits while avoiding the problems of managing a labor force in Turkey. The relationship was not much different from that between other lead firms such as JC Penney and Calvin Klein and their Turkish suppliers. The most important difference was that Hugo Boss was a branded manufacturer with manufacturing competencies, while retailers and branded marketers such as JC Penney and others carried out no production on their own.

Brand-owners of high-end suits differentiate themselves from others, claiming that they combine traditional skilled craftsmanship with the latest technology for excellence.

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15 Before establishing a partnership with Sarar, the German Hugo Boss already had well developed subcontracting relationships especially in Central and Eastern Europe and sourcing activities in a large number of countries including Mauritius. Pellegrin (1999) writes that Hugo Boss’ contracting agreements are on a large scale and on a long term basis in Central and Eastern Europe but do not envisage capital involvement. Gibbon (2000) writes, in passing, that during his field research in 2000, Hugo Boss discontinued its sourcing activities in Mauritius, Africa’s leading global clothing exporter (see footnote 15 in Gibbon, 2000).
On the one hand, cutting machines need to be computer-controlled for perfect precision. On the other, many details require the skills of craftsmen, as buttons are supported by small buttons on the reverse, side pockets are reinforced, and protective inserts are sewn under the arms. In Knoxville, Tennessee ‘[y]ou can find someone who can mend pants, but master tailors who can make a collar or set of a sleeve or baste canvas is a whole different story… It’s the difference… between a Detroit assembly-line worker and a craftsman who builds Rolls-Royces by hand’ (The Wall Street Journal, 2005). Skills are required at almost every stage of production. For example, even though every suit is steam-pressed numerous times in the course of production, the final ironing is done manually and meticulously.

When Sarar entered into a supplying relationship with Hugo Boss, what it offered to Hugo Boss was the traditional skilled craftsmanship and what it learned from the German firm was the ability to combine this craftsmanship with the latest technology in order to provide suits that met the most demanding standards of the market. Still, when Sarar agreed on the subcontracting agreement, in 1985, the prediction based on the literature would have been that Sarar would upgrade within production (for example, from cut-make-trim to full package manufacturing) but would face obstacles to upgrading assets and competencies to levels that would confer significant bargaining power (that is upgrading into higher value-added activities such as design, brand name manufacturing and retailing) (Schmitz and Knorringa 2000; Humphrey and Schmitz 2001, 2002). There was really no reason to expect that Sarar would use this opportunity for learning to acquire enough autonomy to develop and exercise its own strategies, upgrade its operations, and evolve into an original brand-name manufacturer. In fact, it was unheard of for a Turkish clothing manufacturer to do so.

Similarly, if anybody had made a prediction based on the literature as to what would happen to Hugo Boss, if Sarar asked for a price increase and the partnership was broken up, then the prediction would have been that Hugo Boss would find another manufacturer in Turkey or turn to one of its hundreds of contractors and subcontractors in Central and Eastern Europe. When this actually happened (the price increase demanded by Sarar was 60 percent according to Hugo Boss, and 15 percent according to Turkish newspapers at the time), Hugo Boss decided to establish its own production facility in Turkey, a move that only a branded manufacturer with manufacturing competencies could make.

Sarar’s decision is perhaps even more interesting. Here we should mention that in 1996, two years before the withdrawal, benefiting from a privatization decision by the government, Sarar had purchased a printing and dyeing facility in Eskişehir from the state, paying a little over US $3.9 million (a ‘fire-sale’ price, according to some of our key informants). Before the privatization, the factory belonged to Sümerbank, Turkey’s largest publicly owned textile complex with a number of manufacturing and retailing facilities scattered around the country.16 The factory printed and dyed cotton mix poplin, divitin and flannel furnishing fabrics. [A few years later Sarar reported that the

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16 Even though Sümerbank’s privatization since 1995 has already been assessed by economists who generally conclude that privatization in Turkey in the 1990s meant ‘corruption, rent-seeking, and unlawful episodes aimed at transferring public property to the domestic and international capital at fire-sale prices’ (Yeldan, 2005, 30), there is no specific information on the Eskişehir factory because of the relatively small amount of money involved. Attention is usually given to privatization decisions called ‘bloc’ transfers involving billions of dollars. Sarar now proudly presents the factory on its web page.
firm invested US $15 million in the privatized factory after the purchase (İhracat Dünyası, 2003). Forty percent of the fabrics manufactured in this factory are now exported to the United States, Germany and elsewhere.] Two years after the purchase of the factory, when Hugo Boss refused the contractor’s demand for a price increase and instead offered the alternative that Sarar could have a strategic partnership with the German firm (by allocating one of its two factories to Hugo Boss’ needs only), the Turkish firm declined the offer. In fact, it completely withdrew from supplying the German firm. The goal was to move up the value-added ladder to branding and retailing (Turkish Daily News, 1998; 1999). The ownership of textiles factory likely added to Sarar’s confidence with regard to this decision.

3.3. Going separate ways

After the separation, Hugo Boss established its own production facilities in an export processing zone in İzmir. This was then an interesting decision even though a few years later, in 2001, VF Corporation’s European subsidiary VF Europe also opened its own factory in Turkey after years of a contracting relationships with the Turkish Erak which, like Sarar—and before Sarar—also turned to branding and retailing. Since establishing its own production facilities, Hugo Boss has continued to invest in them. Today, the daily production capacity at the three Hugo Boss factories in İzmir consists of 3,000 men’s suits, 7,000 men’s shirts and 5,000 women’s sportswear, which is about a quarter of the globally sold Hugo Boss brands. Hugo Boss no longer has a business relationship with Sarar but continues to use other Turkish contractors including Edirne Giyim which manufactures 4,000 suits for a number of lead firms.

Today Hugo Boss is controlled by the Italian group Marzotto (one of the five largest clothing and textile companies in Europe) which also controls brands such as Valentino, Marlboro Classics, Principle and Stephan. In 2004, Marzotto reported net profits of 39.8 million Euros, operating profits of 172 million Euros and sales of 1.824 billion Euros. Of all Marzotto’s turnover, over 60% was attributed to Hugo Boss.\(^\text{17}\) The same year, Hugo Boss (which now has a turnover of 1.2 billion Euros, 4,800 employees worldwide, and has more than 5,000 sale points in 108 countries) reported a 14% rise in its profits.\(^\text{18}\)

Why did Hugo Boss choose to establish its own production facilities after the separation? The answer is that production has always been an integral part in its corporate structure, a characteristic which differentiates it from retailers and marketers that do not know how to make garments themselves (and receive most of the scholarly attention—see Gereffi and Memedovic, 2004). Perhaps more interestingly, how did Sarar manage to turn itself into a brand-name manufacturer and retailer? It is now a household textiles manufacturer and an own-brand manufacturer and retailer of men’s and women’s suits with some international presence (even though Sarar did not probably take market share from Hugo Boss as they play in different leagues). The firm reported a turnover of US $150 million and US $40 million worth of exports

\(^{17}\) See www.Marzotti.it

\(^{18}\) Even though Hugo Boss is known for its tailored suits for men, with retail prices starting from $400–500 in the United States, the company is now involved in women’s clothing as well. In 2005, the sales of Boss Black (a brand for women) were expected to reach $100 million. A newer brand called Boss Orange has also been launched recently (Women’s Wear Daily, 2005).
in 2003 (Radikal, 2004). Sarar has two offices in New York and Düsseldorf (since 2000); and its suits are exported to the United States, Germany and elsewhere. Moreover, Sarar has 43 stores within Turkey and 46 stores abroad.\textsuperscript{19} At the US stores suits are sold at prices starting from $350 to 400. The daily production capacity at Sarar’s four factories in Eskişehir consists of 3,500 men’s suits, 5,000 men’s shirts, 500 coats, 500 duffel coats and 50 hand-made suits called Sartoria Sarar.

After its withdrawal, the owner/manager of Sarar was reported to have said ‘they knew there was no future in subcontracting’; rather, the future was in developing brands and opening stores (cited in Hürriyet, 1998). Five years later, he felt sufficiently satisfied with the transformation to claim that his firm has already become ‘the worst nightmare of its buyers’ (İhracat Dünyası, 2003). The transformation of Sarar confirms the fact that the resentment felt by suppliers over the dominant positionality of the lead firms can, in certain contexts, spur functional upgrading by suppliers. Certainly, Hugo Boss would have liked to protect the uneven partition of value-added along the commodity chain. However, it is not clear exactly how it could have done so: after all, contracts between firms are relational with no obligation to continue with a contract which does not seem to offer any future. Networks lack the legal capacity to transact as entities. Thus when the supplier feels confident enough to go its separate way, there is not much that the lead firm can do about it.

Where did Sarar’s confidence come from? How did it accumulate sufficient capital and knowledge for this transformation during the 13-year partnership? Even if the purchase of the textiles factory in 1996 was a bargain, it is still curious how, 2 years later, Sarar managed to come up with sufficient resources to upgrade into higher value-added areas. After all, contracting is not a high margin position; and the only possible explanation seems to be related to the particularities of the country. We do not have concrete evidence as to the profits Sarar made during the partnership and how much of it was due to devaluations and other particularities of the economy such as opportunities created by non-operational, rentier activities.\textsuperscript{20} What we do know is that, during a newspaper interview in 2005, the owner and chairman of the board of Sarar, Cemalettin Sarar, explained (in general terms without necessarily referring to his own firm) the advantages that Turkish manufacturers experienced in the post-1980 Turkey. These were high rates of inflation, favorable exchange rates and government incentives (Cemalettin Sarar cited in Sabah, 2005). The external developments related to the ex-Soviet markets during the 1990s should also be taken into account, even though we certainly do not have any evidence that Sarar benefited from the illegal trade with Russia. However, in yet another newspaper interview, Cemalettin Sarar recently said ‘they have been selling to the Russian market since 1985 . . . Russians demand very high quality garments. They want cashmere, they want silk . . . Europeans value brands too but Russians are in love with them. They know the brand Sarar very well’ (Cemalettin Sarar cited in Capital, 2005). Our key informants also remind us the fact that Sarar,

\textsuperscript{19} Ten of these stores are in Europe. There are 15 in the United States, 16 in Russia, as well as one in each of Dubai, Jordan, Lebanon, Egypt and India. According to its web-page, the firm also has plans to open stores and manufacturing facilities in China.

\textsuperscript{20} As we mentioned before, our repeated attempts to arrange an interview with a Sarar manager were not successful. However, even if we had managed to interview somebody from Sarar, it is doubtful that we would have received information on sensitive issues such as rentier activities, informal trade opportunities with Russia, or the privatization of Sümberbank’s Eskişehir factory.
during the 13-year partnership, paid its employees and suppliers in the domestic currency while its earnings were in a hard currency: the German Mark.21

Similarly, we do not know whether, in the late 1990s, the managers of the firm felt less captive to Hugo Boss because of the growing number of European retailers looking for suppliers. The growing numbers were due to the fact that the European Community (EC) set the objective of strengthening political, economic and cultural links with Mediterranean countries including the establishment of a customs union (CU) with, among other countries, Turkey starting in 1996. Consequently Turkey became the second (following China) largest provider of clothing for Europe, and this changed the overall business environment. For example, when Sarar withdrew from the partnership in 1998 with the idea of entering into brand-name manufacturing and retailing, such a transformation was by then no longer ‘unheard of’ for a Turkish firm. Erak Clothing, the jeans subcontractor of the German Mustang and others, had been manufacturing and retailing its own brand (Mavi Jeans) since 1991 (Tokatli and Kızılgün, 2004). In 1998, following the same route, Sarar joined the handful of Turkish firms that had already become own-brand manufacturers and retailers with some international presence (see Tokatli, 2003; Tokatli and Eldener, 2004; Tokatli and Kızılgün, 2004).

What is interesting is that the conditions which were considered as advantageous for some firms also proved themselves too ‘particularistic’ for some, including foreigners many of which shifted away from manufacturing and into the service sector.22 For example, following the 1994 financial crisis, both Benetton and Levi’s sold their recently acquired shares in Turkish factories back to their Turkish partner Boyner (Tokatli and Eldener, 2004). With regard to Hugo Boss, by relying on Sarar (instead of directly investing in Turkey) the German-based brand owner managed to escape the risks related to the particularities of the economy for the first 13 years, but also missed the rentier profits that an insider firm would have collected. Also importantly, during the first 13 years, Hugo Boss found opportunities to learn the intricacies of operating in such an environment from Sarar. This suggests that learning is a reciprocal process. During the time period when Sarar was learning the intricacies of manufacturing high quality men’s suits on a large scale from Hugo Boss (which would later allow the supplier to upgrade), Hugo Boss was also learning how to deal with the Turkish economy, specifically the everyday practices of business. In 1999, after accumulating sufficient knowledge about the domestic environment from Sarar and acquiring Sarar’s own top manager (according to one of our key informants), Hugo Boss directly invested in Turkey.

Hugo Boss’ decision to establish its own factory in Izmir should also be seen within the context of post-1980 Turkey. The FDI flow to Turkey led by German-based firms was just starting—a flow which would, in 2004, result in 159 foreign clothing firms in Turkey, 57 of which were German-based. The partnership with Sarar seems to have helped Hugo Boss to wait until business conditions became encouraging in the domestic environment and the government enacted suitable laws concerning foreign direct investment including the establishment of the export processing zones.

Establishing a factory in Turkey, where cotton, threads and textiles are manufactured resulted in significant cost savings, as indicated by a 2000 company report in which

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21 This explanation points to the high devaluation rates in Turkey, fluctuating around 60 percent between 1991 and 1993 and rising to 170% following the crisis in 1994 (Yentürk, 1999; Akat, 2000).
22 Investment in manufacturing as a proportion of all foreign investment dropped from 91.5% in 1980, to 68% in 1995 (Foreign Investment Directorate, 1996).
Hugo Boss announced that ‘costs of goods [were] down due to [a] new production plant in Turkey’ (Hugo Boss, 2000). Since the establishment of its first factory, Hugo Boss has increased the number of its Turkish factories to three, and even more importantly, has turned its base in Izmir into one of the two main centers of the firm. While the design center of Hugo Boss is still in Germany, Izmir is now considered the firm’s production center with regard to technology, quality control and management systems. ‘The know-how to our 200 partner producers is distributed from Izmir’ (interview, 2005). All this points to the fact that, in the words of Hess (2004), Hugo Boss has been ‘anchoring’ in Turkey since 1985, as indicated by the increasing backward linkages to the local economy where it has business relationships with many firms including Boyner (the manufacturer of Altınyıldız fabrics), Edirne Giyim (a contractor of men’s suits) and Orjin (a domestic retailer). In 2003, the firm reported that within 5 years, the Izmir factory had increased the worth of its Turkish inputs (including fabrics) from 10 million Euros to 200 million Euros.

4. Findings of the case study

Our case study shows that competence differences among lead firms matter. Sarar’s lead firm Hugo Boss was one of those high quality German manufacturers who, in the words of Wortmann (2005, 13) ‘fits well with theories of… a German variety of capitalism.’ They come from a national system where ‘Gereffi’s (1994) notion of commodity chains dominated by retailers’ is not as applicable as it is in the United States or the United Kingdom (Lane and Probert, 2004, 31; Palpacuer et al., 2004). German clothing manufacturers have countervailing power vis-à-vis German retailers, and when they enter into contractual agreements with low-cost country suppliers, production remains under their influence. Perhaps more importantly, Germans offer technical support to their suppliers and in fact train their employees (Wortmann, 2005). And as our case study shows, when they confront the issue of a supplier such as Sarar withdrawing from the contracting relationship, they are competent enough to consider the option of establishing their own production facilities in the supplier country, contrary to a retailer or marketer who has no other option but to move on to another contractor.

Second, context in the host country seems to be critical: Turkey is a particularistic country and this has influenced the business strategies of both Sarar and Hugo Boss. Despite the ability of lead firms such as Liz Claiborne, Levi Strauss and Hugo Boss to engage diverse firms from virtually any country in their activities, there remains a persistent divergence in the conditions of different economies which partly explains the divergent responses and strategies of different firms.

Third, the perseverance of the power relationships between lead firms and their suppliers should not be taken too literally. When the resentment of the suppliers over

23 The Turkish manager of Hugo Boss confirmed the point during an interview with us in 2005 and elaborated on it mentioning 15–25% decrease in costs depending on the product.
24 The claim is made by the general manager of Hugo Boss’ Izmir factory in an open letter to a daily newspaper in 2003 (Sezai Kaya cited in Zaman, 2005) and confirmed by him during our interview in 2005.
25 This is very different from the United Kingdom where a combination of retail concentration, close connection to financial markets, formalized sourcing relationships, and the predominancy of high-capacity suppliers no longer allows clothing manufacturers to have countervailing power vis-à-vis retailers (see Palpacuer et al., 2004).
the dominant positionality of lead firms spurs supplier firms to outdo the buyers, there
is no guarantee that the lead firms will successfully prevent the supplier from doing so.
This is partly because the contracts between firms are at best ‘relational’ and thus
open to reinterpretation and updating by the parties without any guarantee of flawless
coordination or control. Such contracts represent a more binding tie than simple
market exchange, but they do not entail high levels of commitment and control
(DiMaggio, 2001). Relational contracts also testify to the fact that while firms have
legal personalities, networks lack the legal capacity to transact as entities (Kraakman,
2001). For example, in the clothing industry the protection of intellectual property
is not as straightforward an issue as in some other industries.26

As the literature would suggest, the most important precondition for the transforma-
tion of Sarar into a brand owner and retailer was its ability to learn from Hugo Boss. As
supplier and lead firms enter into cooperative relations, lead firms provide their suppliers
with knowledge that later allows the suppliers to upgrade. The transformation of Sarar
from a cut-and-trim manufacturer of Hugo Boss to own-brand manufacturing and
retailing (with interests in textiles also) is an example of the upgrading trajectory through
which suppliers can enter clothing sourcing networks with limited resources and then
climb the ladder of value-adding activities by ‘learning from global buyers.’ The profits
and learning opportunities during the supply relationships with Hugo Boss proved
adequate to allow Sarar to move up its value-added ladder despite structural requirements
imposed by power relations with the German lead firm, partly due to the particularities of
the domestic business environment. Learning was reciprocal, moreover, and that allowed
the German firm to directly invest in Turkey after the partnership ended.

Finally, Sarar’s own ability to reap the benefits of learning and cooperation from the
relationship with Hugo Boss has been crucial. Among all the suppliers of Hugo Boss in
Turkey, only Sarar managed to turn itself into a competitor, a point which strongly
suggests that researchers should not let the individualistic characteristics of specific
firms disappear, in the words of Hess and Yeung (2006), ‘in the sea of network
relations.’ Of course, the question ‘why some firms are able to upgrade successfully but
not others’ cannot be answered through a case study of a pair of firms in one country.
However, discussions by Bessant (2005) and Güttel (2006) make it clear that the barriers
to learning and the corporate culture would be a good starting point for a deeper
engagement.27 The case of Sarar suggests the importance of recognizing that firms
continue to be significant even when they are absorbed into larger networks.

26 This is because design, a high value-added area, is more about inspiration and imitation rather than
genuine innovation: even the most creative designer needs to be inspired by old design sketches, museum
exhibits, old movies, other designers (sometimes through fabric vendors who gossip about who is buying
which fabric), pattern makers, color and style forecasting services, shows and magazines (Rantisi, 2002).
Once these clothes are on the market, provided that they are well received by the consumers (the
prediction of which involves a great deal of uncertainty and risk), then those who can afford the same
fabrics or employ the same quality labor copy the designs outright, while others try to stay true to the
concept and adapt the specific design elements to suit their production capabilities and materials
(Rantisi, 2002). An account by Agins (2000, 260–262) concerning whether or not some of the hottest
labels of the 1980s such as Multiples, Elements, Switches, Linkup and Units were Zoran (one of the most
exclusive designers in the United States) rip-offs is very telling in this respect.

27 Bessant (2005) explains barriers to learning by classifying the underlying problems under motivational,
completion-related, skill-related, elicitation-related, parochial, challenge-related, reinforcement-related,
and sharing-related problems.
5. Conclusion

In this paper, we have concerned ourselves with the nature of the power relations between two firms: how the relationship changed over time during the 13-year partnership, how it reflected the national or business origins of the lead firm in question (a German-based brand owner with manufacturing competencies), and how it was influenced by the institutional context of Turkey in which the relationship was embedded. This case study is a testimony to the facts that, first, power is not simply something ‘possessed’ by some and not by others within structurally fixed networks with no room for the powerless to maneuver. On the contrary, power is fluid, as we observed in relation to Sarar’s strategic intent of functional upgrading. Second, the case study shows that the national origin of the lead firm mattered. Third, the mutual transformation of both firms was shaped by and embedded in the Turkish sociopolitical and institutional context.

Clearly, neither firm-specific factors, nor local or global dynamics automatically bring about beneficial or detrimental consequences for any specific firm. Rather, explaining any particular firm’s success or failure at breaking out of the ‘lock-in’ of low value-added manufacturing requires a thorough understanding of the complicated ways in which firms are intertwined with processes of change at various geographical scales, as well as an understanding of what goes on between and inside firms. The story of Sarar and Hugo Boss supports those who maintain that the distinction between ‘producer-driven’ and ‘buyer-driven’ networks may be ‘more fluid than Gereffi’s work allows for’ (Henderson et al., 2002). More generally, it supports the position of Dicken (2005, 3) that ‘networks are essentially dynamic; they are always, by definition, in a process of flux—in the process of becoming—both organizationally and geographically.’

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