

The 2001 Economic Crisis of Turkey and Holding Companies' Diversification Strategies: Does Bank Ownership Make Difference?

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Abstract

The objectives of the study is to search whether there are any difference in holding companies' diversification strategies before and after 2001 crisis in Turkey. In this context, diversification strategies are adopted by the holding companies is tried to be determined. The holding companies included in study divided into two groups one of them is before the economic crisis of 2001 having bank and continue in the same way after 2001. The study tests whether having bank is advantageous in diversification strategies or not. A quantitative research is used for reaching on the data. The data related with holding companies which is obtained by Borsa Istanbul. Holding companies and industries they performed and the industry relationships are tried to be explained. The study concludes that 2001 economic crisis enhance the diversification especially for bank owner holding companies due to the fact that the crisis provides opportunities which can be easily used by the holding companies that have strong banks. The result implicates that bank owner holdings' risk appetite and capabilities increased after the 2001 crisis.

Keywords: Borsa Istanbul, Diversification, Economic Crisis, Holding Companies

1. Introduction

Economic crises are events that deeply affect the economic life and social integrity of societies. For the Turkish economy, which has experienced many crises throughout its history, the 2001 crisis, in particular the greatest contraction, is of particular importance. It has always been a matter how business groups in Turkey grow or disappear. In Turkey, the state plays a very strong role and it is clear that the state is an undeniable factor in the growth of business groups. The state affects the diversification strategies of the business groups with various tax policies. One of the important factors in diversifying the activities of business groups is the constant uncertainties in the economy, sometimes high inflation rates and, in part, the fact that the government is closely related to certain sectors. Business groups are implementing an unrelated diversification strategy in developing countries due to the factors mentioned above. It appears that developed countries are focusing on specific areas and limiting their activities to these areas. In the study, it was tried to determine whether the business groups did not maintain the unrelated diversification strategy, and it was tried to determine what kind of influence the business group of 2001 had on the diversification strategies of the 2001 economic crisis which had a strong impact on Turkey.

Table 1: The Impacts of 2000 and 2001 Crises

Economic Variables	Year 1999	Year 2000	Year 2001	Year 2002
Unemployment rate	8.3.	6.9.	9.1.	11.5.
Underemployment rate	9.8.	7.4.	6.5.	6.1.
Manufacturing Industry Employment Private Sector	91.7	90.3	82.5	84.4
Manufacturing Industry Employment Public Sector	89.0	83.06	78.2	70.9
-Minimum Wage	123.9	105.8	91.1	98.4
-Private Sector Wage	92.8	93.8	74.8	
-Public Sector Wage	105.0	112.3	99.3	90.2
-Officer Wages	95.1	84.1	81.0	85.6

Source: Devlet İstatistik Enstitüsü (DİE) (www.die.gov.tr).

Ozatay (2010) explains the 2001 Economic Crisis and states that the crisis originates from Turkey's own structure and banking sector. Alpaço (2002) presents the figures related to the 2001 Economic Crisis. GDP decreased %2, business are closed (the number is 125.000), banks are closed (the number is 19), the interest rate

which government pays is 101% increased, internal debts are risen 4 time and at least 1.500.000 people lost their job. The 2001 Economic Crisis follows the 2000 Economic crisis which is still affecting the economy in 2001 as seen at Table 1.

In the 2001 crisis period, Turkish banks were mostly affected. Although not the main reason for crises, the banking sector is seen as an important factor that exacerbates and deepens the crisis. As explained by Heggstedt, the increase in the capital adequacy ratio of the solution and the desire to benefit from the external sources are one of the main factors of the bank mergers at the global level in order to eliminate the liquidity shortage that emerged with the crises. (Cihangir, 2005). If the liquidity is not allowed to be released, it causes the dilemma of the debts of the banks due to increasing interest rates. This will increase both interest and foreign exchange risk and turn into a serious banking crisis.

The most important effect of crises on bank mergers is that banks become attractive because of the falling bank prices after the crisis in terms of investors in their own country or in another country. Mergers and acquisitions are frequently experienced owing to declining value after the crisis. The most significant impact of the crisis was seen in the interest of foreign investors to Turkish banks. In this process, some foreign investors intend to buy Turkish banks and establish partnerships with them, while some foreign banks intend to merge with Turkish banks. In fact, foreign banks, which existed before the crisis, showed interest in Turkish banks after the crisis. Gorvett explains the reason for this increase is that the price of Turkish banks is now much cheaper than before the crisis (Cihangir, 2005). The development of the financial system over the years has also caused significant changes in the transactions carried out by the banking sector. The developments that emerged after this formation differentiated and at the same time changed the undesirable development line and the risks it carries (Colak, 2000).

The papers which investigate holding companies have been increasing in Turkey. Usdiken (2008) states that interest of researchers regarding holding companies has been started since mid-1990s. Academic studies stress out that holding company forms is peculiar to late industrialized markets (Khanna and Palepu, 2000; Yiu et al., 2005; Chung et al., 2006; Kedia et al., 2006;). Bugra (1995) defines these markets and states that late industrialized markets are the economies which industrialized without using national production capacity.

The researches about holding companies focus on diversification strategies and presents contrarian hypotheses. Guillen (2000) analyses South Korea, Latin America, India and Turkey and concludes that these countries have unrelated diversification. Karaevli (2008) suggests the idea that Turkey has been experiencing focused diversification rather than unrelated diversification.

This study investigates the impact of the 2001 Economic Crisis of Turkey on Holding Companies' diversification strategies. Chang (2006) claims that the 1997 Asia crisis negatively affect holding companies and highlights the fact that holding companies experience uncertainty.

Holding companies have an important role in the economy of Turkey. Usdiken (2008) show that these companies started before legally accepted due to the fact that other countries have effects. Ustdiken (2008) describe the holding companies as a large firms possessing other firms share for longer periods of time and mention the fact that holding companies can be described with firm controlling abilities via financial instruments. Holding companies employ diversification strategies. Related diversification explains that holding companies initiates similar new business (Ulgen and Mirze, 2007) Vertical and horizontal growths are common in this diversification strategy. These growths are related to core business.

Celik and Urunveren (2009) shows that the Turkish banking sector has a monopolistic structure in all except one year in 2002-2007 period. As a result, the foreign banking inflows gave the Turkish banking sector a competitive behavior for the market structure. Guillen (2000) assume that unrelated diversification is common in developing countries. Unrelated diversification is a strategy of picking new businesses which have not been operated by company (Schneider, 2009). New sectors can provide high profits and returns with opportunities that help to overcome company limits and managers ambitions (Ulgen and Mirze, 2007). Unrelated diversification structures consists production process, technological information and marketing. Unrelated diversification become a central concept for Turkish big companies (Colpan and Hikio, 2008).

2. Data and Methodolgy

Research data is obtained from Istanbul Stock exchange. Analysis comprise 25 companies in the Borsa category of Xhold which consist of holding and investment. The research periods is 1998-2009. Annual reports of holding companies are the source of the analysis. 8 companies excluded from the sample because of the fact that their annual reports are not available for all research period.

Holding companies are coded for analysis purposes. Coding is similar to Ozkara et al. (2008) and Colpan and Hikino (2008) studies. The coding based on single system. The coding has been sent to a referee and %90 correspondence is observed. This satisfy the condition of %70 that ensure reliability (Yildirim and Simsek, 2005).

Annual reports of 1998-2009 helps to determine sectors and numbers of firms that is controlled by 17

holding companies. Two group is created according to fields of the operations which distinguish bank owning. SPSS 17.0 program is used. Mann-Whitney U test is applied. Therefore groups are compared with their diversifications. The main idea behind this analysis is the fact that The 2001 Economic Crisis based on a banking sector crash.

In the study, it is thought that holding companies which are owning strong banks can continue unrelated diversification against the 2001 Economic Crisis of Turkey. The analysis of the study investigate whether Turkish holding companies implements different diversification strategies after the 2001 Economic Crisis of Turkey. Bank ownership of holding companies and its effects on diversification strategies examined in the research.

The level of analysis in the research is companies which are accepted as socio-cultural systems. Populations is holding companies which have been operating in Turkey.

The research is explanatory in nature and adopts a quantitative approach. The model question is “what is the relationship between the 2001 Economic Crisis of Turkey and Holding companies’ diversification strategies”. Dependent and independent variables of the study are presented: Independent variable is the 2001 Economic Crisis of Turkey. Dependent variable is diversification strategies of chosen holding companies. The hypothesis tests are explained by following statements:

H1 hypothesis tests the suggestion that the crisis have an effect upon holding companies’ unrelated diversification strategies.

H2 hypothesis is bank owning of holding companies during the crisis have an effect upon holding companies’ unrelated diversification strategies.

3. Results

The research explains operating fields of 17 holding companies via ISIC classification. The 4.1 classification is used in order to distinguish operating fields. The table figures show the holding companies by years. It can be seen that unrelated diversification are more common among Turkish Holding companies.

Table 2: Holding Companies of the Research

Holding Company Names	Foundation Year	Diversification	Public offering year
AKFEN HOLDING	1976	Unrelated	2010
ALARKO HOLDING	1954	Unrelated	1997
BORUSANYAT.PAZ.	1944	Unrelated	before 1998
DOGAN HOLDING	1960	Related	before 1998
DOGANYAYINHOLDING	1997	Related	before 1998
ECZACIBASI YATIRIM	1973	Unrelated	before 1998
EGELI&COYATIRIMHOLD.	2002	Related	2010
GLOBAL YAT.HOLDING	1990	Unrelated	before 1998
GOZDEFINANSAL HIZMET		Related	2010
GSD HOLDING	1986	Related	1999
ISIKLAR YAT.HOLDING	1977	Unrelated	1994
IHLAS HOLDING	1970	Unrelated	before 1998
IHLAS YAYIN HOLDING	2003	Related	2010
IS GIRISIM	2000	Unrelated	2004
ITTIFAK HOLDING	1988	Unrelated	2009
KOC HOLDING	1926	Unrelated	before1998
METRO HOLDING	1977	Unrelated	1988
NET HOLDING	1974	Unrelated	1981
RHEA GIRISIM	1996	Related	2000
SABANCI HOLDING	1932	Unrelated	Before 1998
SISE CAM	1934	Unrelated	2000
TAV HAVALIMANLARI	1997	Related	2007
TEKFEN HOLDING	1956	Unrelated	2007
TRANSTURK HOLDING	1940	Unrelated	before 1998
YAZICILAR HOLDING	1976	Unrelated	2000

Table 3 demonstrates the number of operating fields between the years 2001. The table indicates that there is an increasing trend in the new fields that holding companies started to operate. The rate of increasing is very high after 2001 crisis due to the fact that certain holding companies substantially rise their operating fields. For instance, dogan holding initiates 64 new fields and Koc holding starts to operate 45 new areas after 2001 crisis.

Table 3: Number of Operating Fields between 1998-2004

Holding Companies	1998	1999	2000	2001	2002	2003	2004
Alarko Hold.	3(3)	3(3)	3(3)	3(3)	3(3)	3(3)	4(12)
Borusan Yat. P.	1(1)	1(1)	1(1)	0	0	0	0
Dogan Holding	5(8)	6(9)	5(9)	7(11)	8(74)	8(70)	8(60)
Dogan Yay. Hol.	1(5)	1(6)	1(11)	1(12)	2(15)	3(46)	3(50)
Eczacibasi Yat.ort.	1(2)	2(2)	2(3)	2(3)	1(1)	1(1)	1(1)
Global Yatirim Holding	2(12)	2(13)	2(13)	2(13)	2(15)	2(12)	2(10)
GSD Holding	4(7)	4(6)	4(6)	4(6)	4(7)	5(12)	5(12)
Ihlas Holding	7(15)	7(17)	7(17)	7(17)	7(17)	6(14)	8(19)
Isiklar Holding	1(2)	1(2)	1(2)	1(2)	1(2)	1(3)	2(5)
Koc Holding	4(12)	4(11)	5(14)	5(16)	5(15)	9(61)	9(59)
Metro Holding	0	1(1)	1(1)	1(1)	1(1)	1(1)	1(1)
Net Holding	4(12)	4(12)	4(11)	4(10)	4(10)	4(11)	4(20)
Rhea Girisim	1(1)	1(2)	1(2)	1(2)	1(2)	1(2)	1(2)
Sabancı Holding	4(12)	5(13)	6(15)	6(16)	6(17)	7(20)	6(20)
Sise Cam	2(6)	3(7)	3(8)	3(8)	3(7)	4(25)	3(31)
Transturk Hold.	7(10)	7(12)	7(12)	7(11)	6(10)	6(10)	5(7)
Yazicilar holding	2(3)	2(3)	2(3)	2(3)	5(10)	6(11)	6(12)

Figure 1 indicates Diversification degrees of Holding Companies between the years 1998-2004 Years. This figure presents the evidence of the increasing trend in holding diversifications. This can be explained by the fact that crisis provide opportunities with unrelated diversifications. Bank ownership can support these diversifications, since it show the competence of the holding.. The time between 2002- 2003 demonstrates high changes in diversification degree owing to the fact that 2001 crisis adverse effects are disappeared in the economy.

Figure 1: Holding Companies' 1998-2004 Years Diversification degree

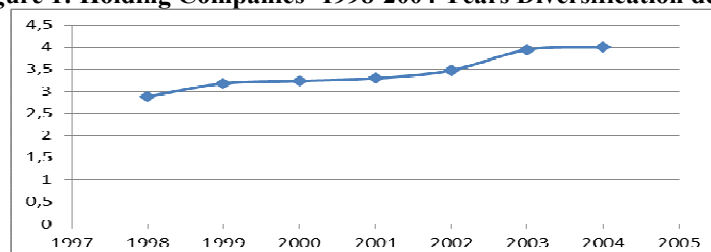


Table 4 demonstrates operating fields and yearly changes in the sample. It can be seen that 11 operating fields were increase in the research period. Most dramatic change is in Information and Communication area because of increasing importance of this sector. Travel and restaurants area is also in increasing tendency after the crisis. Professional, scientific and technic works presents more operations when their past value of before crisis is compared. Manufacturing, finance and retails are remain to be the major operating fields of the Turkish holding companies in all the research years. Human health and social responsibility sector is neglected by the companies as well as picture, leisure and sport which has minimum importance and operations.

Table 4: Annual Changes in Operating Fields

Operating Fields	1998	1999	2000	2001	2002	2003	2004
Information and communication	4	5	7	6	6	8	9
Education	1	1	1	1	1	2	2
Electricity and energy	2	2	3	4	4	4	3
Finance and insurance	8	9	9	9	10	11	10
Real Estates	1	1	1	1	1	1	1
Manufacturing	8	10	10	11	10	10	10
Human health and social responsibility	1	1	1	1	1		
Construction	2	2	2	2	2	2	2
Travel and restaurants	4	4	4	4	4	5	7
Transportation	2	2	2	2	3	3	3
Professional, scientific and technic works	3	3	3	3	4	4	5
Picture, leisure and sport	1	1	1	1			
Agriculture and fishing	1	2	2	2	2	4	2
Retails	8	9	8	8	9	10	10
Management and support services	2	2	2	2	3	3	4

The analysis of this study based on two groups. First group consists holding companies which have bank ownership before and after the crisis. Second group holding companies are the ones which do not have continuous bank ownership opportunity in research period. Mann-Whitney U test compares diversification degrees. The research period is started 1998 and continued to 2004 which explain three years before 2001 crisis and three years after the economic crisis. The aim of the Mann-Whitney U analysis is to explore the variation of the bank ownership in holding company diversifications in Turkey. The Mann-Whitney U test Result which helps to investigate research hypothesis that is related to bank ownership effects in economic crisis is presented at Table 5:

Table 5: Mann-Whitney U test Results of Diversification Degrees

	A1998	A1999	A2000	A2001	A2002	A2003	A2004
Mann-Whitney U	18,5	17,5	17	16	11,5	5,5	8,5
Wilcoxon W	84,5	83,5	83	82	77,5	71,5	74,5
Z	-1,49	-1,587	-1,636	-1,73	-2,181	-2,791	-2,478
Asymp. Sig. (2-tailed)	0,136	0,112	0,102	0,084	0,029	0,005	0,013
Exact Sig. [2*(1-tailed Sig.)]	0,149	0,122	0,122	0,098	0,027	0,003	0,01

Table 5 proves that bank owner holding companies diversifications are higher than others. The table presents that 2002 and 2004 years have $p < 0,05$, and 2003 have $p < 0,01$ level significant difference regarding research groups. This finding supports the H2 hypothesis which is bank owning of holding companies during the crisis have an effect upon holding companies' unrelated diversification strategies.

Table 6: Two Group Operating Field Comparisons According to Bank Ownership of Holding Companies

Banks		N	Mean Rank	Sum of Ranks
A1998	Absence	11	7,68	84,5
	Presence	6	11,42	68,5
	Total	17		
A1999	Absence	11	7,59	83,5
	Presence	6	11,58	69,5
	Total	17		
A2000	Absence	11	7,55	83
	Presence	6	11,67	70
	Total	17		
A2001	Absence	11	7,45	82
	Presence	6	11,83	71
	Total	17		
A2002	Absence	11	7,05	77,5
	Presence	6	12,58	75,5
	Total	17		
A2003	Absence	11	6,5	71,5
	Presence	6	13,58	81,5
	Total	17		
A2004	Absence	11	6,77	74,5
	Presence	6	13,08	78,5
	Total	17		

Table 6 presents evidence of bank owning holding companies operating fields. Number of operating fields of bank owning holding companies is larger than other holding companies in all sample periods. This tendency is increased after the 2002 economic crisis of Turkey. This table investigate the research hypothesis that crisis have an effect upon holding companies' unrelated diversification strategies. It is demonstrated that diversifications were increased after the crisis period for bank owning holdings

4. Conclusion

The study aims to find out diversification strategies of Turkish holding companies in the context of the 2001 Economic crisis of Turkey. The number of holding companies that are investigated in the study is 17. These companies are also divided into two groups in order to detect bank ownership impact. Since, the crisis based on banking sector crash. It is thought that the crisis can differently affect the holding companies which have constant bank ownership in analysis period. It is evidenced that bank owner holding companies of Turkey increased their diversifications after the 2001 economic crisis more than holdings which do not have any ownership of banks in Turkey. This finding can suggest that bank owner holding companies have different risk taking behavior, since they successfully survived the 2001 crisis. Bank ownership can also be an indication of the holding companies' competence and capability.

Analysis results present that holding companies tend to increase their diversifications after the crisis. This finding can be explained with fact that crises generate investment opportunities for Turkish holding companies. Findings also suggest higher numbers of diversifications for bank owner holding companies. This magnitude rises after the 2001 economic crisis of Turkey which leads to closing of 19 banks in Turkey. It can be said that the holding companies which have an ownership of strong banks can rise their unrelated diversification easier than other holding companies due to the fact that profiting new business opportunities can be easy for holding companies which have bank ownership. Holding companies can profit more on investment opportunities of after crisis period with the help of their banks

Future studies can emphasize on different market events. European Union relationship and agreements are possible independent factors of future researches. Recent economic events like 2008 financial crises can be investigated in subsequent analysis. Macro-economic variables and policy changes can be consider in future applications. Financial ratios of bank owning holding companies and others can be compared with focusing on the effects of 2001 economic crisis of Turkey.

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