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Patterns of Mergers and Acquisitions in Turkey in the Era of "New Normal"

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Abstract

Due to rapidly changing in economic, political and human issues and increasing environmental problems in the world, companies are forced to face and adapt to the new dynamics of business life. These developments result in many changes in global and local levels. Especially in the aftermath of the global financial crisis, it is believed that nothing in the economy will ever be the same again. This time period includes inadequate international economic system, rapid fluctuation in world economy, chaotic areas, high unemployment rates, etc. This cyclical trend is called as "new normal" by some authors. For this era, it is assumed that new economic norms and requirements will bring their effects on the business community. Therefore, this challenging requires partnerships of companies. They have to cope with new actors of competition. They achieve competitive advantage by making alliance or mergers and acquisitions by sharing their core competencies with each other to survive and to develop in the new world form. In this study, we will use the annual mergers and acquisitions review reports (2007-2011) published by Deloitte. In this study, we expect that this issue will focus attention on the new challenges facing companies in the new normal in terms of mergers and acquisitions. The paper will show possible results of these events in future and their effects on companies and government or economical conjuncture. We believe that the paper will lead to relevant research in the future.

Keywords: New Normal; Global Financial Crisis; Mergers and Acquisitions.

1. Introduction

The world has changed fundamentally especially over three decades. Business landscape and companies, the major actor, are surely affected by these all changes. Management as theoretical and practical discipline, has been evolving to the most fundamental and radical form ever since 1980s. Trends of this period were total quality philosophy, participative approaches, efficiency-productivity issues, widespread high technologies, flexibility and so on (Düren, 2002). Aftermath of searching excellence of companies, they aimed to "be in the future before others" (Hamel and

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Prahalad, 1994). As a metaphor, it was mentioned about the importance of future management. Concepts of 1990s were rapid change over information society, globalization, rightsizing, the importance of "knowledge employer", etc. (Düren, 2002). It was defined as "transformation which centuries have been packed into decades" by Peter Drucker's own words (1993).

Within the framework of information society, companies have trended to new management techniques in first decade of 21st century such as outsourcing, benchmarking, learning organization, green business, reengineering, etc. They have changed the basic assumption "the automatic assumption, that whatever we do, we do it in-house". However the challenge in today is expression of "what we do not do day in and day out, we outsource. To do things in-house, you have to have core competence in them because you do them all the time and therefore can attain excellence in them" (Drucker, 2010).

As mentioned above, changes in the world are inevitable. Recently the business world is again witnessing the huge change as considered a new era. The global economic conjuncture is shaped by consecutive global crises. This causes economical fluctuations, individual and corporate big losses, high inflation and even bankruptcies. Thus all assumptions regarding the future of world is also differentiating accordingly. Companies have struggled to survive in the era of systematic chaos. This era includes paradoxical issues and contexts. Therefore all assumptions are reversed in the new world form as called "new normal".

2. "New Normal" as the New World Form

The idea of a "new normal" has come to define current economic era (Euchner, 2011). The term new normal is believed to have been first used by PIMCO boss Mohamed El-Erian to recognize that changes in the early 2000 would not result in business as usual (Falkenberg and Ashurst, 2010). The most commonly given start date for the new normal is approximately 2007 (El-Erian, 2008; Falkenberg and Ashurst, 2010). In fact as we discussed above, there were surely some symptoms before the term is called as "new normal". PIMCO calls this the new normal, a world in which growth prospects may be lower and long-held assumptions about portfolio allocations are being challenged. It is recently discussed their outlook for the global economy and their views on investing in this world (El-Erian and Gross, 2009). It is assumed that tomorrow's environment will be different (Davis, 2009) and the business and economic context will not have returned to its pre-crisis state.

New normal is marked by an extended period of slow economic growth, tight resources, intense global competition, exaggerated high unemployment, rapid technological change, uncertainty, shortened product life cycles, higher inflation, etc. (O'Neill, 2011; Euchner, 2011; Falkenberg and Ashurst, 2010). These situations facing companies in the new normal are not temporary challenges to be weathered until better times return, but an ongoing set of challenges requiring structural shifts in how we do business (Euchner, 2011).

Change is one of critical elements of the new normal, which means that developing the competencies required to succeed with change is a critical goal for companies and for anyone in a leadership role. Companies have to understand and adapt the new normal (O'Neill, 2011). As Tom Peters, management guru, said, "nothing is the same as in your fathers' world anymore" (1994). The other anecdote similar to Peters' belongs to Gary Hamel: "you cannot find the new place by using old maps" (Hamel and Prahalad, 1996). Moreover company leaders have to be flexible and have some alternative plans to compete over all the new world dynamics. Companies have to learn to redefine business in terms of necessities (Drucker, 2010) of the new normal.

Another defining feature of new normal is an expanded role for government. Governments regulate only some rules for system process, companies manage itself. Before the new normal, companies acted free as a necessity of liberal economic system. With the new normal, governments have more activist role. It is forced to intervene ever more forcefully in a struggling private sector (Schwartz, 2010). As seen in 2007 global financial crisis, governments have launched many bailout plans to save companies. Furthermore, this role of government is forced to corporate governance for companies. In other words, heavy government investment and the requirements for increased corporate transparency are hallmarks of this paradigm shift, and companies must learn to operate in a smarter and more accountable manner (Melville and Reese, 2009).

Besides companies have to focus on long-term, sustainable and often organic growth as necessity of green business. With this trend, strategy becomes more critical (Melville and Reese, 2009). Companies have to update and upgrade their strategies and mindsets as proactive. To remain competitive, companies must learn to harness their strengths, focus on key competencies and stick to their core business (Melville and Reese, 2009). For this reason, companies need to collaborate with others to attain competitive advantage. The corporation of tomorrow has contracts and minority participations and know-how agreements as a network (Drucker, 2010). As the new world form requires not only competition but also cooperation. In the literature review, it is called as "coopetition". Companies seek for coopetition with synergy to compete in the global economy. Companies make strategic alliances to integrate their power, their core competencies because of not business as usual. There are many ways for collaboration such as consortiums, turn-key projects, joint ventures, mergers and acquisitions. For example new private-public partnerships structures have emerged in the new normal to compete in a global world such as TOKI, subway projects for Turkey. However in this study, mergers and acquisitions will be examined in terms of new normal dynamics.

3. Changing Role of Mergers and Acquisitions

It is mentioned that how is evolution of mergers and acquisition in economy and what general points are before we examine the changing role of mergers and acquisitions in the new normal.

The four waves of mergers have been a part of economic life in the United States since the 19th century. In fact, over 50 percent of the acquisitions that occurred between 1890 and 1990 took place during one of four merger waves (McNamara, Haleblian and Dykes, 2008 from Stearns and Allan, 1996). According to Melicher, Ledolter and D'Antonio (1983), the first merger wave tended to consist of horizontal mergers, which created industrial giants in steel, oil, and mining in early of the 20th century. Due to increased control over scarce resources and operating economies, the second wave was formed as vertical mergers between companies with prior buyer-seller relationships during the 1920s. The third wave resulted in major economic conglomerates during the 1960s. Mergers between unrelated companies came into prominence in economic life. In 1980s, hostile acquisitions, bond financing and "megadeals" resulted in the fourth wave more different from other waves (McNamara, Haleblian and Dykes, 2008). When the mergers waves' evolution is analyzed, a trend may have parallels with events affecting the entire world such as the world wars, the great economic depression, pangs of inevitable globalization of national economies and so on.

The new world form needs to be analyzed in order to understand the changing role of mergers and acquisitions. Rapidly developing technology has created the new world form disposed of borders. Time and location lost their effects on economical transactions. All players in an inevitable competitive environment gradually have to act in the same field. For this reason, companies should use new tools or strategic tactics such as mergers and acquisitions, strategic alliances, joint ventures or consortiums with other companies or their rivals in markets to survive their existing competitive conditions. In other words, acquirer and target companies provide benefit to each other by making strategic alliances to enter new markets and to obtain leverage economies of scale (Mukherji, Sorescu, Prabhu and Chand, 2011).

In today's turbulent business environment, companies challenge constantly to choose mergers and acquisitions or strategic alliances. Companies should continually invest in the new technological capabilities to create sustainable performance and competitive advantage (Vanhaverbeke, Duysters and Noorderhaven, 2002). Companies have to challenge to their rivals in dynamic competition factors to survive or to develop themselves in the new world form. They should be flexible and compatible with new changes in the new economy. Companies have to cope with globalization, shortened product cycles, necessity of quick responsiveness to demands of customers and markets, technological improvements and research and development studies, innovation, creativeness and new work styles or forms etc. For this reason, they should find new strategic ways to obtain sustainability competitive advantage based on lower transaction cost. Mayer and Kenner (2004) noted that Cisco has made many acquisitions to enter new markets and to improve their market share in existing markets due to starting of changing in customers preferences in the early 1990s.

The success of alliances and acquisitions in companies' strategic motivation is related in which new resources are similar or constructive to the existing competencies (Lundan and Hagedoorn, 2001). Besides, mergers and acquisitions are affected by global factors and internal factors of various industries. For instance, Telecom companies merge or

acquire with other companies as a reaction. In other words, companies struggle against each new business partnerships in the telecommunications industry. In the same time they and their rivals were affected by the partnerships in the sector (Largay, Zhang, 2009).

Companies that prefer mergers and acquisitions in the new normal may encounter to unexpected results. For example, it is not the same amount change of their share prices between target companies and acquirer companies. In general, share price of target companies rises while share price of acquirer companies decreases or maintains constant (Largay, Zhang, 2009). However companies tend to invest as a merger or acquisition in markets in which stable economies to obtain lower transaction cost, more resources and assets, knowledge, synergy of core competences, to enter new markets and to increase their market share. In summary, companies choose to invest attractive markets and sectors through the instruments of mergers and acquisitions, strategic alliances, joint ventures etc. In this study, recent trends of the mergers and acquisitions during 2007-2011 in Turkey will be investigated.

4. An Overview of Mergers and Acquisitions in Turkey (2007-2011)

Mergers and acquisitions from early 1990s to 2000s have accelerated with liberalizing of the economy. Especially mergers and acquisitions have taken place actively in 2000s though the recession in 2001. Turkish market has a big share of foreign investment in the developing markets by geographical mergers in the second half of 2000s. At the period of the last 20 years, the more intensive mergers and acquisitions activities have realized 2000-2001 and 2005-2008 periods. An increase amount of multinational companies, prevalent developing markets and high importance of globalization economy have caused to increase visibly cross-border mergers and acquisitions since the economic recession in 2008 (Akdoğu, 2011). The fluctuations in many markets are the reaction to economic, technological and industrial risky positions in the global or national markets. If it is taken into account that new normal is a precaution to big financial and economical critical improvements in the world, we can conclude that the new normal is closely related to mergers and acquisitions in markets.

Table 1: Merger and Acquisitions in Turkey in 2007-2011 (Deloitte Reports)

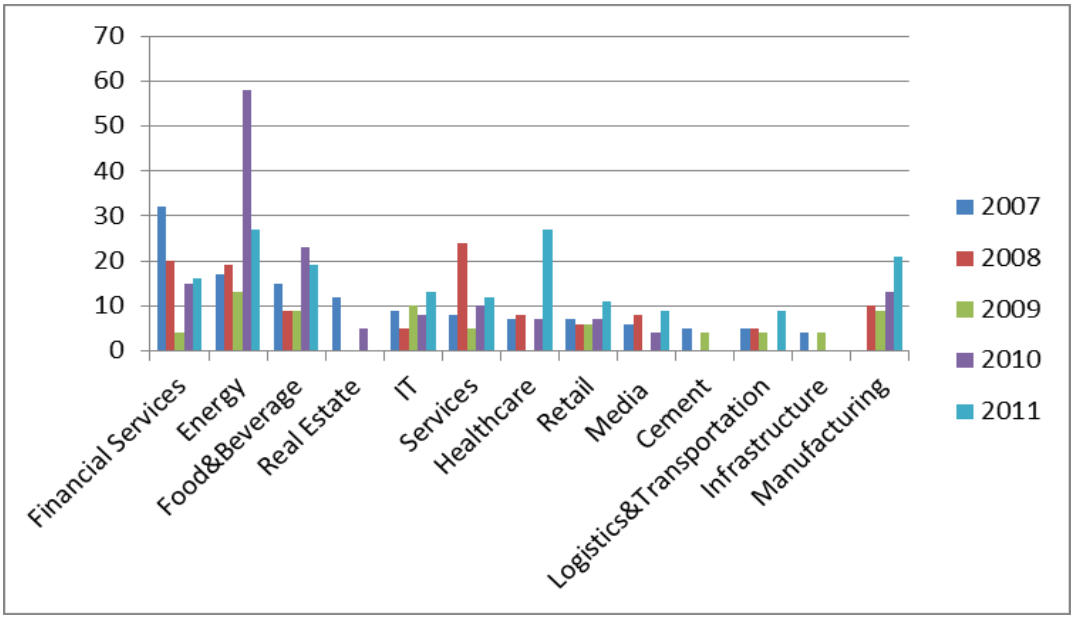
Year	**2007**	**2008**	**2009**	**2010**	**2011**
Deal Number	160	169	101	203	241
Deal Volume	US$19.3 billion	US$16.2 billion	US$5.2 billion	US$29 billion	US$15 billion
Privatizations / Share in Total	US$2.3 billion / 12%	US$5.2 billion / 32%	US$1.2 billion / 23%	US$14.6 billion / 50%	US$1 billion / 7%
Foreign Investors	70% of deal value	85% of deal value	43% of deal value	36% of deal value	74% of deal value
Financial Investors	13% of deal value	30% of deal value	13% of deal value	3% of deal value	8% of deal value
Share of Largest 10 Deals in Total Volume	60%	69%	44%	69%	56%

In this study, Deloitte annual mergers and acquisitions review reports (2007-2011) are used to analyze the recent position of mergers and acquisitions in Turkey (see Table 1 and Figure 1). When we look over movements of foreign investors, it is indicated that they maintained their interest towards Turkish companies in 2007. Turkey obtained a positive position about mergers and acquisitions in 2004-2007 even though the global financial turbulence had occurred in the world. The political arena has been affected by renewal of the governments in general election and appointment of the new president in Turkey. Due to Turkey's high growth potential and relatively favorable macroeconomic indicators, Turkey became an attractive alternative of investment against the effects of the global financial crisis in 2007. The largest acquisition realized in the financial services sector in 2007. Also the energy sector came into prominence as an investors' favorite in 2007. The target companies in the energy sector that have electricity and natural gas generation and distribution licenses were a remarkable point of the acquisitions (Deloitte, 2007).

Deloitte reported that services, energy, and financial services came into prominence as mergers and acquisitions in 2008 thanks to privatizations in the energy and tobacco sectors (Deloitte, 2008). Due to the financial crisis on the world, strategic investors have focused on their home markets instead of expanding geographically since 2008. It was

expected that the mergers and acquisitions will decrease in the near future as a result of the financial crisis and various strategic tactics of investors after 2008.

Figure 1: Hot Sectors in terms of Mergers and Acquisitions by Years (Deloitte Reports)



In 2009, there was a big decline at mergers and acquisitions volume in Turkey. The global financial crisis affected the amount and caused to fall to US$5.8 billion through 102 deals. In this year, the most active sectors are energy, food and beverage and IT sectors (Deloitte, 2009). Energy sector is on the way to have reached its peak over last decade in terms of several reasons such as privatization, interest of green business and seeking for alternative energy sources. On the other hand, investors have trended to the sectors have more insurance and satisfy basic needs like food and beverage. Personal or corporate investors may prefer more confident sectors in these risky terms include financial global crises, rapid fluctuations and fundamental changes. The trend may support the "to return to the good" assumption of the new normal. Contrary to 2009, 2010 had witnessed the highest amount of mergers and acquisitions in Turkey in 2007-2011. The deal value was US$29 billion and half of it belongs to the energy sector (Deloitte, 2010). In 2011, mergers and acquisitions were characterized by middle market transactions. According to the report, total deal value was US$15 billion through 241 deals (Deloitte, 2011).

When we overview these five years, we observe that Turkey protects its position despite ongoing effects of the global financial crisis. Thus mergers and acquisitions are going to overspread to several sectors. According to Deloitte prospects for 2012, "In spite of the worsening debt crisis in the Eurozone and the political instability in the Middle East region, the Turkish M&A kept building up its momentum" (Deloitte, 2011). We expect that sectors like IT, e-commerce, software, telecommunication, healthcare will be more popular any more.

5. Discussion

From 2009 to 2011, the big three international rating institutions have graded the credit rating of Turkey from BB stable to BB positive because of political and economic stability and high absorb capacity for financial shocks. Also it is expected that agreement with IMF will decrease internal and external risks of Turkey's foreign financing. It is noted that the global financial crisis did not affect the balance of payments even though it caused deeply recession in Turkey. Besides it is considered that Turkish economy has relatively resistance against the crisis. These positive credit ratings provide to be invested into Turkey.

We assume that the new normal has global liberal meaning if it is called as an economic system. The challenging of this era is global business struggle and to be active and on-line all over the world all time. We have noticed that today's most successful companies are those who can readily adjust to change. This adaptation is what it is referred to

as the "new normal"- the best business practices to integrate knowledge in today's environment (Finley, 2010). To struggle with unfavorable global economy outlook, companies should have survival tactics. Companies cannot control change in general but they can control how they react to change and accept it as a natural part of this business. As a result, advisors and leaders may be uncertain as to what business practices work best in order to be successful in today's rapidly changing environment (Finley, 2010). Companies need to make alliances or mergers and acquisitions to survive in the new normal. There was a positive development in terms of mergers and acquisitions to 2012. We estimate that mergers and acquisitions volume in Turkey will continue to increase. In addition to this, we can say that foreign investors will continue to interest in Turkish companies in the near future. Also the demand toward local acquirers will gain suddenly intensity in Turkey.

Not only companies but also government has to change its regulations according to the new normal. To be attractive market for investors, the government should make partnerships with international institutions and adapt regulations with the world. It should offer incentive for developing sectors to increase foreign direct investment. It should set the infrastructure compatible with new information technologies. To survive in the new normal era, government should give importance for alternative renewable energy sources, natural gas, financial services, IT, pharmaceutical and so on. The government should prepare continually precaution plans against potential crises.

Even though it is assumed that slow economic growth is a feature of new normal era, Turkey has been one of the fastest growing economies on the world. Political and economic stability, the government's expanded role with initial public offerings, sustained growth make Turkey more attractive market. This position of Turkey may be commented as challenge to the new normal and its assumptions.

Are we on the way of fourth wave coming from the global economy ocean after Toffler's third wave?

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