

## CHANGING OWNERSHIP IN THE TURKISH NON-FINANCIAL CORPORATIONS LISTED ON BORSA ISTANBUL (BIST)

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### Abstract

Purpose of the study is to investigate the changing ownership structures in the Turkish non-financial corporations listed on Borsa Istanbul (BIST) for the period of 1992-2014. This time frame entails the structural changes in the Turkish economy as well as Turkish corporations. With respect to ownership concentration, Turkish non-financial corporations reveal a concentrated nature. Most changes in ownership structures are triggered by the local and global economic and financial factors. In the years of research, excluding the economic crises periods, we witness a decrease in the shares of the largest shareholders and an increase in the shares owned by the minority shareholders. This finding can be interpreted as the democratization of capital in Turkish corporations. The initial public offerings and privatizations in Turkey tend to increase before the financial and economic crises, implying that democratization of capital needs stable economic environment. Findings assert that most of the new initial public offerings are mainly from the family owned corporations, which yield a promising sign in favor of improving corporate governance practices.

**Keywords:** Ownership Structure, Ownership Concentration, Corporate Governance, Initial Public Offerings, Privatization, Foreign Direct Investment, Borsa Istanbul (BIST)

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### 1 Introduction

Ownership structures of the corporations are among the most influencing drivers of the corporate governance systems. The literature provides ample evidence with respect to different dimensions of the ownership structure. As asserted by Mayer (1992) and Moerland, (1995), ownership structures are central distinguishing features of financial systems. Particular attention has been paid in the corporate governance literature to ownership concentration as a key to more effective corporate governance and shareholder value maximization (Stiglitz, 1985; Shleifer and Vishny, 1986). Despite recent convergence, corporate governance systems worldwide remain diverse. Franks and Mayer (1994) note that Anglo-Saxon countries have a large number of listed corporations, whereas in Continental European countries, listed corporations constitute only a small portion of total. Allen and Gale (2000) characterize Continental European and Japanese financial systems as bank-based while classifying the American system as being more market-based. One of the main criticisms of Anglo-American corporate governance has been that managers to be obsessed with short-term performance measures. Thus, Narayanan (1985), Shleifer and Vishny (1989), Porter (1992a, b) and Stein (1988,

1989), among others, have argued that in America, managers are short-termist and pay too much attention to potential takeover threats. In 1990s the positive sides of Anglo-American corporate governance have gradually gained greater importance. Hostile takeovers were hailed as an effective way to break up inefficient conglomerates (Shleifer and Vishny (1997b)). Prowse (1995), put forward two defining characteristics of corporate finance and governance systems in industrialized countries as the degree of competition between security markets and intermediaries and degree of ties between intermediaries, especially between banks and corporations. Within this scope, according to the findings on ownership concentration in a sample of United States (US), United Kingdom (UK), Japanese, German and Australian non-financial firms, Prowse (1995) found that ownership concentration is significantly higher in Japan and Germany than in US and UK. The holdings of the largest five shareholders average over 40% in Germany, 60% more than in the US, and almost double that in the UK. Japanese ownership is about one-third more concentrated than in the US and 60% more than in the UK. From a different viewpoint, study of La Porta, De-Silanes and Shleifer (1999) presents the ownership structure in contrast to Berle and Means's image of the modern corporation, by

using the data of large corporations in 27 wealthy economies around the world, in order to identify the ultimate controlling shareholders of these firms. Their results suggest that existing ownership structures seem to be more likely an equilibrium response to the domestic legal environment that corporations operate in. Moreover, results denote that controlling shareholders generally do not support the legal reforms that would enhance minority rights and in fact they typically lobby against it. Findings assert that except in economies with very good shareholder protection, relatively few of these firms are widely held. As the study focuses on countries outside US, especially the ones with poor shareholder protection, even the largest firms present controlling shareholders. Sometimes that shareholder is the state; but more often it is a family, usually the founder of the firm or his descendants. Claessens, Djankov and Lang (2000), examine the separation of ownership and control for 2,980 corporations in nine East Asian countries. They find that in all countries, pyramid structures and cross-holdings are in use. The separation of ownership and control is most pronounced among family-controlled firms and small firms. More than two-thirds of firms are controlled by a single shareholder. Managers of closely held firms tend to be relatives of the controlling shareholder's family. Older firms are generally family-controlled, proving the notion that ownership becomes dispersed over time. Eventually, they conclude that significant corporate wealth in East Asia is concentrated among a few families. Chong and López-de-Silanes (2007) analyze recent trends of Latin America's institutional development for six countries. They point out that current inadequacies in the region's legal institutions generate high levels of ownership concentration, poor access to external equity financing, and narrow equity markets. The separation of ownership and control in Latin American corporations is accomplished through the use of non-voting shares and pyramids. The non-voting share mechanism is most common in Brazil, but it is widely used in other countries of the region by firms that cross-list. All countries in the region, with the possible exception of Colombia, show significant frequency in the use of mechanisms to separate ownership and control. In the case of India, concentrated ownership and control is the predominant shareholding pattern as presented by Balasubramanian and Anand (2013). Over the period from 2001 to 2011, it is found that controlling shareholders have further entrenched themselves by substantially increasing their holdings, in domestic corporations. Corporate pyramids were created with individuals or families or managerial clusters using enormous control rights with comparatively little cash flow rights. In the same vein, ownership concentration and corporate control of Chinese listed corporations is investigated by Wang (2014) for the period of 2003-2011. Results indicate that the share structure split reform in 2005 has changed the ownership concentration and the degree

of control of Chinese listed corporations significantly changed from highly concentrated to moderate or relatively concentrated ownership and control. Nevertheless, ownership concentration and corporate control of Chinese listed corporations have not been fundamentally changed even years after the reform.

Literature on ownership structures is also abundant in local terms as it attracts considerable attention of academia. Demirag and Serter (2003), document the prevalent ownership concentration, structure and control in the top 100 corporations listed on Borsa Istanbul (BIST). Their findings indicate that ownership of Turkish corporations is highly concentrated and families being the dominant shareholders. The separation of ownership and control among Turkish corporations is mainly achieved through pyramidal ownership structures and by the presence of large business groups. However, the cash flow and voting rights in Turkish corporations are relatively more aligned compared to other family-ownership-dominated countries. Yurtoglu (2003), reports on the ownership and control structures of publicly listed firms in Turkey using data of 2001. While holding corporations and non-financial firms are the most frequent owners at the direct level, families ultimately own more than 80% of all publicly listed firms in Turkey. Pyramids and dual class shares are common devices that families use to separate their cash-flow rights from control rights. Gursoy (2004), examined the ownership structure characteristics of Turkish non-financial corporations listed on BIST for the period of 1992 and 2002 and assert that Turkish firms are highly concentrated and families have significant involvement in the governance system. He also claims that, large shareholders mainly families, are playing a major role in the Turkish corporate governance system and cross ownership and pyramidal structures are not unusual, especially in the conglomerate affiliates.

## **2 Turkey Case**

Turkish corporate world has experienced significant developments in the last two quarters of the 20<sup>th</sup> century. Beginning of the liberalization process at the 1980s has brought a new regulatory framework as well as new practices to the Turkish Economy and business world. In this context the capital markets law was enacted in 1981 to enlarge capital market movements. In the following year, Capital Markets Board of Turkey was established as the main regulatory authority to supervise the securities market. Capital Markets Law and the related complementary regulations have led to the establishment of the Istanbul Stock Exchange in 1985. In parallel to the growth of the Turkish economy, the market value as well as number of firms listed on the Turkish capital markets showed an increasing trend with new investment opportunities. In this manner, anchor of European Union (EU) membership and its regulatory

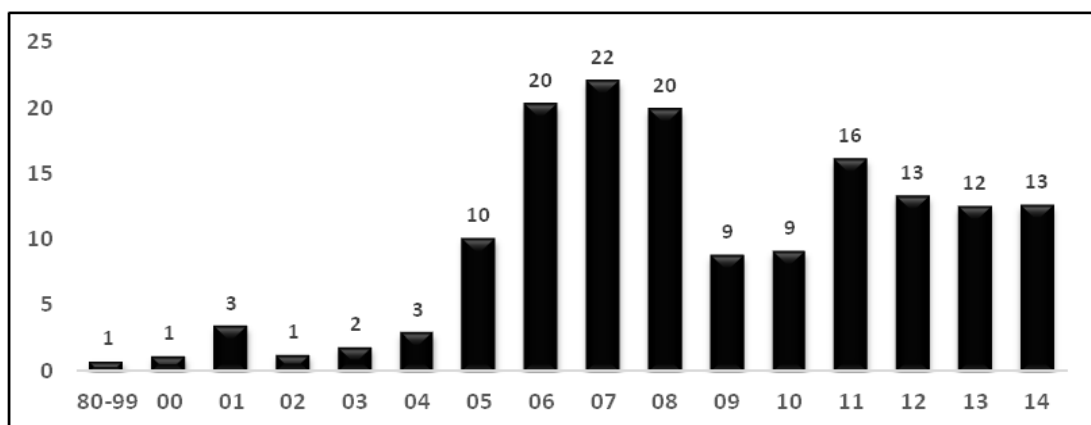
requirements have created a promising challenge for the Turkish economy and contributed positively to the development of financial markets. The new Turkish Commercial Code, which has come into effect as of July 2012 is one of the milestones in EU compliance process. In this promising context, developing corporate governance schemes to keep up with the best international practices has increased investors' confidence and corporations' sustainable development. With the support of EU membership criteria, the new Capital Markets Law has decreased barriers in favor of the growth potential of the Turkish securities market and financial system. These alternative financing tools with the developing governance schemes helped enterprises to explore new investments and increase their competitiveness in the global business arena. Amplified with the underlying laws and regulations, former Istanbul Stock Exchange is restructured under BIST and keeps building more strategic alliances such as NASDAQ to provide more liquidity and depth to the market.

Turkey has experienced a major breaking point in her financial markets by the complete liberalization of capital movements in 1989. This progress has enabled the country to welcome foreign portfolio investments. Unfortunately, deficiencies of the system have created local crises periodically. For example, unbounded growth of domestic debt stock was one of the main reasons of the local crisis of 1994. While Customs Union Agreement of 1996 made it possible for Turkey to access the large EU market, Russian crisis of 1998, the Marmara earthquake of 1999, early local elections and the change of government affected the local financial environment adversely. Turkey agreed to apply International Monetary Fund policies supported by a 3 year exchange rate based disinflation program. The existing economic program that is

applied towards the end of 2000 was collapsed and the fixed exchange rate system came to an end. Several banks were transferred to the Savings Deposit Insurance Fund. Some of these banks were sold to the private sector while some others unified under different names (Karluk, 2002). Banking Regulation and Supervision Agency started a comprehensive multi-year restructuring program for the Turkish banking system after the crisis of 2001. Likewise, other emerging countries have experienced their own turbulences, like the Mexican crisis of 1994-1995, the East Asian crisis of 1997-1998. When the "second great contraction" as noted by Reinhart (2009) began to affect the world economy, Turkey took the advantage of its immune financial system amplified by the 2000-2001 crises. While the crisis reverberated around the world with its destructive effects, Turkey managed to be one of the countries least affected from the crisis as a result of the restructuring in the financial system, especially in the Turkish banking system and public finance (Atici and Gursoy, 2011).

In the great scheme, despite a considerable number of bail-out programs, repercussion of the global financial crisis, mainly the negative reflections on real sector was tried to overcome by several quantitative easing attempts by developed countries. Some of the liquidity, mainly originated from US began flowing to emerging markets in search of higher yield. Turkey and her peers benefited from the flow of liquidity especially as a panacea to their current-account deficits. Besides welcoming portfolio investments, Turkey has been in an endeavor of strengthening her legal infrastructure in order to welcome higher foreign direct investment (FDI) inflows (Atici and Gursoy, 2012).

**Figure 1.** Foreign Direct Inflows (FDI) to Turkey (USD Billion)



Source: Central Bank of Republic of Turkey

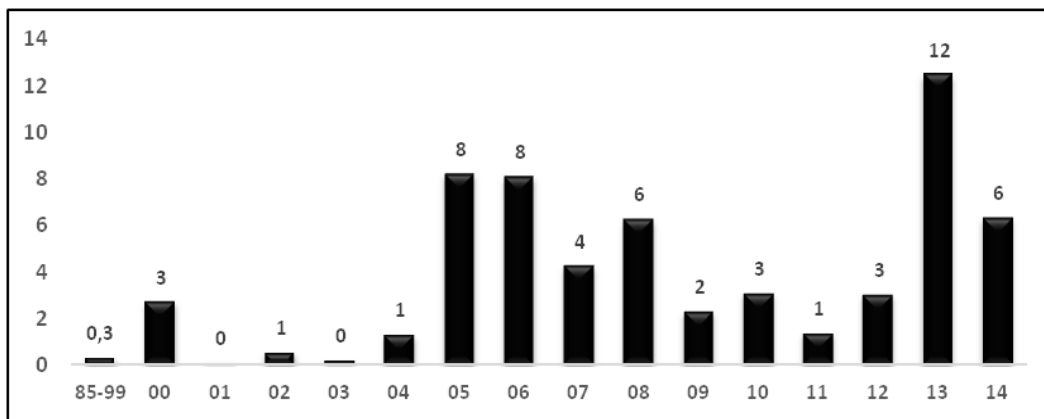
FDI inflows to Turkey remained too low between 1980 and 1999, hence the mean values are listed in the Figure 1. In 2001, there was a surge in

FDI inflows in Turkey with 3 billion USD reaching to 200% increase from the previous year. While such kind of increases are common in distressed

economies, that can be explained partly by the stability of FDI inflows in contrast to short term portfolios and debt flows and partly by the favorable asset prices for foreign investors (Guerin and Stivachtis, 2011). In 2003, a new FDI law was introduced to ease the obstacles faced in FDI operations. Therefore it can be asserted that excluding year 2001, FDI inflows remained modest until 2004. EU accession negotiations of December 2004 encouraged international investors and multinational enterprises that Turkey might join to EU. Thus, Turkey witnessed the rebounded FDI inflows as of this year. Moreover, Investment Promotion and Support Agency was structured to promote Greenfield investments that have a position of priority within the FDI composition (Yilmaz and Izmen, 2009). A peak in FDI inflows was reached in 2007 by USD 22 billion. Limited decrease in next year was a consequence of negative influence of the global financial crisis perceived towards the end of the year. As the global financial crisis deepened, a sharper decrease in inflows followed in 2009 and 2010. In 2011, FDI inflows rose by 76% compared to 2010. Finance and energy sectors received the primary share in FDI inflows with 38% and 27% share in total inflows respectively. In 2012, FDI inflows decreased in line with the shrinking global FDI availabilities. It must be noted that privatization process had a favorable effect on FDI inflows within this period.

Privatization has been on Turkey's agenda since 1980s, as a fundamental tool to liberalize the market economy. It aims to minimize state involvement in economic activities, to contribute to the development of capital markets and to enable the re-channeling of resources towards new investments. Although Turkey has started privatization policies since 1980s, it has gained momentum only after the crisis of 2001 through a series of legal amendments. Ongoing efforts during the following years carried Turkey to become one of the OECD countries where the scope of privatization was the largest (Bugra and Savaskan, 2014). Starting from 2003, privatization policies witnessed a dramatic increase. This trend continued until investors felt themselves obliged to be more cautious when it comes to new investments, following the emergence of the global financial crisis of 2008. Turkey reached an all-time high in her privatization history, in 2013, as she got an investment grade from Moody's (Turkey Investment and Business Guide, 2015). Despite the contraction of the global capital flows, Privatization Administration of Turkey was managed to realize a USD 6 billion for the following year from privatization projects. Among other methods of privatization such as block sales, asset sales, sales through BIST and paid-up transfers, public offerings have a share of 14% within total privatization implementations.

**Figure 2.** Privatization in Turkey for the period of 1985-2014 (USD Billion)



Source: Privatization Administration of Turkey

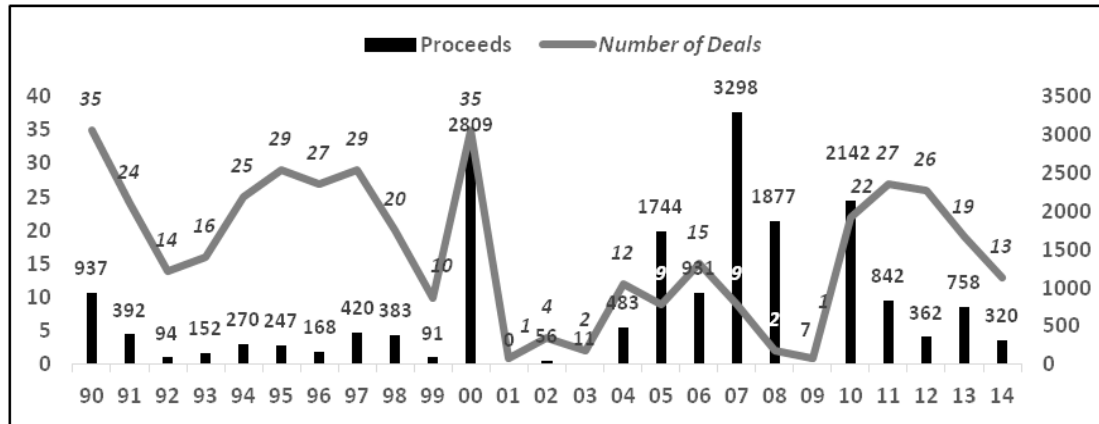
Initial Public Offerings (IPOs) have a special importance for businesses to gain international competitive edge and global recognition. As presented in the Figure 3, capital market activities have increased as a result of the efforts to integrate Turkish Economy to international markets. As a result of this favorable development, IPOs made its first peak on 2000 for the period of 1990 – 2014. Corporations preferred this alternative financing tool primarily against high costs of debt financing, high inflation rates and high-risk premiums. Besides, investors have discovered stock market as a promising investment

tool to realize considerable gains. While public offerings of equity have led to a more diffused ownership they have also contributed to the transformation of ownership structures in Turkey. As a result of the active privatization policies of Turkish authorities during the period of 2004-2007, IPOs have increased. When the recent global crisis has brought a standstill to the market in 2008, BIST has launched an IPO campaign through a protocol to attract more Turkish corporations to offer their shares to public by aiming to deepen the Turkish capital markets as well. This effort has strengthened IPO deals and increased

the number of listed companies on BIST. Regulations, regarding public offerings have been amended in 2010 in view of harmonizing with the EU acquis and

facilitating the IPO process. In parallel to the global contraction in markets, we witnessed a declining trend for the years of 2013 and 2014, as expected.

**Figure 3.** IPOs in Turkey for the period of 1990-2014 (Million USD)



Source: Borsa Istanbul (BIST)

Notwithstanding the ups and downs in local and international financial environment, number of listed corporations on BIST has steadily increased as an indicator of the high potential of the market as well as the Turkish business world. Foreign investors' share in total market capitalization has been growing since 2002. Number of listed corporations and foreign investors' share in market capitalization reveal a

decreasing trend during the global financial crisis. We observe an uptrend as of 2014 as a sign of this global and local rebound. While volume of IPOs steadily increased until 2007, foreign investor participation in IPOs coupled this increase similarly. Foreign investors' share in IPOs made a peak in 2005, hit rock bottom in 2012 and recovered afterwards again.

**Table 1.** Foreign Investors' Share in Borsa Istanbul (BIST)

Years	Number of Listed Corporations	Foreign Investor Shares in Market Capitalization (%)	Volume of IPOs (Million USD)	Foreign Investor Participation in IPOs (Million USD)	Share of Foreign Investors in IPOs (%)
2002	288	45	56	2	4
2003	285	52	11	-	-
2004	297	34	483	181	37
2005	304	35	1744	1618	93
2006	316	70	931	496	53
2007	319	72	3298	2250	68
2008	317	67	1877	1146	61
2009	315	67	7	-	-
2010	338	66	2142	924	43
2011	363	62	842	365	43
2012	388	66	362	16	4
2013	409	63	758	276	36
2014	413	64	320	151	47

Source: Borsa Istanbul (BIST)

Ownership structures of the Turkish non-financial corporations listed on BIST are affected from the transformation in the Turkish economy as summarized. New regulations, EU membership restructurings, increased global liquidity and FDIs, new deregulation and privatization policies, new IPOs, global and local political and economic crises have created incentives for Turkish corporations to excel. The outcome of these changes in the global and Turkish economy will be explored in the next section.

### 3 Analysis and Findings

Since ownership structure is one of the most important factors that shape the corporate governance structure of a company, we aim to explore the changing ownership structures of the Turkish non-financial corporations listed on Borsa Istanbul (BIST). The data sample is

formed by including all non-financial Turkish corporations listed on BIST for the period of 1992-2014. BIST electronic database and yearbooks are the main sources of the study. The number of corporations included in the sample increases from 107 in 1992 to 210 in 2014. Most of the corporations listed on BIST are amongst the largest 500 corporations identified by the Istanbul Chamber of Commerce. In order to cover all the aspects of the ownership structures of the Turkish non-financial corporations, the data sample is organized by using a combined measurement system, which incorporates ownership concentration and ownership mix variables. Ownership concentration refers to the distribution of shares owned by a certain number of individuals, institutions or families. On the other hand, ownership mix is related to the presence of certain groups such as foreign partners and state, amongst shareholders.

In the study, we measure ownership concentration with three variables: the percentage of the shares held by the largest shareholder (LSH1), the cumulative percentage shares of the largest three shareholders (LSH3) and the cumulative percentage of shares held by the diffused shareholders (OTHER). Cumulative percentage of shares held by the largest “n” number of shareholders is commonly used as an ownership concentration measure in the literature. However, based on the market characteristics, different authors include different “n” number of largest shareholders. For example, Demsetz and Lehn (1985), Prowse (1992), Hovey and others (2003) consider only five biggest shareholders when measuring concentration. Claessens, as well as some other authors like Earle, Kucsera and Telegdy, (2005) take into account only the largest shareholder. Some

other studies measure concentration of ownership as the fraction owned by the 10 or 20 largest shareholders. In this study, the largest three shareholders are taken into consideration. It is believed that this best captures all dimension of ownership concentration compared to others, when Turkish market characteristics are taken into consideration.

Annual mean values and average percentage shares for 23 years of ownership concentration variables are presented in the Table 2. The findings reveal that mean of LSH1, which is 48.2%, increases to 63.3% when LSH3 is considered. These values demonstrate the concentrated nature of the listed non-financial Turkish corporations. Ownership measure of OTHER also supports our findings, showing an average percentage of shares owned by dispersed small shareholders with a value of only 32.7%. According to the findings, number of corporations is almost doubled during the period of 1992-2014. Annual mean of LSH1 has a slight increase while LSH3 presents a fluctuating but an increasing trend coupling with a slightly decreasing annual mean of OTHER variable. Changes in the ownership composition are mostly in line with the changing local and international financial environment. After the experienced local and global economic and financial crises, corporations mostly preferred to hedge themselves either by selling equity or by reorganizing their shares amongst the major shareholders. This hedging behavior can be followed from the Table 2, especially before the banking crisis of 2000 and during the global financial crisis years, namely 2008 and 2009.

**Table 2.** Annual Mean of Ownership Concentration Variables (1992-2014)

Year	Total N	LSH1	LSH3	OTHER
1992	107	45.86	63.56	32.00
1993	117	45.82	64.03	30.24
1994	124	44.55	62.11	31.89
1995	128	44.06	60.59	33.78
1996	131	44.67	60.94	33.83
1997	147	46.38	61.92	33.21
1998	147	45.69	61.50	33.25
1999	149	47.57	62.94	31.74
2000	148	45.51	62.01	33.19
2001	148	47.09	62.45	33.19
2002	147	47.53	62.21	33.88
2003	148	48.87	62.17	33.63
2004	157	45.68	59.41	34.77
2005	158	46.79	60.78	34.07
2006	160	47.42	60.47	35.29
2007	170	48.88	62.29	33.03
2008	187	49.72	65.02	29.34
2009	204	53.36	68.25	28.07
2010	221	52.53	66.87	28.60
2011	224	50.51	64.42	31.58
2012	218	49.24	61.54	35.10
2013	218	48.58	65.14	34.39
2014	210	48.34	65.03	34.00
Mean	157	48.21	63.27	32.66

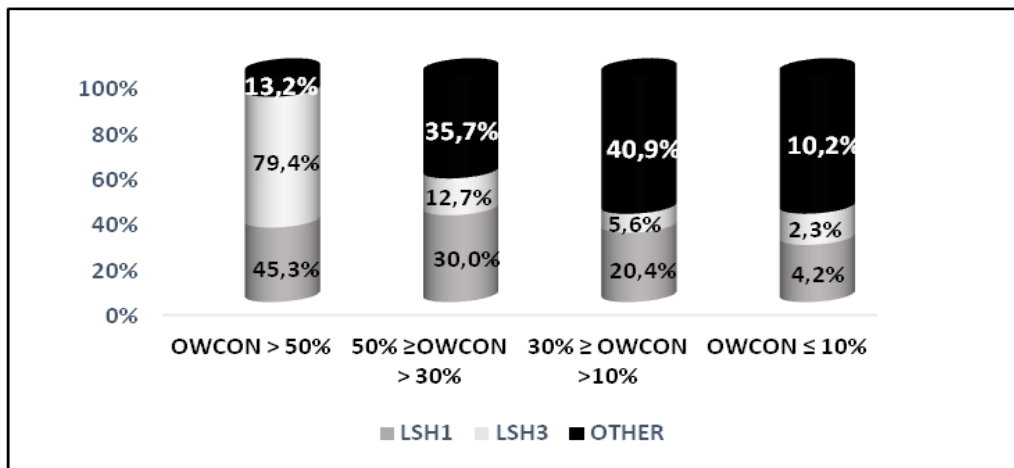
Ownership concentration (OCON) variables, LSH1: Share of the largest shareholder,

LSH3: Total shares of the largest three shareholders, OTHER: Shares held by diffuse shareholders.

Number of corporations has been examined for different ownership concentration types. As shown in the Figure 4, 45.3% of total number of corporations listed on BIST is owned by a single owner who controls more than 50% share of the company. On the other side, 30% of corporations are owned by a single owner holding more than 30% but less than 50% of the shares. 20.4% of corporations are owned by the single owner that holds more than 10% but less than 30% of shares. Only 4.2% of total number of corporations is owned by a single owner holding less than 10% of shares. The data is even more interesting when we consider the largest three shareholders' ownership concentration. 79.4% of total number of corporations listed on BIST is owned by the largest three shareholders that hold more than 50% of shares. Whereas, the ratio decreases to 12.7% for the number

of corporations holding more than 30% but less than 50% of shares. Only 5.6% of total number of corporations is owned by the largest three shareholders that hold more than 10% and less than 30% of shares. The remaining 2.3% of corporations owned by the largest three shareholders hold less than 10% of shares. Our findings are supported by the OTHER variable. Only 13.2% of corporations are owned by diffuse shareholders who hold more than 50% shares. On the other side, 35.7% of corporations are owned by the small diffuse shareholders that own more than 30% but less than 50% of shares. The percentage of corporations increases to 40.9% that hold more than 10% but less than 30% of shares. The remaining 10.2% of corporations that are owned by a group of diffuse small shareholders hold less than 10% of corporations.

**Figure 4.** Classification of Corporations with Different Ownership Concentration Types (1992-2014)



LSH1: Share of the largest shareholder, LSH3: Total shares of the largest three shareholders, OTHER: Shares held by diffuse shareholders, OWCON: Ownership Concentration.

As a second group of variables, ownership mix, is introduced to the study in order to encapsulate other aspects of the ownership notion. According to this segregation, we defined the following variables as:

- The conglomerate affiliation (CONG) variable defines whether a corporation is a member of a conglomerate or not.
- The family ownership (FAM) variable introduces whether a corporation is controlled by a family or a group of families.
- The foreign ownership (FRGN) variable presents the share of the foreign ownership within a company.
- The state ownership (STATE) variable defines whether a firm is controlled by state agencies or not.
- The cross ownership (CROSS) variable relates to corporations with complex ownership structure.

In this type of ownership, a corporation may own some percentage of shares of his parent company.

- The dispersed ownership (DISP) variable denotes the corporations, which are controlled by diffuse small shareholders. In this case, neither a single person nor a group has the privilege to control the company.

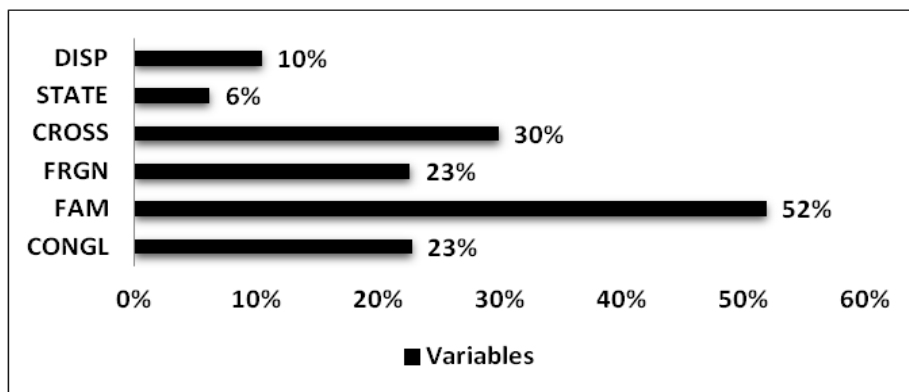
The average percentages of the ownership mix variables are calculated from the pooled data set and presented in the Figure 5.

According to the Figure 5, we can assert that 52% of the listed non-financial Turkish corporations are controlled by families and 23% of corporations are functioning as conglomerate affiliates. Since most of the conglomerates are also governed by families, family ownership is one of the dominating characteristics. Conglomerate corporations take different forms in different countries as Japan'

Keiretsu and Korea's Chaebol. Despite having differences on country basis, they provide important advantages to their affiliates. Large conglomerates have the flexibility of diversifying business risk and interest by participating in a number of different markets. Conglomerates may also allocate additional funds when an affiliate has difficulties in terms of finance and when it is more efficient to shift the funds to another business area. Although family-owned corporations may be affiliates of a conglomerate, pure family owned corporations and family-owned conglomerate affiliates have considerable differences

especially in terms of institutionalization. As another important variable, cross ownership is a corporate governance mechanism that is generally used by conglomerates in order to provide financing and interdependence among affiliates. Thus, a corporation can be listed as a family owned corporation but may also have cross ownership. Cross ownership with a share of 30%, points out a considerable level that is experienced in the Turkish corporations. In the Table 3, yearly trends of the above stated variables are presented in order to make an in-depth analysis.

**Figure 5.** Mean of Ownership Mix Variables (1992-2014)



Conglomerate Affiliation (CONG), Family Ownership (FAM), Foreign Ownership (FRGN), Cross Ownership (CROSS), State Ownership (STATE) and Dispersed Ownership (DISP).

Annual percentages of conglomerate affiliates have a decreasing trend in contrast to the family-owned corporations. Instead, both the numbers of conglomerate affiliates and family-owned corporations have an increasing trend. Increased number of family-owned corporations suggests that new family corporations have explored stock exchange and become listed family corporations. This process makes contributions both to the corporations and to the economy as a whole. First and foremost, family corporations get familiar with new financing models and benefit from these models as they integrate to the market. Second, they get disciplined as they are to subject to the regulations of Capital Markets Board, Capital Market Law, new Commercial Code and independent audit process. Third, they get more involved to the corporate governance criteria and corporate governance index. Though, both the number of family-owned corporations and conglomerate corporations increase, only family-owned corporations have a considerable increasing trend according to their percentages. This figure denotes that corporations still prefer to go public as family-owned corporations.

Foreign ownership categorizes corporations based on the existence of foreign direct investment in their equity structure. The average percentage of corporations with foreign ownership is 23% and according to the Table 3, both the number and the percentage of foreign-owned corporations increased

considerably. Number of corporations with foreign ownership increased from 14 in 1992 to 47 in 2014. On the other hand, percentages have an increasing but volatile structure due to the local and international financial climate. Decreasing trend of recent years is due to the global financial crisis of 2008. In 2012, we witness a rebound rooted from developed countries as a consequence of quantitative easing policies. Decreasing but considerable percentage of previous years' values reflect the effects of tapering and global recovery. As stated above, cross ownership has an average of 30% in the Turkish listed non-financial corporations. According to the Table 3, we witness an increasing trend in numbers while there is a downward trend in terms of percentages. This finding presents that new listed corporations do not have cross ownership structure and basically they tend to be family-owned corporations.

State owned corporations constitute 6% of the sample data. However, this excludes unlisted state controlled corporations. The annual mean value of the number of state ownership remains stable while there is a steady decrease in the percentages. Massive privatizations of recent years have a considerable effect in the declining percentage level of state-ownership. Scheduled privatization deals of Privatization Administration are expected to lower this percentage value even more in the coming years. Disbursed ownership variable categorizes widely held



corporations which are owned by diffuse shareholders. In Turkey, small shareholders are not playing a major role in corporate life as they have an average of only 10%. While annual values of the number of disbursed corporations present an increase, we witness a

downward slope in the percentage terms which demonstrates that widely held corporations increase but this increase is less than that of the overall number of listed corporations.

**Table 3.** Annual Categorization of Firms Based on Ownership Mix Variables

Year	CONG		FAM		FRGN		CROSS		STATE		DISP	
	#	%	#	%	#	%	#	%	#	%	#	%
1992	15	14.02	22	33.33	14	21.21	21	33.33	8	12.70	11	17.46
1993	17	23.61	27	37.50	13	18.06	23	31.94	8	11.11	13	18.06
1994	19	22.89	35	42.17	15	18.07	26	31.33	8	9.64	13	15.66
1995	21	22.34	40	42.55	19	20.21	30	31.91	9	9.57	16	17.02
1996	25	24.51	45	44.12	19	18.63	32	31.37	10	9.80	16	15.69
1997	24	22.22	50	46.73	23	21.50	32	29.91	8	7.48	18	16.82
1998	25	22.94	50	46.30	23	21.30	33	30.56	8	7.41	19	17.59
1999	29	24.17	60	50.00	23	19.17	40	33.33	8	6.67	21	17.50
2000	29	23.20	66	52.80	24	19.20	40	32.00	8	6.40	21	16.80
2001	29	23.20	63	50.40	25	20.00	37	29.60	8	6.40	21	16.80
2002	29	23.20	62	49.60	25	20.00	37	29.84	8	6.45	21	16.94
2003	31	24.41	62	48.82	25	19.69	37	29.13	9	7.09	19	14.96
2004	31	23.48	68	51.52	29	21.97	39	29.55	6	4.55	19	14.39
2005	35	25.18	74	53.24	31	22.30	40	28.78	7	5.04	18	12.95
2006	32	22.54	76	53.52	37	26.06	38	29.95	7	4.96	19	13.48
2007	33	22.15	81	54.36	41	27.52	40	27.03	6	4.05	17	11.49
2008	34	20.73	90	54.88	42	25.61	46	28.40	9	5.56	19	11.73
2009	34	20.12	94	55.62	43	25.44	48	28.40	9	5.33	20	11.83
2010	38	20.99	102	56.35	42	23.20	50	27.93	9	5.03	20	11.17
2011	39	22.16	98	55.68	43	24.43	48	27.27	9	5.11	20	11.36
2012	43	24.43	93	52.84	47	26.70	52	29.55	8	4.55	21	11.93
2013	45	21.43	122	58.10	47	22.38	68	32.69	9	4.33	23	11.06
2014	44	21.05	118	56.46	47	22.49	65	32.18	9	4.46	23	11.39

Conglomerate Affiliation (CONG), Family Ownership (FAM), Foreign Ownership (FRGN), Cross Ownership (CROSS), State Ownership (STATE) and Dispersed Ownership (DISP).

#### 4 Concluding Remarks

Amplified with the revised underlying laws and regulations, former Istanbul Stock Exchange is restructured under Borsa Istanbul (BIST) and it keeps going building strategic alliances to inject more liquidity and depth to the market under its new brand name. Although, its performance influenced adversely from the local and global financial crises, it remains a promising emerging market with a total market capitalization of USD 269,8 billion as of 2014. Number of publicly owned corporations has increased from 80 in 1986 to 413 in 2014 and total trading volume has reached to USD 373,6 billion in 2014 from USD 13 million in 1986. When the global financial crisis began to affect the world economy, Turkey took the advantage of its relatively immune financial system amplified by the 2000-2001 crises. Turkey has been in an endeavor of strengthening her legal infrastructure in order to welcome higher FDI inflows. In 2003, a new FDI law was introduced to ease the obstacles faced in FDI operations. EU accession negotiations, establishment of Investment Promotion and Support Agency, intensive privatization process have all favorable effects on FDI inflows. IPOs have increased in parallel to the increase in capital market activities. Corporations preferred this alternative financing tool because of the higher cost of debt finance which is a result of high inflation rate and

high-risk premiums. On the other side, investors recognized stock market as a promising tool to realize considerable gains. While public offerings of equity have led to a more diffused ownership it has also contributed to the transformation of the ownership structure. Regulations, regarding public offerings have been amended in 2010 in view of harmonizing with the EU acquis and facilitating the IPO process. As expected, in parallel to the global contraction, we witnessed a declining IPO trend for the years of 2013 and 2014. Nevertheless, foreign investors' share in total market capitalization and share of foreign investors in IPOs has been growing since 2002. Number of listed corporations has increased in 23 years period as a proof that BIST is a promising venue for investors. Increasing share of investors not only changes the ownership structure of corporations but also contributes to the progress, competition, quality and depth of financial markets.

Since ownership structure is one of the most important factors that shape the corporate governance structure of a corporation, it is aimed to explore changing ownership structures of Turkish non-financial corporations listed on BIST. The data sample is formed by including all non-financial Turkish corporations listed on BIST for the period of 1992-2014. In this period, the number of corporations included in the sample increased from 107 in 1992 to 210 in 2014. In order to cover all aspects of ownership

structures of the Turkish non-financial corporations, the data sample is structured by using a combined measurement system, which incorporates ownership concentration and ownership mix variables. In the study, we measure ownership concentration with three variables namely the percentage of the shares held by the largest shareholder, the cumulative percentage shares of the largest three shareholders and the cumulative percentage of shares held by the diffuse shareholders. Findings reveal that Turkish non-financial corporations still have a concentrated ownership structure. The annual changes in the average values of the ownership concentration variables are mostly in line with the changing local and international financial developments. Following the local and international economic crises, corporations started to hedge themselves either by selling equity or by reorganizing their shares amongst the major shareholders. In years, excluding major crises, we witness a decrease in the share of the largest three shareholders coupling with an increase in dispersed shares. This is a promising result which demonstrates the democratization of capital. Another important finding is that before crises, both IPOs and privatizations increase signaling that democratization needs stabilization in the economic environment.

Number of corporations has been examined for different ownership concentration types. According to the results, 45.3% of corporations listed on BIST are owned by a single owner who controls more than 50% share of the company. The data is even more interesting when we consider the largest three shareholders' ownership concentration. Hereunder, 79.4% of corporations listed on BIST are owned by the largest three shareholders holding more than 50% of shares revealing the concentrated nature of ownership structure. Ownership mix is introduced to the study in order to encapsulate other aspects of the ownership notion. According to this segregation, we defined variables of conglomerate affiliation, family ownership, foreign ownership, state ownership, cross ownership and dispersed ownership to understand the essence of ownership structure characteristics. Segregation in terms of means presents that 52% of the listed non-financial corporations are controlled by families and 23% of corporations are functioning as conglomerate affiliates. Findings according to annual means suggest that new family corporations have explored stock exchange and become listed family corporations. This process contributes both to the corporations and to the economy as a whole. First and foremost, family corporations get familiar with new financing models and benefit from these models as they integrate to the market. Second, they get disciplined as they are to subject to the regulations of Capital Markets Board, Capital Market Law, and new Commercial Code and to the requirements of independent audit process. Third, they get more involved to the corporate governance criteria and corporate governance index. Yearly increase in the

number of family-owned corporations seems to be more than that of conglomerate affiliates. Besides, family-owned corporations have a considerable increasing trend in terms of average annual percentages. These figures point out the fact that corporations still prefer to go public as family-owned corporations.

The average percentage of corporations with foreign ownership is 23%. Number of corporations with foreign ownership increased from 14 in 1992 to 47 in 2014. On the other hand, the percentages have an increasing but volatile trend due to the local and international economic environment. The decreasing but considerable percentages witnessed for recent years reflect the effects of tapering and global recovery. The average percentage of corporations with cross ownership is 30%. We witness an increasing trend in annual numbers while there is a downward slope in annual means in terms of percentages. This finding presents that new listed corporations do not have cross ownership structure and basically they tend to be family-owned corporations. State owned corporations constitute 6% of the sample data. Massive privatizations realized in recent years have a considerable effect in the decline of the percentage level of state-ownership. Scheduled privatization deals of Privatization Administration are expected to lower this percentage even more in coming years. Disbursed ownership variable categorizes widely held corporations which are owned by diffuse shareholders. In Turkey, small shareholders are not playing a major role in corporate life with an average of only 10%. While yearly numbers present an increase, we witness a downward slope in the percentage means which demonstrates that widely held corporations increase but this increase is less than that of the overall number of listed corporations.

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