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Business Groups and Corporate Governance Networks in Turkey

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ABSTRACT
Business groups are important institutions for the corporate governance systems in most of the emerging economies, including Turkey. We scrape corporate board membership data and construct interlocking directorates' network for the year 2021 in Turkey. We locate the firms belonging to the biggest 20 main business groups and show their centrality both in the overall network and in the giant component. We emphasize the pros and cons of the business group firms and the independent board members in terms of efficiency of the corporate governance networks.

KEYWORDS
interlocking directorates network , Turkey, Business Association

1. Introduction

Business group is a collection of firms (listed or not) coordinated by a formal structure or by informal alliances Colpan, Hikino, and Lincoln (2010).

Apart from Anglo-Saxon countries, business groups are really the big players around the world. Keiretsu in Japan, Chaebol in South Korea, Konzerne in Germany, familiar business groups in Italy (ie. Berlusconi group) Granovetter (2010) In Turkey they are really big. Top 15 business groups have more than %60 of the total market value in the stock exchange.

Business groups are strange creatures that defy the logic of "the nature of the firm" (ie.Coase, Williamson) BGs have various flavors: Chilean business groups are very different than the Israeli ones Multidimensional space to locate a BG. - Ownership and Control: Family, Families, Banks, State, Coops, Pension Funds - Scope: How diversified are the BG firms in terms of economic sectors - Depth: How are links among BG firms are maintained? Hierarchical or horizontal

Conventional view on business groups emphasize the imperfect or missing markets. BGs substitute for missing or underdeveloped capital and managerial markets. BGs diversification is a way of portfolio diversification when insurance and risk markets are not developed. This view focuses on potentially benefical impacts of business groups on the economic performance Khanna and Yafeh (2007).

At the extreme, BGs are suspected for crony capitalism and abuse of minority shareholders. According to this view, the tight and opaque control of firms within the business groups hamper overall development of capital markets in developing countries,

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Firm Projection Statistics, Year: 2013.	
Number of Components	177
Number of Edges	536
Number of Firms	435
Maximum degree	14
Mean Firm Projection Degree	2.46437
Mean / maximum possible degree	0.00567827

and hence have negative consequences in terms of economic performance Almeida and Wolfenzon (2006)

Institutionalist or evolutionary scholars emphasize the endogenous growth of BGs. Alice Amsden favors BG firms as national champions. Institutional complementarities are underlined. BGs form and reproduce themselves in very different institutional settings, ie. South Korea versus Turkey

2. Corporate Governance of Business Groups

A typical firm in an emerging economy is either a BG firm or an independent firm aspiring to become a BG firm. Thus BG firms' corporate governance principles and practices are extremely important By corporate governance we mean how a firm is run, generally by the board of directors. Although there have been a convergence expectation with respect to corporate governance due to globalization, there is still a huge diversity Kogut (2012) We argue that the diversity will remain.

The success of different corporate governance systems depend on many factors. We can nevertheless abstract those factors and classify into two main categories 1. Structures 2. Practices

However, we still have to consider interactions within and among these 2 main categories. Obligation to appoint independent directors: BGs handle by inviting members of other families or former managers into their boards.

State capacity quality matters. Existence and effectiveness of constraints on executive power have consequences on corporate governance structure. Politically connected firms can be role model. Rent-seeking may become central

Extent of state ownership matters. How are the managers of SOEs controlled? Public-private partnerships and privatization can be influential.

Scale and scope of financial markets matter. Is there a corporate bonds market? Does stock market work for IPOs? Private Equity? Hedge Funds?

3. Business Groups in Turkey

We extract data for the listed firms in Turkey for the year 2013 We construct a network in which two firms are connected if they share a common board member There are 435 firms 2635 board members some of whom connect some of these firms. There 536 links among firms.

We focus next on the maximally connected component (giant component) of the firm network.

Giant Component

Number of Edges	382
Number of Firms	157
Maximum degree	14
Mean Firm Projection Degree	4.86624
Mean / maximum possible degree	0.0311939

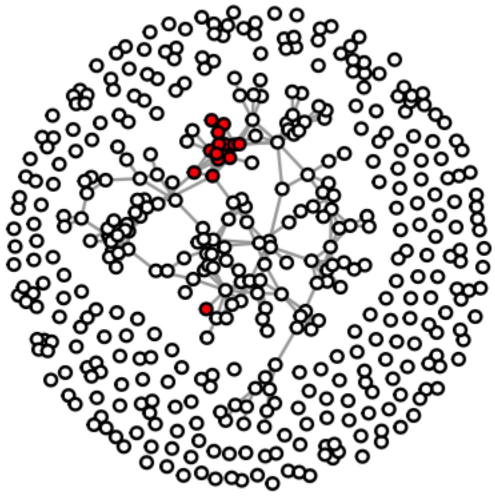

Figure 1. Koç Business Groups Firms in The Firm Network

3.1. *Koç*

The biggest private business group in Turkey The origins go back to 1920s when the founder Vehbi Koç began as a trader and subcontractor for State. In 1963, the holding company is established. The third generation of the family is managing the BG. KOÇ BG firms operate in more than 25 sectors. KOÇ BG listed firms operate in 10 sectors.

There are 15 listed KOÇ BG firms KOÇ BG firms constitute %15 of the total market value in the stock market (BIST) KOÇ BG firms have important foreign partnerships with FIAT in TOFAS; with FORD in FORD OTOMOTIV, with UniCredit in YAPI KREDI BANKASI

3.2. *Sabancı*

The second biggest private business group in Turkey The origins go back to 1930s when the founder Hacı Ömer Sabancı began as a trader and textile manufacturer. The holding company was established in 1967 SABANCI BG listed firms operate in 9 different sectors.

item There are 13 listed SABANCI BG firms. SABANCI BG firms constitute %11 of the total market value in the stock market (BIST) SABANCI BG firms also have significant foreign partnerships with DuPont in SASA, with CitiBank in AKBANK.

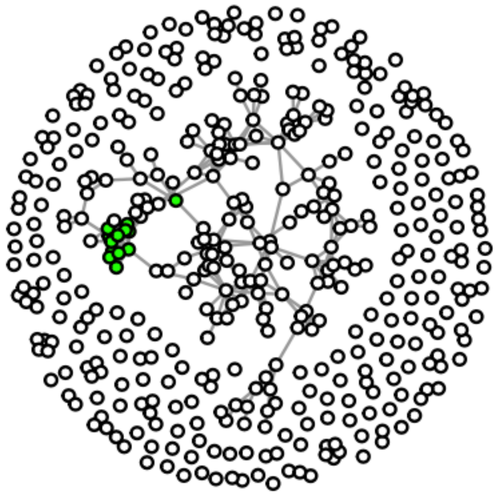

Figure 2. Sabancı Business Group Firms in the Firm Network

4. Business Groups in the Giant Component

The giant component provides the potential small world feature of the corporate governance networks. High clustering and short average path lengths are important. Enforcement depends on clustering. Information and behaviour diffuse via short paths.

Clustering coefficient is 0.57, Average path length is 6.17. There is a high clustering especially thanks to cliquishness of BG firms. However the average path length is higher than other country networks as BGs have few links among each other. Either trust is lacking or there is no advantage to do so!

Top 15 BGs in the giant component make up more than two thirds of the firms. There are 157 firms and the total degree is 764 (which is twice the number of links). Top 10 BGs firms have % 74 all the degrees, that is they have 565 degrees collectively.

5. Discussion and Conclusion

BG firms keep the small world of corporate governancce networks through family members and loyal managers. BGs collectively constrain the power of foreign capital. BGs can stand against the excessive intervention of the executive power BGs incubate new start ups in new sectors.

The downside of the dominant BGs is the lack of entry. Through their control of capital markets BGs enjoy a huge advantage. There should be an optimal balance with BGs and independent/foreign firms.

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