Full Length Research Paper

An investigation into why Turkish business groups resist the adoption of M-form in post-liberalization

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The aim of the present study is to investigate why Turkish business groups resist the adoption of the M-form despite Chandler’s well-established premise on the evolution of multi-activity firms toward the M-form in post-liberalization. This paper is based on the economic and institutional theory. An analysis of the findings reveals that the holding companies (H-form) resist the M-form despite the strategy-structure misfit. On the other hand, inward-oriented internalization strategy which is pursued in the liberalization period affects structural choices of the business groups through adaptation of the M-form. Our results also provide support for the institutional account of the M-form adaptation through normative pressure. This paper tends to support the new institutional economics that expects to see such groups in contexts where they provide some type of economic advantage because holdings have maintained their unrelated business portfolios, thereby experiencing significant strategy-structure misfit.

Key words: Business groups, strategy, structure, developing countries, M-form, holding.

INTRODUCTION

Business groups are a special type of organization existing almost in every market economy. Whether they are called Chebol in South Korea, Keiretsu in Japan, Grupos Economicos in Latin America, Jituanqiye in Taiwan, or Holding in Turkey, business groups share a defining characteristic. Granovetter (1994) defines business groups as “a collection of firms bound together in some formal and/or informal ways”. Most American conglomerates fit this definition, because affiliated companies are acquired and divested mainly on financial grounds. American style conglomerates are inherently unstable, but other conglomerates, such as Korean Cheabsols, are quite stable and fit the profile of business groups because they are generally the outcome of the investment by a single family and they gather around a coherent group which provides them with what they need. The first proposition of this phenomenon is that such groups are vestigial and they will therefore soon fade away (Chandler, 1962). While Chandler (1990) characterizes holding companies as unstable, Granovetter (1994) states how the state, banks, powerful families, cohesive ethnic groups and the moral economy, in general, may all sustain business groups over time, whether economically successful or not.

Many of the organizational changes in European enterprises followed the American model. Franko (1974) points out that although divisionalization has occurred, there are differences between the American multidivisional model and the structures adopted in recent European reorganizations. What is the reason for these reorganizations? Are they yet another manifestation of the Americanization of Europe? Across the whole post-war period, there is a steady rise in the prevalence of conglomerates in Europe marked in both Germany and the UK, but less so in France. However, in all three countries, the most common strategy is the related diversification strategy. Unrelated conglomerate strategies are generally less stable than related diversifiers, which dominate all three European economies (Whittington et al., 1999). Kogut and Parkinson (1998) suggest that related diversification can be seen as the normal end of successful corporate development. Nevertheless, this European growth in conglomerates differs from American experiences (Whittington et al., 1999). Galan and
Sanchez-Bueno (2010) propose that Spanish firms converge with those of other European economies in pattern of strategy and structures. This means that Spanish firms increase levels of diversification and diversification supporting universalistic predictions as Chandler postulated initially in spite of some studies show the differences across countries (Mayer and Whittington, 1999; Mayer and Whittington, 2000; Fruin, 2009). In Europe, some researchers provide for evidences the presence of business groups in Sweden, Italy, Spain, Russia, France and Belgium, respectively (Collin, 1998; Galan et al., 2005; Perotti and Gelfer, 2001; Gorodnichenko et al., 2009; Masulis et al., 2009; Jonnerga and Karreman, 2004; Buysschaert et al., 2008).

Given the movement toward increased market-oriented institutions in emerging economies, an important research question for future research is to address whether the business group as an organizational form will disappear as economic development continues. The focus in the present study is on why Turkish business groups resist the adoption of the M-form despite the Chandler’s well-established premise on the evolution of multi-activity firms toward the M-form in the post-liberalization period. Studying business groups in Turkey not only helps answer Granovetter’s ‘Coasian’ question but also contributes to our understanding of East Asian economic development. Business groups in Turkey are often constituted legally as “holding” companies and state-dependent business systems (Whitley, 1994). Turkish business groups have been characterized as multi-activity firms operating in a wide range of unrelated sectors, family-owned and managed, and with vertically centralized authority structures (Bugra, 1994; Bugra and Usdiken, 1997). In other words, the dominant forms of organization as holding and unrelated diversification strategy continue in the liberalization period (Goksen and Usdiken, 2001). The present study examines two related and important questions in the extant literature: How have unrelated diversified business groups in developing countries survived and performed well as a result of recent changes in the macro economic and institutional environment? How are the strategy and structure of business groups expected to change?

The main contribution of the study presented in this article is to extend our understanding of business strategy in different market contexts. This paper makes an important contribution to the field of organization structure in that the extant literature suggests how the structure in a domestic context is not translated into another structure, because business strategy cannot isolated from environmental context. Hoskisson et al. (2005) have pointed out that “emerging economies” provide a useful setting for examining the effects of macro-level institutional change on business firms. The post-liberalization experience, which provides the setting for this study, constitutes one such case (Kock and Guillen, 2001, Ghemawat and Khanna, 1998). To build this understanding, this paper is based on the institutional and economic approach. Unlike the past studies on business groups that anchored at the member firm level, this study analyses 32 business groups as wholes. Here, we introduce the study to the reader. Subsequently, we discuss the conceptual framework and hypotheses. Then, we evaluate how business groups are formed in Turkey in the pre-and post-liberalization period; followed by the research method and analytical strategies that the study employed. Finally, we present the key descriptive statistics and empirical analyses.

THEORY AND HYPOTHESIS

The economic approach: Strategy (diversification strategy and international strategy)

There are two kinds of argument for economic advantages of M-form: one from scale (Williamson, 1985), the other from strategic (Chandler, 1962). Williamson (1985) stated that multidivisional form deals with the problems of large-scale organization. Williamson (1985) postulated that the M-form structure would outperform firms which operated with other organizational forms. Chang and Choi (1988) empirically showed that business groups with multidivisional structures reduce transaction costs and provide economies of scale and scope. Large firms producing in many diverse product and geographic markets experience coordination and control problem according to transaction-costs economist. Therefore, M-form reduces coordination and control problems because of the arrangement of human and physical capital into semi-autonomous businesses. The separation of strategic and tactical decision provides for separation general manager from functional manager. Increasing industrial diversity and geographic dispersion give rise to behave opportunistically for functional managers due to the losing of control mechanism. The increasing number and complexity of organizational decisions give rise to difficulty for the top management to monitor and control such behavior (Williamson, 1975). In contrast to Williamson’s M-form hypothesis, there are some evidence that show that M-form is not universally superior to the other forms (Ollinger, 1994; Barlett and Ghoshal, 1993). In particular, Bettis (1991) criticizes the M-form as an “organizational fossil” and argues that it is not efficient in global matrix organization, multiple reporting relationship, network organization, etc.

Theoretically, holding and M-form are explained differently. An H-form organization operates unrelated businesses; because each unit stands alone, each unit is evaluated as a profit center or an investment center. In the pure H-form, corporate staff is very small and keeps only financial controls over the operating units. According to Chandler (1990), the high performing type is the M-form, and it is intermediary in its degree of centralization.
between the centralized U-form and decentralized H-form. In the M-form organization, operating units are partially interdependent. The chief executive of the M-form organization is responsible for strategic planning, finance and accounting. Each operating units is sufficiently autonomous. The M-form structure has more hierarchical control and coordination than the holding company form involving legally independent firms. Related diversified firms require the M-form structure emphasizing cooperation among divisions. But not all kinds of diversification are the same. Related and unrelated diversification strategies aim at different economic benefits and organizational requirements on firms.

Chandler’s (1962) original argument linking divisionalization and diversification concerned specifically the related diversification. After the 1980s, due to the conglomerate diversification becoming de-institutionalized as a legitimate economic approach, conglomerates have been evaluated recently resource-based approach providing parallel arguments (Mayer and Whittington, 2004; Tece et al., 1997; Chandler, 1990). Some researchers outline the implications of Chandler’s perspective for the theory of innovative enterprise (Lazonick, 2010), supply chain management (Helper and Sako, 2010) and capabilities theory of business enterprise (Teece, 2010). Tece et al. (1997) stated that “related diversification is about the only form of diversification that a resources/capabilities framework is likely to view as meritorious”. This view of business group is based on a resource-based perspective. The resource-based perspective assumes that a firm’s competitive advantage derives from the unique bundles of resources that are difficult for competitors to duplicate – either through imitation or substitution (Barney, 1991). There have been prior examinations of business groups from a resource-based perspective (Yiu et al., 2005; Hoskisson et al., 2000).

Guillen (2000) suggests that firms and entrepreneurs could accumulate an inimitable capability to combine domestic and foreign resources to enter industries more quickly and more cost-effectively in emerging economies. While the existing studies based on the resource-based approach may explain the related diversification, advantages such as economies of scope or intra-firm transfer of core competencies cannot adequately explain the unrelated diversification (Hoskisson et al., 1993). Therefore, the two kinds of diversification must be distinguished. Diversified business conglomerates often dominate the competitive landscape in many countries outside the United States (Khanna and Palepu, 1997). This phenomenon seems to contradict the existing theoretical argument that high levels of product diversification are detrimental to firm performance (Wan, 2005). Yiu et al. (2005) claim that most of the endowed government resources do not help business groups to create a competitive advantage in China. Therefore, their findings show that institutions and strategic choices are facilitated or constrained by the organizational resources in emerging economies. Chung (2001) examined market-center theories, institutional arguments and cultural perspective. This evidence confirms that lacking a coherent core in ownership and management makes firms unable to respond to institutional incentives promptly.

Turkey has a state-dependent business system (Whitley, 1994) and this system leads to the constitution of legal business groups as “holding” companies. Heper (1991) and Bugra (1994) suggest that state intervention in business relations has also contributed to the formation of an unstable business environment in the country. This unstable relationship between the state and firms encouraged the holding companies to invest in multi-activity fields. Entrepreneurship with political connections was quick to develop multi-activity firms, the typical form of holding companies. However, Onis and Turem (2001) and Onis (2002) argue that especially some entrepreneurship is encouraged to invest in protected sectors. Therefore, big businesses and state relations continue to benefit from clientelistic ties, state patronage and protection in the pre-liberalization period.

Turkish firms, especially the big holdings, have grown through unrelated diversification (Granovetter, 1994) and continued to this type of diversification strategy in the post-liberalization period (Goksen and Usdiken, 2001). Demirag and Serter (2003) suggest that ownership of Turkish companies is highly concentrated, families being the dominant shareholders. The separation of ownership and control among the Turkish companies are mainly achieved through pyramidal ownership structures and the presence of big business groups (Orbay and Yurtoglu, 2006; Ararat and Ugur, 2003). Business groups in Turkey were the outcome of the state-dependent economic development policy when the country had weak market institutions. Business groups can lose economic advantages over time as market institutions developed. Nowadays, business groups have decreased the level of diversification and focus on “select and focus strategy” in Turkey. Especially Koç and Doğan holdings announced to follow “more focus strategy” in the restructuring process.

Due to the fact that both environment and ownership affect strategy, which in turn affects structure, business groups will decrease diversification strategy and have to have a “select and focus” strategy. As a result of the recent changes in the macro economic and institutional environments, the strategy and structure of the business groups are expected to change in the post-liberalization period in Turkey. The realization of the economic benefits from vertical integration and related diversification is said to require the adoption of an M-form structure within which cooperation between divisions is stressed. Accordingly, the following proposition is offered to distinguish between the two types of diversification:

**H1**: The adoption of the M-form by business groups in
Because the business groups pursue related diversification, it is expected that business groups develop an acquisition strategy. With the market being liberalized and developed, business groups develop more acquisition strategies. Although business groups are able to acquire or develop resources for internally sustainable competitive advantages, the strategic factor market is weaker than in developed economies. So, if business groups have sustainable advantages, they may need to acquire resources outside their domestic boundary. Goksen and Usdiken (2001) have shown that business groups that emerged after liberalization also pursue less internalization strategy in Turkey. Kim et al. (2004a) highlighted the evolutionary patterns of family conglomerates through a study of 19 family conglomerates in eight emerging markets: India, Indonesia, Korea, Mexico, the Philippines, Taiwan, Thailand, and Turkey and delineate the principal drivers of their growth; expansion and internationalization. Those aspects of family conglomerates that were examined in this study include early mover advantages, foreign alliances, competitive market positioning, and diversification. As they evolve, family conglomerates tend to diversify. Later in the growth and maturity stages, family conglomerates encounter domestic and even some foreign competition. The Koç Group in Turkey has an early mover advantage and diversified product lines.

H2: The adoption of the M-form by business groups in Turkey depends on the degree of international diversification strategy undertaken by the business groups.

THE INSTITUTIONAL APPROACH

Liberalization effect: Firm size and age

Institutional theory also suggests that an organization can adopt a certain organizational structure to demonstrate institutional isomorphism rather than to increase internal efficiency (Meyer and Rowan, 1977; Scott, 1995). DiMaggio and Powell (1983) suggest three mechanisms whereby institutional isomorphism is achieved: coercive, mimetic, and normative. These mechanisms are “coercive isomorphism that stems from political influence and problem of legitimacy; mimetic isomorphism resulting from standard responses to uncertainty; and normative isomorphism associated with professionalization” (DiMaggio and Powell, 1983). Hoskisson et al. (1993) suggest that coercive isomorphism is not likely to explain the M-form adoption. Coercive isomorphism results from both formal and informal pressures which may be felt as force, persuasion or invitations to join in collusion exerted on organization by other organizations. But, mimetic and normative isomorphism might partially explain the diffusion of the M-form structures. Due to the fact that organizational technologies are poorly understood, goals are ambiguities and environment creates symbolic uncertainty, organizations may model themselves on other organizations (DiMaggio and Powell, 1983). Mimetic isomorphism can account for diffusion of the M-form structures that can be seen in the implementation of successful firms such as DuPont and General Motors. However, Turkish business system consists of successful holding companies. Therefore, this transition occurred as holding companies in Turkey.

H2: The adoption of the M-form by business groups in Turkey depends on the business group’s age.

Leadership characteristics

DiMaggio and Powell (1983) stated that “universities and professional training institutions are important centers for the development of organizational norms among professional managers and their staff”. Thirdly, a source of isomorphic organizational change is normative and stems primarily from professionalization. Normative isomorphism occurs as an outcome of the focal organization’s adoption of norms. The diffusion of the M-form structures can also be accounted for by normative isomorphism to the extent that business schools and management consulting firms have taught and recommended the M-form structures as an important organizational tool. Because of having education abroad, business managements gain a positive “Western” outlook and approach (Bugra, 1994; Yamak and Usdiken, 2006).

H3: The adoption of the M-form by business groups in Turkey depends on the level of education which was received abroad.

Ownership structure

Palmer et al. (1987) and Mahoney (1992) examined the relationship between ownership structures and M-form adaptation. Both studies found support for families, and financial institutions are less likely to adopt M-form structures. Mayer and Whittington (2004) assert that personal ownership is very extensive in France; but personal ownership is rare in the structural choices in the United Kingdom or the United States. Demirag and Serter’s (2003) findings reveal that Turkey’s trade companies are highly concentrated and have a
centralized ownership structure. The majority of firms are ultimately owned and controlled by families, the richest families in the country. These firms are organized under a pyramidal ownership structure. Demirag and Serter (2003) point out that a pyramidal ownership structure allows the owners to raise capital in the equity market without losing control of the firm.

H5: The adoption of the M-form by business groups in Turkey depends on the degree of personal ownership.

Williamson (1985) saw in the M-form organization a general office which performed a role analogous to that performed by investors in the capital market. The general office allocates scarce financial resources between the competing claims of different divisions. Williamson suggested that the diversified M-form firm could be viewed as an internal capital market. Moreover, external capital market might suffer from market failures which could be caused by the internal capital market of the M-form firm. However, with the market being liberalized, internal capital market loses much of its relevance. Theoretically, it is accepted that H-form is loosely organized; therefore, Chandler (1990) characterizes holding companies as unstable. But, M-form firms are stable and provide the firms with internal capital market. In other words, because the critical feature of the H-form is that cash flows are not reallocated between competing divisions, internal capital market does not exist within the H-form. The M-form structure is positively associated with the development of internal capital market. But, this hypothesis is formed from free-context comprehension. The proposition relies overwhelmingly upon American experience and literature (Mayer and Whittington, 2003).

Banks are supposedly reluctant to support divisionalization on account of the competition that the multidivisional firm's internal capital market provides bankers with the traditional role as prime allocators of capital. Mayer and Whittington (2004) found no support for bank owners particularly in the European context. On the other hand, some business groups have special interest-free finance corporations. The special finance corporations serve in two ways in the process of capital accumulation. On the one hand, they accumulate savings of religious persons that do not use traditional banking system; on the other hand, they provide religious business circles which do not use banks with capital loans (Demir et al., 2004; Ozcan and Cokgezen, 2003). Due to the fact that the efficiency of external markets for product, capital and labor varies from one country to another (Khanna and Rivkin, 2001; Mayer and Whittington, 2003), the relative advantage of constituting an internal market may be enhanced in contexts where external market works inefficiently.

H6: The adoption of the M-form by business groups in Turkey depends on the degree of bank and financial corporation ownership.

Macro and micro environment: Economic and institutional contexts in pre- and post-liberalization periods in Turkey

When founded in 1923, the Republic of Turkey inherited from the Ottoman Empire a very limited industrial base. In the early days of the republic, an indigenous private sector was envisaged as the major force for the development of local industry. In 1946, the single-party regime ended in Turkey and the pro-business democratic party appeared on the scene as an alternative to win the 1950 elections. The country entered a new phase of planned economy which was followed by a military intervention in 1960. The economy went through a process of important substitution regime which was supported by a heavy protectionism (Bugra, 1994; Onis, 1992). Recent changes in the macro economic and institutional environments made the implementation of a stabilization program necessary. The January 24th decisions were characterized as an orthodox stabilization package, prepared and presented by Özal, who won the confidence of the international capital with his relations with the World Bank and of the domestic capital authorities. From then on, the economy in Turkey was led by extroverted industrialization and liberalization policies. In this context, the post-1980 era has been examined under three oscillations (Yeldan et al., 2000): the period of 1981 to 1987, characterized as an outward-oriented period in which manufacturing industry turned towards export with foreign trade liberalization, resulting in the first oscillation, economic stagnation and reform fatigue in 1988; the period of 1989 to 1993, which was a period of financial liberalization in which foreign exchange controls
were abolished and capital movements became wholly uncontrolled, which resulted in a financial crisis in 1994, which was the second oscillation; the period of 1995 to 1997 concentrated on short-term capital source growth which resulted in 1999 economic crisis due to the reflection of East Asian and Russian crises, which was the third oscillation.

The new entrepreneurs who entered into business were involved in commerce and construction in Turkey, after the mid-1950s. With the beginning of local production of goods which had previously been imported, the import of these goods was banned. In the economy, in which the number of the entrepreneurs was limited and the cost of a new investment was nearly zero because of negative real interest rates, almost all of the investments were made by a limited number of entrepreneurs. Consequently, groups of businessmen began to operate in different fields. This new structure was organized under the new organizational framework of holding companies. By 1980, all of the leading conglomerates of Turkey had been established and this group of businessmen was the first generation of the Turkish bourgeoisie (Bugra, 1994; Cokegezen, 2000). Business groups have tended to group very quickly through diversification, and to move into quite disparate industries without following an orderly pattern (Kock and Guillen, 2001). Operating in a number of different markets is an important characteristic of the Turkish holding companies (Goksen and Usdiken, 2001). Another characteristic of the holding companies is their limited geographical distribution and their heavy accumulation in Istanbul (Bugra, 1998).

But, there has been a variety of holdings in Turkish context from 1990 onward. On one side are the big holdings and on the other side are the Anatolian holding companies. Entrepreneurship with political connections was quick to develop multi-activity firms as the typical big business (Bugra, 1994; Oniş, 2002) but, Anatolian holding companies rose in the post-liberalization period in the 1990s. Demir et al. (2004) divided the Anatolian capital into three main groups. It is difficult to differentiate family holdings from conservative and religious companies, but, multi-ownership companies, commonly referred to as Anatolian holding companies, different from others. They were both a response to the lack of industrial capital and a product of the politically charged strategy to initiate development and industrialization in the country. In Turkey, this alternative model occurred through multi-ownership companies with the absence of an effective capital market regime (Ozcan and Cokegezen, 2003). Particularly, this differentiation for holding companies shows the new fragmentation and new corporations in Turkish bourgeoisie (Cokegezen, 2000; Bugra, 1997, 1998; Onis, 2002).

On the other hand, Turkish business groups have private banks which are under the control of a family and which serve as a main bank of the group organized around a holding company (Demirag and Serter, 2003). This relation leads to the creation of a well-organized internal capital market. Hence, affiliated firms can collectively finance their short and long term capital requirements. As a result, group affiliation alleviates the impact of the financial crises (Gonenc and Aybar, 2006; Gonenc, 2009). So, banks owned by business groups substitute external capital market, and resolving informational asymmetries leads to less liquidity in affiliated firms (Gonenc and Aybar, 2006). However, it has been observed that a holding company having a bank provides itself with an internal capital market. Some business groups have special interest-free finance corporations. Thus, special finance corporations serve in business groups which create internal capital markets.

Some studies (Chang and Choi, 1988; Keister, 1998; Silva et al., 2006; Claessens et al., 2000; Khanna and Rivkin, 2001; Douma et al., 2006) have shown that business groups help to create positive effects on the performance of the member firm, whereas some studies (Caves and Uekusa, 1976) have shown that business groups result in a negative impact on the performance of the firm. Yiu et al. (2005) have shown that most of the endowed government resources do not contribute to business group performance, but market-oriented capabilities and resources are most likely to increase the performance of the business group. Perotti and Gelfer (2001) and Walker (2005) provide for some evidence in the case of Russia that groups and their internal markets provide financing benefits to group-affiliated firms. Gunduz and Tatoglu (2003) compared the performances of the affiliates of the diversified Turkish business groups with those of unaffiliated firms. The results indicate that firms affiliated with diversified business groups do not differ significantly from unaffiliated firms in terms of accounting and stock market measures of performance. Also, the findings indicate that family-owned firms are not significantly different from those of non-family-owned firms in terms of performance measures.

RESEARCH METHODS

The sample and data

The 32 business groups included in the study control approximately a total of 700 firms, and 118 of these firms are listed in the largest 500 industrial corporations in Turkey (ISO, 2006). Our sample consists of 18 M-form and 14 H-form companies in terms of structure. The business groups as a holding in Turkey are legally founded a corporation which is required at least 5 company. As can be seen from a holding separates from ownership and control through pyramidal ownership structure and cash flow and voting rights are more aligned to family ownership as referred by insider-system countries (Demirag and Serter, 2003). The strategists working on business groups do not agree on what is exactly a firm. Firstly, Coase (1937) tried a theoretical development to answer the question “what is the nature of the firm”. Subsequently, Granovetter (1995) revised this question as “what is the nature of business groups”. A firm in the West has relatively clear legal boundaries characterized by hierarchical control by its top management. A business group or conglomerate in many Asian and European economies tends to have blurred boundaries permeated by
personal connections, partial ownerships, and board interlocks. The difficulty in defining a business groups boundaries has not only led empirical problems when measuring their size, but also resulted in a conceptual debate on whether these groups refer as a firm (Peng and Deliouis, 2006; Guillian, 2000; Yiu et al., 2007; Boyd and Hoskisson, 2010). Some researchers argue that the narrowly defined Coasian firm is a prominent feature only in modern societies, but most of Asian and European countries have similar business groups (Hamilton and Feenstra, 1995; Mayer and Whittington, 2004).

Most large sample empirical researches on business groups focus on member firms as a unit of analysis (Khanna and Rivkin, 2001; Khanna and Palepu, 2000; Nachum, 1999) and they use listed member firms only, which however is only a subset of all member firms. These affiliated firms provide for some advantage in terms of sample size and data availability, but they have limitations for generalizability and representation the whole of business group (Khanna and Yafeh, 2007; Tan and Mayer, 2007). Conventional diversification research has measured resources, diversification strategy, organizational structure and performance only at corporate level and not at the business unit level. Affiliated companies essentially function as operating divisions under the control of group headquarters, in spite of legally independent firms with their own tangible and intangible resources. In a diversified business group, resources and capabilities should be transferred from one unit to another or should be shared by several others in order to create synergies. For example Turkish business groups can be conceived as a type of network where individual affiliates are connected with each other through both personal and equity ties. Turkish business groups are more tightly linked and controlled in terms of pyramid ownership structure also bank or financial corporation ownership create a internal capital market for affiliated firms (Demirag and Serter, 2003; Gonenc, 2009). Therefore we can use business group as a unit of analysis to overcome these limitations regarding previous studies (Chang, 2006; Tan and Mayer, 2007; Yiu et al., 2007; Peng and Deliouis, 2006; Pursey et al., 2008; George and Kabir, 2008).

The firms included in this study are domestically-owned firms. They are most likely the engines for economic growth while having greater government involvement according to Turkish government policy. In order to gather data, the study employed several documentary sources such as press reports, company histories, business directories and annual reports. In order to obtain this information, the study used the Internet.

Variables

The dependent variable: Structure

The structure of business groups is measured with Williamson's organizational structure (1985): functional, functional holding, holding and multidivisional structure. Functional (U-form) is the traditional, functionally organized strategy, the simplest and most centralized, both strategically and operationally. A functional-holding (CH-form) builds on functional core simply by adding a pyramid of subsidiaries or partly-owned ventures. A holding (H-form) is a divisionalized enterprise for which the required internal control apparatus has not been provided. A multidivisional (M-form) is the divisionalized enterprise in which operation is separate from strategic decision-making and for which the required internal control apparatus has been assembled and is systematically employed.

It was selected two criteria to classify the organizational form of a business groups as a holding (H-form) rather than functional (U-form) or multidivisional (M-form). Firstly, affiliated firms exist in the every business group's internet link, because a holding is legally founded a corporation in Turkey. The holding separates from ownership and control through pyramidal ownership structure, cash flow and voting rights. Therefore, it can be seen what firm belong to the same business group from business directories and annual reports. Second, are the corporate staff's responsibilities. If the strategic planning, finance and accounting was made by the corporate staff and then classified as an M-form or corporate staff was very small and keeps financial controls over operating units and than classified as an H-form. All these factors were taken into account, because both environment and ownership affect strategy which in turn affects structure. The dependent variable of an organizational structure is represented by a binary variable of possession or non-possession of the multidivisional structure.

The independent variables

Diversification strategy: Our measurement of diversification strategy followed the categorical approach of the Harvard groups (Rumelt, 1982). The related and unrelated diversified strategies are differentiated by the qualitative relationships between the firm's activities. In the related business firms, no individual activity accounts for 70% or more of the firm's sales. Different businesses share some links and common attributes. Unrelated diversified firms also have no single core of at least 70% of sales, few, if any, link common attributes among businesses.

Age of the business group: The age of a business group refers to the length of years since the foundation of the business group.

International diversification: It was used several measurements in the literature, but there have been no agreement to the measure of international diversification (Hitt et al., 2009). Geographic diversification is the number of geographic regions where a firm had foreign subsidiaries to measure international diversification (Kim et al., 2008). Another international diversification measure is the number of host countries or foreign subsidiaries (Lu and Beamish, 2004). The other multidimensional measures, the transnational index, is composed of FATA (the ratio of foreign assets to total assets), FSTS (the ratio of foreign sales to total sales) and FETE (the ratio of foreign employees to total employees) is published annually by the World Investment Report. This was measured by the number of countries in which the business groups had foreign direct investment (Yiu et al., 2005) to evaluate the internationalization strategy with inward and outward strategies (Guillen, 2000). Also Goksen and Usdiken (2001) used this strategy in Turkey. Inward-oriented internalization was measured by the number of joint ventures in Turkey. Outward internalization was measured by direct investment abroad. Direct investment abroad was calculated by the number of firms founded abroad.

Bank and financial corporation ownership: Bank and financial corporation ownership was defined by ownership in the business groups. In our study, bank and financial corporation ownership data was coded as binary variable which means that if business groups have a bank and financial corporation ownership then it is accepted that there is ownership in the business group and coded with score of “one” and otherwise coded as “zero”.

Personal ownership: Personal ownership was measured by families or individuals who owned business groups. A similar procedure was followed for the personal ownership and it was coded as “one” if business group was founded by families or individuals and otherwise (multi-ownership etc.) coded as “zero”.

Education level: Education level was measured by higher education abroad which was received by business managers including TMT. It was coded as “one” if business managers included TMT received higher education abroad, and “zero” otherwise.
Table 1. Descriptive statistics and correlations.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. deviation</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
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</thead>
<tbody>
<tr>
<td>Dependent variable</td>
<td>0.5629</td>
<td>0.50402</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>0.5000</td>
<td>0.50800</td>
<td>-0.939(**)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>International diver. (joint ventures)</td>
<td>1.9375</td>
<td>2.82771</td>
<td>0.445(*)</td>
<td>-0.448(*)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International diver. (direct investment)</td>
<td>1.9063</td>
<td>3.88013</td>
<td>0.246</td>
<td>-0.314</td>
<td>0.311</td>
<td></td>
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<tr>
<td>Age of business groups</td>
<td>39.0938</td>
<td>18.09002</td>
<td>0.318</td>
<td>-0.303</td>
<td>0.521(**)</td>
<td>0.661(**)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank and financial cor. ownership</td>
<td>0.3125</td>
<td>0.47093</td>
<td>0.177</td>
<td>-0.270</td>
<td>0.386(*)</td>
<td>0.451(**)</td>
<td>0.529(**)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education level</td>
<td>0.2813</td>
<td>0.45680</td>
<td>0.109</td>
<td>-0.209</td>
<td>0.200</td>
<td>0.414(*)</td>
<td>0.325</td>
<td>0.178</td>
<td></td>
</tr>
<tr>
<td>Personal ownership b</td>
<td>1.0000</td>
<td>0.00000</td>
<td>0.000a</td>
<td>0.000a</td>
<td>0.000a</td>
<td>0.000a</td>
<td>0.000a</td>
<td>0.000a</td>
<td>0.000a</td>
</tr>
<tr>
<td>N = 32</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed), ** Correlation is significant at the 0.01 level (2-tailed). a Cannot be computed because at least one of the variables is constant. b All business groups are personally owned, therefore the ownership variable can not have an impact.

The control variables

**Industry**

In controlling for the variable of membership of the metal and petroleum industries, this study followed the previous research by Palmer et al. (1987, 1993) and Mahoney (1992). These industries were found particularly resistant to multidivisionalization on account of vertical integration (Chandler, 1962), but Mayer and Whittington (2004) found less support for the industry on structural choices in the European context. There is evidence that the relation of strategy to structure is not directional but reciprocal, because structure is not simply a strategy implementing tool. Also, most of the business groups in Turkey are producing in the metals or materials and petroleum industries as unrelated diversification strategy, so industry effect was not considered for our sample.

**Size**

In particular, the effect of scale on divisionalization may be weaker among large corporations (Williamson, 1985). Therefore, the larger-size of business groups is selected because the effect of size is not central concern of this study. As can be seen from our sample, all business groups in our data-set are large enough to raise Williamson’s complexities of scale. In this account, the multidivisional is not so much a response to large-scale as presented by Williamson (1989), but more on efficient solution to the complexities of diversification (Chandler, 1962; Rumelt, 1982).

This study used logistic regression analysis to establish the relationship between structure and context (Hosmer and Lemeshow, 2000). The dependent variable is represented by a binary variable according to whether or not it possesses a multidivisional structure. All functional, functional holding and holding companies were coded as 1. The study used six explanatory variables: diversification strategy, age of business groups, internalization strategy, bank and financial corporation ownership, personal ownership and education level which was received by business managers.

**FINDINGS**

Tables 1 and 2 reveal the descriptive statistics and logistic regression with structural choices as dependent variables. There are several observations to be made with regard to both dependent and independent variables. Table 1 reveals that the dependent variable is negatively associated with the diversification strategy but is positively associated with the international diversification strategy (joint ventures). With regard to the independent variables in Table 1, the international diversification strategy (direct investment) is associated with the age of business groups, bank and financial corporation ownership and education level. On the other hand, the international diversification strategy (joint venture) is positively associated with age of business groups and bank and financial corporation ownership. Also diversification strategy is negatively associated with the international diversification strategy (joint venture).

Therefore, the higher business group’s age leads to better international strategy. As can be seen in Table 1, the highest Pearson correlation coefficient is between international diversification (direct investment) and age of business groups (r:0.661) and two of the variables have correlation coefficient above 0.50. Gujarati (1995) and Kennedy (1999) suggested that collinearity should not be considered harmful among independent variables until the correlation coefficient exceeds 0.8 or 0.9. Since the
Table 2. Regression on structural choices, effect of national context.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Wald statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic factor</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>-2.202**</td>
<td>4.319</td>
</tr>
<tr>
<td>International diversification (joint ventures)</td>
<td>0.443*</td>
<td>3.100</td>
</tr>
<tr>
<td>International diversification (direct investment)</td>
<td>-0.126</td>
<td>0.573</td>
</tr>
<tr>
<td><strong>Institutional factor</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age of business groups</td>
<td>1.869</td>
<td>0.725</td>
</tr>
<tr>
<td>Bank and financial corporation ownership</td>
<td>-0.397 (1.177)</td>
<td>0.114</td>
</tr>
<tr>
<td>Personal ownership</td>
<td>-5.530 (4.057)</td>
<td>1.858</td>
</tr>
<tr>
<td>Education level</td>
<td>3.828**</td>
<td>5.019</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.251 (0.356)</td>
<td>0.497</td>
</tr>
<tr>
<td>Model’s chi-square</td>
<td>10.151</td>
<td></td>
</tr>
<tr>
<td>Percentage correct</td>
<td>81.3</td>
<td></td>
</tr>
<tr>
<td>Cox and Snell R square</td>
<td>0.359</td>
<td></td>
</tr>
<tr>
<td>Nagelkerke R square</td>
<td>0.481</td>
<td></td>
</tr>
<tr>
<td>Number of business groups</td>
<td>32</td>
<td></td>
</tr>
</tbody>
</table>

*p < 0.1; **p < 0.05; ***p < 0.01. Standard errors are in parentheses.

highest Pearson correlation among independent variables in this study is below the cut-off point of 0.80, multicollinearity does not appear to be a serious problem in interpreting the regression results.

Table 1 reveals that there are significant and negative correlations between an M-form structure and diversification strategy. Table 2 reveals that greater related diversification (diversification strategy, p < 0.05) is negatively associated with the M-form. Therefore, the findings of the study do not provide support for hypothesis 1. Also, the negative coefficient indicates resistance to the M-form. This provides some support for the continuing structural choices to H-form, and strategy-structure misfit.

As predicted by hypothesis 2, there are significant and positive correlations between an M-form structure and international diversification (joint ventures). Table 2 reveals that greater international diversification is positively associated with the M-form and providing partially (p < 0.10) support for hypothesis 2. Therefore, it can be said that inward-oriented internalization strategies (joint ventures) have enhanced business groups by collaborating with joint ventures in Turkey. Especially the rates of holdings’ foundation of joint ventures increased. Therefore, joint ventures may be forced to change business group’s structure and to decrease scale and scope. As predicted by hypothesis 3, the M-form is negatively associated with business group’s age. The results do not provide support for our predictions regarding business group’s age (hypothesis 3). Therefore, liberalization period does not affect on structural choices of business groups.

As another significant finding, education level (p < 0.05) is positively related to diversification strategy implying provide support for hypothesis 4. Therefore, business management, higher education abroad and state and private universities where instruction is in a foreign language may choose the M-form structures due to being an important organizational tool in Turkey.

The results do not provide support for our predictions regarding personal ownership (hypothesis 5) and bank and financial corporation ownership (hypothesis 6). Table 1 reveals that all business groups are personally owned which owned by families or individuals hereby the ownership variable is disregarded for correlation and regression analysis. On the other hand, some business groups have a private banks which are under the control of a family on the contrary the others have interest-free finance corporations. Neither personal ownership nor bank and financial ownership appear to be associated with the multidivisional form in Turkey.

**DISCUSSION**

The main contribution of this study provides a meaningful insight of business strategy in different market context in which business strategy is shaped. This paper is based on two theoretical arguments: economic and institutional approach. The empirical evidence is based on Turkish business groups. This paper partly tends to support for Chandlerian economic account of firm organization in an emerging country context whereas related literature provides substantial support for economic approach in the U.S. context (Palmer et al., 1987; Palmer et al., 1993) and the European context (Franko, 1974; Belkaoui, 1997; Mayer and Whittington, 2004; Galan and Sanchez-Bueno, 2008). This paper tends to support for the new
institutions economics due to the maintaining for business groups their unrelated business portfolios. Also, our results provide support for institutional account of the M-form adaptation through normative pressures consistent with related literature (Palmer et al., 1993; Palmer et al., 1987).

It can be said that many holdings choose the M-form structure with internal and strategic controls, but the structure do not correspond to the strategy in Turkish business groups. The M-form and strategic control require related diversification strategies due to better performance measures. As a consequence, holdings maintained their unrelated business portfolios, thereby experiencing significant strategy-structure misfit. This paper tends to support the new institutional economics that expects to see such groups in contexts where they provide some type of economic advantage (Kock and Guillen, 2001). Mayer and Whittington’s (2004) study supports the economic accounts of structural choice in the European context. They relied upon Chandler’s (1962) more differentiated argument linking structure to strategy. In short, in both periods they found support for the propositions based upon the economics of strategy. Our results partly support the Chandlerian economic account of firm organization, because inward-oriented internalization strategy which is pursued in the liberalization period affects structural choices of the business groups through the adaptation of the M-form. Business groups with diversified strategy have enhanced the internalization strategy in Turkey through the liberalization period. To this extent, Chandlerian economics have been gradually winning-out amongst Turkish business groups, even more slowly than originally expected.

Vachani (1999) empirically tested how the four components of the recently developed Total Global Diversification Measure, related and unrelated product diversification, affect subsidiary autonomy, which remains a critical aspect of multinational control. The findings suggest that the components of Total Global Diversification have a significant effect on subsidiary autonomy and that their effect depends on the multinational’s organizational structure. Lu’s study (2002) extents product diversification research to a new organizational form (international joint ventures) and a new environmental context (emerging market, China). It explores the extent to which product relatedness with both foreign and local parents affects international joint venture’s performance as perceived by venture managers. Hoskisson et al. (2005) proposed that a business group which has a strong foreign ownership position is more likely to adopt a narrowly-scoped diversification strategy with a moderately related group of businesses. Foreign firms attempting to set up businesses in the developing countries would have to spend considerable amounts of time and funds to understand local requirements. Likewise, local firms without access to foreign capabilities – technology, marketing know-how, access to export markets – may not find viable business opportunities.

Alliances with the international business partners prove critical to a family conglomerate in the growth and early maturity stages. The need for expansion, access to resources and organizational learning lead to joint ventures, international alliances, and licensing agreements with western companies (Kock and Guillen, 2001). In 1997, Sabanci entered a 50-50 equity joint venture with Danone, a European leader in dairy products and owner of the Evion brand of bottled water. Danone brought ample technical knowledge in packaging and bottling, and a reputation for healthy and environmentally friendly products, but it lacked information on the Turkish market. Sabanci is a leader in Turkey with its bottled water, Hayat, and is knowledgeable about customers, retailers and distributors. The collaboration with Danone to market Hayat made this brand the market leader within the first year. Danone then introduced its dairy products into Turkey through Sabanci (Kim et al., 2004a). Normative pressures are hypothesized to receive higher education abroad by business managers that included TMT. Our results also support our conceptualization of the normative-pressures hypothesis. Corporations whose CEOs were trained in elite business schools and whose directors were embedded in the non-directional corporate interlock network were more likely to adopt the M-form (Palmer et al., 1993). Hoffman et al. (2000) examine whether managerial tenure interacts with firm strategy to affect the firm performance recovery time after the M-form reorganization. Palmer et al. (1993) argued that the influence of elite business school attendance and interlocking directorates on the M-form adoption might be considered as a reflection of the self-conscious attempt of the U.S. capitalist class to preserve the capitalist system in the face of accumulation crises. One may speculate that the management of family conglomerates will become more participative as well as more professional. For example, Koç in Turkey and Vitro in Mexico now include in their boards executives from the western companies (Kim et al., 2004a).

We found no support for the allegation that a bank and/or financial corporation might resist the multidivisional as potentially undermining their role in capital allocation. While in the developed economies, personal ownership was associated with resistance to the multidivisional, it was actually not associated with the post liberalization period in Turkey. Even if there may be some signs of convergence with the American model, at least in the French case, it does not seem that the multidivisional form has been as readily transferable as the earlier proponents expected (Mayer and Whittington, 2004). Mayer and Whittington (2004) warn that even if American models may finally be transferable out of their original context, the transfer process can be slow and imperfect. The economics of strategy explains the patterns of resistance to the multidivisional in a way that is remarkably consistent on a cross-national basis.
Significant national differences in patterns of structural choice survived right into the last decades of the twentieth century, yet still the dominant trend across France, Germany, Spain and the United Kingdom is towards the multidivisional. The influences of Guanxi (personal relationships) on group diversification were clear in the early stages in Taiwanese Business Groups when markets were tightly controlled and the personal networks became the core capabilities underlying the diversification. However, as groups grew and institutions developed, the significance of political Guanxi diminished and the decision-making of the diversification strategy became hinged mainly upon the resources that the firm accumulated over time (Chung, 2006).

Business groups with lower horizontal linkages would have individually affiliated firms of the business group separated with little interdependence in strategic action. This is the case in the Russian industrial groups that typically occurs where individual firms are diversified and where there is low relatedness between them in terms of assets, resources and capabilities, and industry specific resources (Yiu et al., 2007). China and Russia for the first time, thus pointing to the increasing (not decreasing) importance of institutional relatedness, at least in the short run (Peng, 2005). Finally, in Chile and India, the scope of conglomerates actually increased during a period of rapid liberalization (Khanna and Palepu, 1999). Corporate groups in Japan are undergoing a significant change reflected in declining cross shareholdings, as well as in weakened main bank relationship (Yafeh, 2002). On the other hand, business groups in Sweden, Germany and Belgium are highly concentrated and dominated by families or corporate owners (Collin, 1998; Gorodnichenko et al., 2009; Jonnerga and Karreman, 2004; Buysschaert et al., 2008; Masulis, Pham and Zhein, 2009).

There are some limitations in the sampling and data analysis. An important problem is the small sample size which affects analysis, because there are not any business groups for size criteria in Turkish business system. On the other hand, it is extremely difficult to determine the structure of the business groups and education level which was received by business managers including TMT. This study is not controlled for environment and technology, because most of the business groups in Turkey operating in metal and petroleum industries are particularly resistant to multidivisional form.

The evolutionary model can offer important implications for other emerging economies. For instance, with weak market institutions, business groups in China can create value by performing the roles of internal markets, which favor unrelated diversification and the cooperative M-form structure. As market institutions evolve and competition increases, unrelated diversified business groups under the control of the cooperative M-form may turn into core-rigidities (Keister, 1998). It was the financial crisis of the late 1994 and the 1999 economic crisis due to the reflection of East Asian and Russian crises that forced the management to re-examine the strategy and structure of their business groups. The financial crisis also provided the government with legitimacy to push the reforms in financial and corporate sectors in the attempts to improve transparency and accountability in corporate governance and supporting institutions. Following the financial crisis, holdings will have been under pressure to restructure their business portfolios. The prevailing view is to follow the “focus hypothesis”. This hypothesis, suggested by Kim et al. (2004b), suggests that Cheabols were the outcome of the government-driven economic development policy when the country had weak market institutions, and that Cheabols lost economic vigor over time as market institutions developed. The prevailing mindset suggests that their future is bleak without reducing business scope and refocusing as the U.S. diversified firms did during the 1980s. Implicit in this view is that the best success formula for the diversified business groups is the related diversification supported by the cooperative M-form structure. LG and Hyundai Motor illustrate different approaches to restructuring. In addressing the antecedents and consequences of business groups’ restructuring, such heterogeneity among business groups should be taken more seriously in the future research.

Carney et al. (2011) recently researched through meta-analytical techniques covering 28 different countries. They stated that affiliation diminishes firm performance in general but underdeveloped financial and labor market contexts give rise to better performance for affiliated firms. As a result, business groups have different form and sizes, and their heterogeneity across time and place denies any simple explanation. Some researches provide for supporting business group’s heterogeneity in different institutional context (Ramaswamy et al., 2010, George and Kabir, 2011; Jiang and Peng, 2011)

This research has important implications for practitioners and managers. The necessary condition is the existence of a fit between strategy, structure and environment as a complementary system. Different environments require different strategies and structures, and structures need to be consistent with each other. The twenty-first century organizational design has changed and thus the attitudes of the new managers also need to change and be in tune with the network principles of organizing (Galan et al., 2005). In an emerging country context, this paper offers for practitioners to reevaluate unrelated diversification strategy and business group’s evolution stage in increasing the global market competition. Business groups continue to be focus of government’s economic policies in emerging country as business groups must become stronger and compete both domestically and internationally. Finally, the present findings provide insightful implications for internationalization process leading to refocusing of business group’s
strategy. Thus, business groups must develop resources and capabilities to compete in a more market-oriented economy.

We can draw some conclusions from this for further research. Turkish business groups change their structures to fit between strategy, structure and environment as a complementary system. Joint ventures are an important example for this structural change in Turkey. An important future research question is how headquarter’s structure and control system affect business group’s structure and control system by means of subsidiary ownership. Peng et al. (2005) argues the question of what determines the scope of the firm, which is one of the most fundamental questions in strategic management.

The firms in developed economies have relatively clear legal boundaries, but such a firm is sometimes called a “business group” in an emerging economy. The difficulty to identify firm (group) boundaries has not only led to the measurement problems, but also to the conceptual debates on whether such an organization is a “firm”. On the other hand, the evolutionary perspective for business groups in an emerging economy depends on which evolutionary stage the business groups have. Therefore, heterogeneity among business groups restructuring should be taken more seriously in Turkey. As a result of the recent changes in the macro and institutional environments, the strategy and structure of the business groups are expected to change in the post-liberalization period in Turkey. Their future is gloomy without a reduction in the business scope. Due to the fact that both environment and ownership affect strategy which in turn affects structure, business groups will refocus on strategy and likely decrease diversification strategy and have to “select and focus” strategy.

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