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FOREIGN OWNERSHIP AND CORPORATE PERFORMANCE IN TURKEY

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ABSTRACT
This study examines the relationship between the degree of foreign ownership and performance of recipient firms and test whether different levels of foreign ownership have different effects on corporate performance, using a balanced panel of 270 Turkish firms over the period of 2008-2012. It is found that there is a positive and statistically significant relationship between foreign ownership and corporate performance. However, there does not exist a significant difference among firms with different degrees of freedom in terms of corporate performance, except for the major foreign capital and wholly foreign capital firms in profitability.

1.INTRODUCTION

There is a vast amount of literature examining the foreign direct investment (FDI) and economic growth. Although studies provide mixed results about the effects of FDI, it is widely accepted that FDI plays a catalyser role for economic growth and development in especially developing countries. Foreign owned firms with ability of capital increase, technology and R&D transfer are tend to be more productive compared to their domestic counterparts. There are also many studies exploring the effects of ownership structure and firm performance. Accordingly, there is a substantial literature about the effects of foreign ownership and firm performance reporting even contradictory results. While some studies report a positive relationship between the degree of foreign ownership and firm performance, some report no evidence of relationship. In this study, using a balanced panel of 270 Turkish firms, over the period 2008-2012, it is tested whether there is a significant difference between firms with different degrees foreign ownership in terms of corporate performance in Turkey. Additionally, the relationship between the degree of foreign ownership and corporate performance is investigated. It is believed that the findings will contribute to both FDI and ownership structure literature in Turkey.

This paper is organized as follows. Next section will provide a literature review about links between foreign ownership and firm performance tested in various countries. Description of data and research methodology, presentation of empirical findings will follow this section. The last section concludes.

2.LITERATURE REVIEW

Doms and Jensen (1995) report that foreign owned firms in the U.S. are more productive compared to their domestic counterparts. Chhibber and Majumdar (1999) investigate the firm performance in both foreign and domestic companies and show that there is a positive relationship between foreign ownership and firm performance. Aitken and Harrison (1999) provide evidence that shows different degrees of foreign capital have an effect on performance of Venezuelan manufacturing plants and a positive effect for small plants only. Blomström and Sjöholm (1999) show that foreign ownership in Indonesia has a positive and statistically significant relationship with labour productivity; however, it doesn't differ for major or minor foreign owned firms.

Akimova and Schwödiauer (2004) investigate the effect of ownership structure on corporate performance of privatized corporations in Ukrainia. Their results reveal that there are significant ownership effects on the performance, although it is a non-linear relation. Barbosa and Louri (2005) focus on the performance of MNEs operating in Portugal and Greece compared to their domestic counterparts. They report performance differences between foreign and domestic companies. Douma et al. (2006) analyze the relationship between foreign ownership and firm performance in a large emerging market and show that higher degree of foreign ownership is associated with better firm performance, higher commitment and longer term involvement. Kimura and Kiyota (2007) find that there is a positive relationship between foreign ownership and financial performance for the companies in Japan.

Azzama , Fouadb , and Ghoshc (2013) examine the relationship between the degree of foreign ownership and financial performance in Egypt. Their results reveal that foreign ownership is positively associated with ROA, ROE and debt ratio. They also find that foreign ownership increases financial performance up to a level than declines. Their findings indicate that the effect of foreign ownership in Egypt is sector-specific.

Greenaway, Guariglia and Yu (2014) investigate whether there is a significant difference between purely domestic, minor foreign owned, major foreign owned and wholly foreign firms in terms of productivity and profitability in China. Their results reveal that although productivity and profitability initially rise with foreign ownership, they start declining once it reaches a certain point. Accordingly, they conclude that joint ventures perform better than wholly foreign-owned and purely domestic firms. Their findings also lead an inverted U-shaped ownership-performance relationship.

There are limited of studies about the degree of foreign ownership and firm performance in Turkey. Karatas (2005) compare the performance of domestic and foreign equity companies listed in ISE for the period 1992 – 2001. He conclude that foreign equity firms are better performers and the degree of internalization explain a substantial part of the financial performance differentials among the foreign-owned firms. Aydın, Sayım, and Yalama (2007) reveal that foreign-owned firms perform better than domestically owned firms only in terms of ROA measure. Taymaz and Ozler (2007) find that foreign plants are more profitable than domestic ones when they are first established in Turkish market by using data from 1983 -2001 period. They also find that the better performance is not caused by foreign ownership, but larger size, capital intensity, growth rate and quality of labour force. Their results also indicate that foreign ownership does not increase survival rate. Bastı and Bayyurt (2008) report that foreign-owned companies are more efficient than domestically-owned companies. Erdoğan (2011) find that foreign-owned firms and domestically-owned firms do not differ in terms of financial performance ratios which are operating profit margin, net profit margin and return on assets. They also do not differ in terms of liquidity ratios which are current ratio and net working capital ratio. Bastı, Bayyurt and Akın (2011) investigate the impacts of several firm indicators like age, size, assets, R&D, expenses, and firm risks on the four corporate performance measures, ROE, TFP, BEP and ROA. Their results reveal that there is no significant difference between the performances of foreign owned and domestically owned firms.

3.DATA AND METHODOLOGY

The data used in this study is drawn from İstanbul Chamber of Industry database. This includes financial data for the top 500 industrial Turkish companies, over the period 2008-2012. After excluding the missing data, our final balanced panel data set covers 270 companies, 183 domestically owned and 87 foreign owned, and 1350 observations. Our observations are divided into four categories on the basis of the share of foreign capital paid for the sample firms. First category of all domestic firms covers 67% of our sample. The second category of minor foreign paid in capital firms contains includes observations with a share of foreign capital lower than 50% (13% of our sample). The third category of major foreign paid in capital firms with a share higher than or equal to 50% but lower than 100% (12% of our sample); and all foreign firms are 100% foreign owned (8% of our sample).

The significance of differences of these four categories of firms are tested in corporate performance in terms of return on assets, ratio of the firm's net income to total assets (ROA); return on sales, ratio of the firm's net income to its total sales (ROS) and finally labour productivity, ratio of the firm's net income to number of employees (Prod).

Table 1: Summary Statistics

		All Domestic Capital	*Minor Foreign Capital*	*Major Foreign Capital*	*All Foreign Capital*
ROA	*Mean*	0.074097	0.0621	0.152911	0.10232
	Stand Dev	0.106255	0.0925	0.150895	0.083651
ROE	*Mean*	0.130393	0.114794	0.381117	0.206714
	Stand Dev	0.650704	0.196878	0.427018	0.221244
Prod	*Mean*	52491.49	35387.61	86390.2	38694.48
	Stand Dev	108668.5	80292.67	159932.6	49823.09
Size	*Mean*	19.9076	20.15115	20.222177	19.8758
	Stand Dev	0.905601	0.952705	1.074433	0.675651
Obs.		917	173	156	104

As observed from the Table 1, all performance indicators of ROA, ROS and Prod increase with the increasing degree of foreign ownership, however, they decline for the all foreign-owned firms. Summary statistics of our panel data provide us valuable insight into the nature of relationship between the degree of foreign ownership and corporate performance. All foreign firms do not perform as well as major foreign paid in capital firms. This may be caused of their little knowledge and know-how about the Turkish business environment both practically and legally. The empirical analyses are conducted with balanced panel data regressions using the least squares error estimator. Eviews 7SV software package is used to conduct the analyses.

In order to analyse the effect of share of foreign capital on firms' corporate performance, two different models are estimated.

The first estimated equation is:

(1) $Y_{it} = a_0 + a_1 Y_{i(t-1)} + a_2 AD_{it} + a_3 MinF_{it} + a_4 MajF_{it} + a_5 AF_{it} + a_6 Size_{it} + e_{it}$,

Y_{it} stands for our three corporate performance indicators ROA, ROS and Prod. Foreign ownership is controlled with dummy variables AD (all domestic owned), MinF (minority foreign owned), MajF (majority foreign owned), and AF (all foreign owned). AD is equal to 1 if there is no share of foreign ownership, and 0 otherwise; MinF is equal to 1 if the share of foreign ownership is positive but lower than 50%, 0 otherwise; MajF is equal to 1 if the share of foreign ownership is greater than or equal to 50% but lower than 100%, and 0 otherwise; and AF is equal to 1 if the share of foreign ownership is 100% foreign, and 0 otherwise. Size is included in the equation because of the belief that at different scales of firms performs differently. It is measured by the natural logarithm of net sales. Variable e_{it} covers the errors. In order to better evaluate the nature of relationship between foreign ownership and corporate performance, another equation is estimated:

(2) $Y_{it} = a_0 + a_1 Y_{i(t-1)} + a_2 F\%_{it} + a_6 Size_{it} + e_{it}$,

$F\%_{it}$ stands for the actual percentage of foreign capital of the firms.

4.RESULTS

Both estimates of Equation (1) and (2) are reported in the Table 2 for three measures of corporate performance of ROA, ROS, and Prod. As observed, the lagged variables of all corporate performance measures are positive and statistically significant for both equations, implying determination. As the foreign ownership is controlled with the dummy variables, it is observed that it is statistically significant for only major foreign capital and all foreign capital firms on the basis of only ROA. In other words, there is not a significant difference among all domestic, minor foreign capital, major foreign capital, or all foreign capital firms in our sample in terms of ROS, and Prod.

Table 2: Panel Regression Results

	ROA (1)	ROS (1)	Prod (1)	ROA (2)	ROS (2)	Prod (2)
Constant	0.029172	-0.332639	-124479.4	-0.038428	-0.651561	-166301.7
	(0.47235)	(-.825363)	(-2.095838)*	(-0.727561)	(-1.891535)	(-3.270938)
Lagged Variable (t-1)	0.562924	0.107347	0.631463	0.576529	0.112275	0.637207
	(26.52891)*	(4.306682)	(29.48222)*	(27.45008)*	(4.504673)*	(29.95713)*
All Domestic Capital	-0.040980	-0.360032	-48437.92			
	(-1.126149)	(-1.500616)	(-1.372254)			
Minor Foreign Capital	-0.061419	-0.383443	-55546.63			
	(-1.622743)	(-1.573240)	(-1.548083)			
Major Foreign Capital	-0.075956	-0.166820	-36322.34			
	(-2.06579)*	(-0.701419)	(-1.038153)			
All Foreign Capital	-0.081217	-0.290840	-50361.69			
	(-2.173461)*	(-1.176793)	(-1.383348)			
Foreign Holding (%)				0.000217	0.001296	31.64889
				(3.060566)*	(2.830346)*	(4.69534)*
Size	0.003833	0.040686	9624.640	0.003352	0.038491	9252.253
	(1.441226)	(2.339001)*	(3.735580)*	(1.266521)	(2.228506)*	(3.622136)*
R2	0.384275	0.33427	0.419042	0.377443	0.27056	0.416726
F-Statistics	138.6536	76.83175	159.4061	269.9965	82.38392	316.5062
Prob (F-Statistics)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
# of Observations	1350	1350	1350	1350	1350	1350

* Significant at %5 level.

For the other variables, Size is positive and statistically significant for all performance indicators for both equations, except for ROA. Since our sample is gathered from the top 500 industrial companies database in Turkey, deviation among firms' sizes is not substantial. As the actual percentage of foreign capital paid is included in the Equation (2) to better understand the link between foreign ownership and corporate performance, it is observed that Foreign Holding (%) variable has a positive and statistically significant effect for all performance indicators of ROA, ROS, and Prod. In parallel with the summary statistics of our observations, as the foreign capital paid in firm increases, the performance of the firm increases as well.

The overall results show that although there is a positive and statistically significant relationship between foreign ownership and corporate performance, firms with various degrees of foreign capital do not differ significantly from each other in terms of ROS, and Prod, but ROA.

5.CONCLUSION

In this study, a balanced panel of 270 firms among the top 500 industrial companies over the period of 2008-2012 is used in order to analyse the relationship between foreign ownership and corporate performance. When the means of the observations are analysed in terms of ROA, ROS, and Prod, it is realized that corporate performance measures increase as the degree of foreign capital increase up to a certain level. The increasing trend stops at wholly foreign firms. Wholly foreign firms do not perform as well as major foreign capital firms. Then, the significance difference is tested among four groups of firms with different degrees of foreign ownership on basis of corporate performance indicators. Except major foreign capital and wholly foreign capital firms on the basis of ROA, it is not observed any significant differences among firms with different degrees of foreign capital. However, there is empirical evidence that there exists a positive and significant relationship between a firm's degree of foreign ownership and its corporate performance. Even though our findings reveal a significant relationship between foreign ownership and corporate performance in Turkey, better performance does not seem to stem from just only foreign capital paid but maybe also components like growth rate and opportunities, age, capital intensity etc. associated with again foreign ownership.

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