

Ownership Patterns and Control of Top 100 Turkish Listed Companies

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Abstract

This study aims to highlight the importance of protecting investors' rights, and particularly those of minority shareholders. This study addresses the predominant control-ownership structure of the top 100 firms listed in Bursa Istanbul (BI) using the data for 2015. It shows the most common control-ownership structure within business groups, in which shareholders exercise control over a group of firms and maintain a small stake of firms' equities. Turkish firms are categorised with highly concentrated ownership and families' being the dominant shareholders owning more than 80% of all publically listed firms in BI. The study results indicate that the divergence between cash rights and control rights (wedge) in the top 100 Turkish firms is mainly achieved through pyramidal-ownership structure, dual class shares,

and cross-ownership at about 41%, 40% and 11%, respectively, while approximately 8% of firms do not use wedge. Hence, wedge exacerbates Type II Agency Problems. This paper calls for future research to study the environment of wedge for Turkish firms listed in BI.

Keywords:Pyramidal structure, dual class shares, cross-ownership, Turkey.

1. Introduction

The literature addresses firms' ownership structure extensively. These studies compare ownership concentration with dispersed ownership, in which block ownership possesses a majority of the firms' equities. In contrast, this paper investigates an ownership structure in which a founder exercises control and maintains a small portion of equity (cash-flow rights) in the affiliated firms. There are three principles ways to diversify between control rights and cash-flow rights: pyramids, dual class shares and cross-ownership. Nevertheless, how this is exercised in this paper is referred to as wedge. This is because it allows shareholders to control affiliated firms with a small stake of investment (cash-flow rights). Wedge is defined as a mechanism to separate control rights and cash-flow rights. Wedge entrenches controllers from the market in terms of corporate control and it maintains firm control in the hands of the majority shareholders with a small fraction of cash-flow rights (Claessens, Djankov, & Lang, 2000). This enriches the majority shareholders' control rights. Although this mitigates agency conflict between the agent and principal, the principal-principal agency conflicts still exist (Demirag & Serter, 2003). This facilitates expropriating minority shareholders' rights in the interests of majority shareholders (Ararat, Aksu, & Tansel Cetin, 2015). This conflicts severely between controlling shareholders and minority shareholders, depending upon the relationship between the control rights and cash-flow rights (Bebchuk, Kraakman, & Triantis, 2000; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2002). This paper defines control rights as a controller's ability to change the direction of a firm's operation (this is due to the controller's ability to invest in unprofitable projects or vice-versa). Whereas, cash-flow rights indicates a shareholder's right to a firm's profits and liquidity. Wedge is common in markets controlled by a family-ownership structure. These kinds of ownership structures distort controllers' incentives; hence, they put more concentration on the corporate governance mechanisms, extending from legal protection for minority shareholders to reputational limitations on controlling families. The same reason attracts political and market scrutiny in many countries to concentrate on problems inherent in exercising wedge. Thus, this study is an analysis of the governance and incentive features of ownership structures. Very few studies have examined the control-ownership structure in Turkey (Demirag & Serter, 2003; Yurtoglu, 2000). Based on the available literature, this study provides a sectorial analysis on control-ownership structure practised by the firms listed in BI. The paper's main objective is to determine the mechanisms of wedge exercised in BI, which will provide the bases for future research and to examine the Type II Agency Problem in the Turkey business environment. In terms of theoretical contribution, this study extends the context of agency theory factors under investigation such as, ownership structure. A study by Villalonga and Amit (2006) reports that the most important factors that worsen agency problem is control-ownership structure. Furthermore, in terms of practical contribution this study's finding will provide a useful ground for Capital Market Board of Turkey (CMBT) and policy makers to provide a relevant policy to enhance corporate governance's effectiveness to mitigate agency problems.

2. The Characteristics of Corporate Governance in Turkey

The Capital Market of Turkey (CMT) has a vital role to enhance the effectiveness of

corporate governance regime (Hacımahmutoğlu, 2007). The features of corporate governance system in Turkey (CGT) are reflected clearly via the following characteristics of capital market of Turkey:

- A small portion of Turkish firms are listed and traded in Istanbul stock exchange (ISE).
- The number of firms publically listed and traded increases from 80 firms at the end of 1986 to 311 firms in 2001(WFE, 2009).
- Turkish economy faced several crises within the period of (1986-2001). These are due to international recessions, political reasons and macroeconomic instability.
- Accordingly, this assists greatly in decreasing the number of listed firms in ISE to 288 firms in 2002.
- The numbers of listed firms in ISE were about 307, 316, 329 and 332 for the periods 2004, 2005, 2006 and 2007 respectively.
- In the same vain, the number of corporations listed in ISE has improved to 416 and 422 for the years 2014 and 2015 respectively, with more than TL554.9 billion and TL624.4 billion (US\$189.8 billion and US\$268.5 billion) respectively (CMB, 2015).

The second feature of CGT is the lack of corporate control. This feature of CGT leads to an inactive capital market as a result of high concentrated ownership. Therefore, it is not possible to acquire traded firms. Any hostile takeover bid of whichever control, change in ownership should be approved by controlling shareholders.

The third feature of CGT is the dominance of Business Groups (BGs). BGs in Turkey are a coalition of financial and industrial firms recognised legally in the structure of *holding firms*. Control of these BGs is in the hands of a single family or a collection of number of families. To sum it up, CG framework is characterised with few listed firms, a large number of substantial stakeholders and vast cross-ownership shareholding (Ararat, Black, & Yurtoglu, 2014).

3. Turkish Institutional Setting

Business group has shaped the characters of the large business corporations in Turkey. Turkish families are the founders and Directors of majority of medium and large corporations in many industries particularly banking sector. Families have significant role as a holder and by investing resources to the private sector. Turkey's largest corporations are associated with each other's shaping large business groups. The investment of a single family or small collections of families formed these BGS. BGs work as a coherent bodies that assist to shift resources and personnel between them. Commonly, Turkish BGs firms control private banks or financial institution that serves as a main bank of these groups that are ultimately owned by single families. The important feature of Turkey BGs despite the significant role they play in the banking sector is that it is not parallel to the German and Japanese cases. Leff (1978) argue that the most suitable clarification given to the BGs is that BGs are consider as useful substitutes for weak capital markets. On the other hand, there are some challenges facing BGs

firms such as managing business growth, resisting managerial ownership and sustaining families control business activities.

Affiliated firms link each other within holding firms through two techniques. The first technique might be defined as inter-corporate shareholding. Meanwhile, the second technique is to exhibit pyramid ownership structure via distributing the voting rights of minority shareholders over a large number of affiliated firms and concentrate ultimate shareholders at the top of the pyramid structure. Using the aforementioned techniques enhances the control of the legal entity (e.g. parent companies, individual or family) on a large number of firms. The divergence between controls rights (voting rights) and ownership rights (cash flow rights) relay on the length of the control-ownership chains of the pyramidal ownership structure. That consequently leads to exacerbate the agency problem (agency conflicts) between majority shareholders or controlling shareholders and minority shareholders. This kind of ownership structure assists the majority shareholders to keep control on many affiliated firms and provide a small stake of capital (Ararat et al., 2015). Therefore, the incentives of controlling shareholders are enhance to maximise their profit at the expense of minority shareholders.

BGs in Turkey are however, poorly structured mainly due to the typical features of BGs shares. Families possess a significant control on holding firms which, in turns linked through shareholding in other firms inside the pyramidal structure. These type of cases exists in which a holding firm control many affiliated firms which are linked to each other by share ownership.

4. Corporate Ownership and Control Structure

Shareholders' decision making power improves as a result of high concentration of voting rights of those shareholders. A prominent idea from the viewpoint of control over voting rights is that it enhances shareholders power to select the majority of board of Directors (BOD) members to work as a dominant party in shareholders meetings, and to hold a significant interests on the strategic decisions of the corporations (Daniels & Halpern, 1996). In Turkey, 45 percentages of the 243 listed firms in BI are controlled by a single shareholder with more than 50 percentages of voting rights (Aytac & Sak, 2000). In most cases, the dominant shareholders are holding firms owned by families. A study by Yurtoglu (2000), documented that "insider system" of corporate governance regime exists in Turkey in the terminology of Franks and Mayer (2001). The study finding indicates that 99% of the 257 listed firms possess a single shareholder with an ownership portion of about 50% and 227 firms controlled by two shareholders or less than five shareholders with ownership portion of about 50%. The author documented that holding firms are the largest owners with 36% of ownership stakes in about 143 listed firms. The study also reported that large number of ultimate owners of Turkish listed firms is single family members holding the control on cash flow rights using pyramidal and cross-ownership structures. Families control about 198 firms out of 257 firms holding around 53% of the equity capital and this percentage is higher than direct shareholding of families which is about 27.1%. Accordingly, the divergence between control rights and cash flow rights is 1.32 (53/27.1) which illustrates that ownership and cash

flow is not dramatically distributed.

The ownership structures of firms listed in BI are relatively transparent. The CMB of Turkey and BI requirements enforce the listed firms to notify them with any transactions (purchase or sale) in shares. This includes shareholders or acquirers who purchase about 1% of shares and are acting in the interest of those who own about 10% or more of the voting rights or shares. In addition, firms are mandatorily required to disclose the ownership structure details and major shareholders identities who own more than 10% of voting rights or shares.

There is a debate that ownership structure influences on the quality of corporate governance and whether a specific ownership structure is more relevant than others. Berle (1958) documents that some types of ownership structure such as ownership concentration are required to alleviate agency problems. In other words, concentrated ownership monitor management activities directly and possess incentives and abilities to oversight management and hold them for the accountability of actions not align with shareholders' interests (Davies, 2001; Aguilera, 2005). In addition, concentrated ownership works extensively to enhance firms' long-term value creation abilities. The same argument is provided by Novaes (1999) who reportedly observed that the most appropriate corporate structure comprise of numerous of major shareholders and few of minority shareholders. On the other hand, dispersed ownership not only possesses weak incentives but also lack of abilities to monitor management activities. Thereby, one of the challenges that dispersed ownership face is the difficulties to coordinate their monitoring efforts (Desender, Aguilera, Crespi, & García - cestona, 2013). Consequently, dispersed ownership rely on the BOD to conduct the monitoring function (Bohinc & Bainbridge, 2001).

Nevertheless, the aforementioned view point is questioned as a consequence of inconsistency of the results of previous studies conducted in the continental Europe and the US. Some contradicted results have been documented. For instance, Fox and Heller (2000) reported that corporate control employed by multiple large shareholders might enhance the performance of the corporations. Carlsson (2001) examined a sample of Scandinavian corporations, reports that "Ownership matters and it all depends on the owner" highlighting shareholders responsibilities. A study by Oman (2001) illustrated that issuing firms equity might not consider a source of funds in market dominants by high concentrated ownership. It indicates that the agency problems still exists and weak minority protection inherent the domination of concentrated ownership. The same view is provided by Himmelberg, Hubbard, and Love (2004) who reported that agency conflicts enforce insiders to hold a large equity shares than they retain under a perfect risk diversification strategy. Their studies examined 38 countries including Turkey and the results indicate that there is negative relationship between minority protection and concentrated ownership. The author suggest that the higher the concentration of insider ownership, the weaker the protection of minority shareholders wealth and this argument is align with the argument of Desender, Aguilera, Crespi-Cladera, and Garcia-Cestona (2009). In addition, the study documented that high concentrated ownership increases the cost of capital and underinvestment of capital. The significance of the study is that capital flow is ineffective with the presence of weak minority protection in place even if the international barriers on capital are insufficient.

Previous studies examined corporates structure of Turkish listed firms in BI. The study's findings indicates that holding firms influence on firm's economic performance in terms of investment decisions, profitability, return on assets and dividend payments. A study by Yurtoglu (2000) reported that family ownership with high concentrated ownership and pyramidal structure influence negatively on inducing dividend payments, return on assets and market-to-book value. In addition, Yurtoglu (2000) document that Turkish affiliated firms structured within holding firms possess low rate of profit than firms work in more competitive market for long period of time and specially when the leverage rate of firms structure inside holding firms is at low level.

5. The Legal Framework and Law Enforcement

Studies have examined the relationship between countries' legal system and market efficiency. Countries that have adopted common law are more likely to provide protected environment for creditors than civil law countries. On the other hand, the interpretation of the correlation between law and culture has motivated Licht, Goldschmidt, and Schwartz (2001) to propose that La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997) legal methodology offers an incomplete description of the universal corporate governance system. The result of their study illustrates that cultural environment enhanced path dependency in corporate governance system. Furthermore, the cultural values possess a vital role to determine the suitable legal system for each country to be accepted as legitimate.

According to Silanes, La Porta, Shleifer, and Vishny (1998) civil law countries such as France are less likely to provide a safe environment to protect investors wealth particularly, minority shareholders. The same case exists in Turkey, which adopts civil law from France. The Commercial Code of Turkey (CCT) has been derived directly from the French Commercial Code in 1850 and amended in 1926 and 1956 while; the provision was taken from Italian, Swiss and German. The last version of CCT with its evidently electronic nature, provide the foundation for equity contracts and form the legal basis for incorporation, shareholders rights, general assemblies, definitions of equity shares and bonds and their issuance. The Capital Market Law of Turkey (CMLT) adopted the provisions directly from common law countries (Anglo-Saxon countries) but its roots still in civil law countries. It basically offers the legislative backing for security market actions and creates the Capital Market Board of Turkey (CMBT). The issue of legislation is correlated with the deficiency of decisiveness in law and contradictions between Banking Law, Capital Market Law and Commercial Code in terms of disclosure requirements, accounting, taxation and shareholder rights (Ararat & Ugur, 2003).

In Turkey, the legal process and law enforcement suffer from several operational problems. Turkey's legal system is costly, slow and complex. Therefore, CMBT is authorised to treat such impediments by restoring to managerial penalties such as de-listing and suspension. Nevertheless, the aforementioned policies are as a result of the implementation of the incompetence of the legal process and lack of law enforcement. Since 2000, the CMBT has notified the office of public prosecutors for about 100 violations against CMLT per year. In each year only a single case reach decree absolute, while other cases results in adjournments

and dismissal. On average 12 month is required between the CMBT appeal and the first verdict excluding time required to make decisions on dismissal and adjournments. For instance, in 2003 the public prosecutor addressed about 23 cases for 2001 and more than half of the cases for 2002. However, only 1% of the existed complains finalised with punishments. Most of the violations for instance, 218 cases out of 272 are subject to Article 27 of CMLT that offers the legal bases to overcome with market manipulations, distressing the fair trading environment and introduces penalties (CMB, 2012).

A study by Tannor (2002) provides obvious statement that explain the imbalanced between duties and authorities of the CMBT. The author indicates to the takeovers of under-capitalized banks as an illustration on how inequality between rule and its implementation surface clearly in practice. The CMLT identifies the private laws that are adopted in banks and makes references to them. Nevertheless, listed banks in ISE also implement CMLT as “issuers” in terms of disclosure provisions and audit. Tannor (2002) argues that CMBT might utilise its authority as disclosure offences are of illegal nature. Nonetheless, the CMBT desisted from doing such achievement and proved that it might avoid its accountability when difficult conclusions are arrived at. Tannor (2002) pointed out the vital significance of regulatory authority to exercise its powers firmly and thoroughly in auditing and monitoring compliance.

6. Mechanisms FOR Separating Cash Flow and Control

In this part, the discussion concentrates on the Turkish holding-ownership structure mechanisms used to maintain their control on affiliated firms through providing a small stake of equities, achieved via pyramidal-ownership structure, cross-ownership and dual class shares (Ararat et al., 2015). This study symbolises the divergence between control rights and cash-flow rights by α , which reflects the stake of the majority shareholders' equities(cash-flow rights).

6.1 Dual Class Shares

Dual class shares represent the most straightforward mechanism for divergence between the control rights and cash-flow rights inside a single firm. In fact, this kind of ownership structure is the only one that can be exercised without creating multiple firms or a group of firms. The firms' founders might sign all voting rights to a stake α of shares belonging to the controlling shareholders,withthe remaining shares distributed to the public with zero voting rights. The multiple class shares structure is especially dominant in Sweden, South Africa and Turkey. In Turkey, firms promulgate two or more classes of shares with disproportionate voting rights, which areknown as dual class shares (Khalil, Magnan,& Cohen, 2008). This is because TurkishCommercialLaw (TCL) does not embrace the principle of one-share one-vote. Therefore, Turkish firms issue more than one class of shares with different cash-flow rights and with dissimilar collateral rights in liquidation. According toTCL Article 401, firms can issue one class of shares with non-voting rights or with a high number of voting rights. In addition, according to TCL Article 388,the decision about the scales of shares in terms of voting rights and cash-flow rights should be taken during the general assembly meeting. Figure 1 shows an example of SelçukGıda A.Ş.'s use of dual class shares to diverge between

control rights and cash-flow rights. This example explains the common dual class shares used by Turkish firms listed in BI (Yurtoglu, 2003).

SelçukGida A.Ş. is a small firm operating in Izmir city, located in the North East of Turkey. This firm has two classes of shares: 280,000 class A and 4,520,000 class B shares. The class A shares and class B shares possess equal nominal value, creating 4,800,000 million shares as a complete stock capital. Each class A share carries 50 voting rights, while each class B share carries only one voting right. Therefore, the A shares carry 78.18% of the voting rights, whereas the B shares carry 21.82% of the voting rights. SelçukGida A.Ş. has four controlling (largest) shareholders, namely Mr EI Alharal (general manager and board member), Mr EV Alharal (board member), Mr V Franco (board member), and Mr T Berkan. All A shares and some fraction of the B shares are owned by the largest shareholders, while the remaining B shares are owned by dispersed ownership. Figure 1 displays the distribution of the A and B class of shares between the controlling shareholders and minority shareholders. Mr EI Alharal has a portfolio of A and B class shares which is 143,998 and 298,246, respectively. This indicates that Mr EI Alharal's portion of cash-flow rights is about 9.2 $((143,998 + 298,246) / 4,800,000)$. In contrast, the owner possesses control rights scaled with his ownership at about a 40.48 portion of total voting rights (A shares equal to 7,199,000 votes and B shares equal to 298,246 votes of a total of 18,520,000 votes). Similar calculation indicates that the control rights of the other three controlling shareholders Mr EV Alharal, Mr Franco and Mr Berkan are about 13.36%, 13.34% and 10.97%, respectively. This shows that the Alharal family possesses about 53.85% of the control rights on SelçukGida A.Ş., whereas the Alharal family possesses about 11.8% of the cash-flow rights, and so the wedge for this case is about 4.56 $(= 53.85/11.8)$. In summary, the control-ownership structure reviewed above may reflect majority shareholders' incentives to expropriate minority shareholders' interests. This evidence proposes that majority shareholders use their control rights to jeopardise minority shareholders' wealth.

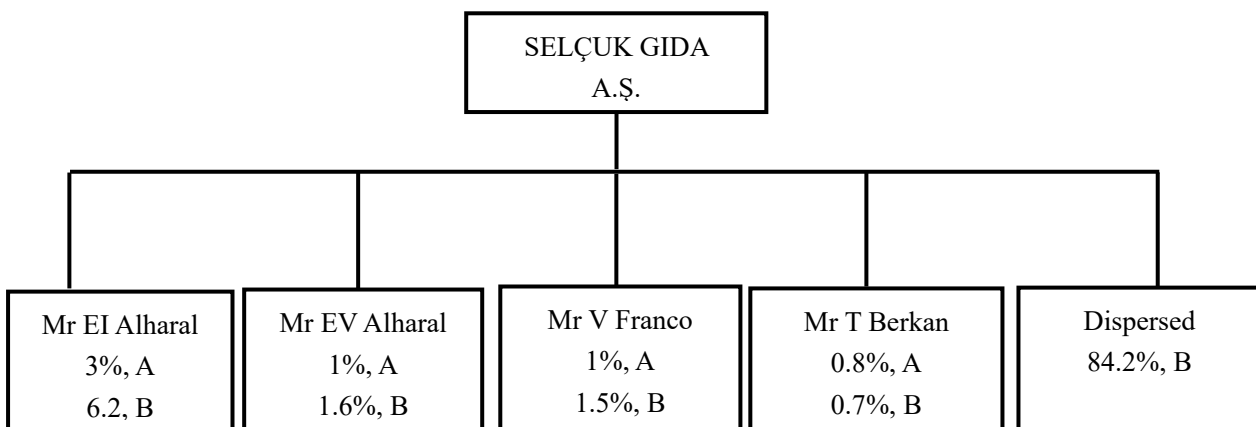


Figure 1. An example of Dual-class Shares: SelçukGida A.Ş. (2001)

Source: (Yurtoglu, 2003)

6.2 Pyramids

Firms might exercise wedge using single class shares via a pyramidal-ownership structure. Such a structure consists of two levels: the majority shareholders possess ultimate control in a holding firm that in turn possesses ultimate control in an operating firm. While in the three level pyramids, the main holding firm controls a second-level holding firm that in turn controls the operating firms. In order to explain the value of wedge for a sample case of pyramids comprising of two levels or $n \geq 2$ firms, it is proposed that the majority shareholder possesses a portion S_1 of the equity in firm 1, and firm 1 possesses a portion S_2 of the equity of firm 2, and so on. As long as $S_i \geq \frac{1}{2}$, $i = 1 \dots N$, the controller possesses direct control of the assets. As to the cash-flow rights, the controller possesses a portion (Bebchuk et al., 2000):

$$\alpha = \left(\prod_{i=1}^n S_i \right)$$

For any portion α , however small, there is a pyramid that allows the majority shareholders to get full control of the firm's assets without possessing more than α of the firm's equity rights. In the barrier case in which the majority shareholder possesses 50 portions (the minimum requirement for control) of voting rights at each level of the pyramid, $\alpha = (0.5)^n$. For a clear example of how swiftly pyramiding splits equity from control, consider a three-level pyramid with $S_i = 0.50$ at each level. At this point, the minority shareholders control the firm with only 12.5 portions of its equity rights.

The pyramid structure is the most dominant mechanism used to deviate between control rights and cash-flow rights (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1999). Claessens et al. (2000) claim that the pyramidal-ownership structure is the most common ownership structure in Asian countries, and particularly Turkey (Ararat et al., 2015), as well as in several European countries (Holmén & Högfeltd, 1999). ÇelikHalatA.Ş. represents an ideal example to illustrate the divergence between control rights and cash-flow rights using pyramidal structures in the context of Turkey. Figure 2 shows the pyramidal structure of ÇelikHalatA.Ş. This medium-size industrial firm has three direct ownerships: 48.44% for Doğan Holding, 10% for Disbank and 4% of the equity for DoğanDişTicaret. The remaining equity is dispersed equity which is about 37.56%.

The second level as it appears in the pyramidal structure in Figure 2 illustrates that 49% of Doğan Holding is owned by Adilbey Holding, with the remainder belonging to the Doğan family and dispersed ownership at 16.70% and 34.24%, respectively. The sole owner of Adilbey Holding with 100% shareholding is the Doğan family. Therefore, it can be seen from Figure 2 that the Doğan family has the majority control at each level, which is about 62.44% (48.44% + 10% + 4%); whereas the cash-flow rights is about 39.82% as a result of calculations over relevant control chains. This is considered as a substantial gap between control rights and cash rights, known as wedge. This can be calculated through dividing the control rights (62.44%) by the cash-flow rights (39.82%), which is about 1.56, while the pyramidal structure is a 4 pyramidal layer (PYR).

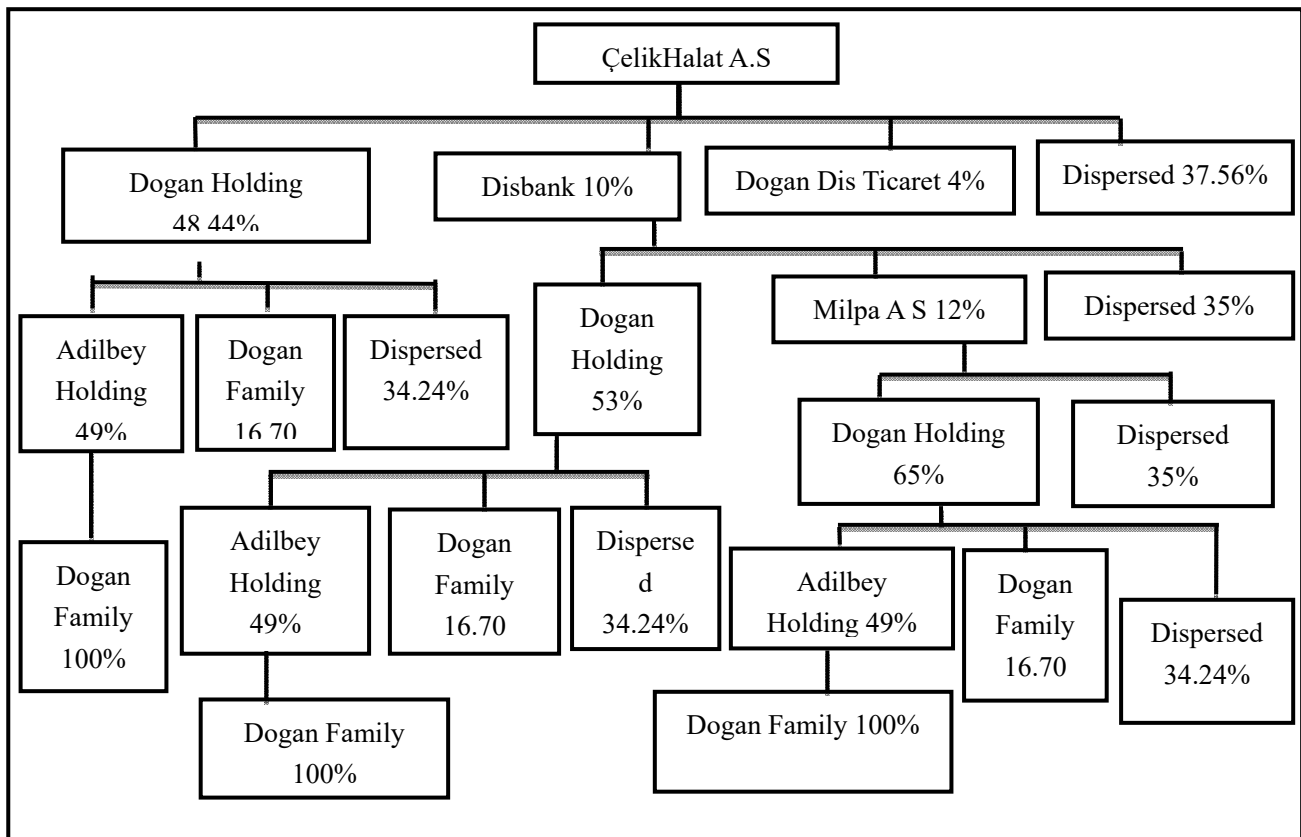


Figure 2. Example of a Pyramidal-Ownership Structure of ÇelikHalatA.Ş. (2001)

Source: (Yurtoglu, 2003)

6.3 Cross-ownership

In opposition to the pyramidal-ownership structure, the power of the controller reinforces and entrenches via horizontal cross-holdings of equities. Cross-ownership structure exercise control through distributing the voting rights of all the affiliated firms within the business group rather than concentrating them in the hands of an individual firm or investor. The relationship between cross-holding and control can be explained via the following example. Let us symbolise by S_{ij} the portion of n firm i equity which is possessed by firm j , and propose that the majority controller possesses directly a portion S_i of the equity of firm i . Proposing that for each i , the majority shareholder preserves (Bebchuk et al., 2000).

$$S_i + \left(\sum_{j=1}^n S_{ij} \right) > \frac{1}{2}$$

The majority shareholder controls the assets of all n firms. Hence, the majority shareholders may possess a small portion of equity (cash-flow rights) in these firms. The clear example of a similar case is that the majority shareholders possess direct portions of equities S in two firms with identical cross-ownership h in the other, such that $S + h \geq \frac{1}{2}$ (e.g. majority shareholders control both firms). For this case, Bebchuk et al. (2000) report that the majority shareholder ratio of cash-flow rights is found out via its direct ownership S over the total

portion of equity that is not cross-held (1-h).

$$\alpha = \left(\frac{s}{1-h} \right)$$

Cross-holdings ownership is dominant in Asian nations, for instance in Turkey, where the most popular example is the largest pharmaceutical firm known as Eczacıbaşıİllaç(see Figure3). This firm has three large shareholders with ownership portions ranging from 21.6 to 28.2%, whereas 22% of its capital is owned by dispersed ownership. All three large ownerships are under control of the Eczacıbaşı group. The Eczacıbaşı family is the founder and controller of this group, using two holding firms: EczacıbaşıYatirim Holding (traded) and Eczacıbaşı Holding (non-traded). These two holding firms in turn are under the control of the same business group. Eczacıbaşıİllaç possesses 43.5% of the control rights (voting rights) in Eczacıbaşı Holding. At the same time, the other two holding firms possess cross-ownerships between each other.

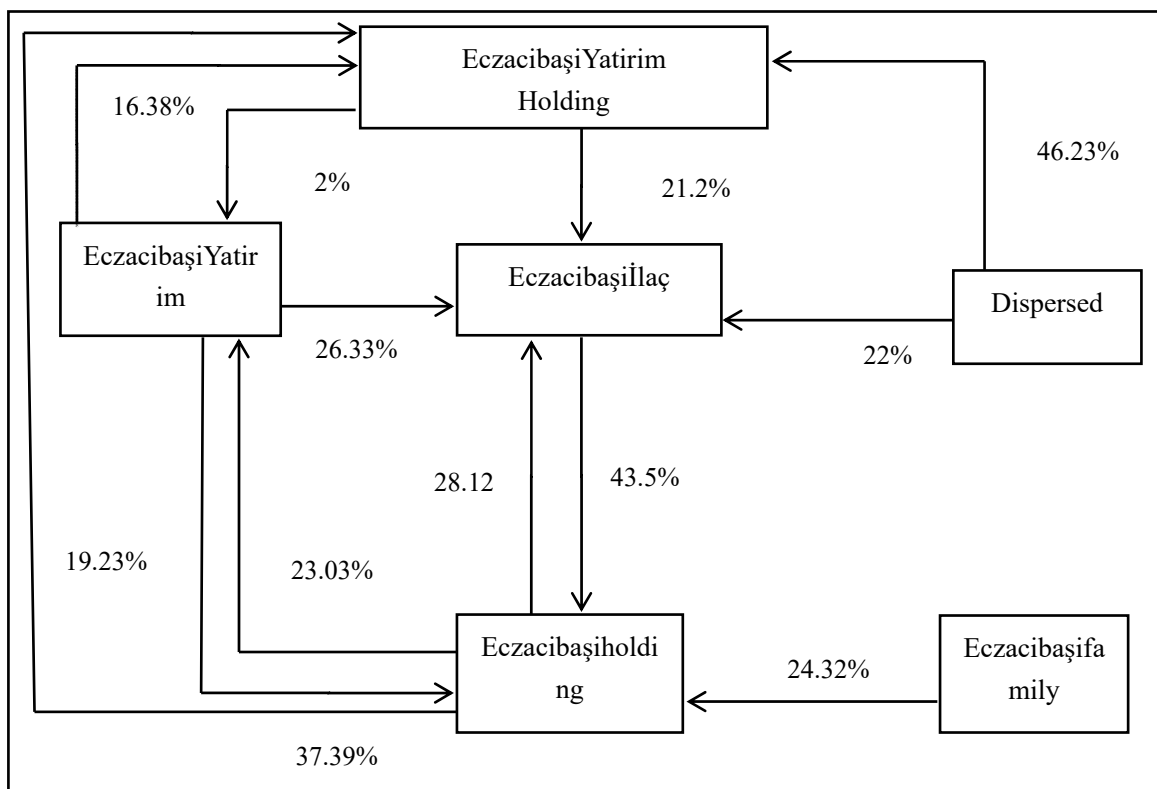


Figure 3. Control-ownership of Eczacıbaşıİllaç (Yurtoglu, 2000)

7. Other Mechanisms of Control

The previous part addresses the divergence between control rights and cash-flow rights using pyramidal, dual class shares and cross-ownership. In addition to these influential control-ownership mechanisms, Turkish firms use some other mechanisms of control-enhancing corporate charter provisions. Accordingly, controlling shareholders get

some preferential treatment in order to design the board of directors, and determine the dividend policies and liquidation preferences between the different classes of shares. The controlling shareholders of the 38 firms included in this study's sample have shares with privilege to select the absolute majority of the board of directors can solely be nominated by the controlling shareholders. For instance, Odaşelektrik uretim sanayitici A.Ş. is listed firm in Electricity gas and water/ electricity gas and steam sector. This firm issues more than one class of shares which are A and B. Shareholders with A class of shares possess 15 voting rights for one share to select board of director members whereas class B shares have one voting right for each share. In addition, another case was found within the Manufacturing industry/ chemicals, petroleum rubber and plastic products/ other chemical products sector, by the firm Alkimalkali kimya A.Ş. This firm issues groups A, B, C and D with 100 votes per share while each shareholders within group E share have 1 vote per share. Meanwhile, the case of GSD holding A.Ş. that is listed in Financial institutions/ holdings and investment companies sector issues groups A, B and D degree of shares with the privilege to choose board of directors and shareholders who hold A and B degree of shares have the privilege to choose external auditor.

The controlling shareholders of the three firms of this study's sample have shares with privilege that allows them to obtain dividend concessions. For instance, Kartinsankartonsanayitici A.Ş. is manufacturing industry/ paper and paper products. According to firm's articles of association, A-class shares possess privileged regarding the dividend rights. Furthermore, in the event of first dividend distribution, board of directors also have the right to receive the dividend. Accordingly, the distributable profit is utilized to find out the initial amount of the first dividend, 10% of the paid-in capital is deducted, and 5% of the remainder is distributed to A-Type shareholders, and a portion (to be decided by the General Assembly) to the members of the board of directors as dividend.

8. Research Method and Data Collection

The aim of this paper is to identify the extent to which the top 100 firms listed in BI for the year-end of 2015 use wedge. In order to hand-pick the wedge data, this study uses the BI website, and particularly the public disclosure platform, as this platform provides firms' data related to control rights, cash-flow rights, dual class shares and cross-ownership. This assists to identify the control-ownership structure of Turkish firms and get a better grasp of Turkish firms' ownership structure and corporate governance system. The following analysis of the control-ownership structure is limited to the top 100 firms listed in BI at the end of 2015. Financial institutions such as insurance firms, banks and other financial intermediaries that represents about 31 percentages of the top 100 firms listed in BI. Manufacturing firms account for 37% of the top 100 listed firm in BI. Wholesale and retail trade including hotels and restaurant account for 9% and transportation, telecommunication and storage/ transportation/ air transport are about 6% of the top 100 firms listed in BI. Electricity gas and water/ electricity gas is account for 5% while Technology/ information technology is about 4%. The remaining (5%, 3%) comes from Mining/ crude petroleum education, health, sport and other social services respectively.

9. Data Analyses and Results

The descriptive statistics of control-ownership structure are disclosed in Figure 4. Firms using the pyramidal-ownership structure are about 41% of the top 100 firms listed in BI, while firms using cross-ownership structure are about 11% of the top 100 firms listed in BI and the rest have about 8% with no divergence between control rights and cash-flow rights.

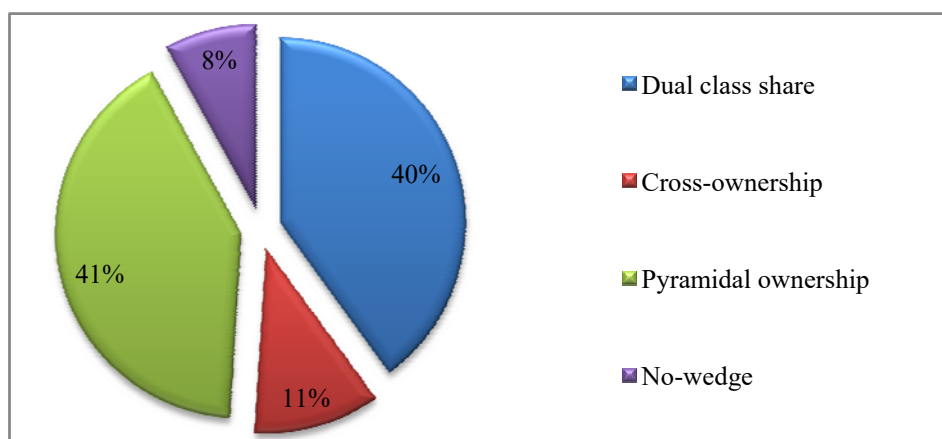


Figure 4. Control-ownership Patterns in the top 100 listed firms in BI

Those firms using dual class shares in order to deviate between control rights and cash-flow rights are about 40%. Firms using dual class shares are classified to two categories. The first category uses this ownership mechanism in order to control a large number of firms and maintain a small fraction of equity, and these firms represent about 5% of the top 100 firms listed in BI; for instance, Alkimalkalikimya A.Ş.. The second category consists of firms using dual class shares to obtain some privilege in a particular class of shares. This category comprises of three firms listed in BI using multiple classes of shares in order to get dividend concessions for example the case of KartonsankartonsanayiveticaretA.Ş., and 32% of the top 100 firms listed in BI use dual class shares to get privilege to nominate candidates to the board of directors and audit committee for instance the case of GSD holding A.Ş.

The bar graph in Figure 5 shows information about the distribution of wedge exercised by the top 100 firms listed in BI in 2015 by sectors. Figure 5 gives values for all the wedge mechanisms such as dual class shares, pyramidal, cross-ownership and firms with no wedge. According to the figure, the most dominant mechanism for separation between ownership and control is both the dual class shares and pyramidal structure, with 14% and 16% of firms working in the finance sector using dual class shares and pyramidal structure. While financial firms listed in the top 100 index are using cross ownership about 3 percentages and financial firms not involved in any mechanism of the separation between control rights and cash flow rights are about 4 percentages. Firms using dual class shares are about 2% of firms listed in the manufacturing sector and the firms using pyramidal ownership structure are about 3% of firms listed within manufacturing sector (Non-metallic mineral products/glass and glass products). Whereas, about 1% of the manufacturing firms are using cross ownership and the rest of the manufacturing firms that are about (2%) are not using any kinds of wedge. On the

other hand, about 1% of firms working in the construction exercise wedge using dual class shares and pyramidal structure. Cross-ownership is exercised by 3% of firms listed in BI under each of the financial institution and wholesale and retail trade sectors. At the same time, of the firms listed in BI with no wedge about 4% work in the finance sector.

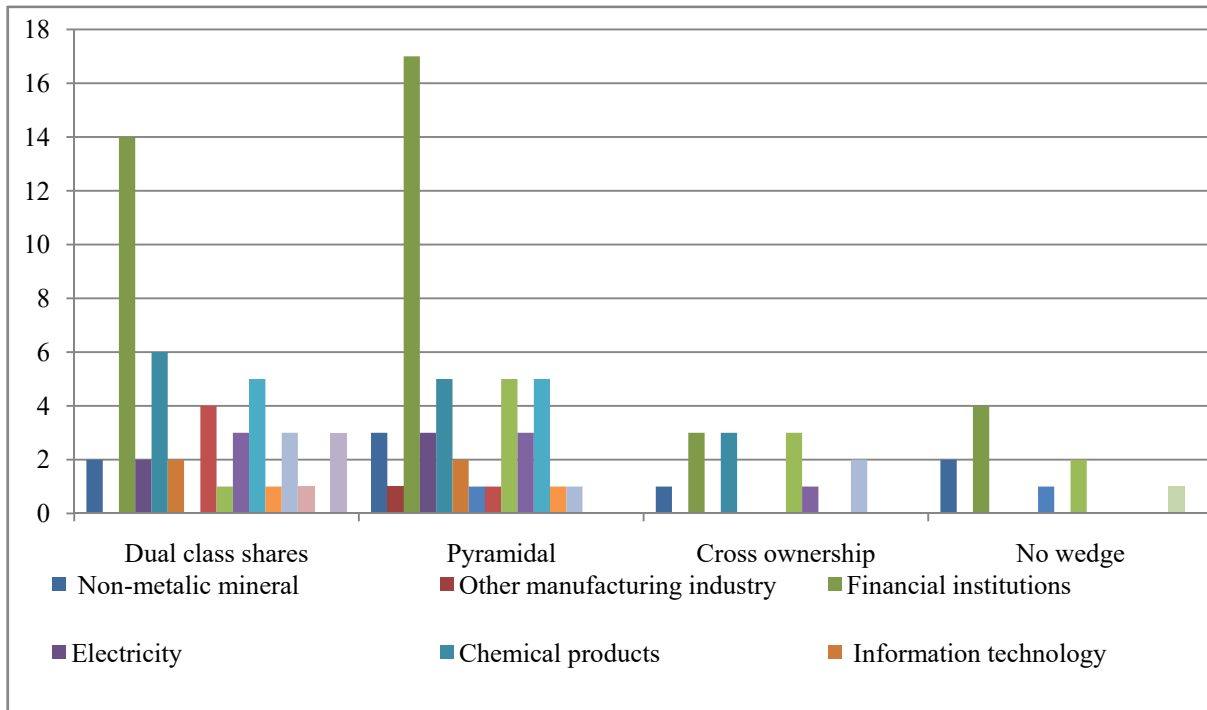


Figure 5. Sectorial Distribution of wedge

10. Conclusion

This paper analyses the control-ownership structure of the top 100 Turkish firms publically listed in BI. The majority of these firms are controlled by families that control a group of affiliated firms through dual class shares, cross-ownership ties and pyramidal-ownership structure. Therefore, the insider system is the most dominant in the Turkish capital market, and this richest insider wealth is particularly the case for the family control structure. The ultimate controller uses the dual class shares mechanism to create divergence between control rights and cash-flow rights. This is in order to control a large number of firms, despite the decrease in their stake of equity in those firms. Previous studies document that the previous control-ownership structure arrangement enhances majority shareholders' incentive and ability to extract private benefits from the firms it controls, at the expense of the minority shareholders (Ararat, Süel, Aytakin, & Alkan, 2014; Demirag & Serter, 2003). This study recommendsto policy makers and regulators to provide relevant policies that will support investors position particularly minority shareholders, for instance, minority shareholders that possess a particular threshold of voting rights to hold a right to challenge management manipulation, andto call for an extraordinary general meeting or participate in firm's decision such as select independent directors, or dividend policies.

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