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Limits to Alternative Forms of Capitalization: The Case of Anatolian Holding Companies

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Summary. — Since the late 1960s, alternative forms of capitalization have emerged in the absence of an effective capital markets regime in Turkey. We can see these alternative forms in the failed attempts to create Anatolian holding companies through the direct investment of small savings. This article shows how Anatolian holding companies became victims of poor institutional and regulatory regimes, and how the lack of institutions to promote impersonal trust in the economy in turn, permitted widespread abuses. We identify populist politics, lax oversight, and social norms that incorporated gambling as three interlinked reasons which hindered the genesis and development of viable capital market reform and regulatory institutions in Turkey.

Key words — capital formation, financial markets, state regulation, Anatolian holding companies, Islamic finance, Turkey

1. INTRODUCTION

In the 1970–90s, large multiownership companies, commonly referred to as Anatolian holding companies, [1] were formed through small family investments. These holding companies constituted an idiosyncratic model of capital formation. They were both a response to the lack of industrial capital and a by-product of the politically charged strategy to initiate development and industrialization in the country. We argue that where the rules of advanced capital formation and managerial enterprise (Chandler, 1992) fail to apply, alternative structures can emerge. In Turkey, this alternative model occurred through multi-ownership companies whereby thousands of small investors put their savings in holding companies that promised good returns while assisting small and medium-sized firms. Our findings indicate however, that Anatolian holding companies became victims of the absence of institutional and regulatory regimes and the lack of institutions to promote impersonal trust in the economy that in turn permitted widespread abuses.

Our work highlights the importance of institutional and regulatory regimes for creating viable capital markets in order to achieve economic growth. The failure of Anatolian holding

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companies along with the persistent capital market failures in Turkey lead us to ask two fundamental questions: why did no institutions and regulatory regimes evolve along with the changing needs of the economy? and why were existing controls so often subject to circumvention and abuse? The answers lie in the dynamic interaction between the politics of institution building and behavioral and social norms. We identify three factors that undermined market trust and institution building leading to chronic failures and abuses: policy formation was trapped in populist–clientalist cycles with a slippery political center; lax oversight practices were encouraged by the single-leader tutelage in party politics; and the social norms that allowed investors to accept flimsy assurances and fuzzy legality as part of their gambling habit.

The limited investigation into Anatolian holding companies so far has prevented policy makers from understanding opportunities and challenges offered by alternative capital formations. Despite the deficiencies and the business failures of the past, we believe that the continuing attractiveness of multiownership companies as a form of alternative capital formation and utilization of small family investments in local projects deserves serious attention. We also think that this model is likely to be tried again in Turkey and perhaps elsewhere. Correcting the underlying flaws is crucial to prevent hundreds of corporate collapses and massive loss of small shareholders' investments.

The case of Anatolian holding companies also has certain similarities with the new corporate landscape created through privatization schemes in Russia and Eastern Europe where privatized company assets have been transferred through often nontransparent and illegal means. Our findings support studies on market reform and institution building in former Communist regimes where weak regulatory controls, widespread mistrust, and the abuses still prevail in these markets (Blasi *et al.*, 1997; Kogut & Spicer, 2002).

Our study highlights a fundamental issue in economic development and regulatory reform for many developing and post-communist economies, that is the need to understand better the links between socio-political forces and behavioral norms embedded in economic life. In order to allow imaginative solutions to emerge in the wake of an endemic lack of capital for industrialization, developing economies should not look for miracles. The fundamental question for both scholars and policy makers is to find the ways to secure and nurture regulatory regimes in order to serve the long-term interests of wider societal elements in economic development rather than the speculative short-term gains of narrow groups and/or managers. The findings of this paper hold implications for studies on firm finance for small and medium enterprises [SMEs] (Becchetti & Trovato, 2002; Winker, 1999), Islamic finance and economics (Kuran, 1995, 1996, 2003; Warde, 2000) and in general on the importance of the politics of institution building and impersonal trust for economic development. [2]

The article is divided into six sections. Section 2 considers the viability of capital markets for countries such as Turkey through a brief critique of theoretical literature. Section 3 presents an analysis of Turkey's experiments with capital markets. This is followed by two case studies on the formation of Anatolian holding companies. In Section 5, we illustrate the reasons for poor managerial and regulatory discipline. In conclusion we recommend the key policy changes needed in the light of our findings.

2. CREATING AND INSTITUTING CAPITAL MARKETS

Capital formation is essential for industrial and economic growth. Conventional models of capital formation stem from the experiences of advanced countries and fall into two broad categories. The first one is the bank-centered corporatist model, which is credited with the success of German and Japanese post-war industrial restructuring. They worked under conditions of enforced political stability and the focused determination of a reforming elite. In this model, ownership and control are closely tied within a framework of institutional guarantees and obligations (Miyajima, 1995). The second is the Anglo-Saxon open market model of capital formation through stock markets. In the bank centered system, the close links between the banking system and the market allow companies to finance themselves through bank loans. In this system firms raise capital by issuing new shares and the ownership of a firm is diffused. Accordingly, shareholder rights are protected and the ownership and control of firms are separated. The bank-centered regime is supported by a web of institutions in mutually binding relationships with little respect for