Alliance and Acquisition Performance in Turkish Banking

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Abstract

Strategic alliance and acquisition performance have not been explored adequately in the academic literature. Empirical studies abound with different performance criteria, but there is no coherent theoretical basis about how to measure strategic alliance and acquisition performance. However, financial measures such as profitability, share prices and sales growth have primarily been used in the literature, to determine the performance of alliances and acquisitions. This study investigates the financial performance of eight Turkish banks after their alliance and acquisition processes. Quarterly (3 months) profitability figures obtained from the balance sheets of the banks were used as the key performance indicator in measuring the performance. Profitability means before and after alliance and acquisition processes were statistically compared via paired sample t-test. The results of the paired sample t-test indicated no significant difference between the profitability mean scores before and after partnership and acquisition processes. The research revealed a different result than expected according to the literature, but it is unlikely to conclude that the alliances and acquisitions were unsuccessful and did not create value for both the parties based on a single performance indicator. Another research comprised of multiple performance indicators is advised in order to reach a more exact result about the performance of the banks.

Introduction

As a growth strategy, companies are increasingly using strategic alliances and acquisitions despite the fact that high failure rates suggest that potential benefits are difficult to obtain (Joel & Terrence, 2009; Alexander, Holger, & Miriam, 2008; Lunnan & Haugland, 2008). Strategic alliance can be defined as "interfirm" cooperative arrangements aimed at pursuing mutual strategic objectives" (Das & Teng, 2003: 279), whereas acquisition, also known as a takeover or a buyout, is the "buying of one company (the target) by another". Das & Teng's (2003) alliance typology includes joint ventures, joint production, joint R&D, joint bidding, contracted R&D, co-marketing, product bundling, licensing and code-sharing. An acquisition may be friendly or hostile. In the former case, the companies cooperate in negotiations but in the latter case, the takeover target is unwilling to be bought or the target's board has no prior knowledge of the offer (King *et al*., 2008). No matter what the types of alliances and acquisitions

are, it is common knowledge that the rate of acquisition and alliance formation has been dramatic in recent years, and increasing research attention is being focused on how alliances and acquisitions can be managed to gain competitive advantage (Ireland *et al*., 2002). Achieving acquisition and alliance success has proven to be very difficult. Although some well-known acquisitions such as Procter and Gamble Gillette, and Glaxo Wellcome and SmithKline Beecham, and some well-known alliances e.g. Toshiba and Timer Warner, and Merck and AB Astra have clearly benefited the buyer and the partner firms, many other alliances have been plagued by unsatisfactory cooperation and poor performance in the marketplace (Das & Teng, 2003). Reported rates of acquisition and alliance failure or termination range from 30 percent to 70 percent (Kogut, 1989; Park & Russo, 1996; Park & Ungson, 1997; Das & Teng, 2000). According to Kent (1991), alliances are found to have a lower success rate than formal or single organizations. Given these numbers and suggestions, practitioners and researchers alike are intrigued by the question of acquisition and alliance performance.

Alliance Performance

Although alliance and acquisition performance has attracted considerable research attention, the issue remains one of the least understood aspects of strategic alliances and acquisitions (Das & Teng, 2003). In part due to certain empirical research obstacles, there is still little consensus in the academic literature as to how strategic alliance and acquisition performance should be measured. Gulati (1996: 306) argues that "performance remains one of the most exciting and unexplored areas of alliance research" and few studies have systematically investigated factors leading to successful alliances (Lunnan & Haugland, 2008). According to Olk (2002) and Arino (2003), the alliance and acquisition performance can be categorized under three headings; financial, operational and effectiveness. While some researchers prefer subjective measures such as perceived satisfaction (Mjoen & Tallman 1997; Parkhe, 1993), and fulfillment of strategic goals (Arino, 2003; Geringer & Herbert, 1991) to measure alliance and acquisition performance in terms of effectiveness, others use operational measures such as duration, termination and stability (Yan & Zeng, 1999; Park & Ungson, 1997; Park & Russo, 1996; Kogut, 1989). Some researchers (Park & Russo, 1996; Park & Ungson) suggest that operational measures are linked to duration, termination and stability. In their studies, Park and Russo (1996) found that the failure rates of joint ventures are non-monotonic, increasing to a peak at three years and then declining. But the problem with measures like termination and duration is that "the partners may agree on when to terminate an alliance; hence termination means success rather than failure" (Lunnan & Haugland, 2007: 546). Another problem about the measurement of alliance and acquisition performance was diagnosed after the studies of Olk and Young (1997) and Yan and Zeng (1999). Olk and Young's (1997) study revealed that member companies of research and development consortia that reported learning had an increased likelihood of leaving the consortium, supporting the idea that termination does not equal failure. It is obvious that instability may be a sign of the partners' abilities to undertake necessary adaptations, not always an indication of poor performance (Lunnan & Haugland, 2008). The efforts to measure the alliance and acquisition performance via effectiveness have also increased in recent years. The most commonly used criterion to measure the alliance and acquisition performance, related to effectiveness is the fulfillment of strategic goals including both common and private (Parkhe, 1993; Arino, 2003). According to Lunnan and Haugland (2008), usually fulfillment of strategic goals has been measured as the managers' subjective perception of the degree of goal accomplishment. Although, subjective performance perceptions of managers can be considered

as a disadvantage of this criterion, Arino (2003) states that this disadvantage can be surmounted by the evaluations based on multiple indicators. Among three frequently used groups of measures, financial ones such as profitability, share prices, market values, and sales growth have primarily been used in relation to the measurement of alliance and acquisition performance (Chan *et al*., 1997; Mohr & Spekman, 1994; Koh and Venkatraman, 1991). However, especially, share prices and market values capture stock market responses for the parent firms around the time of formation or acquisition and may only provide an indication of "short term performance, but they do not reveal any long term effects" (Lunnan & Haugland, 2008: 546). For this reason, profitability and sales growth figures can be used as simple and reliable indicators in measuring alliance and acquisition performance (Beatty, Santomero, & Smirlock , 1987; Palia, 1993).

Research Methodology

During the last ten years, especially after 2001, the Turkish Banking industry has experienced considerable consolidation through strategic alliances and acquisitions due to the political crisis in Turkey and its financial repercussions on banking industry. Majority of the private banks have established new partnerships to strengthen their financial structure and some of them have been acquired by their national and international rivals. Table 1. depicts the details of the alliances and acquisitions occurred in Turkish banking industry between the years of 2005-2006.

Table 1. Alliances and Acquisitions in Turkish Banking Industry Between 2005-2006

Name of the Bank	New Partner/Owner	Partnership/ Acquisition	Date of Partnership/Acquisition
AKBANK	CITIBANK (%20 of total shares)	Partnership	17th October, 2006
TEB	BNP PARIBAS (%50 of total shares)	Partnership	10th February, 2005
DIŞBANK	FORTIS (%94,1 of total shares)	Acquisition	12th April, 2005
GARANTİ BANKASI	GE CONSUMER FINANCE (%20,85 of total shares)	Partnership	24th August, 2005
DENİZBANK	DEXIA (%99,84 of total shares)	Acquisition	30th May, 2006
FİNANSBANK	NATIONAL BANK OF GREECE (%94,79 of total shares)	Acquisition	3rd April, 2006
ŞEKERBANK	BANK TURAN ALEM (%33,98 of total shares)	Partnership	22nd June, 2006
YAPI VE KREDİ BANKASI	KOÇBANK (%81,80 of total shares)	Partnership	18th August, 2006

In this study, it is aimed to investigate the financial performance of eight Turkish banks, which were quoted in Istanbul Stock Exchange (IMKB 100), after their alliance and acquisition

processes. Quarterly (3 months) profitability figures obtained from the balance sheets of the banks were used as the key performance indicator in measuring the performance. Having calculated the means of the quarterly profitability figures as shown in Table 2., the means before and after alliance and acquisition processes were statistically compared via paired sample t-test by SPSS 16.0 program.

Table 2. The Mean Scores Compared Before and After Partnership/Acquisition Processes (Source: www.imkb.gov.tr)

Means (μ_1) Before Partnership/ Acquisition Profitability (TL)	**Name of the Bank**	**Means (μ_2) After Partnership/ Acquisition Profitability (TL)**	**Date of Partnership/Acquisition**
334536 (33 Months)	AKBANK	500981 (33 Months)	17th October, 2006
7894 (48 Months)	TEB	38107 (48 Months)	10th February, 2005
21704 (48 Months)	DIŞBANK	40486 (48 Months)	12th April, 2005
68875 (42 Months)	GARANTİ BANKASI	399543 (42 Months)	24th August, 2005
47285 (30 Months)	DENİZBANK	91631 (30 Months)	30th May, 2006
94977 (36 Months)	FİNANSBANK	152177 (36 Months)	3rd April, 2006
13495 (33 Months)	ŞEKERBANK	33033 (33 Months)	22nd June, 2006
-292027 (30 Months)	YAPI VE KREDİ BANKASI	319069 (30 Months)	18th August, 2006

Results

The results of the paired sample t-test indicated no significant difference between the profitability mean scores before and after partnership and acquisition processes. These results can be seen in Table 3. and Table 4.)

Table 3. Results of Paired Sample t-Test of Mean Scores Before and After Partnerships and Acquisitions

	Paired Differences					**t**	**df**	**Sig.**
	Mean	**Std. Dev.**	**Std. Error Mean**	**95% Confidence Interval**				
				Lower	**Upper**			
Before-After	-159786	211496.97	74775.47	-336602	17029.89	-2.137	7	0.070

Since the partnerships and acquisitions were entered into analysis altogether under the heading of strategic alliances and acquisitions, the analysis yielded a general result but did not give any idea about the performance of partnerships and acquisitions specifically and separately. For this reason, partnership data and acquisition data were also analyzed independently in order

to explore if they performed different in terms of profitability. Excluding the acquisition data, profitability figures of 5 banks- AKBANK, TEB, GARANTİ BANKASI, ŞEKERBANK and YAPI VE KREDİ BANKASI- that formed partnerships, were analyzed in order to explore whether there was a significant difference between the profitability mean scores before and after partnership processes. It can be inferred from Table 5. and Table 6. that no significant difference was found between the profitability mean scores of the banks' before and after their partnership processes.

Table 4. Means and Standard Deviations of the Profitability Figures of Strategic Partnerships and Acquisitions

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	**Before**	37092.38	8	170253.219	60193.603
	After	196878.38	8	184417.756	65201.523

Table 5. Results of Paired Sample t-Test of Mean Scores Before and After Partnerships

	Paired Differences					t	df	Sig.
	Mean	Std. Dev.	Std. Error Mean	95% Confidence Interval				
				Lower	Upper			
Before-After	-173186	150147.3	67147.9	-359619	13245.9	2.579	4	0.061

Table 6. Means and Standard Deviations of the Profitability Figures of Partnerships

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	**Before**	84960,00	5	142136,838	63565,526
	After	258146,60	5	213170,463	95332,729

The same procedure was used for the other 3 banks- DIŞBANK, DENİZBANK and FİNANSBANK- that were acquired by other institutions. The difference between the profitability mean scores before and after acquisitions was tested by paired sample t-test and again no significant difference was observed. The results are shown in Tables 7. and 8.

Table 7. Results of Paired Sample t-Test of Mean Scores Before and After Acquisitions

	Paired Differences					t	df	Sig.
	Mean	Std. Dev.	Std. Error Mean	95% Confidence Interval				
				Lower	Upper			
Before-After	-40109.3	19556.3	11290.8	-88689.8	8471.1	-3.552	2	0.071

Conclusion

Contrary to the expectations, no significant improvement in the profitability figures of the banks was found after the partnership and acquisition processes. Although a considerable difference in

the profitability mean scores was observed after the partnership and acquisition processes, it was not *statistically* significant. Despite the fact that all the banks increased their profits after the

Table 8. Means and Standard Deviations of the Profitability Figures of Acquisitions

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	**Before**	54655,33	3	37188,365	21470,713
	After	94764,67	3	55911,401	32280,462

partnership and acquisition processes, this increase was not sufficient to produce a meaningful difference. As it is noted, the research revealed a different result than expected according to the literature, but it would be erroneous to conclude that the alliances were unsuccessful and did not create value for both the parties. This research is subject to definite limitations. In the study, the financial performance was measured based on a single criterion, profitability, but since alliance performance measures vary greatly, proper measurement must include multiple indicators such as share prices, sales growth, or the combination of operational, effectiveness and financial measures. Another point is that the short run financial performance of the banks were measured in the study, but in the long run the results may differ. Limited amount of sample size could also have been influential on the results. Additionally, Turkey was subject to an economic fluctuation because of the global economic crisis during the last quarter of 2008 and first two quarters of 2009 which were the periods resulted to misleading data for the analysts. Against all limitations of the study, it is believed that some notable implications can be drawn especially for the future studies that focus on measuring alliance and acquisition performance.

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