

Overview of Family Business Relevant Issues

Country Fiche Turkey

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This study has been elaborated with reasonable care. The authors and the project co-ordinator do not, however, accept responsibility for printing errors and/or other imperfections and potential (consequential) damage resulting thereof.

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1 Introduction

The issue of family business has a great importance in Turkish economy; however there is no official definition for family business in Turkish Commercial Code. The 90% of enterprises are family firms, and 94.1% of small and medium sized enterprises in Turkey are family firms. The dominant non-governmental business structure in Turkey is the family-owned firm (Gunduz and Tatoglu, 2003). Even the large holding companies are family owned, in which important positions are occupied by family members. This is confirmed by a recent survey on the ownership data of companies traded on the Istanbul Stock Exchange, which reveals that family groups directly or indirectly own more than 75% of all companies and maintain the majority control (Yurtoglu, 2000)¹

Most of the discussions are focused on continuation of the enterprises, institutionalization, weaknesses and strengths and the need for business support.

The information provided in country fiche represents the compiled results of different articles, researches and the collected data; unfortunately there are no special regulations or legal documents representing the situation of family businesses in Turkey.

¹ Succession Planning in Family-owned Businesses, Evidence from Turkey, E.Tatoglu, V.Kula, K.W. Glaister, 2008

2 Understanding of “family businesses” in the national context

As it was explained in the introduction section, there is no official definition of family businesses. On the other hand, family businesses are defined in different resources/by different researchers in similar forms. Some examples of different definitions are represented below:

Family businesses are defined as those companies in which at least 51% of the shares are held by a family or related families, the family members comprise the majority of the senior management team and the owners have day-to-day responsibility for the management of the business.

If the genarch or the person, who is responsible for the livelihood of the family, is managing the company, the company is considered as family firm.

Namely, a family holds the 60% of the shares of the company, or only one family holds the majority of the shares, and on the other hand controlling the board of the company/managing the company, and the founder of the company is also the chairman of the board of directors.

The related researches also indicated the following points:

- At least two generations participated in management
- Previous or current manager's children participated in management team of the company
- Family relationships affects the assignment of the managers
- The fame of the company developed with the family
- Corporations with few share holders are family firms. They are also called as closed companies, and generally they are founded by the members of a family.

The common point of the specifications mentioned above is; the management of companies' is controlled by one family. The family has the power since it is holding the majority of company shares.

According to the research² study conducted by Ankara Chamber of Industry, the founder of the family firm and the ownership structure were asked to participants. Founder of the company is:

- 46% participant him/herself
- 41.1% father of the participant
- 11.7% grandfather, brother or cousin

² Research Study „Family Businesses: Change and Continuity”, Ankara Chambre of Industry, June 2005

The shares of the family firms are distributed between:

- The family members: 69.6%
- More than one family member: 14.7%
- Company belongs to one person: 12.7%

The titles of the family members in family firms:

- Chairman of the board of directors: 57.6%
- General manager: 21.7%
- Member of the board: 11.9%

Most of the companies in Turkey are family firms, despite of being defined as corporation and limited companies under Turkish Commercial Code.

Turkish Commercial Code requires an amount of company shareholders, in most of the family companies, the family member, who holds the capital resources, divides some shares to other family members in order to sustain the number of shareholders required by the law. The shares held by the other family members are negligible. The administrative board is also unable to work in reality.

Another type of family firm is, when two families or siblings get together to establish a company. This type of family firms has the shortest life time, since the families or the siblings generally believe that income or task distribution is not equal.

Sometimes, at least two shareholders get together to perform their professional activities, these kinds of companies are also considered as family firms. However, these firms are so further away than institutionalization. The founders are professionals and they carry out their own activities, and do not prefer to hire experts. At the end, the problems occurred since there is not proper task distribution. Each share holder wants to work independently. At the end, shareholders start to look for different opportunities and end up the business.

A special attention has to be paid to institutionalization³. The most of the Turkish companies have institutionalization problem, this is the main reason of companies' short life time.

There are not any legal regulations referring to family businesses in Turkey.

³ Institutionalization is the process which translates an organization's code of conduct, mission, policies, vision, and strategic plans into action guidelines applicable to the daily activities of its officers and other employees. It aims at integrating fundamental values and objectives into the organization's culture and structure.

3 Importance of family businesses for the national economy

According to the research⁴ study conducted by Ankara Chamber of Industry, the numbers of employees were asked to the research participants. The results are given below:

The total number of employees of the family firms⁵

Number of employees	Percentage
1-49	29.4%
50-149	38.9%
150-250	16%
500 and more	15.7%

57.8% of the companies that supported the research have 2-5 branch offices, 32.4% has just one central office, and 5% of the companies have more than 10 branch offices.

During the research, the family firms were asked their geographical activity area. 44.1% of them were active only in one geographical region. Majority of the family firms are performing their activities in their home city and their neighbouring region, however there are also many companies that have businesses in Europe, Russia and the Middle East.

Annual gross turnover rates of family firms for the year 2002 (\$)

Gross Turnover (\$)	Percentage (%)
Up to \$ 250,000.-	8.8%
\$ 250,000.-/500,000.-	5.9%
\$ 500,000.-/1,000,000.-	23.5%
\$ 1,000,000.-/5,000,000.-	20.5%
\$ 5,000,000.-/10,000,000.-	25.5%
\$ 10,000,000.- and above	3.9%
No reply	11.7%

The activity areas (industries) of family firms (%)

- Production 51.2%
- Construction 15.4%
- Trading 19.5
- Tourism 4.8%
- Finance 4.0%
- Other 4.8%

⁴ Research Study „Family Businesses: Change and Continuity”, Ankara Chamber of Industry, June 2005. These numbers do not represent the overall percentage of Turkey. The numbers represent only the companies that took the survey unless it is mentioned in country fiche.

There are three (3) Turkish companies in the world's top 100 family companies by revenues list. Hacı Ömer Sabancı Holding Sabancı Türkiye Holding is number 83 with the holding's \$ 5.9 billion corporate income and 31,380 employees. The 91st company is Doğu Şahenk Türkiye Bankacılık, İnşaat, Otomotiv, Medya, \$ 5.1 billion corporate income and 20,000 employees. The number 94 is Koç Türkiye Holding with \$ 4.9 billion income and 45,626 employees.

Some of the famous Turkish family firms and their dates of foundation:

Name of the company	Foundation year	Generation
Vefa Bozacısı	1870	4 th
Hacı Bekir Lokum ve Akide Şekerleri	1877	4 th
Çögenler Helvacılık	1883	4 th
Teksima Tekstil	1893	4 th
Ördekçioğlu Mutfak Eşyaları	1919	2 nd
Kamil Koç Otobüsleri	1923	3 rd
Eyüp Sabri Tuncer Kolonyaları	1923	3 rd
Doluca Şarapları	1926	3 rd
Tatko	1926	3 rd
Koç Holding	1926	3 rd
Kent Gıda A.Ş.	1927	3 rd
Uzel Makine	1940	2 nd
Nuh Çimento, Emintaş İnşaat	1942	3 rd
Sabancı Holding	1946	3 rd
Yeni Karamürsel Mağazacılık	1950	3 rd

When the progress of the Turkish private sector is analysed through the years, it can be seen that the companies developed and reached that point after passing some stages as it was in other countries. Institutionalization is one of the most popular concepts of business world. Until the beginning of the 1990's institutionalization was not even in the agenda of family firms in Turkey. The institutionalization became popular around 1990's, with the wind of globalisation.

4 Characteristics of family businesses

According to the research conducted by Performans Consulting, there are four types of family firms in Turkey.

- Limited (family) companies, called as “boss company”, that all the decisions are made by the boss.
- Company’s shareholders are siblings, and the management is shared between the siblings.
- Complex family firms that the different family members (siblings, cousins etc.) are shareholders.
- “Old” family companies; the company is directed by professional managers. This type is advised for the family companies that want to institutionalize.

48% of family firms receive consulting services during making important decisions, 51% of family firms think that receiving consulting services is unnecessary/not suitable.

34.3% of family firms are currently receiving consulting services, 21.6% received consulting services earlier, 28.4% have never received consulting services, and are not planning to get an advice from a consultant in the near future.

The decision of hiring a consultant is made by chairman of the board of directors (49%), general manager (12.7%). The remaining companies are not interested in consulting services as it was mentioned in previous paragraph.

In family firms, senior managers pay special attention to personal development (43.1%), on the other hand middle management (36%) and junior managers (20.9%) are also benefited from training opportunities.

63.7% of family firms have board of directors, which are regularly meeting. 33.3% of the companies do not arrange regular board of directors meetings.

If we take a look at the gender distribution of member of boards, 44.5% of them are men (family member), 29.3% men (outside the family), 22.4% women (family member) and finally 3.8% women (outside the family).

In family firms, it is believed that the company is the place, where the business and family issues are separated, and the most important criteria is the skills of the person, and on the other hand at least one family member have to join the senior management team.

Despite the first and the second generations are not agreed on future strategies, reorganisation (rearranging the departments of the company) and strategic plans (innovations and developments for enlargement and competition) are the most important precautions against the future issues.

85% of the companies, who believe that their company will be permanent in the future, receive consulting services, on the other hand for the companies, who have doubt about their future, this rate falls to 65%. The most popular topics that companies need advice of consultants are: production-quality, operation policy and strategic planning, accounting and finance, reengineering. 60% of the companies, who believe that they

are good at taking fast and correct decisions, receive consulting services. This rate falls to 43% and 37.5% respectively in companies, who think that they need improvement and the companies that are not happy with their strategic decisions.

The education level of the children and their distribution is⁶:

11 out of 25 women, who hold bachelor or graduate degrees, work for their own family companies.

27 out of 46 men, who hold bachelor or graduate degrees, work for their own family companies.

The age distribution of family members working for family firms is shown below:

Age	Percentage
41-50	33.3%
51-60	23.5%
31-40	21.6%

According to the figures represented above, it can be understood that the founders/entrepreneurs of the companies, who took the survey, are still working for their own companies. This table also shows that the Turkish family firms are directed by the first generation.

Gender distribution of family firms

Gender	Percentage
Women	9.8%
Men	90.2%

⁶ 102 family firms participated in this research.

Educational level of family members in family firms

The last degree honoured	Percentage
Elementary School	2.0%
Middle School	2.9%
High School	15.7%
College	11.8%
University	50.0%
Masters/PhD	17.6%

Company owners' opinion about their children's education abroad

Opinion	Percentage
Children educated abroad	34.8%
Planning to send children abroad for education	59.3%
Thinks that education abroad is unnecessary	6.0%

Children with university/post graduate degrees, and their tendency to work for family firms

Gender	University/post grad.degree (#)	Working for the family firm (f:frequency)
Women	25	11
Men	46	27

Family members working for the family firms

Member	Percentage
Son(s)	14.8%
Daughter(s)	6.6%
Brother(s)	22.9%
Sister(s)	6.2%
Nephew/Niece	11%
Uncle(s)	7.6%
Aunt(s)	1.4%
Bride(s)	6.2%
Groom(s)	6.7%
Father-Mother	8.6%
There is no any other family member other than owner of the company	5.7%
Others	1.9%

The distribution of member of board

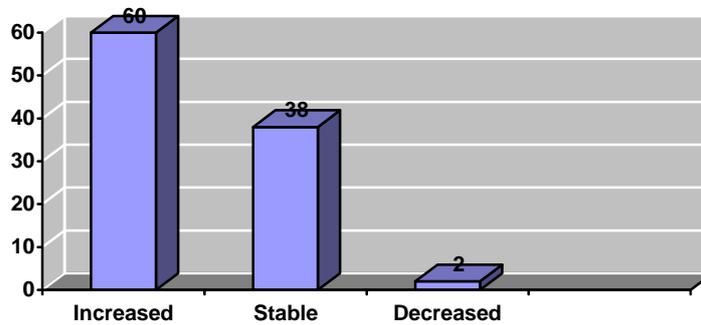
Member of board	Family Member	Outside the family
Women	22.2%	3.8%
Men	44.5%	29.3%

According to interviews, it was seen that young family members are generally assigned as “deputy general manager” and “manager”.

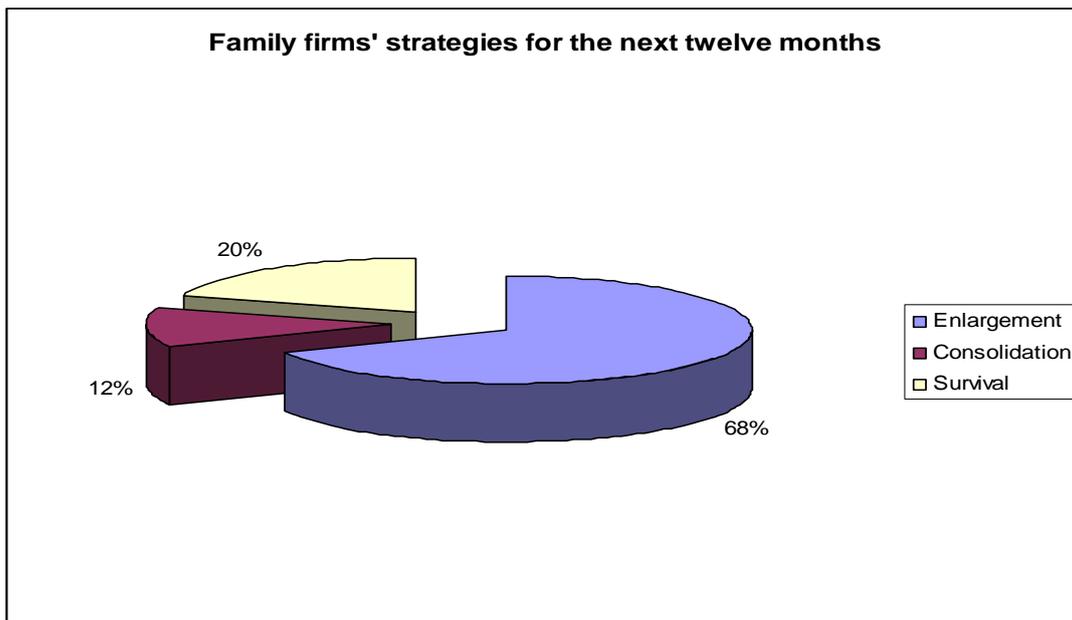
Another research identified the following foundation types of family firms:

1. The eldest member of the family (generally father) holding the biggest share, and dividing the remaining shares between spouse, children, siblings until the required (by law) number of shareholders achieved.
2. Two siblings sharing the majority of the shares and dividing the remaining between their spouses and children according to the regulations.
3. Family members holding the majority of the shares, and giving shares to a professional manager (strategic partnership), and achieving the number of shares by dividing the remaining amount between family members.

The situation of fixed assets in last twelve months (%)



Family firms' strategies for the next twelve months (%)



78% of family firms are planning to invest on human resources, 58% plan to invest on sales, 58% marketing, 56% production, 52% R&D, 42% IT infrastructure, 42% logistics, 24% internet.

The ruination of family businesses

1. The founder of the company has to handle entire work load all alone, so that s/he has to sell of the company.
2. Inability to adjust the company to market conditions, insufficient financial resources, unable to put up funds.
3. Assigning friends and acquaintances to managerial positions, inability to institutionalize.

4. Unable to establish proper record system, as a result unable to control costs.
5. Unable to determine new strategies and develop new products.
6. Financial competition between family members.
7. Increased number of family members and the profits are not sufficient for the family.
8. Conflicts between the family members and the professionals.
9. Family members' overblown self confidence.
10. Strives between family members regarding the assigning skilful family members to managerial positions.

The success criteria of family firms

1. The family members and other managers are in a good harmony.
2. The family treats employees equally and fairly
3. The family name and the products conjugated that the family members pay special attention to product quality.
4. Fast decision systems.
5. Family members attending continuous education programmes.
6. Family firms are open to change and they are making research continuously.
7. The leader knows the exact time to hand over the business on right time.

Between 1983 and 2000, 461 058 new companies were registered. 86.7% of them are limited companies, 13.2% are corporations. The majority of the companies are limited companies, and there are generally two or more shareholders, and the majority of them are family firms.

Advantages of Family Businesses

1. They have excellent management development systems.
2. Individuals grow up with ownership responsibility.
3. Family members treat their employees in an equal and loyal way.
4. Family members have high sense of responsibility.
5. Family members are bonded to company emotionally. Namely, when there are financial problems, family members do not ask for salary, and it relieves the financial management.
6. Ability of fast decision making.
7. They are innovative and entrepreneur.
8. They try to be better than their competitors.
9. Entrepreneurs in family company know each other very well, and it creates a “synergy”.
10. When the family members know the aim of the company, they support each other according to the aim of the company.
11. Skilful family members work for their own companies, instead of working for another company, due to the strong family relationships. They have more possibility to be successful.

Disadvantages of Family Businesses

1. Urge of selling the company with a good price.
2. Being insufficient whilst following the market, and not being able to think strategically.
3. As the family gets larger, the amount of yearly investments decreases.
4. Insufficient R&D investments.
5. Insufficient financial resources.
6. Conflicts between family members.
7. Discrepancy between family members' and company's demands. For example; There might be problems whilst distributing profits, and some family members (members of board) might ask for shares for their children. Or there might be dissidences between first and the second generations about benefiting from different financial resources.
8. Family leaders do not leave/want to leave their positions on the right time.
9. Not being able to attract skilful professionals, who are outside the company.

5 Institutional actors and their strategies, policies and initiatives

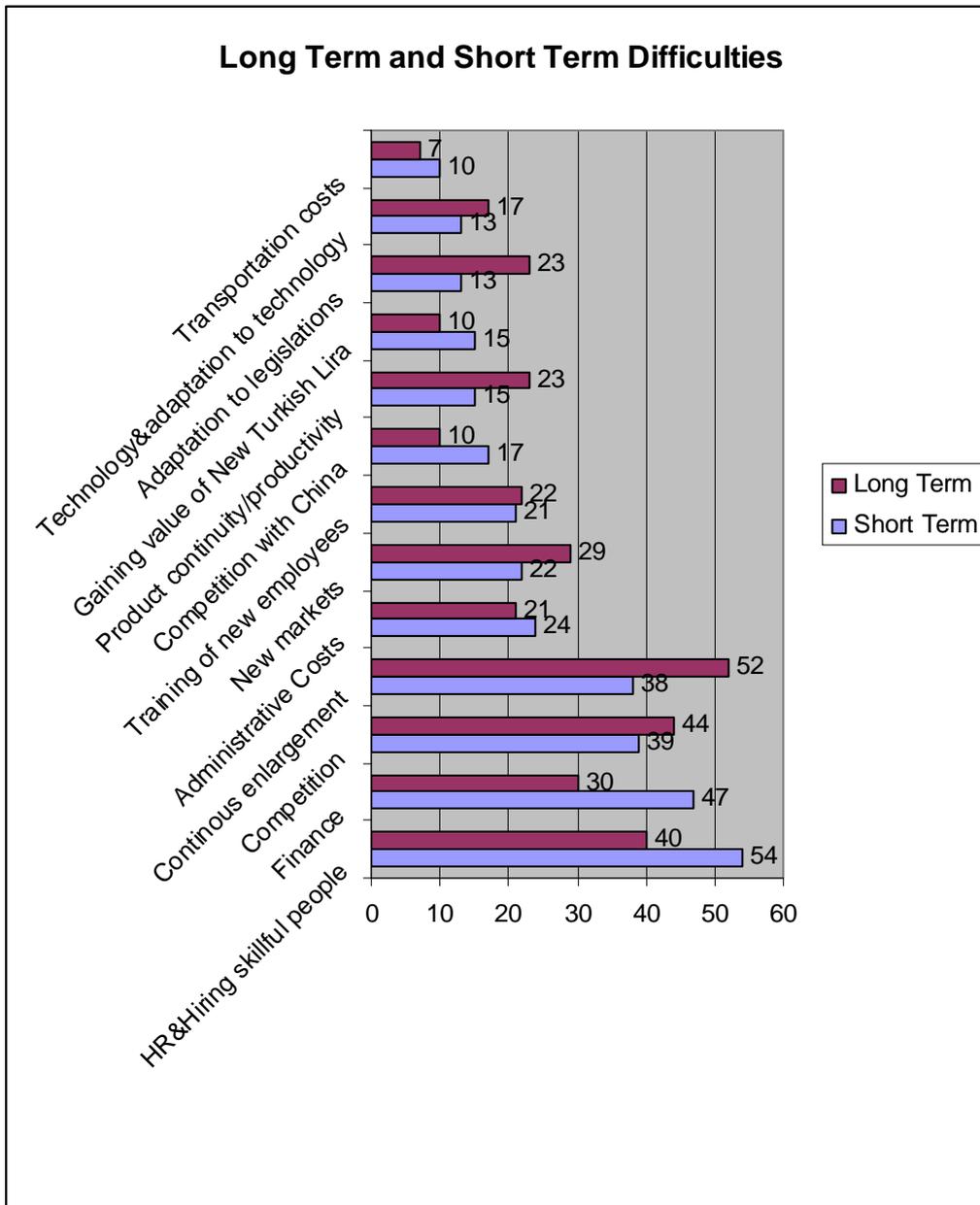
	Explanation
institutional features	
name of the actor	Ankara Sanayi Odası/Ankara Chamber of Industry
nature of the actor	<input type="checkbox"/> government <input checked="" type="checkbox"/> employers' organisation <input type="checkbox"/> support service provider (information, advice, education) <input type="checkbox"/> research centre <input type="checkbox"/> network/family business specific organisation (including interest groups/representative organisations/lobbies) <input type="checkbox"/> others, namely:
address	Çetin Emeç Bulvarı 4. Cd. 71. Sk. No:11 Öveçler Ankara/Turkey
telephone	+90 312 417 12 00
web-page	www.e-aso.org.tr
content based features	
name of the strategy/initiative/regulation	ASO Aile Anayasası/ASO Family Contract
type	<input type="checkbox"/> fiscal regulation/tax law <input type="checkbox"/> labour law/social security law <input type="checkbox"/> company law <input type="checkbox"/> awareness raising measures <input checked="" type="checkbox"/> corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar <input type="checkbox"/> education/training measures <input checked="" type="checkbox"/> information/advice <input type="checkbox"/> business transfer support instruments <input type="checkbox"/> financial support <input type="checkbox"/> marketing <input type="checkbox"/> networking <input type="checkbox"/> others, namely:
objective	Ankara Chamber of Industry published this contract in order to enlighten family companies on solving their internal family problems (related with family businesses).
initiation	Published in 2005

	Explanation
content based features	
contents/description of the initiative/measure	Ankara Chamber of Industry published this contract in order to enlighten family companies on solving their internal family problems (related with family businesses). This contract is also beneficial for any company for structuring. The contract sets arguments necessary for solving any kind of conflict and discrepancies in family businesses. The contract is consisted of 4 sections and 20 articles. The first section describes the aims and mission, values, relationships of family. In second section, the working relationships are organized, and regulations for the family members and professional employees, and the rules that have to be obeyed by the family members defined. Third section is related with administrative structure of the family businesses, family council and the meetings, responsibilities etc. The last section is about the ownership of the family companies, and if this structure has to be changed in time, the related regulations are set forth.
user based features	
eligibility criteria/target group	Any company/Family Companies (Majority of the voting shares are owned by members of a single family)
Promotion tools/information strategy	Internet, media and the Ankara Chamber of Industry
source of funding	<input type="checkbox"/> EU-funds <input type="checkbox"/> national funds (governments) <input type="checkbox"/> membership fees <input checked="" type="checkbox"/> others, namely: This contract is free of charge, open to public.
performance based features	
evolution	This Family Contract is prepared in order to help family companies.

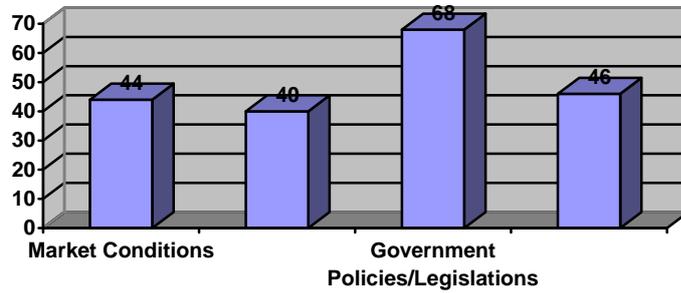
	Explanation
institutional features	
name of the actor	ABİGEM Gaziantep/EU Turkey Business Centre
nature of the actor	<input type="checkbox"/> government <input checked="" type="checkbox"/> employers' organisation <input type="checkbox"/> support service provider (information, advice, education) <input type="checkbox"/> research centre <input type="checkbox"/> network/family business specific organisation (including interest groups/representative organisations/lobbies) <input type="checkbox"/> others, namely:
address	İncilipınar Mah. 3.Cad. Bayel İş Merkezi A Blok No:101 Şehitkamil-Gaziantep
telephone	+ 90 342 231 99 95
web-page	www.gaziantep.abigem.org
content based features	
name of the strategy/initiative/regulation	Aile Şirketlerinde Kurumsallaşma Danışmanlık Hizmeti/Institutionalization Consultancy Service in Family Businesses
type	<input type="checkbox"/> fiscal regulation/tax law <input type="checkbox"/> labour law/social security law <input type="checkbox"/> company law <input type="checkbox"/> awareness raising measures <input type="checkbox"/> corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar <input type="checkbox"/> education/training measures <input checked="" type="checkbox"/> information/advice <input type="checkbox"/> business transfer support instruments <input type="checkbox"/> financial support <input type="checkbox"/> marketing <input type="checkbox"/> networking <input type="checkbox"/> others, namely
objective	Gaziantep ABİGEM wants to help family companies, solve their problems during their institutionalization phase.
contents/description of the initiative/measure	The aim of the consulting service is to show alternative solutions to Family Businesses in their different development stages. There are different kinds of characteristics, in every stage. This service supports family businesses during institutionalization.
user based features	
eligibility criteria/target group	Family business
Promotion tools/information strategy	Internet, media
source of funding	<input checked="" type="checkbox"/> EU-funds <input type="checkbox"/> national funds (governments) <input type="checkbox"/> membership fees <input checked="" type="checkbox"/> others, namely: TOBB

6 Future issues

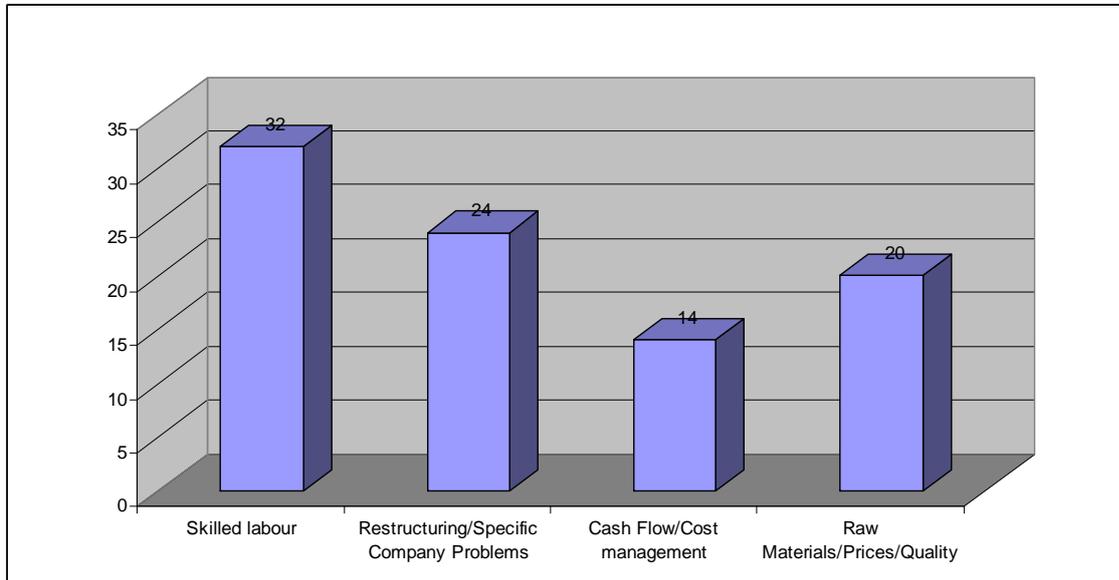
Difficulties that the Turkish family firms have to overcome in long and short term period are shown below, according to the Deloitte and Touch's research.



External threats that family companies will face in next twelve months period⁷



Internal threats that family companies will face in next twelve months period⁸



⁷ Respondents were allowed to choose more than one answer

⁸ Respondents were allowed to choose more than one answer

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www.gaziantep.abigem.org