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Profitability Effects of Owning a Group Affiliated Media Institution: An Emerging Market Case

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Abstract

This study focuses on the performance effects of having a group affiliated media institution under the group umbrella. Existence of a media institution is expected to increase the overall group performance. The econometric model is based on the annual data between 2000-2010 for an emerging market, Turkey. It is found that owning a media institution significantly has a positive impact on the performance of group firms.

Keywords: Panel Data; Emerging Market; Media Institution.
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1. Introduction and Literature Survey

Diversified business groups dominate private sector activity in most emerging markets around the world (Khanna and Palepu 2000) including Turkey due to several well documented arguments. As proposed by the Transaction Cost Theory (Coase 1937; Williamson 1975; 1985; Teece 1980) the optimal structure of the firm depends on its institutional context and hence on the existence of the specialized intermediaries in the economy. In case that an economically beneficial transfer could not be realized as a result of the indirect costs outweighing the net benefit, a market failure will arise (Williamson 1975) and in developing economies, transactions may particularly be costly as a result of weak institutions for trade, contract enforcement, communication and information disclosure (Khanna and Palepu 1997). Considering that institutions affect economic outcomes (Aoki 1984; 1990) and the institutional context of a country consists the financial, the legal and the regulatory environment of the related economy (Fauver, Houston and Naranjo 2001) as well as the markets for product and labor (Khanna and Palepu 1997), an important aspect of the institutional context of an economy is the extent to which specialized intermediaries are present in that economy (Spulber 1996). While the institutional context of developed economies is characterized by well-functioning capital, labor and product markets, in the developing countries the intermediaries are either insufficient or non-existent (Khanna and Palepu 2000) and the external markets are typically observed to be underdeveloped in developing economies (Khanna and Rivkin 2001) which create a considerable opportunity for diversified corporate structures to create value.

In the developing economies there are a variety of market failures due to information and agency problems (Khanna and Palepu 2000), and because of the market imperfections caused by the institutional voids, firms usually need to perform some of the basic functions by themselves (Khanna and Palepu 1997). Taking into account the institutional voids which in turn cause market imperfections and the transfer costs, Khanna and Rivkin (2001) argue that group firms through coordinating their activities that may reflect in sharing a brand name, raising capital jointly, lobbing bureaucrants and politicians together, recruiting managers as a group, pooling resources to invest in new ventures etc. can derive important advantages. It is argued (Lins and Servaes 2002; Khanna and Rivkin 2001; Khanna 2000; Khanna and Yafeh 2000; Chang and Choi 1988; Khanna and Palepu 1997; 1999; Ghemawat and Khanna 1998) that business groups can create extra value for shareholders through using the available funds and management talent from existing operations to start new ventures, creating an internal capital market, substituting for labor market institutions, investing in a common group brand name, reputation and customer service, internalizing the transactions, resolving failures in the cross-border transfers of capital and technology, enabling risk sharing by reallocating the funds during the times of financial distress and smoothing income flow, having an organizational structure that enables rent-seeking behavior, enabling the exchange of information in informal clubs and family gatherings[2] as well as at formal group meetings, creating economies of scale and scope. Khanna and Palepu (1997; 1999; 2000) argue that the scale and scope of groups enable business groups to create greater value relative to more focused, unaffiliated firms, by imitating the market institutions. Hence, highly diversified business groups are found to be particularly well suited to the institutional context in most developing countries. Not surprisingly, the firm performance affects of group affiliation is

[2]In developing economies group firms mostly operate under the control of a single family and as mentioned by Kim, Kandemir and Cavusgil (2002), the informal organizational forms of the group firms enable fast decision making which is a very important feature for the economies those grow rapidly and fluctuate frequently.

highly researched in the literature[3]. However, the performance effects of owning a group affiliated media institution under the group umbrella is highly untouched. So one of the most distinctive feature of this study is its focus on the effects of having a group affiliated media institution on the profitability of the other affiliated firms under the same group.

One of the major functions of the media is to provide news and information to the masses on which people shape their opinions and base their decisions. The media have a natural power in manipulating the existing views of the people and help to redesign people's attitudes. For example, as claimed by Van Dijk (1995), topics or quotation patterns in news reports may reflect modes of access of various news actors or sources to the news media, whereas the content and form of a headline in the press may subtly influence the interpretation and hence the persuasive effects of news reports among the readers.

According to Dyck and Zingales (2002), since people are mostly informed through media, the basic factor for the creation of pride and giving a shape to its accumulation is by this means. Since media is regarded as the basic source for human knowledge, it is a powerful weapon to affect public opinion and influence the society. News appearing in media, even commercials can determine the agenda and as a main factor indicating the approaches of people, it can have an enforcement power to effect the decisions and actions of actors inside the corporate system within and even outside the country. Grullon et. al (2004) provided empirical evidence that a firm’s overall visibility with investors, as measured by its products market advertising, has important consequences for the stock market. Results of the studies by Dyck and Zingales (2002) indicate the confidence associated to media and shows that the direction of its net impact is bounded by the social values. They also interpret the importance of media in formation of the enterprise policies all the time. If media can affect enterprise policies, influence government, then having a group affiliated media institution can ease the achievement of goals such as creation of public opinion for the beneficiary of group firms, gaining sympathy, strengthening view and increase dignity. Moreover, at some point, this also renders the controlling of the communication of group with enterprise and economic environment and reduces the asymmetric information problem via informing the public. On the other hand, other than the influential characteristic of affecting the public opinion and guiding the society, creation of a general sympathy to the related group and the firms in the organization and fortification of the pride, media can be used for the purpose of favorable treatment from the government. For instance, the public support created by media, directly or indirectly can put pressure to the government, especially parties that are in power and these can be reflected to government policies. So, we can say that having a media institution can be an unearned income opportunity for the group. In summary, although reliability is questionable especially when directly approached, having a media institution has an important impact when the group and the group firms benefits are considered. Within this perspective, a group having a media institution, not only has power in conveying information and even influencing public regarding the investments, future and management policies but can also confront less trouble in gaining supporters in case of a dispute. Moreover, the presence of a media institution can play an important role in achieving and protecting dignity. By these arguments, one can expect the existence of a media institution to affect the group firms’ performances positively.

This paper aims to investigate the profitability effects of group affiliated firms when a media institution owned by the group is at stage. The model focuses on emerging markets, therefore uses Turkey’s data. Turkey provides an ideal setting to analyze the profitability effects of owning a group affiliated media institution as there are no legal barriers to diversify into the media sector and business groups dominate the private sector activities in Turkey.

[3]An excellent discussion and review of literature on group affiliation and firm performance is provided by Gonenc et al. (2007) and Carney et al. (2011).

2. Data and Methodology

The majority of the large scale firms in Turkey are operating under a group affiliation and the business groups are mostly organized around a holding company and are the outcome of investments by a single family or a small number of allied families (Yurtoglu 1999). However, there is no readily available group affiliation information in Turkey. So first of all the model needed to determine the group affiliated firms and to assess the affiliation structures of the groups by addressing the determination of the bundles of affiliated firms within a specific group. Then a dummy code of "1" for those affiliated firms under which the group owns a media institution and "0" otherwise is assigned. For this purpose, the ownership structures derived from the balance sheet notes, which are obtained from the BIST are considered. Besides, in order not to miss the implicit ties among the firms, the internet sites of the holding companies, groups and firms are examined. In determining the ownership structures of the firms, first the amount of the shares held by private and/or judicial person are recorded with a bundling process which renders the specification of the implicit ties among the firms as well.

Considering that, the objective of the firm is to maximize its value to its shareholders where value is represented by the market price of the company's common stock (Van Horne, 1974), the stock returns are used as a proxy for firm profitability. Firm size, financial leverage, cash conversion cycle and stock index return are used as control variables. To control for firm size, natural logarithm of total assets is used. Financial debt ratio is calculated by dividing the sum of short and long term financial debt to total assets [=(Short Term Borrowing+Long Term Borrowing)/Total Assets] and is used as a proxy for financial leverage. Cash Conversion Cycle (CCC) which refers to the length of time from the payment for the purchase of raw materials to manufacture a product until the collection of account receivable associated with the sale of the product (Besley and Brigham, 2005) is calculated by adding the average collection period with inventory turnover in days and subtracting the average payment period [= (Accounts Receivable*365/Sales) + (Inventory*365/Cost of Goods Sold) + (Accounts Payable*365/Cost of Goods Sold) and used to account for working capital management efficiency. Stock index return is used to control the market fluctuations.

$$R_{i,t} = \beta_0 + \beta_1 CCC_{i,t} + \beta_2 Size_{i,t} + \beta_3 FinLev_{i,t} + \beta_4 Rm_{i,t} + \beta_5 Dmedia + \varepsilon_{i,t} \quad (1)$$

The financial table data of the companies along with the stock price data which later are used to compute the stock returns are obtained from Bloomberg. The research covers the period 2000-2010 with annual data. First of all the estimator is identified by using the Hausmann Test which selects fixed effect estimator. According to this test, fixed effect panel estimation is applied.

3. Research Results

The results obtained from fixed effect panel estimation of the above model are provided in Table 1 below:

Table 1. Panel Fixed Effect Results

	Coefficients
Cash Conversion Cycle (CCC)	0.003*** (4.773)
Firm Size (Size)	-1.348*** (-5.159)
Financial Leverage (FinLev)	-0.286 (-0.512)
Stock Index Return (Rm)	7.041*** (28.374)
Media Dummy (Dmedia)	0.012* (1.711)

Notes: t-statistics are presented in parentheses.
***,**,* denote statistical significance at 1%, 5% and 10% levels, respectively.

As the analysis results provided in Table 1 reveals, the existence of a media institution within the group improves the performances of other affiliated firms within the same group at 10% significance level.

In addition, the results also indicate that the cash conversion cycle and the stock index returns positively affect stock returns at 1% significance level while firm size is found to deteriorate the stock returns at 1% significance level. The test results do not report any significant effect for financial leverage.

4. Concluding Remarks

This paper examines the impact of owning a group affiliated media institution on the profitability of the group firms in an emerging market setting, Turkey. It is found that group performance is positively affected when a media institution is owned by the group. The media considered in this paper does not include social media which was not widely used during the period of the analyzed data. Nowadays, we witness the importance of social media which not only has a major social influence but also has the ability to alleviate the impact of printed media, television and etc. Therefore, social media should also be taken into consideration and treated separately for similar future studies.

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