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Factors Causing Structural Change in the Turkish Banking Sector and the Role of Foreign Banks Since 2002

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Abstract

Since 2003, Turkey has experienced a phase of structural change as well as a rapid economic growth. The reform of the Turkish banking sector after the banking crisis of 2000/2001, the sector's current stability, steady growing economy by macroeconomic stability since 2002 and increasing equity demand of the Turkish banks caused by rising regulative capital adequacy requirements in Turkey have played a crucial role for market entry of several foreign banks in the Turkish banking sector. The chosen type of market entry by foreign banks, so-called partial acquisition and takeover of existing banks, is aimed at banks with large network of branches and with customer acquisition. Therefore, the establishment and the acquisition of branch networks are oriented at existing structures. It is obvious that these foreign banks are mainly engaged in expanding business segments in the Turkish banking sector, operate profitably and took investment decisions in a lucrative market.

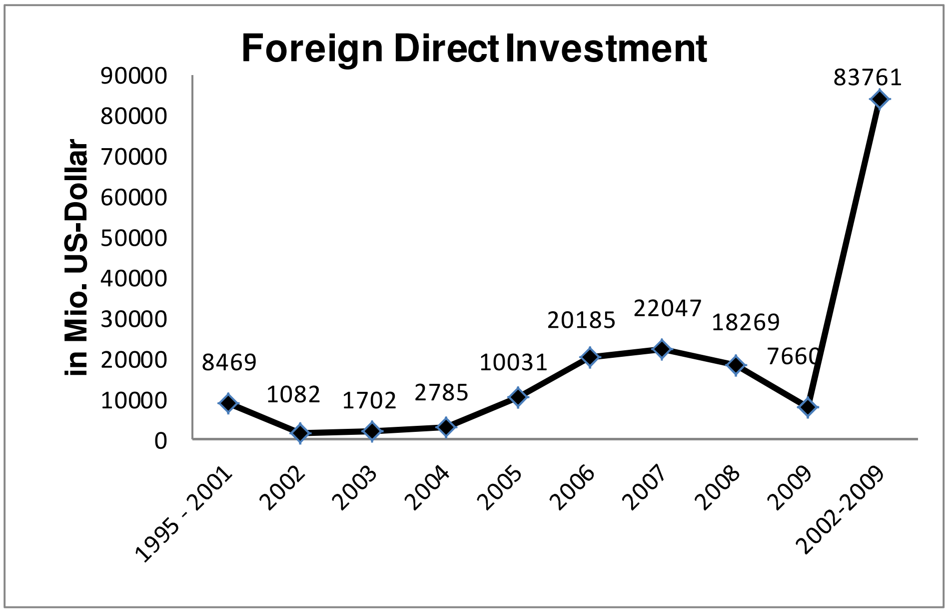
Keywords: Macroeconomic factors, banking crisis, Turkish banking sector, market entry and customer acquisition
JEL Classification Codes: E 22, E 29, G 01, G21 and G32

1. Introduction

Inevitably, a comprehensive understanding of the actual status of the overall economic situation in Turkey and how it got there, requires looking at the Turkish banking sector. For this, this paper shall contribute to the examination and analysis of factors which caused these structural changes in the Turkish banking sector in the period between 2000 and 2009. In this connection, the paper explores to what extent foreign investors have supported such a tendency.

In general, companies follow investment principle with the aim of greatest possible benefit by allocation of economically strategic profitable business fields. The significance of the Turkish banking sector within the entire financial sector can be inferred by following numbers: in 2002, the Turkish banking sector made up 58 % of all assets in the whole financial sector, 55% in 2006, and finally 59 % in 2009 (see BDDK Mart 2010, p. 14). Since Turkey has been governed by only one party, the AKP (Justice and Development Party, Adalet ve Kalkınma Partisi) since November 2002, it is notable that foreign direct investments have grown rapidly: it amounted to only 8.5 billion (bn) U.S. dollars in the period of 1995-2001 whereas it makes up to 83.8 bn U.S. dollars from 2002 until 2009. By comparing the changes with regard to foreign direct investments in both periods, it is not possible to miss the considerable increase in total (see chart 1). The picture of capital inflow in the Turkish banking sector reflects clear improvements of the economic and legal environment over the past seven years.

Chart 1: Foreign Direct Investment in Turkey



Source: Authors‘ design based on HM (2009). p. 12

Special consideration will be paid to the international orientation of the Turkish banks concerning capital adequacy procurement as well as to existing interactions with the national framework of the Turkish banking sectors. Furthermore, market strategies and market success of foreign banks should be examined through eight hypotheses based on important theories.

2. Hypotheses

On the basis of theoretical explanations for the market entry of foreign companies and theoretical approaches to derive strategic positions in the banking sector, the hypotheses are being built so that their review will help to illustrate the developments in the Turkish banking sector.

The foundations of these theories include the return Hypothesis, the Customer Follow Hypothesis, the theory of oligopolistic behaviors and the eclectic approach of Dunning. Theories used to derive strategic position in banking sector are comprised of those based on the market-based view, the resource-based view, the Dombret and Kern approach as well as the theoretical explanations based on acquisitions as a way of obtaining resources. In the following eight “hypotheses“, however, these are abstracted in general terms so that they may serve as a heuristic guide through the presented material.

Hypothesis 1: The decision for entry into a foreign banking sector depends on financial system and, above all, from the existing banking legislation and the situation in the banking system. Moreover, the investment climate – for example, political stability and legal security - plays an important role by direct investment decision.

Hypothesis 2: Market-related factors especially market size and market growth as well as improving macroeconomic picture of Turkey have made the Turkish banking sector increasingly attractive to foreign direct investors.

Hypothesis 3: Turkish banks have an increasing interest in equity participation with foreign banks caused by growing foreign trade, which has also lead to increased demand for credit business and volume and, simultaneously, rising capital adequacy request due to the BASEL II regulation.

Hypothesis 4: Investors in the Turkish banking sector come mainly from countries, which are already important trading partners with Turkey. Moreover, foreign banks came to Turkey have particular firm specific advantages characterized by larger size, more capital resources and worldwide engagement.

Hypothesis 5: Investing banks follow their competitors into Turkey in order to balance competitive advantages resulting through taking globalization efforts of competitors.

Hypothesis 6: The existing situation in the Turkish banking sector plays a crucial role concerning preferred market entry form and the business segments selected by foreign banks in the Turkish banking sector. Thus, activity areas, which are to be filled by foreigners, depend on their strengths and the conditions in the new market.

Hypothesis 7: Foreign banks are driven by their search for locations to build a national network of branches and leverage the existing structures in Turkey.

Hypothese 8: Foreign banks wish to participate in high growth potential of the Turkish banking sector. Moreover, they are successful and achieve profits.

It is possible to categorize Hypotheses 1, 2, 3, 6, 7 and 8 based on market-based view and the eclectic approach of Dunning as, according to both approaches, the predominant competitive conditions and thus, favourable investment climate and political stability, currency stability, decreasing inflation and legal security are crucial.

Furthermore, Stöß describes the eclectic approach of Dunning as efficiency-oriented theory which presents cross-border expansion of banks as a result of optimization process. Since countries impose different political, legal and economic conditions, the existence of particular constellations concerning location circumstances is of significance to the foreign bank before making the final decision for investments in a different market. Therefore, the absence of certain factor conditions increase the uncertainty and risk of such projects. Stöß argues that according to the eclectic approach foreign direct investments are made to the intention to increase shareholder value of banks (Stöß (2007), p. 73).

Local banks have to adjust to new circumstances since the onset of globalization in the 1980s in the financial sector, the increasing liberalization efforts regarding to free movement of capital and market accession as well as changing of customer needs and the dissemination of innovative financial products (Stöß (2007), p. 73f.). Furthermore, market entry of foreign banks in other markets are supported to enable local banks to compete with the global banks. Increasing direct investment in the Turkish banking sector leads to the formulation of the third hypothesis, whether the lack of resources on the Turkish side have played a crucial role in order to meet the needs of new customers and institutional requirements at equity participation with big foreign banks.

The formulation of the first part of Hypothesis 4 results from considerations of customer-follow hypothesis, which states whether foreign banks follow their customers from the home country to abroad. Local banks can meet the needs of these companies better through their already existing business connections in the home country and therefore gain company-specific competitive advantages. All these factors constitute the main starting point for going abroad. Otherwise, the bank runs the risk of losing the connection of these customers if it does not serve them in foreign markets and even that it can lead to loss of these customers.

The second part of the Hypothesis 4 follows from the resource-based view, that is, the strategic planning of a company has to be carried out with concentration of the resource side of a firm. Moreover, the resource-based view purports the competitive advantages are attained by firm-specific features, namely, its resources.

Hypothesis 5 follows from the idea of the theory of oligopolistic parallel behavior. This explains entry of competition into a new market while simultaneously securing their own position in the home country. In addition, to the previously mentioned details concerning Hypothesis 6, it is obvious, that the formulation of the first part of this Hypothesis follows from statements of acquisition as a way of gaining resources. The definition of the second sentence of this Hypothesis requires additionally the consideration of the resource-based views.

Definition of the Hypothesis 7 can also be justified by the considerations of the approach of Dombret and Kern as well as through explanations of acquisitions as a way of gaining resources. Furthermore, discussions made with regard to profit hypothesis serve in addition to the above made statements to support the definition of the Hypothesis 8.

3. Review of (Working) Hypotheses

The first Hypothesis is: "The decision for entry into a foreign banking sector depends on financial system and, above all, from the existing banking legislation and the situation in the banking system. Moreover, the investment climate – for example, political stability and legal security - plays an important role by direct investment decision."

The first statement of this Hypothesis can be confirmed by following arguments: The weaknesses in the setting conditions concerning regulatory and supervisory have been removed so that the control and regulatory tasks have been transferred to the in August 2000 established Banking Regulation and Supervisory Agency (Bankacılık Düzenleme ve Denetleme Kurumu, BDDK).

The Turkish banking sector improved by the new regulations after the financial crisis in November 2000 and February 2001 with applied methods for restructuring and reorganizing the banking sector, such as the strengthening of the equity structure and improving competitive structure. Within the scope of the restructuring program these changes have created a stable banking sector and increasing the attractiveness of the Turkish banking sector to foreign banks.

Since the implementation of the restructuring program of the Turkish banking sector in May 2001 and up to 31 March 2008, foreigners have acquired eighteen (18) Turkish banks pro rata or 100 % take over. In monetary terms, they have invested U.S$17.14bn (see Yaman (2011), Chapter 4). However, it should be stressed that fundamental improvements of framework conditions for foreign direct investments particularly through liberalization efforts of the Turkish financial system were in train before AKP came into power in November 2002. Assuming that the statement of the hypothesis includes only progresses since the governance of AKP so we can say that the hypothesis is partly correct.

Fundamental reasons for approval of restructuring program in May 2001 were effects of financial crisis in November 2000 and in February 2001 in order to improve weakened financial structure and profitability of the Turkish banking sector (see Schuss (2007)). Restructuring program (Banking Sector Restructuring program) emphasizes above all the intermediary role of banks as well as to build a banking sector, which is resistant to national and international related crisis and structures and furthermore, establishing an internationally competitive banking sector. This reform has created legal basis for privatization of state banks. Ailing banks has been transferred to deposit guarantee fund for the purpose of restructuring. In case of transferred banks to the fund, it is observed that thirteen (13) of these banks have been restructured by merging with other banks, five of these banks by selling and three by liquidation. Furthermore, the Bayındırbank operates under the auspices of the deposit guarantee fund as a temporary bank with the function of asset management. Not to be overlooked is that the share of the twenty-two banks compared to the total assets makes up 15.5 % of the Turkish banking sector and simultaneously, concerning the number of employees these banks amounted to 21 %. Furthermore, these banks have caused about US$23.2bn loss since they have been transferred to the deposit guarantee fund (see Yaman (2011), Chapter 3).

In addition, the establishment of an independent Central Bank and separation of politics from economy has created more transparency and efficiency. Due to the independence of the Central Bank as well as the separation of politics and economy, the political influence could not prevail on the management of key institutions of the economy and financial sectors, such as the determination of Central Bank governor. The Banking Law No. 4672 is being amended in 2001 and an adjustment to EU standards has been made. Above all, the new Central Bank Law No. 4651 adopted in May 2001 secured the independence of the Central Bank and thus achieved an important reform. The main objective of the Law No. 4651 is to ensure price stability in doing so the Central Bank is now able to decide solely on the instruments to be used by gained independence.

Another important point of this Law is the regulation of granting credits from Central Bank to Turkish state is almost impossible (see Schuss (2007)). All these reforms have been implemented prior AKP came into power in November 2002, thus, they were realized before AKP. During the reign of AKP, the Central Bank of Turkey has made crucial achievements in stabilizing the economy since 2001 because of its independence. This improving situation can be read off from the development of inflation from 55.3 % in 2001 to 5.3 % in 2005 and 5.4 % in 2009 (TUIK (2009), p. 554). Moreover, the Central Bank of Turkey has realized monetary reform on 1 January 2005 in which six zeros has been removed from the Turkish currency (Turkish Lira). Rödl &Partner a German auditing firm states that to the end of 2005 a system of a fixed inflation target has been introduced and a monetary policy committee established like in most western countries industrialized which determines the interest rate policy. Furthermore, the inflation target will be fixed for three years (Rödl & Partner (2007), p. 16). As a aftermath of the financial and economic crisis in 2000/2001 there was not much leeway for Turkey with regard to privatization.

The International Monetary Fund (IMF) as a major foreign lender urged Turkey to intensify the process of privatization in order to obtain the required financial aid to deal with the crisis. With the election of AKP in November 2002 as a result a change has occurred as it is the only party ruling the country. Consequently, privatization makes great advances: in the period of 1986-2002 US$7bn been obtained as compared to US$30.2bn in the period from 2003 to 2009 (see ÖIB, p. 43).

This better result of the AKP government concerning privatization is justified by Schuss as follows: Success of AKP may be due to the fact that the assertiveness of the one-party government is much bigger than the previous coalition governments. Moreover, bureaucrats and organized labor did not belong to the loyal voters of AKP. This could be a reason why AKP paid less attention to the opposition of these interest groups (Schuss (2007), p. 186).

The second part of the Hypothesis 1 can instantly be confirmed. The democratic reforms of political institutions and their rapid implementation since November 2002 have led to the accession negotiations with the EU in October 2005. Such a development has strengthened the Turkey both at home and abroad, which has supported the confidence in the Turkish economy. However, in this case, the role of the EU as a catalyst shall not be underestimated. Although, in the 1990s there was a strong social pressure for democratization, reforms have been undertaken only after the EU perspective in Helsinki in 1999. For this reason, the prospect of the Turkish EU accession serves as a catalyst for reforms in Turkey. Only in the years from 2001 until 2004 indeed, there have been realized major reforms in the field of freedom of expression, prohibition of torture, abolition of the death penalty, deregulating foundations and political parties law as well as rights of minorities, women and children (see Tocci (2005) und Öztürk (2009)). Since November 2002, AKP is ruling the country alone so that it can legislate laws easily because of its majority in the parliament. Öztürk states the reforms that were carried out between 2001 and 2005 through which the country has been changed more and more from an authoritarian and defective democracy with the military as a focal point of political decisions to a direction of a democracy with greater compatibility with the EU standards (Öztürk (2009), p. 7). For this reason, reforms began previous coming into power of AKP and the EU perspective in Helsinki in 1999 was crucial for further improvements. All these developments have strengthened Turkey at home and abroad, so that the confidence in the Turkish economy was bolstered. Such a situation is also obvious when looking at the number of foreign companies, which have settled down in the period of 2002-2009. Moreover, in the period from 1954 until 2002 there have only 5,438 companies invested in Turkey, in the period 2003-2009 this number has grown rapidly where 18,977 foreign companies have preferred Turkey as a location for their investment purpose (see HM (2008), Tablo-ek-5 und HM (2011), Tablo-ek-6). Rödl & Partner also argues that the EU perspective improves the attractiveness of Turkey for foreign investors which, at the same time, leads to a faster adjustment of legislation with EU standards (Rödl & Partner (2007), p. 22). The EU perspective may provide legal security for foreign companies which could be enhanced.

Hypothesis 2: ”Market-related factors especially market size and market growth as well as improving macroeconomic picture of Turkey have made the Turkish banking sector increasingly attractive to foreign direct investors”

The following results support this Hypothesis: The inflation dropped strongly from 55.3 % in 2001 to 5.4 % in 2009. Moreover, the economy grew on average 4.7 % in the period 2002-2009 with an average value of 7.0 % during 2002-2007. Thus, Turkish economy was very vibrant in the period 2002-2007, however, from the year 2008, a downward trend was observed (see TUIK (2008a) and TUIK (2009), p. 554 and p. 647). Such a situation could have been caused by the global financial crisis and its impact on Turkey.

Furthermore, per capita income increased sharply in the investigation period 2000-2009 and it can be assumed that this was more pronounced in the metropolis cities like Istanbul as in the other less developed cities in the east and south east of Turkey. The economic structure is another macroeconomic variable that could be considered. Of this, the service sector dominated the Turkish economy and the industry sector accounts for 25 % of all economic performance. Agriculture made up only 10 % of GNP but this level is still too high compared with EU (DPT (1954-2006)) and the gross domestic product is growing rapidly (see TUIK (2009), p. 617). The recent data support the second Hypothesis. The problem with the improving situation is that economic boom is accompanied by a sharp increase of import demand. As a result, current account is sliding into red which means that the Turkish economy is making a loss (see TUIK (2009), p. 618). Such a state is caused by import figures dominating export figures. This situation threatens the stability of the Turkish economy and it also increases its vulnerability to external shocks. Consequently, significant rising of current account deficit endangers the international solvency of Turkey.

In addition, the increasing foreign debt is also a risk and can be clearly seen from the figures such as US$113.6bn in 2002 and US$268.2bn in 2009. The Turkish state is not able to cover its debts despite strong rise in privatization revenue since 2003 (see ÖIB, p. 43) and increasing income from tourism sector, which takes US$10bn in 2002 and US$17.1bn in 2009 (see TUIK (2009), p. 398). In addition, sales-market-related factors have raised the attractiveness of the Turkish banking sector because the Statistical Office of Turkish Republic provides that the average age of population in Turkey is 28.3 years as of 31 December 2007 (TUIK (2008b)) as compared to 39 years in the EU in 2004 (see EP (2007)). So, favorable age structure of the population in Turkey promises long-term impulses for growth.

Moreover, change is taking place from an agricultural state to an economy with rapid growing industry and therefore, there is increasing urbanization to be registered. The percentage of urban population between 1970 and 2006 has more than doubled, from 28.7% to 62.7% of all population (see DPT). In the urban centers, the population increases sharply. Particularly, for the people in the countryside, the bad working and living conditions is a major reason for rural exodus. Both the wealthy West as well as backward east and southeast have forced this situation. In particular, the income disparities between regions have caused people to take steps in order to realize their dream of a better life. The frightening rapid rural exodus and urbanization have resulted that the Turkish state could not meet sharply growing infrastructure needs such as shortage of homes and flats. In doing so, the Banking sector could take over its crucial role as a financial intermediary so that it can serve with financial aid in granting loans for acquiring real estate property because of strong growth in urban population without own-home stay. It may be possible that all these circumstances have made the Turkish banking sector more attractive.

The Hypothesis 3 says: “Turkish banks have an increasing interest in equity participation with foreign banks caused by growing foreign trade, which has also lead to increased demand for credit business and volume and, simultaneously, rising capital adequacy request due to the BASEL II regulation.”

The empirical data analysis lead to the conclusion that, due to rising foreign trade, there is more need for credit volume as well as resulting stricter requirements of Basel II with regard to equity capital. It follows that the interest of Turkish banks has increased capital participation with greater foreign banks (see TUIK (2009)). The foreign trade volume has raised strongly: it amounts to US$87.6bn in 2002 and already US$277.3bn in 2007. However, it has declined to US$243bn in 2009 (see TUIK (2009), p. 618) after creating more than a threefold increase in trading volume from 2002 until 2007. In 2009, this figure's decline is most likely due to consequences of international financial crisis. Companies engaged in export and import activities have thus increased demand for higher capital and, therefore, demand for loans rose in order for them to continue and to expand their business. The statement of the second point of the Hypothesis 4 is only partially true. Because other factors have also played a critical role in increased equity capital requirements of the Turkish banking sector. In these cases, Bumin emphasizes that legal measures since 2003 like Laws No. 5020 and 5411 have effected sale of bank shares by strict conditions for the Turkish owners (see Bumin, 2007, p. 65).

Hypothesis 4 implies that investors in the Turkish banking sector come mainly from countries where they are already important trading partner of Turkey. Moreover, foreign banks came to Turkey have particular and firm specific advantages, which can be characterized by bigger size, more capital resources and worldwide engagement.

The following data support this Hypothesis: A strong growth was recorded concerning foreign trade volume of Turkey. Moreover, it is notable that the number of foreign companies has increased dramatically in the period 2000-2009. This phenomenon was accelerated with the Law No. 4875 by improving the investment conditions. Foreign companies have invested intensively in Turkey after the new treaty No. 4875 on 5 June 2003 in which all barriers to investments in strategic sectors have been removed, for example, allowing foreigners takeover of Turkish companies as in the telecommunication industry.

Furthermore, this statutory change has created financial and tax incentives to foreigners (see HM (2003)). It can be seen that many companies are from countries of the investing banks in Turkey. For example, the number of companies from Netherlands, USA, Greece, Belgium, Saudi Arabia, France and Luxemburg are considered. In case of Netherlands, we recognize that 961 companies selected Turkey from 2002 until 2007 as their preferred investment target market.

Additionally, when the division of the foreign companies is considered by region of origin, it is to be noted that, in the period from 2003 to March 2008, between 46% and 65% of all companies investing in Turkey are from EU-27 countries, 14% to 25 % from Middle East and, finally, 5% – 10% from the U.S. (see Yaman (2011), Chapter 3). These figures concerning home countries of foreign banks reveal that the rise of the proportion of foreign banks in the Turkish banking sector takes place in parallel with the growth of direct investments by foreign companies of the respective countries (see chart 1). As a result, it is obvious that in theory of customer follow-up Hypothesis the described consequences occur. Thus, the growing foreign trade volume has caused intensified economic relations with countries of origin of the foreign banks. So, we recognize a positive correlation between the rising foreign investments in Turkey and a greater foreign trade volume with the respective countries has been effected (see Yaman (2011), Tabelle 11 and 13 in Chapter 3).

Therefore, from the evidence and reasons presented above, it may be suggested that the first sub-statement of the Hypothesis is correct.

Now, we turn to the second statement of the Hypothesis 4: Most of the foreign banks such as BNP Paribas, BNP Paribas, Fortis, General Electric Finance, UniCredito Italiona Group, Dexia Participation Belgique S.A., Merrill Lynch European Asset Holdings Inc., Citibank Overseas Investment Corporation (COIC) and ING Bank are global banks and they are also among the world's largest companies. These are, in terms of product diversity, profitability and risk management, the leading banks in the world. Looking at BNP Paribas, it can be seen that this bank has €905.9bn total assets and €30.2bn shareholders' equity (see BNP). At the same time, Fortis manages €570.6bn total assets and €14.4bn net equity (see Fortis).

The data show how large these foreign banks are when compared the total assets of €172.15bn (US$234.89bn) of the Turkish banking sector. With BNP Paribas, it becomes clear that BNP deals with about five times more asset volumes than the whole Turkish banking sector in 2004. The financial strength of these eight global banks can be seen as special company-specific advantage because of having sufficient and large sum of equity in relation to the investments made in Turkey (see Yaman (2011), Chapter 4.1). It follows already that eight of sixteen in Turkey investing banks are globally active and, they have in comparison with Turkish banks much larger volumes of assets. However, the other eight banks are not known worldwide (see Yaman (2011), Tabelle 1 in Chapter 4). It is expected that they were looking for lucrative markets and saw Turkish market favorable for their investment projects and, therefore, selected the Turkish banking sector.

In terms of size, capital resource and its image, these banks are not well known. For example, Bank Turan Alem Group from Kazakhstan manages total assets of only €6.3bn and total shareholders' equity of only €549.7million (see Bank Turan Alem Group) and the Jordanian Arab Bank plc possesses total assets of €23.2bn and shareholders' equity of €3.3bn (see Arab Bank plc). Thus, the second statement of the Hypothesis 4 does not apply concerning these eight banks. These eight banks, however, originate from the (extended) neighborhood of Turkey, it can be assumed that also their customers may have business relations with the Turkish companies so that, in their case, the first statement of the Hypothesis 4 applies.

Hypothesis 5 indicates: "Investing banks follow their competitors into Turkey in order to balance competitive advantages resulting through taking globalization efforts of competitors."

The date on eight of investing foreign banks indicated that they are global players and undertake worldwide investments. It is possible that competition among the "big banks" have caused some of these to take steps expand into Turkey in order to equalize the benefits resulting from internationalization of competitors. However, this assumption may not apply to all banks as the other eight foreign banks are only known locally and cannot be classified in the category of global players. It follows that this hypothesis is not applicable with regard to the Turkish market.

The statement of the Hypothesis 6 "The existing situation in the Turkish banking sector plays a crucial role concerning preferred market entry form and the business segments selected by foreign banks in the Turkish banking sector. Thus, activity areas, which are to be filled by foreigners, depend on their strengths and the conditions in the new market" will be subsequently compared with the reality.

The dominant and preferred form of market entry of foreign banks from 2003 is characterized by partial or complete acquisition (take over) of targeted companies in the Turkish banking sector (see Yaman (2011), Tabelle 5 in chapter 4), where already strong and market-leading banks have been acquired such as Akbank and Türkiye Garanti Bankası.

The Turkish banking sector has an oligopolistic nature and thus, it is dominated by a few banks (see BDDK (2009), p. 16). It is expected that this situation or the market structure of the banking sector has played a crucial role when choosing the market entry form of either partial acquisition or complete acquisition.

It is also clear in theories of the approach of Dombret and Kern as well as the theories in the approach of acquisition as a way of gaining resources that the described consequences do occur. So too do they occur when the investors aim to take over the existing customer base of particular Turkish banks. For the same reason, Turkish banks with big branch network were the focus of interest of foreign investors. Therefore, acquisition serves as a measure of gaining customers with the implication of faster access to a new customer base.

In addition, the statements of the two authors Aysan and Ceyhan will be used. According to the two authors, foreign banks aim to increase their customer base by deciding on the acquisition of banks with many branches. For this, they give two examples: Fortis could gain more than 1,000,000 new private customers, about 120,000 new small businesses and 10,000 new medium-sized companies by acquiring 89.34 % of Dışbank shares. The same can be said by acquiring Denizbank through Dexia whereby almost 1,400,000 new private customers could be achieved. In addition, HSBC wanted to unite its broad portfolio of corporate clients with customers of medium-sized enterprises. Additionally, the acquisition allows direct investors to attain quickly the fundamental knowledge of the market in the host country and most importantly, quick acceptance by the customers. These factors, taken together, increase the willingness of foreign banks to make acquisitions (Aysan/Ceyhan (2006)). That is why foreign banks like Fortis from the Netherlands/Belgium, Dexia Participation Belgique from Belgium/France, Merrill Lynch European Asset Holdings Inc. from the USA and ING Bank from the Netherlands, which have all acquired Turkish banks by holding majority equity.

Supporting significant arguments for second part of the Hypothesis 6 include the increase of credit business. This includes fields of activities such as mortgage loans and borrowing via credit cards (see Yaman (2011), Chapter 5). It is obvious that these banks tend to especially dominate the credit business in lending via credit cards. A closer look reveals that (partial-) owner of the three leading banks are global players such as UniCredito Italiona Group, General Electric Finance and Citibank Overseas Investment Corporation (COIC), where they already manage 57.5% of this business segment (see BDDK (2008), p. 45). Certainly, these foreign banks have financial strength, know-how and other skills that are necessary and beneficial for this business segment because all three banks are world-wide known and global banks. When comparing the real situation in Turkey with statements made in Hypothesis 6, it follows that this hypothesis related to direct investments in the Turkish banking sector is applicable.

Hypothesis 7 says "Foreign banks are driven by their search for locations to build a national network of branches and leverage the existing structures in Turkey."

Foreign banks have oriented in their search for locations to establish a national network of branches in Turkey on the existing structures. Thus, they primarily choose cities like Istanbul, Ankara and Izmir, which can mainly be explained by development disparities among the regions. For this purpose and with the help of tax revenues, the economic development will be taken into consideration: in 2009, 42.04% of all tax revenues are received at the first place in Istanbul, 13.43% in Ankara, 11.1% in Kocaeli and with 9.33% in Izmir (see GIB (2009)). Thus, 76 % of all tax revenues were derived from these four cities. Three of these cities are metropolises in Turkey. It can be concluded that per capita income in metropolises, in which foreign banks have mostly done investments, is much higher than the per capita income for all Turkey of US$8,512 in 2009. For 31 December 2009 were 72,561,312 people were living in Turkey and the Gross Domestic Product in 2009 amounted to US$617,611million (TUIK (2009), p. 618 und TUIK (2010)). However, the per capita income of the metropolises are not explicitly given because no governmental institution in Turkey calculates GDP or GNP separately for each city. That is why an estimate will be determined, since it is assumed that 23% of GDP (see ISO) is earned in Istanbul. According to the Statistics Office in Turkey 12,915,158 people (see TUIK (2010)) have lived in Istanbul as of 31 December 2009 that per inhabitant about US$11,000 as per capita income results (see TUIK (2009), p. 618). So, per capita income is about US$2,488 higher than the amount calculated before, in which the economic structure of regions were not taken into account in the calculation, and importantly, without consideration of disparities concerning development between regions.

Differences in development between regions in Turkey can also be demonstrated by the regional distribution of credit business: Istanbul is a leader in borrowing, followed by Western Anatolia and the Aegean (see BDDK (2006), p. 66). Furthermore, the proximity to the foreign companies can be seen as another motive when choosing a location for their banks since foreign companies mainly preferred places such as Istanbul with 55%, Antalya with 13%, Ankara with 7% Izmir and Muğla each with 6% in the period 1954-2009 (see HM (2009), p. 35). Thus, the statements of Hypothesis 7 and first part of the Hypothesis 6 overlap whereby the applicable arguments to support the first part of the Hypothesis 6 can also be applied to Hypothesis 7.

Finally, Hypothesis 8 will be discussed and compared with the actual situation. Hypothesis 8 states that foreign banks wish to participate in high growth potential of the Turkish banking sector. Moreover, they are successful and achieve profits.

From the above outlined developments such as internal migration in a westerly direction, increased investments of foreign banks and improving macroeconomic factor conditions all together have enabled and opened new business and profit opportunities. Certainly, banks, as well as other commercial companies, aim to increase their Shareholder Value and hence the banks are interested in participating at high growth potential of the Turkish banking sector. Profit maximization as the main object of a company builds the foundation of profit hypothesis according to the traditional investment theory. Thus, companies with the specific aim of profit maximization are looking for strategic, profit-making business units in order to deal with them.

Next, to be verified is the second part of the hypothesis. It is also to be noted that the Turkish market concerning profitability of assets is markedly characterized by better performance than the other countries such as France, Italy and the Netherlands. In contrast, ROE values are, in comparison to those of the selected countries, not as well positioned as the ROA (see Yaman (2011), Chapter 5). In particular in 2005, ROE values of the Turkish banking sector belong to the worst since a big Turkish bank "Yapı ve Kredi Bankası" reported a loss of US$2.23bn (see TBB).[1] However, from 2006, the Turkish banking sector registered better ROE values, only Luxembourg had better ROE values than Turkey. It follows that foreign banks in Turkey achieve better ROA and ROE values than almost all for comparison chosen countries (see Yaman (2011), Table 16 and 17 in Chapter 5), which are home countries or potential investments locations. These figures show that foreign banks profitably served and made direct investments in a rewarding country.

4. Summary and Concluding Remarks

Based on important theoretical explanations for market entry such as return hypothesis, customer-follow hypothesis, the theory of oligopolistic parallel behavior, the eclectic approach of Dunning and from the theories used to derive the strategic position in the Banking sector namely market-based view, resource-based view as well as the approach of Dombret and Kern, the hypothesis were analyzed. This means, that market entry is affected by the financial system of the targeted country, its market size and growth, especially of the Banking sector, as well as through the customer-following and the success of competitors. Moreover, due to Basel II with regard to equity requirements, the result is an increased interest of the Turkish banks at foreign equity participation.

Crucial factors for market entry of foreign banks in the Turkish banking sector are a better regulatory framework of the banking sector, a better political basic conditions, high economic growth in Turkey with macroeconomic stability since 2002, increasing capital requirements of Turkish banks due to regulatory capital requirements, customer-follow, partially success of competitors as well as high growth potentials of the Turkish banking sectors.

It is also clear that the situation in the Turkish banking sector has also played an important role in the preferred market entry form and the selected business fields of the foreign banks in the Turkish banking sector and influences the type of the market entry - constituting of either partial or complete acquisition of existing banks, targeting banks with large branch network and winning new clients. Thus establishing and acquisition of branch networks is oriented at existing structures.

In this paper a current banking sector important topic has been dealt with which is important for the economy of Turkey. A picture of the situation of the Turkish banking sector, the role of the foreign banks as well as the strategies of foreign banks with the help of an examination of presented Hypotheses was done. Review of Hypotheses have shown that the Turkish banking sector operates profitably and that is the reason why foreign banks made investments in a lucrative market.

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