

**T.C.
ISTANBUL AYDIN UNIVERSITY
INSTITUTE OF SOCIAL SCIENCES**



**FINANCIAL ASSESSMENT OF COMPANY MERGERS THE
EXAMPLE OF TURKEY**

**Master Thesis
Farahnaz Musa**

**Department of Business
Business Administration Program**

**Thesis Advisor:
Assistant Prof. Dr. Zelha ALTINKAYA**

February, 2016

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FOREWORD

The aim of this study is to measure the effect of company mergers. The purpose of companies is to make a profit that enables them to protect their assets, to minimize the potential hazards to their assets in other words the risk, to maximize the growth rate, to maintain their independence and to meet the financial needs required by growth at least partly. This purpose can be described as maximizing the company's market value in the most general sense.

Modern industries have been more likely to grow and develop especially since the end of last century. The size of companies can be measured by various indicators such as growth rates, the amount of equity, the sales volume, the production value, the number of employees, the amount of assets (investments) and profit. Surely, every scale has a particular importance and meaning based on its intended purpose. The company's business volume and hence its investment amount comprising constant and working values can be argued to be more useful scales to measure the size and growth rate of company.

The significance of company mergers cannot be ignored in such a competitive environment. However, it is a fact that company mergers have not only advantages but also disadvantages as in each field. In this respect, the underlying point of our study is evident. How do company mergers make progress in a competitive environment and what contributes to this progress?

Starting my research with the status of company mergers in the overall economy will help us to see where company mergers stand in the overall economy. Therefore, it will be more appropriate to start with the historical picture of company mergers. After that, we will focus on the merger of Turkish companies following the development of international companies.

I owe Assistant Prof. Dr. Zelha Altinkaya, my dear teacher who helped me to understand that my research was not for notes but to learn, a debt of gratitude for her help, support, patience and knowledge.

December,2015

FARAHNAZ MUSA

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ABBREVIATIONS

BNP	: Banque Nationale de Paris
BRSA	: Banking Regulation and Supervision Agency
CIB	: Corporate and Investment Banking
CTX	: Corporate Tax Law
DCF	: Discounted Cash Flow
EBITDA	: Earnings Before Interest, Taxes, Depreciation, And Amortization
ENI	: Ente Nazionale Idrocarburi
EU	: European Union
INC	: Incorporated
KKR	: Turkey to Kravis Roberts's
KPMG	: Klynveld Peat Marwick Goerdeler
OECD	: Organisation for Economic Co-operation and Development
OMV	: Österreichische Mineralölverwaltung
POAS	: Petrol Ofisi Anonim Sirketi
POS	: Point Of Sales
SDIF	: Saving Deposit and Insurance Fund
S.A.	: Sociedad Anonima
TCDD	: Türkiye Cumhuriyeti Devlet Demiryolları
TME	: Trader Media East
TUPRAS	: Türkiye Petrol Rafinerileri Anonim Sirketi
TPG	: Texas Pacific Group
USA	: The United States of America
UNCTAD	: United Nations Conference On Trade And Development
YKB	: Yapı Kredi Bankası

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ŞİRKET BİRLEŞMELERİNİN FİNANSAL DEĞERLENDİRMESİ TÜRKİYE ÖRNEĞİ

ÖZET

Değişen dünyamızda etki alanı en büyük gelişmelerden biri olan globalleşme, şirketleri değişen pazar ve rekabet şartlarına uyum gösterebilmek için yeni çözümler geliştirmek mecburiyetinde kalmışlardır. Birleşme, işletmelerin çözüm arayışları neticesi gündeme gelmiş ve özellikle son senelerde yaygınlık kazanmaya başlamış gelişmelerden biri olmaktadır.

Birleşmeler ve satın almalar finansta yeni bir kavram değildir. Geçen yüzyıl boyunca çok sıklıkla görülmüşlerdir. Firmalar, değer yaratmak amacıyla birleşme ve satın alma yapmaktadırlar. Değer yaratmak birleşmelerin ve satın almaların en önemli yapılma nedenidir. Bu çalışmada Türkiye’de birleşme ve satın almalar Grundig-Arçelik, Yapı Kredi-Koçbank, Denizbank- Sberbank ve Migros-Tansaş kapsamında incelenmiştir. Araştırma sonuçlarına göre şirket birleşmelerinin çoğu finansal sektörde, gıda ve içecek sektöründe görülmüştür. Türkiye’de şirket birleşmelerinin çoğunluğu yabancı şirketlerle yapılmıştır. Ülkenin ana sanayi dallarını oluşturan ve bunlara bağlı kuruluşların yabancı yatırımcılar için cazip olduğu tespit edilmiştir.

Anahtar Kelimeler: *şirket birleşmeleri, şirket satın almaları, Türkiye’de birleşme ve satınalmalar, Türkiye’de banka birleşmeleri*

FINANCIAL ASSESSMENT OF COMPANY MERGERS THE EXAMPLE OF TURKEY

ABSTRACT

In changing environment of today's world, globalization has been one of the biggest developments. Therefore, companies have had to create new solutions in order to adapt to changing market and competitive conditions. Merging has become a recent issue as a result of companies' search for a solution. Merging has been one of the most common developments especially in recent years.

Mergers and acquisitions are not new concepts in the field of finance. They have been seen very often over the last century. Companies resort to engage in activities of merger and acquisitions in order to create value. Creating value is the most important reason for mergers and acquisitions. In this study, mergers and acquisitions in Turkey were examined with Grundig-Arcelik, Yapı Kredi-Kocbank, Denizbank-Sberbank and Migros-Tansas. According to a study, most of these mergers were seen especially in financial services and food and beverage sectors. It is seen that a great deal of mergers and acquisitions in Turkey have been performed by foreign buyers. Holdings having a corner on the country's main industries and their affiliated companies are seen to be more attractive to foreign investors.

Keywords: *company mergers, purchase of company, mergers and acquisitions in Turkey, bank mergers in Turkey*

1. INTRODUCTION

Changing with 1980 liberalization policies, enforcing policies followed by the membership of Customs Union, Turkish economy became very attractive economy for foreign direct investors. The number of foreign direct investment in Turkey increased considerably due to the change of profile of the business where offered opportunities in the areas of merger and acquisition, franchising and real estate for foreign companies and private investors. After 2002, weak FDI inflows, showed an incremental increase and reached a record level of 22 billion USD in 2007. However, due to global crisis and slowing down of Turkish economy, foreign direct investment decreased to 12 billion USD in 2014. However, it is still very popular subject. Especially, mergers in financial service companies are one of the most popular sectors for foreign direct investments.

Companies competitive both in national and international market are the ones that achieved a certain size. Merging with other companies is a way of achieving competitive optimal firm size. Indeed, the number of mergers has been increasing rapidly not only within national but also in international dimensions. Mergers performed frequently after the economic policies implemented in 1980 boosted the importance of the issue. In Turkey, mergers can be used as an essential tool to increase the effectiveness and rationality of companies. In addition, companies in difficulty might see merging as a useful method to get rid of this situation. Analyzing Finance performance of the mergers is the main objective of this study.

Today's world economy hinders activities of non-competitive companies with inadequate distribution channels, old and inadequate technology and lacking of a sense of modern management from being effective and profitable. Companies have to concentrate on some activities such as technological investment, cost reduction measures, many research and development activities in order to survive under these new competitive conditions posed by the phenomenon of globalization. Companies must be big enough so that they can continue to operate in the new competitive conditions. This situation makes companies to collaborate with other companies, establish strategic partnerships and tend to resort mergers in more advanced stage.

In this thesis, the effects of mergers will be assessed with the specific example of banking industry in Turkey. So, the question will be as follows:

Do companies merging have a more advantageous structure following the merger compared to its financial status before the merger?

This question in this thesis examines the effects of participating in merger and acquisition. After, literature review on the outcomes of the mergers and acquisitions in different sectors and all over the world will be analysed specific case of banking industry. To be able to assess the financial performance, the financial ratio analysis will be used. The quantitative research methodology will cover analysis of the financial statements of the company and comparing the results of with previous and latest values of the target company and purchasing company. In addition will be analysed revenue, gross profit margin, return on equity, return on asset.

Two cases were chosen in this study and analyzed for a more clear understanding; the M&A activity between YapıKredi Kocbank and the M&A activity between Russian based Syber Bank and Turkish based Denizbank. The findings entails that both companies are on a sound performance before the merger and acquisition activity

The study consists of three parts to achieve this purpose.

In the first part of the study, definition, causes of mergers and mergers in Turkey also in the world were investigated in detail.

In the second part of the study, the financial evaluation and the process of merging were mentioned. In addition included the reasons for failure of mergers.

In the last part of the study, the mergers and acquisitions in Turkey were investigated in Grundig-Arcelik, YapıKredi-Kocbank, Denizbank-Sberbank and Migros-Tansas.

2. MERGERS AND ACQUISITION

The terms 'mergers', and 'acquisitions' are often used interchangeably. However, there are differences. While merger means unification of two entities into one, acquisition involves one entity buying out another and absorbing the same. There are several advantages in M&A — cost cutting, efficient use of resources, acquisition of competence or capability, tax advantage and avoidance of competition are a few(Kusum, 2014:62).

Merging generally results from a mutual agreement. Merging takes place under relatively equal conditions. Equal condition refers to neither fifty-fifty partnership nor going halves in the shares. A big and rich company can form a new company with a small business having high abilities by getting 90-10% of shares under relatively equal conditions. Equality is not the equality in share, but it is the relative equality in "right" "agreed on and accepted by the parties.

In theory, the parties are expected to compromise on technical and legal requirements of merging activities after discussing about them. The parties are believed to come together after discussing a range of issues. The negotiation process is not experienced in a friendly environment in some cases. However, the merging processes beginning in a hostile environment sometimes ended in a friendly manner as a result of intense negotiations. On the other hand, it cannot be said that every merger process finishes friendly. The parties' desire to be more powerful and dominant on the agreement is shown as the reason of hostile environment (Geppert and Kamerschen, 2008:331).

Companies' decision to merge is firstly discussed in the management authorities. After the management authorities make a decision to merge, shareholders are requested to vote. The first agreement is made by managers (Surroca, Tribò and Waddock, 2010:464).

Mergers have 3 forms:

- Horizontal
- Vertical
- Mix

Horizontal integration is a strategy where a company creates or acquires production units producing either complementary or competitive to their output. If a company acquires company rival to itself in the same industry cause a monopoly (Sahin and Yilmaz, 2010:78). Another example is the management of a group of products which are alike, yet at different price points, complexities, and qualities. This strategy may reduce competition and increase market share by using economies of scale. Horizontal integration is orthogonal to vertical integration, where companies integrate multiple stages of production of a small number of production units.

Vertical mergers resulting from expansion of the company forward to the last consumer or back to the source of raw material enable the company to have more control over acquisitions and distribution. Disadvantageous aspect of vertical mergers is expansion into markets having the same stages of development and the same periodic fluctuations.

Mixed mergers emerge when two companies that work for unrelated businesses with each other merge. These mergers provide some benefits, too. In mixed mergers, even though benefiting from economies of scale is rare, savings in some areas like production overheads, accounting and office services can be achieved (Cartwright and Schoenberg, 2006).

Growing is an important factor that companies must achieve to prove their success and carry on. Several reasons for why the companies that have to grow prefer to merge have been mentioned in the literature. The number and importance of these reasons can vary depending on countries' socio-economic conditions, the characteristics of the company, the environmental characteristics and the time period (Berger, et al, 2004: 335).

Merging is a tool for companies to grow. Therefore, the motivations of companies to grow are similar to the reasons for merging. Growth enables the company to develop before its competitors and helps to fight against the difficulties encountered and survive challenges. The main factor prompting the companies to grow is economy. In addition, psychological factors related to business owners and managers such as dynamism and creativity also play an important role in growth (Burksaitiene, 2010: 33).

Financial synergy can be defined as the increase in the value of the company as a result of the improvement in the financial structure of company or companies established after the merger and acquisition. This synergy can be summarized under three interdependent variables which are reduction of financial risk, increase

in the profitability of equity by benefitting from financial leverage and decline in the company's capital costs due to the improvement of financial structure. The decline in the capital costs can be attributed to the capability of the company established after the merger and acquisition of getting cheaper credit due to improvement in its financial position, management effectiveness and profitability and partners' acceptance of less productivity due to the increasing trust.

It is believed that the reduction of financial risk within the scope of the improvement of the company's financial structure would handle the problem of cash need in some periods by making regular cash flows of two companies if the periodic cash flows of the companies are exposed to seasonal fluctuations and these fluctuations change based on the different seasons. In addition, the improvement in the economic and financial structure of the company established after acquisition and merger can reduce the financial risk. When a company with more financial power acquired another company with a lower value of financial aspects, the resulting increase in the value can be observed thanks to resolving the financial stress of the financially weak company. Mergers and acquisitions can act as financial leverage (Yeldan, 2008: 1).

3.THEORIES AND MAJOR CAUSES OF COMPANY MERGERS

3.1.Oligopolistic Reaction to Foreign Direct Investment Theory

Oligopolistic reaction theory describes the choice of a firm to contribute investment abroad that raises firms' motivations to put resources into the same nation (Knickerbocker, 1973). The analyses of industrial organizations shows that firms' actions are strategic complements when an increase in the action of one firm raises the marginal profitability of an increase in the action for another firm.

The Oligopolistic Reaction theory is based on market imperfections. The key important factors firms consider in choosing locations for setting up new plants are:

- Expansion by accession to the host nation's business sector
- Using copious variables accessible in that nation
- Put resources into a nation to match a competitors' action (Head et al, 2002)

Organizations imitates the others conduct in general. After, internationalization of contenders they follow by policies to have their vital favorable position. Specifically, in oligopolistic market structure, firms in an industry have a tendency to take after location decision.

After extensively gathering data of over 200 companies and analyzing them, Knickerbocker (1973) put forward oligopolistic response is exemplified by a its portion of the world's commercial ventures. Inside of the oligopoly commercial enterprises, firms are couple of enough in number to perceive the effect of their activities on their opponents and the other way around (Gwynne, 1956). Knickerbocker's concluded that oligopolistic response remains constant just when instability exists about expenses in the host nation. Head and the others also contributed to the analyses Knickerbocker stating that oligopolistic firm will set up a unit in an outside nation once one or a greater amount of its opponents invest there (Head et al, 2002).

3.1.2. The Ownership, Location and Internalization Model

In discussing the “Ownership, Location and Internalization“ (OLI) model, the theory of eclectic paradigm of Dunning was anchor on three mix of different theories to explain foreign direct investment (Dunning,2002:vol1).This theory put into considerations the advantages generated by ownership, location and the international environment. The theory focuses on explaining the purpose and the motivational power of FDI and how resource allocation and the organizational structures of the firm are interconnected. Also, it analyzes the market advantages by taking care of firms’ needs on both national and international perspective.

3.1.2.1 The “O” advantages:

The “O“ represent the Ownership advantage that explain the intangible assets of firm possess transferred by either by low cost or higher income. Corporations must possess certain characteristics to be able to enter to foreign market successfully. Monopoly power would arise due to ownership of natural limited resources, patents, trademarks; technology or knowledge. Knowledge covers all forms of innovation.

3.1.2.2 The “L” Advantage from Location:

The bases of location theory focus on location advantage like to the distance to raw materials sources, transport network, labor and market enhances FDI flow. The basic advantages accruing from location in a particular market are divided into three categories as stated:

1. Quantitative and qualitative advantage on cost of factors of production, transportation or telecommunications, market size.
2. Political advantages offered by government policies affecting FDI flows
3. Social advantages: covers distance between the home and home countries, cultural diversity, attitude towards strangers etc.

As the economic environment capacity for both local and international community open up to the globe, large corporations are the coordinating economic relations much more better than national economies.

3.1.2.3 “I” from Internalization:

Internalization provides advantage to firm to be more profitable by carrying out transactions within the firm rather than external markets. The higher cross-border

market Internalization benefits is the more the firm will aspire to engage in foreign production.

OLI parameters may be different from company to company and reflect the economic, political, social characteristics of the host country. The objectives and strategies of the firms will depend on the challenges and opportunities offered by different types of countries (Penrose,1995:3).The acquisition can be much more irresistible if the organization being purchased likewise is an extreme contender holding a huge piece of the overall industry in an oligopoly market sort (Penrose,1995:1-3) A traditional organic growth argument depends on excessive management capacity, whereas a merger already includes the management capacity necessary to handle the acquired resources (Penrose,1995:1-3).The remaining companies that can be bought gets smaller. Acquiring many small firms instead of one large firm requires more management capacity, and hence acquisitions will ultimately no longer be an effective growth method (Penrose,1995:1-3).

Since merging is a tool for growing, the motives of the companies to grow are also valid for merging. Many reasons for why the companies that have to grow choose to merge have been mentioned in the literature. The number and importance of these reasons vary based on socio-economic conditions of the country and company's characteristics (Schoop, 2013:8).

In fact, motivators of companies to merge can be summarized in one aim. This is company's belief that it can increase the present value if it merges with another company. The same motivation is also valid for the other company that is merged with.

A successful merger can meet this expectation only if the formula

$V(A+B) > V(A) + V(B)$ is achieved.

In this formula,

$V(A)$ refers to merged company A's market value and

$V(B)$ stands for merged company B's market value. This is a synergy effect and it is expressed as "*the whole is more than the sum of individual parts*" (Sahin and Yilmaz, 2008:68). In other words, the economic power gained with merging is greater than the sum of economic entities of each merged company. A larger value than production, investment and marketing power of each company arises.

Although a wide variety of causes of merging exists, some significant ones are explained below.

Easier accession to technology and products, an extended customer portfolio, an extended customer base, an strengthened market share and a stronger financial position are offered as an advantage by the mergers. Merging can be considered as an effective, pragmatic solution to the companies for accessing to technologies and new markets. The result was a broader spectrum of IC design tools delivered to the market quickly. There were also substantial cost savings to both companies due to the elimination of duplicate development efforts. Another benefit of mergers is access to an expanded installed base of customers. This not only provides an opportunity for sales of existing products to a larger group of customers, but also provides a greater base for future product sales. In addition, consolidated companies can own a greater share of market, which gives them a substantial competitive advantage. SCS' acquisition of Caeco (Santa Clara, CA) illustrates this gain. Mergers and acquisitions also benefit companies wanting to reposition themselves in the market. By adding capabilities to their product offerings, companies can rapidly expand their market coverage and modify their market position. The stakes are high Successfully merging, consolidating or acquiring organizations takes thoughtful, time-consuming consideration, but the results are well worth the effort because the consequences of a failed merger, like those of a failed marriage, can be brutal. Valuable employees will leave, there will be confusion in the market about what the new company is doing, customers will be dissatisfied and, ultimately, the bottom line will be affected. The company is synchronized and employees are motivated. The organization has gone beyond merger issues and is looking forward to common goals. This isn't the time to become complacent, however, because there's still work to be done to ensure continued success (Hammock.2010:83)

3.2. Major Causes of Company Mergers

Companies have a reason to merge: the joining or merging of the two companies creates additional value which called as an "Synergy" value. Synergy value can take three forms:

1. Revenues: By combining the two companies, we will realize higher revenues than if the two companies operate separately.

2. Expenses: By combining the two companies, we will realize lower expenses than if the two companies operate separately.

3. Cost of Capital: By combining the two companies, merger enjoy a lower overall cost of capital and production. Cost savings often come from the elimination of some services, such as human resources, accounting, information technology, etc

(Maat H. Evans,2000:2-3)

3.2.1 Tax Advantage

Tax benefits can accrue due to mergers and acquisition at both the corporate and the shareholder levels. This would be managed by the government policies.

3.2.1.1. Shareholder Taxation

When the shareholders sell their shares as part of a merger or acquisition, they would receive different types of management. Such payments would be taxable or nontaxable. If they are taxable, then the shareholders must pay capital gains taxes on their gain over basis. If they are not taxable, then shareholders need pay no taxes until they sell the shares in the acquiring company. This is a net gain to shareholders in comparison to the case before merger. In general, shareholders prefers to sell their shares in the new company.

3.2.1.2. Corporate Taxation

At the corporate level, the tax treatment depends on the choice of the acquiring firm to be absorbed into the parent with its tax attributes or first being liquidated and then received in the form of its component assets.

3.2.1.3. Tax Losses and Credits

A company incurs a tax loss in the current year would have two options: if it had sufficient taxable income in the three previous tax years to offset the current loss, it may carry the loss back to the earlier years and obtain an immediate refund. If it does not have enough recent income to do this for all of its current loss, it must carry the rest of the loss forward (Alan J Auerbach,1987:71-75)

Turkish legislation also offers similar advantages to the mergers.

3.2.2. Globalisation Drivers

Increasing globalisation encourage mergers since the developments information technologies led to removal of the geographical separation between individual

companies both within the same countries and across international boundaries. In the U.K. several large high street banks have been successfully acquired by a major Australian bank (Alexander Roberts,2012:6). In Turkish banking industry, the increasing number of acquisition has been considered as an important as well as the other industries.

3.2.3. Capacity Reduction

In some cases it may be desirable for a company to merge with or acquire a competitor in order to secure a greater degree of control over total sector output. The company may offer opportunity to maintain more of its own production facilities and employees within the new company at the expense of company B (Alexander Roberts,2012:7)

3.2.4. Reduced Competition

Horizontal mergers reduce competition to prevent unwanted effects. One of effects of a reduction of competition is an increase in prices. Causing X-inefficiency in the firms is considered as another effect. Reduced competition may exercise reduced product diversity and innovation. Many of the managers may not be efficient on decision making due to their beliefs and prejudices and not on facts and reasoning (Lars-Hendrik, 2006:18)

3.2.5. Psychological Causes

Managers at mergers and acquisition hope will solve problems such as improving department of the company, as well as its overall business. It is often thought that M&As might also convert the company's image, especially when a new corporate name is chosen. M&As can be helpful in being a distraction from the real problems that the company experiences (Ulrich,2007:9)

3.3. Company Mergers in the World Economy

As mergers movement occurred, not only the economy grew considerably, but also significant developments emerged in the business environment. The first commercial mergers and acquisitions were experienced in the second half of the 1800s by railway companies in the USA. Four major merger waves took place in different periods until 1990s. Present days and 1990s are named as the fifth merger wave in which operation number, value of mergers and acquisitions reached very

large amounts with the effect of globalization, and there are cross-border mega-mergers (Sahin and Yilmaz, 2008:69).

Throughout historical developments of mergers in the world from the first wave of intensive number of mergers in 1800s until today, domestic and cross-border mergers in the USA have had an important role in terms of the operation number and monetary amount. In the EU and other developed countries, it was observed that mergers and acquisitions reached significant amounts after 1960s. A considerable increase in the number and monetary amounts of internal and external mergers and acquisitions has been recorded especially after the establishment of the EU. In developing countries, the number of mergers and acquisitions increased notably after 1980s when foreign investments in these countries increased. More than 10,000 mergers and acquisitions took place in the EU in 1998. The number of mergers and acquisitions increased to 12,800 in 1999. While the UK got the largest share in mergers and acquisitions in the Union, France, Germany and the Netherlands followed this country (Ilarslan and Asikoglu, 2012:62).

After 1980s, cross-border mergers and acquisitions have gained more importance than domestic mergers as industrial structure has been reshaping at the international level in parallel with the rapid development of international economic integration. Particularly 1990s became a period of hundreds of cross-border mergers and acquisitions expressed with billion dollars. It can be said due to this feature of 1990s that the mergers after and before 1990s differ structurally (Gaughan, 2007:30).

The USA is seen at the forefront at the geographical distribution of the global mergers and acquisitions. According to data collected in 2013, 44% of total number of mergers and acquisitions took place in the USA

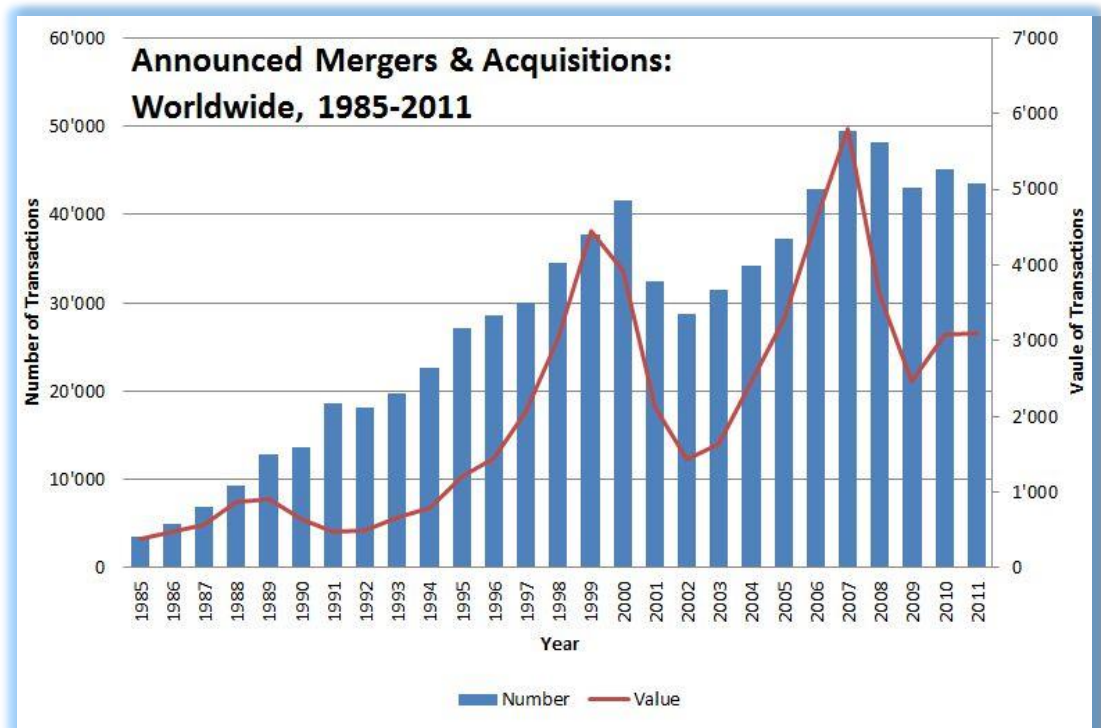


Figure 3.1: Statistical information of mergers that occurred across the world between the years of 1985-2011 in terms of their number and value

The number of mergers across the world increases day by day. The chart above indicates the statistical data related to the mergers that occurred across the world between the years of 1985-2011 in terms of their number and value

First mergers were seen in the USA in 1980s. A certain population of mergers was observed until the early 1900s. When it is viewed in the context of the world economy, a remarkable number of merger activities were seen from the 1940s to the 1970s. By the 1970s, the increase in the number of mergers stopped with the control of mergers with antitrust laws (Mehra, 2013: 54).

The merger activities were seen in the United States earlier. Then, their number increased gradually in European countries. Thus, they have become widespread at the international level. Worldwide recognized companies have got into a partnership and created big companies. This has affected markets internationally and revealed the importance of the merger. The considerable numbers of company mergers were seen in Anglo-Saxon countries in 1980s but they have not been in great demand in countries like France, Germany and Japan. Social structure of these countries and differences in their economic systems have made it quite difficult for the companies to merge internationally. For example, the German Central Bank objected and prevented the partnership of Italian tire manufacturer Pirelli with German company

Continental. However, an increase in the number of mergers has been seen in Japan since 1988. In today's world, great advantages provided by the mergers has increased the number of merger activities. The merger and acquisition activities that took place during 2013 has increased by 20% compared to the year 2012. Transaction value reached US \$ 2.4 trillion (Baltagi, 2013: 115-117).

Table 3.1: Volume of Mergers Worldwide and Across Continents

REGION	2011	2012	2013
World wide	2.93,1100	2.073,241	2.403,155
Developed Countries	841. 999	539. 598	99. 936
Europe	569. 397	333. 546	79. 978
North America	226. 517	116. 554	10. 216
Developing Countries	139. 677	99. 805	16.944
Africa	9. 914	8.214	186
Latin America and the Caribbean	38. 514	2. 584	-721
Asia	91. 236	89 257	17.306

Banking sector in the USA has experienced a continuous process of bank mergers with an annual average of 600 bank merger since the early 1980s. The biggest merger in US history is the merger of America Online (AOL) with the Cable-TV company Time Warner. US Federal Communications Commission (FCC) gave approval for the merger of AOL, the world's biggest internet service provider, with Time Warner, which valued at \$ 160 billion. The big computer company Hewlett Packard offered \$ 25 billion stock to acquire Compaq Computer. Two big computer companies are expected to merge so that they can survive the conditions that have been more difficult to overcome because of the decline in sales and price-cutting competition (Baker, 2013: 88).

The USA maintains its leadership position of mergers in the world. The financial value of the companies that merged in 2013 increased by 68% compared to 2012 and reached 984 billion dollars.

The number of merging companies in Europe increased by 45% in the first quarter of 2012 compared to previous years. The total value of mergers in Europe in over months was 341.42 billion. Besides, 3714 large and small companies merged in Europe, except for big companies. Analysts predict that the number of mergers in Europe will increase rapidly and these mergers will take place mostly in technology, telecommunications, pharmaceuticals and financial sector (Gupta, 2013: 62).

Today, great extent of mergers have been experienced in the United Kingdom. The biggest merger of Europe was the merger of British pharmaceutical company Glaxo-Wellcome with Smithkline Beechan, valued at 76 billion dollars. British company BP Amoco acquired the company American Atlantic Richfield in return for 27.6 billion dollars. The British company Vodafone took over American telecommunications company Airtouch in return for 56 billion (Halkos and Tzeremes, 2013: 24).

3.3.1. The First Merger Wave (1897-1904)

The first merger wave that occurred after the crisis in 1883. It raised between 1898 and 1902 and ended in 1904 (Gaugan 2007:6). The following table shows the number of mergers between 1897 and 1904:

Table 3.2: The Number of Merger between 1897 and 1904

Year	Number of Mergers
1897	69
1898	303
1899	1208
1900	340
1901	423
1902	379
1903	142
1904	79

Raw metal, food products, petroleum products, chemicals, marine equipment, fabricated metal, machinery; coal industries experienced the greatest number of merger activities. Approximately two-thirds of total mergers in this period were concentrated in these industries (Gaughan, 2007:31). Some of today's industrial giants such as DuPont, Standard Oil, General Electric, Eastman Kodak, American Tobacco, and Navistar International (called International Harvester before 1986) appeared during the first merger wave. Horizontal mergers occurred extensively in this period (see Table 3).

Table 3.3: Types of Mergers between 1895 and 1904

Types of Mergers	Percentage (%)
Horizontal	78,3
Vertical	12,0
Horizontal and Vertical	9,7
Total	100,0

This merger movement caused major changes in economic infrastructure and production technology. Completion of the transcontinental railway system, the advent of electricity and increased use of coal took place in this period. Completed railway system enabled the development of national economic market. Thus, merger activities played a role in the transformation of regional firms operating in a particular area into the national companies (Aharon et al, 2010:462).

This period was mainly characterized as a period of mergers with the aim to reduce competition and create trust. Merged companies in the first wave aimed to become the monopoly power by eliminating competition, and thus dominate the market (Monoldorov, 2006:3). In the first wave, a significant level of concentration in the U.S. industry was seen. The number of some industries like steel industry significantly decreased. In fact, only one single company could survive in some sectors. Even the Sherman Antitrust Act introduced in 1890 could not stop intense activities in this period (Gaughan, 2007:32-33).

Financial factors were much more influential than legal restriction on the end of the first merger wave. The first factor was that the shipbuilding sector went bankrupt in the early 1900s due to financial problems. The second and most important factor was stock market collapse in 1904, and subsequently banking panic that caused the closure of many banks in 1907. These events led to the establishment of the Central American Banking System. As a result of downward trend in stock market and weak banking system, financial instruments supporting mergers disappeared. The first merger wave ended for these reasons (Gaughan, 2007:36).

3.3.2. The Second Merger Wave (1916-1929)

The second wave of mergers began after the World War 1. The antitrust environment was stricter during this period of merger waves. This led to an oligopolistic structure rather than a monopolistic structure. Horizontal and vertical mergers were dominated in this period. The American economy continued to change and evolve during this second wave. Many famous companies that have

been still operating such as General Motors, IBM, and John Deere were formed during this period (Gaughan, 2007:36).

4,600 mergers took place between 1926 and 1930. On the other hand, 12,000 companies were shut down over 11 years, from 1919 to 1930. Most of mergers in this period occurred in base metals, petroleum products, food products, chemicals and logistics equipment industries.

Investment banks mediated in merger activities both during the first and second merger waves. When mergers contradicted with the policy of investment banks, they were vetoed by banks. Investment banks had a large proportion of capital needed by mergers and acquisitions. These banks pursue a policy against competitive environment (Gaughan, 2007:36).

The second merger wave came to the end with "Black Thursday" on October 29, 1929. The "Black Thursday" had been the most significant decline in the stock market until October of 1987. The number of mergers reduced remarkably after the decline. Companies were not like to grow anymore. They only want to pay their debt and protect liquidity ratios (Gaughan, 2007:39).

3.3.3. The Third Merger Wave (1965-1969)

The third wave was a period of significant mergers and acquisitions movements with the support of rapidly growing economy. The number of mergers reached its peak during the three years period, between 1967 and 1969 (Weston, Mitchell and Mulherin, 2004:203). The distinctive feature of this period is that small and medium-sized companies became a target of large companies, whereas small companies had been incorporated into large companies in previous mergers.

Celler-Kefauver agreement became a new regulation in addition to the antitrust laws of 1950s and 1960s during this period. Thus, horizontal and vertical mergers lost importance gradually. Mixed mergers resulting from diversifying activities of companies appeared. As can be seen in Table 4, these mergers left their marks on this period. While the proportion of mergers for product extension was 60% of overall number of mixed mergers, the portion of market extension was insignificant. On the other hand, pure mixed mergers had a share of around 23% (Kruse, 2007:162).

Table 3.4: Distribution of the Number of Mergers between 1926 and 1968

Type of Mergers	Between 1926-1930	Between 1940-1947	Between 1951-1965	Between 1966-1968
Horizontal Mergers	75.9%	62.0%	22.5%	8.6%
Vertical Mergers	4.8%	17.0%	17.5%	9.8%
Horizontal and Vertical Mergers	19.3%	21.0%	60.0%	81.6%

Intense antitrust practices in the early 1960s were broken after Richard M. Nixon was elected by the late 1960s. The reason for this was that four judges appointed to Supreme Court by Nixon supported Nixon's opinion advocating a freer market structure. The Supreme Court adopted a vision of large, international market instead of a narrower and even regional definition of market (Gaughan, 2007:42).

3.3.4. The Fourth Merger Wave (1981-1989)

The downward trend in mergers and acquisitions from 1970s until 1980 was reversed in 1981. Increased foreign competition, rapid technological advances and high cost of R&D activities were the factors that increased the number of mergers during this period. The role of hostile takeovers was one of the determining factors that distinguish this wave from other three waves. The portion of hostile takeovers in total value of acquisitions is high (Gaughan, 2007:46).

Another distinctive feature and determinant of this wave was the size of mergers and the size of target companies chosen to merge with. Some of the biggest companies became target of acquisitions during 1980s (Alexandridis, 2010:1676). Therefore, this period is called the era of mega-mergers. The total dollar value paid on acquisitions rose during this decade. The average size of mergers also increased significantly. Unlike 1960s, 1980s became a period of multi-billion dollar mergers and acquisitions. Leading mega mergers in the fourth wave are shown in Table 5 (Gaughan, 2007:56).

Table 3.5: Ten Important Acquisitions between 1981 and 1989

Year	Buyer	Target	Price (Billions \$)
1988	Kohlberg Kravis	RJR Nabisco	25.1
1984	Chevron	Gulf Oil	13.3
1988	Philip Morris	Kraft	13.1
1989	Bristol Myers	Squibb	12.5
1984	Texaco	Getty Oil	10.1
1981	DuPont	Conoco	8.0
1987	British Petroleum	Standard Oil of Ohio	7.8
1981	US Steel	Marathon Oil	6.6
1988	Campeau	Federated Stores	6.5
1986	Kohlberg Kravis	Beatrice	6.2

The number of mergers and acquisitions was more in certain industries. For example, the oil industry experienced more merger actions. 21.6% of mergers and acquisitions experienced between 1981 and 1985 took place in the oil and gas industries. In addition to these, most of mergers and acquisitions were seen in service industries like banks, finance, insurance and health care service (Kovacich and Halibozek, 2003:22).

3.3.5. The Fifth Merger Wave (1992-2002)

The recession emerged in the U.S. economy by the end of 1980s caused reduction in the number of mergers and acquisitions. However, it began to increase again in 1992. The merger wave has still been experienced since it started again in 1990s. It is the last wave (Brealey and Stewart, 2008:289)

The number of mergers that had been observed commonly in the USA started to rise in the Europe and Japan during the second half of 1990s (see Table 6).

Table 3.6:Some Significant Mergers between 1997 and 1998

Acquiring Company	Selling Company	Payment (Billions \$)
Bell Atlantic	NYNEX	21,0
Boeing	McDonnell Douglas	13,4
Compaq Computer	Digital Equipment	9,1
Union Bank of Swiz.	Schweizerischer	23,0
Texas Utilities	Energy Group PCC	11,0
British Petroleum	Amoco Corp.	48,2
American Intl.	Sun America	18,0
NationsBank Corp.	BankAmerica Corp.	61,6
Daimler-Benz	Chrysler	38,3
Deutsche Bank AG	Bankers Trust Corp.	9,7
3America Online	Netscape	4,2
Travelers Group Inc.	Citicorp	83,0

The number of mergers and acquisitions reached a peak in 2000 before dropping rapidly because of global crisis and recession in 2001. The value of activities that decreased by 29% of that in the previous year in 2002 remained at 1, 2 trillion U.S. dollars. The number of such activities in the world reached a plateau at 25,000, which is the lowest number that has been experienced since 1995. The downward trend in the world that started in 2002 continued in 2003. However, the figure of the number of mergers and acquisitions that showed a decrease between 2001 and 2003 turned into an upward trend in 2004. There was an increase by 30% of the numbers in 2005. The worldwide revenue gained from 6,134 mergers in 2005 was 716 billion U.S. dollars.

3.3.6. The Sixth Merger Wave (2003 and later)

The 2003 and the years after 2003 is considered as the beginning of the sixth merger wave based on the statistics showing international mergers and acquisitions.

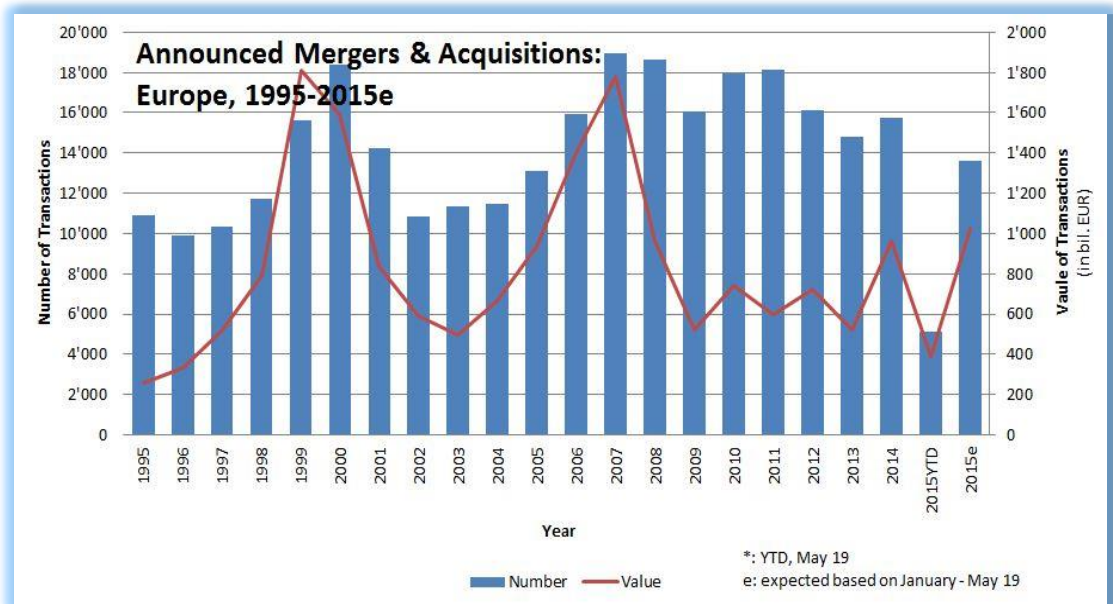


Figure 3.2: Announced Mergers and Acquisitions: Europe, 1995-2015

After a steep decrease in the number of mergers and acquisitions in 2001, mergers and acquisitions gained importance again in 2003, and subsequently 2004. An increase by 30% of the numbers in 2004 occurred in 2005. Revenue of 716 billion dollar was generated from 6,134 mergers in 2005. The number of mergers rose to 1,6 trillion U.S. dollars in 2007. In 2008, the mergers and acquisitions were affected in a negative way by the international financial crisis. In 2008, the number of merger and acquisition activities decreased by 35% compared to those in the previous year, and created the lowest global trading volume since 2005 (Alexandridis, 2010:1678). 9,995 agreements of mergers and acquisitions were recorded in 2009. The total value of these agreements was 899,5 billion U.S. dollars.

3.4. Benchmarking of Big World Bank Mergers

Brand evaluation organizations operating in 20 countries, including Turkey Brand Finance and The Banker magazine published six years in collaboration with the "World's Most Valuable Bank Brands" .

Leaving behind all US banks Wells Fargo, with a brand value of \$ 26 billion, while the world's most valuable brand, managed to enter the top 500 in 10 Turkish Bank According to information gathered from the research question, a total of 10 Turkish banks Akbank and especially Business Bank, the world's most valuable banking brand among the first 500 entries.

According to the survey, the US Wells Fargo, one of the world's most valuable bank of 26 billion 44 million 500 most valuable banking brand with a brand value has obtained the title.

Wells Fargo was followed in the list again CHASE USA. Chase's brand value is determined as 23.4 billion US dollars, British HSBC took third place on the list with 22.9 billion dollars in value. According to the survey, Bank of America fourth with a brand value of \$ 22.4 billion, while the value of \$ 21.7 billion Citi was the fifth most valuable bank in the world. According to the results, four of the world's most valuable first 5 banks was increased from US.

3.4.1. Chase Bank

CHASE most successful examples of the bank mergers. This bank board from September 1, 1799 to 1955, it was called The Bank of The Manhattan Company (New York); after a 1955 merger with the Chase National Bank (which existed separately from 1877 to 1954) it was called The Chase Manhattan Bank (Milliyet,2013). Successful development of CHASE bank can be seen from table 8

Table 3.7: Financial highlights of Chase bank 2013

Financial	Highlights2013
Total net revenue	\$ 96,606
Total noninterest expense	\$ 70,467
Pre-provision profit	\$ 32,302
Net income	\$ 17,923
Selected ratios	
Return on common equity	9%
Return on tangible common equity	11 %
Total capital ratio	\$ 14,4 15 3

3.4.2. Santander Bank

The Santander Group is a Spanish banking group centered on Banco Santander, S.A. and is the largest bank in the Eurozone by market value. It is one of the largest banks in the world in terms of market capitalization. As its name suggests, the company originated in Santander, Cantabria, Spain.

The group has expanded in recent years through a number of acquisitions, with operations across Europe, Latin America, North America and Asia. Many subsidiaries, such as Abbey National, have been rebranded under the Santander name.

Banco Santander was founded in 1857. In 1999 it merged with Banco Central Hispano, which had in turn been formed through the 1991 merger of Banco Central and Banco Hispanoamericano. The combined bank, known as Banco Santander Central Hispano, or BSCH, was designed to be a "merger of equals", in which the top executives of the two pre-existing firms would share control of the merged entity.

Table 3.8: Income of Santander Bank between 2010-2014/ Million

Dates		2014	2013	2012	2011	2010
Balance sheet	US\$	Euro	Euro	Euro	Euro	Euro
Total assets	1,537,410	1,266,296	1,134,12	1,282,88	1,251,00	1,217,501
Net customer loans	892,012	734,711	684.690	731,572	743,541	724,154
Customer deposits	736,285	647,628	607,336	626,639	632,533	616,376
Customer funds under management	1,242,555	1,023,437	946210	990.096	984,353	985,269
Stockholders' equity	98.106	30,806	70,327	71,797	74,459	75.018
Total managed funds	1,733,336	1,428,083	1,270.04 2	1,412,61 7	1,332,46 4	1.362.289
Income statement						
Net interest income	39,185	29.543	28,419	31,914	28,383	27,728
Gross income	56,510	42,612	41,920	44.939	42,466	40,586
Net operating	29,937	22,574	21,762	24,753	23,055	22.682
Profit before taxes	14,162	10,679	7,378	3,565	7,858	12,052
Profit by the Group	7.713	5,316	4,175	2,283	5.330	8,181
		2014	2013	2012	2011	2010
Per share data ¹⁰	US	Euros	Euros	Euros	Euros	Euros
Profit by the Group	O.W	0.43	0.39	0.23	0.60	0.94
Dividend	0.73	0.60	0.60	0.60	0.60	0.60
Share price	8.494	6.996	6.506	6.100	5.370	7.928

According to examples and numbers, that World company mergers have deep and strong structure and success because of long experience. World company mergers generally use merging for growing and expanding round the World. Turkey company mergers are new in compare with World but they have big success in short time. For the first time Turkey mergers were with domestic companies for economy power but nowadays this process changed to foreign mergers. Certainly this is very beneficial for companies and Turkey economy.

First, this merger improved cost efficiency, reduced costs per unit of output for a given set of output quantities and input prices. Second, mergers may increase profits superior combinations of inputs and outputs through improvements in profit efficiency. Third, mergers may improve profits through the exercise of additional market power in setting prices. An increase in market concentration or market share may allow the consolidated firm to charge higher rates for the goods or services it produces, raising profits by extracting more surplus from consumers, without any improvement in efficiency.

3.5. Company Mergers in Turkey

The first major merger activity in Turkey was the merger of the Austria Ottoman Bank with French-capitalized Bank-ı Osman-ı Sahane in 1874. The first merger of republican period was the merger of the Turkish Commercial Bank with Uskudar Bank in 1933 (Schiffbauer, 2009:47). However, mergers in Turkey have been developing since 1950s. It is seen that most of the mergers in this period was performed in order to let firms having financial problems, especially banks of the hook. For example, the Bank Tumsu merged with the Old Turkish Warriors Bank. It was named as the United Savings and Credit Bank of Turkey in 1959 for this purpose. Other examples are the merger of the Tourism Bank of Turkey with the Tourism Bank of Turkish Republic in 1960 and the merger of the Bank Istanbul with the Real Estate Credit Bank in 1962. While there was an increase in the number of conglomerations between 1965 and 1975, the years between 1975 and 1980 became an off-peak period for companies as the inflation rates increased and economic stability came to the forefront (Geppert and Kamershen, 2008:335).

"Liberal economic policies" implemented after 1980 affected companies significantly. The high interest policy led companies to work more efficiently. Companies that did not work efficiently either winded up or looked for ways to merge with other companies. The stability program led to improving industrialization. However, lack of demand resulted in excess capacity. The mergers became inevitable so that these capacities could be effective (Surroca, Tribo and Waddock, 2010:468).

It can be seen that the number of mergers and acquisitions increased after 1980 with some aims such as to save banks with problems, to create an economy by combine companies with the same function in the same group under a single roof, to transfer or wind up some companies with the aim of narrowing the scope, to recover loss-making companies from loss by transferring, to benefit from tax savings by taking over a loss-making company (Demir and Bahadır, 2009:33). Olmuk Cardboard Industry and Trade Inc. owned by Transtürk Holding were purchased by Sabancı Holding in the middle of 1982, and it has continued to operate as Olmuk Cardboard Industry and Trade Inc... This can be mentioned as an example of merging of companies with difficulties. An example of the merger of loss-making company with a profitable company can be the merger of Pemko Profilo Electric Motor and Compressor Industries Inc. with Peg Profilo Electric Appliances Industry Inc. that was operating under the same holding. There are also mergers made for different purposes other in addition to those listed here. For instance, Aegean

Industry Inc. engaging in manufacturing in the auto ancillary industry merged with Karteks engaging in manufacturing in the packaging industry in order to diversify for hedging. Sabancı Holding acquired Company Henfty so as to enter Swiss market (Aharon et al, 2010:462).

Mergers could not become widespread in Turkish economy, even could not be used as a reorganization method to deal with economic shocks until the beginning of 1990s. Rare acquisitions in this period can be defined as takeover of insolvent companies by creditor banks.

From the beginning of 1990s, Turkish companies began to merge with foreign companies for some purposes like to take advantage of technological developments and to take place in the EU single market. As a leading example of these mergers can be Lassa, Bridgestone. In 1988, Lassa began to look for a partner since it wanted to get rid of excessive costs of research and development activities. One of the companies considered as partner, Continental was not preferred because of the low market share and inadequate production technology. Michael rejected the 49% share offer that was Sabancı Group's general policy. Bridgestone firstly entered the American market, and considered Turkey to enter. In addition, Turkey is close to Africa and the Arabian Peninsula. Thus, all assets operating under the name of Lassa were transferred to Brise. Thus, Lassa remained only as tire brand. Lassa's production capacity increased from 50 thousand tons to 140 thousand tons as a result of this merger. Sales volume doubled during two years after the merger in 1988. Moreover, the company achieved a steady growth. Furthermore, the merger of the Italian Lamborghini with Anatolian Group can be given as another example. Lamborghini decided not to produce small engines, and withdraw from some manufacturing activities. The Anatolian Group started to produce these engines in Turkey. Besides, Cignasa established as a consolidation by Atlantic Insurance and American Company Cigna, BNP Ak DresdnerBank established as a joint venture by Akbank, French Banque National De Paris and German Dresdner Bank and Aegean Fren established by Aegean Industry and American Company Rockwell can be shown as examples (Surroca, Tribo and Waddock, 2010:472; Kılıç, 2009, s.103).

Media was another industry that witnessed considerable number of mergers in Turkey during 1990s. It can be seen that both of these two sectors were used as a power both against competitors and legislative and executive branches when the social, economic and political position of the country is considered. The major media mergers in this period are as follows: Newspaper Milliyet (Karacan-Doğan Holding-

K. Yiğit-Doğan Holding), Newspaper Hürriyet (S. Simavi-E. Aksoy-Doğan Holding), Newspaper Akşam (M.A. Ilıcak-Cukurova Holding), NTV (Nergiz Holding- Doğuş Holding), Show TV (E. Aksoy-Cukurova Holding), Channel E (Doğuş Holding), Kanal D (Doğan Holding), TGRT and Newspaper Türkiye (Ihlas Holding). (Içke, 2007:20-22).

In addition to banks and media, another industry that was faced with several mergers is retailing. The mergers in this period are as follows: Doğuş Holding (Tansaş and Makro), Finba (Gima, Marks and Spencer), and Sabancı (Carrefour), Doğan Holding with Turkish Business Bank (Poaş).

3.5.1. Mergers in Turkey in 2002

According to Mergers and Acquisitions report published in 2002 by Ernst & Young Corporate Finance Consulting Inc., the total number of mergers and acquisitions in Turkey was 54 in 2002, and the transaction value was declared for only 34 of them. The total declared value of mergers and acquisitions was 613,7 million U.S. dollars. When forecasts related to value of transactions that were not declared, it can be concluded that trading volume can be around 1 billion U.S. dollars (Serçe, 2009:138).

In the report, it was stated that 60% of the total transaction value came from the transactions in which Turkish firms were acquiring companies. As can be seen in Table 10, England with a transaction value of 101,1 million dollars took the second place after Turkey, and the USA followed England with a transaction value of 85 million dollars. The reason why the number of transactions among Turkish companies in the report was high is attributed to the need for more consolidations in many sectors (Serçe, 2009:139).

Table 3.9: Number of Transactions (2002)

Countries	Transaction Value (Millions \$)	Number of Transactions
Turkey	367,5	35
England	101,1	5
USA	85	3
Japan	37	3
Germany	8	3
Italy	7	2
Canada	4,9	1
Netherlands	3,1	1

The most dynamic sectors in 2002 were the financial services, food, IT, energy sectors. The following table illustrates the number and value of transactions in sectors characterized by intense number of mergers.

Table 3.10: Industrial Distribution of Target Companies Based on Number and Value of Transactions

Sectors	Number of Transactions	Transaction Value (Millions \$)
Financial Services	17	198,5
Food and Beverage	7	139,8
Informatics	6	108,3
Energy	4	46,9
Cement	2	37,0
Automotive	1	5,6
Other	17	77,5

3.5.2. Mergers in Turkey in 2003

Although the merger and acquisition activities increased in the number and volume in 2003 compared to those in 2002, they remained much below the expected level when Aycell-Aria merger, which is the greatest merger activity in Turkey, is excluded. The total number of merger and acquisition activities in Turkey in 2003 was recorded as 80, and the value of only 54 of these is known. Total value of

mergers and acquisitions completed in 2003 whose value was declared 1, 4 billion U.S. dollars, excluding Aycell-Aria merger. When the forecasts on transaction value that was not reported are considered, it can be concluded that the volume of merger and acquisition activities in 2003 were slightly above 1,5 billion U.S. dollars (Ari, 2010:34).

Foreign companies carried out 20 purchase transactions in Turkey in 2003. The reported value of mergers and acquisitions activities done by foreign companies in Turkey was approximately 506 million U.S. dollars in 2003. When the predicted value of transactions whose value was not reported like Soros-Unikom, Schott Glaverbel-Orim Cam, Danone Groupe-Nestle Dairy Products is taken into consideration, it is concluded that the value of acquisitions by foreigners in Turkey was 600 million U.S. \$ in 2003. Furthermore, it was seen that the value of transactions completed by Turkish companies was higher than the value of transactions in which foreign companies were a party (Serçe, 2009:140).

When the industrial distribution of the target company is analyzed based on the transaction value, it can be seen that food and beverage sector ranked as the first in terms of number of transactions achieved the highest transaction value. Given the value of all transactions including not reported ones, total value of mergers and acquisitions in food and beverage industry may be around 450 million U.S. dollars. Although very few transactions were processed in energy, consumer durables and retail sectors in 2003, these sectors were considered as sectors with high transaction value because the transactions were among the top activities in terms of transaction value. Sorted by transaction value, 88% of the total transaction value achieved by food and beverage, chemicals and energy sectors that shared the first place consisted of transactions in which Turkish companies were a party. 20 of 27 merger and acquisition activities that took place in three most dynamic sectors in terms of the number of transactions were conducted by Turkish companies (Uzun, 2010:88-89).

3.5.3. Mergers in Turkey in 2004

In 2004, 91 merger and acquisition activities were recorded in Turkey, and value 67 activities was reported. Total value of merger and acquisition activities completed in 2004 and whose value was reported were 2,5 billion U.S. dollars (Ari, 2010: 34-35)

As can be seen in Table 12, the number of foreign companies' transactions in Turkey was 18 in 2004.

Table 3.11: Acquiring Countries' Shares in Merger and Acquisition Activities in Turkey Based on the Value and Number (2004)

Countries	Number of Transactions	Transaction Value (U.S. \$)
Turkey	73	2,18 billions
Germany	2	2,6 millions
England	4	9,2 millions
USA	2	3,0 millions
Other	10	305,2 millions

As it can be seen in the industrial distribution of mergers and acquisitions in 2004, two important transactions in the mining and tourism sector where there had been no boom in the past years were observed this year. 11 of the 14 transactions in the mining sector was the sale of companies in privatization. In the tourism sector, a great increase is seen as a result of Vakıf bank and Cukurova Group's decision to dispose of non-banking assets. In the financial services sector, which has generally been in the top in terms of the number of transactions, an increasing interest in purchase of intermediary agencies, leasing and factoring companies. However, when considered in terms of the value, these transactions do not mean a lot. If industrial value of companies is viewed as the transaction value, it is realized that the highest transaction value is achieved in the energy sector in 2004 (Akbilek, 2009:46).

3.5.4. Mergers in Turkey in 2005

The number and volume mergers and acquisitions activities reached a record level in 2005. The year 2005 became an exceptional period with the volume privatizations and SDIF sales. A total of 164 merger and acquisitions transactions in Turkey were reported in 2005. The transaction value of 93 of them was indicated. The total value of mergers and acquisitions completed in 2005 and whose value was stated was 30,3 billion U.S. dollars. When estimates related to transactions whose value was not reported are taken into account, it can be concluded that the volume of merger and acquisition transactions was around 31 billion U.S. dollars in 2005 (Karapınar, 2006: 33).

The number of transactions carried out by foreign companies in 2005 was 60. Declared value of them was 17,2 billion U.S. dollars. 57% of the total volume of transactions in 2005 was performed by foreign buyers. American investors performed 8 transactions with 1,8 billion U.S. dollars' worth in 2005. 35 of the 60

transactions performed by foreign companies in 2005 were conducted by European companies (Özkorkut, 2009:246).

In 2005, the top ten transactions were observed in sectors of strategic importance such as telecommunication, energy, banking and infrastructure sectors. Foreign buyers get attention in the top two places of recipients during these transactions. As can be seen in Table 13, Turk Telekom auctions of company Saudi Oger was ranked as the first, whereas Telsim and Vodafone auctions was in the second place. Tüpraş auctions of Koç-Shell Joint Venture Group took the third place. Also, it can be said that the leading companies in the banking sector were among the top ten transactions (Uzun, 2010: 93).

Table 3.12: Top Ten Transactions in Turkey in 2005

Acquiring Company	Country	Target Company	Sector	Transaction Value
Saudi Oger	S. Arabia	Turk Telekom	Telecommunication	6,550
Vodafone	England	Telsim	Telecommunication	4,550
Koç-Shell OGG	Turkey	Tüpraş	Energy	4,140
Oyak-Arcelor	Turkey	Erdemir	Iron and Steel	2,960
GE Capital	USA	Garanti Bank	Financial Services	1,805
Alfa Group	Russia	Turkcell	Telecommunication	1,590
Koçbank	Turkey	YKB	Financial Services	1,508
Fortis	Belgium	Dışbank	Financial Services	1,160
PSA-Akfen OGG	Singapore	TCDD Mersin Limanı	Port Services	755
Doğan Group	Turkey	POAS	Energy	616

3.5.5. Mergers in Turkey in 2006

While a total number of 154 merger and acquisition transactions in Turkey were recorded in 2006, 96 of them were lack of a reported value. The total value of mergers and acquisitions completed in 2006 and whose value was reported was 18,3 billion U.S. dollars (Uzun, 2010: 94-95).

When the forecasts on transaction value that was not reported are also considered, it can be concluded that the volume of merger and acquisition activities in 2006 were around 19,2 billion U.S. dollars. In 2006, although privatizations and SDIF sales

were close to that in 2005 in terms of the transaction number, they did not have a remarkable amount of trading volume. Major transactions in banking sector came into prominence in 2006. The total value of the sale of three major banks that were Finansbank-NBG, Denizbank-Dexia and Akbank-Citibank was 10,3 billion U.S. dollars. Acquisition of Finansbank by NBG alone consisted about 22% of the total trading volume (Karapınar, 2006: 42-45).

When the industrial distribution of the target companies is analyzed based on the operation value, it is seen that the financial services industry had a total value of 11,4 billion dollars, and it became the sector with the highest operation volume. The year 2006 became the year of the banking sector. Foreign investors became the hallmark of mobility in this sector. 9 of a total number of 25 operations in the financial services industry were consisted of acquisitions performed in banking and insurance sectors. Operations other than that were comprised of other operations like the sale of securities and leasing companies. The total trading volume of 8 operations that occurred in insurance sector was 428 million dollars. Privatization of Başak Retirement and Başak Insurance with a transaction value of 268 million dollars was the biggest transaction of the sector. Acquisitions of Dexia-Global Life Insurance, Ergo-Swiss Insurance, Global Equities Management-Emek Life Insurance - HDI International-Ihlas Insurance, Liberty Mutual Group-Seker Insurance were other major insurance transactions in the sector performed by foreign investors (Kaya et al, 2013:52-55).

Table 3.13: Top Ten Transactions in Turkey in 2006 / Million \$

Acquiring Company	Country	Target Company	Sector	Transaction Value
National Bank of Greece	Greece	Finansbank	Financial Services	3,975
Dexia	Belgium	Denizbank	Financial Services	3,228
Citigroup	USA	Akbank	Financial Services	3,100
OMV	Austria	Petrol Ofisi	Energy	1,054
Texas Pacific Group	USA	Mey İçki	Food and Beverage	810
Cimpor	Portugal	Yibitaş Lafarge	Cement	702
Türk Telekomünikasyon	Turkey	Avea	Telecommunication	500
Axel Springer	Germany	Doğan TV	Media	480
St. Martin's Property Group	England	Cevahir Shopping	Shopping Mall	422
Groupama	France	Başak Emeklilik and Sigorta	Financial Services	268

As can be seen in Table 14, the most important transaction in the energy sector was acquisition of 34% of Petrol Agency by OMV in return for 1,1 billion U.S. dollars. This was one of the biggest deal of the year. In addition to this major transaction, 11 minor transactions with a total value of approximately 135 million U.S. dollars were completed. ENI and Indian Oil got into a partnership on Samsun-Ceyhan oil pipeline. Although the transaction values were not released, this was displayed as another important transaction of the year.

Activities in the media sector in 2005 continued with nine transactions in 2006. In addition to sale of Uzan Group performed by SDIF, another most important media transaction of 2006 was that German Axel Springer acquired 25% of Doğan TV. Five transactions took place in the cement industry, and trading capacity reached about 1 billion U.S. dollars. While the sale of cement factories belonging to Uzan Group by TMSF continued, the most important transaction in the cement industry was that a Portuguese firm, Cimpor, acquired Yibitaş Lafarge Orta Anadolu Cimento in return for 702 million U.S. dollars. Dynamic figures in services industry that started in 2005 continued to increase in 2006. 12 transactions were completed in service industry in 2006. One of the most essential transactions in food and beverage industry of the year was that an American firm, TPG, acquired Mey İçki by paying 810 million U.S. dollars.

3.5.6. Mergers in Turkey in 2007

The number of mergers and acquisitions in 2007 were much better than those in 2006 both in terms of volume and in terms of number of transactions. While 182 merger and acquisition transactions occurred in 2007, the transaction value of 135 of them was announced. The total value of merger and acquisition transactions reached 25,5 billion U.S. dollars over the year. Considering forecasts about acquisitions whose value was not reported, it is thought that the total trading volume reached 26,7 billion U.S. dollars in 2007 (Akbilek, 2009:47-48).

2007 became a year in which Turkish companies increased the number of acquisitions worldwide. Some of the outstanding transactions were acquisition of 67.3% of Trader Media East (TME) by Hürriyet, acquisition of 51% of tile part of Villeroy&Boch and acquisition of Godiva by Ulker. Many of the large-scale transactions in 2007 became a question of debates. While the sale of Oyak Bank was discussed in the framework of the increasing share of foreigners in the banking sector and the delay in the authorization of BRSA, the sale of Un Ro-Ro which is the greatest deal ever held by private equity funds in Turkey to Kravis Roberts's (KKR)

became the main topic of conversation about disputes between the partners who sold it. The sale of ATV-Sabah media group by the SDIF was criticized by various sections of society for procurement requirements and existence of single investor in the tender (Uzun, 2010: 96-97).

The value of top ten transactions completed and whose value was released in Turkey in 2007 was 17 billion U.S. dollars. This value constituted 67% of released transaction value. Even though transactions in which foreign investors were heavily intervened with within the first 10 transactions attracted a great deal of attention, the number of transactions in which domestic investors were a party was undeniably higher than that in previous years. As can be seen in Table 15, 6 domestic investors participated in the first 10 transactions in 2007 (Ilarslan and Aşıkoğlu, 2012: 62-65).

Table 3.14: Top Ten Transactions in Turkey in 2007 / Million \$

Acquiring Company	Country	Target	Sector	Transaction Value
IC Fraport Consorsium	Germany, Turkey	Antalya Airport	Airport Management	3,197
GMR, Limak, Malasia Airport Holding	Malaysia, India, Turkey	Sabiha Gökçen Airport	Airport Management	3,100
ING	Netherlands	Oyak Bank	Financial Services	2,673
Socar&Turcas, Injaz	Azerbaijan,S. Arabia	Petkim	Petrochemistry	2,040
KKR	USA	UN Ro-Ro	Transportation	1,284
Izmir Limanı	Turkey, China	Izmir Port	Transportation	1,275
Turkuaz Radyo TV /Calık Holding	Turkey, China	ATV Sabah	Media and Entertainment	1,100
National Commercial Bank	S. Arabia	Türkiye Finans Katılım Bankası	Financial Services	1,080
Doğuş Holding	Turkey	Garanti Bank	Financial Services	647
Zentiva	Czech Republic	Eczacıbaşı	Medicine	602

3.5.7. Mergers in Turkey in 2008 -2014

Despite the unfavorable developments at home and abroad in 2008, investors' interest in mergers and acquisitions continued. Financial problems originated from housing market in the U.S. in the last quarter of the previous year had a significant

effect on world markets. However, despite that, many merger and acquisition transactions were completed in 2008. In 2008, 172 transactions of merger and acquisition were completed, the value of 92 of which were released. Reported total value of mergers and acquisitions reached 16,3 billion U.S. dollars. When transaction value estimates for acquisitions whose value was not reported is taken into consideration, it is seen that the total trading volume reached 18,5 billion U.S. dollars. There were a limited number of very large-scale transactions in 2008. While only 4 transactions with a value over billion the border of billion dollars were performed, purchase transactions were shifted to companies in medium and small size (Koçoğlu, 2012: 270-275).

Foreign investors' interest in Turkey continued in spite of financial crisis in foreign markets. Foreign investments were valued at 12,01 billion U.S. dollars in this year. In 2008, the share of foreigners in total transaction volume was 73%. Considering the average volume of investments, the amount of investment by foreign investors was at the lowest level of the past four years. The reason for proportional increase in the share of foreign investors was the decline in the share of domestic investors. Domestic investors completed transaction valued at 8.6 billion U.S. dollars in 2008. In 2008, foreign investors completed 101 of 172 transactions performed in 2008. The proportion of foreign investors in the number of transactions completed in 2008 was 59%. Considering the transactions involving foreigners, it can be seen that Germany became the most active country with 13 transactions. In 2008, the USA completed only six transactions, whereas the EU countries performed 67 transactions. The European countries, which were France, England, the Netherlands and Italy, except for Germany, got attention in terms of the number of transactions. Considering trading volume, England the best country among foreign corporations with 3,4 billion U.S. dollars. Transactions like Tekel and Migros significantly increased the share of English investors in total transactions. The share of domestic investors in total trading volume was recorded as 34% in 2008 (Koçoğlu, 2012: 270-275).

The value of top ten transactions completed and whose value was released in Turkey in 2008 were 10,1 billion U.S. dollars. This value constituted 62% of reported transaction value. Privatization and other publicly funded transactions became the hallmarks in the top ten transactions in 2008. By analyzing the outstanding transactions in 2008, it is seen that energy sector became the most prominent industry. As can be seen in Table 16, 4 transactions constituting 40% of 10 most important ones in terms of transaction value occurred in the energy sector. In

addition to the energy sector, other prominent sectors were manufacturing, retail and financial services. Intense involvement of foreign investors in the first 10 transactions gets attention. Three domestic investors took place in the first 10 transactions in 2008. As in other years, domestic investors were involved with multi-partner consortium in 2008 (Uzun, 2010:98-99).

Table 3.15: Top Ten Transactions in Turkey in 2008/ Millions \$

Acquiring Company	Country	Target Company	Sector	Transaction Value
British American Tobacco	England	Tekel Sigara	Production	1,720
BC Patterns, Turkven, DeA Capital	England	Migros Türk	Retail	1,650
Global Yatırım Holding&Energaz&STFA Yatırım Holding&ABN Amro	Turkey, the Netherlands	Başkent Doğalgaz	Energy	1,610
Sabancı Holding, Verbund, EnerjiSA	Turkey, Austria	Başkent Elektrik Dağıtım A.S.	Energy	1,225
Sibirskiy Cement	Russia	Set Cimento	Cement	937
National Bank of Greece	Greece	Finansbank	Financial Services	697
Akcez Ortak Girişim	Turkey, Czech Republic	Sakarya Elektrik Dağıtım	Energy	600
OAo Lukoil	Russia	Akpet Akaryakıt Dağıtım A.S.	Energy	600
Axa SA	France	Axa Oyak Holding	Financial Services	525
Palmalı Group, SOCAR	Azerbaijan	Tekfen İnşaat	Construction	520

Energy, healthcare, real estate, services, retail and banking sectors were expected to witness the highest number of merger activities in 2009. There have been firms that had already explained that they would merge. Some examples are shown below.

One of the expected mergers in 2009 was the merger of Grundig and Arçelik. 83.03% of Grundig Electronic was belonged to Arçelik. The company announced that they would merge with Arçelik as a whole. To strengthen the competitiveness in the sector and to increase productivity were shown as the reason for the merger. The year of would be held on the basis of the balance sheet. The value of the companies would be determined by an expert appointed by the court for the

determination of the amount of shares in Arçelik that would be given to the partners of Grundig during the transfer to Arçelik. The merge rate would be determined based on the reports (Uzun, 2010:102).

Park Elektrik and Ceytaş Madencilik were operating in the same group. 31,31% of Ceytaş's capital was in control of Turgay Ciner, and 21,72% of it was belonged to Park Holding. 43,93% of Park Elektrik's capital was controlled by Park Holding, and 24,50% of it was belonged to Park Enerji. In a statement on December 26, 2008, Park Elektrik announced that they had been working in the same business with Ceytaş Madencilik and thus they decided to merge. They applied to CMB for an approval for the merger on January 6, 2008. After that, it was announced that CMB approved the merger and the official procedures would continue (Koçoğlu, 2012: 278).

In 2013, when the effects of the economic crisis continued and the growth rates remained at low levels, a decline in the volume of mergers and acquisitions transactions and an increase the number of transactions were observed in Turkey. The number of merger and acquisition activities that got into action in 2010 continued to increase in 2011, while the transaction volume reached its lowest level in the last 6 years in 2009. While a significant increase in both transaction volume and the number of transactions was observed in 2012, it was observed that the number of transactions reached a new record level in 2013 and transaction volume was at lower levels compared to 2012 (Ernst&Young, 2012: 9).

Looking at the profile of investors, it is seen that domestic investors were more succesful than foreign investors in terms of the volume of transactions. In terms of the number of transactions, Turkish investors improved their positions in recent years. They signed significantly higher number of transactions with 222 transactions than foreign investors (114 transactions) in 2013. In addition, they considerably outperformed foreign investors (USD 3.3 billion) with the transaction volume of USD 10.4 billion (Arslan ve Simsir, 2014: 13).

Foreign investors, who increase their share in the transaction volume to over 50% in 2011 and 2012 similarly to prior to global crisis of 2008, performed only 24% of the total transaction volume in 2013. A trend was observed in the number of transactions. Foreign investors performed less transactions than domestic investors as they did during the last four years. Although the number of transactions performed by foreign investors in 2012 was less than transactions of domestic investors, they set the record of the last ten years. However, they could not show a

similar performance in 2013. When the transaction volume is taken into consideration, after the significant performance in 2012, transaction volume of foreign investors reached its lowest level of the last nine years except for 2009 with a total value of USD 3.3 billion (Ernst&Young, 2013: 10).

In addition to the problems in the global economy, the uncertainty in the region's economy created by especially the political crisis in Syria and the Arab Spring within the geographical location of Turkey has increasingly continued in 2014. Political disagreements arising as a result of the problems in the region has affected the relations of Turkey with some neighboring countries having critically important commercial relations in a negative way.

Although Turkey's economy has been affected partially by all of these developments, it is foreseen that Turkey will experience a growth in line with the expectations in 2014 and Turkey is expected to be still the focus of attention of investors from all over the world especially in terms of merger and acquisition transactions. Besides, although the increases in credit rating done by international credit rating agencies demonstrate their effects only on money markets and some short-term economic indicators, this development is expected to strengthen Turkey's position in terms of medium and long term investments in the upcoming period (Aktaş, 2014:21).

While Turkey's relatively positive economic indicators was continuing to attract the attention of investors in 2013, this is reflected positively in merger and acquisition activities in Turkey.

The total number of announced merger and acquisition transactions was 338 in 2014. This number was a new record for Turkey. The importance of this development is seen more clearly, considering the slowdown in the merger and acquisition activity in the world.

While the ratio of publicly funded transactions within the first 10 transactions reached to 81% after EnerjiSa won the Taurus EDAS privatization tender in return for USD 1.7 billion during the 2010-2014 period, Symbol International Investment-Ekopark Tourism-Fine Hospitality won Haliçport tender of Joint Venture Group in return for USD 1.3 billion and EnerjiSA won Istanbul Anatolian Side EDAS (AYEDAŞ) privatization tender in return for USD 1.2 billion, the ratio of private sector transactions became approximately 19% after Allianz SE acquired Yapı Kredi Insurance in return for USD 913 million (Ernst&Young, 2014: 12).

Many of the acquisitions involve American businesses doing the buying or getting bought by overseas rivals. Global deals are up as well. In the last month, Comcast has offered to buy Time Warner Cable for \$45 billion. Pharmaceutical giant Actavis is buying Forest Laboratories for \$25 billion. And Facebook shocked the technology world by offering \$19 billion for tiny WhatsApp. Merger-and-acquisition executives say they have expected a pickup in deal activity for a couple of years, given the bull market and economic recovery.

Table 3.16: 2014's Biggest Announced Mergers and Acquisitions/ \$ Billion

Acquiring Company	Target Company	Deal Value	Announcement Date
Comcast Corporation	Time Warner Cable Inc.	\$69.8	February 13, 2014
AT&T Inc. (T)	DirecTV Group Inc. (DTV)	\$67.1	May 18, 2014
Medtronic Inc. (MDT)	Covidien plc (COV)	\$46.8	June 15, 2014
Holcim AG (HOLN.VX)	Lafarge SA (LG.PA)	\$46.8	April 7, 2014
Actavis plc (ACT)	Forest Laboratories Inc.	\$25.3	February 18, 2014
Altice SA (ATC.AS)	Societe Francaise du Radiotelephone SA – SFR	\$23.6	March 11, 2014
Facebook, Inc. (FB)	WhatsApp Inc.	\$19.4	February 19, 2014
General Electric Co. (GE)	Alstom SA	\$17.1	April 30, 2014
Kotobuki Fudosan K.K	Beam Inc.	\$16.01	January 13, 2014
Novartis AG	GlaxoSmithKline plc	\$16	April 22, 2014

But what prevented the really big transactions was uncertainty about the federal budget, the debt ceiling and the fate of President Obama's Affordable Care Act. U.S. companies announced \$336.13 billion in deals in January and February, according to Dealogic. That's up 31 percent from \$256.21 billion during the same period last year. It's the largest amount spent during the first two months of the year since 2000. Companies worldwide have announced \$569 billion in deals so far this year, the highest level since before the financial crisis. American companies announced 1,550 deals in the first two months of 2014, according to Dealogic. While that is down from the last two years, the average transaction size is more than double what it was a year ago. The high prices reflect companies going on the offensive to boost

their earnings. The economy, while growing, still isn't booming. Since the end of the recession, companies have had to act defensively — protecting profits by cutting costs through layoffs or benefit reductions or by moving manufacturing elsewhere (Sweet, 2014).

3.6. Comparing World and Turkey Mergers

The examples of bank mergers in the world and in Turkey as above we can clearly see that the mergers between banks are very successful and beneficial.

Table 3.17: Turkish Banks - Ranked by Total Assets by 2014/ USD \$ Million

Rank	Banks	Total Assets	Balance Sheet
1	Türkiye Cumhuriyeti Ziraat Bankası A.Ş.	104.667	12/31/2014
2	Türkiye İş Bankası A.Ş.	101.435	12/31/2014
3	Türkiye Garanti Bankası A.Ş.	94.366	12/31/2014
4	Akbank T.A.Ş.	88.725	12/31/2014
5	Yapı ve Kredi Bankası A.Ş.	74.088	12/31/2014
6	Türkiye Halk Bankası A.Ş.	65.786	12/31/2014
7	Türkiye Vakıflar Bankası T.A.O.	64.670	12/31/2014
8	Finans Bank A.Ş.	32.735	12/31/2014
9	Denizbank A.Ş.	30.824	12/31/2014
10	Türk Ekonomi Bankası A.Ş.	26.984	12/31/2014
11	ING Bank A.Ş.	16.917	12/31/2014
12	Türk Eximbank	14.933	12/31/2014
13	HSBC Bank A.Ş.	14.581	12/31/2014
14	Odea Bank A.Ş.	9.658	12/31/2014
15	Şekerbank T.A.Ş.	9.016	12/31/2014
16	İller Bankası A.Ş.	6.786	12/31/2014

Considering the banks in Turkey and all over the world, China seems to have two of the biggest banks in the world. The total assets of TC Ziraat Bank having Turkey's largest asset structure are amounted to \$ 104.667 million, whereas the total assets of Australia & New Zeland Banking Group ranking 50th among the world banks are amounted to \$ 631.678 billion(see table 19). This indicates that the banking sector in Turkey works with smaller assets compared to the world banking sector. In this case, the merger of Turkish banks with foreign banks inevitably occur. The merger of Turkish banks with foreign banks has been seen too often especially in recent years.

Table 3.18: World Banks - Ranked by Total Assets, as of December 31, 2014

Rank	Bank	Country	Total assets, US\$
1	ICBC	China	3,326.48
2	China Construction Bank Corporation	China	2,704.16
3	HSBC Holdings	UK	2,634.14
4	Agricultural Bank of China	China	2,579.81
5	JPMorgan Chase & Co	US	2,573.13
6	BNP Paribas	France	2,526.98
7	Bank of China	China	2,463.08
3	Mitsubishi UFJ Financial Group	Japan	2,337.04
9	Credit Agricole Group	France	2,143.88
1C	Barclays PLC	UK	2,114.13
11	Bank of America	US	2,104.53
12	Deutsche Bank	Germany	2,078.13
13	Citigroup Inc	US	1,842.53
14	Japan Post Bank	Japan	1,736 34
15	Weis Fargo	US	1,687.16
16	Mizuho Financial Group	Japan	1,640.71

Table 3.19: Foreign Invesments to Turkey

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Foreign Invesments to Turkey	10	20	22	19	8	9	16	18	12	12

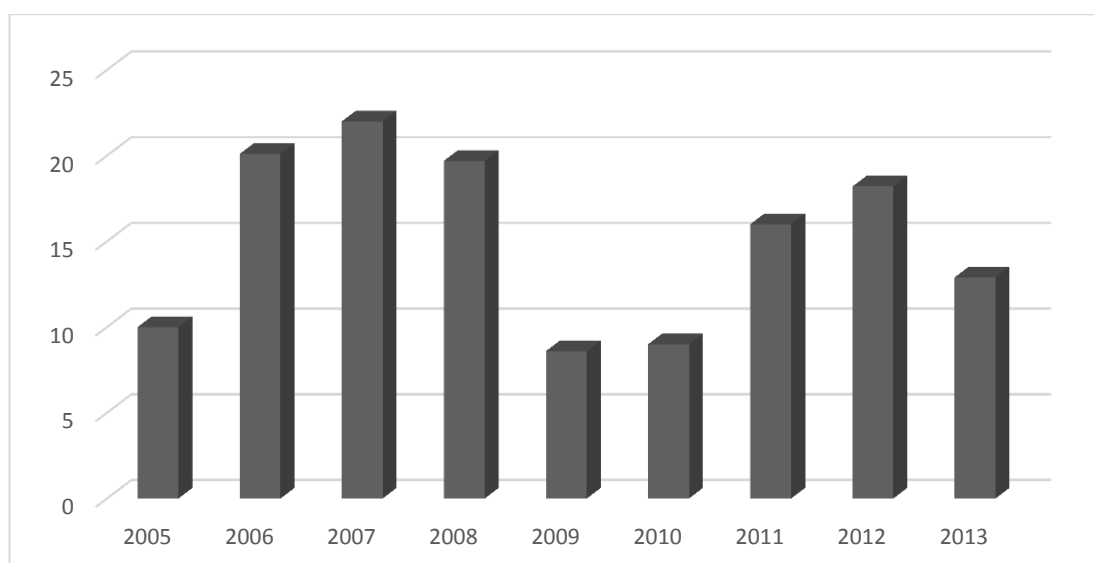


Figure 3.3: Foreign Invesments to Turkey

In the evaluation of developing countries category it is seen that Turkey could not get an appropriate share to its location in terms of its population or its geostrategic position and economic size in attracting foreign capital. Turkey achieved considerable success in macro-economic variables such as public budget balance, economic growth and inflation with reforms starting from 2001. Structural reforms according with the global economy in macroeconomic sense made Turkey attractive for foreign direct investment; whereas the reforms in the financial sector helped Turkey to overcome the global crisis easily. The reforms AK Party government has made rapidly with the contribution of EU membership candicacy process since 2002, the economy becoming more liberal, increasing efficiency and resistance in the financial sector and reorganization of the social security system have stabilized the economy. These reforms have also contributed to create a predictable economic structure and improved the investment climate. It is also anticipated that the statement "Jurisdiction is limited to the verification of compliance of administrative

action and activities with the law. It can not be used as expediency jurisdiction in any case." mentioned with the amendment made to the Constitution in 2010 will make an increasing impact on investments. Therefore, being a politically legally and economically stable country is important to attract foreign direct investments

4.MERGER PROCESS AND FINANCIAL EVALUATION OF MERGERS

4.1. Planning Mergers

Companies should have a pre-prepared plan and related strategies. The success of the merger depends on the rationality of plan. A well-prepared merger plan prevents any wrong decision. Determination of the company's objectives provides managers with guidance to determine the investment policy, to select resources, and to prepare investment project and programs. Well-determined objectives prevent the conflicts in decisions made by different managers in different times. Well-determined objectives also can prevent the managers from making mistakes. If objectives are specified, the objective will ensure that the company can measure desired and expected benefits objectively. When the objectives are determined, criteria should be determined in accordance with these objectives (Duncan, 2008:2). The following criteria can be shown as examples of the criteria specified for a company that decides to merge:

4.1.1. Size

If the primary goal of the merger is only to increase the size of the company, the candidates may be identified and selected based on this criterion. While determining candidates, companies in a certain size in terms of prestige, assets, sales, net earnings, technology may be considered. However, anti-trust practices in the country where the merger will take place are an essential point for the size criterion. For example, the sizes of market share that will be achieved by the mergers are is under control in the USA. Likewise, the size of market share to be achieved by mergers has been restricted by the competition contract in the European Union (EU). These practices aiming to prevent monopolization must be taken into account (Gauhan, 2007: 25).

4.1.2. Convenience

Although it is difficult to tell the candidate's suitability numerically, it is a key criterion in assessing the candidate. There are several companies that seem in appropriate in terms of profitability, but weaker in terms of merging with acquiring company, and

thus unsuccessful. The relevance factor can be researched from various perspectives (Damadoran, 2005:11):

- Human resources,
- Physical resources,
- Technology,
- Marketing,
- Financial resources,
- Convenience of environment.

4.1.3. Efficiency

A potential merger or acquisition should be assessed with the performance ratio in investments or the expected performance ratio. These performance ratios can be determined based on the acquiring company's performance in historical investment, performance ratio of the leading companies in the industry, performance ratio of competing companies, and finally the opportunity costs (Lipton, 2006:2).

4.1.4. Ensuring Stability in Revenues

Some sectors are affected significantly by periodic or seasonal fluctuations. Companies in these sectors may merge with companies that have regular sales, which are capable of ensuring stability in revenues, and not affected much by seasonal or periodic conditions. They may eliminate companies which are likely to be affected by seasonal or periodic fluctuations or companies with discontinuous production capacity (Shahrur, 2005:61-72).

4.1.5. Effective Control

Companies can set limits to the shares to be issued for effective control, tax and legal reasons. For instance, they can develop a criterion stating that any person cannot have more than 5% of shares.

4.1.6. Assessment of Strengths and Weaknesses

Companies wishing to merge should identify their strengths and try to choose the most appropriate candidates so as to use these strengths in the best way. For example, if the company is powerful in terms of liquidity and has free cash flows, it is more rational to choose candidates, which are weak in these terms (Sherman and Milledga, 2006:10).

Determination of asset or expertise weaknesses of the company enables the company to find right candidates to strengthen these weaknesses. A company might have weakness in adding new products to product line, entering new markets, technical knowledge, weakness of company image, lack of know-how, lack of human capital, marketing power, supply sources etc. Detection of these aspects provide an enormous help with determining the selection criteria for the candidate (Gorton et al., 2005:3-5).

4.1.7. Geographical Location

Company's site of establishment might have a strategic importance in terms of proximity to raw materials and transportation costs. Therefore, the geographical location and site of establishment should be taken into consideration (www.smallbusinessnotes.com).

4.1.8. Market Type

Monopolistic tendencies, intense competition or marketing activities in the market are demanded. The market shares in some sectors are so changeable that marketing and promotion costs can be almost the same. The analysis of these sectors should be performed carefully (<http://news.bbc.co.uk>).

4.2. Searching and Selecting the Candidate Companies for the Merger

Search and selection process is a systematic approach to select appropriate candidate based on the criteria developed in the first step. The search includes the issue of how and where the candidates should be.

It is difficult to find a fully suitable candidate for developed criteria, but the following sources can be used to find a way to get such candidates (Yalvac, 2011:36):

- Newspapers, especially financial based ones,
- Occupational publications can give inherently more useful and reliable information
- Financial advisors,
- Commercial banks,
- Investment banks and others.

Benefitting from the tools used to find the candidates mentioned briefly above might vary by the condition of each company.

Searching is the basis of determination of the company to merge with. Determination is the process of selecting the most appropriate candidate based on objectives and principles. At this stage, merger candidates are assessed according to various criteria. Then, the most appropriate ones for the objectives are identified.

In fact, it is difficult to find exactly suitable candidates for the required criteria, but it is important to eliminate candidates whose qualifications are much better or worse than desired characteristics. In this context, determination of the ideal candidate helps the company to have supplemental power that it does not have or cannot have an adequate level of. While other things are stable, weaknesses will be paired with the company's strengths by merging (International Comparative Legal Guide to Merger Control 2010:1-2).

4.3. Analysis of The Merger Terms

4.3.1. Quantitative Factors Influencing the Merger Terms

Quantitative factors influencing the merger terms are explained below in detail:

4.3.1.1. Future Revenues and Growth Rate of the Companies

Future price/earnings ratios of the shares of the companies are the most important factors determining the value of acquisition. Price/earnings ratio of a company means a particular level of the company's current earnings. A high price/earnings ratio in the shares is often seen with rapid growth. When the one of the company's shares' price/earnings ratio is higher than that of another company, it can be said that it is a result and an indication of that company's growth rate is higher as long as other conditions remain the same (Pilsbury and Meaney 2009:5-7).

The following formula shows how many years it will take for the acquiring company to reach the prior profitability level per the share to the merger.

$$E_1(1+g_1)^n = E_2(1+g_2)^n$$

In this formula, E_1 stands for the acquiring company's profit per share before merger. g_1 refers to growth rate before merger. E_2 shows the profit per share after merger. g_2 refers to growth rate after merger. n refers to the time (year).

As the duration gets shorter, the appeal of acquiring increases, whereas the appeal of acquiring a company decreases for the acquiring company only when increase in the growth rate can prevent the initial decline in earnings per share in long term.

Another drawback of considering only the immediate impact of acquisition on revenue per share when determining the conditions of acquisition is failing to notice increasing revenue that could be provided by the growth in future periods. Synergy and economies of scale that will be created by the growth would increase the net profit of the acquiring company more than the sum of the two companies' net profit (International Comparative Legal Guide to Merger Control 2010: 1-2).

4.3.1.2. Distributed Dividend

Distributed dividends might affect the merger terms since it shows the actual gain of the partners. Companies wishing to merge might increase the dividend distribution ratio (distributed dividend/annual net profit) to encourage the partners of other company to merge. Expectation for higher rates of dividend might be a factor motivating the partners of the company to merge. (Craig and De Burca 2008:950).

On the other hand, dividend distributed by companies has an impact on the market price of the shares under certain conditions. Dividend paid especially in the industries with a slowing down growth rate and decreasing profitability is one of the key variables affecting the market price of the shares. In contrast, the effect of dividends paid in the companies with high profitability and potential growth rate on the market price of the shares is relatively smaller (Pilsbury and Meaney 2009:11-12).

4.3.1.3. Market Price of the Shares

Since the market price of shares reflects some factors determining the companies' potential to distribute profit and provide revenue, their business risks, capital structure and the value of their assets, it is of great importance in determining acquisition terms (Yalvac, 2011:36).

Entrepreneurs acquiring the shares of a company for various reasons pay an amount of money over the market price of shares to the owners of the companies they acquire. These reasons can be explained as follows (Craig and De Burca 2008:950-951):

- If the company to be acquired had been operated in an industry, partners may have caused a decrease in the market price of shares by reducing the shares by a high discount rate as a result of a pessimistic estimate.

- The market price of the shares may be higher because of the acquiring company's savings from activity costs and the positive effects on revenues.

The company to be acquired might have to pay a higher amount than the market price of shares in order to convince partners of the other company to merge.

4.3.1.4. Book Value of the Merging Company

Book value per share in most mergers remains fairly insignificant in forming an assessment basis. Although this was the dominant element in the mergers in the past, it has currently been important only if it is significantly higher than the market value (Cicerali, 2012:41).

The book value is somehow an indication of financial values provided by the company to be acquired. Although the target company has the low rate of profit and profitability, there is no doubt that the company's value will rise if the capacity of the assets to generate revenue under a more effective management is increased after the merger. To sum up, if the potential contributions of the financial values of the company to be acquired are expected to be increased, the book values may be effective in the detection of merger terms (Craig and De Burca 2008:951).

4.3.1.5. Liquidation Value of the Company to Merge with

Liquidation value of the company is the amount remaining after all of the company's assets is converted into cash, and its debt is paid (Sealy, 2010:2). The most important factor making liquidation value different from book value or recorded value is that current market value (fair) is quite different from the historical costs. This difference is caused by the fact that particularly tangible assets, investments and inventories gained value according to the amount shown in the balance sheet. On the other hand, having problems with the collection of claims, valueless intangible assets and activated expenses during the liquidation or intangible assets and activated expenses with much lower no-cash value than their recorded value cause a reduction in the company's liquidation value (Cooper, 2006:120-124).

4.3.1.6. Net Working (Business) Capital of Company to Merge with

One of the factors affecting the mergers is the net working capital. If the company to be acquired has a positive net working capital, position of the acquiring company may get better. After the Second World War, the most important motive for the

acquisitions of the western textile companies became the excess of their net working capital. The excess of net working capital not only strengthens the liquidity of the acquiring company, but also increases its debt capacity (Gaughan, 2007:37).

4.3.1.7. Pledging Company Assets as Security

Whether the company to be acquired formed a lien restricting the use of the assets is another factor that will be taken into account even though it is not as important as factors mentioned above. If the lien is formed on the assets of the company has to be acquired by third parties, the acquiring company's right to use (saving) these assets freely is limited. The acquiring company becomes deprived of the opportunity to provide the source by showing the assets with lien as assurance. Therefore, before acquiring a company, it should be investigated whether the company has assets with lien or similar restrictive rights (Huizinga, 2005:64).

Investigations conducted to determine which quantitative factors are more important to identify the merger or acquisition terms could not reach a definite conclusion. Although one of these quantitative factors may have a greater impact in a merger, other factors may play a decisive role in determining terms.

4.3.2. Qualitative Factors Influencing Merger Terms

In some cases, the ideas that are reflected in the financial data of the target company, except for factors characterized as quantitative may play an effective role in determination of the merger terms. It is difficult or impossible to express these ideas that can be grouped under the title of qualitative factors in numbers. The following factors can be shown as examples of the qualitative factors affecting the merger terms (Tang and Metwalli, 2006:41-48):

- Synergistic effects of the merger: Estimates that the whole will have a greater value than the elements constituting it would affect the merger conditions. The expectations of the companies for an increase in their current profits after merging may result in paying a higher amount of money on the company to be merged with than the price that would be paid.
- The desire for a highly skilled management team: A company lacking a skilled management team or knowledge and experience can resolve this deficiency by having a merger with another company having a highly skilled management team.

- Provision of the necessary technical and research team thanks to the merger: A company may merge with another company in order to benefit from the on-site technical staff and research staff. Thus, the problem of deficiency in technical and research personnel can be resolved.
- Benefit from the company's industrial property rights and / or experience in production: A company may merge with another company in order to get advantage of its industrial rights such as patents, copyrights, trademarks, commercial name or to benefit from its experience in production area.
- To have an effective sales organization: A company without an effective sales organization may deal with this problem by merging with another company with an effective marketing organization. In this case, establishing a sales organization instead of merging may not be a good solution.

4.4. Financial Assessment and Methods Used

Financial assessment process includes both the candidate company's assessment and the acquiring company's assessment. The acquiring company must determine the actual value of the target company both to be able to offer the most appropriate price and to determine whether the target company suits best its financial expectations (Yalkın, 2012:34). On the other hand, the target company also must be aware of its own actual value and go to merger meetings with this awareness. Various methods that can be used to learn how to determine an acceptable level of value by the acquiring or selling company are shown below. One or some of these methods can be applied while assessing a company. Choice of the appropriate method or methods for the conditions and determination of possible value of the company before meetings are important. The acceptable value of companies can be determined with some adjustments despite the limitations of each approach (Campa, 2006:47).

4.4.1. The book Value

Book value is the recorded value of an asset on the accounts. Book value is not a definitive criterion for the assessment of companies in the mergers because there is not a strong relationship between the current value and book value of the company. If the historical values on the balance sheet do not stand for the correct value of the

company's assets, the relation of book value with the company value ends up (Cukur, 2006:2).

Another drawback of considering book value as the company's value occurs when different accounting methods are used. The differences in accounting methods may even make the value of the same company different. While book value was used more often in mergers and acquisitions in the past, frequency of use has decreased (Garp, 2009: 42). The use of book value causes more problems especially in countries where inflation rates are high. However, the company's book value can be used if it is significantly higher than its market value. In addition, the aim of the mergers and acquisitions is to get the assets of the other company, book value may be convenient to use. Another case when book value may be important is the use of it in companies with a significant portion of monetary assets such as banks. Since a significant portion of assets is comprised of cash or cash equivalent assets in such companies, book value would be close to the current value (Faccio, 2006:4).

4.4.2. The Market Value

The market value of the company's shares is a criterion covering a variety of factors like the company's future profits and dividend distribution. Since purchase and sale of companies as a whole is not a usual situation, it is measured by market value. The market value of a company's shares is a value that occurs depending on supply and demand in market conditions. The market value may also vary due to only changes in market conditions. This situation is common especially in dysfunctional capital markets. Since these markets may be affected easily by the speculators, there is possibility for manipulation. In other words, market conditions and such factors may cause the deviation between the market value and the actual value of a stock. In this case, the market value of a company can be interpreted as the value agreed on by the parties in order to merge (Schoop, 2013:41).

The objectionable aspects in considering the market value as a basis for determining the company value are as follows (Kuşçu, 2010:4):

- When a large portion of the company's shares is not traded in market, the value for these shares does not show the real value of the company. For example, if only 15% of a company go public, the company's shares can be quoted on the stock exchange. In practice, it can be seen that only 15-20% of many companies are traded in the

market. In this case, the future market value would not show the real value of the company.

- If the merger takes place with the mutual desire of the parties, this possibility will be heard, albeit in the form of a whisper, and the expectations for this may arise. According to the results of many empirical studies conducted in the USA, if the merger is seen as favorable by the markets, the merger turns out to be profitable for the company to merge, the company shares experience a sudden rise, and thus the market value increase fictively before the merger.

4.4.3. The Going Concern Value

The going-concern value is established by adding the organization element to a company's assets. It is also the company's value when it is sold as a whole. While determining this value, it is important to consider the company's gaining and the ratio required for the gains (Magnuson, 2009:3).

The going-concern value is used in research on whether the market value reflects real values or not. It is also defined as the value gained when the companies are sold as a whole.

If there is an efficient capital market and a high amount of shares of the company are sold, the going-concern value can be found based on the market price of the shares. When there is efficient capital market, the going-concern value is assumed to be equal to the market price of the shares. On the other hand, if a high amount of shares is not sold, the going-concern value is determined according to the company's ability to generate income. This value is closely related to profitability (Martynova and Renneboog, 2008:3).

4.4.4. The Liquidation Value

Liquidation value of a company is the value after deducting the debts of the company from the amount of cash that will be obtained from converting the company into money. It is different from book value because the current value of the assets is not the same as the historical values. This difference comes especially from the value of tangible fixed assets and stocks. Furthermore, intangible fixed assets and activated expenses do not have a value during liquidation or they can be liquidated in very low rates. All of these are factors that reduce the company's liquidation value (Aharon, 2010:3-4).

The liquidation value is typically very low in the compulsory liquidation cases such as bankruptcy. The liquidation value in voluntary liquidation cases would be higher than the compulsory liquidation value. In the mergers, the liquidation value usually does not have an important role. Although it is not very common, the cases of lower market value of the company as a going-concern value than the liquidation value may be important. In such cases, the liquidation value eventually affects the merger terms (Geppert and Kamerschen, 2008:332-333).

4.4.5. The Actual Value

The actual value of a company is defined as the value determined by several variables such as the assets, profitability, distributed dividends, structure of capital. The actual value of a company is less changeable than its market value. Therefore, it can be said that the actual value of a company sometimes may be less than its market value (Duncan, 2008:2).

In practice, the going-concern value of the company is highest value. Book and liquidation values come as the second ones after it. In theory, the actual value of company is considered to be equal to the market value under perfect competition conditions. However, a market with perfect competition conditions is impossible in practice. In the mergers, the price that will be offered to the company to merge with would be somewhere between the liquidation value and the actual value. The liquidation value is the lowest value that could be offered to the company because any price offer below this value cannot be accepted. Likewise, offering a price above the actual value would also be irrational. The companies must explore the actual value of the company to merge with so that they can use their sources in the best way and make right decisions for investment (Lipton, 2006:3).

4.5. Financing Mergers

Financing mergers is an issue that should be decided at the planning stage. It is one of the factors that determine whether the merger will occur or not. There is a wide variety of payment methods for merger and acquisition activities. Some of them are as follows (Gauhan, 2007: 57).

- Cash offer,
- Share for share,
- Payment by notes payables,
- Payment by shares of the third parties.

Tax applications and transaction costs have the greatest impact on the choice of payment method. The acquiring company's distinctive characteristics are also important on the determination of the payment method that will be used for merger and acquisition activities. The most essential ones among these characteristics are the company's capital structure and free cash flow. The company selects payment methods after evaluating these characteristics (Cebi, 2010:61).

4.5.1. Cash Offer

An advantage of takeovers by cash is that the acquiring company gets the chance to benefit alone from synergy that may occur as a result of sale of all shares belonging to the target company's shareholders. However, the buyer has to take the entire risk of the possibility that synergy expected after the merger may not occur. Cash payment in acquisitions is associated with quiet fast and effective transactions. The shareholders of the company for sale can determine quickly whether they will make an objection to the agreement or not, since they state how much they will receive in return for shares in the sale contract. This facilitates the flow of sales transactions. Cash offers for an acquisition activity can be used both in friendly and hostile takeovers (Shahrur, 2005:61).

Studies conducted to explore how the cash payment in acquisitions in which the stock is traded on the stock exchange is reflected on prices have been cited in the literature. It was observed in these studies that the market has responded more positively to the mergers with cash payment than those with the exchange of shares, although a definite conclusion could not be reached. The rules determining the provision order of the resources used in cash payments are based on the theory of information asymmetry. While financing the investments intended to be achieved according to this rule, the internal resources should come first. If this is not enough, foreign sources are switched on. If a financing gap still exists, the method of increasing capital is applied (Gorton et al., 2005:3-5).

Although cash payment in acquisitions has some advantages, it is an undeniable fact that it also has some disadvantages. For instance, cash payment may put the acquiring company's liquidity at risk, and it may force the company to use an undesired accounting method. Accounting and tax issues are the most fundamental topics in this regard.

4.5.2. Share-for-Share

In financing with stock exchange method, the acquiring company's shares are given to the target company's shareholders instead of paying them in cash. If the shareholders acquired in this way maintain their existence after the merger, they become the shareholders of it. However, if they do not, they become the shareholder of the newly established company (Sahin and Yilmaz, 2010: 37). The most famous example of the mergers with the stock exchange is the merger of German company Daimler-Benz with American company Chrysler. Both companies pooled their resources (pooling of interest). Liquidity is retained in the mergers with stock-based payments. Additional interest payments can be avoided. Credibility of the company acquired improves the debt level of the acquiring company. The purchase price of the company can be determined more easily compared to the acquisitions with cash payment. Synergy and tax benefits can also be seen as advantages for the acquiring company (Cooper, 2006:122).

Many factors like the merger's structure, the stock holders' profile, capital market performance of the company to merge with and long-term results of various taxes should be taken into consideration while selecting this method. In addition, future investment opportunities both of the acquiring company and the target company affect the decisions to use the stock exchange method.

Another interesting dimension of the mergers is the positive effect of the merger on some important stock valuation ratios. If the acquiring company's stock price / earnings ratio, also defined as earnings per share, is higher than that of the company acquired, and if markets know that, the newly formed company can benefit from this situation. In other words, the new company's stock price / earnings ratio can be further promoted (Huizinga, 2005:68).

Despite these advantages, payment through share method has the problem of information asymmetry. The target company's shareholders cannot determine the stock price of the acquiring company, and hence the offer value easily. Meanwhile, a problem of bilateral asymmetry information exists. The acquiring company cannot know the exact value of the target company and the potential earnings from this formation in the target company (Acar, 2011: 42).

4.5.3. Payment by Notes Payables

The equities that will be used for payment may be converted into shares. Such equities enable the buyers and sellers to get benefit in terms of both stock and debt. First of all, there are some significant benefits for the seller. Convertible bonds eliminate the possibility of potential damage in case of a fall in the stock prices (Cevikcelik, 2012: 38). They guarantee a constant return. If the new company established by the merger becomes successful in the future, this also presents the opportunity to be able to participate in the company. Secondly, the buyer also gets benefit in some ways. Tax advantage due to the interest payments is one of these benefits. It would not have to pay capital by converting them into shares (Pilsbury and Meaney 2009:7-9).

Another tool used as a payment tool in merger and acquisition activities is debt securities that will be issued by the acquiring company. This method has also a risky aspect. Exporting fixed-income securities during periods of high rates in the economy will be a costly method if a decline in interest rates is expected in the future. Although issuance of floating rate bonds is possible, it will be difficult to impose these target company shareholders (Sherman and Milledga, 2006: 6-10).

4.5.4. Payment by Shares of the Third Parties

If the acquiring company has the shares of another company, it can use these as a payment tool. For example, the shares of Allianz, which is a leading German insurance company, was used for the merger of Bayerischen Vereinsbank, which is one of the important banks in Germany with Bayerischen Hypotheken-und Wechsel-Bank (Gaughan, 2007:39).

4.6. Completing Process and Integration

What companies that completed the merger process need to do for to be successful is to ensure integration in various dimensions. Even though it seems easy to achieve such compatibility, it is difficult to do this in practice. Many senior managers in mergers and acquisitions were unable to resolve complex management and human resources problems that occurred in this process. In addition to this, failure to provide cohesion and integration led to disappointing merger-related results (Ari, 2010:33). The partnership agreement is completed along with the agreement between the parties. Partnership is actualized right after obtaining permits from

regulatory agencies. The integration process starts when the merger transaction ends. This process continues until companies create a compatible corporate structure (Surroca, Tribò and Waddock, 2010:467-469).

Companies get the chance to be more acquainted with each other at the integration phase of the merger. Various applications may be used to create a new organization with a more robust structure. These applications can be summarized as follows (Duncan, 2008:2-4):

- New strategic decisions for company after merging can be made. The company may get funds from the capital markets (public offering).
- The merged companies may be separated again, or the company may be split and new companies may show up.
- New management team may get rid of unnecessary and non-operating assets and departments, or purchase or establish new ones.
- Human resources are reorganized with voluntary employee withdrawal or liquidation of unnecessary staff for the new company's operations.

4.7. Discouraging Mergers

A mutual agreement may not be reached by all merger activities. The target company's management team may disagree with the idea of merger, and thus they may adopt discouraging defenses against the merger. The main tactics to discourage mergers are explained in detail below.

4.7.1. Golden Parachute

In this defensive tactic, company must sign business contracts including a very high compensation with the current managers, and so high amounts of compensation must be paid when the management team has to be changed with the merger. After that, the merger activity becomes expensive for the company desiring to merge, and the decision to merge may be cancelled. Regulations in parachute method consist of three different levels. The first one of these is the one organized for the top executives called "golden parachute". The second one is "silver parachute" created for middle level managers. The last one is "tin parachute" applied for lower-level employees (Pinto, 2009:2; Yanpar, 2013:117).

4.7.2. White Knight

If the company wishing to merge realizes that it cannot prevent the merger from happening, it invites another company, which they think that they would work better with to merge. However, since the target company would engage in a merger, this method becomes the last option. They wait for the time when the target company would have no other choice (Aharon, 2010:4).

4.7.3. Crown Jewels Lock Up

The target company sells its most valuable assets to a third party agreed previously as a measure to hostile takeovers. Thus, the desired takeover is prevented since the company will look less valuable (Tang and Metwalli, 2006:41-48).

4.7.4. Pac-Man Defense

This defense tactic is named after a computer game in which the object followed by others trying to catch it, and it tries to catch the one that follows it after a while. This tactic is mostly seen in the United States. The target company changes its tactics after a while to acquire the company desiring to purchase it. In this case, the company wishing to merge could circle the wagons and give up the attack (Sarioğlu, 2012:69).

4.7.5. Making Changes in the Articles of Incorporation

Another way used to prevent hostile takeovers is making changes in the articles of incorporation and management-related regulations. It includes status changes allowing extension of the board's duty term, the election of the board of directors for two or three years or the renewal of only a portion of the board members every year. Another method discouraging the merger is to make change in the articles of incorporation, and to increase quorum of decision required to decide for the merger. Another defensive method is to pay a pre-determined price at least on the shares of company in case of takeover with the provisions laid down in the contract. This price can be either determined as a fixed price to be dependent on a certain variable (price / earnings ratio) (Surroca, Tribò and Waddock, 2010:467).

4.7.6. Greenmail

Greenmail is a higher price offer to a partner wishing to increase its share of the company's stock by collecting shares from the market for its shares. Thus, it may be possible to prevent any increase in the partner's shares in the company. It is known that the use of this method started when Carl Icahn, who is an American investor, acquired 9.9% share of the company Saxson in return for 7,21 \$ in July 1979, and the company management got these shares back for 10,5 \$ in February 1980 (Yanpar, 2013:119).

4.7.7. Poison Pills

This term refers to a virtual suicide attempt in order to prevent a merger. In other words, it is taking measures that may damage the target company so that the target company can be made less desirable for the other company. There is a limit to excessive and blatant use these poison pills, methods. Company managers are aware of this limit because managers know that shareholders will not respond in a positive manner to excessive use of these methods known as a sort of virtual suicide and having the worst of company. By way of examples (Gaughan, 2007:48):

- There are different conditions for borrowing, and some of them may cause problems. For example, company may have to pay all debts borrowed before without waiting for their payment terms because of these conditions when the company is acquired. This will cause that the assets, which made companies more attractive before, are sold at bargain prices.
- By reversing golden parachute mechanism, such high amounts of compensation may be determined for the managers in the target company that the cash from these compensations can literally save the company in terms of cash. Awareness of this will make the company less attractive.
- By preferring to merge for defense purposes, causing trouble with assets with undetectable exact value and debts.

The most effective way to prevent a company's takeover or to maintain its independent existence is to manage the company in the best way, and to maximize the company's market value. Otherwise, the company's acquisition is always possible. This will make companies to apply various defensive tactics when they do

not wish to merge. As a result, companies will be faced with the problem of the reduction both in cash and other sources.

4.8.Success at Mergers

The merger activities gained acceleration in the early 1990s. The demand for the mergers gradually increased since 1994. Mergers and acquisitions were experienced especially in some sectors like retail, finance, food, pharmaceutical, automotive and IT during this period. However, approximately 70% of the implemented mergers did not meet the expectations, and they were seen as failures. Before determining if the mergers are successful, the success should be defined. What the success is, whether it is a deal expected to reveal positive results for the acquiring company or it is a deal expected to reveal positive results for the target have been discussed for years. Success is not just a profitable deal. Success requires a long-term perspective. Hence, a successful merger refers to both a successful deal and a successful integration (Sarioğlu, 2012:70-72).

While some merged companies conduct their activities in a more effective way, most of them leave the merger, and go back to their old structure or disappear. Although it is a fact that the failure rate is very high, this rate varies by year and country. The data indicates that the probability of being successful is lower than 50% for the acquiring company.

Merger success can be measured based on different criteria. To reduce costs, to increase sales revenue, to raise the shares' value, to increase market share are some of the major criteria. However, these criteria may conflict with each other. For example, a company's profit may decrease despite its increased market share. In addition, the value of its shares may decrease, although its sales revenue increases. Therefore, there is not just one criterion that can be used to measure success of company mergers and acquisitions. Merger success factors depend on the factors that will be discussed in detail below (Shahrur, 2005:62-66; Yanpar, 2013:110-117).

4.8.1.Balance in Power of Companies to Merge

Balance in powers of the companies to merge is important for the merger's success. If any company has serious problems with the financial structure or it is not able to achieve the determined objectives, the merger's success is affected negatively. Balance in both the financial condition and size of the company's results in success.

If the merger becomes an option for companies where things went bad to get rid of problems, this causes unsatisfactory results (Pilsbury and Meaney 2009:5-8).

4.8.2. Previous Performance analysis in Companies to Merge

The company's gross and net profit margins, sales expenses/sales ratio, liquidity ratios, private capital profitability, price / income ratio of shares, and previous development trends of these ratios are the main points to be considered in the analysis. In addition, comparison of company's ratios with typical ratios in the relevant sectors is useful to measure the success of the company (Tang and Metwalli, 2006:41-47).

4.8.3. Assessment of the Management of Company to Merge

Since the management team is the most important factor in the success formula, evaluation of the senior managers is essentially important. Previous achievements of the managers are an indication for this issue. Energy and motivation changes, capacity to adapt changing conditions, experience, and ability to make decisions, ability to work in a team of the managers are the main demanded qualifications. Planning for future is also important in this issue. If a company is acquired for its highly skilled managers, the desired goal cannot be reached in case of managers' turnover (Huizinga, 2005:64-66).

4.8.4. Investigation of Personnel and Organizational Issues of Company to Merge

Human resources is the critical factor at the merger's success. Failure to the issues related to human resources leads to an increase in employee turnover rates. This is important because the employees play a key role in the company's success. After announcement of the merger, business meetings should be managed to inform staff in both companies in order to avoid apprehension. While exploring the staff and organizational problems, the following points should be investigated (Craig and De Burca 2008:950-659):

- The staff's commitment to their work and company in the company to be acquired,
- Disagreements and conflicts between managers,
- Remuneration policy and social rights in company to be acquired, and capability of remuneration policy of fitting into the acquiring

company's remuneration policy,

- Personnel expenses in the target company, and the possible changes in these expenses that might occur in the future,
- Compatibility of the target company's organizational structure with the organization of the acquiring company.

4.8.5. Investigation of Assets of Company to Merge

Investigation of the assets of company to merge with is important. Some points should be taken into consideration while examining the companies' assets. These points can be listed as follows (Tang and Metwalli, 2006:46):

- Whether tangible assets works properly or not,
- Whether tangible assets obsolete technically or not,
- Company's R&D expenses in recent years,
- Company's new products developed in recent years,
- Company's industrial property rights, and the contribution of these rights to company earnings,
- Company's ability to recover debts,
- A realistic revaluation of company stock,
- Company's new investments.

4.8.6. Arranging Merger Meetings Meticulously

Companies wishing to merge should exercise due care of the meetings and participate in these meetings with the authorized bodies so that the merger can be successful in the future. Managers should specify their needs and their goals clearly, so that problems that may occur after merging and lead to failure can be eliminated. The merger agreement should be edited in a way to cover all details. If companies are originated in countries with different legal systems, an appropriate environment for agreement should be prepared properly (Huizinga, 2005:68).

4.8.7. Estimation of Financial Burdens of the Merger

The merger sometimes fails not because of selection of the wrong company. The cause of failure is sometimes that the acquiring company is not strong enough to overcome the financial burden of this process despite the right choice (Schoop, 2013:9).

4.9. Rational Merger Policy

Arbitrary merger decisions based on personal psychological motives, or the attractiveness of only prices, or the aim to make stock on hand useful also raise the causes of failure (Duncan, 2008:4-6).

4.9.1. Compatibility of Companies with Each Other

Companies may have problems with the use of financial, managerial, technical, new products, technological advances, idle capacity, and marketing. Mergers should create solutions to these problems. Mergers should be able to resolve deficiencies in listed areas (Tang and Metwalli, 2006:52).

4.9.2. Allocation of Responsibilities and Authority in the Company

Companies wishing to merge in order to have qualified staff and a rational management style are obligated to make a determination regarding suitable powers and responsibilities that will be given to the other company's managers for this purpose. After merging, budget system is as important as the business policy whose capital expenditures authority is adopted in terms of management. If the allocation of authority and responsibilities is not specified, this will lead to emergence of elements that will cause failure in the merger (Gorton et al., 2005:3-7).

4.9.3. Determination of Dividends Policy

Determination of what will be the new company's dividend policy is important for the merger's success. Whether dividend policy will be based on dividends to partners or kept in the company should be determined in advance. Although company partners accept to get a share through dividends before, managers of the other company forming new company tend to retain profit in the company. This may lead to negative consequences after merging (Tang and Metwalli, 2006:52).

4.9.4. Common Goals and Understanding

The common objectives should be determined initially so that the merger can provide the desired benefits. The company's objective should be focused on one of the goals like specialization, diversification, providing technological developments for this purpose. Inability to identify common goals or to follow appropriate strategies or the goals causes failure of the merger (Tang and Metwalli, 2006:52).

4.9.5. Realization of the Problems in the Beginning and Taking Early Measures

Merger decisions are not the decisions that can be made based on only instincts or personal desires without necessary reviews due to their potential vital results. When the merger is established, it should be known that not only physical assets but also the staff is engaged with the merger. Mergers that can be considered ideal from marketing, financial and technical aspects may fail because of neglecting staff issues or failure to ensure agreement between the managers of the merged companies on fundamental issues (Gorton et al., 2005:3-7).

4.10. Causes of Merger Failure

Based on experience it can be said that companies think in a wrong and inefficient way about seven areas. These areas are the reasons for why the merger transactions fail. The areas causing problems are explained below.

4.10.1. Vision

In a successful merger, the merger should be established on long-term incentives expressed with a clear and realistic vision. It should be aimed to create values to achieve things together that can be achieved alone by each company. It may be inevitable for visions that seem excellent at the beginning and very ambitious to fail in the real world. Vision is the most accurate test to understand whether post-merger integration tasks are executed in the right way or not (Onur, 2008:18).

Vision involves the broadest and most comprehensive objectives. It depicts the future picture of the company without specifying the necessary tools and resources for the objectives. Vision of a company, in its simplest form, is a picture of the company's future shared by all employees. In this respect, vision cannot be thought as an individual fancy. Instead, vision can be thought as a mental design bringing beliefs about how the future would be like and in which ideal ways the desired condition can be achieved together (Tang and Metwalli, 2006:54).

4.10.2. Leadership

Active work of leaders in the merged companies is directly related to the merger's success. According to the consensus in the merger expert's panel of U.S. Federal Trade Commission, success or failure of mergers and acquisitions are affected by the behavior and personal characteristics of chairperson of the company's board, who manages the company's merger period, rather than the analytical model,

applied by the company's employees and / or planned protocols. In short, the primary driving force behind the merger is to create leaders (Cooper, 2006:124).

Leadership is the most urgent priority when a merger is ended up. The urgency of leadership is often neglected. As a result, companies are faced with the post-merger leadership gap. Thus, this condition threatens their existence. The resulting waste of time and resources leads to demoralization of workforce and uncertainty (Shahrur, 2005:64).

4.10.3. Growth

Companies see growth as the most important reason for the merger, and concentrate on economies of scale. They think that the short-term success is of great importance. However, this is not a sustainable purpose. Companies can be successful thanks to cost constraints. However, they tend to return to the pre-merger operation mode in long term (Garp, 2009:54).

4.10.4. Early Gains

Companies assume that the employees and everyone else are very enthusiastic to be a partner before the merger. However, in reality, the employees believe that the merger will not provide any benefit. Ensuring necessary desire is possible only if early gains become quick, positive and visible gains in short term (Garp, 2009:53).

4.10.5. Cultural Differences

Cultural differences are the most important cause of the failure in acquisitions and mergers. The critical point in the success of any merger is cultural integration. Hewitt Associates' research revealed that human resources managers see the merger of different corporate cultures as the biggest problem in company mergers (Cooper, 2006:124).

Two different cultures must work together because of the merger's structure. When one of the parties in the merger comes from a different culture from the other party, culture-related problems occur. It is difficult to continue to operate until a common culture is created, when organizations have different understanding, value judgments, approaches, incompatible policies, strategies and management styles (Kose, 2010:27).

Companies should be careful with integrating differences in a single system and meeting new cultures as far as possible by emphasizing that two companies joined their forces in order to reach inter-cultural harmony during the integration of two

cultures, and to overcome the cultural distance between employees. This affects performance and productivity in a bad way, and hence affects the success of mergers. For this reason, organizations should not ignore the importance of cultural differences (Gauhan, 2007:47).

Most of the companies stated that "failure to communicate with employees" is the barrier to the merger integration. Companies need communication managers to ensure the improvement of communication in the merger programs. The responsibility of these managers is not only to inform the market with written printed documents on newspapers and magazines. A transparent communication network should be established, and to reduce the uncertainty and the employees' tension with an active strategy should be aimed. If a transparent, obvious and true disclosure policy is used for the employees, they will feel more responsible for their company (Pilsbury and Meaney 2009:7-10).

4.10.6. Communication

In company mergers, partners should develop an effective communication program that will facilitate merger process, shape the merger, build confidence and reduce uncertainty and stress for staff. Proper communication networks that will make the company successful and help the merger to create positive results should be focused (Damadoran, 2005:13).

4.10.7. Risk Management

Companies can reduce the risks that are part of any merger transaction with the help of risk management techniques. It is difficult to talk about the risks. However, if the risks are not discussed and managed well, they turn into a threat. Managing risks carefully changes this negative view (Garp, 2009:54).

4.10.8. Foreign Direct Investment

The relationship between foreign acquisitions and exchange rates is another important subject. Kenneth (1991) argued that in a world where a highly mobile capital exists, risk-adjusted expected returns on all international assets will be equalized. As the dollar declines relative to its long-run equilibrium value, the returns on all dollar assets will fall as well, and hence the prices of these assets will rise. (Kenneth, 1991:1191)

Although, in Japan, the real value of the yen did not change importantly between the end of 1987 and early 1991; the rate of Japanese net FDI outflows increased until

the end of 1989. Then fell. By early 1991, outflows stood at one half of the late 1989 peak. The relative wealth is altered by the relative value of Japanese stocks, which rose between end-1987 and end-1989, and fell rapidly thereafter (Kenneth,1991:1215)

Most studies focused on the advantage of FDI to increase the volume and efficiency of investment, the technological diffusion that accompanies such investment, and the improvements in human capital and productivity that results from the higher levels of competition, as domestic firms are exposed to more efficient management and productive methods. These capital flows are important for developing countries where capital constrained and lack the access to technology and foreign markets that Multinational Corporations (MNCs) (Kunčič and Svetličič, 2014:67)

The direct effect of FDI on productivity or growth at the firm level can be an important feature, but the positive spillover effects can be another important feature (Beata Smarzynska Javorcik, 2004:608)

As many developing countries do not possess the resources for investment due to low levels of saving related to relatively low levels of national income, macroeconomic policy often focuses on the attraction of FDI. FDI should not only lead to investment enhancing productivity by way of transfer of technology and stimulating innovation. It should also lead to an increase in employment and economic development in general. Existing theoretical models directly take into account some costs associated with both exporting and FDI, although in many cases, the relative costs are used. The fixed costs of setting up a foreign affiliate, the operating costs of a foreign affiliate, and other costs or cost-reducing factors are the main issues in a firm's decision to engage in FDI (Kunčič and Svetličič, 2014:69)

5.ASSESSMENT OF COMPANY MERGERS IN TURKEY

5.1. Methodology

In this thesis:

- a) Literature review
- b) Quantative research

As far analytical is concerned materials and essential readings were made through different books and articles and application of mind was done to understand it in a better manner. In applied section I have tried to answer the question that arose in my mind like below

When and why begin merging and acquisition process? Do companies really need this process? How companies can merge in better ways? What is benefits of merging?

This thesis can be use by any company or researcher who want to get information of structure, history, statistics, reason and results of big company mergers.

In addition my recommendation for future reserchers:

- Search every merging process separetly because all merging are individual.
- Focus on new dates mergings because conditions change result.

Research basically relied on books, articles, staticstics. In this era of cyber age the potentiality of the internet resources cannot be undermined. Consequently, research has referred to the internet resources in the some portions of this paper. Reference has also made to news papers and other multimedia. Finally, financial ratio analysis have been done.

5.1.1. Purpose

The purpose of the present study was to determine the advantages and disadvantages of mergers for companies by investigating the mergers in World and in Turkey. It was also aimed to identify the motivations pushing companies to merge.

5.1.2. Significance

The significance of the present study results from its role in investigating major merger in Turkey and identifying the consequences of mergers for companies. In addition, it is significant since the investigation of mergers presents preliminary information to companies planning to merge.

5.1.3. Research Question

Do companies merging have a more advantageous structure following the merger compared to its financial status before the merger?

5.2. Grundig –Arçelik Merger

Grundig as a company founded in Germany in 1945 was acquired by Beko and Alba, which is a British company. In 2008, Beko acquired the entire company from Alba. Beko then changed the name of the department of electronics as Grundig Electronics Inc. In the middle of 2009, Grundig Electronics Inc. merged with Arçelik Inc. when Arçelik took over it. Arçelik-Grundig Merger was announced on February 27, 2009 (Ari, 2010:62).

Increase in the value of companies thanks to the merger will be presented by examining the exchange and merger ratio in Grundig-Arçelik merger.

Table 5.1: Arçelik-Grundig Before, the Values of Market Multiples / TL

Value	Partnership Taking Over: Arçelik (Consolidated)	Partnership Taken Over: Grundig (Consolidated)	Total
The Values of Market Multiple	683,335	69,969	695,207
Actual Value in Merger	683,335	11,872	
Capital	659,934	487,000	

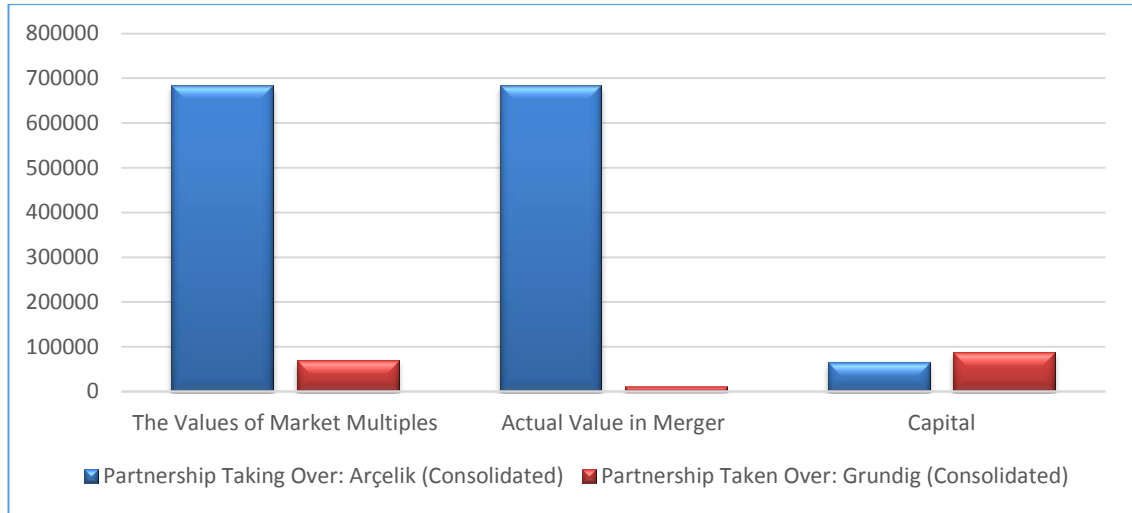


Figure 5.1:Arçelik-Grundig before Merger, The Values of Market Multiples

While calculating the merger and exchange ratio, three different valuation methods were used for Arçelik and Grundig. The details of calculation of exchange ratio are presented in the following pages. According to the DCF method, the value of Arçelik was determined 1, 082, billion TRY, while Grundig's value was 126, TRY. When calculating the actual value of Grundig in the merger, 83.03% of Grundig owned by Arçelik is removed. After that, the actual DFC value was found as 21,388.7628633369 thousand TRY. Moreover, while calculating the exchange ratio, share proportions and amount of shareholders

Table 5.2: Arçelik-Grundig After the Merger, DCF Value Index

Value	Partnership Taking Over: Arçelik (Consolidated)	Partnership Taken Over: Grundig (Consolidated)	Total
DFC-Value Index	1,082,820 TL	126,058 TL	1,104,209
Actual Value in Merger	1,082,820 TL	21,389 TL	
Capital	659,934 TL	478,000 TL	

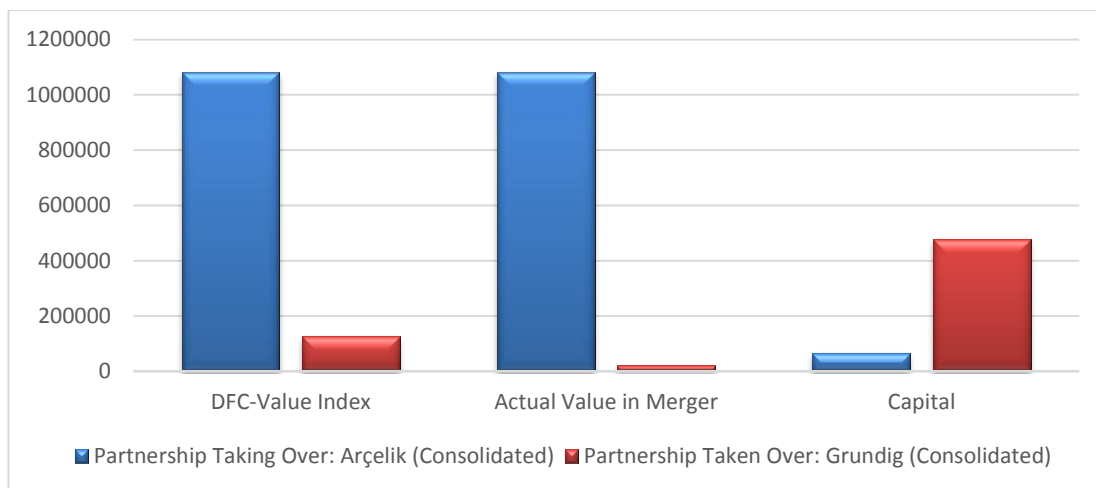


Figure 5.2: Arçelik-Grundig after the Merger, DCF Value Index

When the actual value in the merger and paid capital amounts mentioned above was noted in thousand TRY, merger ratio was calculated as 98.06298 percent on condition that it was shown with five decimal places for demonstration purposes. Capital that will be increased found out as 13,035.565 thousand TRY. The exchange ratio was calculated as 16.07261 percent.

According to the analysis of market multiples, Arçelik's value is 683,334.956882996 thousand TRY; whereas 69,969.1593210613 TRY, is the value of Grundig. When calculating the actual value of Grundig in the merger, 83.03% shares of Grundig owned by Arçelik was separated and the actual value of market multipliers analysis of Grundig in the merger was found as 11,871.9548923371 thousand TRY. In addition, when calculating the exchange ratio, Grundig also considered share proportions and amount of shareholders other than Arçelik (KPMG, 2009).

When the actual value in the merger and paid capital amounts mentioned above was noted in thousand TRY, merger ratio was calculated as 98.29231% on condition that it was shown with five decimal places for demonstration purposes. Capital that will be increased found out as 11,465.397 thousand TRY. The exchange ratio was calculated as 14.13662%.

While determining the company's equity capital, the financial statements on independent audit reports prepared on Dec 31, 2008 were used. As mentioned in the previous pages, when determining Arçelik's actual equity value in the merger, adjustments were made based on the amount of 249.975 thousand TRY planned for "the increase in the value of cash capital" and that of 9.999 thousand TRY for "capital increase by bonus issue from dividend" by Arçelik Management. After these adjustments were completed, the actual merger value of Arçelik was revealed as

12,188 million TRY by the results of Equity method. Besides, when determining Grundig's actual equity capital ratio, since Arçelik is a subsidiary, an adjustment was made. 83.03% Arçelik's share in Grundig's recorded equity was separated. After this correction, Grundig's actual value in the merger was calculated by using the equity method is \$ 52 million.

5.3. Migros –Tansas Merger

Migros founded through the joint initiatives of the Swiss Migros Cooperatives Union and the Municipality of Istanbul in 1954 was acquired by Koç Holding in 1975. In March of 2005, it was decided to merge with another retail firm called Tansaş. The merger of Migros with Tansaş was completed in 2006. It was announced on February 14, 2008 that Migros would be acquired by Moonlight Capital S.A.

50,8% of Migros' shares were acquired from Koç Holding by Moonlight. The amount of its shares in the company increased to 97, 9% through purchases made in stock and call process and free float rate decreased to 2, and 1%. Total cost of Migros sold for the strategy of focusing on four main business units by Koç Holding was 3.7 billion pounds (Migros, 2006 Annual Report).

Table 5.3: Migros' Status After and Before the Merger

Profit	Before the Merger	After the Merger
Gross profit	648.462TL	1.084.914 TL
Net operating profit	106.675 TL	206.593 TL
Net profit	73.705 TL	78.686 TL
EBITDA	184.618 TL	312.579 TL

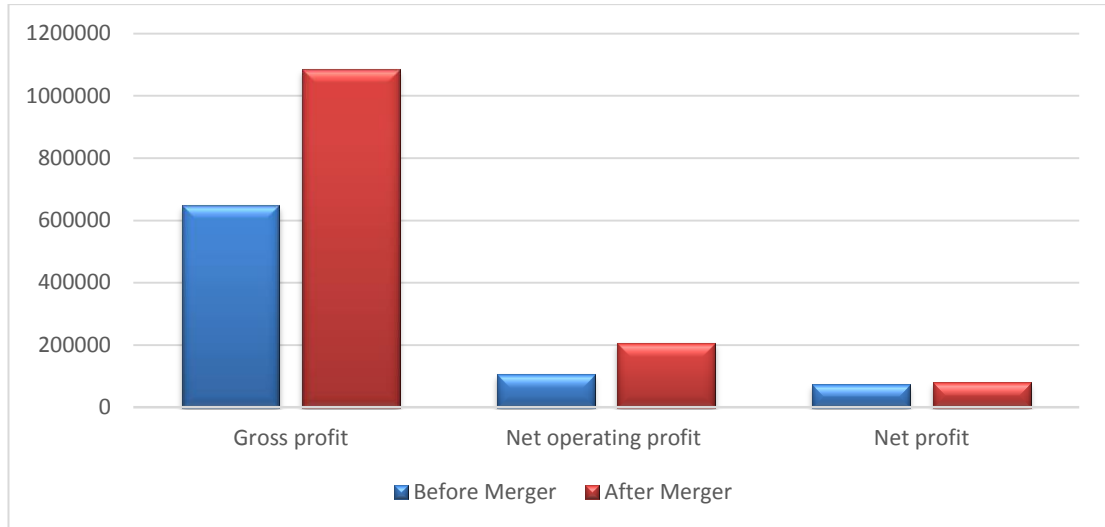


Figure 5.3: Migros' Status After and Before the Merger

The profit of Migros increased significantly after the merger. The company Migros increased its profit drastically after it gained an important power thanks to the merger with Tansaş. This shows that the merger was a success.

5.4. Yapı Kredi –Kocbank Merger

Koc Financial Services and Yapı Kredi Group brought their historical backgrounds, experiences and powers together under the same roof in order to create a leading financial services group that would facilitate the life of its customers, employees and other stakeholders and achieve successful results in the sector on Sep 28, 2005. That is known as the most important acquiring activity in the Turkish banking history.

At the Extraordinary Shareholders' Meeting on September 21, 2006, both banks' financial statements audited independently and taken as the basis for the transfer of Koçbank to Yapı Kredi on April 30, 2006; the merger of two banks after Koçbank is taken over by Yapı Kredi with all of its rights, receivables, obligations and liabilities and dissolution of Koçbank as a result of this merger, and the Merger and Transfer Agreement signed between Koçbank and Yapı Kredi on July 31, 2006, which was ratified by the BRSA decision No. 1957 on August 18, 2006 and with CMB decision No. 34/956 on August 3, 2006, were all approved.

The BRSA approval of the merger of two banks after Koçbank was transferred with all of its rights, receivables, obligations and liabilities to Yapı Kredi and the consequent dissolution of Koçbank and the increase of Yapı Kredi's capital from 1.896.662.493,80 TRY to 3.142.818.454,10 TRY through the transfer of Koçbank's all assets and liabilities, and other rights and privileges to Yapı Kredi in line with the

Related legislation and the provisions of article 19 of the Banking Law, was published in the Official Gazette on October 1, 2006 and registered by the Istanbul Trade Registry Office on October 2, 2006. New capital and shareholding structure of Yapı Kredi formed just after the merger took place was characterized as follows:

Table 5.4: Participation Status of YapıKredi-Koç Finans

Partner's Name	Nominal Amount of Participation	Percent of Participation
Koç Financial Services Inc.	2.520.014.946,03TL	80,18 %
Other Subsidiaries	622.803.508,07 TL	19,82 %
Total	3.142.818.454,10 TL	100,00 %

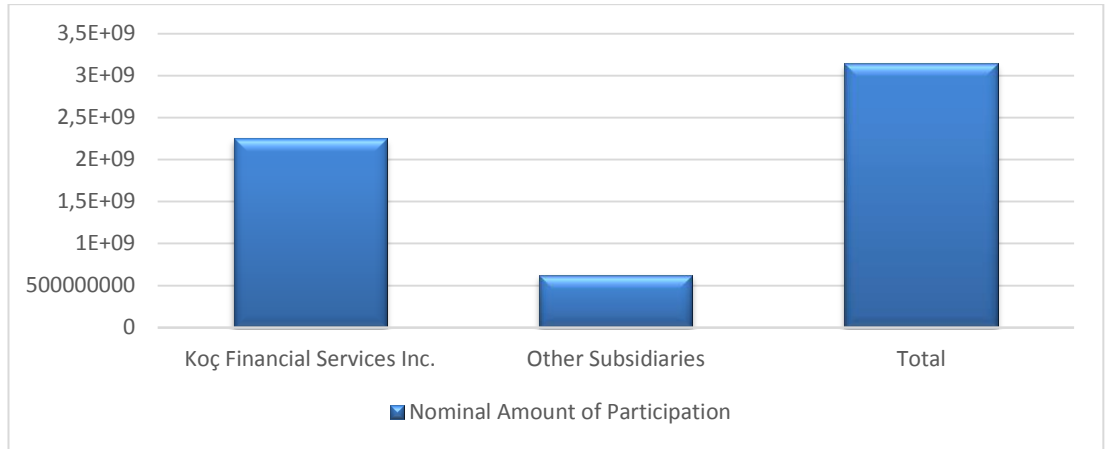


Figure 5.4: Participation Status of YapıKredi-Koç Finans

Nonfinancial assets (Turkcell, Fiskobirlik, Fintur & Digiturk, A-Tel) were disposed. Since the end of 2005, a capital inflow of 3,2 billion TRY has been provided after shares were sold and receivables were collected. Thus, an increase of 1,1 billion TRY in Yapı Kredi's capital and an increase of 1,9 billion TRY in Koçbank's capital was observed. In 2006, the new source was received by acquiring subordinated loans of 850 million Euros in total, 500 million Euros of which was provided to Yapı Kredi and 350 million Euros of which was provided to Koçbank.

Also, loans amounting to 1, 2 billion U.S. dollars including syndication loans respectively amounting to 650 million and 700 million U.S. dollars received from international markets were obtained. That was the highest amount of securitization loan in the world that had been received until that day (diversified payment rights securitization). The new bank gained a strong capital structure with capital increase and supply of sources at a low cost. Capital adequacy ratio rose to a level exceeding 12%. Moreover, a joint risk management policy aiming a perfect credit, market and operational risk management was developed. Having controlled cost management was prioritized and the department responsible for cost management was established in line with the goal of being the bank with the best cost/income ratio.

A common organization structure in both banks was created in order to ensure efficiency and effectiveness of the new bank's activities. Head Office units were gathered in Yapı Kredi Plaza building. While alternative distribution channels services were moved to Banking Center in Gebze, all operational services were centralized in Gebze Banking Center. An increase in the number of employees working in customer-oriented position was observed. In line with the new strategy focused on sales, approximately 450 employees were transferred to the sales team in 2006. More than 700 employees in total were transferred to the sales team in 2005 and 2006. The number of employees working in the Bank reached to 13.478 after the merger. 1.372 new employees were recruited in 2006. Employee training programs and projects related to offering new career opportunities were launched. All titles were revised with job evaluation methodology to position human resources appropriately according to the amount of job in a fair manner and regulate wage management in this regard. Management by Objectives and Reward System was implemented in 2006 in order to increase work efficiency and to reward internal performance and success.

Despite the intensive efforts for integration within the scope of Yapı Kredi – Koçbank merger, Worldcard experienced the year as the sector leader successfully with 6.5 million cards, about 5 million customers, a turnover of TRY 28 billion and 26% market share based on issuing volume in December 2006. As of end 2006, market share of Yapı Kredi in terms of number of credit cards was 19.7% (YapıKredi, 2006)

Table 5.5:Yapı Kredi Bank Financial Ratio before and after merger

Turnover	2004	2005	2006	2007	2008	2009
Net Profit	58.871	2.996.274	555.349	869.74	1.261.39	1.542.94
Net Profit Margin= net profit after tax	%0,11	%0,10	%0,12	%0,13	%0,14	%0,14
Gross profit Margin= gross profit / sales	%0,14	%0,13	%0,15	%0,16	%0,18	%0,19
Return on Assets = net profit before interest	%1,81	%1,82	%1,86	%1,82	%1,90	%1,86
Return on Equity= net profit after tax	%21,8	%21,6	%22,4	%23,5	%24,6	%22,7
Total assets	%5,9	%6,2	%6,8	%7,0	%6,7	%8,4

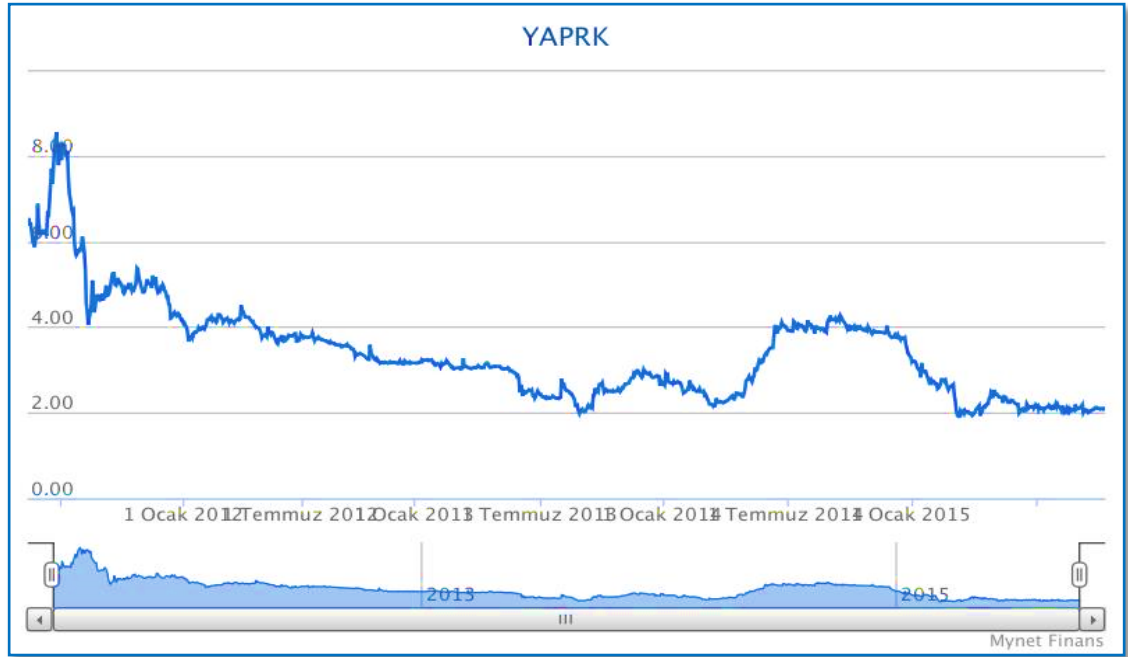


Figure 5.5: Yapı Kredi Stock Prices before and after merging

5.5. Deniz bank- Sberbank Merger

Economic conditions changing with globalization limit the liquidity and growth strategies, companies' profit maximization. They leads to inadequate regional efforts. This makes is necessary to seek solutions on an international level. However, it is thus possible to have several advantages over local competitors in today's challenging financial conditions. Another way to come into prominence in international markets for companies is considered as mergers and acquisitions. Banks, one of the most important actors of the economy, are inevitably affected by this change (UNCTAD, 2014: 2). Recent acquisitions and share transfers in Turkish banking and finance sector performed by foreigners are important evidence for this finding. Moreover, the product range resulting from the development of derivatives markets and the risk management concept accelerate the increase in cross-border transactions from global perspective.

Geographical proximity between Turkey and Russia is also an important factor in the increasing number of the mergers in the banking sector as in many industries. The merger of Denizbank and Sberbank is an important merger that occurred in recent years.

DenizBank was established as a state-owned enterprise in 1938 with the aim of providing funding Turkish maritime sector that has been developing. DenizBank acquired as a banking license from the Privatization Administration by Zorlu Holding at the beginning of 1997 has become one of Turkey's leading banks in a short period of time.

Following the privatization of DenizBank in 1997, the implementation of a "return to life" program including the staffing and branch openings within the framework of the new corporate identity was started. All these initiatives were conducted in the framework of the five-year strategic plan. All of the objectives in the plan were achieved. This growth was supported by the acquisition of a part of the bank branch that had been devolved on SDIF and the inclusion of Tarisbank to the Group at the end of 2002. During this period, DenizBank acquired banks in Austria and Russia in addition to factoring, leasing, investment and asset management companies to complement the existing banking products and services.

DenizBank improved its current position in a very short time with the support from its strong capital base and balanced financial structure and the impact of rapid developments in the sector. DenizBank Financial Services Group was founded in

2003 in order to create financial supermarket offering a variety of financial services under the same umbrella (Deniz Bank Annual Report, 2012).

Denizbank Financial Services Group is consisted of six domestic and three international financial subsidiaries, four domestic non-financial subsidiaries and a branch in Bahrain as well as DenizBank. DenizInvestment, EkspresInvest, DenizInvestment Trust, DenizPortfolio Management, DenizLeasing, DenizFactoring, Intertech, DenizCulture, Bantaş and Pupa are the Group's domestic subsidiaries, while its international subsidiaries are EuroDeniz, DenizBank AG and CJSC, DenizBank Moscow. The main customer segments of Denizbank Financial Services Group are retail customers, small and medium-sized enterprises, exporters, institutional and commercial customers with public and project finance. The markets prioritized in the Group's activities are agriculture, energy, tourism, education, health, sports, infrastructure and maritime (DenizBank Annual Report, 2012).

The Group has turned its branches into marketing centers by bringing operation, financial control and accounting functions together in the center. By doing so, it succeeded in keeping the number of employees at the optimum level and increasing its operating efficiency.

The Group has a service network that has reached all segments of society in Turkey. In addition to the total number of 610 branches of DenizBank in Turkey and Bahrain, DenizBank and CJSC DenizBank Moscow have a total of 14 branches. Also, DenizBank provides both retail and corporate customers with the opportunity to carry out any financial transaction online all over the world thanks to Alternative Distribution Channels (Deniz Bank Annual Report, 2012).

The importance of banks in the economy is not limited to the previously said amounts. When the role of banks in the economy is asked, their intermediary function between short-term capital supply and demand comes into mind most of the time (Mamonov and Solntsev, 2008:13-20). In this case, their main function can be shown as obtaining funds to commercial entities with collected deposits."Strategic development of the Russian banking sector" that was developed together with the Russian government expressed that this development was one of the strategic objectives by pointing out the important role of the banks for the economy. Consequently, forming the effective and developed banking sector depends on whether quality service is presented as a response to the demands of actual economy- oriented and market customers (Dolgov, 2009).

The load of Russian banking sector has been increasing in the new macroeconomic conditions because production or investments are not dependent on bank loans. This leads banks to foreign debt (Economist, 2014).

Although it is easier for the major banks to survive, the number of merger and acquisition activities is very low. The restructuring activity initiated after the crisis remained limited to asset stripping and name changes. This is because while most of the bank owners have hidden assets from creditors, most mergers have made their presence felt as a structure between groups (i.e. the merger of Alfa capital with Alfa Bank, Moscow Bank and Bank of Austria) rather than the actual merger (Economist, 2014).

Sberbank is the biggest bank operating in the Russian Federation and the Commonwealth of Independent States. The share of the assets and equity of Sberbank in the total sector is over 25% for both. Sberbank founded in 1841 is a modern and global bank offering a wide range of banking services and responding the needs of various customer groups. Sberbank is the most important player of deposit market in Russia. It is also the major financier of the Russian economy. Attracting and preserving private savings has been the basis of Sberbank's business. The development of mutually beneficial relationships with depositors is key to the success of the bank. Nearly half of the total saving deposit in Russia is held in Sberbank. The size of the Bank's loan portfolio corresponds to one third of all loans in the country. It is an international commercial bank with global and diversified activities, which is active in the Russian banking sector, which plays an important role in the Russian economy, which is in a leading position in terms of deposits and loans respectively with 29%, 45% (retail deposits) and 33% market share. More than 1 million out of the 4.5 million legal businesses with over 110 million customers corresponding to 74% of Russia's population in Russia work with Sberbank.

The main shareholder of Sberbank is the Central Bank of Russia having 1 vote preference share and 50% of the registered capital of the Bank. Other shares of the Bank belong to domestic and international investors. The Bank's common and preferred shares have been traded publicly in Russia since 1996. Sberbank American Depositary Shares (ADS) shares have traded on the London Stock Exchange. They were accepted for being traded on the Frankfurt Stock Exchange and have been traded in off-exchange markets in America.

Sberbank has a unique branch network. This network is currently consisted of 17 regional offices and 19,000 branch offices in the four corners of the country. Sberbank has been constantly developing the trade and export finance works. Sberbank aims to increase its share of profit gained from countries other than Russia in total profit to 5% until 2014. Sberbank's associates operate in Kazakhstan, Ukraine and Belarus. In the framework of 2014 Development Strategy, Sberbank has increased its international presence by building an associate in India and opening representative offices in Germany and China. In February 2012, Sberbank purchased Volksbank International Group having offices in nine countries in Central and Eastern Europe. In September 2012, Sberbank reached an agreement with Dexia and acquired 99.85% of the shares of Turkish Denizbank. In the end of 2011, Sberbank signed an agreement with Cetelem (BNP Paribas Group) on establishing a joint bank that will operate in the area of lending through branches. The purchase process of SLB Commercial Bank AG stock trades was completed. In January 2012, Sberbank completed merging process with Troika Dialog, a leader Russian investment company.

Sberbank that has had the mission of maximizing customer focus in the last few years has recently taken many steps to improve its customer-oriented approach by starting with the introduction of non-stop service at lunch at the branches. The Bank has expanded its ATM and POS network. It has developed new Internet banking features so that customers can manage their accounts on their own from their computers and smart phones at home. The amount of shares of transactions executed through alternative channels has increased from 37% to 70% since Sberbank started to apply 2014 strategy in September 2008. Sberbank team is always ready whenever a customer calls the call center. Significant efforts for the establishment and development of new call centers are also being made by the Bank so that any customer can reach the operator within only 30 seconds.

The Bank has paid special attention to certain customer segments. For example, offering specific products and services responding to the needs of young people is one of them. Customer service models are reviewed continuously in order to respond the needs of homogeneous groups of customers such as VIP customer segment and mass-market segment of customers with high-income. The Bank launched an extensive renovation program to change the appearance of branches and switch to the new customer technologies. Until the end of 2012, 2700th branch in this new format will be opened. Besides, 7,700 branches were included in the scope of the renovation plan until 2015.

Sberbank has been trying to learn and understand the financial services needs of its customers in the best way to provide more support. For this purpose, the Bank implements the new CRM (Customer Relationship Management) systems in its corporate and retail segments. CRM systems in the corporate segment cover more than 250,000 customers already. These systems are information systems designed to make performance analysis, to identify and develop business procedures, and to keep the history of the bank-customer relationship.

Sberbank adopted the scoring technology called Credit Factory to shorten the time period for evaluation of loan demand. Sberbank is able to provide all individual loans other than mortgage loans in one day now. Sberbank also developed a new product called "Business Start-Up Loan" for people who want to start their own business. In addition, it developed a product called "Mortgage for Soldiers" to ensure that Staff of the Russian armed forces can have home in appropriate circumstances.

Moreover, tremendous changes have been made within the Bank. These changes are primarily related to the modernization of IT systems and the centralization of operational functions. In 2011, Sberbank opened the first automated archive and logistics center in Russia and the biggest Data Center in Europe. Ten Customer Operations Support Centers have been opened so far and a program prepared for the establishment of inter-regional service centers was approved. The changes are closely associated with the technology called Sberbank Production System (SPS) and new corporate philosophy. SPS consists of principles and tools aiming to improve customer service, reduce costs and continuously enhance business processes. 30 billion rubles of savings have been already achieved thanks to the methods provided by this system. Sberbank also pays special attention to the development of HR activities. Employee assessment and education system were included in this context. The establishment of a corporate training center in cooperation with leading international business schools and the implementation of private social programs are discussed (Deniz Bank Annual Report, 2012).

Table 5.6: Denizbank and Sberbank Merger

Transactions	Before Merger 01/01-31/12/2011	After Merger 01/01-31-12-2012
Added from Financial Assets Available for Sale to Sale Securities Valuation Differences	153.207 TL	581.893 TL
Income/Loss About Derivative Financial Assets Held for Cash Flow Hedges	55.224 TL	20.207 TL
Period Income/Loss	873.974 TL	812.632 TL
Total Income/Loss Recognized for the Period	810.795 TL	1.258.242 TL

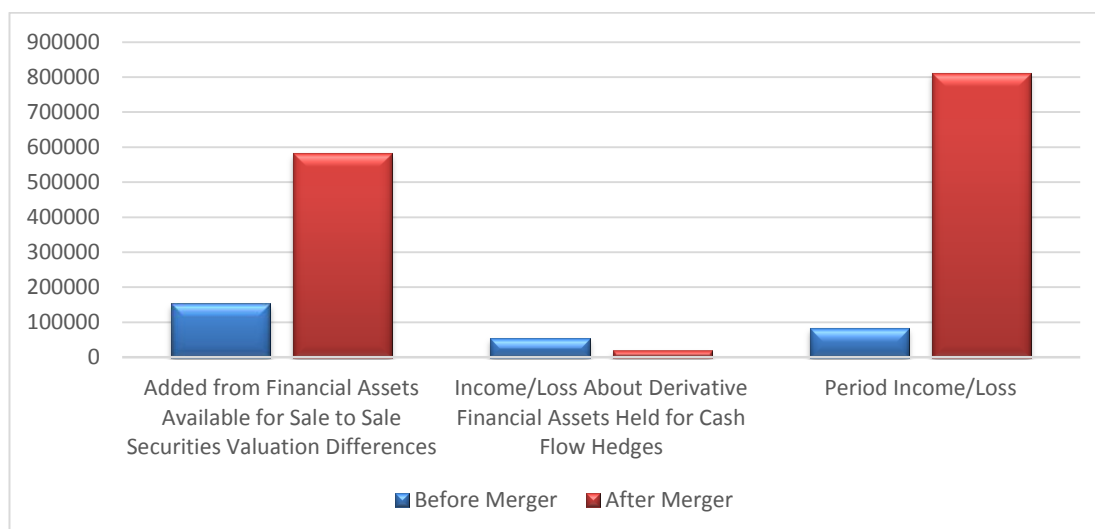


Figure 5.6: Denizbank and Sberbank Merger

5.5.1. Test of Hypothesis on Positive Effects of Mergers and Acquisitions of Banking Industry in Turkey

Table 5.7: Assessment DenizBank Financial Ratio before and after merger.

Turnover	2009	2010	2011	2012	2013	2014
Net Profit (Million TL)	18.558	23.790	30.947	720	1.011	939
Net Profit Margin= net profit after tax / sales	0,22	0,19	0,26	0,15	0,16	0,15
Gross profit Margin= gross profit / sales	0,25	0,20	0,21	0,16	0,18	0,19
Return on Assets = net profit before interest / total assets	1,92	1,86	1,74	1,86	1,95	0,88
Return on Equity= net profit after tax / equity	%23.0	%18.6	%25.6	%14.0	%17.2	%14.2
Total assets turnover= sales / total assets	%7,1	%5,2	%7,6	%4,8	%5,9	%6,1

After merging with Sberbak Deniz Bank opened 27 new branches, expanding its domestic branch network to 715 locations in 2014. DenizBank plays a prominent role in creating investment and employment in Turkey with an aggregate project finance portfolio of USD 3.7 billion Deniz Bank added innovative products to the debit card, credit card and prepaid card portfolio in 2014. The monthly outbound call capacity of DenizBank was around 1.2 million in 2014.

In 2014, DenizBank's consolidated net profit was TL 939 million and non-consolidated net profit was TL 566 million. Despite the increasing funding costs, Deniz Bank's consolidated net interest income increased by 20% and non-consolidated net interest income increased by 16%. As another result of the focus on real banking activities, DenizBank's consolidated fee, commissions and banking services revenues increased by 33% and nonconsolidated fee, commissions and banking services revenues increased by 34%, recording the highest growth rate in the sector. Consequently, Deniz Bank's consolidated and non-consolidated total

operating revenue increased by 5% and 9%, respectively. In 2014, DenizBank recorded the same increases with the sector average in terms of consolidated non-performing loans and provisions.(Deniz bank Financial Services Group Annual report, 2014:10-15)



Figure 5.7:Denizbank Stock Prices before and after merger

6. CONCLUSION AND RECOMMENDATIONS

Mergers and acquisitions are essentially important in the financial system and eventually in the economy. Mergers and acquisitions are of concern to every sector in the economic system. All actors in the economic system gain benefits from successful mergers and acquisitions, whereas unsuccessful mergers and acquisitions are seen as a waste sources.

Mergers are performed at the end of a long process. This process is important for the success of any merger. The process begins with search for the companies to merge with and selection of them. This stage requires detection of necessary criteria in determining candidates to merge with. Another important step of the merger process is the merger talks. Candidates selected for the merger should be considered in all aspects in this stage. The most important point in the merger talks is to determine the company's value in a rational way. In practice, the number of mergers that have failed is more than the number of successful mergers. However, the failure rate varies based on the years and countries. Having well-defined objectives, giving importance to the merger process, obtaining a proper estimation of the financial burden of the merger and considering human factor are necessary in order to achieve successful mergers.

U.S. and European countries have a long history of mergers. However, in Turkey, the first mergers were seen in public and banking sectors after 1950s. After 1980, the number of mergers increased with the economic policies in Turkey. The number of mergers in Turkey began to gain momentum from 2002. This number reached a record level in 2005. Economic fluctuation affected company mergers in following years till now but mergers continue expanding and enlarging. Most of these mergers were seen especially in financial services and food and beverage sectors. It is seen that a great deal of mergers and acquisitions in Turkey have been performed by foreign buyers. Holdings having a corner on the country's main industries and their affiliated companies are seen to be more attractive to foreign investors.

Measures for the creation of legal, economic and cultural infrastructure should be taken to increase the number of mergers. Thus, Turkish companies can get into international markets and attain international competitiveness. Besides,

attractiveness of Turkey to foreign firms will increase. The use of new technology, know-how and foreign capital inflows will also be provided. On the specific example Sberbank and Denizbank, both companies had the benefits of mergers. The hypothesis has been accepted so the mergers contributed to the profitability of the Denizbank in Turkey.

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RESUME

Farahnaz Musa



A multi-skilled professional with good all-round programme coordinatig, finance, hr, administration, managment advisory skills. Very capable with an ability deal with all project and resourcing needs of a organisation. Experienced in estabilishing hospital and community centre programs. Extensive knowledge of working practices budgeting, recruitment, pay, conditions of employment and diversity issues.

FINANCE/HR/ ADMINISTRATIVE CONTROLLER

International Blue Crescent Relief and Development Foundation
NOVEMBER 2014-PRESENT

Lead, monitored, and compared actual performance developing grant income projections to the predefined budget. Reviewed and generated financial reports ensuring compliance to grant and donor requirements. Identified trends and made recommendations to team leaders and field colleagues on areas with significant over- or under spending. Prepared close-out documentation at end of funding cycles in compliance with government regulations. Ensured that Accounting Principles and finance policies were compiled according to governmental regulations.

Dealing with all of the recruitment needs & employment issues of the company. Ensuring the timely recruitment of new employees into the business from the initial job offer being made through to their induction into the company including offer letters and contracts etc.

GENERAL/FINANCE MANAGER

Aton Global International 2013-2014

Playing a leading role in running a successful branch by making the right choices to deliver excellent results and achieve retail goals.

Responsible for the profitability and maximisation of Return On Capital Employed within the branch.

IMPORT-EXPORT MANAGER

Rotateknik & Rotaterm Companies 2012-2013

Handle import and export related operations like selecting the best transportation mode, overseeing the safe and efficient packing, transport, and delivery of goods; preparation of documents to observe regulations by customs and other authorities, handle insurance issues etc.

HUMAN RESOURCES ADMINISTRATOR

Finca Azerbaijan non-bank Credit Organization 2009-2012

Responsible for the full employee life cycle from recruitment, induction to exit, and for providing full administrative support to the HR Managers and Officers. Also involved in the day to day-to-day running of the HR office. Ensuring the department complies with all recruitment Policies, Laws.

DISBURSEMENT SUPERVISOR

Finca Azerbaijan non-bank Credit Organization 2008-2009

Controll all credit disbursement process.

Professional skills

Software

Microsoft Office

HRIS

Photoshop

Languages

English

Russian

Turkish

Azerbaijany

Education

Istanbul Aydin University-MBA Master 2012-2015

Azerbaijan University of Languages-Faculty of International Relations
2003-2007

General Occupational Health and Safety Rules Course -14 May 2013