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The professional service firm (PSF) in a globalised economy: A study of the efficiency of securities firms in an emerging market

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ABSTRACT

This study explores the efficiency of securities firms in Turkey and offers conceptual and managerial insights utilizing data envelopment analysis. Through a sample of local and foreign owned securities firms in Turkey, we examine the impact of liabilities of foreignness (LOF) and localness (LOL) upon knowledge intensive firm efficiency in an emerging market economy. We have extended this approach through our consideration of liability associated with market globalness (LOMG). Our findings indicate the importance of size for firm efficiency with bank affiliation and foreign ownership also having positive effects on efficiency. Our study makes a contribution conceptually, methodologically and empirically to a growing literature on emerging economies. We also make a valuable addition to the limited empirical work conducted on the securities industry to date. Finally, through our contextualization of Turkish securities firms as professional services firms (PSFs), our research extends the narrow focus on law and accounting which currently dominates the burgeoning research strand on PSFs.
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1. Introduction

Capital markets are globally integrated networks of institutional actors spanning national and supra-national strata. In order to be successful in these financial markets, firms must possess knowledge, assets and capabilities which span both local and global institutional dimensions. From a multinational enterprise (MNE) perspective, this necessitates effective knowledge transfer from the foreign parent to the subsidiary; by providing access to technological learning and insights into supra-national institutional norms, the parent reduces uncertainty regarding global imperatives and thereby reduces transaction costs for the subsidiary. Similarly, the transfer of local insights, garnered through the activities of the subsidiary, lessens host country uncertainty for the MNE thereby enhancing transaction cost efficiencies for the parent. Conversely, independent domestic operations, which may benefit from efficiencies at the local level resulting from their market embeddedness, face challenges in managing transaction costs associated with deficiencies in knowledge pertaining to global market institutions. Our research explores these complex institutional relations in terms of the role of 'local market' capabilities, that is, those resources which facilitate effective operations across the national, or meso-level, institutional domain, as well as 'global market' capabilities, that is those resources which facilitate effective operations at the supra-national, or meta-level, institutional domain. We draw upon institutional theory to inform our analysis of these relationships in the context of an emerging economy, Turkey. Moreover, our approach reflects the recognition that institutions are the frame of reference within which firm transactions take place (North, 1990), an approach which is well-established in international business research (Demirbag, McGuinness et al., 2010; Henisz, 2000; Henisz & Swaminathan, 2008; Meyer & Peng, 2016; Wood & Demirbag, 2012). Through an integration of institutional and transaction costs perspectives, our study investigates the relationship between firm level attributes (ownership, affiliation and size) and institutional dimensions (political constraints) and organisational efficiency.

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We test these relationships empirically using a sample of Turkish securities firms.

Our research makes a contribution to the existing literature empirically and conceptually. The choice of Turkey, positioned as it is between the developed West and developing East provides a unique institutional environment for exploring an industry (the securities industry) operating in an emerging economy at the periphery of Europe. Interest in Turkey is also growing given the ongoing negotiations regarding its potential accession to the European Union (EU). Whilst the Turkish banking sector has attracted interest from scholars (Aysan & Ceyhan, 2008; Demir, Mahmud, & Babuscu, 2005; Fukuyama & Matousek, 2011; Ihsan, 2007; Isik & Hassan, 2002, 2003a, 2003b, 2008; Zaim, 1995), there has been comparatively little investigation of its securities industry (Aktas & Kargin, 2007; Bayyurt & Akın, 2014). Thus, in the first instance, we make an empirical contribution through our use of a sample of Turkish securities firms. The selection of Turkish securities firms is novel, and significant, in allowing us to examine efficiency of an industry operating in an emerging market economy, which is at the same time embedded within an advanced global financial sector. In this context, we also build upon work by others on the concept of liability of outsidership (LOO) (Johanson & Vahlne, 2009; Vahlne, Schweizer, & Johanson, 2012) through our argument regarding a liability of market globalness (LOMG). Moreover, as securities firms offer professionally based services, we contribute to an emerging body of literature on professional service firms (PSFs), a literature which has been criticised for the its predominant focus upon law and accounting firms (Von Nordenflycht, 2010). We add to this research strand by, firstly, extending this narrow focus to securities firms and, secondly, exploring PSF efficiency. The Turkish securities industry offers a unique testing ground for a critical examination of the significance of institutional relationships for firm efficiency across a multi-dimensional network. Methodologically, this paper also offers novelty in approach by utilizing data envelopment analysis (DEA) to evaluate the relative efficiency of securities firms. Whilst there has been extensive use of DEA in operational research or management science field, and some application to the banking sector (see, for example, Fukuyama & Matousek, 2011; Seiford & Zhu, 1999; Wang, Huang, Wu, & Liu, 2014) and securities (Fukuyama & Weber, 1999; Zhang, Zhang, & Luo, 2006), there appears to be relatively less adoption of this technique in broader management fields (Demirbag, Tatoglu, et al., 2010). This methodology allows us to explore the interplay of institutional and transaction cost issues by utilising key variables of affiliation, ownership and size in conjunction with firm efficiency.

The structure of the rest of the paper is as follows. We present the context for the study, that is the macro-level institutional (Turkish Capital Markets) and the micro-level organisational (securities firms) domains before developing our conceptual model and related hypotheses. Then, we outline the study context and methodology and set out our findings and analysis. We conclude with a discussion of the significance of these findings and their implications for managers.

2. Background and hypotheses development

2.1. Institutional context for the study: Turkish capital markets

Developments in the Turkish securities are best understood in context of the globalisation of financial markets. Institutional actors at both the national (government policy of liberalization) and the supra-national level (e.g. the European Union (EU), the International Monetary Fund (IMF) and the Bretton Woods Institutions (BWIs)) have been key influences as Turkey moved from a state managed model of import-substitution industrialisation strategy through the 1960s and 70s, to the opening up of the Turkish economy from 1980 onwards (Akyüz & Boratav, 2003; Önis and Bakır, 2007; Rodrik, 1990; Sönmez, 2011). To illustrate, between 1981and 1996, 31 new commercial banks entered the Turkish banking sector accounting for half of the market (of which 18 were foreign owned), compared to 3 new entrants, 1962–1980 (Isik, 2008). These new entrants focussed largely upon trade and corporate finance activities (Isik & Hassan, 2003b). There is evidence that the banking sector became more efficient in the wake of the market liberalisation (Isik & Hassan, 2002, 2003b; Zaim, 1995), however it has also been argued that efficiency improvements were not consistent over time (Denizer, Dinc, & Tarimcilar, 2007). The economic transition has not been without problems (Rodrik, 1990; Sönmez, 2011), neither has the pace or focus of change been steady. It is possible to discern particular phases in Turkish market reform: 'de-regulation' (1980–1989), 'rhetorical transition and institutional crisis' (1989–2001) and, 're-regulation' (2001 onwards) (Önis & Bakır, 2007).

It is possible to trace the creation of national institutional infrastructure starting in the early 1980s with innovations such as the Capital Markets Act (1981) and the establishment of the Capital Markets Board of Turkey (CMB) in 1982 which paved the way for the founding of the Istanbul Stock Exchange (ISE) in late 1985. In 1989, the decision was taken to completely open up capital accounts with the reactivation of the Customs Union (CU) with the EU following in 1995. These actions were watersheds in throwing open the Turkish economy to the opportunities, and threats, presented by modern global markets (Önis and Bakır, 2007). By October 2009, the market value of the ISE was more than $200bn with average daily trading volume of $1.2bn (Yorgancioglu, 2010). However, governmental perceptions of ISE under-performance led to new leadership and institutional structures in 2012. On 30 December 2012, Capital Markets Board Law no.6362 brought together all Turkish capital markets exchanges into a single securities exchange, Borsa Istanbul with the aim of providing a platform for growth and expansion (Dombey & Boulton, 2013), from which it can then be taken public by the end of 2015 (Dombey, 2013). In Turkey, securities is still an emerging industry. Whilst Istanbul rose from 57 to 44 in the Global Financial Centers Index in 2013 (Turhan, 2014), its Chief Executive has highlighted that Turkey's capital markets performance do not match the country's performance in world trade or its global gross domestic product, and his ambition is to achieve $1tn market capitalisation in the future. (Dombey, 2013)

Reflecting the network nature of cross-border relationships endemic in the post-industrial world economy, Borsa Istanbul owns stakes in the Kyrgyz, Montenegro, Baku and Sarajevo Stock Exchanges. It also has a range of international links which place it solidly within a global finance institutional network through Memoranda of Understanding with Japan Exchange Group, Tirana Stock Exchange, Karachi Stock Exchange and the International Islamic Financial Market. It is also a board member of the World Federation of Exchanges (WFE) and has forged a strategic partnership with NASDAQ OMX, a global technology leader for the finance sector. All of these initiatives are aimed at helping Borsa Istanbul to become "a world-class in-house exchange technology which enables, among other things, linkages with other markets. This vision will add value to the drive of making Istanbul an international financial center." (Borsa Istanbul, 2013).

Clearly then, the emergence of Turkish securities sector is best understood within a model of punctuated equilibrium. Institutional drivers have been both proactively planned, such as the liberalisation of Turkish economic markets in the late 20th century, but also subject to regulatory shifts in response to disruptions resulting from global financial crises (2000–2001). The second global financial crisis of the 21st century (2008) resulted in a

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