

Chapter 3

Structures and Functions of Holding Companies in Different Countries

Pınar Avci

Tekirdağ Namık Kemal University, Turkey

ABSTRACT

The word “holding” is an English word. Some researchers state that this word derives from the root “hold” and means to hold management as “to hold and control,” while others state that it means to own a stock with the phrase “shareholder” or “to hold and control.” The word “holding” used by the countries of the world for business groups is expressed in different words by different countries. The following words are used: “holding” in Turkey, “chaebol” in South Korea, “keiretsu” in Japan, and “grupos economicos” in Latin America. At the same time, business groups are referred to as Qiye Jituan in China, Guanxi Qiye in Taiwan, Grupos in Spain, and Konzerne in Germany. In addition to these words mentioned, an American term “conglomerate” (holding) is sometimes stated in the alternative with business groups.

INTRODUCTION

Rapid changes in the economy cause the growth and the development of the world trade. In order to cope with these changes, many national and international economic agreements are made between companies in order to gain competitive advantages, to maintain their continuity and to adapt new developments. So, company groups were created. In this process, companies make agreements such as mergers, acquisitions, and establishing capital groups. One of the types of economic agreements made between companies is holding company. Holding companies are one of the types of companies that have an important place in the world economy.

The word *holding* is an English word. Some researchers state that this word derives from the root “hold” and means to hold management as “to hold and control”, while others state that it means to own a stock with the phrase “shareholder” or “to hold and control” (Kara, 1991). The word “holding” used

DOI: 10.4018/978-1-7998-6643-5.ch003

by the countries of the world for business groups is expressed in different words by different countries. Following words are used: “holding” in Turkey, “chaebol” in South Korea, “keiretsu” in Japan and “grupos economicos” in Latin America (Şahin, 2007). At the same time, business groups refer to Qiye Jituan in China, Guanxi Qiye in Taiwan, Grupos in Spain and Konzerne in Germany (Lu and Yao, 2006). In addition to these words mentioned, an American term Conglomerate (holding) is sometimes alternative to business groups (Granovetter, 2005).

Holding companies are expressed as conglomerate in America. If the profit, sales and assets of these segments are 10% or more of the total of holding companies, they are reported as a separate segment (Gautier and Hamadi, 2005). Cheabol, which is a holding company in South Korea, consists of many affiliated companies operating in different industrial branches and the ownership and control of these companies are under the rule of a dominant family (Murillo and Sung, 2013). Keiretsu in Japan are holding companies that manage all interconnected companies, receive government support, have a systematized order, and are established for commercial reasons (Ming and Lai, 1999). Holding company in Turkey managing the companies that own the stock and is becoming the center of these firms (Güngör and Orhan, 2009). In addition to these countries, the structure of holding companies differs in countries such as China, Belgium, France, Germany, England and Russia.

Furthermore, according to the study of Chandler Jr (1999), the development process of the “holding company” is examined as follows; First of all, trade associations are occurred to manage cartels that are formed by many small manufacturing companies. In the next step, these trade associations convert into trusts, and in the last step they become a holding company. The holding company creates a legal form, administrative consolidation and centralization in order to provide a strict control over the single-function companies. These companies emerged in the second half of the 19th century and the first holding company movements were seen in the United States of America (USA) and in the United Kingdom (UK) (Akça, 1998).

Therefore, holding companies are defined as companies that diversify by owning the stock of one or more companies (Green, 1933). At the same time, these companies are constantly seeking fields to develop their activities in changing markets and they manage and control the companies that they own its stocks (Quadri, 2010). Companies in which holding companies own the stock of more than 50% and have control power are called as subsidiary (Karapınar and Zaif, 2013). If the holding companies own the shares which are between 20% -50%, these companies are defined as affiliates (Damodaran, 2010). The identity and management styles of subsidiaries and affiliates are protected by holding companies (Şahin, 2007).

Shimotani (2007) mentions that companies are established as a holding company in order to integrate or consolidate existing businesses into one, to find a place among competing businesses, to concentrate on economic power and to reorganize the industry they belong to, or to manage a business group by the parent company effectively. The direction of managerial transfers between holding companies, core operating firms (subsidiaries) and affiliated companies (Nakamura et al., 2018). These companies increase their value to the maximum level when they have subsidiaries and affiliated companies and when these subsidiaries and affiliated companies are traded on the stock exchange. Because the increase in the value of subsidiaries and affiliates also enhance the value of holding companies (Atanasov et al., 2010; Jang, 2017).

Holding company is grouped in various ways in the literature. Firstly, holding companies operate as pure and mixed holding companies regarding to their activities. Secondly, the companies in which the holding companies participate in their capital operate as a single rank and multi rank holding company

15 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage:
www.igi-global.com/chapter/structures-and-functions-of-holding-companies-in-different-countries/279436

Related Content

International Tourism: A Linkage of Developing and Developed Economies

Filipe Peças Correia (2016). *Global Perspectives on Trade Integration and Economies in Transition* (pp. 330-341).

www.irma-international.org/chapter/international-tourism/156976

Automation of VAT System: A Pathway of Domestic Resource Mobilization

Biplob Kumar Nandi, Md. Humayun Kabirand Nandini Roy (2021). *Global Challenges and Strategic Disruptors in Asian Businesses and Economies* (pp. 224-246).

www.irma-international.org/chapter/automation-of-vat-system/262304

Financial and Economic Security of BRICS Countries

Elena V. Fomichevaand Marina S. Shikun (2018). *Fractal Approaches for Modeling Financial Assets and Predicting Crises* (pp. 139-150).

www.irma-international.org/chapter/financial-and-economic-security-of-brics-countries/200067

Impact of Gender Diversity on the Board of Directors on the Financial Performance of the Chinese Private Water Companies

Rajibur Rezaand Lan Sun (2023). *Future Outlooks on Corporate Finance and Opportunities for Robust Economic Planning* (pp. 68-98).

www.irma-international.org/chapter/impact-of-gender-diversity-on-the-board-of-directors-on-the-financial-performance-of-the-chinese-private-water-companies/319135

Sustainable Tourism Development of Rural Areas in Serbia as a Precondition to Competitiveness: Chances on the International Tourism Market

Predrag Vukoviand Jonel Subic (2016). *Global Perspectives on Trade Integration and Economies in Transition* (pp. 342-361).

www.irma-international.org/chapter/sustainable-tourism-development-of-rural-areas-in-serbia-as-a-precondition-to-competitiveness/156977