

An Evaluation of the Financial Performances of Food Production Enterprises: a Case of Turkey and England

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Abstract

The purpose of this research is to determine the financial performances of food production establishments in the developed and the developing countries. In this context, in order to estimate the so-called effects, the financial statements of 13 years (from 2000 to 2012) are analyzed. These statements show the financial structures of food production firms that are based in Turkey and England, 25 firms that constitute the food index in Istanbul Stock Exchange (ISE) and another 6 firms that constitute the food index in London Stock Exchange (LSE). In the period which has been analyzed, macro-economic indexes such as economic growth rate, gross domestic product and, unemployment rate and the changes which take place in the financial structures of the firms are compared to each other. The financial situations of the firms are examined using the ratio analysis method. The relationship between the data which was obtained from the ratio analysis and the macro-economic variables is produced after being analyzed with the methods of statistics, econometric, and operations research.

Key Words: Financial performances, food production.

Introduction

Is there any impact of the level of economic development of the country of operation, financial structure of businesses prior to the crisis and during the crisis on food enterprises? The aim of this study is to determine whether there are differences of financial and operational structures and performances of the food enterprises during the crisis and non-crisis periods. In this context, publicly-held food enterprises both in Turkey and UK prior to the crisis and during the crisis, some of the key financial indicators are examined. Thus, comparative analyses of the behavior of companies in a particular fiscal period are maintained.

In this study, financial indicators of the largest 5 companies representing food sectors that are operating in stock exchange are examined both in Turkey and UK. The period between the years 2004-2012 is selected that the compatibility with each other with a valid, useful and meaningful data sets. The analysis is carried out with 3 main stages. In the first stage, GDP per capita growth in Turkey and the UK, food sector turnover and turnover on the size of the growth trends are discussed.

In the second stage, food sectors turnovers, the net debt and net asset growth (growing) throughout the period examined separately for Turkey and the UK. The third stage focuses on the turnover, net debt, capital expenditure and net asset growth index calculated in the base year of 2009 again for both countries. The findings were evaluated at each stage.

1. GDP and Growth Trends in Food Enterprises in Turkey and the UK

Improvements or deterioration in the economic climate condition, affected the sectors depending on flexibilities they have, while it is effected the enterprises based on their efficiency and productivity. Berkmen et al. (2009) suggested that countries with a strong financial condition are less affected by the crisis in their research they conducted to identify the effect of different crisis in developing countries and emerging markets.

When the periods of 1983-1988 and 2003-2008 viewed where economic climate conditions were better in relative terms, the sectors that benefit the most are the real manufacturing sectors first period and financial sectors in the second period.

The periods of 1989-1991 and 1997-1999 which are relatively disturbed economic climate, the condition was tried to be improved with the balance of payments and time-saving policies and tried to be reproduced with better conditions and sectors and companies have adapted it. However, the global financial crisis that started in the second half of 2008 and is currently pursuing the effects quashed economic climate conditions seriously.

More imports from developing countries, increasing world population and changing food habits in emerging countries, increasing world demand due to the high import has resulted a sharp increase in food prices (Kray 2008). Under this economic climate, measuring and evaluating of the food industry and their representative companies, how it effects financial and operational structures, behaviors and performances and the behavior and performance is important. This influence whether it creates a difference in developed and developing economies is also an important problematic. Because the price elasticity of food products is relatively low and that is a well-known fact.

Another fact is that developed and developing economies, the share of food in total expenditures show a serious difference. For example, in the UK, the share of food in total expenditure is around 10%, while this ratio is approaching 30% in Turkey. The thesis of “these rates are much more affected by the economic conditions” worth investigating. On the other hand, it is also important to measure and evaluate the sensitivity of the food companies the changes in economic climate conditions.

In this study, samples of Turkey and the UK had been comparatively studied to analyze how the food companies have changed in financial and operational terms according to changing economic climate conditions.

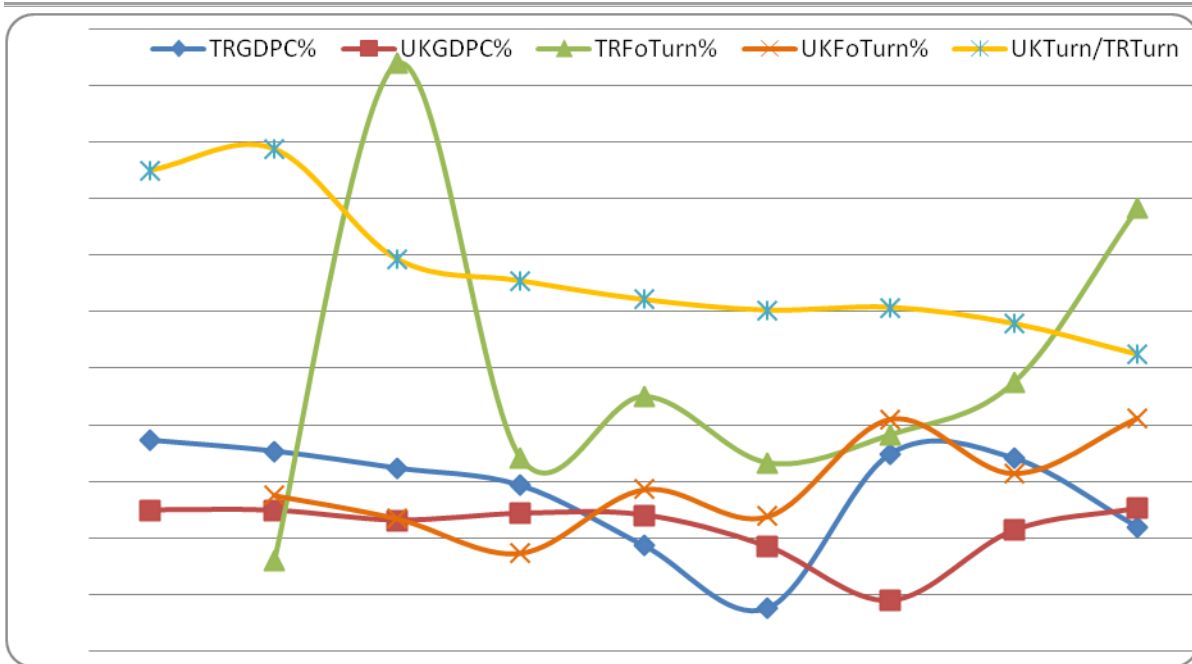


Figure-1. TR-UK GDP and Food Growth Inclinations

TR GDP growth (TRGDPC%) in and UK GDP growth (UKGDPC%) in Figure 1 shows the real data per person. The course of GDP growth volatility of Turkey is far above the UK's during the period between 2004 and 2012. For the period between 2004 and 2008, the inclinations for the GDP growth rates for both countries are in inverse proportion. When the total turnover growth is compared for the companies of the two countries included in this study (TRFoTurn% and UKFoTurn%), the volatility followed a very high level of course for Turkish companies. General growth inclinations for both countries' food companies are in accord with each other during this period. Taking 2009 as the reference year, turnover growth of the both Turkey and the UK food companies followed a higher level of course in the last three years compared to the pre-crisis period. For example, compared to pre-crisis period, while Turkish food companies reached 25 % higher turnover, the UK food companies had a 50 % increase in their turnover in the last three years.

The chart that shows the proportion between TR and UK food companies' total turnovers (UKTurn/TRTurn) indicate the inclination of the dimension gap between them for during the period. This gap was 36 times in 2005, and decreased to 16 times in 2012. This situation proves that the turnover depth of Turkish companies increased increasingly during the period.

2. Inclinations of Financial Indicators for TR – UK Companies

In this part, several company inclinations which are focused on basic financial indicators are examined for the period of 2004-2012. Those indicators are turnover, net debts, and net assets. The interaction between these financial indicators and state GDP and total turnover is also shown.

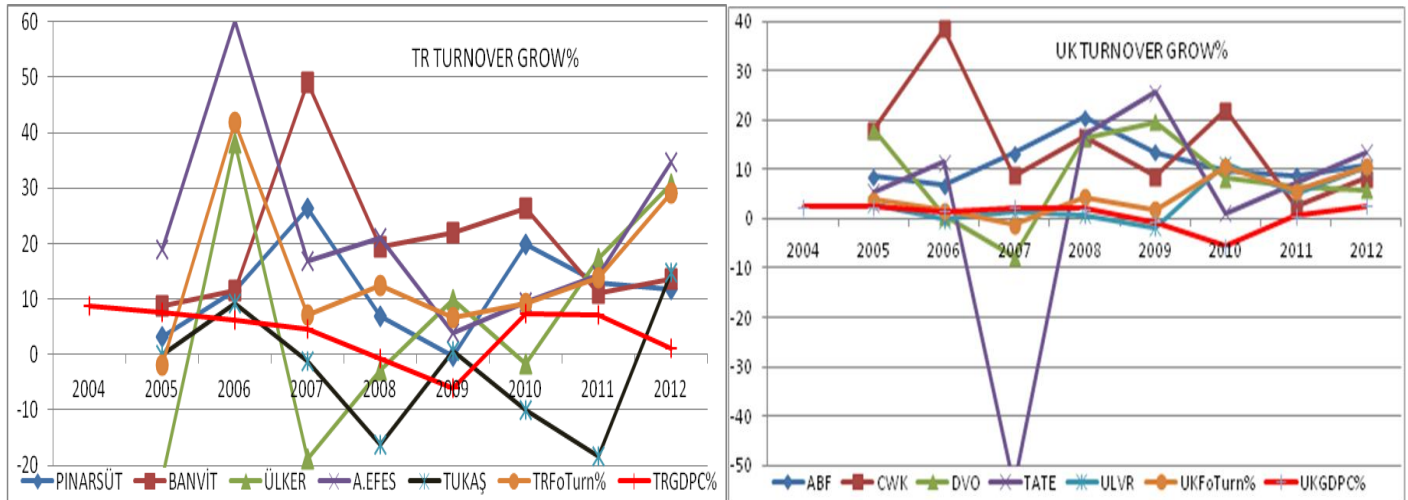


Figure 2. TR - UK Comparisons of Turnover Inclinations

Separate annual turnover growth for TR food companies (on the left chart) and the UK food companies (on the right chart) are indicated in Figure 2. TR food companies showed a performance of two times as great turnover growth rates as the food companies in the UK, both individually and as a group. However, when the countries are compared in their GDP growth rates, both countries' companies had both a high level of growth performance.

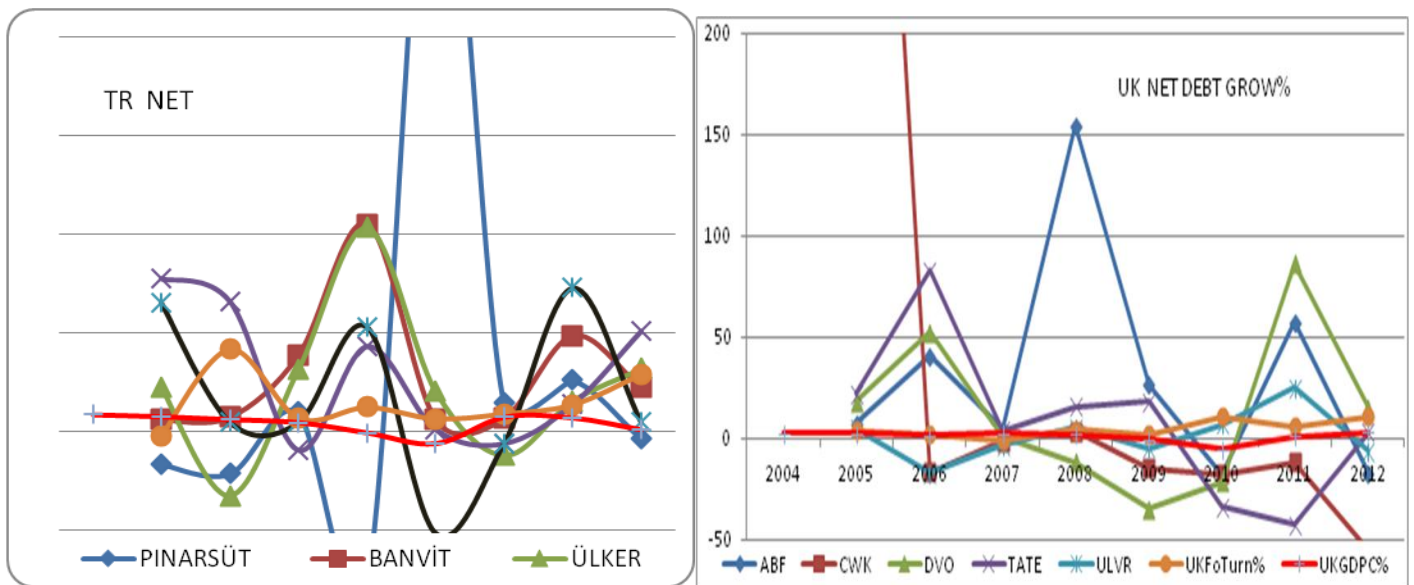


Figure 3. TR - UK Comparisons for Net Debts Inclinations

Separate annual net debts growth for TR food companies (on the left chart) and the UK food companies (on the right chart) are indicated in Figure 3. Turkish food companies' debts inclinations

were in a course of high level compared to the UK's before and after the crisis. In 2012, the net debts growth of the UK companies became negative while Turkish companies raised the level of their debts.

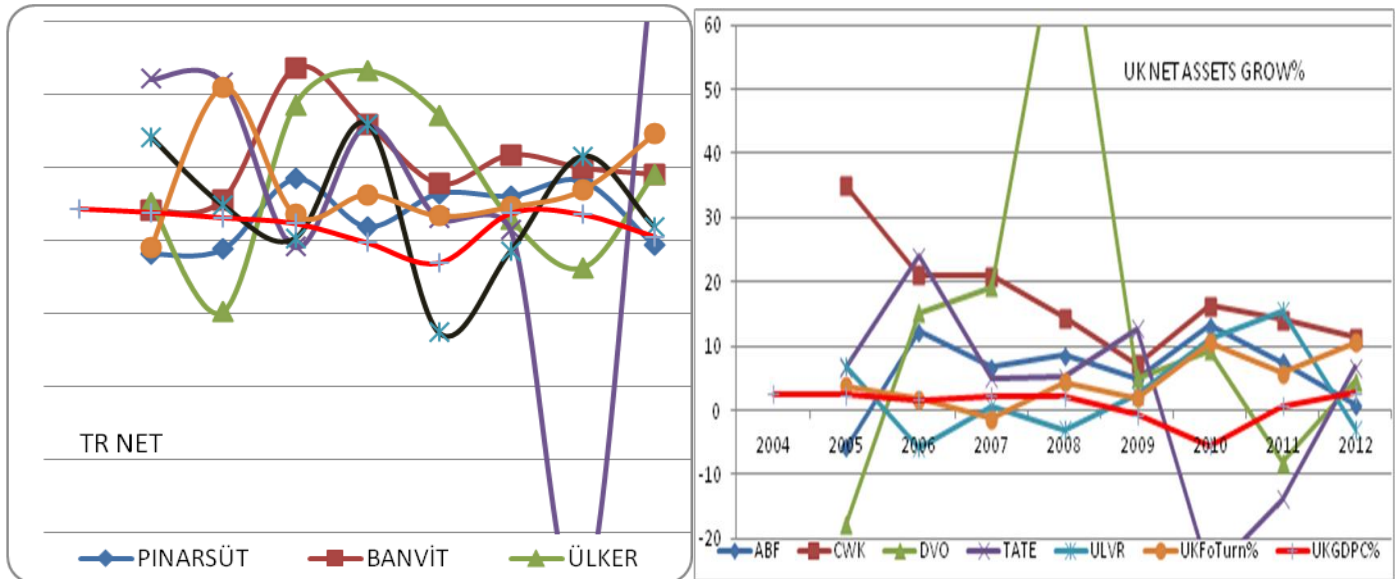


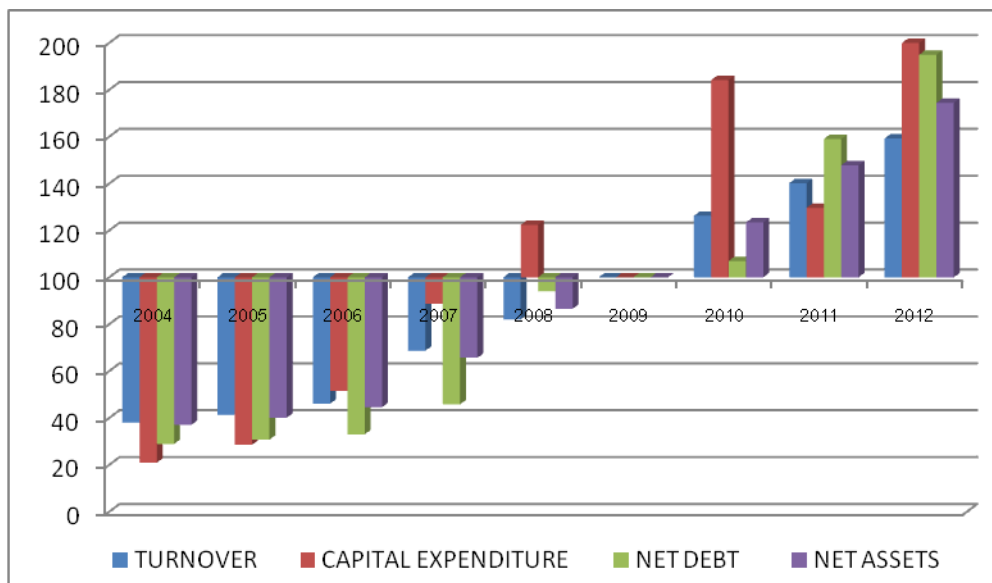
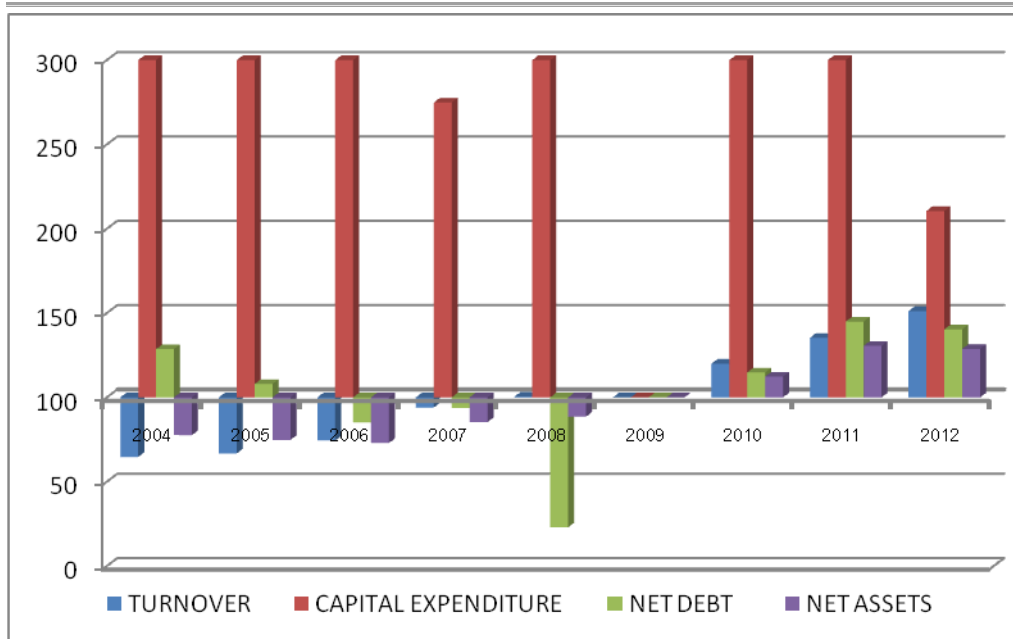
Figure 4. TR - UK Comparisons for Net Assets Inclinations

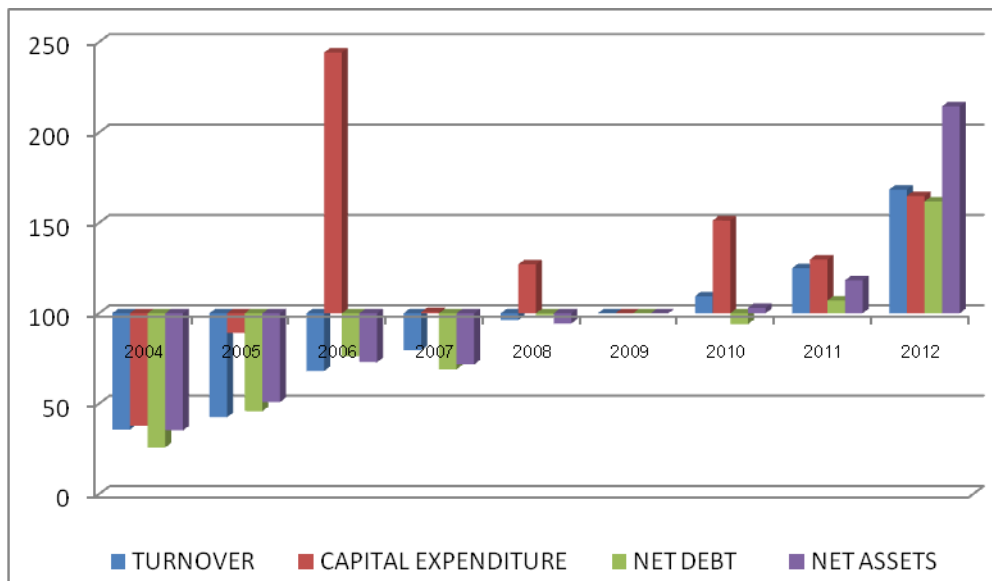
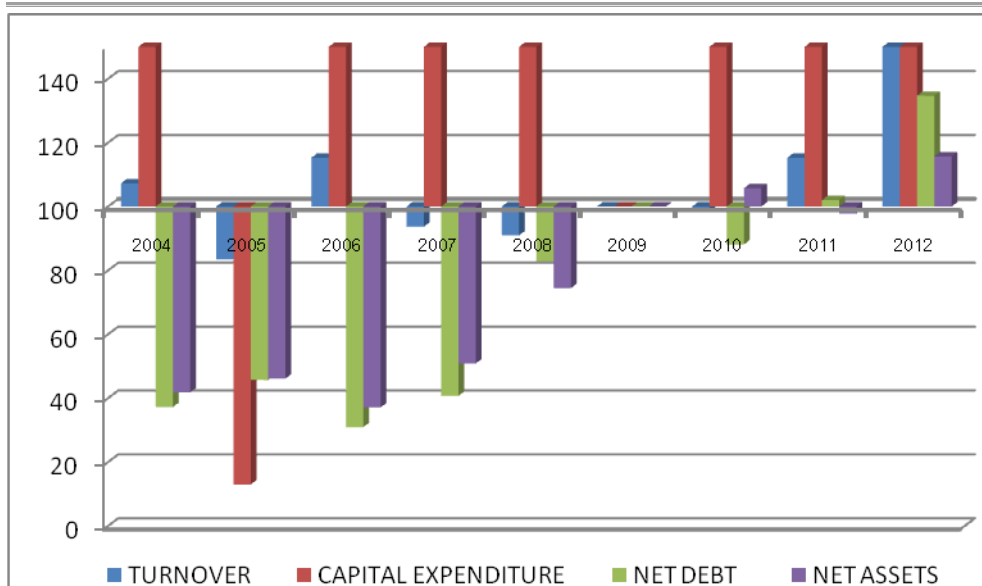
Separate annual net assets growth for TR food companies (on the left chart) and the UK food companies (on the right chart) are indicated in Figure 3. Net assets growth inclinations were much higher for Turkish food companies than the UK companies. Especially during the period after the crisis, net assets growth inclinations kept moving away from the UK companies.

4. Changes in the Financial Indicators for Food Companies in Turkey and the UK

In this part, we examined the inclinations for turnover, net debts, capital expenditure and net assets for the food companies which are active in Turkey and in the UK. In this examination, 2009, which was the year when the economic crisis was deeply felt, was considered as the basis and index values for other years were calculated.

The inclinations of Turkish food companies which are indicated with these index values are presented in the set of charts below:





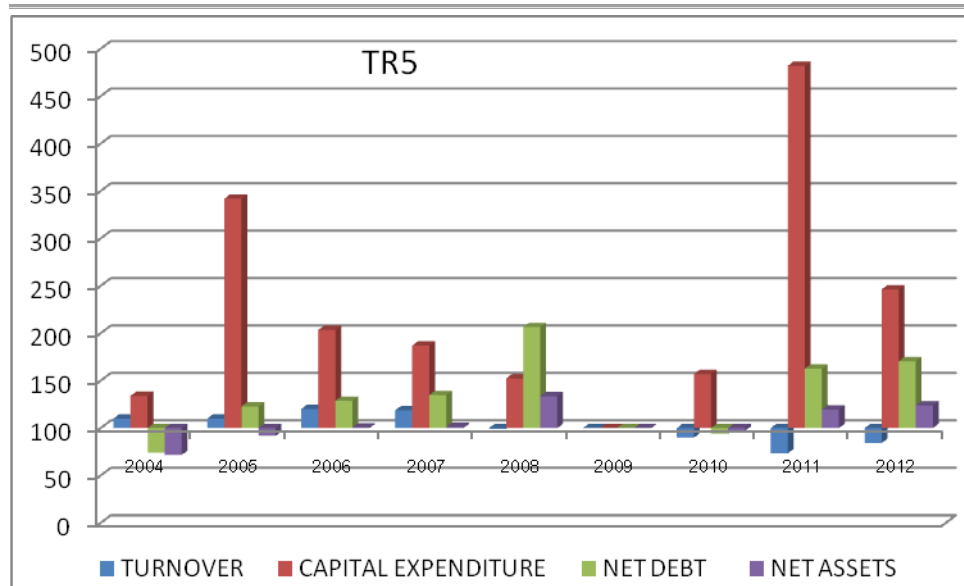
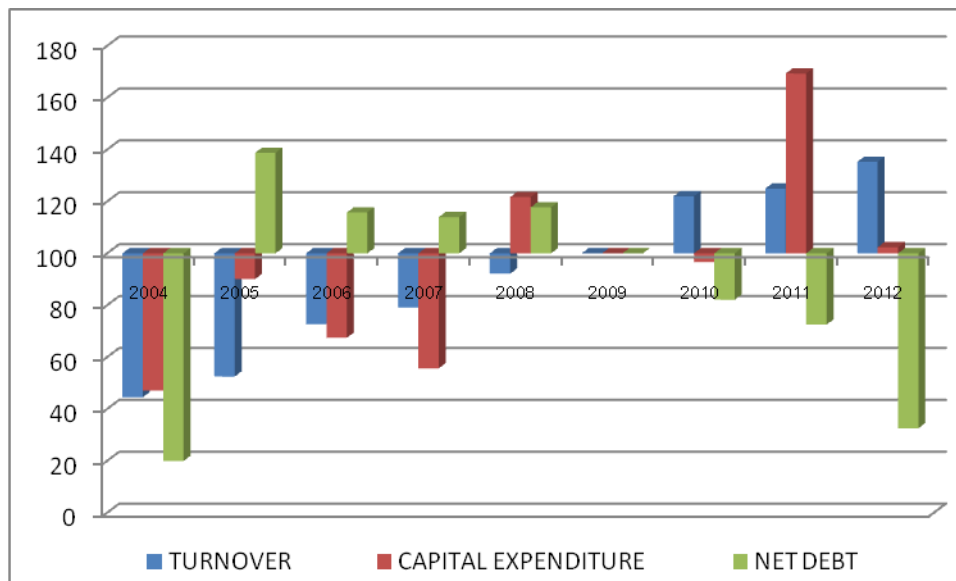
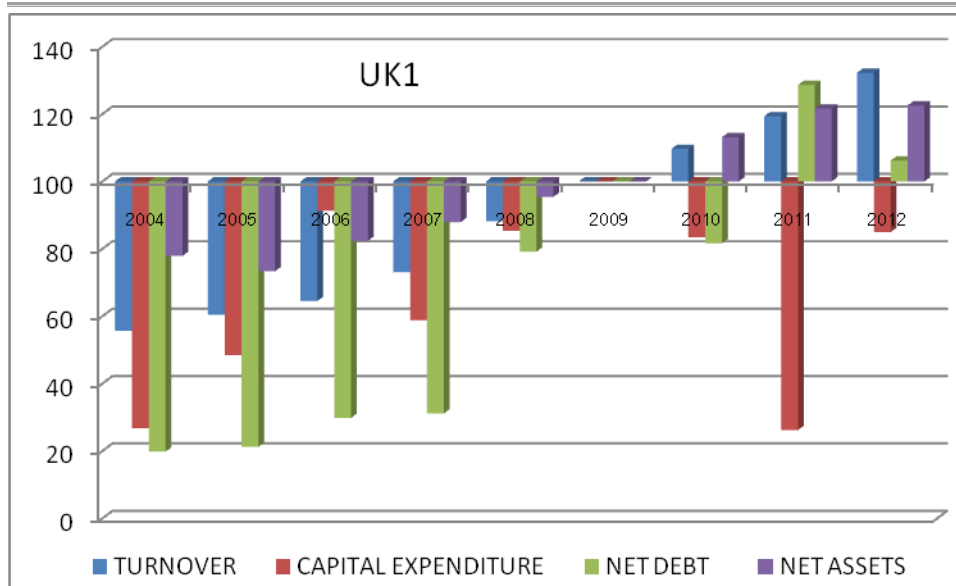


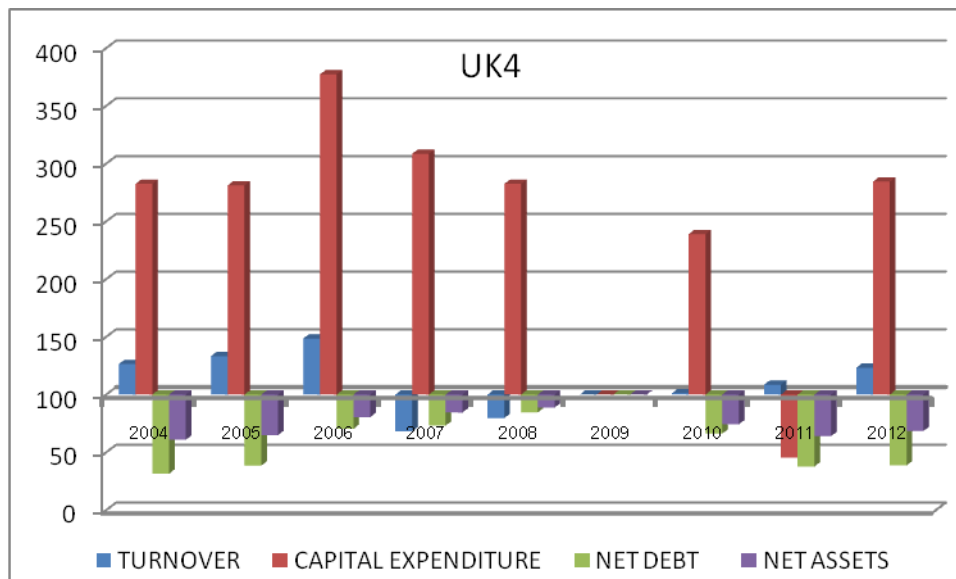
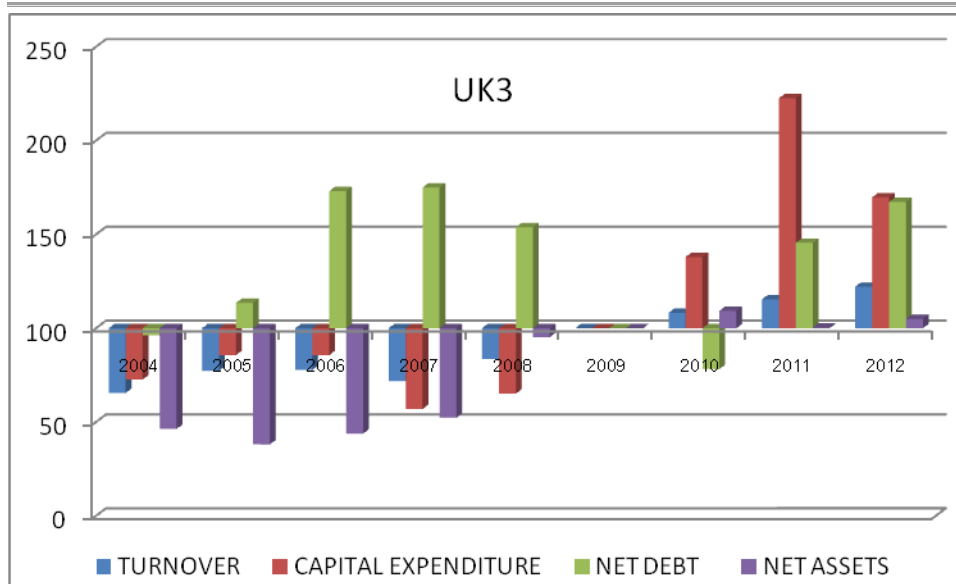
Figure 5: The Financial Indicators of the Active Food Companies in Turkey

The turnover growth rates for after 2009 were higher than before crisis period for all the companies except for one.

In 2009, capital expenditure structures are similar for the first, the third and the fifth companies. For others, capital expenditure inclination is low before the crisis and high after the crisis. When we evaluate net debts, the second, the third and the fourth companies had a similar structure before and after crisis which means there were less debts before crisis while it remained less in and after the crisis. The first and the fifth companies kept their debt rates higher than the reference year which is 2009. For 2009, the first four companies' net assets structures are in accord with each other while the fifth is differing on that. Although the first four companies had a lower net assets structure before the crisis year compared to that year, they increased their net assets after that year. Whereas the fifth company kept its assets in the same level before 2009 compared to that year and even had a little increase. Likewise, it continued this custom after 2009. That is to say, the crisis did not create a big change in the asset management for the fifth company.

The inclinations for the UK companies that were examined in this study are shown below:





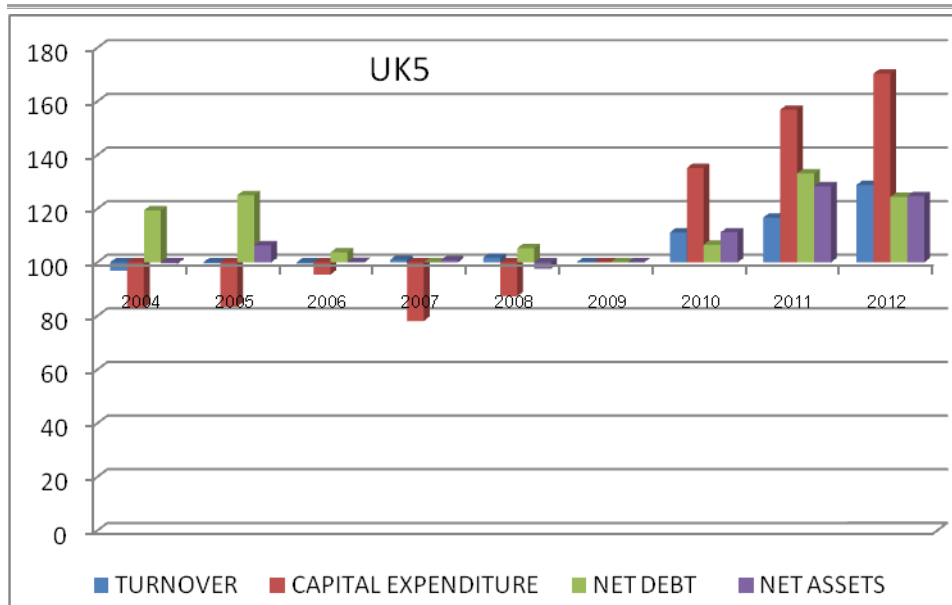


Figure 6: Financial Indicators for the Active Food Companies in the UK

Four financial structures of the UK companies are in accord with each other before and after crisis. This accordance, as included in the literature, shows that developed countries are comparatively less affected thanks to their depth.

All of the UK companies have similar structure of turnover before and after the crisis compared to 2009. That is also similar to Turkish food companies. That means, compared to 2009, companies had lower turnovers in 2004-2008 while they increased their turnovers after 2009.

In capital expenditures, the second, the third and the fifth companies have a similar structure while the other companies have individual inclinations. That is to say, compared to 2009; the second, the third, and the fifth companies made less expenditure before crisis while they preferred to raise their expenditures after crisis. The first company always had a lower expenditure before and after 2009, compared to the crisis year. The fourth company showed a completely opposite inclination, and having a constant investor identity it made more and more expenditures before and after the crisis year. That means, there is a heterogenic structure of capital expenditure for the UK food companies compared to the crisis.

The UK companies had different structures for net debts, just like capital expenditure, compared to the crisis year. For example, the first company had half of the net debts of 2009 in 2004-2008, and it borrowed more after the crisis. However, the fourth company had half of debts before and after the crisis compared to 2009. The fifth company, as completely opposite of the fourth, had an increasingly higher level of debts for all the periods compared to 2009.

The UK companies had a generally similar structure with Turkish companies when it comes to net assets. That means, net assets were lower before 2009 and higher after it, compared to 2009.

Only exception for this is the fourth company. This company had 25 % less assets during the whole period compared to the net active level of 2009.

Conclusion

The turnover growth of food companies had a different and positive course of progress during the years between 2004 and 2012, compared to GDP growth in Turkey and the United Kingdom which is examined in this study. Furthermore, in the same period, the 50 % gap between Turkey's food turnover and the UK's companies' turnover seems to have been closed.

Taking 2009 as the reference year, turnover growth of food companies in Turkey and the UK has been showing a different course of change. For example, while the average growth rate of Turkish companies was 20 % during the period between 2004 and 2008, it was below 10 % for the companies in the UK. In and after 2009, Turkey's food companies' distribution is 20 % thanks to the turnover growth they have managed while the UK companies have a 5 % grouping.

Moreover, there are some serious basic differences between net debts inclinations of Turkey and of the UK during the period between 2004 and 2012. For example, considering the net debts level of 2009, before that, Turkish companies had a higher level of debit inclination while the UK companies kept their debts in a low level except for 2006. On the other hand, after 2009, the grouping for Turkish companies is in a comparatively low level while the UK companies preferred a comparatively higher level of debts.

In the same period, the food companies in Turkey and in the UK showed a similar structure in net asset growth.

In economy, generally, the dimension of impact from the crisis is different for developing countries and for developed countries while the food companies of developing countries and developed countries show a similar structure because of the low level of price elasticity of demand. Even though there are some differences in details in the financial indicators of the food companies in Turkey and in the UK, we can say that there is a general accord with the crisis for both of them. Yet again, for example, total turnover growth rate for in and after 2009 was two times greater for Turkish companies than for the UK companies.

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