

Which Firms Engage Small, Foreign, or State Banks? And Who Goes Islamic? Evidence from Turkey

Steven Ongena and Ilkay Sendeniz-Yuncu

Relationships between firms and their financiers are widely understood to be a defining characteristic of many credit markets. Many papers have modeled and documented the existence, importance and dimensions of relationships between firms and banks, for example in time, scope and intensity.

However, less investigated is the matching that occurs between firms and banks. Research for the US documents that large banks there mainly lend to large firms (employing predominantly hard information in the loan decision process), while foreign banks in Pakistan establish relationships with large and visible firms. We aim to contribute to this literature by comprehensively investigating the matching of firms and banks according to both a wide set of firm and bank characteristics.

By focusing on a representative dataset from Turkey that identifies firm-bank connections we can uniquely distinguish between four defining bank characteristics that may determine firm-bank matching. Banks in Turkey differ not only in size (large versus small) and nationality (domestic versus foreign), but also in ownership (private versus state) and orientation (Non-Islamic versus Islamic). Combining these four bank characteristics we can classify the banks in Turkey in at least six very different bank types. We then construct a model of the choice of bank type and show how that model can be estimated using a multinomial logit.

Overall, we document a strong correspondence between firm characteristics and bank type. Importantly the matching between firms and banks is not always the same as in other countries. For example the matching according to firm and bank size is very different in Turkey than it is in the US. In Turkey small firms engage large rather than small banks. Strong loan officer authority at large banks and state ownership are potential explanations. We also find that young, large, multiple-bank firms that are diversified across industries and in mining but not in trade, and are located near Istanbul (in Marmara), team up with foreign banks. Islamic banks mainly deal with young, multiple-bank and transparent firms, that are also industry-focused and in manufacturing in the case of the domestic Islamic banks. All in all, we find that the matching between firms and banks to be more complex than previously thought.

[Read full paper](#)