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CORPORATE GOVERNANCE RATING IN TURKEY: INVESTIGATION OF SCORES OF FIRMS¹

Research

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CORPORATE GOVERNANCE RATING IN TURKEY: INVESTIGATION OF SCORES OF FIRMS

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Abstract

After the corporate governance crisis in 2001, and the crises in the following years increased the concern about the governance of the firms. The concern focused on corporate governance. There were important developments in Turkey related to corporate governance after 2003. The Capital Markets Board of Turkey (CMB) published “Corporate Governance Principles of Turkey” in 2003, and the corporate governance rating agency's rules were published in Official Gazette in 2007.

Purpose: Based on these developments, the paper aims to investigate corporate governance rating firms in Turkey and their rating scores.

Method: To investigate the rating firms and their scores, annual data are collected from the TKYD website from 2007 to 2010. Because no article comprehensively investigates the data, we use simple descriptive statistics and data visitation methods.

Findings: We find two main results. The first one shows that there are two dominant rating companies in Turkey. The second shows that the firms have increasing rating values by year.

Originality: In the absence of any comprehensive analysis of Turkey's corporate governance rating firms' rating scores, this article will constitute base information for further research.

Keywords: Corporate Governance, Firm Performance, Rating, Turkey

JEL Classification: G24, G32, O16

TÜRKİYE’DE KURUMSAL YÖNETİM DERECELENDİRMESİ: FİRMALARIN PUANLARININ İNCELENMESİ

Özet

2001 yılındaki kurumsal yönetim krizi ve sonraki yıllardaki krizlerden sonra yönetişime artan bilgi ilgi oluştu. Bu ilgi de kurumsal yönetime odaklandı. Türkiye’de de 2003 yılından sonra kurumsal yönetimle ilgili gelişmeler yaşandı. 2003 yılında Sermaye Piyasası Kurumu “Türkiye Kurumsal Yönetim İlkeleri’ni yayınladı. 2007 yılında kurumsal yönetim derecelendirme şirketleri ile ilgili esaslar Resmi Gazete’de yayınlandı.

Amaç: Bu gelişmelere bağlı olarak bu makale Türkiye’deki kurumsal yönetim derecelendirme kuruluşlarını ve bu kuruluşların derecelendirme değerlerini araştırmayı amaçlamaktadır.

Yöntem: Derecelendirme firmalarını ve onların verdikleri derecelendirmeleri araştırmak için TKYD web sayfasından 2007 yılından 2010 yılına kadar yıllık veriler elde edilmiştir. Bu veriler kullanılarak yapılan ayrıntılı bir araştırma bulunmadığından basit tanımlayıcı istatistikler ve veri görselleştirme teknikleri kullanılmıştır.

Bulgular: İki ana sonuç elde edildi. Bunlardan birincisi Türkiye’de iki baskın derecelendirme firması olduğunu göstermektedir. İkincisi incelenilen firmaların derecelendirme değerlerinin yıla bağlı olarak arttığını göstermektedir.

Özgünlük: Türkiye’deki kurumsal yönetim derecelendirme kuruluşlarının derecelendirme değerleri ile ilgili kapsamlı bir analiz olmaması nedeniyle, bu makale gelecekteki araştırmacılar için temel bilgiyi oluşturacaktır.

Anahtar Kelimeler: Kurumsal Yönetim, Firma Performansı, Derecelendirme, Türkiye

JEL Sınıflandırması: G24, G32, O16

INTRODUCTION

Corporate governance, which meant little to anyone but a handful of academicians and shareholders two decades ago, has become a key topic of discussion in corporate boardrooms, academic meetings, and policy circles around the world for 20 years. Definitions of corporate governance are split into two categories. The first category is related to a set of behavioural models, which are the actual behaviour of firms in terms of measures such as performance, productivity, growth, financial structure, and treatment of shareholders and other stakeholders. The second category is related to the normative framework. In other words, it is the rules in which firms operate with rules coming from sources such as the legal system, the judicial system, financial markets and factor (labour) markets. With a slightly broader definition; “Corporate governance is the system by which firms are directed and controlled” (Cadbury Committee, 1992; Claessens and Yurtoglu, 2013).

Several events are responsible for the growing interest in corporate governance. During the wave of the financial crisis in Russia, Asia and Brazil in 1998, the behaviour of the corporate sector affected all economies, while deficiencies in corporate governance endangered global financial stability (Gompel, 2011; Arslan, 2018; Elkinawy, 2005). Just a few years later from the financial crises in Russia, Asia and Brazil; confidence in the corporate sector has been shaken by the crisis in 2001, which is named as Enron crisis (Brown,2005) and the reason is the corporate failure of the firms. The crisis triggered some of the biggest bankruptcies. Also, in Australia, there was a corporate governance crisis which is caused by Australia's second-largest insurer, HIH (Parker,2007).

In the wake of these events, the phrase corporate governance has not only become a household term, but researchers, policymakers in the corporate world and everywhere have recognized the potential macroeconomic, distributional and long-term consequences of poor corporate governance systems. However, crises are only manifestations of several structural reasons why corporate governance has become more important to economic development and prosperity.

The market-based investment process is more important than ever before for most economies and needs to be supported by good corporate governance. With the increasing size of firms and the increasing role of financial intermediaries and institutional investors, the mobilization of capital is gradually moving away from its originality. At the same time, the allocation of capital has become more complex as investment options expand with the opening and liberalization of financial and real markets and as structural reforms, including price deregulation and increased competition, increase firms' exposure to market forces. Moreover, the recent financial crisis has revealed how failures in corporate governance can devastate firms and negatively affect entire economies. These developments have increased the need for good corporate governance, making the monitoring of capital use more complex in many ways (Köse, 2010; Claessens, 2006).

In the past three decades, there has been much progress in research on corporate governance, and much greater recognition of the importance of corporate governance for development. The number of articles published each year on corporate governance has increased significantly. Most of these studies originated not only from economics and finance but also from many other disciplines in the social sciences such as accounting, law and management, and pointed to the interdisciplinary nature of research on corporate governance (Ararat, Claessens and Turkoglu, 2021).

While better management is aimed at corporate governance, corporate governance rating firms have been established in line with the requirement of this fact (Önder and Mutlucan Sayın, 2016).

Corporate governance ratings play a vital role in this paradigm as the adoption of different corporate governance practices sets one company apart from others. Corporate governance rating is an important component of the overall management system. This rating is defined as an opinion about a firm's corporate management system, its compliance with various parameters used for evaluation, and its rating, and differentiates firms according to their corporate governance quality (Bakır, 2009).

The rating provides vital information to various stakeholders about the scope of corporate governance practices implemented. It also determines the relative position of an organization vis-a-vis other organizations in terms of best practices in corporate governance principles. The corporate governance rating mainly provides; information to stakeholders, benchmarks and set comparisons for further improvement, and an independent and reliable assessment of quality and corporate governance scope (Sukumaran, 2020).

Stakeholders need information about firm performance so that they can make firm decisions. They may not have the knowledge and skills to evaluate and analyze financial and non-financial information about firm performance. Rating firms analyze and evaluate firms' performances with an expert approach and give rating scores. In terms of corporate governance rating, although the rating methods and the models used by the rating firms differ from each other, the content of the rating includes evaluating the compliance of the firms with the corporate governance principles. In rating the compliance of firms with corporate governance principles, taking into account the practices in the company; the board of directors, transparency and public disclosure, stakeholders and shareholders are announced separately and in total (Kılıç, 2009).

Corporate governance ratings are applied internationally and nationally to assess the degree of compliance with corporate governance principles. GMI Ratings, Corporate Shareholder Services (ISS), Standard & Poor's etc., are the international rating firms that engage in providing corporate governance rating services. In Turkey, the firms authorized by the Capital Markets Board are as follows; TCR Corporate Governance and Credit Rating Inc., Saha Corporate Governance and Credit Rating Services Inc., Kobirate International Credit Rating and Corporate Governance Services Inc., JCR Avrasya Rating Inc. . In addition, the international rating firm accepted by the Capital Markets Board to carry out rating activities is Riskmetrics Group Inc. (Kılıç and Benligiray, 2012).

In this study, we aim to investigate the corporate governance rating of Turkish firms. After section one (introduction) the article is organized as follows. Section two presents the history of rating and its definitions. In section three, the steps of the foundation of Turkish rating agencies and Turkey's rules and regulations are briefly summarized. Section four is the data analysis section. We aim to investigate the main tendency of the data. At last, in section five, the paper is summarized and concluded.

RATING CONCEPT AND TYPES OF RATING

Financial investors cannot access the same set of information among themselves, and the existence of horizontal asymmetric information can be a deterrent for capital flows to the financial market and lead to an inefficient distribution of available financial resources. Information asymmetry increases the impact of a firm's reputation on the cost and amount of capital that can be raised through the financial market. In this scenario, smaller and younger firms are penalized and perhaps more financially constrained than larger players. To overcome the problem of information asymmetry, firms can hire information providers to obtain an objective assessment of their business. If the market trusts the evaluators, such firms can reduce the cost of capital or increase the capital raised by issuing judgments based on the market's response to any reduction in information asymmetry. Rating firms provide judgments about an issuer or subject that summarize all available public and confidential information. The main advantage of the rating service is the opportunity to signal to the market without disclosing the expected effect of confidential information to the public due to the restriction of confidentiality that characterizes the relationship between the evaluated organization and the institution. The rating service cannot be compared to the (implicit) judgments of the creditors due to the different purposes of the evaluations. In the first case, the decision is simply an opinion on a subject or issuer, while in the second case, there is a direct financial risk to the lender. In addition, the information given to the market by rating agencies can be read more clearly for non-qualified financial investors (Krahn and Weber, 2001).

General Information

The concept of rating means the evaluation by grading as the easiest expression. In other words, the rating is all of the functional and institutional evaluations made using ranking. Various definitions in the literature regarding rating are as follows (Boyacıoğlu, 2005):

- Rating is a set of multiple evaluation processes in which grading determines value.
- Rating is an assessment that reveals the risk to be undertaken by the investor.
- Rating is to provide public disclosure by independently assessing the issuers' ability to fulfill their principal and interest obligations on time and fully (TSPAKB, 2005).

Rating in line with the definitions set out above. It can be defined as the process of evaluating a company engaged in financial activities by using certain analysis methods by authorized experts

based on criteria showing its compliance with pre-determined principles, standards or laws, classifying them according to the results of these evaluations, and showing the classes with numeric or non-numeric symbols (Kılıç and Benligiray, 2012).

A rating is an opinion given solely by a specialized agency based on an issuer's creditworthiness. While the issuer rating measures the default risk of a firm, the issue rating considers the default risk and certain characteristics of an issue that may affect the outcome of the recovery process. The assessed institution may be actively involved in the evaluation process (desired rating), or the jurisdiction may be independently identified by an institution (undesirable rating). These two procedures can affect the amount of information used in the evaluation process, and in general, the more the evaluated institution is involved in the evaluation process, the greater the amount of information available for analysis. Rating market competition is constrained by entry barriers related to reputation requirements, and very few organizations operate in the market today. The top three players have a much larger market share than any other player, and the strategic partnership between the biggest players and smaller agencies further reduces overall competition. The quality of the service provided depends on the characteristics of both the service provided (objectivity, accessibility and transparency) and the institution (human resources, reputation and independence) (Mattarocci, 2014).

History of Rating Firms

The origin of the rating agency industry can be attributed to the first credit reporting agency, called the Mercantile Agency, in 1841. It was initiated as a solution by using a network of intermediaries to gather information on operating statistics, business status and creditworthiness, to reduce the information asymmetry that characterizes the market and to make a judgment about the commercial risk exposure of counterparties based on available information and wholesaler experience (White, 2010).

The modern rating industry began in the early 1900s due to a fundamental shift in capital market demand as the corporate sector developed and public financial aid decreased. In the 1800s, there was a great development in firms in the railroad sector to develop new construction projects that were not directly funded by the government, especially in the United States. This growth opportunity in the US market has created a huge demand for financing opportunities. While the sources of financing were mainly related to the banking sector (Uğurlu, 2019,2020) in the beginning, in the second half of the century firms began to seek alternative capital sources and focused on the opportunities related to the bond market. Since its inception, the bond market has been characterized by the prevalence of government-issued instruments whose investors are not normally exposed to default risk due to the power of government issuers. Thus, investors were able to subscribe to these financial instruments without considering or assessing the contractual default risk. After the firms entered the market, the

risk of the traded instruments increased significantly and there was a great demand for credit risk assessment services that were not requested before (Sylla, 2002).

During the first half of the 1900s, all of the current major players in the current rating industry developed a different model (Fitch-1913, Moody's-1900 and Standard & Poor's-1860) to enter the market and gain a relevant market share in a short time. Initially, the growth of the market was very slow, and the added value offered by the rating agencies was mainly related to the opportunity to collect information that is not accessible to other investors due to the low disclosure of the issuer market. With the recognition of rating services as a criterion for ensuring the quality of issuers and issuers, the market started to grow rapidly and in the 1980s and 1990s, there was a significant increase in the number of rating agencies in all markets around the world. During the 1980s and 1990s, market growth was so significant that the number of rating agencies at least doubled every two decades. Comparing the market size of the late 1970s and the late 1990s, the number of rating agencies has more than sixfold in less than 20 years. The significant increase in the number of players since the 1980s can be explained by the development of asset-backed securities, which normally represent a more profitable business for the assessor due to higher fees charged to clients (Partnoy, 2006).

When looking at the geographical regions of the rating agencies, some differences can be detected in the time patterns of different geographical areas. The highest number of new rating agencies were created in the USA before the 1970s. However, the number of new players entering the market in the 1980s was significant compared to the world market. In the 1970s, Japan supported the start-up and development of local rating agencies to reduce the transparency of the financial market and increase the number of resources invested by both domestic and foreign investors. Beginning in the 1980s, significant growth of the rating market has been in emerging economies, where governments have decided to support the development of both private and public rating agencies to increase market transparency and support foreign investment in the country (Ferri and Lacitignola, 2010).

Types of Rating Firms

The types of firms operating in the field of rating are respectively: corporate management rating firms and credit rating firms. Corporate Governance Rating Firms that make corporate governance ratings are firms that analyze and categorize their compliance with the principles of responsibility, accountability, transparency and fairness, which are among the most basic principles of corporate governance. These firms should be fair, impartial and independent while carrying out these activities against the institutions (Yeğen, 2016).

Credit Rating Firms analyze the financial strength of firms, particularly their ability to meet interest and principal payments on their debts. The rating assigned to a particular debt indicates the level of confidence an institution's borrower has in meeting its debt obligation as agreed. Each institution uses unique letter-based scores to reveal the presence of a debt's high or low risk of default and its issuer's financial stability. Lenders can be state and local governments, special-purpose institutions, not-for-

profit corporations or corporations, and sovereign nations. After the Global Financial Crisis in 2008, credit institutions faced criticism for giving high credit ratings for loans that later turned into very risky investments. They could not identify the risks and threats to warn investors against investing in certain types of debt, such as mortgage-backed securities. Rating agencies have been criticized for possible conflicts of interest between them and their issuers of securities. As these issuers make payments to rating agencies for the provision of rating services, they may therefore be reluctant to give very low ratings to securities issued by such payers. Today, three large institutions dominate 95% of the rating activities in the credit rating sector. These firms are Fitch Group, Standard and Poor's (S&P) and Moody's Investor Services. S&P and Moody's have 80% of the international market. On the other hand, Fitch is located in both London and the USA and has a dominance of approximately 15% in the global market. (Karagöl and İstiklal, 2012).

CORPORATE GOVERNANCE RATING IN TURKEY

Amendments planned to be made both in the capital market legislation and in other legislation can be seen as significant steps for the development of corporate governance rating activities in our country. However, despite all these developments, corporate governance rating activities have not become widespread in our country. After the entry into force of the Rating Communiqué, none of the firms traded in the ISE shared their information about having this rating done. In this context, it is considered that the main reasons why the rating activities are not widespread are that the corporate management is new and that its importance is not understood by the stakeholders (Sandıkcıoğlu, 2005).

Corporate Governance Rating Firms

Corporate governance principles aim to protect shareholder interests from agency issues. Dealing with these issues can help increase transparency and strike a healthy balance between ownership and control. Jensen and Meckling (1976) argue that in their theory of the firm, managers will act in their interests, within their capacity as agents, because they have different goals from those of the owners. If the agent theory holds, we hope that both internal and external corporate governance tools will reduce the principal-agent problem, which must increase the firm's value and maximize shareholder returns. Corporate governance ratings, especially commercial ones, act as a corporate governance tool by providing information to investors that can help mitigate the principal-agent problem. Therefore, investors expect rating information to be included in firm returns or value. Governance rating information can also affect institutions' credit ratings and financing decisions. Management ratings, if publicly available, also influence public perception of a firm and can subsequently affect profitability (Isiaka, 2015).

Rating firms are organizations that measure, classify and evaluate the compliance of institutions with corporate governance principles. In fact, it can be stated that these organizations are generally related to the spiritual structure of the institutions they rank (Önder ve Mutlucan Sayın, 2016).

Corporate Governance Rating Firms in Turkey

According to the 7th article of the Communiqué Serial: VIII, No: 51 on the Principles Regarding the Rating Activity and Rating Agencies in the Capital Markets, of the Official Gazette dated 2007 (Resmi Gazet,2007) and numbered 26580, titled "Entities that Can Engage in Rating Activities"; "It is regulated that it will be carried out by rating agencies established in Turkey and authorized by the Board to carry out rating activities, and by international rating agencies approved by the Board to carry out rating activities in Turkey". The rating firms authorized by the CMB, which carry out corporate governance rating activities in our country, are as follows (CMB, 2021):

- "DRC Rating Services Joint Stock Company,
- Istanbul International Rating Services Joint Stock Company,
- JCR Eurasia Rating Joint Stock Company,
- Kobirate International Credit Rating and Corporate Governance Services Joint Stock Company,
- Saha Corporate Governance and Credit Rating Services Joint Stock Company".

SAHA is founded with the decision of the Capital Markets Board (CMB) dated 14.12.2006, in the field of Corporate Governance Principles Compliance Rating; It was authorized in the field of Credit Rating with its decision dated 11.09.2007. Kobirate International Credit Rating and Corporate Governance Services Inc. It is a Local Credit Rating company established in June 2008 with five Turkish partners after preliminary studies dating back two years. JCR Eurasia Rating has got its credit rating license on 15 June in 2007. On 05 November in 2007, JCR Eurasia signed an agreement with the Japan Credit rating agency to make cooperation between themselves. In 2007, the JCR company name changed to JCR Eurasia rating.

Corporate Governance Rating Methods

According to Article 6 of the Communiqué, corporate governance rating is defined as "the independent, impartial and fair evaluation and classification of businesses' compliance with the corporate governance principles published by the Capital Markets Board" (Official Gazette, 2007). This rating can be done in two ways:

- Demand-dependent rating,
- On-demand rating.

On-Demand Rating

These credit ratings are requested and paid for by issuers. Therefore, the literature argues that credit rating agencies benefit by providing high ratings in the desired credit ratings, implying a conflict of interest between credit rating agencies and investors (Jiang, Stanford, and Xie, 2012)

Non-Demand Rating

The ratings issued by the credit rating agencies without the request of the issuers or their agents which is the issuance of non-demand ratings does not include credit rating fees (Chang et al., 2019).

The main concern with non-demand ratings is the fact that all other things being equal, they empirically don't look as positive as on-demand ratings. While this can be interpreted as evidence that unsolicited ratings are allocated to blackmailers to pay for the desired rating, it may also indicate that better quality issuers request a rating or, in the absence of non-public information, credit rating agencies give more conservative ratings (Van Roy, 2006).

Rating Process

Despite minor differences, it is seen that the rating processes of the firms that continue their activities in our country are quite similar to each other. This process is outlined below (Mutlucan Sayın, 2010).

Signing of the Rating Agreement and Preliminary Study; within the scope of the norms determined by the CMB, a rating agreement is signed between the requesting company and the rating company, and after the signing of the agreement, some documents and documents are requested from the company officials. The company website and the documents obtained are examined in detail in terms of corporate governance practices. In the next step, the questions in the forms attached to the contract are asked to be answered in detail. Issues that cannot be clarified after these studies are noted as an agenda item to be discussed with company managers (Mutlucan Sayın, 2010).

Meeting with Company Officials and Related Personnel; after the preliminary study, a meeting is held between the senior managers or the company's board of directors and the authorized persons of the rating company, if any issues are left in the air. The corporate governance committee, if any, is requested to attend the meeting. Answers are sought for vague questions. If there are still unresolved issues after the meeting, these issues are not scored and are indicated in the rating report. rating experts on ambiguous issues; Minority and dominant shareholders, other members of the board of directors, independent auditors, suppliers, customers and other people who audit corporate governance practices can also meet and even conduct research in trade registers and tax offices (Mutlucan Sayın, 2010).

Writing the Report and Discussing it in the Rating Committee; after examining documents and meeting with responsible persons and managers, the four main section rates and the company rates are calculated for the filled forms. These scores are specified separately in the rating report. This report, written by the rating specialist, is submitted to the company's corporate governance rating committee. The report is re-examined by the Committee members, and the deficiencies are corrected,

and the mistakes are corrected, and the report is finalized and approved. This report is then forwarded to the company official. If the company objects to the report, the company notifies the rating specialist. If it is decided that the objections are right after the examination of the objections by the committee, necessary corrections are made (Mutlucan Sayın, 2010).

The announcement of the rate is approved by the rating committee, then it is sent to the company, at the last step it is announced to the public via the firms' website. In addition, the note received by the company is sent to national newspapers, CMB and BIST. While the rating given for the company remains valid for one year, it is kept under the supervision of a rating specialist during this period (Mutlucan Sayın, 2010).

EMPIRICAL ANALYSIS

In this paper, we aim to analyze the firms which are rated by rating agencies. In 2021, the total number of firms is 70, which are rated by the rating firms in Turkey. The data is collected from the TKYD (The Corporate Governance Association of Turkey) data source TKYD (2021). The data consists of the different number of firms in different years from 2007 to 2021, the maximum number of firms is 70 with the latest participation of corporate rating.

Table 1 shows the number of firms for each year. We can see that 2009 is the year with the highest number of firms which was started to be rated. Figure 1 shows the percentage of the firms, and the share in 2009 is 16%. The second highest join to the system is 2014. 2014 is an important year for rating firms in this year the criteria established for firms traded on the BIST (Borsa Istanbul) have been arranged separately as the first group, second group and third group firms and investment trusts, taking into account the group distinctions specified in the second paragraph of article 5 of the communiqué numbered II-17.1 published on 03 January 2014 (resmigazete,2014)

Table 1. Number of Firms by Year

Year	Number of Firm	Year	Number of Firm
2007	6	2014	8
2008	6	2015	4
2009	11	2016	1
2010	7	2017	2
2011	5	2018	0
2012	7	2019	2
2013	4	2020	2
		2021	5
		Total	70

Source: Authors' Calculation by www.tkyd.org data

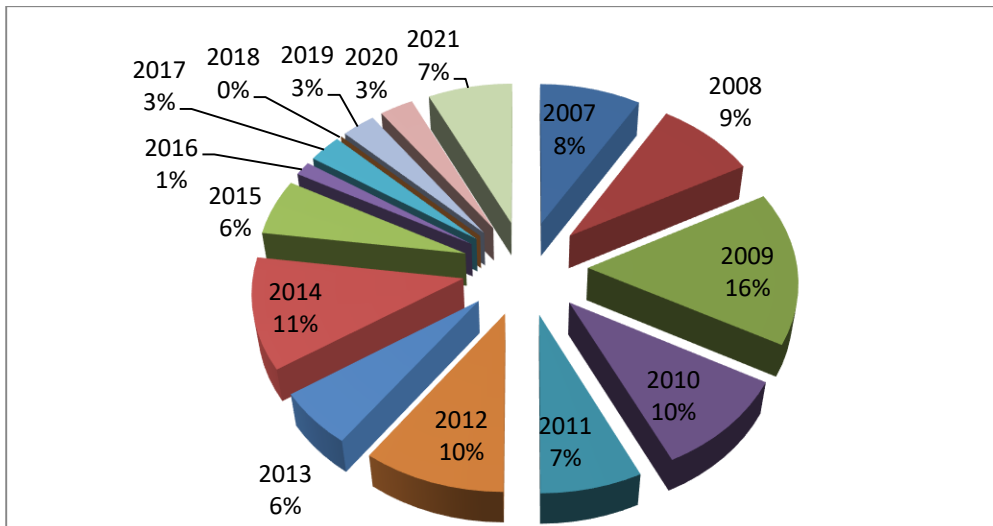


Figure 1. Percentages by Year
Source: Authors' Calculation by www.tkyd.org data

These firms are from many different industries. The question is according to the industry level; can we see any dominant industry within firms? Table 2 shows that the rated firms are from 27 different industries. The majority of the industry is the banking sector with 12.9%. The second industry is Holding and Investment Co. with 12.4% and the third sector is Real Estate Investment Trusts with 11.4%. The low percentage of some sectors is related to their scarcity. For example, there are not many firms in the aviation sector in Tukey and that's why it has a low percentage.

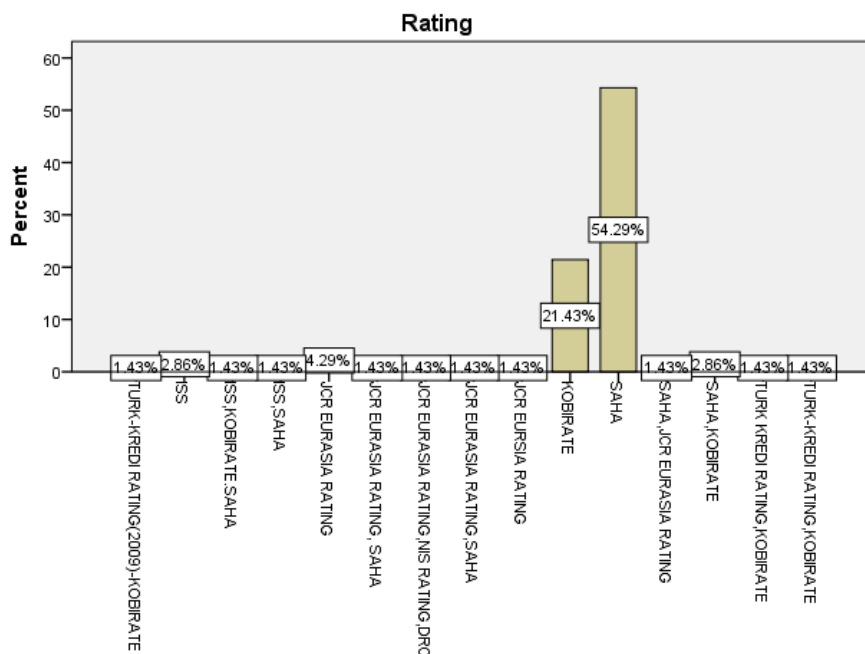


Figure 2. Share of the rating agencies in the Market
Source: Authors' calculation by www.tkyd.org data

Table 2. Industry Distribution

No	Industry Name	Frequency	Percent
1	Chemicals, Petroleum Rubber and Plastic Products	4	5.7
2	Automotive	3	4.3
3	Aviation	1	1.4
4	Banking	9	12.9
5	chemicals, petroleum rubber and plastic products	1	1.4
6	Construction	1	1.4
7	Electricity	2	2.9
8	Electricity, Gas, Water	2	2.9
9	Extractive Industry	1	1.4
10	Fabricated Metal Products Machinery Electrical Equipment and Transportation Vehicles	3	4.3
11	Financial Leasing	4	5.7
12	Food, Beverage, Tobacco	6	8.6
13	Holding and Investment Co.	9	12.9
14	Information Technologies	2	2.9
15	Insurance	2	2.9
16	Manufacturing / Basic Metal	3	4.3
17	Metal	1	1.4
18	Non-Metallic Mineral Products	1	1.4
19	Paper and Paper Products	1	1.4
20	Paper and Paper Products, Printing and Publication	1	1.4
21	Real Estate Investment Trusts	8	11.4
22	Retail	1	1.4
23	Telecommunication	1	1.4
24	Textile	1	1.4
25	Transportation and Storage	1	1.4
26	Transportation, Logistics and Telecommunication	1	1.4
	Total	70	100

Source: Authors' Calculation by www.tkyd.org data

The other aim is to see the share of the rating agencies in the market. Which agency has the greatest share of the market? Table 2 shows the ratio of the rating agencies. To do this, we will use two approaches. Some of the firms have worked with more than one rating agency in their rating history. At first, we present firms showing them how many rating agencies they worked with together; in the second graph, we present only the last agency, and we will have the year of 2021 proportions of the rating market.

Figure 2 shows that the SAHA rating has more than half of the market. The second agency is KOBIRATE which has the 20% of the market. The rest of the firms have less than a 5% share. Therefore, we can say SAHA is the main actor in the market without any close competitor. However, compared to SAHA; KOBIRATE has a low ratio, but it is the second most important agency in the market. In Figure 2 we see more than one firm because of the agency changes of the firms. If we consider last year, we will have only one agency for each company. Therefore, we have Figure 3. Figure 3 shows the agencies' rates in the market before the last agency information based on 2021 data. Compared to Figure 2. SAHA and KOBIRATE percentages are increased, indicating that the agency changes of the firms are positively affecting the number of customers of SAHA and KOBIRATE.

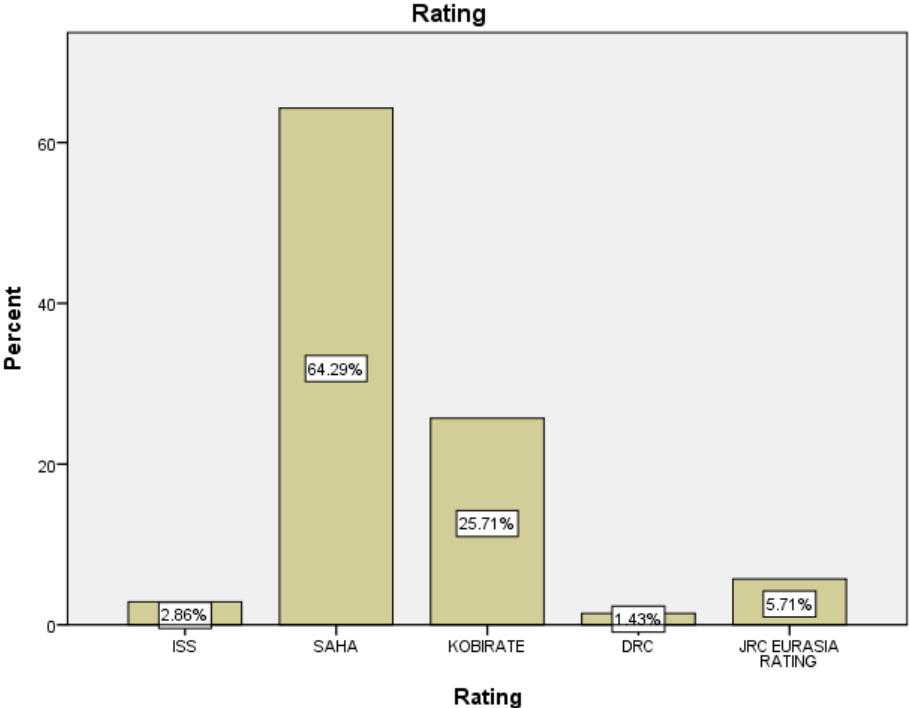


Figure 3. Share of the rating agencies in the Market in 2021
Source: Authors' Calculation by www.tkyd.org data

The share may be affected by the founding year of the firms, which were the first agency in the market may have more customers. The founding years of the firms are 2006 for JCR Eurasia Rating, 2006 for SAHA and 2009 for KOBIRATE. But the authorization dates of the agencies are different. JCR Eurasia Rating has been authorized in the field of Credit Rating with its decision dated 07 May 2008; the CMB authorized SAHA with its decision dated 11 September 2007, and the KOBIRATE in April 2009. According to this information, there is no dominance in the market based on the foundation year.

Furthermore, one of the research aims of this paper is to see whether or not there is more willingness to be rated in any industry. Table 3 shows the share of the industries within the 70 firms. The results

show that holding, real estate trust and banking firms have approximately 10% share within the total number of firms.

Table 3. Industry Share of the Rated Firms.

	Frequency	Percent
Chemicals, petroleum rubber and plastic products	4	5.7
Automotive	3	4.3
Aviation	1	1.4
Banking	9	12.9
Chemicals, petroleum rubber and plastic products	1	1.4
Construction	1	1.4
Electricity	2	2.9
Electricity, Gas, Water	2	2.9
Extractive Industry	1	1.4
Fabricated Metal Products Machinery Electrical Equipment and Transportation Vehicles	1	1.4
Fabricated Metal Products Machinery Electrical Equipment and Transportation Vehicles	2	2.9
Financial Leasing	4	5.7
Food, Beverage, Tobacco	6	8.6
Holding and Investment Co.	9	12.9
Information Technologies	2	2.9
Insurance	2	2.9
Manufacturing / Basic Metal	3	4.3
Metal	1	1.4
Non-Metallic Mineral Products	1	1.4
Paper and Paper Products	1	1.4
Paper and Paper Products, Printing and Publication	1	1.4
Real Estate Investment Trusts	8	11.4
Retail	1	1.4
Telecommunication	1	1.4
Textile	1	1.4
Transportation and Storage	1	1.4
Transportation, Logistics and Telecommunication	1	1.4
Total	70	100.0

Source: Authors' Calculation by www.tkyd.org data

The collected data are started from 2007 and finished in 2021. To have comparability among firms, we need to have the same/similar number of observations of the firms based on the analysis we will use. That is why we omit the years which have comparatively fewer firms. The data period we have 2007-2021 consists of years, which is why if any firm has been rated from 2007, the firm will have 15 values. However, some of the firms have only one value and many firms have less than 15.

To solve this problem, we omit the firms which have less than 12 data, thus we have 24 firms after this omission. Figure 4 shows the graph of the rating values of these 24 firms.

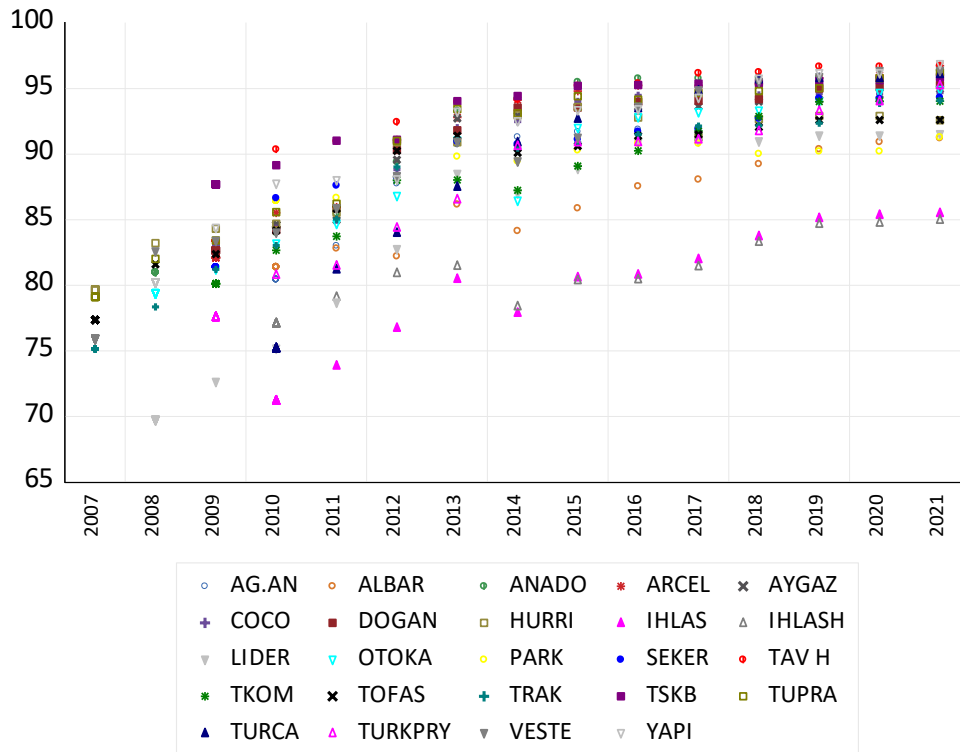


Figure 4. Share of the rating agencies in the Market
Source: Authors’ own study by www.tkyd.org data

Figure 4 depicts the rating values of the firms, and the tendency of the firms to show increasing values by year. The result indicates that if the firms started to be rated, their corporate governance would increase. better; that is why the values are increasing. To understand the values better we present descriptive statistics of the rates by firms.

We have two main rating agencies in 24 firms. 15 firms are rated by SAHA and three firms are rated by JCR. The graphs show the ratings of the firms. Using these graphs, we aim to see if there is an increasing trend in rating and if there is a big difference among rating agencies visually. For example, one of the agencies may give higher scores each year to have more customers. The disadvantage of our data set the weight of the SAHA rating among the agencies we have is very high and this high majority makes the comparison hard. If we have the same or a similar number of firms for each agency it will be easier to see the difference.

Table 4. Descriptive Statistics of the rating values of the firms

	AG_AN	ALBAR	ANADO	ARCEL	AYGAZ	COCO	DOGAN	HURRI
Mean	90.8616	86.6533	91.4935	92.3630	91.9058	91.31	91.5	89.3913
Median	91.785	86.85	94.845	94.8	93.595	94.02	93.56	91.27
Maximum	95.62	91.21	96.34	96.74	94.95	94.68	95.27	93.58
Minimum	80.44	81.38	80.96	82.09	84.61	83.04	82.64	79.67
Std. Dev.	4.9109	3.4598	5.7404	4.7776	3.5840	4.4371	4.4026	4.5585
Observations	12	12	14	13	12	13	13	15
	IHEVA	IHLAS	LIDFA	OTKAR	PRKME	SKBNK	TAVHL	TTKOM
Mean	80.28	81.4233	85.0321	89.1157	89.5116	90.4346	93.7107	88.9053
Median	80.71	81.195	88.685	91.51	90.1	91.1	95.19	89.08
Maximum	85.5	84.99	91.51	94.89	91.27	94.31	96.7	94.03
Minimum	71.2	77.1	69.73	79.4	86.45	81.36	83.34	80.11
Std. Dev.	4.6064	2.5860	7.7929	5.3534	1.5770	3.6865	3.7837	4.5790
Observations	12	12	14	14	12	13	13	13
	TOASO	TTRAK	TSKB	TUPRS	TRCAS	PRKAB	VESTL	YKBNK
Mean	88.422	88.016	93.5184	90.5966	90.2725	88.3615	89.6126	91.4392
Median	90.61	90.85	95.19	93.43	93.1	90.9	90.94	93.285
Maximum	92.6	94.09	95.86	96.24	96.1	95.24	96.34	96.85
Minimum	77.36	75.17	87.69	79.12	75.2	77.58	75.91	80.21
Std. Dev.	4.8806	5.9703	2.7902	5.7056	6.8671	5.6328	6.1823	5.0022
Observations	15	15	13	15	12	13	15	14

Notes: IHEVA: İhlas Home Appliances, IHLAS: İhlas Holding , LIDFA: Lider Factoring , OTKAR : Otokar, PARKME : Park Electricity , SKBNK : EverBank ,TAVHL : Tav Airports , TTKOM: Türk Telekom, TOASO: TOFAŞ, TTRAK: Türk Tractor , TSKB: Industrial Development Bank of Turkey , TUPRS : Tüpraş , TRCAS: Turcas Petroleum , VESTL : Vestel, YKBNK: Yapı Kredi Bank, PRKAB: Türk Prysmian Cables and Systems
Source: Authors' calculations by www.tkyd.org data

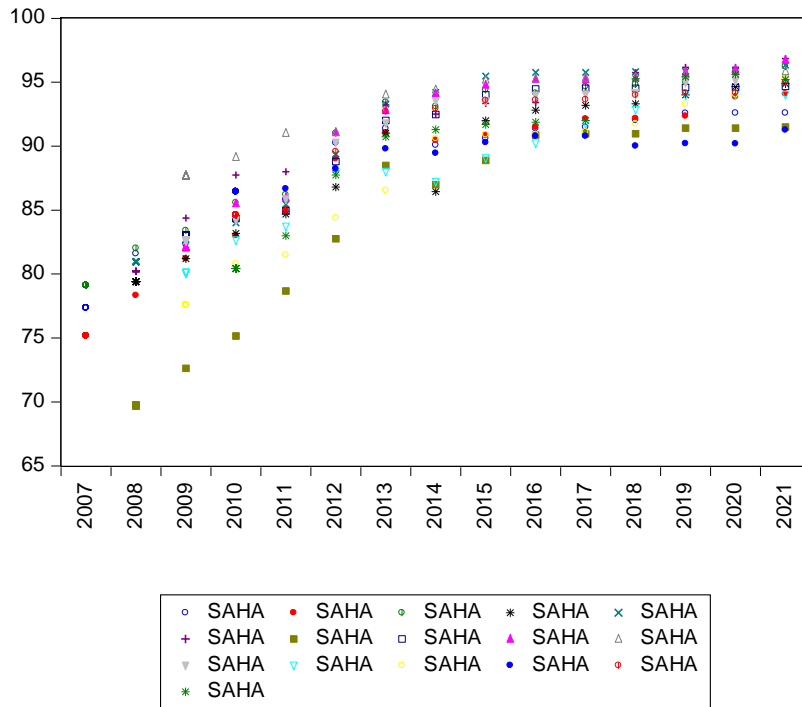


Figure 5. SAHA Rating Points

Source: Authors' own study by www.tkyd.org data

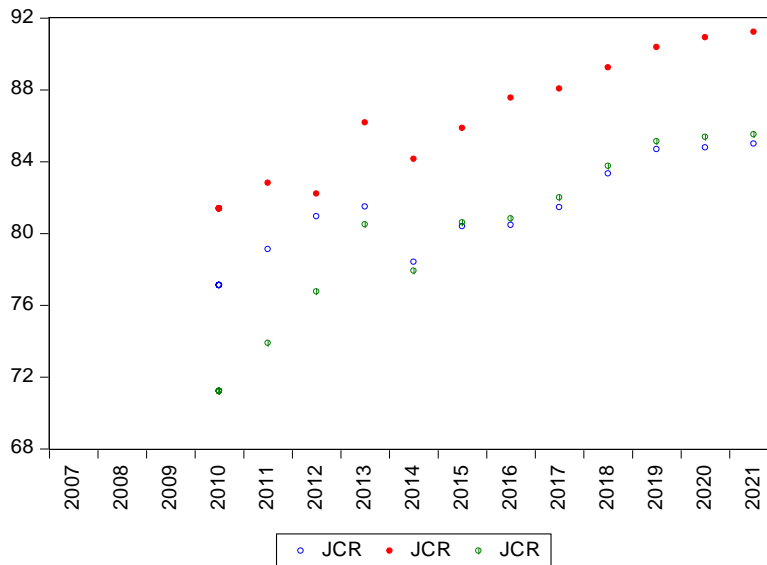


Figure 6. JCR Rating Agency Rating Scores

Source: Authors' own study by www.tkyd.org data

Figure 5 and Figure 6 show the ratings of the firms. Using these graphs, we aim to see if there is an increasing trend in rating and if there is a big difference among rating agencies visually. For example, one of the agencies may give higher scores each year to have more customers. The disadvantage of our data set the weight of the SAHA rating agency among the agencies we have is very high and this high majority makes the comparison hard. If we have the same or a similar number of firms for each agency it will be easier to see the difference. We see that the scores are increasing over the years. It can be interpreted as the firms are increasing their rates when they are having rated by the agencies.

Table 5 compares descriptive statistics of the firms by year for 24 rating agencies. After 2010, we have 24 observations means that we have 24 firms that have data from 2007 to 2021. We have eight firms in 2007, 9 firms in 2008 and 17 firms in 2009 which have data from 2007 to 2021. Descriptive statistics show that the rating scores generally increase. Only in 2014, there is one decrease. The mean of the firm's rating starts from 77 and reaches 94 in 2021.

Table 5. Descriptive Values of Scores by Year

Year	Mean	Median	Max	Min.	Std. Dev.	Obs.
2007	77.4460	77.3600	79.6700	75.1700	1.9554	5
2008	79.7811	80.9600	83.2100	69.7300	4.0718	9
2009	81.9676	82.6400	87.6900	72.6300	3.1992	17
2010	82.9837	84.0950	90.3500	71.2000	4.5457	24
2011	84.5204	85.2500	91.0200	73.8800	3.7610	24
2012	87.5120	88.2800	92.4400	76.7500	3.8177	24
2013	90.1150	90.9900	94.0300	80.4900	3.5906	24
2014	89.9379	90.8200	94.4300	77.9000	4.5302	24
2015	91.2225	91.8400	95.4900	80.3800	4.0395	24
2016	91.7533	92.8000	95.7700	80.4600	3.9370	24
2017	92.1479	92.6600	96.1700	81.4500	3.7739	24
2018	92.8075	93.6550	96.2500	83.3200	3.4473	24
2019	93.3783	94.1950	96.6700	84.6800	3.1586	24
2020	93.6112	94.4000	96.6700	84.7700	3.1534	24
2021	93.8954	94.9200	96.8500	84.9900	3.1776	24
All	89.3791	91.0000	96.8500	69.7300	5.7057	319

We stated that it is not meaningful to compare agencies because of the proportion of the agencies in the market. However, we present descriptive statistics for the agencies in Table 4. The calculated descriptive statistics show the dominance of two firms in the market. Also, the firms' increasing rating scores show a positive effect of being rated.

CONCLUSION

The crisis that started with the Enron scandal and the bankruptcy of the company in the USA in 2001 is called the corporate governance crisis. In the following years, the effects of the crisis were felt all over the world and crises based on deficiencies in corporate governance took place in different countries. These crises have shown the importance of corporate governance, and the interest in corporate governance has increased in academic literature.

In this article, we consider the rating agencies in Turkey which were authorized the announcement of corporate governance principles in capital markets by CBM. We collected all rating values from all of the corporate governance rating agencies for the 2007-2021 period from the TKYD web side. The results show that number of corporate governance rating agencies is increasing. Also, the number of firms that are rated is increasing. Another result shows that two firms dominate the rating market.

In this article, we presented a comprehensive analysis of the rating scores of Turkey using descriptive analysis. Further researchers can investigate the relationship between rating scores and financial ratios.

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