

DOES CULTURE MATTER FOR CORPORATE GOVERNANCE? A CASE STUDY OF TURKEY

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—Abstract —

The purpose of study is to search for the basic characteristics of the relationships between the Turkish culture and the degree of implementing the principles of corporate governance in Turkish companies. The study involves an analysis and an assessment of corporate governance practices in Turkey in terms of Turkish cultural concepts and dimensions. After the analysis, it is observed that not only small companies but also big-sized firms work still as “family business”. Moreover some problems have been identified about this relationship. These include interpenetration of management, stakeholders and family, not seeing the family as independent entity from the company, unconsciousness of institutionalization, difficulty of the process from entrepreneurship management style to professional management style and lack of sharing knowledge and decisions by family members with other stakeholders and so on. In conclusion, we can say that a large part of the obstacles to the development of corporate governance in Turkey are based on the traditional structure and culture of organizations. In order to solve these problems, the level of institutionalization is needed to be raised.

Key Words: *corporate governance, management culture, Turkey.*

JEL Classification: M14

1. INTRODUCTION

As increasing company scandals, bankruptcies and auditing difficulties, managerial concepts were discussed again and it was tried to fill in the blanks. The term "corporate governance" has become widely used in recent years by these results. So, the new management phenomenon that characterized by some of principles is considered as a way to overcome the problem of confidence in capital markets. Corporate governance is one of the pillars of companies' focus on sustainability following environmental and social ones. The corporate governance framework also depends on the legal, regulatory, and institutional environment (Monks and Minow, 2008:22). In addition, factors such as business ethics and corporate awareness of the environmental and societal interests of the communities in which a company operates can also have an impact on its reputation and its long-term success.

There are many international regulations that suggested some principles about corporate governance such as Cadbury Report, OECD Principles, Sarbanes-Oxley Act, etc. There are several factors to define the corporate governance paradigm of a country including, for instance, the general conditions of a particular country, the capital market's level of development and individual company practices. Although some principles such as public disclosure and transparency, accountability, responsibility widely accepted, different cultures and values of each country have increased the diversity of the regulations in this area, such as in Turkey, there are the principles of Capital Markets Board and also Istanbul Stock Exchange has Corporate Governance Index that consists of 29 companies.

Corporate governance principles that a country adopt is related to management style and laws of state. And also cultural differences affect management styles, so they affect in corporate governance practices. Basic features of Turkish culture are examined by several authors including Hofstede. With Hofstede's culture studies, this subject has gained more importance for corporations. The dimensions of culture, which Hofstede (2001:28) describes, are as follows: *power distance*, which is related to the different solutions to the basic problem of human inequality; *uncertainty avoidance*, which is related to the level of stress in a society in the face of an unknown future; *individualism vs collectivism*, which is related to the integration of individuals into primary groups; *masculinity vs femininity*, which is related to the division of emotional roles between men and women; and *long-term vs short-term orientation*, which is related to the choice of focus for people's efforts. For Turkey; high power distance, high uncertainty avoidance, collectivist, short-term oriented and femininity is observed.

2. CONCEPTUAL FRAMEWORK

2.1. Culture

Culture in general consists of values, ideas about what in life is important, norms, methods or sanctions of enforcing values, institutions, structures of a society within which values and norms are transmitted. Culture refers to the complex of meanings, symbols, and assumptions about what is good or bad, legitimate or illegitimate that underlies the prevailing practices and norms in a society (Licht, Goldschmidt and Schwartz, 2005:233).

Using a huge database on employee values accumulated by IBM, Hofstede (1980) tried to determine the cultural characteristics of different nations on specific dimensions:

- *Power distance*: Power distance is generally defined as “the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally” (Hofstede, 2000:83). According to Hofstede, relatively large differences in power among organizational members are accepted and tolerated more in some cultures than in others. High power distance cultures prefer strong authority and steep hierarchies in part because they help preserve the existing social order and its related distribution of power. In high power distance cultures, organizations tend to be centralized with power concentrated in a few hands, and they exhibit large differences in authority, salary, and privileges between those at the top and those at the bottom. In low power distance cultures, organizations are more decentralized; there is more consultation in decision making, and independent action by less powerful organizational members is valued and encouraged.
- *Uncertainty avoidance*: The cultural dimension of uncertainty avoidance concerns response to unstructured and ambiguous contexts. In high uncertainty avoidance cultures, members rely on clear procedures, well-known strategies, and well-understood rules to reduce uncertainty and cope with their discomfort with unknown situations. In low uncertainty avoidance cultures, there exists a greater tolerance for uncertainty. Members are relatively more at ease with unfamiliar situations, and presumably more tolerant of different ideas, approaches, and concepts.
- *Individualism/collectivism*: Individualism refers to the preferred level of individual freedom and opportunity. In cultures with strong individualistic values, societal members perceive themselves largely as individual actors.

In organizational contexts, individualist values have been linked to preferences for individual decision making over group consensus. By contrast, in societies emphasizing collectivist values, interpersonal relationships and group affiliation are highly touted. The self is defined as a part of the group; one's group memberships are an important statement of identity and achievement. Concerns over group welfare, equality, and loyalty are prominent, as aggregate interests tend to prevail over autonomous ones.

- *Masculinity/femininity*: Aggressiveness and its opposite, nurturing, refer to the degree to which a society embraces either stereotypical masculine values, such as competitiveness, assertiveness, ambition, and acquisition of material possessions, or a value orientation with more emphasis on caring for others. In masculine cultures, preferences favor managerial decisiveness and a performance orientation, with an emphasis on personal dominance; in feminine cultures, a more supportive social orientation is observed, accompanied by a strong concern for the preservation of existing relationships. Performance-contingent rewards, merit pay, and management by objectives are practices consistent with a masculine culture, while attention to interpersonal relationships and quality of work-life issues are consistent with a feminine culture.

According to Hofstede Turkish society classified as high power distance, collectivist, feminine and high uncertainty avoidance. According to these evaluations, Turkish people were mostly inclined to (Aysan, 2008:130):

- accept the superior power of the persons high in hierarchy in organizations; they would be more inclined to obey the orders of the boss. They would not tend to disobey the orders of the superiors; and less inclined to question their powers;
- be unwilling to take initiative for new ventures by themselves; they tried to shy away from taking individualistic initiative, i.e. more reluctant to lead and more inclined to follow the leader. They would be more inclined to obey the norms of the group, rather than taking initiative for changing them;
- be less assertive and competitive, and more modest and caring. And hence the Turkish society will be characterized by masculine dominance;
- to avoid uncertainty as much as possible with low risk appetites.

2.2. Corporate Governance

Corporate governance refers to a set of rules/institutions/practices that minimizes the agency cost and the divergence between social and private returns on corporate activity (Ararat and Ugur, 2001:61). Corporate governance also can be defined as an approach of public responsibility to business management aimed at reorganizing the relationship of the society with the private corporate sector. This relationship had to be based on trust, ethical behavior, moral values and confidence created by the transparency of real financial results, accountable and responsible business managers and members of the board of directors of corporations.

2.3. The Relationships between Culture and Corporate Governance

There are some papers investigating the relationships between culture and corporate governance. One of them is written by Li and Harrison. They (2008:618) have tried to test and confirm their hypotheses concerning the effects of national culture on governance structure on 399 multinational manufacturing firms. The culture results showed that the national cultural dimensions of power distance, uncertainty avoidance, individualism/collectivism, and masculinity/femininity have significant effects on the size and leadership structure of corporate boards. Firms based in societies that prefer high power distances are more likely to have a single leader as both board chair and CEO. Firms based in societies that value higher levels of individual freedom tend to have smaller boards and consolidated leadership positions. Firms based in societies that value personal dominance (masculinity) also tend to have consolidated leadership positions. Firms based in high uncertainty avoidance cultures, however, tend to separate CEO and board chair positions.

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It is argued that a country's socio-cultural characteristics also have important influences on governance structure (Li and Harrison, 2008:611-614, Mbuya, 2009:15 and Mallin, 2011:8). Their findings indicate that national culture has a dominant influence on corporate governance structure. It seems obvious to us that governance structure is also influenced by differences in countries' economic, political and legal systems.

To the OECD report (2004), the corporate governance paradigm in Turkey is characterized by concentrated ownerships, often in the form of family-controlled, financial industrial groups. Free floats are often low, pyramidal structures are

common and there is a high degree of cross-ownership within some company groups. Controlling shareholders often play a leading role in the daily management and strategic direction of publicly held companies.

In the high power distance cultures, the orders given by superiors are fulfilled without questioning. For Turkey, there are some indicators about this dimension. For example; it is obvious that many Turkish companies have a single shareholder or family, publicly traded ones are very few and their majority stakeholders want to take the initiative of all decisions about the company's future. Presence of independent members on boards of companies is one of the requirements of corporate governance. This condition is not provided in Turkey, the reason can be cultural structure with high power distance or high uncertainty avoidance. Also minority shareholder rights are another important subject for corporate governance. Because of that Turkish culture has highly power distance or collectivist, majority shareholders call the shots about the company and do not share knowledge with the others. On the other hand, because Turkish culture is short-term oriented, minority shareholders give importance to the short-term gain and do not lay claim to the company as required.

To some reports (Boston Consulting, 2005), it is stated that Turkish businessmen expect that corporate governance principles positively affect markets. This may be indicator of the culture with high avoidance uncertainty. Also many businessmen think that some parts of corporate governance principles such as transparency and informing the public should become legal obligation. This can result from being external control of Turkish culture.

4. CONCLUSION

As Turkish companies are mostly family businesses dominated by founders and/or their immediate relatives, the owners and the managers are not yet used to the principles of corporate governance.

Turkish business environment can be characterized by the abundance of small-sized and family-owned companies. Most of these companies are not listed in the stock exchange that means they are not obliged to show their financials to the public.

In addition most of these small-sized companies seem to be reluctant to make mergers and acquisitions and would probably manage their businesses like their families did before. Therefore, they are less willing to organize their firms in accordance with the requirements of principles of corporate governance.

In conclusion, we can say that a large part of the obstacles to the development of corporate governance in Turkey are based on the traditional structure and culture of organizations. In order to solve these problems, the level of institutionalization is needed to be raised.

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