

CORPORATE GOVERNANCE APPROACH OF ISTANBUL STOCK EXCHANGE COMPANIES

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ABSTRACT

This research attempts to analyse how the firms (that are quoted in the Istanbul Stock Exchange) reacts to the demands and expectations of their stakeholders. Following our literature survey we have identified the company strategies aimed at two different types of stakeholders: internal stakeholders (workers, management and shareholders) and external stakeholders (customers, suppliers, trade unions, local council, competitors, public institutions, investors, media and civil society organisations). The analysis of these strategies will in return help us to determine whether the Turkish corporate governance model is more in tune with the Anglo-Saxon or Continental European forms of corporate governance model. This research also aims at analysing the relationships between the corporate governance practices of the ISE firms and the following variables: sectoral activities, quotation duration, market capitalisation and public ownership ratios.

KEYWORDS

Governance, Corporate Governance, Shareholder Model, Stakeholder Model, Anglo-Saxon System, Continental European System.

Introduction

The term governance has become a topic that is attracting a lot of interest both in public and private sectors. Recent financial scandals surrounding the Asian countries and the US (consider the cases of Enron, WorldCom etc.) seriously undermined investors confidence in operating in the financial markets. Corporate governance failures are considered to be the prime reason underlying these scandals.¹

Worldwide liberalisation of trade and financial activities firms are increasingly finding themselves competing within a global arena made of complex interactions. Within this systemic context provided by the pressures emanating from global capitalism national regulatory arrangements are increasingly undermined by international arrangements.

Capital accumulation is of vital importance for the continuity of firm activities. In most cases country resources might not be enough to satisfy the company's financial needs. Thus in order to attract foreign investments firms are increasingly concerned with good governance and also to ensure that foreign investors' rights are respected. In the absence of adequate regulatory frameworks enforcing the rights of these investors international business finance activities will become more costly for the domestic firms. Thus corporate governance is very important in the maximisation of the firm value as it helps to reduce the cost of the foreign debts by ensuring trust among foreign investors.

With the development and widespread use of Information and Communication related technologies we are also witnessing deep rooted social transformations. The real-time availability of the information allows for the development of more efficiently organised corporations. As the internet delivers the potential of democratising the participatory processes in Western democracies our conceptualisation of governance is also being altered as top-down and

¹J. R. Shelton, "The Importance of Governance in The Modern Economy", *New Corporate Governance for the Global International Conference*, Brussels, 1998, p.2.

hierarchical approaches are not sufficient in answering the democratic demands of social interest groups. Thus governance now means a structure that emerges as the outcome of the social interactions between all the included parties in a given social system.

Such an understanding affects both public and corporate governance principles. Even though the traditional approach emphasises shareholder value maximization as the main objective in corporate management, Continental European corporate governance does also involve the protection of the rights of, meeting the demands and expectations of, and the establishment of effective communication linkages with the company stakeholders.²

According to the latter approach -and in deep contrast with short-termist managerial approaches that are aiming to maximise shareholder value- we have a long-term approach that seeks to incorporate the diversity of all stakeholders' view that are creating added-value for the firm. This requires the integration of all the needs of the different stakeholders -which are not only limited to the view of the shareholders- when implementing corporate strategies. This approach is a perspective that stresses the social responsibility of the corporation. The latter is seen as acting within a social environment therefore arguing that the decisions made by these firms do have serious implications for the welfare of their social counterparts. Thus firms should not solely focus on the issue of making profits but they also need to address their social responsibilities, and they need to try to balance the pressures emanating from these two objectives.

The development of such a socially responsible approach in the corporate governance models relies on the fulfilment of the following conditions: controlling the activities of corporation, establishing equal and fair treatment for shareholders, respecting the rights of shareholders and stakeholders, and determining the duties and responsibilities of the management board. At the same time values such as active participation, accountability, responsibility, disclosure,

²I. M. Millitein, "Corporate Governance – Improving and Access to Capital in Global Markets", *OECD Publications*, Paris., 1998, p.28.

transparency and equitable treatment should be implemented for effective corporate governance.

Content of Corporate Governance Systems

We can identify two types of corporate governance system. Firstly, there is the Anglo-Saxon system that emerged in countries such as the UK and the US where the shareholders exercise significant power. Secondly, there is the Continental European system (also known as the German system) where the banking system is predominant.³

In the Anglo-Saxon system firm activities are financed by issuing shares. Therefore this system is mainly designed for the protection of the shareholders' rights. In Continental Europe the pursuit of 'shareholder value' is of secondary importance. Firm activities are financed through bank credits. In Continental Europe the banking system is also one of the key stakeholders of the industrial system in exchange of the funding that it provides. Thus, there is a significant difference between the Anglo-Saxon system and the German system.

These two diverging approaches are quite evident when one considers their conceptualisation of the corporate governance. In the Anglo-Saxon system corporate governance is defined as the rules and institutions that specifies control and management of the firm and the relationships between the key decision makers.⁴ The Cadbury Report in the UK defined corporate governance as the management and control systems of the firm.⁵ As can be seen from these definitions they are exclusively concerned with the internal structure, decision making processes and activities of the firm. This narrow definition is at the heart of many debates surrounding the public interest in a

³K. Şehirli, "Kurumsal Yönetim", *Sermaye Piyasası Kurulu Araştırma Raporu*, Ankara, 1999, p. 8.

⁴Economic Commission for Europe, "Corporate Governance in The ECE Region", *Economic Survey of Europe*, Issue 1, 2003, p.103.

⁵Cadbury Report, *Report of The Committee on The Financial Aspects of Corporate Governance*, 1992, at: [www.ecgn.org].

number of countries. OECD's corporate governance principles, in line with this narrow focus, are represented under five topics: the rights of shareholders, the role of the shareholders in corporate governance, disclosure and transparency, the responsibility of the board.⁶ Similarly, the American Law Institute adopted a narrowly focused approach.⁷

The public benefit of corporate governance principles were firstly analysed by Berle and Means in their seminal work *Modern Corporations and Private Ownership*. Berle and Means saw corporate governance as an agency problem. Here, corporate governance is theorised as an agency problem focusing on the issue of how to align the corporate executive's (who has the responsibility of managing corporate assets) interests with the shareholders' interests.⁸

Research surrounding the adequacy of Berle and Means model for publicly traded companies other than the US can be summarised as following. Shareholder control is especially widespread in the US and the UK. By contrast in Europe, Latin America and Japan firms are mainly controlled by a number of big groups. Here the main corporate governance problem is the protection of the minority shareholders from expropriation by controlling parties.⁹ In Continental Europe voting power and share ownership in publicly traded firms is more concentrated compared with the cases of the UK and the US. Additionally in the US a bigger proportion of the population is owning shares. For example, while in the US one half of the adults do own corporate shares, in Germany only 20% of the population are shareholders.¹⁰

⁶OECD Council Meeting, *Principles of Corporate Governance*, 1999, at: [<http://www.oecd.org/daf/governance/principles/htm>].

⁷American Law Institute, *Principles of Corporate Governance*, Sect, Vol: 1 2.01(A), 1994, p.65.

⁸A. Berle., G. Means, *The Modern Corporation and Private Property*, New York: Macmillan, 1932, p.356.

⁹R. La Porta., F. Lopez-De-Silanes and A. Shleifer, "Corporate Ownership Around the World", *Journal of Finance*, April, Vol: 54. Issue 2, 1999, p.471-518.

¹⁰Economic Commission for Europe, *Economic Survey of Europe*, p.105.

Following these considerations it is possible to conclude that there are two types of corporate governance in publicly traded companies: the 'manager dominated' model of the US and the UK; the 'controlling shareholder-dominated' model which prevails in most of the European continent.¹¹ As the European Commission argues, while this difference in share ownership structure is real and has a variety of implications for corporate activity, a central problem of corporate governance nonetheless arises out of the separation of ownership and control underscored by Berle and Means. That problem is how to protect minority shareholders from those in control, whether the controllers are Professional managers without substantial ownership interests who would manage the corporation largely in their own interests, or shareholders with a controlling interest who would enrich themselves at the expense and in violation of the rights of the minority.¹²

Thus, it can be argued that this corporate governance problem identified by Berle and Means did not change since the publication of their seminal work 70 years ago.

The recent financial scandals of 'Corporate America' (Enron, World Com etc.) have re-focused policy debate on the issue of corporate governance as regulatory authorities are increasingly concerned with devising rules and institutions that will induce top level executives to manage corporate assets in the interests of the shareholders rather than their own.¹³

Although the fundamental agency problem as identified by Berle and Means still remains unresolved there is an important qualitative change experienced in Anglo-Saxon countries. This is the rise of institutional investors especially in countries such as the United States and the UK. These organisations have become significantly important with the development of privately funded retirement system and they are now the strongest advocates of shareholders' interests and the ensuing problematic of good

¹¹*Ibid.*, p.106.

¹²*Ibid.*, p.106.

¹³*Ibid.*, p.106.

governance. Thus, in the Anglo-Saxon system as the main aim is to maximise shareholder value the principal focus of corporate governance is to define the relationship between the three key actors of the firm: shareholders, the board of directors and company management.¹⁴

The traditional American approach to corporate governance with its exclusive focus on the issue of protecting the rights and interests of shareholders are considered to be too narrowly oriented by many Europeans.¹⁵ In many countries in Continental Europe, such as France and Germany where share ownership is less dispersed among the public than it is in their Anglo-Saxon counterparts, corporate governance is about society controlling corporations for purposes of social welfare, thus avoiding a narrow approach focusing solely on the profitability of corporate shares.¹⁶

As a result while in the Anglo-Saxon system corporate governance is perceived as the means to protect shareholders' rights Continental Europe highlights the social responsibility of the firm' managers vis-à-vis the societal stakeholders (shareholders, workers, the state, the local community, suppliers and customers etc...). "Thus, unlike Americans who have tended to separate issues of corporate governance from corporate social responsibility, Europeans have joined the two themes in discussions about how corporations should be managed and regulated".¹⁷

Some writers provided defined corporate governance in line with the European approach. Veasey defines corporate governance as the institutions that affect the distribution of corporate resources and earnings.¹⁸ For O'Sullivan the term refers to rules and organisations

¹⁴R. Monks, N. Minov, *Corporate Governance*, Oxford: Blackwell Business Publishers Inc., 2001.

¹⁵La Porta, Lopez-De-Silanes, Shleifer, *Journal of Finance*, p: 485.

¹⁶M. Blair, M. Roe, (eds), *Employees and Corporate Governance*, Washington: Brookings Institution, 1999.

¹⁷Economic Commission for Europe, *Economic Survey of Europe*, p. 107.

¹⁸E. Veasey, "The Emergence of Corporate Governance as A New Legal Discipline", *The Business Lawyer*, August, Vol. 48, Issue 4, 1993, p. 1267-1271.

that affect the expectations concerned with the distribution of company resources.¹⁹ These definitions focus not only on formal rules and institutions of corporate governance, but also on the informal practices that evolve in the absence or weakness of formal rules.²⁰ This approach incorporates a broader perspective as it takes into account the environmental business factors surrounding the firm (financial system, education system, industrial relations etc.).

The significant interest groups that are both present in the Anglo-Saxon and Continental European corporate governance systems is summarised in Figure 1. Here, at the top of the small triangle we find the board of directors and the bottom of the triangle refers to the managers and the supervisory board. The top of the bigger triangle represents the company, which is complemented by the presence of shareholders and other stakeholders.

Following the representation that appears in Figure 1 on the one hand corporate governance tries to provide an equilibrium between the differing institutional centres of power at the top level of management. On the other hand it also tries to reconcile the variety of interests of the participants represented in the big triangle.²¹ Thus, corporate governance can be divided into two components: internal corporate governance and external corporate governance. While the former is concerned with the clashes of interests that are internal to the firm, the latter deals with external groups that can exercise some controlling power on the firm.²²

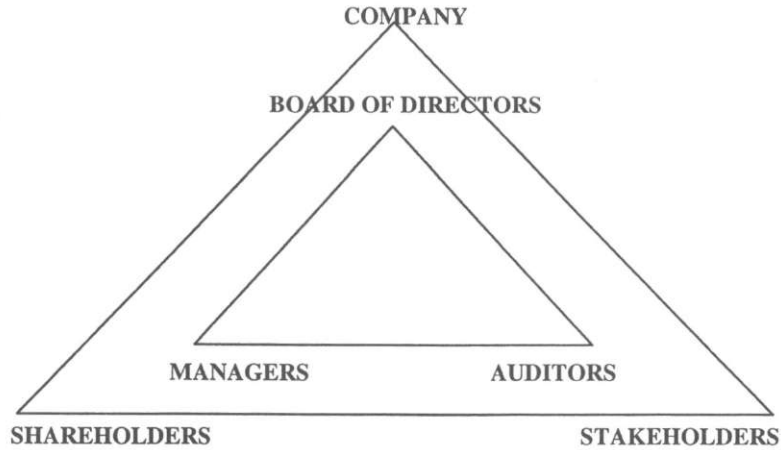
¹⁹O'Sullivan, M., "Corporate Governance and Globalization", *The Annals of The American Academy of Political and Social Science*, July, Vol:570, No:1, 2000, p.153-175.

²⁰A. Dyck, "Privatization and Corporate Governance: Principle, Evidence and Future Challenges" *The World Bank Research Observer*, Vol: 16, No: 1, 2001, p.59-84.

²¹H. Pulaşlı, *Corporate Governance, Anonim Şirket Yönetiminde Yeni Model*, Ankara: Banka ve Ticaret Hukuku Araştırma Enstitüsü, 2003, p. 2-3

²²*Ibid.*, p.3

Figure 1: Internal and External Structure of Corporate Governance



Source: H. Pulaşlı, "Corporate Governance, Anonim Şirket Yönetiminde Yeni Model", *Banka ve Ticaret Hukuku Araştırma Enstitüsü*, 2003, p.2

Corporate Objectives in Different Systems

The fundamental question that any corporate governance must answer to can be formulated as follows: what is the objective of the corporation and for whose benefit is it to be run? In the Anglo-Saxon countries such as the UK and the US the regulatory framework induces the maximisation of shareholder value. Thus, for example the American Law Institute stated that "a corporation should have as its objective the conduct of business activities with a view to enhancing corporate profit and shareholder gain" and it may but not required to devote 'a reasonable amount of resources' to public welfare.²³ A similar approach is followed by the United Kingdom as the English law clearly states that a company's board of directors is required to advance the interests of the shareholders as a whole.²⁴

²³American Law Institute, *Principles of Corporate Governance*, p. 65.

²⁴Weil, Gotshal, Manges, "Comparative Study of Corporate Governance Codes Relevant to The European Union and Its Members States",

This approach that advocates the centrality of shareholder interests for corporate purposes is defined as the shareholder model of corporate governance.²⁵ By contrast in continental Europe, both law and policy recognise to varying degrees, that corporations also have the objective of advancing the interests of other persons and groups beyond the narrow category of shareholders. Such persons and groups, who may include employees, suppliers, creditors, civic organisations and the community at large, are usually referred to as stakeholders. As a result their approach is labelled as the stakeholder model of corporate governance model.²⁶

The latter model is best embodied in the institutional framework provided by Germany. Here, the corporate governance model adopted by the country seeks to accommodate different interests of the stakeholders by providing them with a 'voice' in the management of the company.²⁷ The stakeholder model that is prevailing in Continental Europe and Japan also adopts what is labelled as the 'relational board structure'. Here, the company board is constituted by the representatives of key stakeholders (such as labour, lenders, major customers and suppliers), whose positions on the board arise out of their special relationships with those constituencies and are unrelated to any shares they may hold in the firm.²⁸

As a result it can be argued that different types of corporate governance models result into different objectives (shareholder interests vs. corporate social responsibility). Not surprisingly debates surrounding the efficiency of each model are long standing.

European Commission Internal Market Directorate General, 2002, at: [www.europa.eu.int/comm/internal_market/en/index.htm.]

²⁵Economic Commission for Europe, *Economic Survey of Europe*, p.109.

²⁶*Ibid*, p. 109.

²⁷S. Vitols, "Varieties of Corporate Governance Comparing Germany and U.K." in P. Hall ve D. Saskice (eds) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford: Oxford University Press, 1999.

²⁸A. Dyck, *The World Bank Research Observer*, p.74.

Shareholder model proponents argue that when corporations pursue the objective of shareholder value maximisation the performance of the economic system as a whole (including the interests of the shareholders) can be enhanced.²⁹ Following this perspective to deal with social considerations will divert the managers from the latter task, undermine the notion of private property by diminishing the power of shareholders in favour of the stakeholders, thus leading to an inferior overall economic performance. The Nobel Laureate Friedman criticised this approach by stating that "few trends would so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much for their shareholders as possible".³⁰

The EC argues that "the stakeholder model facilitates the kind of long-term corporate strategy necessary for the welfare of the firm, rather than the short-term opportunistic corporate actions taken to satisfy shareholders in response to swings in volatile stock markets".³¹

The differences between these two models do also manifest themselves in cultural differences between countries.³² A survey that has been conducted among 15000 managers in 12 countries supports the theoretical findings.³³ The latter survey directed the following question: should the corporation mainly aim at shareholder value maximisation or should it also aim at increasing the welfare of stakeholders (such as the customers and the workers)? 40% of the

²⁹M. O'Sullivan, "Corporate Governance and Globalization", *The Annals of The American Academy of Political and Social Science*, July, 2000, Vol: 570, No: 1, p: 153-175.

³⁰M. Friedman, *Capitalism and Freedom*, Chicago, The University of Chicago Press, 1962, p.133.

³¹Economic Commission for Europe, *Economic Survey of Europe*, p.111.

³²J. Salacuse, "Corporate Governance, Culture and Convergence: Corporations American Style or With European Touch?", *Law and Business Review of The Americas*, Fall, 2002, Issue: 4.

³³C. Hampden-Turner, A. Trompenaars, A., *The Seven Cultures of Capitalism: Value Systems for Creating Wealth in The United States, Japan, Germany, France, Britain, and The Netherlands*, New York, Doubleday, 1993, p.32.

respondents in the United States and 33% in the UK answered by claiming that creating shareholder value should be the ultimate aim. This ratio declined in continental European countries such as Italy(28%), Sweden(27%), Holland 26%, Belgium (25%), Germany (24%), France (16%), and also Japan (8%). This shows the affinities between the cultural values of Anglo-Saxon managers and their approach to corporate governance that solely focuses on creating shareholder value.

It can probably be inferred that the individualistic cultural values of Anglo-Saxon countries do exercise an influence on the attitudes towards doing business. A recent survey that aimed at measuring the individualism indices of 53 countries produced the following results.³⁴ United States came first with a score of 91% followed by Anglo-Saxon countries Australia and the UK. Continental European countries such as France and Sweden are occupying the tenth position with a score of 71% while Germany is 15 (with 67 points) and Japan is ranked 23 (scoring 46 points). Thus it can be inferred that cultural values of Japan and Continental Europe is less individualistic and more driven by social considerations.

While 70% of American managers claim that more competition rather than cooperation is beneficial for business, this ratio is more limited in France (45%)Germany (41%) Sweden (39%) and Japan (24%).³⁵ Once again continental European and Japanese values seems to be more inclined towards cooperation and therefore more socially oriented considerations rather than a narrow focus on shareholder interests.

³⁴G. Hofstede, *Cultures and Organizations: Software of The Mind*, New York: Mcgraw Hill, 1997, p.53.

³⁵Hampden-Turner, Trompenaars, *The Seven Cultures of Capitalism: Value Systems for Creating Wealth in The United States, Japan, Germany, France, Britain, and The Netherlands*, p.32.

Methodology

This research attempts to analyse how the firms (that are quoted in the Istanbul Stock Exchange) reacts to the demands and expectations of their stakeholders. Following our literature survey we have identified the company strategies aimed at two different types of stakeholders: internal stakeholders (workers, management and shareholders) and external stakeholders (customers, suppliers, trade unions, local council, competitors, public institutions, investors, media and civil society organisations). The analysis of these strategies will in return help us to determine whether the Turkish corporate governance model is more in tune with the Anglo-Saxon or Continental European forms of corporate governance model.

This research also aims at analysing the relationships between the corporate governance practices of the ISE firms and the following variables: sectoral activities, quotation duration, market capitalisation and public ownership ratios.

A stable business environment is a necessary requirement for both foreign and national investors that will provide the much needed financial resources to support firms' innovative activities. In that sense it is plausible to assume that ISE firms -that are partly publicly owned- will be required to apply corporate governance principles by the investors seeking good governance as a means to ensure a satisfactory return on their investments.

Therefore our survey focused on the biggest 100 ISE firm that accounted for the 90% of the market capitalisation realised in the ISE. Our research was based on a questionnaire sent to the top level management of these 100 companies.

Fifty nine out of hundred companies interviewed responded to our questionnaire. The respondents can be categorised under the following sectoral categories: 50.84% of these companies are operating in manufacturing sector, 30.5% in the financial sector, 16% in the service sector and the remaining 4% in high-technology sector. During the period under which the research was conducted (between April 1, 2003 and June 30, 2003) the ISE 100 indices sectoral composition was as following: 50% of these companies were operating in the manufacturing sector, 30% in the financial sector,

16% in the service sector and 4% in the high-technology sector. Thus our sample distribution is in line with the sectoral distribution of ISE 100 firms.

The respondents distribution according to their managerial position in the firm hierarchy is as following: 39% of the respondents are top-level managers, 46% are middle-mangers and 15% low-level managers. 55 % of the total respondents were working in the finance and accounting departments of the companies surveyed.

The overall characteristics of the firms in our survey can be summarised as following. Seventy one per cent of these firms have been active for more than twenty years. In 15% of the firms considered, more than 50 % of the shares are publicly owned. Overall public ownership is around 10 per cent. 47 % of the firms are publicly quoted for the last 10 years. 76% of the firms examined are big companies with more than 200 workers. For 80% of the firms considered the average market capitalisation of the firm is less than 0.250 million dollars.

We have used an ordinal scale to evaluate the importance given by the managers to their stakeholders (very important=1, important=2, neutral=3, not very important=4,not important=5). We have identified 18 separate categories of stakeholders.

Therefore we tested the following hypotheses.

- Hypothesis 1: Firms from different sectoral backgrounds (manufacturing, financial, services and high-technology) differ in their corporate governance principles.
- Hypothesis 2: There is no correlation between the quotation duration of ISE 100 firms and their corporate governance practices.
- Hypothesis 3: There is a positive correlation between the market capitalisation of ISE 100 firms and the number of corporate governance practices.
- Hypothesis 4: There is positive correlation between the public ownership ratio of ISE 100 firms and their corporate governance practices.

Empirical Findings and Discussion

The questions of our survey was formulated as following.

Our questionnaire asked to the ISE 100 managers to rate the importance given to different stakeholders. These are: workers, top level management, the management board, majority shareholder, minority shareholders, government, media, public institutions, competitors, suppliers, customers, other investors, local council, civil society organisations, environmental pressure groups and trade unions.

The result obtained from our survey sample is presented in table 1. The analysis of our questionnaire shows that workers, top level management and customers are considered to be the most important stakeholders by the ISE 100 firms. These stakeholder categories are followed by the management board and the majority shareholders. For most of the categories these results are not affected significantly by sectoral distribution. Local councils, civil society organisations, environmental groups and trade unions are not considered as being important stakeholders by the ISE 100 firms irrespective of their sectoral distribution

Table 1: Sectoral Distribution and the Degree of Importance Associated to Stakeholders by the Companies

| Stakeholders | All Sectors | Manufacturing Sector | Financial Sector | Service Sector |
|-----------------------|-------------|----------------------|------------------|----------------|
| Workers | 1,16 | 1,13 | 1,16 | 1,3 |
| Top Management | 1,18 | 1,13 | 1,22 | 1,3 |
| Current Customers | 1,2 | 1,2 | 1,17 | 1,3 |
| Board of Directors | 1,23 | 1,16 | 1,33 | 1,3 |
| Majority Shareholders | 1,35 | 1,35 | 1,38 | 1,3 |
| Potential Customers | 1,39 | 1,43 | 1,41 | 1,3 |
| Other Managers | 1,51 | 1,46 | 1,58 | 1,5 |
| Competitors | 1,63 | 1,46 | 1,82 | 1,9 |
| Suppliers | 1,64 | 1,56 | 2 | 1,4 |

| Stakeholders | All Sectors | Manufacturing Sector | Financial Sector | Service Sector |
|-------------------------------|-------------|----------------------|------------------|----------------|
| Minority Shareholders | 1,66 | 1,63 | 1,61 | 1,9 |
| Governments | 1,67 | 1,46 | 2,05 | 1,6 |
| Media | 1,76 | 1,66 | 1,72 | 2,1 |
| Public Institutions | 1,77 | 1,63 | 2,22 | 1,5 |
| Other Investors | 1,85 | 1,78 | 1,88 | 2,1 |
| Local Government | 2,12 | 1,86 | 2,58 | 2,1 |
| Civil Society Organisations | 2,22 | 2 | 2,52 | 2,4 |
| Environmental Pressure Groups | 2,36 | 2 | 2,93 | 2,6 |
| Trade Unions | 2,5 | 2,03 | 3 | 3 |

Some sectoral effects can nevertheless be observed. Trade unions are taken more seriously by the manufacturing firms operating in the ISE 100 compared with the other sectors. This can be explained by the fact that the ratio of unionisation being higher in the manufacturing sector than the service and finance sector (the above mentioned ratio is 72%, 10% and 28% respectively). Yet even in the case of the manufacturing sector trade unions are not considered to be a very important category of stakeholders.

The degree of importance associated with the following stakeholder categories shows a statistically significant divergence between manufacturing and financial sector: environmental pressure groups, suppliers, government, local council, civil society organisations and public institutions. The latter stakeholders are considered to be more important in the manufacturing sector than the financial sector. There is not a statistically significant difference in the importance associated to different stakeholders between the manufacturing and service sector except in the case of the trade unions. When the financial and the service sector firms are compared the only significant differences are recorded in the diverging degrees of importance associated to suppliers and public institutions. These results can be explained by the closer relationships between the firms that are operating in the real sector (manufacturing and the service sector) and the suppliers, public institutions, civil society

organisations, local councils and environmental pressure groups, as compared with the firms operating in the financial sector.

When evaluating the degree of importance associated with all stakeholder categories in the corporate governance of the ISE 100 firms there is a stronger correlation between the manufacturing and the financial sector as compared with the correlations measured between the manufacturing and the service sector and the financial and the service sector.

The interviewees assert that their managerial approach incorporates the expectations of all stakeholders(95%), that they perceive this approach as an integral part of their company mission (82%) and agree on the necessity of a communication strategy balancing the need of all stakeholders. 98% of all respondents believe that their corporation should be socially responsible. When the previous answers are considered it can be argued that while the ISE 100 firms support the idea of corporate social responsibility, in reality their business practices do not reflect this rhetoric!

While 63% of all respondents believe that firms should be profitable before considering their social responsibility 98% of the interviewees also asserted that firms activities can deliver profits and act as socially responsible at the same time.

Considering these two answers it can be argued that a big majority of respondents believe that the principles of firm profitability and corporate social responsibility can be compatible. However 63% of the respondents seem to prioritise the objective of profitability. Thus it can be inferred that for Turkish managers profitability is a necessary prerequisite in order to reach the social goals.

Business practices that are associated with the development, public announcement and the application of work ethics standards are limited.

Career planning, the improvement of the working environment and conditions, in-job training and the communication of the workers about the company operations are widespread business practices (90%). Profit distribution, distribution of share to the workers are

practices that are realised in 40% of the cases considered. 63% of the respondents do inform their workers about the company activities on a monthly basis.

While workers involvement in the firm related decision making processes is 76%, workers' representation in the management board was realised only in 26% of all cases. The relative importance of the workers involvement as compared with other stakeholders can be explained by the impact of modern managerial techniques on top level management. Despite the rhetoric surrounding the importance of the workers the low importance associated with the trade unions show that ISE firms differ from the continental European corporate governance in terms of the general importance associated with workers.

The regulatory changes that are put in place in favour of shareholders seems to ensure the information rights of the latter. However only in 49% of the cases did the ISE firms inform voluntarily the public. Furthermore, only 54% of the interviewees declared that they have put in place a special department to ensure a healthy communication with their stakeholders. Minority shareholders were only allowed to have representatives in the management boards in 41% of the firms considered. Thus corporate governance practices such as the representation of minority shareholders in the management board, communication strategies that encompasses the normalisation of a all shareholders and voluntary communication strategies are not observed in the majority of the cases considered. Improvements in these areas are nevertheless important for the participation and normalisation of all shareholders.

In 39% of the cases analysed companies did adopt corporate governance practices involving written communication strategies. Of 85% of all members of the management board are also undertaking other managerial positions within the firm.

In 67% of the cases independent members were sitting in the management board while 71% of the members of board are executing the general manager pose. 32% of the respondents stated that kinship relations do exist between the members of the management board. 9% of the firms questioned declared that management board members are bound via written contracts to compensate for the damage that they

can inflict upon the company. The management board should balance the interests of the shareholders and the stakeholders of the firm. Thus, the management board should be fair, transparent, accountable and responsible towards its stakeholders when planning and executing its strategic decisions. A good corporate governance which will incorporate policies that will be durable and accepted by all participants in the organisations can not be put in place without the existence of written rules.

In 75% of the cases ISE 100 firms had a special department designed to communicate with its customers. Thus, it can be inferred that ISE 100 firms have customer oriented corporate governance style.

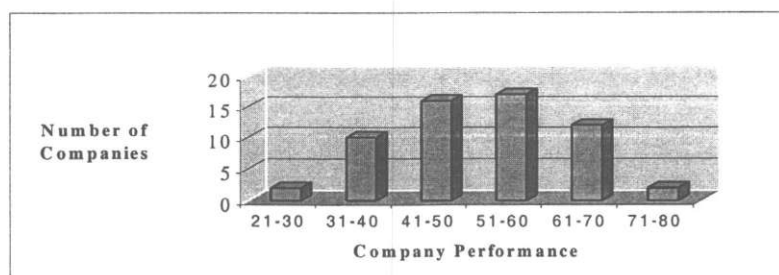
87% of the firms considered declared that they are co-operating with their suppliers. However management practices such as common communication networks or working groups were undertaken only in few cases.

Trade union membership of the workers were observed only in 47% of the firms analysed. The normalisation of trade unions are only realised in 59% of the cases. 11% of the ISE firms were allowing trade union members to be represented in the management board. Thus in terms of employee involvement in the decision making processes of the companies Turkish corporate governance system is closer to the Anglo-Saxon model than the continental European model whereby employee involvement is taken more seriously.

The majority of our survey firms are supporting socio-cultural activities such as sports, arts and education. Yet, only in few cases did the firms had a special department to develop communication strategies aimed at the local government, public institutions, and civil society organisations. They also did not provide these groups with financial or training support. Once again this result is in contrast with the Continental European corporate governance model whereby there is a strong interaction and co-operating between the firm and the stakeholders that are representing a wider part of the society.

The distribution of the company performance that obtained based on the degree of implementing corporate governance principles is represented in Graph 1.

Graph 1: Distribution of Corporate Governance Performance of Companies



According to the distribution above, the corporate governance performance of companies are categorized into three levels: low (%1 - %49), moderate (%50 - %65) and high (%66 - %100). This categorisation is demonstrated in Table 2. As can be seen from Table 2, 20.33% (12 firms) of the 59 firms interviewed do exhibit low-level corporate governance performance (between %1 and %49). 23 firms (or 38.97% of our sample) exhibit average performance scores. 24 firms exhibit high-level performance scores (40.65% of the cases considered).

Table 2: Distribution of Degrees of Corporate Governance Performance of Companies

| Performance | Number of Companies | Degree | Share |
|--------------|---------------------|----------|-------------|
| %1 - %49 | 12 | Low | % 20.33 |
| %50 - %65 | 23 | Moderate | % 38.97 |
| %66 - %100 | 24 | High | % 40.65 |
| Total | 59 | | %100 |

Corporate governance performances of the firms do not exhibit any sectoral variation. The overall performance score average for the 59 firms is 60.55%. Corporate governance performances are 59.90% for manufacturing, 60.44% for financial and 62.60% for service sector.

There is not a significant correlation between the corporate governance performance and the timing of the stock exchange quotation.

There is not a significant correlation between the market capitalisation of the firms and their corporate governance performance.

There is a small amount of correlation (22%) between the corporate governance practices and the ratio of public ownership.

Conclusion

The main aim of the firm is to display a good management performance. This requires corporations to adapt to their social and economic environment. The environment of the firm is not only determined by shareholders. Firm partners and other stakeholders (customers, suppliers, investors, government, civil society organisations, media, state and workers) should also be taken seriously in determining the decision making processes.

As we have seen previously there are two main corporate governance models. Firstly we have the Anglo-Saxon corporate governance model that is seen as a benchmark economic model to emulate by the Turkish society. This system is best exemplified in the case of the UK and the US. These countries are individualistic societies and their cultural values are also strongly manifested at the economic level. The corporate governance model of these countries should be understood within this cultural framework that stresses individual achievements which translates itself in the slogan of shareholder value maximisation at the level of corporate governance. This is why the latter model is labelled as the shareholder corporate governance model.

The stakeholder model of corporate governance that emerged and developed in continental European countries (such as Germany, France and Sweden) and Japan offers an alternative model that stresses the importance of social needs as opposed to individualistic values and stresses the importance of co-operation as opposed to competition. This approach highlights the importance of stakeholders

other than the shareholders (such as customers, suppliers, investors, government, civil society organisations, media, state and workers) and empowers the former in the firm-level decision making processes.

Our research tried to establish whether Turkish corporate governance model is an Anglo-Saxon or Continental European model. The analysis of our results lead us to conclude that workers are the key stakeholders in the Turkish corporate governance model. Corporate governance performance of the ISE 100 firms scored the highest in the managerial practices related to the workers. It is highly interesting to note that workers as stakeholders were more important to the ISE firms than the shareholders.

Despite sectoral discrepancies the following five categories of stakeholders are equally important for all ISE 100 firms. These are: top level management, customers, management board and majority shareholders. It is interesting to note that top level management is considered to be one of the main stakeholders in the Turkish corporate governance model. The importance associated with customers and majority shareholders shows that the Turkish model is closer to the Anglo-Saxon corporate governance model. However the Turkish model differs from its Anglo-Saxon counterparts when we consider the importance associated with the minority shareholders. The latter category is not deemed to be important by the Turkish managers which contrasts with the Anglo-Saxon approach that favours the shareholders interests. We believe that this is associated with the low levels of publicly held shares in the ISE 100 firms.

The answers given by the ISE 100 executives seem to imply that the Turkish corporate governance model is associating a lot of importance to its societal partners as these companies scored very high in social responsibility performance. This approach is more in line with the social responsibility assumed by the firms operating in the Continental European countries. However it is important to note that there is a significant discrepancy between rhetoric and reality. Despite their rhetoric of social responsibility Turkish companies are not displaying any significant corporate governance practices associated with their claims that they value their stakeholders. Our research could not identify any significant managerial practice that is aimed at a more inclusive corporate governance model in order to

represent the views of stakeholder groups such as local councils, civil society organisations, environmental pressure groups or trade unions. These groups are the less important ones for the Turkish corporate governance model. We would not like, however, to solely blame the Turkish managers for this result. It is important to stress the importance of reciprocity in the realm of social interactions. Thus the low importance associated to trade unions by the ISE 100 firms can not be solely analysed from a managerial perspective implying that the Turkish managers are not interested in a healthy atmosphere of industrial relations. This requires also the analysis of society-wide cultural values such as consensus building, co-operation etc...

We believe that only regulatory changes that are aimed at implementing drastic transformations will not be sufficient in changing the Turkish corporate governance model. As we have seen in our literature survey the corporate governance models are heavily embedded within the cultural values of societies. Thus we believe that in the absence of a thorough understanding of the dynamic interplay between the Turkish cultural values and its corporate governance model, any attempt to reform the system is bound to failure. Crucial to the latter point we believe is the understanding (by the stakeholders and managers alike) of the importance of co-operation and reciprocity in facilitating business transactions and thus improving social welfare.

Recent regulatory arrangements in the Turkish financial system (undertaken by the Istanbul Stock Exchange and Capital Markets Board of Turkey) were solely focused on the internal structure of the Turkish firms aiming at the improvement of the corporate governance practices that are addressing the needs shareholders and the management board. This regulatory framework did not take into consideration the rights of any other stakeholders. Therefore this approach is a limited one. Thus we believe that the political and regulatory authorities in Turkey should develop an awareness of the wider social implications of the concept of corporate governance and act accordingly.