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## **TOURISM COMPANY AND INTERNATIONAL MARKETS: A METHODOLOGICAL APPROACH FOR COMPANIES IN SOUTHERN ITALY**

**Peppino De ROSE<sup>1</sup>**

### **Abstract**

The aim of this study is to demonstrate the desire to communicate with international markets is the prerogative of tourism companies in the South of Italy, who are called to design new solutions and product offerings in a market that is now increasingly globalized, dynamic, multicultural and multilingual. The ability to open up to new business experiences is a necessity in order not to succumb to competition from the Mediterranean area which is often better organized and in line with the new trends in the tourism market. In light of the statistical results of the arrivals and presences of international tourists, unsatisfactory with respect to the potential of many territories, it is logical to rethink the cultural and methodological approach of the companies of the south to better face this challenge. The behavior of the tourism company on international markets should follow a well-defined training itinerary and should be organically structured. If on the one hand the construction of a global tourism product, which includes a series of elements of attraction and accessibility in the destination and in the transit areas, certainly depends on the commitment made by the various public institutions, on the other the tourism company is called to carry out specific research, experimentation and training activities aimed at creating the best business context to start an exchange of know-how with the market

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in other countries and create the right prerogatives for an effective and successful commercial relationship. These activities concern the creation of a corporate organizational model referring to a specific path, integrated with digital technologies, clearly identifying the people involved, the spaces and times set. The company's approach is to tend to create an operating model capable of creating a coherence in the conception, construction and development of the contents of a global tourism product, harmonizing corporate styles and strategies, as well as developing collaborative and cooperative planning with the local context. Despite the not always optimal context conditions, the tourism company is certainly the organization that has the characteristics, freedom and interest (profit) to contribute concretely to the development of the territories of the South.

***Keywords:*** *International Markets, Tourism Company, Methodological Approach for Companies, Local Development, Management.*

## **1. INTRODUCTION**

Italy is an increasingly sought-after travel destination and lends itself a lot as a destination for international tourism. In countries with tourist resources and attractors, it is certainly the sector on which to focus to face economic crises and promote development. This is an area of great importance for the economic, social and employment consequences. Italy, in 2019, is the fifth most visited in the world with 94 million foreign visitors according to ENIT, with a number of 113.4 million foreign presences in art cities alone and with 216.5 million total presences. According to the Bank of Italy's 2019 estimates, the tourism sector generates just over 5% of national GDP and represents more than 6% of the employed (Banca d'Italia, 2018).

A comforting result thanks to the immense natural, historical, cultural and food and wine heritage available and the value attributed to made-in Italy by international consumers, whose main reference sectors are those mainly linked to the fashion, food and supply sectors, which represent not only the driving force of the Italian economy abroad but also a competitive advantage for tourism in Italy. The originality, beauty and indisputable quality of Italian products, the capacity and history of Italian entrepreneurship, are a great attraction for international consumers and that always make us proud to be Italian (De Rose, 2019).

This positive trend must be taken on board by the main development actors (institutions, associations, businesses, citizens) through a constant commitment to the construction of competitive tourist destinations, in which the role of enterprises is central to offering tourist products in line with the needs of an increasingly globalised and demanding customer. In fact, a tourist destination is not to be understood as a geographical territorial area characterized only by the availability of a tourist attraction, but it is a set of activities and attractive factors that, located in a given area, are able to offer an articulated and integrated tourist offer, that is, they represent a specific and distinctive tourist hospitality system, which enhances local resources and culture.

Despite the international attention to the Mediterranean regions, the tourist offer of the Mezzogiorno is still excessively focused only on the sea product and appears quite disorganic due to the low propensity to translate into competitive offer the enormous wealth of historical and cultural heritage present in urban and naturalistic settlements.

## **2. LITERATURE REVIEW**

It is difficult to establish itself on the international market with "integrated products",



whose failure to build depends mainly on the lack of propensity and ability of the institutions to start a control room with a strategic overview and on the other hand by companies for the lack of ability to innovate their services also for lack of knowledge of the international markets available. It is difficult to talk about tourism where the conditions and strategies for networking services are lacking for the full usability of tourist places and attractors, or where the infrastructure to ensure accessibility to places and mobility in full safety is insufficient.

The complexity of tourism as a sector very sensitive to a number of elements, lead to a comparison of its development with a comparative analysis on several dimensions, taking into account on the one hand the market available on an international, national and regional scale and on the other by acting on the factors of competitiveness that affect the territory, the company, the institutions, civil society, enhancing the theme that characterizes the identity of the places.

In general, the great crisis that has affected the world economy since 2008 has also had particularly serious effects in southern Italy. In addition to a major loss of income and employment, it has had a negative impact on the productive capacity of the system and its prospects for future growth. Of course, the situation in southern Italy is complex and needs to be analysed in various macroeconomic aspects. During the four-year period 2015-2018 the recovery was widespread in the Italian regions: all show a cumulative rate of positive growth in the period, although with different trends and intensities.

While in 2018 the regions of the Centre-North continue to grow, although with some slowdown, the degree of heterogeneity of the recovery in the South was very high, and in regions with a growth greater than the Italian average (Abruzzo, Puglia and Sardinia, respectively +1.7%, +1.3% and + 1.2%), Calabria, the only region in Italy that recorded a negative growth rate (-0.3%) was opposed (Svimez, 2019).

The coming years will also be a test case for the many companies that offer tourist services, with technology opening up new markets. Deregulation, especially in air transport, financial services and telecommunications, which have broken down the barriers of competition, has brought new rivals to the markets and with them an excess of operational capacity and increased price-based competition.

Global competition has made the classic business model obsolete. In a scenario of development of the services sector, the competitive environment in the coming years will be

significantly different from that of the past. Competition in some segments has been global for some time. Technology and quality will play a decisive role (Pellicelli, 2010).

### **3. RESEARCH METHOD**

Tourism is now characterized by a new way of travel, enriched by the technological methods of booking and interactive visit of places, but above all by new ways of thinking and approaching places to visit. The modern traveler wants to observe, stop, taste, appropriate history, perfumes, the uses of the populations of the places to explore, listening to nature, with the utmost respect for the environment and traditions. A different approach defined by the acronym "slow tourism", that is, that tourism made by sustainable itineraries to discover the Belpaese in slow mode, to discover the places at a slow pace, as well represented by the new portal of the Mibact.

Among other things, every year the Mibact encourages activities for the promotion of some specific themes. 2016 was the national year of walking, 2017 the national year of the villages and 2018 the year of Italian food, 2019 was the year of slow tourism and 2020 is the year of the tourist train. Every year it is possible for many tourist companies to take advantage of showcases and initiatives to help be known and relaunch them in a sustainable way, provided that they manage to create structured tourist offer proposals, improving the quality of services and accommodation, with innovative travel experiences and rich in positive stimuli. The Mibact, through the web platform, has managed to bring together, for example, 6,600 kilometers and 147 mapped beaches of paths dedicated to saints, such as franciscan, Lauretani and Benedictine paths, to those in the footsteps of brigands through the Aspromonte in Calabria. On the portal it is also possible to retrace 41 paths, each with a different theme and surveyed because they meet a series of standard requirements, from safety to catering services to reachability with transport and geo-referentiality. A path in line with the world trends of the new traveler and that facilitates the search for information and the orientation to buy the holiday. In the coming years international tourism in Italy will grow enormously and already to date some Italian cities are suffering problems of overcrowding. Millions of new travellers around the world will try to reach Italy and the territories must govern this request. This trend will not stop even in the light of international demographic trends that foresee a population increasingly capable of availability of average income and therefore requires quality services and goods, as well as a tending urbanization of people.

#### 4. ANALYSIS

In this context, internationalization for the tourist enterprise in the Mezzogiorno is a necessary process for the survival of the company itself and also of many territories. Opening up to new foreign markets, establishing relationships with other companies (agencies and tour operators) and in general with consumers (tourists) so-called foreigners, in order to sell their products, is a process that does not require improvisation but transversal skills and a strong knowledge of the markets. Understanding who potential customers are, recognizing them and triggering a communicative relationship with them is the winning move that can change the fortunes of the company and a territory.

In the light of the various conditions of the environment, the tourist enterprise in the Mezzogiorno should, as is normal, have a strong motivation for its international opening up, linked precisely to the achievement of revenues and profits and, above all, to the possibility of long-term growth of the company.

One of the critical issues found in the tourism sector is precisely the so-called seasonality, which leads many companies in the Mezzogiorno to suffer the concentration of tourist flows only at certain times of the year and with a low incidence of foreign presences. This is a problem for the tourist destination and for the company itself, also generating uncertainty in the labour market, since the unemployment of workers in low season is a fairly well-known situation in seaside destinations whose lives depend almost exclusively on climatic factors. The choice to open up to international markets is an obligatory choice both to reduce costs since the national or regional market does not generate economies of scale than the risks of operating exclusively with the internal market.

In general, at a global level, there is a growing propensity to travel of the world's population and the various analyses carried out show that the artistic, cultural and landscape heritage of the country plays a role of primary attraction for both non-European and European travelers arriving in Italy for the first time. This heritage also takes on a growing role in completing the travel experiences of tourists returning to Italy for a rural or beach holiday. The great Italian cities of art constitute an important lever of loyalty of the international traveler who, deciding to return to Italy, also visits the smaller centers more frequently. In this sense there seems to be complementarity between the visit to the major cities of art and the tourist development of the smaller cultural centers (Banca d'Italia, 2019).

The internationalization and related adaptation of tourist products to the target markets, therefore represent a clear business choice and should be placed as the main investment strategy of the company in order to have a certain economic return, in the light of international trends, both as a customer, as on average the foreign tourist has a higher spending capacity, remains more days and contributes to lengthening the tourist season. The Mezzogiorno enjoys all year round a temperate climate typical of the Mediterranean that facilitates the visit of places and participation in events of different nature at any time of the year. Too often the company chooses investment policies (real estate renovation, replacement of furnishings and equipment, purchases of other goods, etc.) without any analysis of the needs of customers available on international markets and consequently without any strategic marketing planning and adequate communication for the conquest of new customers from abroad, leaving room for improvisation that does not guarantee at all the remuneration of the capital invested or even a maximization of the profit of the company. The "skills" of the tourist entrepreneur must be oriented towards a systematic and critical study and characterized by an open mind of the marketing manager.

## **5. DISCUSSION**

While the tourism development of a territory must be part of a broader spatial planning process, providing for legislative and government actions to ensure coherence and coherence between the different activities for a positive impact, it is necessary to initiate a process of strategic planning and territorial marketing, defined by the literature as a set of operations , born from the consultation of all the stakeholders present in a given territory, aimed, in the medium-long term, at the promotion and development of both activities present in the territory and opportunities that are triggered thanks to the context and endogenous variables that characterize the territorial environment in question.

The tourism planning activity is linked to the implementation of a bidding strategy, which takes into account precisely the characteristics of the territory, the degree of infrastructure, the socio-economic context, the available resources and the governance capacity of the actors involved.

At national level, the Strategic Tourism Plan (PST) drawn up by the Standing Committee for the Promotion of Tourism has been drawn up, with the coordination of the Directorate General for Tourism of the Ministry of Cultural Heritage and Activities and Tourism.

Pst represents an opportunity to fully operational the national strategic direction and to

provide Italy with a unified vision of tourism and culture, responding to the need to place the tourism sector at the center of the country's development policies (De Rose, 2019).

MiBACT, as part of the national and Community strategic programming 2014-2020 and in line with the indications of the Strategic Tourism Plan 2017-2022, promotes the enhancement of cultural heritage also for the purpose of qualification of the tourist offer. In particular, the aim is to enhance destinations with high potential but not yet fully recognized as "tourist destinations" that can benefit from action aimed at generating a better distribution of visitor flows through the expansion of supply and a tourist experience closer to new trends in demand (Beniculturali, n.d.).

Europe is certainly an area in which it is easier to operate because there is no risk of unfavourable fluctuations in the exchange rates or policies of unfavourable national governments, guaranteeing the single market that people, services, goods and capital can move freely.

Companies that decide to start an internationalisation process need to know that the competitive arena of the market is much wider than the one in which they are used to operating. The competitor of the tourist resort is not primarily the company operating in the same territory, but those companies that offer similar products located in the same latitudes in the Mediterranean, such as Greece, Malta, Spain, Albania, which are better organized thanks probably to a push by governments that have planned and invested better and in line with the demands and expectations of international markets.

## **6. CONCLUSION**

Customer product and innovation, represent the triad of successful carriers for companies that wish to internationalize and win on international markets. Tourist products must be characterized by the quality and style of Italian management, characterized by creativity, aesthetic sensitivity, ability to transmit the cultural and humanistic dimension of places and services.

The survival of enterprises in the Mezzogiorno depends precisely on their degree of evolution from the point of view of processes and design, combining local and global and opening up continuously to network aggregations, which guarantee a continuous exchange of know-how and the strengthening of the tourist destination.

Internationalization cannot be a spot choice, but it must be supported by planning activities to which financial and work resources must be attributed, in the knowledge that this process will certainly have repercussions on all business areas, which is why it becomes necessary to share the culture of internationalization with the entire organization that will orient the reference market with the appropriate international marketing tools.

Examining the various hypotheses formulated by different marketing experts, the starting point is the construction of an information framework to orient itself on the choice of targets of customers and target countries. Companies in the global context are facilitated in developing new capabilities, thanks to web technology and access to a myriad of transnational information, thus building a real information system through internal surveys and actions of the so-called customer intelligence.

Many studies on foreign markets and countries with which it is useful to establish an economic relationship, are also available, among the different national journals or the published guidelines of the Regions on internationalization that already identify the strategic countries with which the tourism and production system in general is useful to compare. The enterprise of the Mezzogiorno is called upon to become a research laboratory with activities that allow to study, understand and intercept the needs, tastes, consumption and purchase of millions of people who tend to be interested in quality tourist products. The cultural, demographic, market and income characteristics of the population are changing according to the country under consideration and here the first dilemma for the company takes over, namely to build a standardized product with characteristics common to potential international consumers or a localized product, adapted to the tastes and preferences of targets of international customers. Each activity carried out for the enterprise generates a cost which the enterprise must take into account and must be proportionate to the ability to produce value. The company generates value for its customers and consequently also lost itself, since customer satisfaction turns into economic value (Porter, 1985). On a global scale it depends not only on how each individual activity of the company operates, but on how all activities will cooperate with each other, as in an orchestra.

In summary, all activities should be coordinated according to 4 main guidelines (Ancarani, 2016):

- Market detection: orienting activities towards the acquisition of the most data and

information useful to the reference market, taking care to create a critical environment in which information is first processed or then included in the decision-making processes;

- Creation of new offers: to promote the research and development of new offers according to the limits of budget and time imposed;

- Acquisition of new customers: promote the definition of new target markets and develop a customer oriented corporate culture;

- Order management: develop a corporate culture oriented to the effectiveness and optimization of production times in compliance with the deadlines and terms guaranteed to the customer.

This approach is shareable and is called a value chain, representing the reference model, together with the network of values represented by partnerships, to which the company refers to develop its business. In this direction, the company bases the creation of the competitive advantage on international markets, planning a medium-long-term strategy capable precisely of offering value to customers. In view of the trends in the tourist market, it is clear that all four basic competitive strategies identified are valid and applicable to the tourism sector (Porter, 1996):

- Cost leadership: the tourist company is committed to reducing costs as much as possible in order to charge competitive prices in relation to the competition;

- "niche" specialization: it is realized in the company's efforts to define a better tourism product for a limited number of segments;

- Differentiated: a different and innovative tourist product line is established with different marketing strategies than the competition;

- Mix of previous strategies: an attempt is being made to outline a tourist product at a competitive price, specialized on some market niches and above all differentiated.

This approach is the basis for supporting a strategy of building a winning tourism product and make the best use of effective marketing techniques and communication tools.

For the company it is a matter of contributing to the support of a strategic planning process, defined by the literature as a set of operations, born from the consultation of all the stakeholders present in a given territory, aimed, in the medium-long term, at the promotion and

development of both activities present in the territory and opportunities that are triggered thanks to the context and endogenous variables that characterize the territorial environment in question.

The alignment for the company with the sector policies also identified by European strategies must be substantial and not so formal, since the massive availability of Community funds available for the regions of the Mezzogiorno certainly helps to support the strategy and action of the company.

Faced with this series of challenges and opportunities, it is not always possible to adapt quickly to the changes taking place and to develop a project for the creation and development of a tourist destination due to the lack of strategic planning, adequate skills together with the inability to intercept important European resources, the main causes of the lack of development of areas suitable for tourism.

To improve the territories and make them attractive, an effort and commitment is needed at all levels, region, local authority, associations, businesses and citizens, supporting and encouraging a participatory and voluntarist policy aimed at ensuring the economic and social survival of the territory and improving the power of tourist attraction to compete internationally. Each with its own tasks and competences better defined if there is a very legally binding agreement.

The ability to attract a territory with the construction of a tourist product is mainly due to the degree of importance that tourists are given in the construction of the tourist offer, in terms of services and experience that it can acquire.

That of the traveler's experience is a concept of vital importance that stimulates the emotional, personal and motivational sphere of the traveler and represents a value connected to the expectations and perceptions of the tourist, to his emotional, intellectual, cultural, physical and spiritual involvement and that the company in its functional complexity can grasp.



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## THE EFFECT OF AGGLOMERATION ON INNOVATION: AN EMPIRICAL STUDY

**Ismail BAKAN<sup>1</sup>**  
**Buket SEZER<sup>2</sup>**

### Abstract

The purpose of this research is to examine the effect of agglomeration on innovation. The research's population constitute business owner and managers operating in the furniture sector in İnegöl, Bursa, in the TR41 region in Turkey. 225 business, which are members of İnegöl Furniture Industrialists Association (İMOS) that is consisted of clustered firms, were chosen as the sample frame. Simple random sampling method, which is a probability-based sampling technique, was used to determine the number of samples. Reached sample size is 384 for this research. The obtained datas were analyzed with SPSS 21 package programme. The data obtained by face-to-face survey method were tested with frequency, factor, reliability, correlation, and regression analysis. The analyses revealed that agglomeration significantly increased firm innovation level. In addition, agglomeration has statistically significant and positive effect on innovation in the clustered firms were determined.

**Keywords:** *Agglomeration, Innovation, Cluster, Geographic Concentration, Furniture Sector, Bursa, Turkey.*

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## 1. INTRODUCTION

Porter (1998: 77-85) calls today's economic structure as "cluster". According to him, clusters occur geographical concentration of interconnected businesses and institutions in certain areas. Silicon Valley and Hollywood is the best-known clusters in the world. Location plays vital role for companies to create competitive advantage. He points out geographically concentrated companies are more innovative and successful in many fields. Being a part of well-developed cluster have many advantages for a company. Mean operate more productively, accessing information and technology, easy to attract qualified and experienced person, better access to suppliers, lower transaction cost, minimize need for inventory, eliminate importing costs and delays, lower risk of suppliers' commitment, proximity improve communication among companies and better alternative to vertical integration, etc. If one firm performs well, the other chance will increase, one's success means another's' success, so in cluster region all firms have mutually dependent each other.

One of the most remarkable features of economic activity is concentration of industries geographically. Some researchers have shown that firms located in cluster region have superior performance than other firms (Nestle et al, 2019: 563). Industry agglomeration has significantly benefited for firms (Burki and Khan, 2013: 2).

Porter (1998: 77) has expressed that professionally specialized institutions can share benefits being close to each other such as banks, funds, securities traders, insurance firms. It is found that in centrally located areas financial agglomeration has positive effect on energy efficiency in China's big and mega cities (Qu et al, 2020: 1).

The concept of innovation means new markets, new developed products, methods, new techniques, new structures are essential for the organizational success. However, today's gradually growing uncertain environmental conditions have shown that innovation efforts should not be limited within the organizations inbound. Hence, the need for open innovation, which requires communication and information sharing among companies and the other institutions, is increasing (Kaynak and Maden, 2012: 31).

It is stated that if companies or businesses are willing to improve their technology and to advance their interaction with the external environment, they should use internal ideas besides external ideas, namely they should use both of them at the same time in balanced way. (Chesbrough, 2003: xxiv; Parveen et. al, 2015: 335). According to Chesbrough as well as

companies use the information that they produce through their own internal processes, they also use information, which is created outside the company. Thus, the input and output of information to the firm is provided and the process of revealing innovation is accelerated. Competitive power can be achieved by making best use of internal and external information and ideas together (Chesbrough, 2006: 3 cited in Seyfettinoğlu and Taşdoğan, 2014: 9).

In this paper, the basic concept of agglomeration and innovation will be discussed, the effect of agglomeration on innovation will be analyzed, and obtained data will be interpreted. Thereby, this study contributes to the literatures of agglomeration and innovation as we explain the concept of agglomeration and innovation.

## **2. LITERATURE REVIEW**

### **2.1. Innovation**

Innovation is one of the core capabilities of today's business world (Lin and Chen, 2007: 127), and become one of main features which companies are striving hard to improve their internal and external environment in this decade (Reguia, 2014: 140). Porter (1990: 75) explains innovation as both new technologies and new business models, but states that innovation is the focus of economic welfare. Nonaka and Takeuchi (1995: 3) explain that the key of creating new knowledge is “innovation”.

Innovation is seen as the main factor of the economic growth process for being a force that encourages uninterrupted development (Marins, 2008: 13). According to Sviokla et al., (2011: 3), innovation occurs because of continuous improvement. Gunday et al., (2011: 663) mentions that innovation is an indispensable element of corporate strategy. Owing to innovation, firms could leave a positive image or impression on customers' perception, obtain sustainable competitive advantage, have more productive production process, and show better performance in the market.

In the most general sense, innovation is known as developing new goods, new services and processes (Schillo and Robinson, 2017: 34); new idea, way of doing things, service, production, procedure that is considered new for personal or related group (Gök and Çelik, 2017: 217). Apart from these, it has many benefits such as contributing to economic growth, increasing the welfare of the society (Schillo and Robinson, 2017: 34); technological creativity (Fritsch and Stuetzer, 2009: 8).

Creating knowledge and new value, sharing knowledge requires connected networks of participants (Krause and Schutte, 2015: 165). Borch and Marina (2015:20) emphasized how collaborative efforts are important for the new product development in their article. According to their findings, if there is a good relationship with external providers and collaboration with other institutions, firm will increase the speed and quality of new product development. It is stated that improvement's source is innovation and open innovation plays the role of a tool for generating new solutions through the utilization of the environment (Stanisławski, 2020: 2). By means of open innovation processes, small and medium sized enterprises can attend, other stakeholders to design and develop new product, because they cannot afford R&D cost by themselves (Piller and Walcher, 2006: 308).

It is declared that there are four innovation types, which are production, process, organizational and marketing innovation, by OECD Oslo Manuel (2005). Product innovation is defined as an entirely new product or service, or a product or service with improved features related to its intended uses. Innovation related to new production or delivery implementation is called as process innovation. Marketing innovation is introduced new implementation marketing method or considerable changes such as designing, packaging, pricing, or product promoting. Organizational innovation is explained new way of implementation of organizational method, workplace organization or firm's business practices (OECD Oslo Manuel, 2005).

## **2.2. Agglomeration**

Agglomeration began to draw attention from researchers in academic field as a new concept. It seems that the term of "agglomeration" and "cluster" are used interchangeably in some studies (Tsuji et al., 2007; Nestlet et al., 2019). Thereby, it is stated that some researchers prefer to call geographic concentration of companies that compete in the same area as "hot spots" rather than cluster or agglomeration (Pouder and John, 1996: 1192).

According to Porter (1998: 78) agglomeration provides competitive advantage for firms. He explains that agglomerations cover suppliers' inputs which have distinctive features such as components, machinery, and services, and providers of specialized infrastructure". Duranton and Kerr (2015: 4) express that agglomeration have benefits for firms to ship and sell their products on larger markets due to collaboration it provides. It makes more available to get information about local competitors for managers (Van Oort and Stam, 2009: 3).

Agglomeration improves urban labor productivity significantly and it is beneficial for economic development, beside these, its importance is indisputable for regional economy. However, it has crowded effect on energy consumption, pollutant emissions and aggravating environmental pollution (Feng et al., 2019: 12).

Tsuji et al. (2007: 60) have studied on automobile industry and answered some questions as why certain location attract firm and why firms agglomerate. Existence of raw materials, well-organized infrastructure (railways, canals, highways, ports), a large pool of quality labor, important crossing points (roads, telecommunications, banking services), new business emerged based on accumulated knowledge related main industry, support of the city government (tax and financial incentives and infrastructure supplies) are listed as incentive factors for encouraging others to come and agglomerate.

Agglomeration called as regions where people and resources concentrate. Although these resources are physical, but more importantly include human capital, knowledge, learning capability and flexible institution. Regions tend to be center of agglomeration. Diversity of knowledge, expertise, learning capability and resources found in these regions, so that makes them centers of innovation (Johansson et al., 2009: 3).

Agglomeration plays crucial role in speeding flow of ideas. We acquire most of the information from people close to us or who are around us. The gathering of qualified human resources in big cities or megacities increases the interaction and communication among them. This increases both the individual capital of people in a special sense and the speed of information and development of new ideas in general (Glaeser, 2010: 9).

### **3. RESEARCH METHODOLOGY**

The purpose of this paper is to investigate the effect of agglomeration on innovation. To make clear this question and verify hypotheses an empirical study was conducted in furniture sector in İnegöl, Bursa. The research universe of this study consists of the manager / manager and business owner / partners employed in the furniture sector operating in the İnegöl district of Bursa, in the TR41 region. As the sampling frame, 225 firm that are members of İnegöl Furniture Manufacturers Association (İMOS) were selected.

İMOS was established to gather İnegöl furniture firms under one roof and was awarded with a bronze label by the European Union Cluster Perfectionism Secretariat. Especially by combining Porter's clustering strategy with local culture and conditions, it is thought to be a

striking framework for the research universe as it is one of the most important clusters in our country. Bursa Eskişehir Bilecik Development Agency (BEBKA) with the support in terms of being institutions with Turkey's first furniture design center also has an important value for this research (İNMOB, 12.12.2020).

### **3.1. Data and Variables**

For a 95% confidence interval, the sample size should be at least 384 for 1 million or even 10 million populations (Yıldırım and Şimşek, 2016: 132). The sample size reached for this research consists of 384 participants. 384 participant was selected by using random sampling method. Therefore, it can be said that the sample size is large enough to represent the sample and the size required by the statistical analysis.

In order to apply the questionnaire prepared within the scope of the research, 67 managers were visited in their offices, face-to-face survey method was conducted with them and a pilot study was implemented to determine comprehensibility of the questionnaires and the reliability of the scales. Necessary changes and corrections were made on the questionnaire in accordance with the feedback obtained because of the pilot study. It was decided to distribute the questionnaires by hand and apply face-to-face survey method.

Initially, although 550 questionnaires were distributed by hand, 384 questionnaires were found available. The return rate of the questionnaires are percentage 69, 8. In this study, existing scales were used to measure variables. Agglomeration scale consisting of 5 indicators was adapted from Nestle et al. 2019 who has been developed the agglomeration scale in accordance with the statements which is consisted Marshall (1980)'s study about agglomeration effect.

Innovation scale was adapted from Özdevecioğlu and Biçkes (2012) who has been translated from English to Turkish was used. The original innovation scale developed by Henard and Szymanski (2001). The related scale consists of 4 dimensions and 24 indicators: product innovation (5 statements), strategy innovation (5 statements), process innovation (11 statements), and market innovation (3 statements).

A five-point Likert type scale was used ranging from 1 (totally disagree) to 5 (totally agree) to measure the attitudes of the participants. First, 67 manager and expert were visited in their offices and a pilot study was conducted checking the reliability and intelligibility of the scales. Some small revisions were made on the questionnaire in the accordance with the feedback obtained from respondents' comments.

Because of the literature review, attention has been paid to the selection of scales that are frequently used by researchers and thought to be the most suitable for the research model and sample group. The scale questions, originally in English, were carefully translated into Turkish and the opinions of scientists who experts in their field were consulted on the comprehensibility of the translations and the protection of the meaning integrity.

### **3.2. Research Design**

In this knowledge age, agglomeration and innovation seems as the most important aspects that support growing, maintaining, renewing, and sustaining regional economic systems. The agglomeration of industries in a particular city or region facilitates the distribution of knowledge among businesses, which leads to innovation. Agglomeration plays crucial role growth and innovation. (Van Oort and Stam, 2009: 3).

Scholars have mentioned a variety of reasons that help to clarify agglomeration's positive effects on firm. According to Nestle et al. (2019: 563) all the positive effect of agglomeration contributes to the information exchange; this means increased information sharing and reduction of hidden information. As a result, agglomeration effects in cluster initiatives promotes generation and collection of knowledge (Tsuji et al., 2007: 60; Johansson et al., 2009: 3), knowledge acquisition about competitor (Van Oort and Stam, 2009: 3). In cluster initiates, cooperation's/ competition (Porter, 2008: 258) or collaboration with related members increases social interaction (Glaeser, 2010: 9) and network activities (Nestle et al., 2009: 564).

Creating new knowledge (Nanoka and Takeuchi, 1995: 3), internal and external information flow (Chesbrough, 2003: 3), social interaction and trust between organizations in cluster initiative creating innovation-friendly environment (Nestle et al., 2009: 565). Agglomeration means geographical clustering plays critical role in job creation and technological innovation (Pouder and John, 1996: 1192). According to Porter (1990) proximity and shared resource, arrangements contribute to innovative environment. It is claimed that entrepreneurial spirit that emerged with the cluster and it leads innovation culture and dramatic changes that is supported by suppliers, idea creators, labor pool and competitors (Saxenian, 1994 cited in Pouder and John, 1996: 1204). Industrial clusters are source of innovation leading to productivity growth (Porter, 1998: 80).

As a result, it is considered that agglomeration provide a favorable ground for innovation. Thus, hypotheses were proposed below:



**H1.** “Agglomeration has a positive effect on innovation”.

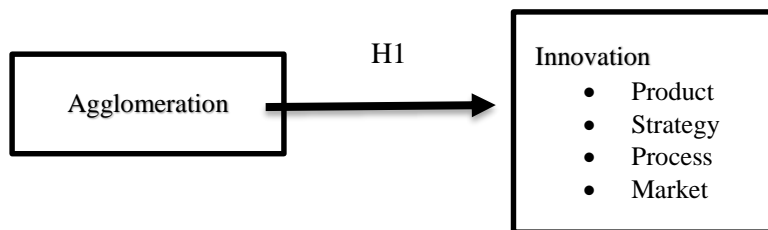
H1a. “Agglomeration has a positive effect on product innovation”.

H1b. “Agglomeration has a positive effect on strategy innovation”.

H1c. “Agglomeration has a positive effect on process innovation”.

H1d. “Agglomeration has a positive effect on market innovation”.

**Fig 1.** Research Model and Hypotheses



#### 4. RESEARCH FINDINGS

The aim of this study is to investigate whether agglomeration has an effect on innovation.

The descriptive statistics of the sample is as presented in Table 1:

**Table 1.** Descriptive Statistic

Demographic Features	Number of Participant	(%)	Demographic Features	Number of Participant	(%)
<b>Gender</b>			<b>Legal Statu of The Company</b>		
Female	151	39,3	One Man Company	164	42,7
Male	233	60,7	Joint Stock Company Limited	81	21,1
<b>Total</b>	<b>384</b>	<b>100</b>	<b>Total</b>	<b>124</b>	<b>32,3</b>
<b>Age</b>			<b>Working Hour</b>		
18-25 years old	67	14,7	1-3 year	87	22,7
26-30 years old	84	21,9	4-6 year	62	16,1
31-35 years old	77	20,1	7-9 year	44	11,5
36-40 years old	72	18,8	10-12 year	49	12,8
41-45 years old	33	8,6	13-15 year	20	5,2
46-50 years old	23	6,0	16-18 year	18	4,7
51 years old and above	28	7,3	19-21 year	16	4,2
<b>Total</b>	<b>384</b>	<b>100</b>	22-24 year	6	1,6
<b>Education Level</b>			25 year and above	38	10,0
Primary	23	6,0	<b>Total</b>	<b>340</b>	<b>88,5</b>
High School	112	29,2	<b>Number of Employees</b>		
Associate degree	88	22,9	Less than 10	104	27,1
Bachelor's Degree	137	35,7	Less than 50	157	40,9
Postgraduate	24	6,3	Less than 250	88	22,9
<b>Total</b>	<b>384</b>	<b>100</b>	More than 250	30	7,8
<b>Year of Company Establishment</b>			<b>Total</b>	<b>379</b>	<b>98,7</b>
Before year of 1980	30	7,8	<b>Employees Position</b>		
1981-1985	22	5,7	CEO/General Manager	106	27,6
1986-1990	29	7,6	Human Resource Manager	63	16,4
1991-1995	23	6,0	Marketing Manager	55	14,3
1996-2000	69	18,0	Sales Manager	35	9,1
2001-2005	49	12,8	Foreign Trade Manager	37	9,6
2006-2010	56	14,6	Accounting Manager	45	11,7
2011-2015	35	9,1	Production Manager	43	11,2
2016-2019	23	6,0	<b>Total</b>	<b>384</b>	<b>100</b>
<b>Total</b>	<b>336</b>	<b>87,5</b>			

According to the Kolmogorov-Smirnov test result in Table 2, it has been determined that all the propositions are statistically significant, so it was seen that the distribution was not normal. For this reason, non-parametric tests were performed.

**Table 2.** Tests of Normality

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Üİ1	,261	372	,000	,761	372	,000
Üİ2	,276	372	,000	,752	372	,000
Üİ3	,265	372	,000	,741	372	,000
Üİ4	,254	372	,000	,762	372	,000
Üİ5	,266	372	,000	,735	372	,000
Şİ1	,268	372	,000	,757	372	,000
Şİ2	,249	372	,000	,776	372	,000
Şİ3	,242	372	,000	,804	372	,000
Şİ4	,254	372	,000	,781	372	,000
Şİ5	,289	372	,000	,752	372	,000
SÜRİ1	,266	372	,000	,781	372	,000
SÜRİ2	,290	372	,000	,808	372	,000
SÜRİ3	,306	372	,000	,784	372	,000
SÜRİ4	,290	372	,000	,786	372	,000
SÜRİ5	,285	372	,000	,772	372	,000
SÜRİ6	,261	372	,000	,800	372	,000
SÜRİ7	,274	372	,000	,772	372	,000
SÜRİ8	,260	372	,000	,768	372	,000
SÜRİ9	,268	372	,000	,791	372	,000
SÜRİ10	,251	372	,000	,786	372	,000
SÜRİ11	,256	372	,000	,773	372	,000
Pİ1	,266	372	,000	,743	372	,000
Pİ2	,265	372	,000	,768	372	,000
Pİ3	,279	372	,000	,767	372	,000
AGET1	,266	372	,000	,798	372	,000
AGET2	,248	372	,000	,816	372	,000
AGET3	,255	372	,000	,782	372	,000
AGET4	,263	372	,000	,783	372	,000
AGET5	,265	372	,000	,796	372	,000

a. Lilliefors Significance Correction

**Table 3. KMO and Bartlett's Test**

<b>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</b>		,963
<b>Bartlett's Test of Sphericity</b>	<b>Approx. Chi-Square</b>	10082,246
	<b>df</b>	276
	<b>Sig.</b>	,000

**Table 4. Total Variance Explained**

Com.	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	15,939	66,414	66,414	15,939	66,414	66,414	5,184	21,599	21,599
2	1,320	5,498	71,913	1,320	5,498	71,913	5,048	21,033	42,632
3	,953	3,972	75,885	,953	3,972	75,885	4,726	19,690	62,322
4	,771	3,212	79,096	,771	3,212	79,096	4,026	16,774	79,096
5	,569	2,370	81,466						
6	,498	2,073	83,539						
7	,442	1,843	85,382						
8	,402	1,675	87,058						
9	,343	1,428	88,486						
10	,315	1,311	89,797						
11	,276	1,151	90,948						
12	,259	1,080	92,029						
13	,239	,996	93,025						
14	,231	,964	93,989						
15	,211	,880	94,869						
16	,195	,814	95,683						
17	,179	,744	96,427						
18	,144	,599	97,027						
19	,143	,594	97,620						
20	,132	,548	98,168						
21	,122	,509	98,678						
22	,117	,488	99,166						
23	,104	,433	99,599						
24	,096	,401	100,000						

Extraction Method: Principal Component Analysis.

As a result of exploratory factor analysis, total variance explained result was 79,096%. This result indicates that the questionnaire has content validity (Eren, 2016: 117).

**Table 5.** Rotated Component Matrix

	Compenent			
	1	2	3	4
Üİ1	,715			
Üİ2	,771			
Üİ3	,791			
Üİ4	,781			
Üİ5	,736			
Sİ1	,577			
Sİ2				,620
Sİ3				,709
Sİ4				,787
Sİ5				,639
SÜRİ1				,616
SÜRİ2		,747		
SÜRİ3		,737		
SÜRİ4		,723		
SÜRİ5		,706		
SÜRİ6		,643		
SÜRİ7		,680		
SÜRİ8		,549		
SÜRİ9			,624	
SÜRİ10			,628	
SÜRİ11			,683	
Pİ1			,750	
Pİ2			,750	
Pİ3			,688	

In the next stage of the analysis, Exploratory Factor Analysis (EFA) was conducted to determine whether the theoretical basis of the research was confirmed or not. As shown in Table 3, the results of the KMO and Bartlett Test, which are the criterion of sample adequacy, show that sufficient sampling has been achieved (KMO: ,963; Bartlett  $p < 0.01$ ). The second test for EFA is the commonality test. As a result of this test, it was seen that any proposition was similar to any other proposition and factor analysis could be continued. All results are above 0.5. It means that the sample gave homogeneous responses (Eren, 2016: 117). As in the theoretical background of the research, four factors were determined as a result of the EFA (Table 5). Sİ1, SÜRİ1, SÜRİ9, SÜRİ10 and SÜRİ11 are deleted because propositions are listed under the another factor.

In this part of the study the scales' validity and reliability was evaluated. Reliability can be confirmed if the Cronbach Alpha values higher than the value of 0.700 suggested by Nunnaly (1967) (Vila and Kuster, 2007: 26; Deng and Dart, 1994). As the Cronbach Alpha's coefficients

for agglomeration and dimension of innovation in Table 6 show that all indicator loadings satisfy this requirement. The reliability analysis results are presented in Table 6:

**Table 6.** Reliability Results of The Scales

Scales	(N of Items)	Cronbach's Alpha (a)
<b>Agglomeration</b>	5	0,890
<b>Innovation</b>	19	0,978
Product Innovation	5	0,946
Strategy Innovation	4	0,931
Process Innovation	7	0,950
Market Innovation	3	0,922

Spearman correlation and linear regression analysis were used in this research as the statistical methods. In the first phase of the analysis, Spearman Correlation analysis was used to explore the relationship between agglomeration and dimensions of innovation (Table 6).

If the coefficient takes values that greater than 80, it shows that there is a high relationship between variables, a strong relationship when it takes a value between 60 - .80, a moderate relationship when it takes values between 40 and 59, and a low relationship between 20 and 39 (Şencan, 2005: 253). As shown Table 7, all indicator loadings satisfy this requirement.

**Table 7.** Correlation Analysis Results

Variables	1	2	3	4	5
1.Product In.	1				
2.Strategy	,697**	1			
3.Process	,623**	,675**	1		
4.Market	,590**	,567**	,715**	1	
5.Aglomeration	,593**	,442**	,488**	,441**	1

\*\* Correlation is significant at the 0.01 level (2-tailed).

The Spearman correlations reveal that the highest relationship is between agglomeration and product innovation ( $r = 0.593$ ,  $p < 0.001$ ) and the lowest relationship is between agglomeration market innovation.

Regression analysis was performed to test the H1 and sub-hypotheses predicted in the research model. The data obtained regarding the effect of agglomeration on product innovation which is the dependent variable (H1a), are presented in Table 8.

**Table 8.** Regression Analysis Result

Model Independent Variable	Unstandardized Coefficient		Standardized Coefficient Beta ( $\beta$ )	t	Sig.	Durbin Watson
	B	Std. Error				
(Constant)	1,702	,188		9,048	,000	
Agglomeration	,610	,045	,571	13,542	,000	1,816
<b>R: ,571, R<sup>2</sup>: ,326; Adjusted R<sup>2</sup>: ,324; Std. Error: ,70984; F: 183,388 Model (p): ,000</b>						

Dependent Variable: Product Innovation

The managers and firm owners' perception about the effect of agglomeration on product innovation was tested with regression analysis. The regression model is statistically significant ( $F=183,388$ ;  $p < 0.001$ ). According to the results of regression analysis as can be seen clearly in Table 8, agglomeration has positive effect on product innovation ( $\beta=,571$ ;  $p < 0.001$ ). Results show that the adjusted R-Squared value of 0.324 indicates that 32,4 % of the variance in product innovation can be accounted by the agglomeration. The findings confirm that H1a "Agglomeration has a positive effect on product innovation" is supported.

The data obtained regarding the effect of agglomeration on strategy innovation which is the dependent variable (H1b), are presented in Table 9.

**Table 9.** Regression Analysis Result

Model Independent Variable	Unstandardized Coefficient		Standardized Coefficient Beta ( $\beta$ )	t	Sig.	Durbin Watson
	B	Std. Error				
(Constant)	1,730	,197		8,802	,000	
Agglomeration	,585	,047	,538	12,429	,000	1,990
<b>R: ,538, R<sup>2</sup>: ,290; Adjusted R<sup>2</sup>: ,288; Std. Error: ,74160; F: 154,478 Model (p): ,000</b>						

Dependent Variable: Strategy Innovation

The regression model is statistically significant ( $F=154,478$ ;  $p < 0.001$ ). Adjusted R-Squared value of 0.288 indicates that 28,8 % of the variance in strategyt innovation can be accounted by the agglomeration. As shown Table 9, agglomeration has positive effect on strategy innovation ( $\beta=,538$ ;  $p < 0.001$ ). The findings confirm that H1b "Agglomeration has a positive effect on strategy innovation" is supported.

The data obtained regarding the effect of agglomeration on process innovation which is the dependent variable (H1c), are presented in Table 10.

**Table 10.** Regression Analysis Result

Model	Unstandardized Coefficient		Standardized Coefficient			
Independent Variable	B	Std. Error	Beta ( $\beta$ )	t	Sig.	Durbin Watson
(Constant)	1,720	,181		9,489	,000	
Agglomeration	,580	,043	,569	13,371	,000	1,939
<b>R: ,569, R<sup>2</sup>: ,324; Adjusted R<sup>2</sup>: ,322; Std. Error: ,66870; F: 178,780 Model (p): ,000</b>						
Dependent Variable: Process Innovation						

Participants' perception about the effect of agglomeration on process innovation was tested with regression analysis. The regression model is statistically significant ( $F=178,780$ ;  $p < 0.001$ ). According to the results of regression analysis as can be seen clearly in Table 10, agglomeration has positive effect on process innovation ( $\beta=,569$ ;  $p < 0.001$ ). Results show that the adjusted R-Squared value of 0.322 indicates that 32,2 % of the variance in process innovation can be accounted by the agglomeration. The findings confirm that H1c "Agglomeration has a positive effect on process innovation" is supported.

The data obtained regarding the effect of agglomeration on market innovation which is the dependent variable (H1d), are presented in Table 11.

**Table 11.** Regression Analysis Result

Model	Unstandardized Coefficient		Standardized Coefficient			
Independent Variable	B	Std. Error	Beta ( $\beta$ )	t	Sig.	Durbin Watson
(Constant)	1,854	,191		9,692	,000	
Agglomeration	,572	,046	,544	12,504	,000	1,810
<b>R: ,544, R<sup>2</sup>: ,296; Adjusted R<sup>2</sup>: ,294; Std. Error: ,70559; F: 156,353 Model (p): ,000</b>						
Dependent Variable: Market Innovation						

The managers and firm owners' perception about the effect of agglomeration on market innovation was tested with regression analysis. The regression model is statistically significant ( $F=156,353$ ;  $p < 0.001$ ). According to the results of regression analysis as can be seen clearly in Table 11, agglomeration has positive effect on market innovation ( $\beta=,544$ ;  $p < 0.001$ ). Results show that the adjusted R-Squared value of 0.294 indicates that 29,4 % of the variance in market innovation can be accounted by the agglomeration. The findings confirm that H1d "Agglomeration has a positive effect on market innovation" is supported.

## 5. CONCLUSION

In this study, agglomeration effects on innovation was examined. Research findings indicate that agglomeration has positive effect on all dimension of innovation in cluster region

in İnegöl furniture sector in Bursa. Findings belongs to this research features being the first empirical evidence in Turkey related to agglomeration and innovation in clustered firms. It is believed that this study would contribute to the cluster theory, which was first put forward by Porter (1998). This study shows that agglomeration is beneficial for furniture sector where firms could learn and support each other in terms of information sharing, knowledge spillovers, accessing specialized business services and availability of infrastructure.

With the end of the study, it could be said that agglomeration have a statistically significant and positive effect on innovation in clustered region. Our findings are consistent with some researcher of Nestle et al. (2019) which confirmed that innovation activities are affected by firm agglomeration. Pouder and John (1996) stated that an innovative environment is created by three factor. First is agglomeration economies, second institutional forces, and the last one is managers' mental designs. Agglomeration forces influence innovative activities (Carlino and Kerr, 2014: 16). In addition, there is a negative relationship between industry agglomeration and technical inefficiency of firms according to obtained data Pakistan's manufacturing sector (Burki and Khan, 2013: 1).

With the contribution of the findings from the research, it could be said that there are enough skilled labors, the skilled labor has high level of qualification in clustered regions in İnegöl, Bursa. Therefore, geographic proximity allows high level of productivity. Cluster members have many advantages such as having well-design infrastructure for their business sector. And it is possible to say that employees change their job and find one in competitors' firms easily. Fritsch and Stuetzer (2009) approved that creative people who are accepted as main source for attracting innovative activities, live or work in the agglomerations. Porter (1990) discusses concentration in the local market allow for sharing many kinds of inputs and access labor pool that consisted experienced and well-trained employees. Thus, flow of knowledge occurs between these linkages.

The company's products have superiority over competing products, the level of meeting the expectations and needs of consumers, level of consistency between product prices and benefits, the level of technological sophistication perceived by customers and degree of perceived originality and novelty of products, the firms' marketing ability and technological capabilities create a new product successfully, new product development commitment, the timing of a product's marketing, level of use of procedures and communication between



departments for producing new products are well enough in cluster region in Bursa. According to Duranton and Kerr (2015: 4), this collocation/ communication is beneficial for firms to ship and sell their products on larger market. Industrial clusters allow members to gain experience at lower costs, so if a firm decide to be innovative, it can reach external source quickly what it requires doing innovation (Porter, 1998: 79).

In addition to providing an advanced understanding of the relationship between agglomeration and innovation, this study has inherent limitations. The sample of this study is limited to Turkish firms located in the Bursa, İnegöl cluster region. Therefore, it is not possible for now to say anything clear about whether this relationship will be positive in other regions or another country. Hence, new research on this subject is needed in different clustered regions.

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## EFFECTS OF MEDIA DIGITALIZATION ON JOURNALIST EMPLOYMENT

Melis BAKIRMEKİK<sup>1</sup>

### Abstract

With the development of technology, the uses of mass communication devices have also begun to change. Production and consumption of news have evolved, thus new duty descriptions have emerged. Especially with online journalism, the requirement to have various skills has emerged about media professionals who will work in this area. Besides traditionalist qualities that conventional media workers have, some qualifications that are brought by digitalization have been made obligatory for them and this has led to the danger of employment loss. The aim of this research is especially digitalization and the changes that take place in the media connected to problems of employment for journalists. In this context, in addition to the employment areas in the conventional media, new employment areas that emerged with the digitalization of the media were examined. In addition to the additional employment area of media digitalization, the emerging disadvantages were also examined, and the positive and negative aspects of media digitalization were compared. In the study, it was concluded that despite the new employment areas, media digitalization has the potential to have negative consequences for journalism and the workforce of journalists.

**Keywords:** *Digital Media, New Media, Journalist, Employment, Unemployment.*

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## 1. INTRODUCTION

After the developments in communication technologies and the widespread use of the internet in the 21st century, a new type of journalism called "electronic journalism", in other words, "internet journalism", has emerged alongside conventional journalism (Gezgin, 2002, 30). This new understanding of journalism is used in the literature with different names such as "virtual journalism, internet journalism, online journalism, digital journalism, electronic journalism". The job description of the pages that provide the news service through online environments is called internet journalism or virtual journalism. These types of newspapers are communication channels that emerged and became widespread with the development of the internet after 1994 (Yüksel and Gürcan, 2001, 18). In the world literature, the type of journalism that has become widespread especially towards the end of the 1990s and is carried out through the online environment is called "online journalism".

The change in mass media together with technological developments has also affected the way newspapers and newspapers work. This effect has manifested in the way journalists can produce and distribute their news in this medium. However, the online environment provides a great innovation in the name of the profession with its interactive aspect. These innovations increase the democratic potential of the journalism profession and provide new models for news production to professionals and users.

Anderson, Bell and Shirky (2012) state that as a result of technological developments, from transparent circulation to the spread of networks, journalists are now able to further more information than before. In addition to the necessary tools, it has become easier to come up with more effective visuals and texts that increase interaction, and the opportunity to reach the target audience through more than one channel has emerged.

Opposing views have also been added to the researchers who advocate the positive aspects of journalism, which has been transformed by technological innovations over time. One of the areas affected by communication technologies is the press industry. Before digital technologies took their current form, there was print-based broadcasting and journalism. As a result of these technologies, readers' interest in printed publications has decreased, and this has been replaced by interest in online publications and news. Newspapers, realizing the interest of their readers in digital media, have turned to the way of switching to the online environment and making a profit from it.

Press companies, trying to keep up with the transformation in communication tools, have implemented the journalism method that is produced in digital, distributed and consumed at the same speed. Under these conditions, journalists may face mass layoffs, distrust of their jobs, and challenges to their autonomy and mass power (Willnat and Weaver, 2014).

The aim of this article is to reveal the employment problems in the existing conventional media, the legal regulations applied to solve these problems, the new employment problems that are added to the old problems with the digitalized media. In the article, firstly, the stages of the transformation from conventional media to digital media will be revealed. Then, in order to better understand the impact of the current transformation on employment, employment areas in the traditional media will be examined. In the next part of the article, the employment problems that arise with the digitalization of the media and their reasons will be revealed.

## **2. CONVERSION FROM CONVENTIONAL MEDIA TO WEB PAGES**

Newspapers, the first examples of which we saw in the 17th century, had the ability to reach readers anytime and anywhere through devices such as phones, computers, tablets, with new communication technologies. Newspapers interacted with television and radio broadcasting and revealed the concept of convergence. In the process of technological developments that completely affect the means of communication, newspapers completed the transformation that started with convergence and started to transform.

Printed newspapers of the conventional media still exist today, and each of them also continues to exist in the digital environment. In addition, there are many medium and large-scale newspapers that prefer to leave the printed publication life and prefer to produce and distribute completely over the digital environment. The digital transformation experienced has affected the journalism profession in different ways, offering internet media professionals the opportunity to use unlimited technological opportunities and benefiting from resources in a wide way, and has revealed the type of internet-based journalism called internet/digital or online journalism (Bardoel and Mark, 2001: 91 cited by Kucu).

The transformation process of conventional media against the internet has taken place in several stages. After the Internet came into our lives, the newspapers carried the news published in print to their web pages. Later, they started to produce separate content for their internet pages and finally they started to do internet journalism in mutual interaction, in which users also participated in the news production process (Tokgöz, 1981: 81).

With the technological developments experienced, traditional journalism has left its place to online journalism, where many messages such as news texts, videos, sound recordings, graphics and animations are presented to the reader. Along with journalism practices, new types of advertisements have emerged in the new media. Advertorial / news-advertisement publications, pop-up advertisement boxes, advertisement contents displayed next to the news, banners, video broadcasts have provided a new online advertising perspective. This innovation, on the other hand, has created a new employment line under the name of “digital advertising” in the field of advertising.

This new understanding of journalism, which expresses the collection of news from digital sources and delivering it to the reader through the internet channel, has been named in many different ways as online journalism, internet journalism, digital media, new media, electronic journalism. (Çetinkaya, 2016)

In addition to the products that emerged with online journalism, the employees, organizational structure of the press organizations, production and activity processes, financing and legal grounds of transforming journalism have also changed. With the new media, which is the beginning of a new era in journalism, the high capital required by the conventional media has been replaced by low-capital and low-paid journalists.

Although not widely seen in Turkey, artificial intelligence applications, which are used by major press organizations in the world and considered as a new step for journalism, are also accepted as an important milestone in the digitalization of journalism. These practices have led to discussion of the relationship between digitalization and employment. Artificial intelligence is defined as computer algorithms that are known to operate in the form of human intelligence. The application was first used in financial news by Reuters in 2006. Its popularization was realized by the Washington Post newspaper, using it in news software by the “Artificial Intelligence Journalist” called the Heliograph at the Rio Olympic Games held in 2016.

### **3. FROM ACTIVE USERS TO INDIVIDUAL MEDIA**

According to Ian Hargreaves (2006, p.167), no new tool in the history of communication has emerged as quickly as the internet and has not produced such variable results. For example, while it takes 38 years for radio to reach 50 million users all over the world, it takes 13 years for television. However, Twitter, which is in the new media ecosystem, has managed to catch 50 million users alone in just 9 months (Kara, 2013, p.49). Hargreaves (2006, p.180) states that



journalism has turned into a profession that spreads to society and its boundaries are blurred, as users turn into media producers in an individual sense. Hargreaves also states that this situation creates an antidote effect against media monopolization and the hegemony created by commercial values. Due to its liberal nature, the Internet provides its users with an active position in creating content.

This situation has created a new communication environment in which media professionals, who are content providers in conventional media, cannot control the information alone. The widespread use of the internet in the world has brought along a process in which citizens are also included in the functions of mainstream media organizations such as “informing the public” and “giving news” (Değirmencioğlu, 2016). The information circulated in the online environment is no longer carried out only by media workers, but a participatory environment is created with the involvement of ordinary people in the process.

The role of the press, which decides what information the public should learn and which should not, is no longer a definitive definition of journalism (Kovach and Rosenstiel, 2007, p.26). With this new situation, the border between journalist and reader, viewer and listener has become blurred. In addition, users who take an active role in news production have also been instrumental in the emergence of user practices in accordance with citizen journalism.

On the other hand, the depiction of an environment where everyone can have their own media and the emphasis on an egalitarian structure at the point of access and distribution of information is just an illusion according to Christian Fuchs (2016, p.116). Fuchs stated that in theory, everyone can produce and disseminate information via the Internet, but not all information in online environments will receive the same attention. For example, Hürriyet newspaper, which has been publishing for years in Turkey, or the New York Times, which is one of the first names that come to mind when it comes to journalism in the United States, has a greater influence than an ordinary blogger. Fuchs describes this structure with George Orwell’s description of the animal kingdom, where some animals are more “equal” than others (2016, p.32).

Dan Laughey (2010, p.158) explains this situation with the concept of "convergence", which he uses in the context of media economy and ownership. According to him, “The new media ownership structure mirrors the ownership and control models in traditional media sectors. The ownership of many of the popular websites is monopolized by certain companies.

This apparently refutes the assumption that every user plays an active and equitable role in the communication process, and shows that the internet environment is dependent on a certain power hierarchy at the point of distribution and acquisition of information, similar to the real world order.”

According to John Pavlik (2013, p.47), prestigious and reliable brands are the primary reason for preference in terms of trusting the news circulating in the online media. Pavlik emphasized that online journalism by individuals with the necessary technical equipment may pose a danger in terms of online journalism.

Robinson (2010), on the other hand, states that digital news site users are divided into 2 perspectives; traditionalists and routers. According to him, traditionalists think that the hierarchical order between reader and writer should be preserved. The way to achieve this is to allow limited movement of readers on news sites. On the other hand, routers advocate multi-participant journalism and emphasize the need for increased reader participation.

The presence of participants who work in digital journalism, lack media literacy, and whose content they produce and circulate does not undergo editorial control has led to debates about who a journalist is in the digital age. While the answer to the question of who a journalist is in times that did not require large capitals, it has become difficult to make this definition today. While in the past it was enough for a person to be paid in a press organization to be considered a journalist, today anyone who has the privilege of broadcasting through digital channels can be defined as a potential journalist (Ergürel, 2013).

#### **4. THE RELATIONSHIP OF TECHNOLOGICAL DEVELOPMENTS WITH JOURNALISM EMPLOYMENT**

Technological developments facilitate the work done and prevent time loss, while increasing efficiency, while minimizing the time allocated to work. Therefore, the need for labor is decreasing, while technology causes job loss concerns in all sectors it affects. New technological opportunities that make work easier and prevent time loss increase productivity and shorten the time allocated to work. Therefore, due to the decrease in the commitment to the workforce, technological developments are met with hesitation due to the worry of job loss as well as the excitement they create in any field.

Interactive, digital and networking areas have replaced the employment areas that have emerged with technological innovations, and many professions have faced the danger of

extinction. In addition to the negative results experienced, this transformation also caused the emergence of new business lines in the information sector. Digitalization creates new employment and business lines in the journalism profession. At this point, the opinion of some people is that the need for trained and qualified labor force will continue under all circumstances. Self-trained experts will always have the opportunity to work. (Eke, 1999 cited by Gökay M.)

However, media professionals of our age are expected to be knowledgeable and competent in areas such as interactive advertising, content production, digital visual design, as well as conventional media channels. In this context, the need to train qualified and qualified personnel in line with the new situation in the field of media and communication has come to the fore. (Ergüney, 2017).

The employment areas that have emerged with the digitalized media have also led to the emergence of new training programs for this sector. An example of this is the "New Media" departments opened in universities especially recently. Graduates of new media departments can find employment opportunities in various positions in private and public institutions. These positions are:

- i. New media correspondent, editor, and producer in media organizations such as newspapers, magazines, radio, television and film production companies that carry out publishing activities in new media environments
- ii. Online reputation management by using online opinion research and search engine optimization and advertising effectively in the public relations and consultancy departments of companies
- iii. Internet advertising or internet and mobile marketing management in advertising agencies
- iv. Social media expertise that will enable effective communication of any public, private or non-governmental organization in the social media unit
- v. Internet and mobile business management that provides efficiency and competitiveness by transferring the business processes of institutions, organizations and individuals to the internet and mobile environment
- vi. Internet and mobile marketing management or entrepreneurship. (Ergüney, 2017).

Some features such as innovation acceptance and rapid integration are very important for professionals, especially in areas such as new media where technology is directly affected. However, since the work mostly shifts to digital media, it is necessary to have computer skills and proficiency. Professional employees who want to be employed in the new media must first have an e-mail address, be able to transfer data and establish a website. Being able to design multimedia and knowing how to start an online press are important requirements for obtaining a position in online journalism. (Pavlik, 2013).

Another profession that has become an important area of employment in digital broadcasting is social media expertise. Experts working in this field produce various strategies by focusing on the appearance of newspaper news published online and in print on social media, and with which view more users can be reached. With the developing technology, SEO journalism has been added to the social media expert position of the newspapers. SEO (search engine optimization) journalists produce various strategies in order to attract more traffic to the newspapers published in the digital environment and try to increase the readability of the newspaper.

Established job descriptions of multimedia and content production and presentation have been affected, the definitions of jobs in the sector have also begun to change, depending on the skills or the work done. Those working in content production and presentation on new communication technologies such as the Internet have begun to describe their work area as “production and presentation of text, sound and image, including the convergence of traditional media with distribution over the Internet and computer-based technologies” (Christopherson, 2004, p.544-545).

When we look at the practices put forward in terms of professional practices, it is seen that professionals from different fields have started to be employed in media organizations in parallel with the changes experienced. For example, the Washington Post employs a social media editor in the newsroom; USA Today and the New York Times also employ newsroom staff with job descriptions of social media editor and social media analyst (Nicholson, 2010).

When we look at the employment areas in media organizations, new job definitions such as SEO (search engine optimization) expertise and social media editor have emerged. The primary task of these people is to manage and control the circulation of the produced content in the online environment.

For example, what is expected from SEO experts who work in the news centers of newspapers such as the Washington Post and Los Angeles Times is to determine the most searched words during the day by examining the search engines and to ensure that the news content is created in line with these words. The contents created by this method will ensure that the relevant news is at the top of the result pages, which will increase the reading rate of the newspaper. SEO professionals employed by major media outlets are often made up of people with tech expertise but no journalistic background.

SEO practices do not only represent the dominance of technological operation, but also affect the routine developments during the day, the communication of the agenda and the editorial production planning. Therefore, SEO practices are not only the responsibility of the expert working in that field, but also the editorial staff.

Content produced by users other than search engines and applications that enable them to interact with other actors are employed under job descriptions such as social media analyst or social media specialist. These employees usually market the produced content.

One of the journalism genres that emerged with the development of technology and the increase in digitalization is robot journalism. Robot journalism is basically an algorithmic process that collects data from certain sources and translates it into news text through various codes without the need for human intervention. Robot journalism is a type of journalism that has advantages and disadvantages for professionals. The primary purpose in robot journalism is to increase production volume and to save human labor at the maximum level. In this way, it is aimed that journalists allocate more time to tasks such as producing more in-depth news, following news, focusing on research news, and producing quality content.

However, the automatic content creation feature of robot journalism reveals the fact that journalists can take over their jobs, and this causes unemployment concerns for professionals. Algorithms in online journalism can easily maintain editorial processes. This points to a situation that will cause journalists who are specialized in fields such as sports and finance to lose their jobs.

The standardization of journalism in digital media and its evolution into an operational process in some areas is an important factor for media owners to prefer automated content creators over editors.

## 5. TYPES OF JOURNALISM EMPLOYED IN CONVENTIONAL AND DIGITAL MEDIA

*Freelance Journalism:* Independent journalists who are not employed in any media organization are called freelance journalists. A freelance journalist is an independent journalist who earns income from activities such as writing, photography, editing, videographer or a combination of these (Allen, 2011, p.26).

*Regular Journalism:* Persons who are in the staff of any media organization, who are obliged to produce news and take photographs, and who in return have various legal rights, are called regular journalists.

*Stamped Journalism:* They are people who can work for one or more newspapers. These people who work as reporters are paid by the newspapers they work for or per the news. The expenses of the stamped journalists regarding their transportation and production tools are covered by the newspaper (MEB, 2013, p.17).

*Entrepreneurial Journalism:* Landström and Johannisson (2001, p.228) see entrepreneurship as a phenomenon beyond individual qualities and abilities. Entrepreneurship includes the organization of new resources and collaborators according to the emerging opportunities. Traditional methods of accessing individuals have now been replaced by digital methods that facilitate gathering and organizing information, using the available resources correctly, and enabling collaborative interactions. As Hartley (2007, p.137) states, the one-way 'read-only' era for mass and broadcast communication is transformed into a 'read-write' oriented multimedia interactive era.

*Citizen Journalism:* The concept of citizen journalism emerged with the support of the Pew Center, which is a public institution in the United States, as a solution to the press freedom debates that have arisen with the increasing monopoly and conglomerate process in the media since the 90s. Citizen journalism is a type of journalism that enables ordinary people who do not do this job professionally to produce news content and share it through various mass media.

People are no longer just passive objects in the news production process and have entered the position of active producers. Citizen journalists can produce news for mainstream and commercial news sites as well as for blogs and news sites. Considering the spread of news in the online environment, the importance of the interactivity feature is seen once again. Citizen journalists are people who do not work professionally in a news organization or a news agency,

but report an event they witnessed from their location and share it with the public (Durgeç Aydoğın, 2017, p.706).

*Agency Journalism:* News agencies, which are also the main source of conventional media, are active subjects of news exchanges at national and international level. A news agency is an organization that collects, produces and distributes a wealth of news content to a variety of global and local clients. Today, news agencies are built specifically around images (Gynnild, 2017, p.25) Every day, hundreds of newspapers and news media, including news sites that exist in the digital environment, receive content such as news, pictures and videos from international publications such as the Associated Press (AP) or Reuters.

## **6. EMPLOYMENT AND EXPECTED SKILLS IN THE WORKFORCE IN DIGITAL MEDIA**

With the transfer of newspapers to the digital environment, there have been various changes in the structures of media organizations. This change includes institutional routine and news production practices. These changes, which are discussed in terms of media organizations, are examined in two dimensions. One of these dimensions is convergence and the other is multi-skilling.

Convergence is the blurring of the lines separating radio, television and the press. With the convergence, various media organs have merged with digital news portal for broadcasting companies. Media products can now be viewed on personal computers, televisions or phones in audio, text or video formats. In addition to this, there are also mergers in the internal structures of media organizations. Mergers are also seen in jobs performed by different people and units (Siapera, 2012, 132). With convergence, it has become possible to provide sound, graphics, still images, tables or moving images over a single channel. In addition, the content was enriched by linking to another page on the same or different websites. This feature of the Internet increases the depth and breadth of the content of online newspapers (Aktaş, 2007, 34-35).

Another benefit of convergence is in the field of production. With this feature, a content is circulated on multiple media platforms without the need for rewriting and editing. The slogan here is “Write once, publish everywhere” (Saltzis and Dickinson, 2007, 3). This feature of convergence means having an editor or a journalist for professionals. In terms of distribution, it means the ability to access all media with a single device. In terms of consumption,

convergence can be expressed as an increase in the number of users and participation. Convergence is most relevant for media organizations because convergence allows companies to expand across many different channels, enabling them to grow and reach wider audiences. While reducing the cost, it is also effective in maintaining competition (Siapera, 2012, 133).

According to Dickinson and Saltzis, media organizations apply four strategies to ensure cost minimization and to ensure the continuity of competition. First, media organizations tend to merge newsrooms from an institutional and technological standpoint. The merging of units, on the other hand, causes layoffs as a natural result. Secondly, media organizations employ professionals who have knowledge and skills in every field or use them as subcontractors. This means that journalists with expertise in a particular subject are at a disadvantage. Third, the use of flexible and user-friendly technologies in the production process. With this method, the production process becomes easier and more effective. Finally, media organizations have actively sought to expand their services in new media and seek to grow by using more platforms (Saltzis and Dickinson, 2007, 4-5).

With the Internet attracting advertising revenues, media organizations have begun to lay off the expensive working class such as expert and foreign reporters, investigative journalists. Regarding the issue, Times newspaper editor Robert Thomson announced that the first job of the media organizations experiencing economic difficulties was to close their foreign offices. Rusbridger, the editor of the Guardian, says that as a result of Google's killing of classified ads, newspapers lost real estate, cars and job ads, and this reflected on newspaper owners as cutting editorial costs (House of Lords Select Committee on Communications, 2008b, 46).

With Convergence, every news center employee has become able to editor content and news. For example, The Daily Telegraph defines itself as a media group that includes all news sharing systems. New job definitions have emerged over time in media organizations where convergence is adopted. These are; storybuilder, user-generated content editor-, newsflow manager, interactive content designer, digital rights manager and social media coordinator.

Story builders inform media workers about how to handle information in multimedia and how to ensure story flow. These people are aware of the forms and differences of the story conveyed in every medium. Newsflow managers are responsible for producing stories for the various channels of the converged media outlets. They produce a story suitable for every medium and audit the information created by journalists. With the development of technology



and the widespread use of smart phones, the images taken by people who have become citizen journalists and the information they serve have increased the need for editors who will control and audit them. In addition, user comments that may constitute a hate crime should also be filtered by the editors. Digital rights managers, on the other hand, are obliged to protect the rights of the media organization in using a content or the rights of those who produce the content. Interactive content designers are someone who create interactive content using new versions of HTML, Flash, and JavaScript. Persons to be employed in this position are expected to have knowledge and skills in the field of technical software as well as journalism. A new field of employment in converged media organizations is social media coordinator. People working in this role are responsible for sharing content on various social media networks. Social media coordinators should also get users to talk about the content they share. Interaction between users should be provided by linking news or other techniques (Wilkinson et al., 2013, 46-49).

Convergence is not only a growth strategy, but also a cost-reducing feature. But besides all its advantages, there are also some disadvantages discussed. With the convergence, journalists who work in media organizations but are not noticed enough may feel that their expertise is under threat. However, some small or medium-sized media organizations may lack the necessary technical knowledge and technological equipment and may experience insufficient resources to train their employees in this field. Despite all these problems, convergence determines the future of media organizations with its increasing effect (Siapera, 2012, 134).

The other dimension of the change experienced is multi-skilling. Along with the transforming journalism practices, today's media workers have to have a number of skills at the same time. Saltzis and Dickinson (2008) say that when journalists are given the opportunity to have a few talents, uncertainties in the journalism profession will be reduced. For example, journalists in converged media organizations have the competence to work in more than one medium such as television, newspaper or the web. However, the BBC, which has implemented multiple talents within its own organization and encouraged its journalists in this regard, has given up this practice over time. BBC has now adopted a working policy that a talented radio reporter does not have to be a good television reporter at the same time. From this point of view, unlike the majority, BBC seems to prioritize content quality rather than cost reduction.

## 7. DIGITAL TRANSFORMATION AND FORESIGHTS

The beginning of the transformation in the field of media has been technological developments and especially the invention of the computer. The development of internet networks and the ease of access to these networks accelerated the transition to digitalization. Media historians agree that the transformation of text-based online information into graphic-based content accelerates the spread of the Internet, and the web plays the most important role in this process (Başaran, 2014, p. 258).

The importance of web technologies in communication with the user in human life is increasing. Therefore, having the ability to use Web 2.0 technology will also enable to use the technologies that will emerge in the future. With smart digital communication technologies, users are starting to spend more time on the internet and this situation increases the importance of web channels and mobile applications (Koçyiğit and Koçyiğit, 2018, p. 21).

The traditional type of newspapers, which are the first place to collect and gather raw historical information, in the transfer of individual and social heritage from generation to generation, in the formation of public opinion, have created a new type of journalism, which is expressed today as internet journalism in the information age (Gezgin, 2002, p. 30).

According to Karaduman (2003, p. 142-143), Internet journalism can be divided into 3 periods: In the first period, journalists transfer the contents of conventional media to internet pages. However, the news is not produced exclusively for the Internet. In the second period, media organizations started to produce news content specific to the Internet. In the third period of internet journalism, the interactive communication model emerged.

In an interview with Şenyüz (2018), Haluk Şahin expressed various views on the future of digitalized media and journalism. Şahin stated that the definition of journalism has become controversial. Stating that the internet makes the life of journalists easier, Şahin argues that the professional position of journalists has weakened.

In the same interview, Kerem Çalışkan emphasized that internet editors have turned into “machinists” who copy news from other sources. According to Çalışkan, the criterion for success in journalism is the average number of news articles per hour.

According to Yıldırım (2013, p. 23), although the development of technology and the benefits of today's digital age bring new media journalism to the top, his views on the

disappearance of traditional journalism do not agree. In today's communication environment, traditional journalism and internet journalism should not be evaluated separately. In fact, both are structures that support each other. However, traditional journalism forms the basis of internet journalism.

In addition to all these, the integration of the internet with communication environments also has some handicaps for media workers who pursue traditional journalism. In the sector, which is currently experiencing an employment problem, the problem of unemployment has become more evident with digitalization. With the survey conducted by Eda Narin (2019) with journalism graduates on the internet, the sectoral trends of media workers were revealed. 130 of the 235 graduates who participated in the survey had their first job experiences in various newspapers, and 99 of them worked in sectors other than the field. Likewise, 141 people have worked in the field of press even once in their life, while 89 people have never worked in the field of press. These rates show that a substantial majority of journalism graduates are out of the sector.

In the report published by Sarphan Uzunoğlu and Verda Uyar (2021), job postings published in the media sector were examined. The purpose of the report is to examine the qualifications of media organizations in job advertisements and to grasp the new roles that have emerged in the media recently. The findings of the job postings examined are summarized as follows:

- i. Fidelity to publishing policies is a must.
- ii. Employee circulation is high in workplaces.
- iii. Interest in popular positions in the global media is low.
- iv. New generation media organizations are closer to global trends.
- v. There is no consensus among journalists on the necessity of a human resources department in the media sector.
- vi. There is no consensus that communication training is important in recruitment.
- vii. Perception of internal and external capacity building programs is positive.
- viii. Job postings are mostly for full-time jobs.
- ix. After developing communication technologies, the use of some software used for editing and similar purposes has become an advantage for employees.

The term convergence, which is used to reveal the developments in the field of media and communication, emphasizes the relationship between communicative processes. According to Taş (2004), the convergence in the communication sector is a situation that should be evaluated not only with technological and industrial change, but also with the political and socio-cultural context. While this concept has become a profitability strategy for the managers of media organizations (Gasher, 2011), it has also revealed many new working models for the employees.

While this technological transformation in journalism created new jobs, it also updated the main skills of journalists. Birsen (2005), who focuses on the job qualifications of internet journalists working in the new media environment, states that internet broadcasting differs from traditional broadcasting due to the different consumer expectations and media characteristics, and that an Internet journalist must rework a news in both technical and editorial processes. In this case, journalists should have both journalistic experience and digital technology. New technical abilities and skills are also associated with the ability to enter into a dialogue with the reader, to comprehend the social dynamics he is in, to process the subject he deals with within the logic of journalism, and to use the language effectively (Yıldırım, 2013).

Along with these, new problems arise for new journalists. Mark Glaser (2007) argues that the perspectives of journalists and the methods used in news gathering, writing and publishing processes have changed, and argues that journalism has evolved into a job that can be done anywhere and anytime, and draws attention to the fact that a journalist no longer has to work only through a newsroom. Most of the academic studies conducted in Turkey have a labor security approach. In these studies, it is generally criticized that journalists are employed under low wages and flexible working regimes or directly unregistered or the royalty-based working system (Uzunoğlu, 2018; Özkan and Cengiz, 2019). According to most researchers, technological, financial and political changes in the sector play a decisive role on the basis of precarious work, both locally and nationally (Uzunoğlu, 2017; Kızılca and Kızılca, 2018).

The fact that the work to be done by many people is done by a single person has led to a reduction in the number of personnel in the press enterprises. However, according to Çetinkaya, the search for employment in various new areas by media enterprises means that a long-term workforce potential is born and this will be evaluated (Çetinkaya, 2016). Journalists receive additional training to develop their multiple skills and have to invest in this. On the other hand, managers are liquidating old employees in order to employ young journalists who are prone to

new technologies. Therefore, the increase in innovations in the sector is not reflected in the employment rate.

## **8. CONCLUSION**

Although journalism has remained the same in its essence in terms of job definition and responsibilities, it has made it necessary to acquire new skills for professionals with the technological developments. This change has also led to the creation of new employment areas in media organizations. The digitalized news environment, combined with its multimedia feature, requires professionals to have both content producer and content visual maker competence.

The important thing in online journalism is to increase readability. For this reason, journalists have to use their creativity to reach more views of their content. This situation has created an employment area for graphic designers who know the photoshop program, which is used to increase interest in press businesses.

With the development of communication technologies, video journalism has emerged and a field has been opened for the employment of various experts and video editors. The increasing importance of social media and search engines has increased the need for social media experts, editors and SEO experts in press businesses. Likewise, advertising departments have started to employ advertising specialists who provide integration into the digitalized environment. Especially large-scale media organizations have recruited software experts to create and strengthen the technical infrastructure.

Since news production in online media is based on speed and clicks, cheap, poor quality and identical news have emerged. Press businesses now get the biggest share of the revenue pie from read rates and advertisements. Journalism practices that will increase readability are directly dependent on technology and it can be said that production becomes relatively easier with technology. However, on the other hand, this technology increases the expectations of press companies from their professional employees. While large-capital newspapers employ separate employees for each department and each task, small and medium-sized businesses outsource more than one job to the same person by calculating the cost, thus increasing the expectation and responsibility of journalists. Journalists today must have the following skills: finding, producing and distributing the news, choosing photos suitable for the content, editing these photos when necessary, making the news suitable for social media and sharing it, having

information about search engines and revising their news in accordance with this system.

In terms of the state of the media, it can be said that journalism has become commercialized, but this should not overshadow the fact that journalists take on the role of public service. Journalism has important missions such as analyzing social problems, reporting in the public interest, revealing the deficiencies, ensuring that action is taken to correct them, and supporting the operability of the laws. For this reason, it maintains its value despite the disadvantageous situations brought by technology.

The presence of news sites in digital media has increased with the transfer of conventional press to online environments. In addition to the news sites of large capital groups, there are also sites with small capital and a few journalists, since the digital environment does not require high costs. Some small news sites that do not care about prestige and accurate news have removed the journalist from the position of "news producer" and put them in the position of editors who publish news received from agencies as they are. It is another challenge for journalists working in such organizations, where supervision and control is difficult, to protect their legal rights. The increasing number of journalists with communication degrees combined with the desire of media organizations to do maximum work with minimum workforce, many journalists trained in the field have to work for minimum wages and often without obtaining their legal rights.

When the unemployed journalism graduates in Turkey are taken into account, it is clear that it is not difficult to find a replacement by dismissing a journalist who speaks out about their rights. This reveals that journalists are deprived of the minimum working conditions they deserve.

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## TERM STRUCTURE OF DEPOSITS IN TURKISH BANKING SYSTEM

Turgay GECER<sup>1</sup>

### Abstract

This paper studies the term structure of deposits in Turkish banking system. It also discusses the concepts of nominal maturity and effective maturity of deposits. It assumes that the main factors configuring the effective maturity of deposits are the dollarisation of deposits, the net interest return of domestic currency deposits, the volatility of foreign exchange currencies against domestic currency and the reserve requirement mechanism. This study recommends that extending the effective maturity of deposits rather than the nominal maturity of deposits is more likely the best strategy for Turkish banks. Every deposit has an embedded option to extend up to the effective maturity.

**Keywords:** *Deposits, Nominal Maturity, Effective Maturity.*

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## 1. INTRODUCTION

Banks play a vital role in the economy (Whitting, 1985, p.3). Overall, the literature provides broad empirical evidence of a positive relation between finance and economic growth (Thiel, 2001, 20). Banking is one of the most essential businesses all over the world. The banking sector is a backbone of the country's economy (Hamza and Khan, 2014, 444). It is for sure that as share of banking sector in financial system increases, the role of the sector in macroeconomic stability and economic growth also becomes more prominent (Sayılğan and Yıldırım, 2009, 207). Another important role of banks is in spurring growth (Franklin et al. 2008, 41). Clearly, better banking systems create a more stable environment by leading to a reduced likelihood of systemic banking crises and international currency crises (Watchel, 2001, 353) Traditionally, banks have been a key player in the financial system, transforming savings into long-term capital to finance private sector investment (OECD, 2013, 4). Banks, which are the building blocks of the financial system, manage the loanable fund supply and demand in economics through their 'mediation' function. Other important function of the banks in macroeconomic aspect is the fact that the provided funds to the financial system guide to sectors which will provide the most value to the economic growth (Işıl & Erik, 2017, 153). The primary role of banks is to take in funds-called deposits-from those with money, pool them, and lend them to those who need funds. Banks are intermediaries between depositors (who lend money to the bank) and borrowers (to whom the bank lends money). The amount banks pay for deposits and the income they receive on their loans are both called interest. A bank's most important role may be matching up creditors and borrowers, but banks are also essential to the domestic and international payments system-and they create money (Gobat, 2022). In the traditional model, banks take short term deposits and other sources of funds and use them to fund longer term loans to businesses and consumers (Saunders & Cornett, 2012, 19).

Banking is an art of managing the maturity mismatch, long-term lending by short-term funding. Banks try to lengthen the terms of funding. The longer-term maturity of funding, the longer-term maturity of lending. Banks have three main sources of funding: the deposits, the borrowings, and the equity. For commercial banks, deposits are the main source of funding, and thus the higher maturity of deposits is the most preferable. The higher maturity of deposits gives the banks a competitive advantage also in liquidity.

Deposits are also a crucial source of the expansion strategy for commercial banks. The short-term structure of deposits is a factor that accelerates a potential risk of maturity mismatch on banks' balance sheets. Deposits are mostly in the short-term and small because depositors prefer the shorter maturities due to 'liquidity' and 'repricing' concerns. For commercial banks, trying to roll over the maturity of a deposit may be less costly than taking a new deposit, not only in pricing but also the in operational reasons. In any stable economy, depositors perceive the commercial banks are the most liquid financial institutions, this perception leads depositors to greater preference for flexibility, early withdrawing, and shortening the maturity of deposits.

## **2. LITERATURE REVIEW**

Academic studies in the international and national literature on deposits are included in this section. When academic studies are examined, it has been seen that there are very few studies on deposits both in Turkey and in the international literature. Summary information on the studies conducted from different perspectives on deposits is as follows.

Dhungana (2011) investigated the correlation of deposits and growth. Banking and economic data for the period 1990-2010 constitute the scope of the study. The conclusions reveal the positive correlation among the deposit portfolio of financial institutions, gross domestic product, and economic growth.

Voloshyn & Voloshyn (2013) proposed a model for determining optimum interest rates for individual deposits. Within the scope of the study, an approach is proposed in which the highest net interest income can be achieved for the bank by utilizing the interest rates in deposit cash flows.

Bayrakdaroğlu & Aydın (2017) investigated the results of deposit rates linked to the loan size of banks. In the analysis conducted using the financial data of the banks from 2006 to 2016, this was resulted that the interest rate given to deposit negatively affects the credit volume of the banks.

Batmaz et al. (2017) investigated the factors affecting the pricing processes of deposits in commercial banks. In the study, a commercial bank selected as an example with a data mining method was analyzed. According to the results, account and customer-specific features should be considered when determining deposit rates. In addition, it has been determined that customers who have longer-term correlations with banks benefit from higher deposit interest rates.

Arslan et al. (2019) conducted a study on deposit certificates used in Turkey for a while. They analyzed comparatively the practices of the countries where deposit certificates are used. They also made comments and opinions regarding its applicability in Turkey.

Yakubu & Abakor (2020) investigated the factors that are effective in the development of deposits in Turkey using the data for the period of 2000-2016. Conclusion of the study, short-term and long-term factors affecting deposit growth were determined. short-term factors: money supply and branch expansion, while long-term factors are listed as economic growth, money supply, stability, inflation, and productivity.

Haddawee & Flayyih (2021) analyzed the relationship between deposits and profitability. In the analysis conducted using the 5-year data of banks operating in Jordan, it has been determined that the deposit type that has the most impact on bank profitability is time deposits.

Kolesnik et al. (2021) developed a method for analyzing deposit portfolios of commercial banks. For this purpose, he analyzed the deposit portfolio of a commercial bank selected as an example with the author. The results show that the deposit portfolio should be analyzed first to analyze the efficiency of the deposit policies of the banks. In addition, a model proposal was made because of the study.

Er (2022) conducted a study on deposit agreements concluded between banks and depositors. In the study, the definition of deposit, the legal regulations regarding deposit, the content, and elements of the deposit agreement are included.

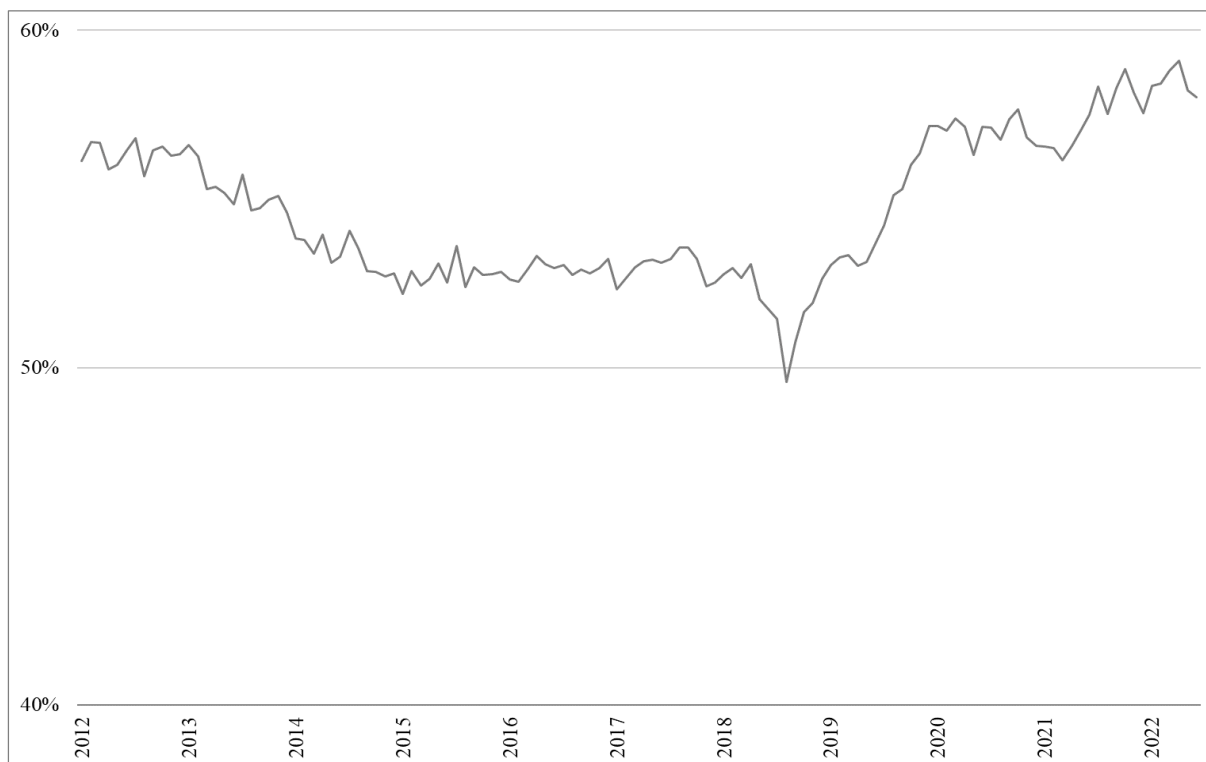
### **3. IMPORTANCE OF DEPOSIT MANAGEMENT IN BANKS**

Asset-liability management requires to give equal importance to both assets and liabilities. Technically, banks could omit the liability side or could focus mostly the borrowings on the liability side.

Considering the data for June 2022 (See Graph 1), the ratio of total deposits to total assets is 58.22% and approximately 2/3 of liabilities are made up of deposits. Banks should not underestimate the deposits and appreciate the importance of financing assets side. From the perspective of liability management, one of the most important items is the deposit management. The main reason is that deposits are important for banks' risk management is their mobility. While deposits can move within or between banks, they can also go out of the banking system. The displacement of deposits within the bank may be between branches, time-demand

deposit transfer, domestic currency vs. foreign currency transfer, or switching to various products. Intra bank shift of deposits may occur due to the interest rate advantage.

**Graph 1.** Deposits to Total Assets



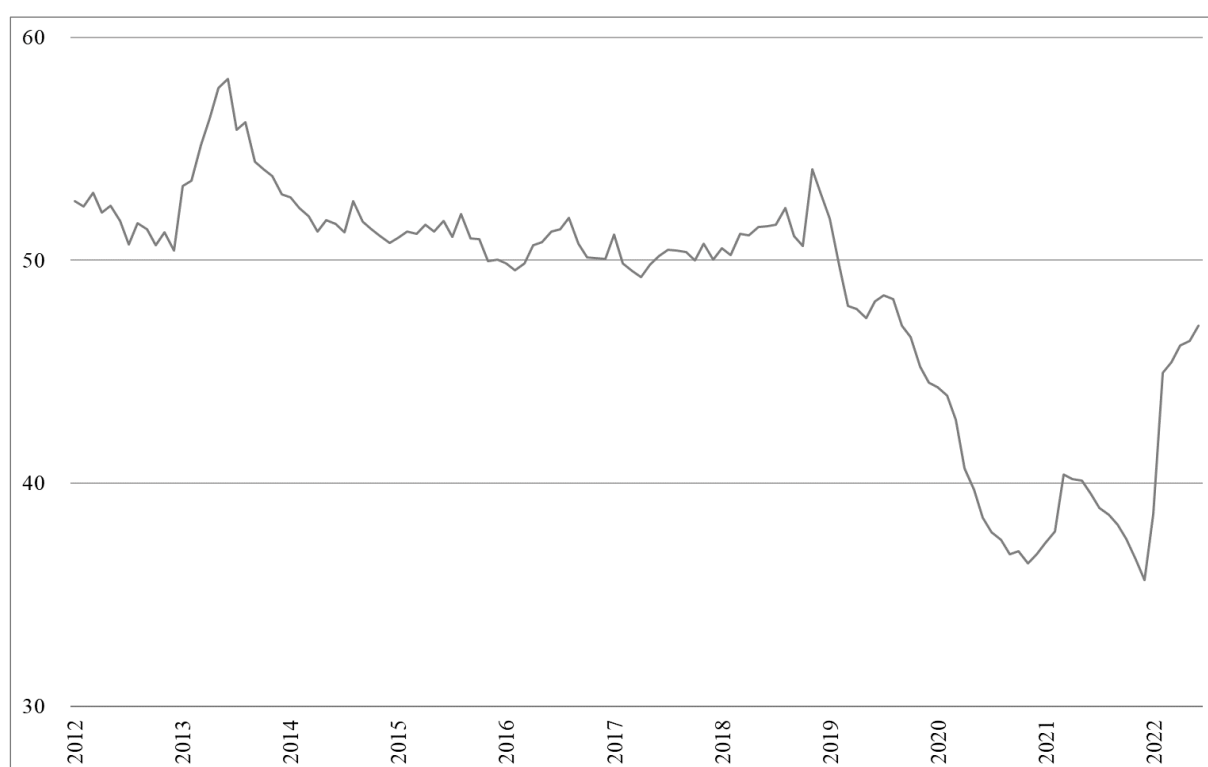
**Source:** Banking Regulation and Supervision Agency,  
<http://www.bddk.org.tr/BultenAylik/en/Home/Gelismis>  
[Accessed: 8<sup>th</sup> August 2022]

#### **4. FACTORS AFFECTING THE MATURITY OF DEPOSITS**

Banking Law No. 5411 defines the deposits as ‘money accepted by announcing to the public, verbally or in writing or any manner, in return for or without a consideration or to be returned on a certain date of maturity or whenever it is called’. According to the Communique about Types and Maturities of Deposit and Participation Accounts (Banking Regulation and Supervision Agency, 2005) deposits can be classified as demand deposits and time deposits. Time deposits can also be subclassified as (a) maturity of up to 1 month, (b) maturity between 1-3 months, (c) maturity between 3-6 months, (d) maturity between 6-12 months, and (e) maturity 1 year and the longer maturity.

Turkey is suffering from the short maturity of deposits since 2001 crisis. With the maturity of deposits remaining very short, banks continue to have a significant maturity mismatch, to a large extent in foreign currency. The banking system did not experience deposit flight during the crisis; in fact, foreign currency deposits flight continued to increase in 2001. The maturity of deposits, however, has not lengthened significantly despite the resolution of crisis. The average maturity is still very short both Turkish lira and foreign currency deposit. The comparatively longer maturity of the banking sector's assets creates a substantial maturity mismatch on bank balance sheet (Keller & Lane, 2005, 25)

**Graph 2.** Weighted Average Nominal Maturity of Total Deposits



**Source:** Banking Regulation and Supervision Agency,  
<http://www.bddk.org.tr/BultenAylik/en/Home/Gelismis>

[Accessed: 8<sup>th</sup> August 2022]

Graph 2 presents the weighted average nominal maturity of total deposits between January 2012 and January 2021 period. Graph 2 can be interpreted by dividing it into 3 sub-periods. In the sub-period of January 2012-December 2018, the maturity of deposits reflects modest waving between 50-60 days. In the sub-period of January 2019-December 2019, the average maturity of deposits plunged to 36-day maturity. This slope of the average maturity of



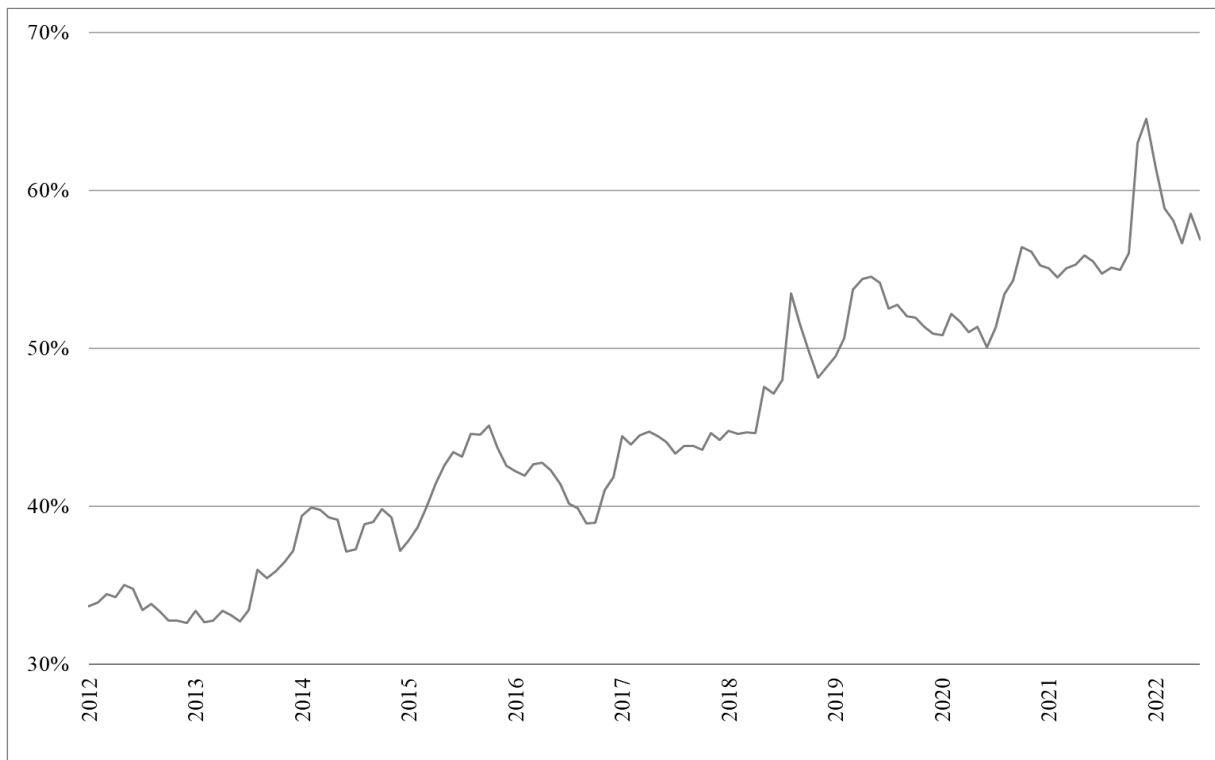
deposits is driven by the significant worsening financial stability. Shortening maturity causes the shrinking of the credit market and the increase in dollarisation of deposits. Since January 2022, the average maturity of deposits began to rise because of currency protected deposit policy.

The shortening maturity of deposits may lead the commercial banks to international borrowings, mostly in the long-term and totally in foreign currency. foreign currency loan means the possibility of exposing the foreign currency risk. Banks have two alternatives, (1) banks can carry foreign currency risk by hedging with the excessive cost and (2) to transfer the foreign currency risk to credit clients. The latter leads to excessive credit exposure in the credit portfolio.

#### **4.1. Dollarisation of Deposits**

Deposit dollarization is defined in this paper as the share of foreign currency deposits in total domestic deposits in the banking system (Mwase & Kumah, 2015, 3). Technically, in financially stable periods, the domestic currency is preferable, due to low inflation levels and confidence. But in financially unstable periods, the US Dollar and/or other powerful foreign currencies like Euro, GB Pound, and Swiss Franc are the most preferable ones to preserve the purchasing power and to halt the meltdown of wealth and capital. The more dollarisation, the shorter maturity of deposits, this is because of that depositor seeks the advantage of foreign currency returns in in place of domestic currency.

**Graph 3. Percentage of Foreign currency Deposits**



**Source:** Banking Regulation and Supervision Agency,  
<http://www.bddk.org.tr/BultenAylik/en/Home/Gelismis>  
[Accessed: 8<sup>th</sup> August 2022]

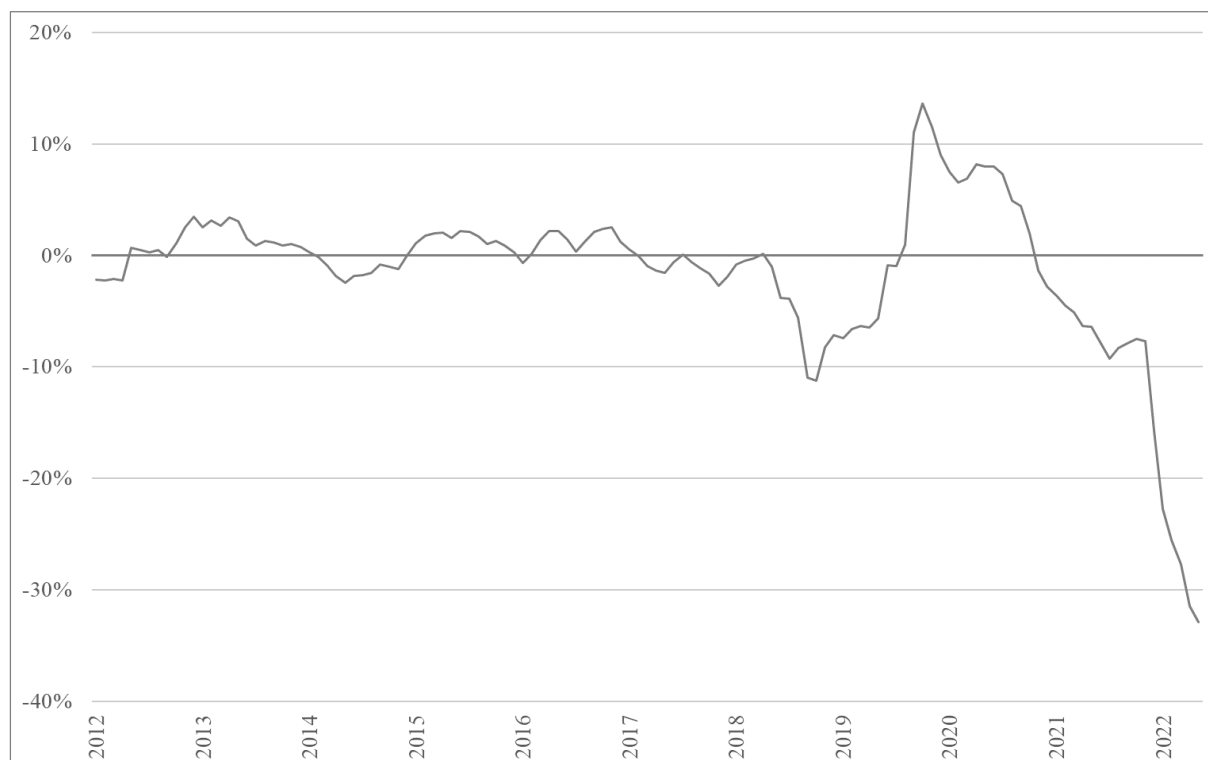
As seen in Table 1; 43,1% of total deposits are demand deposits and 29,4% of total deposits in foreign currency time deposits. From another point of view, 62,5% of total deposits are ‘non-sensitive to maturity’ and only 27,5% of total deposits shapes the term structure of total deposits. Graph 3 presents the trend of foreign currency deposits in total deposits between January 2012 and June 2022. The portion of foreign currency deposits in total deposits are steadily waving up since the beginning of the period. This was driven by response to inflation and foreign currency spiral or weakening depositors’ confidence. Two other reasons for dollarisation are the high volatility of net interest returns for domestic currency deposits and the negative return of domestic currency deposits.

#### **4.2 Net Interest Return for Domestic Currency Deposits**

Graph 4 presents the fluctuations of net interest returns for domestic currency deposits. Graph 4 can be interpreted by dividing it into 4 sub-periods. In the sub-period of 2012-May 2018, banks offered nearly zero net return for domestic currency deposit maturity of deposits.

In the sub-period of May 2018-September 2019 and the sub-period of September 2019-January 2021, financial confusion is obvious; respectively a sharp decrease, increase, and then decrease in interest rates. Since January 2020, the net interest returns for domestic currency deposits drastically meltdown amid interest-free economic disputes. Banks have begun to offer lower interest rates for time deposits; thus, the net return also was weakened significantly due to tightening financial conditions.

**Graph 4. Net Interest Returns for Domestic Currency Deposits**



**Source:** Turkish Statistical Institute,

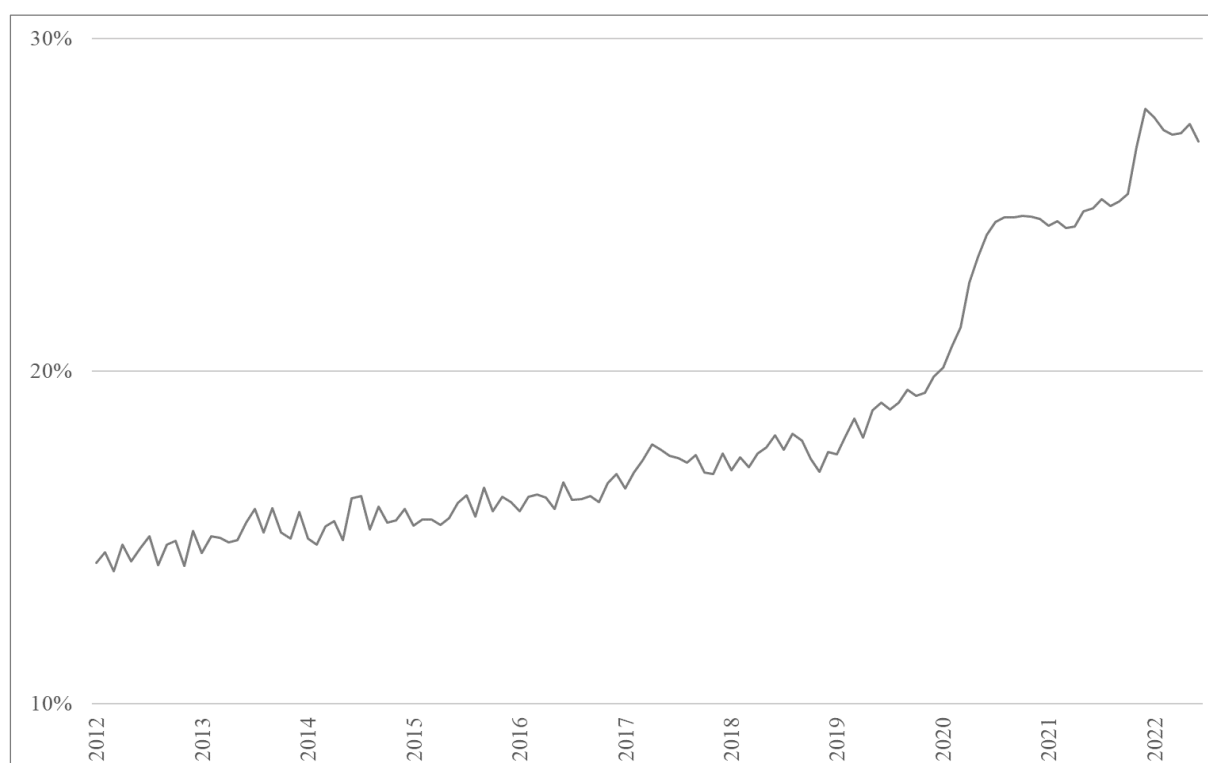
<https://data.tuik.gov.tr/Bulten/Index?p=Finansal-Yatirim-Araclarinin-Reel-Getiri-Oranlari-Haziran-2022-45574>

[Accessed: 8<sup>th</sup> August 2022]

### 4.3 Share of Non-Maturity Deposits in Total Deposits

Graph 5 can be interpreted by dividing it into two sub-periods. In the sub-period of January 2012-2019, the maturity of deposits reflects a slight increase. After January 2019, sudden hike in demand deposits compared to time deposits. In this period, depositors preferred non-maturity deposits rather than contractual maturity. The current upward trend reflects the tightening of financial conditions and worsening stability.

**Graph 5. Non-Maturity Deposits in Total Deposits**



**Source:** Banking Regulation and Supervision Agency

<http://www.bddk.org.tr/BultenAylik/en/Home/Gelismis>

[Accessed: 8<sup>th</sup> August 2022]

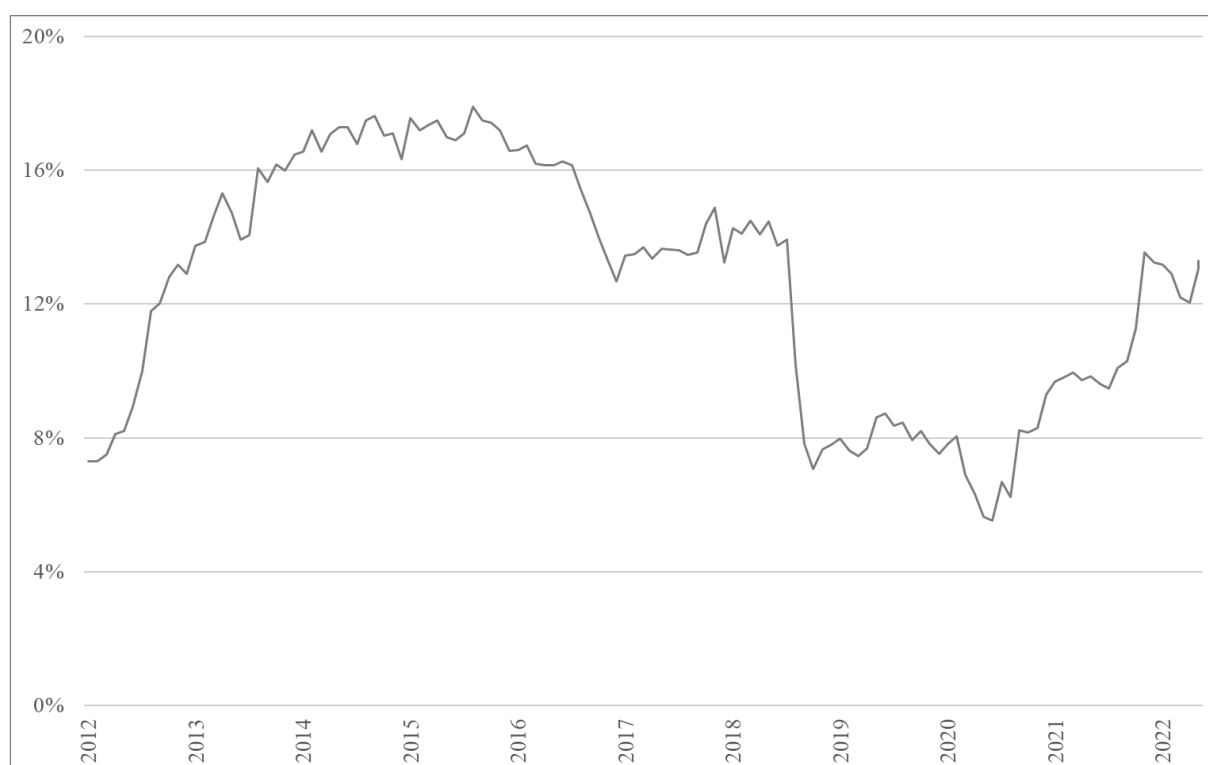
#### **4.4. Reserve Requirement Mechanism**

Reserve Requirement (RR) must be held in the form of a reliable asset: historically, in gold, but now typically in central bank money. Central bank (or ‘reserve’ or ‘base’) money refers to domestic-currency central bank money used in an economy and is defined as currency in issue plus commercial bank balances held at the central bank (Gray, 2011, 6). A central bank may apply less commission rate of RR for the longer-term deposits to help to lengthen the average maturity of deposits. RR is set for fixed maturity brackets like up to 1 month, between 1-3 months, etc. But depositors and banks find easily a ‘back door’ on a specific date of 34-day or 34-day deposit maturity for gaining the advantage of shorter maturity of 1 month and lesser RR of 1-3 months period. Graph 6 presents the total deposit volume compared to reserve requirements.

Graph 6 can be interpreted by dividing it into 3 sub-periods. Graph 6 shows that in the sub-period of January 2012-September 2015, The Central Bank of the Republic of Turkey

(CBRT) applied RR policy for ‘inflation concerns’ to speed down the credits, and then in the sub-period of October 2015-September 2018, CBRT changed RR policy for ‘inflation concerns’ in the opposite direction to speed up the credits. Since September 2018, a significant hike in RR can be seen in Graph 6 CBRT changed RR policy markedly for ‘liquidity concerns’ to increase its gross foreign currency reserves.

**Graph 6.** Reserve Requirements to Deposits



**Source:** Banking Regulation and Supervision Agency

<http://www.bddk.org.tr/BultenAylik/en/Home/Gelismis>

[Accessed: 8<sup>th</sup> August 2022]

## 5. NOMINAL MATURITY vs. EFFECTIVE MATURITY

We use the familiar term ‘demand deposits’ to mean the more broadly defined ‘‘non-maturity deposits’’ (Jarrow & van Deventer, 1998, 250). Deposits are a major source of funding for financial institutions. A substantial part of it consists of non-maturity deposits. banks (Laurent, 2004, 2)

The demand deposits are some money held by a depositor at a bank with the right of withdrawing at any time. Demand deposit has no contractual maturity.

### 5.1.1. Nominal Maturity of Demand Deposits

The nominal maturity of demand deposit is assumed as 1-day. The weighted average nominal maturity of all demand deposits is assumed as 1-day.

### 5.1.2. Effective Maturity of Demand Deposits

The effective maturity of demand deposit can be calculated simply as follows.

$$ed_{dd} = pt - nm_{dd}$$

- $ed_{dd}$  : Effective maturity of a demand deposit  
 $pt$  : Present time  
 $nm_{dd}$  : Opening date of a demand deposit

The weighted average effective maturity of all demand deposits can be calculated as follows.

$$\sum ed_{dd} = \frac{(ed_{1.dd} \times v_{1.dd}) + \dots + (ed_{n.dd} \times v_{n.dd})}{v_{1.dd} + \dots + v_{n.dd}}$$

- $Sed_{dd}$  : Weighted average effective maturity of all demand deposits  
 $ed_{dd}$  : Effective maturity of a demand deposit  
 $v_{dd}$  : Volume of a demand deposit

## 5.2. Time Deposits

The time deposits are some money held by a depositor at a bank with the right of withdrawing for the contractual maturity date. The time deposit is an interest-bearing bank account for a specified maturity. Time deposit has contractual maturity. Time deposits have contractual maturity dates that heavily influence banks' cash flows and repricing characteristics (Mishkin, 2011, 316).

### 5.2.1. Nominal Maturity of Time Deposits

The nominal maturity can be defined as the contractual maturity agreed between a bank and a depositor. Nominal maturity of time deposit is the contractual date, i.e., 1-month, 3-month, etc. The weighted average nominal maturity of all time deposits can be calculated as follows.

$$\sum nm_{td} = \frac{(nm_{1.td} \times v_{1.td}) + \dots + (nm_{n.td} \times v_{n.td})}{v_{1.td} + \dots + v_{n.td}}$$

- $Sn_{td}$  : Weighted average nominal maturity of all time deposits
- $nm_{td}$  : Nominal maturity of a time deposit
- $v_{td}$  : Volume of a time deposit

### 5.2.2. Effective Maturity of Time Deposits

The effective maturity of deposits is critical for maturity deposit assumptions.

The effective maturity of the time deposit can be calculated as follows.

$$ed_{td} = pt - nm_{td}$$

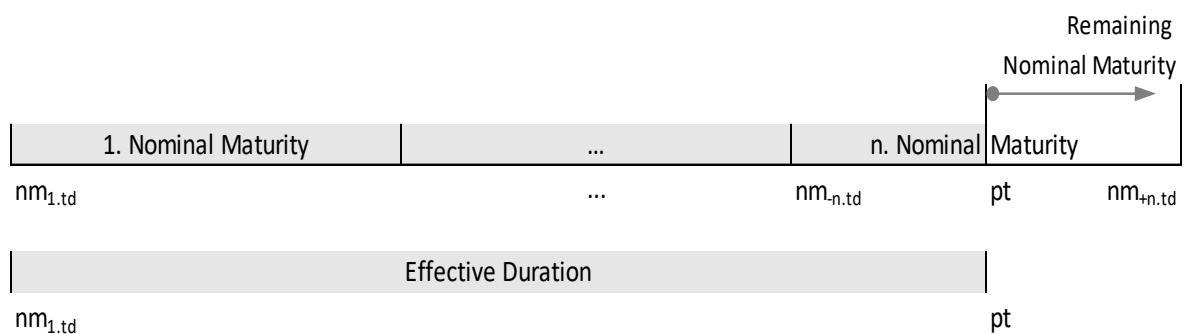
- $ed_{td}$  : Effective maturity of a time deposit
- $nm_{td}$  : Opening date of a time deposit
- $pt$  : Present time

The weighted average effective maturity of all time deposits can be calculated as follows.

$$\sum ed_{td} = \frac{(ed_{1.td} \times v_{1.td}) + \dots + (ed_{n.td} \times v_{n.td})}{v_{1.td} + \dots + v_{n.td}}$$

- $Sed_{td}$  : Weighted average effective maturity of all time deposits
- $ed_{td}$  : Effective maturity of a time deposit
- $v_{td}$  : Volume of a time deposit

**Figure 1.** Effective maturity of Time Deposit



- $nm_{1.td}$  : Opening date of 1. nominal maturity of a time deposit
- $nm_{-n.td}$  : Opening date of n. nominal maturity of a time deposit

- pt : Present time  
 nm<sub>+n.td</sub> : Closing date of n. nominal maturity of a time deposit

### 5.3 Rate of Effective Maturity/Nominal Maturity

#### 5.3.1 Demand Deposits

This rate is the calculation of the roll-over rate of demand deposits. The rate is equal to the effective maturity for demand deposits because nominal maturity is 1-day.

$$R_{dd} = \frac{ed_{dd}}{nm_{dd}} = \frac{ed_{dd}}{1} = ed_{dd}$$

- R<sub>dd</sub> : Rate of effective maturity/nominal maturity of demand deposit  
 ed<sub>dd</sub> : Effective maturity of a demand deposit  
 nm<sub>dd</sub> : Nominal maturity of a demand deposit

The effective maturity/nominal maturity rate of all demand deposits can be calculated as follows.

$$\sum R_{dd} = \frac{(R_{1.dd} \times v_{1.dd}) + \dots + (R_{n.dd} \times v_{n.dd})}{v_{1.dd} + \dots + v_{n.dd}}$$

- SR<sub>dd</sub> : Rate of effective maturity/nominal maturity of all demand deposits  
 R<sub>dd</sub> : Rate of effective maturity/nominal maturity of a demand deposit  
 v<sub>dd</sub> : Volume of a demand deposit

#### 5.3.2. Time Deposits

This rate is the calculation of the roll-over rate of time deposits. For time deposits, the rate is equal to effective maturity divided by nominal maturity.

$$R_{td} = \frac{ed_{td}}{nm_{td}}$$

- R<sub>td</sub> : Rate of effective maturity/nominal maturity of time deposit  
 ed<sub>td</sub> : Effective maturity of a time deposit  
 nm<sub>td</sub> : Nominal maturity of a time deposit

The effective maturity/nominal maturity rate of all time deposits can be calculated as follows.



$$\sum R_{td} = \frac{(R_{1.td} \times v_{1.td}) + \dots + (R_{n.td} \times v_{n.td})}{v_{1.td} + \dots + v_{n.td}}$$

- $SR_{td}$  : Rate of effective maturity/nominal maturity of all demand deposits  
 $R_{td}$  : Rate of effective maturity/nominal maturity of a time deposit  
 $v_{td}$  : Volume of a time deposit

#### 5.4 Pricing Model for Deposits

This approach assumes that the time deposits technically have ‘uncertain maturity’, ranging from nominal maturity to effective maturity. Depositors have a right (a put option) to roll over deposits at every nominal maturity throughout the effective maturity. In this calculation, Black-Scholes Option Pricing Model (Black & Scholes, 1973) could be used to value this put option.

$$P_0^{\%} = \frac{\emptyset(NP)[R_x(1 - N(d_2)) - R(1 - N(d_1))]}{NP} e^{-R_f T}$$

$$d_1 = \frac{\ln\left(\frac{R}{R_x}\right) + \left(R_f + \frac{\sigma^2}{2}\right) T}{\sigma\sqrt{T}}$$

$$d_2 = d_1 - \sigma\sqrt{T}$$

**Source:** (Black & Scholes, 1973)

- $\sigma$  Estimated annualized standard deviation of logarithmic return of time deposits  
 $R$  Bank’s interest rate for time deposits  
 $R_x$  Market’s interest rate for time deposit  
 $R_f$  Continuously compounded annual risk-free rate  
 $T$  Effective maturity of time deposits  
 $\emptyset$  Remaining time to expiration of nominal maturity of time deposits  
 $NP$  Current amount of time deposits  
 $N(d)$  Cumulative normal probability

#### 6. CONCLUSION

We figured out that the term structure of deposits has two dimensions; nominal maturity (contractual maturity) and effective maturity. Theoretically, we conclude that a deposit has an ‘indefinite’ maturity with an embedded option to extend throughout its effective maturity. This embedded option refers to the right of a depositor to withdraw or not its deposit at contractual maturity. We claim that there are lots of factors shaping the effective maturity of deposits. The

main factors in the Turkish banking system are the dollarisation of deposits, the net interest return for domestic currency deposits, the share of non-maturity deposits in total deposits and the reserve requirement mechanism.

We emphasize that the effective maturity must be taken into consideration in the analysis of the term structure of deposits, not only in the maturity perspective but also in the pricing of deposits. Considering the equilibrium between the repricing of existing deposit accounts and the cost of gaining new deposit accounts, by differentiated effective deposit pricing strategy, deposits could be repriced at the nominal maturity respecting the effective maturity. Put option pricing models can be a solution to reprice a deposit account to extend its effective maturity. The longer the effective maturity of a deposit account, the more the interest on a deposit account is most likely.

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## THE EFFECT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OF THE ENTERPRISES ON THE VALUE ADDED OF INDEPENDENT AUDIT: DIYARBAKIR SAMPLE

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### Abstract

The internal control system consists of variables that can directly or indirectly contribute to the success or failure of business activities. Auditors often evaluate the quality of the intended company's internal control system to determine and plan the scope and process of audit work. Therefore, it is important to evaluate the quality of internal control by the external auditor and to have a sufficient understanding of the entity and the internal control environment before the audit process. The aim of this study is to determine the added value perceptions of the audits carried out by the auditors of the effectiveness of the internal control systems of the enterprises. In line with this purpose, the auditors who continue their activities actively in the province of Diyarbakir constitute the universe of the research. A face-to-face survey was conducted to obtain the data of the study. Simple linear regression analyses were performed for frequency analysis and testing of hypotheses to the obtained data. As a result of the research, it is thought

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that with the efficiency of the internal control systems of the companies, the trust and transparency in the independent audit activities will increase. In addition, they think that the existence of effective internal control systems will help economic growth in enterprises and also cause activities that encourage corporate governance.

**Keywords:** *Internal Control, Effectiveness of Internal Control System, Independent Audit, Added Value*

## 1. INTRODUCTION

Businesses nowadays face intensely competitive business marketplaces and environments due to factors such as globalization, technological advances, consumer demand for variety, product innovation, and the emergence of new talented rivals. As businesses face increasingly complex, dynamic, and threatening environments, attention has shifted to the conduct of daily business relationships as well as the organization's adaptation to changing environmental conditions (Al-Sarayrah et al., 2016). Thus, the focus is on how to improve performance through increased effectiveness, efficiency, and adaptability. Ever since businesses moved beyond the control of "managers," they needed controls to regulate their operations. As private companies expanded and the number of external shareholders increased, there was a need to regulate the behavior of those who run them.

COSO (The Committee of Sponsoring Organization), which consists of five independent professional organizations in the United States, has pioneered the way in making internal control a standardized structure in enterprises. COSO internal control model is considered as a model that provides the necessary conditions (creating a control environment, risk assessment, etc.) for the regular and systematic control of the activities to be carried out in order to ensure the efficiency of the enterprise. Businesses typically utilize internal control systems to detect and manage hazards. Because of the recent increase in the number of fraud cases, developing an effective internal control system has become a key issue in corporate governance (Palermo, 2011; Lämsiluoto et.al., 2016). Adequate internal control, according to the COSO framework, guarantees that a firm is operating effectively and in line with its mission statement, that its management data and financial reporting are reliable, and that it supports compliance with relevant laws and regulations. If a corporation lacks adequate internal controls, its financial statements may reveal a significant vulnerability.

The internal control system encompasses all of the variables that can contribute to an organization's success or failure in some way, and by establishing a solid internal control system, the organization promotes efficient and effective operations that result in quality products and services that are consistent with its goals and objectives (Agbejule and Jokipii, 2009). The internal control systems method enables managers to assess how well an organization's resources are performing and how effectively it is functioning (Shannak et al., 2012). Internal control aids in the maintenance of order and uniformity in organizations. An

efficient internal control system may give managers a way to hold their programs accountable while also receiving reasonable confidence that the programs they supervise accomplish the stated goals and objectives (El-Masri et al., 2015).

The internal control system is the most important element of the sustainability of the activities of the enterprises. Due to this situation, enterprises have to make the internal control system effective and efficient. This study aims to determine the effectiveness of internal control systems in enterprises and their impact on independent audit activities. In particular, the accuracy and reliability of independent audit activities are directly related to the effectiveness of internal control systems in enterprises.

## **2. CONCEPTUAL FRAMEWORK**

The activity focuses on outcomes (outcomes), programs or activities that are considered effective if the output achieved can meet the desired objectives. In a sense, it is defined as the result of an organization's effectiveness in achieving the desired goals or results.

Internal control can refer to a variety of things. In other words, it is impossible to provide a single ideal definition of internal control. This is due to the fact that it may be described and viewed from several angles (Cristina et al., 2010; Ngyen et al., 2018). Internal control, on the other hand, is defined as a process that is influenced by the actions of the firm's board of directors and other organizational structure levels, and it is designed to provide reasonable assurance regarding the achievement of the firm's objectives, plans, and strategies within the scope of relevant laws, rules, policies, and regulations (Domnisoru and Vînătoru, 2008; Ngyen et al., 2018). Internal control is one of numerous elements that influence an organization's performance. It is critical to attaining the stated goals of enterprises. Internal control is a need for successful operations. One of the fundamental ideas of internal control is that it only gives reasonable confidence to management that organizational objectives will be met. Because of the inherent constraints of internal control in each of the enterprises, this is the case.

Auditors often evaluate the quality of the intended company's internal control system to determine and plan the scope and process of audit work. Therefore, Generally Accepted Auditing Standards emphasize the need for an external auditor to evaluate the quality of internal control and a sufficient understanding of the entity and its internal control environment prior to the audit process. Internal control, on the other hand, contains numerous interconnected components, such as the control environment, risk assessment, control actions, communication,



and monitoring (Takahiro and Jia, 2012; Al Sawalga and Qtish, 2012; Ngyen et al., 2018).

The degree to which an internal control system interacts with it and how well it is integrated into corporate activities determines its efficiency. Internal control is a process, but its effectiveness is a condition or circumstance at the end of the process. As a result, it is vital that management and the board regularly monitor and evaluate the effectiveness of the internal control system. The operation of the system's five components determines the efficacy of an internal control system. As a result, the effectiveness of internal controls should be evaluated in relation to the internal control components. To evaluate the effectiveness of internal control, the evaluator must first understand the operations of the five components, as well as the purpose of the principles and assumptions that support the control components' operations and how they are used throughout the firm.

Internal control efficacy is critical in determining productivity development, value generation, and firm survival. The capacity of organizations to give assurance for compliance objectives, reporting objectives, business objectives, and strategic objectives is defined as the efficacy of internal control (Wang, 2015; Phornlaphatrachakorn and Kalasındhu, 2020). It can give a level and coverage of reported accounting figures that, to some extent, adhere to generally accepted accounting standards and fairly reflect the core of businesses' economic operations, assuming that relevant aims and objectives are met (Krishnan and Yu, 2012). Firms with effective internal controls can boost their operational efficiency by reducing the occurrence of incorrect financial reporting and promoting favorable legal and regulatory practices (Anh et al., 2020). As a consequence, the efficacy of internal control has a favourable impact on a company's business success. Internal control efficacy has arisen as a major issue in corporate governance. It refers to a company's ability to provide reasonable assurance regarding the effectiveness and efficiency of operations, the dependability of financial reporting, and regulatory compliance (Chang et al., 2014; Phornlaphatrachakorn and Kalasındhu, 2020). It also guarantees that organizations operate efficiently and that their management data and financial reporting are accurate in accordance with their mission statements (Länsiluoto et al., 2016).

Large corporations have recently begun to incorporate thorough management reports on the efficacy and efficiency of their internal control systems as an indicator of excellent corporate governance practice in their annual corporate reports (Saha & Arifuzzaman, 2011; Leng & Li, 2011). Internal control system evaluation, on the other hand, is largely focused on the evaluation of the intended company's internal quality control at three key levels, namely suitable internal

control, insufficient internal control, and defective internal control. The study conducted by Eskin (2021) aimed to examine the processes of a private hospital according to the components of the COSO internal control model and to evaluate the effectiveness of these procedures. As a result of the research, it was determined that the effectiveness of the processes could not be controlled because the hospital did not have an internal audit unit. It was also determined that the hospital did not have an effective internal control system. Because the efficacy of a company's internal control system is viewed as the primary determinant of audit method selection, timeliness, and the extent to which they should be applied or restricted, it is frequently regarded as a requirement for the audit process (Al Sawalga and Qtish, 2012).

According to Nusa (2020), adopting an effective Information System Audit has a favourable influence on Internal Control, which indicates that implementing an effective Information System Audit would improve the quality of Internal Control. Firms, however, may incorporate several techniques to create and strengthen their internal control systems, according to Xiao (2011). Among these include, for example, separating tasks, establishing internal audit departments, utilizing effective electronic information technologies, and placing a greater emphasis on their employees' abilities by sharing them in periodic training courses and seminars. According to Al Sawalga and Qtish (2012), in its study, found that Jordanian companies do not have the necessary experience to deal with existing internal control assessment tools. As a result of the study, some practices and recommendations were made for both the company management and external auditors.

### **3. METHODOLOGY OF THE RESEARCH**

The research is to determine the perceptions of the auditors working actively in Diyarbakır on the effect of the effectiveness of the internal control systems of the enterprises on the added value of the independent audit. For this purpose, independent auditors working actively in Diyarbakır constitute the universe of the research.

The data were obtained as a result of applying a questionnaire to the independent auditors working actively in Diyarbakır. The questionnaire form consists of two parts. The first part consists of questions created to determine the demographic characteristics of independent auditors. In the second part, there are statements that will determine the dependent and independent variables of the research. The questionnaire form was created using the study of Gökoğlan (2019).

Considering the research purpose, four hypotheses were developed within the scope of the study. These hypotheses;

H<sub>1</sub>: The effectiveness of the internal control system of the enterprises has a significant effect on the reliability of the financial information and reports of the enterprises.

H<sub>2</sub>: The effectiveness of the internal control system of enterprises has a significant impact on the transparency of business activities.

H<sub>3</sub>: The effectiveness of the internal control system of their enterprises has a significant impact on the promotion of encouragement to corporate governance.

H<sub>4</sub>: The effectiveness of the internal control system of enterprises has a significant effect on economic growth.

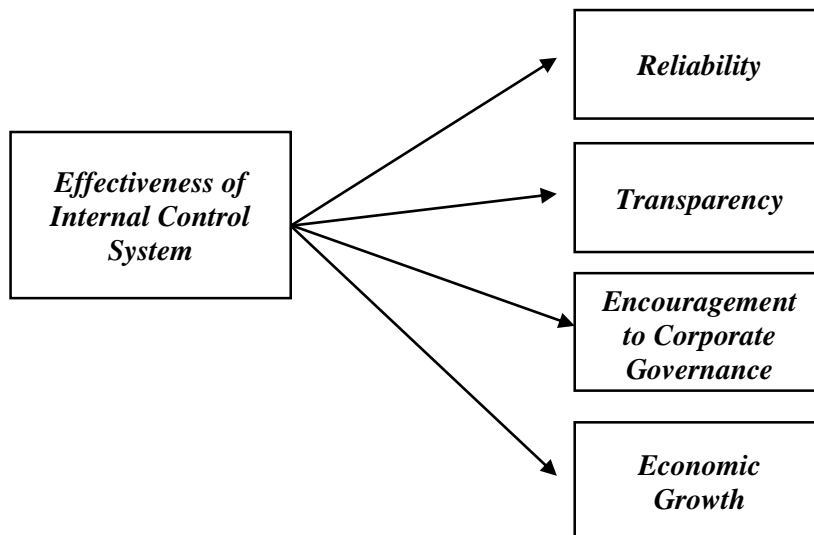
The sample of the study consists of independent auditors due to the fact that auditors are the most important personnel who can evaluate the effectiveness of the internal control systems of the enterprises and their direct impact on the added value of independent audit activities. In order to obtain the data of the research, a face-to-face questionnaire was applied to the independent auditors. A questionnaire was applied to 60 randomly selected independent auditors. Evaluations were made on 60 recycled questionnaires, and 10 questionnaires were excluded from the scope of the research due to missing or more than one marking, and 50 questionnaires were included in the research. The return rate of the questionnaires was determined as 83%. In the study, the Cronbach's alpha value was determined as (.861) to determine the reliability of the questionnaire. This rate shows that the questionnaire form has a acceptable reliability in the field of social sciences (Çiftçioğlu and Gök, 2018). According to George and Mallery (2003),  $\alpha > 0.9$  (Excellent),  $> 0.8$  (Good),  $> 0.7$  (Acceptable),  $> 0.6$  (Questionable),  $> 0.5$  (Poor), and  $< 0.5$  (Unacceptable).

Frequency analysis results of the expressions in which demographic characteristics and independent variables were formed in the study are presented in tables. Before determining the hypothesis tests in the research, normality test was applied. First of all, Kolmogorov - Smirnov test was applied whether the data in the study were distributed normally or not. As a result of the analysis, it was found that all values of the study data were lower than 0.05. This value indicates that the data is not distributed normally. Skewness and Kurtosis values were taken into consideration in order to determine the normal distribution of the data more healthily. In the evaluation, it was determined that the values of the study data were in the range of -1.5 to

+1.5. These results show that the data is distributed normally. (Tabachnick and Fidell, 2013). SPSS 22 program was used to analyze the data in the research.

In the study after the literature review, it is seen that the effectiveness of the internal control systems of the enterprises affects the audit activities. Therefore, the model of the study was created as seen in Figure 1 below.

**Figure 1: Study Model**



**Reference:** (Gökoğlan, 2019)

## 4. FINDINGS

The data obtained as a result of the survey applications carried out within the scope of the research were analyzed and the results were shown in tables.

### 4.1. Demographic Findings

73% of the independent auditors participating in the research are male and 27% are female. 10% of the participants are in the age group of 30 and below, 25% are in the age range of 31 to 40, 45% are in the age group of 41-50, and 20% are in the group of 51 and over. 52% of the participants have a bachelor's degree and 48% a master's degree. It has been determined that 5% of the participants have 3 years or less professional experience, 35% have a professional experience between 4 and 10 years, 39% have a professional experience between 11 and 20 years, and 21% have a professional experience of 21 years and above. The vast majority of the participants, 92% work with national independent auditing firms, while 8% work with one of the four major audit firms (PwC- PricewaterhouseCoopers) recognized in the world. In addition,

17% of the participants stated that they received an audit fee of less than 25,000TL, while 63% of them demanded a fee between 25,000TL and 50,000TL, and 20% more than 50,000TL.

**Table 1.** Frequency Values

EXPRESSIONS	<i>I do not agree</i>	<i>Neutral</i>	<i>I agree</i>	<i>Absolutely I agree</i>
<b>Effectiveness of Internal Control System</b>				
Timely and complete communication of the internal control deficiencies identified during the independent audit activities to the relevant parties contributes to increasing the audit quality.		%4	%60	%36
The continuity of communication between company internal auditors and independent auditors is effective in increasing the quality of independent auditing.	%2	%6	%64	%28
Independent audit activities contribute to making the financial decisions and transactions of the enterprises available to the relevant personnel.		%2	%78	%20
Independent audit activities play an important role in determining the ineffective aspects of the control environment of companies.		%10	%78	%12
Monitoring processes are of great importance in establishing an effective quality control system for independent audit activities.	%6	%6	%70	%18
<b>Economic Growth</b>				
Independent audit activities increase the degree of following new developments in investments and benefiting from incentives.		%22	%60	%18
The return on investment increases thanks to the audit techniques and technologies used in independent audit activities.	%6	%16	%62	%16
Independent audit activities contribute to the country's economy as well as playing a role in increasing the profit margin of the enterprises.	%8	%12	%68	%12
Independent audit activities ensure sustainable profitability.		%16	%66	%18
Independent audit activities help to provide competitive advantage among businesses.		%4	%60	%36
<b>Encouragement to Corporate Governance</b>				
Independent audit activities lead to activities aimed at protecting the rights and interests of company management and personnel.		%36	%46	%18
Independent audit activities increase commitment to corporate values.	%16	%8	%58	%18
Independent audit allows the establishment of strategic targets in line with the internal audit activities of enterprises.	%6	%20	%56	%18
Independent audit activities help in creating an organizational structure that can prevent conflicts of interest that may arise between the firm and the investors.		%6	%74	%20
Independent audit activities help the company management to take correct and reliable decisions.	%6	%10	%64	%20
<b>Transparency</b>				
During the independent audit activities, the audit team provides information about the audit process.	%4	%8	%62	%26
As a result of independent audit activities, positive or negative feedbacks are generally provided for the customer company.	%4	%8	%68	%20
During the independent audit activities, the audit team explains the	%4	%10	%68	%18

reasons for the activities performed.				
Independent audit activities allow reporting in line with the principles of transparency and accountability.	%6	%10	%66	%18
<b>Reliability</b>				
Independent audit activities increase the accuracy and reliability of financial reporting.		%4	%66	%30
Independent audit activities help ensure market confidence and stability.		%14	%56	%30
Performing independent audit activities in line with standards and principles increases the confidence in financial information and reporting.		%4	%64	%32
To ensure the reliability of financial reporting, auditors' reports should be independent, complete and comparable.	%4	%2	%60	%34

Table 1 shows the frequency analysis results of the answers given by the participants to the statements determined within the scope of the research. It is seen that the participants generally agreed with all the statements. In particular, it is seen that they have a positive opinion that ensuring the effectiveness of the internal control system increases the confidence in independent audit activities, encourages businesses to institutionalize, ensures the transparency of financial information and reports, and contributes to economic growth in businesses. It is also noteworthy that as seen in Table 1, no game was used to the participants' "strongly disagree" statement.

#### 4.2. Hypothesis Tests

Simple linear regression analysis was used to measure the effect of the independent variables determined within the scope of the research on the dependent variable. The results are presented in tables.

**Table 2:** Hypothesis Testing (Economic Growth)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
<i>(Constant)</i>	2.404	.344		6.984	.000
<i>Economic Growth</i>	.382	.079	.570	4.810	.015
<b>R</b>	<b>R Square</b>		<b>Adjusted R Square</b>		
.570 <sup>a</sup>	.325		.311		

**Dependent Variable:** Effectiveness of Internal Control System

Table 2 shows that there is a positive and significant relationship between the effectiveness of the internal control system and the support of independent audit activities to economic growth in enterprises ( $t=6.984$ ,  $p = 0.000 < p = 0.05$ ). According to the analysis

results, the fitness of the model Adjusted  $R^2 = 0.311$ . This suggests that the model accounts for 31.1 percent of the variance in the dependent and independent variables. Therefore, the  $H_1$  hypothesis was accepted.

**Table 3:** Hypothesis Testing (Transparency)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
<i>(Constant)</i>	2.233	.405		5.519	.000
<i>Transparency</i>	.438	.097	.545	4.506	.000
<i>R</i>	<i>R Square</i>		<i>Adjusted R Square</i>		
.545 <sup>a</sup>	.297		.283		

**Dependent Variable:** Effectiveness of Internal Control System

Table 3 shows that there is a positive and significant relationship between the effectiveness of the internal control system and the transparency of independent audit activities ( $t=5.519$ ,  $p = 0.000 < p = 0.05$ ). According to the analysis results, the fitness of the model Adjusted  $R^2 = 0.283$ . This suggests that the model accounts for 28.3 percent of the variance in the dependent and independent variables. Therefore, the  $H_2$  hypothesis was accepted.

**Table 4:** Hypothesis Testing (Encouragement to Corporate Governance)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
<i>(Constant)</i>	2.501	.361		6.926	.000
<i>Encouragement to Corporate Gov.</i>	.390	.090	.528	4.311	.000
<i>R</i>	<i>R Square</i>		<i>Adjusted R Square</i>		
.528 <sup>a</sup>	.279		.264		

**Dependent Variable:** Effectiveness of Internal Control System

Table 4 shows that there is a positive and significant relationship between the effectiveness of the internal control system and the encouragement of independent audit activities to corporate governance in enterprises ( $t=6.926$ ,  $p = 0.000 < p = 0.05$ ). According to the analysis results, the fitness of the model Adjusted  $R^2 = 0.264$ . This suggests that the model accounts for 26.4 percent of the variance in the dependent and independent variables. Therefore,

the H3 hypothesis was accepted.

**Table 5:** Testing Hypothesis (Reliability)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
<i>(Constant)</i>	3.014	.424		3.514	.000
<i>Reliability</i>	.526	.107	.666	8.684	.018
<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>			
.666 <sup>a</sup>	.333	.184			

**Dependent Variable:** Effectiveness of Internal Control System

Table 5 shows that there is a positive and significant relationship between the effectiveness of the internal control system and the reliability of financial statement data and financial reporting as a result of independent audit activities ( $t=3.514$ ,  $p = 0.000 < p = 0.05$ ). According to the analysis results, the fitness of the model Adjusted  $R^2 = 0.183$ . This suggests that the model accounts for 18.3 percent of the variance in the dependent and independent variables. Therefore, the H4 hypothesis was accepted.

## 5. CONCLUSION

In general, it is argued that a solid internal audit system, both in terms of design and appropriateness, is beneficial to a business in risk management by allowing for the early discovery and avoidance of mistake and fraud. An efficient internal audit system ensures performance and profitability while preventing money loss. It also ensures accurate financial reporting and adherence to laws and regulations, preventing reputational harm and other consequences. Internal control systems are important strategic tools for firms seeking to improve their performance and success in today's fast-paced corporate environments. As a result, the efficacy of the internal control system is critical to the success of a corporation. In short, the fact that businesses have an effective and efficient internal control system enables them to draw a successful path in achieving their determined goals and objectives. Successful implementation of the effectiveness of internal control can affect productivity improvement, value creation and business survival.

As a result of the study, it is seen that the majority of the participants agreed with the stated statements to a large extent. In particular, they think that independent audit activities contribute to



making the financial decisions and procedures of the enterprises available to the operating personnel. In addition, it is seen that the auditors are in agreement that the effectiveness of the internal control systems plays an important role in determining the ineffective aspects of the control environment of the enterprises.

According to the results of the study, it was first determined that the effectiveness of the internal control system indirectly contributed to the economic growth of the enterprises. This contribution is often effective in making the right decisions in the activities carried out by the enterprise. In addition, it will lead to the presentation of accurate and reliable information together with independent audit activities and the image of the enterprise in the market will increase positively in this direction. This will contribute to the economic development and growth of the enterprise. A second important result is that the effectiveness of the internal control systems of enterprises will increase the accuracy of the information and data presented by the enterprise. Therefore, independent auditors who make financial reporting using these accurate data and information provided by the entity will complete the transactions transparently. Accordingly, it increases transparency in independent audit activities. In addition, the accuracy and reliability of financial reporting will be ensured as the accuracy and reliability of the financial statements to be presented by the entity will increase.

According to the auditors participating in the research, they believe that the effectiveness of internal control systems in enterprises leads to economic growth, increased transparency of audit activities, incentives to corporate governance and increases the reliability of information and financial reporting in financial statements. In particular, the operation of an effective and efficient internal control system of the enterprises helps independent audit activities to increase the value-added transactions. Therefore, it should allow both internal and external auditors to work in an organized manner in the formation of effective and efficient internal control systems of enterprises.

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