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ARTICLE INFO	Arcan Tuzcu and Ali Fıkırkoca (2005). Corporate Governance Approach of Turkish Companies Operating in the Istanbul Stock Exchange: The Case of an Emerging Market Economy in an Age of Capitalist Diversity. *Problems and Perspectives in Management*, *3*(4)
RELEASED ON	Tuesday, 08 November 2005
JOURNAL	"Problems and Perspectives in Management"
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”

Corporate Governance Approach of Turkish Companies Operating in the Istanbul Stock Exchange: The Case of an Emerging Market Economy in an Age of Capitalist Diversity

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Abstract

This research attempts to analyse how the firms that are quoted in the Istanbul Stock Exchange (ISE) react to the demands and expectations of their stakeholders (inside stakeholders such as workers, management and shareholders; and outside stakeholders such as customers, suppliers, trade unions, local council, competitors, public institutions, investors, media and civil society organisations). We explored the national characteristics of Turkish corporate governance system by assessing the relationships between the corporate governance practices of the ISE firms and the following variables: sectoral activities, trading duration, market capitalisation and public ownership ratios. The analyses of these strategies were used to determine whether the Turkish corporate governance model, as an example for emerging market economies, is more in tune with the Anglo-Saxon or Continental European forms of corporate governance model. Following our literature survey we have identified the company strategies aimed at two different types of stakeholders: Our research has identified some common characteristics for ISE-100 firms and these characteristics do signal a hybrid mixture of corporate governance principles that display similarities and differences with both Continental European and Anglo-Saxon systems.

Key words: Governance, Corporate Governance, Shareholder Model, Stakeholder Model, Anglo-Saxon System, Continental European System, Emerging Market Economies, Turkey.

1. Introduction

The term governance has become a topic that is attracting a lot of interest both in public and private sectors. We believe that there are two main reasons for the widespread use of the term. Firstly, since the 1990s, as a result of the corporate financial and accounting scandals (consider for example the recent scandals surrounding Enron etc... in the United States), and the ensuing corporate crisis and financial losses incurred by investors opened the way about debates on the legitimacy of the corporate world. Corporate governance failures are considered to be the prime reason underlying these scandals undermining trust in financial markets (Shelton, 1998).

Yet, in a globalising economy there is an enhanced need for financial funds to sustain the increasingly complex nature of firm activities that compete in an ever integrated world market. In order to attract foreign investment firms are increasingly concerned with good governance as they need to ensure that foreign investors' rights are respected. Corporate governance is very important for the maximisation of the firm value as it helps to reduce the cost of the foreign debts by ensuring trust among foreign investors.

Secondly, the increasing societal expectations and the ensuing social pressure on the issue of corporate social responsibility are forcing top level managers to act in a more sensitive way when confronted by the demands of the pressure groups that are affected and/or affecting enterprise activities. Our conceptualisation of governance is being altered as top-down and hierarchical approaches are not sufficient in answering the democratic demands of social interest groups (Held et al., 1999). Such a broad perspective underlines the social foundations of corporate governance systems. As we will soon see more in detail, there is a growing body of literature that, echoing the recent "varieties of capitalism" literature (Hall, Soskice, 2001), underlines the existing discrepancies in different countries as regards to their corporate governance models. These differences are shaped according to differences in national ownership rules, financial systems, industrial relations systems, managerial systems (Mirze, Ülgen, 2004).

The understanding of the existing diversity of corporate governance systems is especially crucial in the case of emerging market economies, not least for being a relatively under-researched area, as in the case of Turkey. Since 1980s the country is experiencing major economic and political transformations as a result of its willingness to open up its economic system to the requirements of the global political economy, a process that is reinforced by the country's continuing integration process with the European Union (EU).

Therefore the exploration of Turkish corporate governance practices is an important academic exercise for two reasons.

On the one hand such research will address the practical concerns of the international financial community interested in the investment opportunities provided by the country and also, on the national front, of the Turkish business community and regulatory authorities that aims to rise to the challenge of globalisation and hence needs to establish good governance principles. On the other hand such research has a theoretical value as it contributes to our understanding of diversity of corporate governance systems in the case of emerging market economies.

Therefore, this study is organised as follows. First, we will examine, through a literature survey, the concept of corporate governance in order to highlight the historical development of its analytical content and acknowledge the recent discovery of national differences in corporate governance practices underlying contemporary capitalist diversity. We will then extend the insights of the existing literature to the case of emerging market economies, especially by looking at the newly bourgeoning Turkish corporate governance literature. Second, we will present and justify our methodology to analyse the national characteristics of the Turkish corporate governance system as a representative case for emerging market economies (especially as regards to differences and similarities with other corporate governance systems) that will be based upon and linked to the insights provided by our literature survey. Crucial to the latter point, we believe, is the understudied area of the issue of corporate governance practices in the emerging economies. Thus our research aims to contribute to the latter in general and the newly bourgeoning literature on Turkish corporate governance in particular. We will then conclude by presenting and interpreting our results.

2. Content of Corporate Governance Systems in an Age of Capitalist Diversity

The public benefit of corporate governance principles was firstly analysed by Berle and Means in their seminal work Modern Corporations and Private Ownership. Here, corporate governance is theorised as an agency problem focusing on the issue of how to align the corporate executives' (who has the responsibility of managing corporate assets) interests with the shareholders' interests (Berle, Means, 1932).

Research surrounding the adequacy of Berle and Means model for publicly traded companies other than the United States (US) can be summarised as following. Shareholder control is especially widespread in the US and the United Kingdom (UK). By contrast in Europe, Latin America and Japan firms are mainly controlled by a number of big groups. Here the main corporate governance problem is the protection of the minority shareholders from expropriation by controlling parties (La Porta et al., 1999). In Continental Europe voting power and share ownership in publicly traded firms is more concentrated compared with the cases of the UK and the US. Additionally in the US a bigger proportion of the population is owning shares. For example, according to ECE, while in the US one half of the adults do own corporate shares, in Germany only 20% of the adult population are shareholders (Economic Commission for Europe, 2003).

In the Anglo-Saxon system firm activities are financed by issuing shares. Therefore this system is mainly designed for the protection of the shareholders' rights. In Continental Europe the pursuit of 'shareholder value' is of secondary importance. Firm activities are financed through bank credits (Shleifer, Wishny, 1996). In Continental Europe the banking system is also one of the key stakeholders of the industrial system in exchange of the funding that it provides. Therefore, in the Anglo-Saxon system creditors' influence is less important relative to their Continental European and Asian counterparts' (Shleifer, Wishny, 1996). Thus, there is a significant difference between the Anglo-Saxon system and the Continental Europe and Japanese systems.

These two diverging approaches are quite evident when one considers their conceptualisation of the corporate governance.

The fundamental question that any corporate governance system must answer to can be formulated as follows: what is the objective of the corporation and for whose benefit is it to be run? In the Anglo-Saxon countries such as the UK and the US the regulatory framework induces the maximisation of shareholder value. For example the American Law Institute (ALI) stated that "a corporation should have as its objective the conduct of business activities with a view to enhancing corporate profit and shareholder gain" and it may but not required to devote 'a reasonable amount of resources' to public welfare (ALI, 1994). Similarly in the UK the law clearly states that a company's board of directors is required to advance the interests of the shareholders as a whole (Weil et al., 2002). In the Anglo-Saxon system corporate governance is defined as the rules and institutions that specifies control and management of the firm and the relationships between the key decision makers (ECE, 2003; see also Cadbury Report, 1992 and ALI, 1994). Here, as the main objective is to maximise shareholder value the principal focus of corporate governance is to define the relationship between the three key actors of the firm: shareholders, the board of directors and company management (Monks, Minov, 2001). This narrow conceptualisation is at the heart of OECD's corporate governance principles which are represented under five topics: the rights of shareholders, the role of the shareholders in corporate governance, disclosure and transparency, the responsibility of the board (OECD, 1999). This approach that advocates the centrality of shareholder interests for corporate purposes is defined as the shareholder model of corporate governance (the 'manager dominated' model).

By contrast in Continental Europe, both law and policy recognise to varying degrees, that corporations also have the objective of advancing the interests of other persons and groups beyond the narrow category of shareholders. Such persons and groups, who may include employees, suppliers, creditors, civic organisations and the community at large, are usually referred to as stakeholders. As a result their approach is labelled as the stakeholder model of corporate governance model (the 'controlling shareholder-dominated' model) (ECE, 2003). It is useful to note at this juncture that, since 1980s, the rise of institutional investors and pension funds that are exploring international 'arbitrage' opportunities reinforces the pursuit of Anglo-Saxon corporate governance norms at a global scale (ECE, 2003).

The latter model is best embodied in the institutional framework provided by Germany. Here, the corporate governance model adopted by the country seeks to accommodate different interests of the stakeholders by providing them with a 'voice' in the management of the company (Vitols,1999). The stakeholder model that is prevailing in Continental Europe and Japan also adopts what is labelled as the 'relational board structure'. Here, the company board is constituted by the representatives of key stakeholders (such as labour, lenders, major customers and suppliers), whose positions on the board arise out of their special relationships with those constituencies and are unrelated to any shares they may hold in the firm (Dyck, 2001). Some writers, therefore, defined corporate governance in line with the European approach. In many countries in Continental Europe, such as France and Germany where share ownership is less dispersed among the public than it is in their Anglo-Saxon counterparts, corporate governance is about society controlling corporations for purposes of social welfare, thus avoiding a narrow approach focusing solely on the profitability of corporate shares (Blair, Roe, 1999). Veasey defines corporate governance as the institutions that affect the distribution of corporate resources and earnings (Veasey, 1993). For O'Sullivan the term refers to rules and organisations that affect the expectations concerned with the distribution of company resources (O'Sullivan, 2000). These definitions focus not only on formal rules and institutions of corporate governance, but also on the informal practices that evolve in the absence and/or weakness of formal rules (Dyck, 2001). This approach incorporates a broader perspective for the understanding of corporate governance objectives as it takes into account the social responsibility of the firm' managers vis-à-vis the societal stakeholders. "Thus, unlike Americans who have tended to separate issues of corporate governance from corporate social responsibility, Europeans and Japanese have joined the two themes in discussions about how corporations should be managed and regulated" (ECE, 2003).

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

Shareholder model proponents argue that when corporations pursue the objective of shareholder value maximisation the performance of the economic system as a whole (including the interests of the shareholders) can be enhanced (O'Sullivan, 2000). Following this perspective to deal with social considerations will divert the managers from the latter task, undermine the notion of private property by diminishing the power of shareholders in favour of the stakeholders, thus leading to an inferior overall economic performance. The Nobel Laureate Friedman asserted that "few trends would so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much for their shareholders as possible" (Friedman, 1962).

By contrast, the ECE argues that "the stakeholder model facilitates the kind of long-term corporate strategy necessary for the welfare of the firm, rather than the short-term opportunistic corporate actions taken to satisfy shareholders in response to swings in volatile stock markets" (ECE, 2003).

The differences between these two models do also manifest themselves in cultural differences between countries (Salacuse, 2002). Cross-cultural studies conducted by many researchers support the theoretical distinction between Anglo-Saxon countries and Continental European and Asian countries (Hampden-Turner, Trompenaars, 1993; Hofstede, 1997). These surveys showed the affinities between the cultural values of Anglo-Saxon managers and their approach to corporate governance that solely focuses on creating shareholder value. It can probably be inferred that the individualistic cultural values of Anglo-Saxon countries do exercise an influence on the attitudes towards doing business. Here continental European and Japanese values seem to be more inclined towards co-operation and therefore more socially oriented considerations rather than a narrow focus on shareholder interests (Hampden-Turner, Trompenaars, 1993).

It is not possible to assert the absolute superiority of either model (Shleifer, Wishny, 1996). It is generally accepted that these two models display comparative advantages in differing areas. However, as a result of globalisation, these two models are converging and therefore their differences should not be overrated (ECE, 2003). However, it is useful to note that such overstretched dichotomies are ideal types as they do not fully do justice to the existing capitalist variety. As we will soon discover research for example on the corporate governance systems of emerging market economies remains unsubstantiated.

3. Emerging Markets: Turkey and Corporate Governance

As Klapper and Love (2002) rightly assert most of the previous researchers working on the issue of corporate governance generally focused on economically advanced capitalist economies of Triad.

Few research have been conducted in the case of emerging economies[1] such as the surveys conducted by Klapper and Love (2002) and Day and Taylor (2004). While the former has focused on a cross-country comparison of corporate governance practices in 25 emerging market economies, the latter has concentrated on the transition economies of Eastern Europe, namely: Bulgaria, Czech Republic, Hungary, Slovak Republic (in the latter case see also Black, 2000). However both of these studies did not sufficiently take into account the existing national diversity in corporate governance practices that we have outlined previously (Anglo-Saxon vs. Continental European practices). In the case of Klapper and Love (2002) the empirical research was heavily

[1] The term 'emerging market' was originally coined by IFC to describe a fairly narrow list of middle-to-higher income economies among the developing countries, with stock markets in which foreigners could buy securities. The term's meaning has since been expanded to include more or less all developing countries. Developing countries are those with a Gross National Income (GNI) per capita of $9,265 or less. The World Bank classifies economies as low-income (GNI $755 or less), middle-income (GNI $756–9,265) and high-income (GNI $9,266 or more). Low-income and middle-income economies are sometimes referred to as developing countries (World Bank, 2002).

biased towards the Anglo-Saxon corporate governance practices as it was mainly concerned by the protection of shareholders while other possible stakeholders were not included if not for the issue of environmental protection. Whereas for Day and Taylor (2004), while they do acknowledge the role of banking in corporate governance practices (an issue that is more prevalent in Continental Europe) their empirical work is heavily focused on the institutional pre-conditions for an effective debt-based corporate governance system.

There have been however some attempts by a number of researchers to take into account national differences (see for example La Porta, Lopez-de-Silanes, Shleifer, and Vishny 1999a, 1999b, and 2000; Claessens, Djankov, and Lang, 2000). Yet, their empirical work only focused on country differences in legal systems, therefore limiting themselves to the link between law and finance. This heavy focus on the issue of legal systems by these researchers still echoes, in our view, the contention of Hollingsworth (2000) about the centrality of the rule of law (especially formal rules) in the Anglo-Saxon countries (see also Hall, Soskice, 2001). Therefore it remains insufficient in accounting for country specific differences especially in relation to the analysis of the role of stakeholders which is at the heart of the continental European corporate governance system (see previous discussions).

Turkey is an important emerging market economy that aims to be integrated with the requirements of the global economic system, a process that is supported by the country's recently accelerating integration process with the EU. Yet, despite the importance of the corporate governance few studies in the field have been conducted to analyse emerging economies in general and Turkey in particular. Furthermore the relatively recent discovery of the issue of corporate governance diversity that dates back to the 1990s as we have seen above requires we believe a detailed analysis of the Turkish corporate governance system and constitutes the theoretical focus of our research. Therefore, we will firstly summarise the main findings of previous research of the newly bourgeoning literature on Turkish corporate governance practices. We will then highlight the original contribution offered by our research.

The analysis of Turkish corporate governance system in terms of its ownership structure sheds some light on the understanding of the country's model as regards to the issue of similarities with Anglo-Saxon and/or Continental European models. According to Aytaç and Sak (2000), in 45% of 243 listed companies in Turkey one shareholder controlled more than 50% of the voting rights. In majority of the cases, the dominant shareholder was a holding company controlled by a family. Yurtoglu's (2000) findings show that 99 of the 257 listed companies have one shareholder with an ownership stake of at least 50%. 227 companies have five or fewer shareholders with at least 50% of equity under their control. Furthermore empirical evidence provided by Yurtoglu shows that: "holding companies are the largest owners with ownership stakes in 143 companies and with an average stake of 36%. Yurtoglu's study also reveals that the ultimate owners of listed companies are mostly individual family members exercising control on cash flow rights through pyramidal and cascaded ownership structures. Families control 198 of the 257 companies with average 53.8% holding of the equity capital, a figure substantially higher than average direct shareholding of families (27.1%)" (Yurtoglu, 2000). As Ararat and Ugur (2003) rightly assert this signals that the Turkish companies' ownership structure is more in line with the Continental European corporate governance system. This is also supported by the fact that the financing system of Turkish companies being structured around big business groups (a holding company) with a group-owned bank as in the case of Continental European and the Asian corporate governance systems (Yurtoglu, 2000).

Furthermore as La Porta et al's (1998) findings suggest: "In a 40 country assessment, Turkey is rated 2 out of 6 with respect to shareholder's rights (worse than all including Philippines, Peru, Malaysia, Chile, Argentina, Colombia, India, and Pakistan but better than Mexico, Venezuela, Germany and Italy), 4 out of 10 with respect to judicial efficiency (worse than all 40 countries except Thailand and Indonesia), 51 out of 90 with respect to accounting standards (worse than all but Argentina and Colombia)" (Yurtoglu, 2000). This also seems to imply that the Turkish corporate governance system is not compatible with the Anglo-Saxon system that privileges shareholders rights.

Also, despite the absence of systematic surveys anecdotal evidence suggests that both the statutory boards and the executive boards are dominated by family members and that they largely overlap, suggesting the non-influence of shareholders in the decision making processes of Turkish companies (Yurtoglu, 2000). "Family members are given responsibility to oversee a certain business sector as the group CEO in the holding structure and usually perform the role of the Chairman of the Board for the individual companies" (Yurtoglu, 2000). As Ararat and Uğur (2003) argue the complexity and the non-uniformity of the Turkish Accounting system that is not compatible with the International Accounting Standards is not providing sufficient data for investors to make informed decisions. Furthermore the auditing system is not very credible (see Ararat, Uğur, 2003 for details).

Therefore the existing research on Turkey seems to imply that the country's existing corporate governance system is more in tune with the Continental European system. However we believe that these findings can be improved by analysing the corporate governance practices of Turkish firms as regards to the needs of their stakeholders (as we have seen in previous discussions Continental European systems seem to adapt a more inclusive approach taking into account the needs of a broad variety of stakeholders).

Such a research can act as a guiding map to foreign and local investors in their decision to invest and/or enter into collaborative inter-firm arrangements with these companies. Such an account has also an academic merit as it will contribute and refine the existing literature on the Turkish corporate governance system that is already producing findings that are sensitive to the relatively recent discovery of the varieties of corporate governance systems. Hence our analysis will contribute in a novel way to the analysis of the varieties of corporate governance models approach by extending the existing academic insights in the case of the emerging economies using the example of Turkey with specific focus on the impact of corporate governance practices on different stakeholder groups.

This is what we will try to establish by presenting our research questions, their relevance and the methodology that will be used.

4. Methodology

4.1. The Purpose of Research

Following our literature survey we believe that we need to analyse two separate yet interrelated issue. Firstly we would like to provide a picture of the Turkish corporate governance practices to assess institutional isomorphism. That is, we will explore to what extent do the big Turkish companies' corporate governance practices that are addressed to different stakeholder groups converge, display some common national characteristics irrespective of their sectoral background and exposure to international capital markets pressure that are heavily affected by the norms imposed by Anglo Saxon practices (ECE, 2001) ie. irrespective of their trading duration, market capitalisation (cf. discussions in part 2). Secondly, we need to establish whether these practices are more in tune with the Anglo-Saxon and/or continental European corporate governance models.

Therefore, firstly we will explore – by means of a questionnaire that will be based upon the template provided by the surveys conducted by the OECD and Capital Market Board of Turkey (CMB), ISE – how the ISE firms react to the demands and expectations of their stakeholders. Following Jones (1998) we have included the corporate governance practices that are being addressed to two different types of stakeholders: inside stakeholders (workers, management and shareholders) and outside stakeholders (customers, suppliers, trade unions, local council, competitors, public institutions, investors, media and civil society organisations). Such a holistic approach that focuses on a variety of different stakeholders was necessary as it allows us to assess whether Turkish corporate governance practices go beyond the narrow scope of the Anglo-Saxon system to incorporate a broader perspective that takes into account other societal interest as in the case of the Continental European system (see previous discussions). This can be expected as the literature survey based on Turkish corporate governance system that signals an ownership structure that is more in line with the Continental system.

We will then statistically analyse the relationships between the corporate governance practices of the ISE firms and the following variables: sectoral activities, quotation duration, market capitalisation and public ownership ratios. Such a corporate governance performance analysis will enable us to establish whether there is institutional isomorphism, ie. common national characteristics, that underlies the Turkish corporate governance system irrespective of their sectoral activities and their financial openness as measure by their quotation duration, market capitalisation and public ownership ratios (and hence possible shareholder influence from international investors that can impose Anglo-Saxon corporate governance norms).

Secondly, the analysis of these strategies will in return help us to determine whether the Turkish corporate governance model is more in tune with the Anglo-Saxon or Continental European forms of corporate governance model. That is by means of this methodology it is hoped that our survey will help us to compare and contrast similarities and differences of the Turkish corporate governance model with the Anglo-Saxon system (that gives more importance to the requirements of shareholders) and/or continental European system (that gives more importance to the requirements of stakeholders).

4.2. Scope and Limits of Research

Our survey focused on the biggest 100 ISE firms that accounted for the 90% of the market capitalisation realised in the ISE. Our research was based on a questionnaire sent to corporate managers of these 100 companies.

Fifty nine out of hundred companies interviewed responded to our questionnaire. The respondents can be categorised under the following sectoral categories: 50.84% of these companies are operating in manufacturing sector, 30.5% in financial sector, 16.94% in service sector and the remaining 1.7% in high-technology sector. During the period under which the research was conducted the ISE-100 indices sectoral composition was as following: 50% of these companies were operating in the manufacturing sector, 30% in the financial sector, 16% in the service sector and 4% in the high-technology sector. Thus our sample distribution broadly reflects the sectoral distribution of ISE-100 firms.

4.3. The Method of Research

We have used an ordinal scale to evaluate the importance given by the managers to their stakeholders (very important=1, important=2, neutral=3, not very important=4, not important=5). We have identified 18 separate categories of stakeholders. We have used SPSS 11.5 ANOVA method in order to assess the sectoral variance of the degree of importance attached by the ISE-100 firms to their stakeholders.

In this research we have produced 79 questions using nominal scales (yes=1, no=2) in order to assess firm strategies and policies that are developed to address the needs of their stakeholders. Questions were prepared according to studies about corporate governance which were done by OECD, ISE and CMB (OECD, 1999; Varış et al., 2001; CMB, 2003). We have measured the degree of matching of the answers provided by company managers as compared to expected answers in order to assess the corporate governance performance of the companies.

According to the distribution of the corporate governance performance ISE firms were classified under three separate categories: low (1-49), moderate (50-64) and high (65-100). This categorisation is demonstrated in Table 1.

Table 1

Distribution of Degrees of Corporate Governance Performance of Companies

Performance	Number of Companies	Degree	Share
30-39	2	Low	3.38%
40-49	10	Low	16.94%
50-59	16	Moderate	27.11%
60-64	7	Moderate	11.86%
65-69	10	High	16.94%
70-79	12	High	20.33%
80-90	2	High	3.38%
Total	59		100%

We have tried to measure the relation between corporate governance performance of ISE-100 firms and the following variables: their sectoral backgrounds, quotation duration, market value, public ownership and trading duration. To measure relation between corporate governance performance of ISE-100 firms and these variables, SPSS 11.5 ANOVA, chi-squire and correlation tests were used.

4.4. Hypothesis

In order to assess institutional isomorphism we tested the following hypotheses.

H1: Corporate governance practices of firms from different sectoral backgrounds display no difference.

H2: There is a relationship between the market capitalisation of ISE-100 firms and their corporate governance practices.

H3: There is a relationship between the public ownership ratio of ISE-100 firms and their corporate governance practices.

H4: There is no relationship between the trading duration of ISE-100 firms and their corporate governance practices.

4.5. Empirical Findings and Discussion

4.5.1. Findings Concerning Participants and Companies

Of all the survey respondents 39% were top-level managers; 46% were middle managers; 15% were among low-level management. 55% of the total respondents were working in the finance and accounting departments of the companies surveyed.

The overall characteristics of the firms in our survey can be summarised as following. 71% of these firms have been active for more than twenty years. This ratio raises up to 87% in the ISE firms operating within the industrial sector. In 15% of the firms considered, more than 50% of the shares are publicly owned. 47% of the firms are publicly quoted for the last 10 years. 76% of the firms examined are big companies with more than 200 workers. For 80% of the firms considered the average market capitalisation of the firm is less than 250 million dollars.

4.5.2. Findings Concerning Stakeholder Importance

Our questionnaire asked to the ISE-100 managers to rate the importance given to different stakeholders.

The result obtained from our survey sample is presented in Table 2 (see below). The analysis of our questionnaire shows that workers, top level management and customers are considered to be the most important stakeholders by the ISE-100 firms. These stakeholder categories are followed by the management board and the majority stakeholders. For most of the categories these results are not affected significantly by sectoral distribution. Local councils, civil society organisations, environmental groups and trade unions are not considered as being important stakeholders by the ISE-100 firms irrespective of their sectoral background.

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

The analysis of the results provided by our research as regards to our understanding of the nature of the relationship between unions and ISE companies is as following. Trade union membership of the workers were observed only in 47% of the firms analysed. The normalisation of trade unions are only realised in 59% of the cases. 11% of the ISE firms were allowing trade union members to be represented in the management board. Thus, in terms of employee involvement in the decision making processes of the companies, Turkish corporate governance system is closer to the Anglo-Saxon model than the Continental European model whereby employee involvement is taken more seriously.

Table 2

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

Stakeholders	All Sectors	Manufacturing Sector	Financial Sector	Service Sector
Workers	1,16	1,13	1,16	1,3
Top Management	1,18	1,13	1,22	1,3
Current Customers	1,2	1,2	1,17	1,3
Board of Directors	1,23	1,16	1,33	1,3
Majority Shareholders	1,35	1,35	1,38	1,3
Potential Customers	1,39	1,43	1,41	1,3
Other Managers	1,51	1,46	1,58	1,5
Competitors	1,63	1,46	1,82	1,9
Suppliers	1,64	1,56	2	1,4
Minority Shareholders	1,66	1,63	1,61	1,9
Governments	1,67	1,46	2,05	1,6
Media	1,76	1,66	1,72	2,1
Public Institutions	1,77	1,63	2,22	1,5
Other Investors	1,85	1,78	1,88	2,1
Local Government	2,12	1,86	2,58	2,1
Civil Society Organisations	2,22	2	2,52	2,4
Environmental Pressure Groups	2,36	2	2,93	2,6
Trade Unions	2,5	2,03	3	3

Note: The mean is the average on a scale of 1(=very important) to 5(=no importance)

The degree of importance associated with the following stakeholder categories shows a statistically significant divergence between manufacturing and financial sector: environmental pressure groups (0.004<0.05), suppliers (0.033<0.05), government (0.023<0.05), local council (0.022<0.05), civil society organisations (0.042<0.05) and public institutions (0.029<0.05). These stakeholders are considered to be more important in the manufacturing sector than the financial sector. There is no statistically significant difference in the importance associated to different stakeholders between the manufacturing and service sector except in the case of the trade unions (0.024<0.05). When the financial and the service sector firms are compared the only significant differences are recorded in the diverging degrees of importance associated to suppliers (0.021<0.05) and public institutions (0.026<0.05). (p=0.05).

4.5.3. Findings Concerning Company's Stakeholder Policies

The interviewees assert that their managerial approach incorporates the expectations of all stakeholders (95%), that they perceive this approach as an integral part of their company mission (82%) and agree on the necessity of a communication strategy balancing the need of all stakeholders. 98% of all respondents believe that their corporation should be socially responsible.

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

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

While 56% of the managers surveyed believe that corporate social responsibility do increase the managerial costs, 88% of the respondents do also believe that such an approach will provide a competitive advantage to their companies. Only 64% of the firms do provide extra information about the corporate social responsibility practices in their annual reports. A research made by CMB (2004) showed that 33% of all firms operating in the ISE have publicly announced corporate policies addressing corporate social responsibility.

A big majority of the firms surveyed (88%) do support socio-cultural activities related to sports, arts and education. The organisational support for the campaigns organised to protect the cultural and natural environment is 68%, such support declines to 58% when it comes to issues such as economic crisis, environmental pollution etc...

When the previous answers are considered it can be argued that while the ISE-100 firms support the idea of corporate social responsibility, in reality their business practices do not reflect their rhetoric! As in the case of corporate social responsibility practices, business practices that are associated with the development (53%), public announcement (20%) and inspection of the application (41%) of work ethics standards are also limited.

The corporate governance practices of ISE firms that are addressed to their stakeholders can be summarised as following: The building of career planning for workers (98%), education of workers (98%), the developing work environment and condition (97%), the informing workers about business operation (95%), the provision of social rights and bonus payments to workers (91%), written job descriptions that include workers' rights and responsibilities (90%), written descriptions about promotion and selection (79%) and the consultation of workers about managerial decision making processes (76%).

Career planning, the improvement of the working environment and conditions, in-job training and the communication of the workers about the company operations are widespread business practices (90%). Business practices such as profit distribution, distribution of company shares to workers are only adopted in 40% of the cases considered. Workers' representation in the management board was only experienced in 28% of all cases. 63% of the respondents do inform their workers about the company activities on a monthly basis.

Research conducted by CMB (2004) shows that in 74% of the cases firms do have communication policies to inform their workers about their career, working conditions and professional education prospects, and that in 56% of all the cases firms tried to introduce organisational mechanisms to support workers participation in the corporate decision making processes.

The importance of the workers involvement as compared to other stakeholders can be explained by the impact of modern managerial techniques on top level management. As 71% of the firms in our survey are core companies of Turkish capitalism that exist for decades, we believe it is accurate to assume that previously described organisational arrangements that address the workers' need should be accepted as institutionalised routines for these companies. These practices support our previous findings that assert that workers are accepted by Turkish managers as primary stakeholders that contributes to the success and continuity of their organisation. Despite the rhetoric surrounding the importance of the workers the low importance associated with the trade unions shows that ISE firms differ from the continental European corporate governance in terms of the general importance associated with workers.

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

According to research conducted by CMB (2004) the most widely used privileges are: and privileged voters right (in 21% of all cases). In the same research only 25% of the ISE companies have dividend policies. Decisions about divestiture and/or mergers and acquisitions are decided by the company board in 50% of all cases. In 85% of all companies surveyed decisions about the purchasing of intangible and tangible assets are decided by the board members, this ratio is 95% when it comes to the renting of these assets. In 97% of all cases information about shareholders can be obtained from corporate headquarters, in 16% this information can also be obtained from corporate branches. These information can be accessed through internet in 24% of all cases. In the latter case 50% of the concerned firms do provide financial reports, 39% provide information about the ownership structure and 34% about annual reports through internet. In 30% of all cases other types of information is available through internet.

In 39% of the cases analysed companies did adopt corporate governance practices involving written communication strategies. 85% of all members of the management board are also undertaking other managerial positions within the firm. In 71% of the cases members of the board are executing the general manager pose. 32% of the respondents stated that kinship relations do exist between the members of the management board. 9% of the firms questioned declared that management board members are bound via written contracts to compensate for the damage that they can inflict upon the company. In 19% of all firms surveyed the appointment of top-level managers and in 22% of all cases the benefits that will be provided to top-level managers need to be approved by the general shareholder meeting.

Research conducted by CMB (2004) displays the following findings about the company board. Half of the firms provide publicly addressed mission and vision statements. 52% of the ISE firms have risk management and internal control systems that are produced by the general shareholder meetings. Only 15% of ISE firms specify the necessary professional qualities that need to be satisfied by company board members (knowledge, experience and education etc...) in their provisions of the articles of association. 68% of ISE firms do publish monthly activity reports approved by the company board members. 77% of ISE firms introduced systematic mechanisms to specify the distribution of tasks among company board members and to keep general shareholder meetings informed. In 31% of firm contracts, arrangements that ensure the presence of shareholders and stakeholders in general shareholder meetings have been put in place.

In 75% of the cases ISE-100 firms had a special department designed to communicate with its customers. In 91% of all cases the customers are being informed about the product and/or service provided by the company. Thus, it can be inferred that ISE-100 firms have customer oriented corporate governance style.

87% of the firms considered declared that they are co-operating with their suppliers. However management practices such as common communication networks (51%) or working groups (58%) were undertaken only in few cases.

Our survey shows that 23% of the companies interviewed do have policies to co-operate with the local councils. 28% of the companies provide monetary, knowledge and human capital support to these councils. 64% of the companies do inform the public about the issues related to their corporate activity. 34% of the firms participate in the joint preparation of common support programs with the local councils.

Only in few cases the firms had a special department to develop communication strategies aimed at the local government (20%), public institutions (38%), and civil society organisations (36%). Our survey shows that 74% of all the firms studied do have media and public relations department as the preferred way to manage their relation with other stakeholders.

Research made by CMB (2004) reached the following results about public disclosure. 97% of all ISE firms do have at least two managers that are responsible from public disclosure. In 68% of all cases Turkish firms deploy managers that are solely concerned with public disclosure. Only 31% of the ISE firms provide information about their corporate governance principles. Furthermore, more than half of the firms do not provide the compulsory information that needs to appear in their annual reports.

4.5.4. Hypothesis Testing

H1: Corporate governance practices of firms from different sectoral backgrounds display no difference.

The ANOVA test results concerning the ISE-100 firms' sectoral variation in corporate governance performances are shown in Table 3. As shown in Table 3, corporate governance performances of the firms do not exhibit any sectoral variation. The overall performance score average for the 59 firms analysed is 60.56%. Corporate governance performances are 59.90% for manufacturing, 60.44% for financial and 62.55% for service sector. It is found that there is no statistically significant difference between corporate governance performances of the firms and sectoral backgrounds. This result confirms our first hypothesis. That is, for the majority of the ISE firms there is a convergence in the corporate governance practices irrespective of their sectoral background.

Table 3

One-Way ANOVA Results According to Sectoral Corporate Governance Performances

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Min.	Max.
					Lower Bound	Upper Bound		
Manufacturing	30	59,90	12,067	2,203	55,39	64,41	37	80
Financial	18	60,44	12,622	2,975	54,17	66,72	39	89
Services	11	62,55	9,374	2,826	56,25	68,84	46	75
Total	59	60,56	11,646	1,516	57,52	63,59	37	89

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	56,671	2	28,335	**,203**	**,817 ***
Within Groups	7809,872	56	139,462		
Total	7866,542	58			

* (p=0.05) (0.817>0,05) no difference

H2**:** There is a relationship between the market capitalisation of ISE-100 firms and their corporate governance practices.

It is found that there is no statistically significant difference between corporate governance performances of the firms and their market capitalisation. Therefore hypothesis 2 needs to be rejected with 95% of confidence internal. Chi-square tests that are used to assess the correlation between the ISE-100 firms' corporate governance performance and their market value capitalisation, are shown in Table 4.

Table 4

Chi-Square Test Results for Variables of Performance Degree and Market Capitalisation

			Market Capitalisation		Total
			1-99 Million $	100 & over Million $	
Degree of Performance	Manufacturing	Count	6	6	12
		% within degree of performance	50,0%	50,0%	100,0%
		% within market capitalisation	20,0%	20,7%	20,3%

Table 4 (continuous)

Degree of Performance	Financial	Count	14	9	23
		% within degree of performance	60,9%	39,1%	100,0%
		% within market capitalisation	46,7%	31,0%	39,0%
	Services	Count	10	14	24
		% within degree of performance	41,7%	58,3%	100,0%
		% within market capitalisation	33,3%	48,3%	40,7%
Total		Count	30	29	59
		% within degree of performance	50,8%	49,2%	100,0%
		% within market capitalisation	100,0%	100,0%	100,0%

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1,737 (a)	2	,420 *
Likelihood Ratio	1,749	2	,417
Linear-by-Linear Association	,518	1	,472
N of Valid Cases	59		

(a) 0 cells have expected count less than 5.
* (0.420>p) (0.420>0,05). Scores are not significantly different on the Asymp. Sig. (2-tailed)

As Table 5 shows, there is no correlation between corporate governance performances of the firms and their stock market capitalisation.

Table 5

Correlation Between Corporate Governance Performances and Market Capitalisation

		Degree of Performance	Market Capitalisation
Degree of Performance	Pearson Correlation	1	,013
	Sig. (2-tailed)	.	,922
	N	59	59
Market Capitalisation	Pearson Correlation	,013	1
	Sig. (2-tailed)	,922	.
	N	59	59

H3: There is a relationship between the public ownership ratio of ISE-100 firms and their corporate governance practices.

This can be explained as follows. As the public ownership ratio of the firms increases there will be an increase in the number and the expectations of the stakeholders with which the firms need to interact. This, it can be argued, can create an additional pressure on the firms to adopt given corporate governance principles and practices.

It is found that there is no statistically significant difference between corporate governance performances of the firms and their Public Ownership. There is not enough evidence to infer that our claim is true. Therefore hypothesis 3 needs to be rejected. Chi-square tests that are used to assess the correlation between the ISE-100 firms' corporate governance performance and their public openness ratio, are shown in Table 6.

Table 6

Chi-Square Test Results for Variables of Performance Degree and Public Ownership

			Public Ownership (%)		Total
			1%-29%	30% & over	
Degree of Performance	Manufacturing	Count	6	6	12
		% within degree of performance	50,0%	50,0%	100,0%
		% within public ownership	22,2%	18,8%	20,3%
	Financial	Count	14	9	23
		% within degree of performance	60,9%	39,1%	100,0%
		% within public ownership	51,9%	28,1%	39,0%
	Services	Count	7	17	24
		% within degree of performance	29,2%	70,8%	100,0%
		% within public ownership	25,9%	53,1%	40,7%
Total		Count	27	32	59
		% within degree of performance	45,8%	54,2%	100,0%
		% within public ownership	100,0%	100,0%	100,0%

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4,865(a)	2	,088 *
Likelihood Ratio	4,968	2	,083
Linear-by-Linear Association	2,381	1	,123
N of Valid Cases	59		

(a) 0 cells have expected count less than 5.
* (0.88>p) (0.88>0,05). Scores are not significantly different on the Asymp. Sig. (2-tailed)

As Table 7 shown, there is a weak correlation (22%) between the corporate governance practices and the ratio of public ownership.

Table 7

Correlation Between Corporate Governance Performances And Public Ownership

		Degree of Performance	Public Ownership
Degree of Performance	Pearson Correlation	1	,220
	Sig. (2-tailed)	.	,094
	N	59	59
Public Ownership	Pearson Correlation	,220	1
	Sig. (2-tailed)	,094	.
	N	59	59

H4: There is no relationship between the trading duration of ISE-100 firms and their corporate governance practices.

It is found that there is no statistically significant difference between corporate governance performances of the firms and their trading duration of the ISE firms. There is no enough evidence to infer that our claim is true. This result confirms our fourth hypothesis.

As the ISE has a short history of 18 years of operation the development of the stock exchange market in Turkey can be considered to be in its early stages. Therefore, we believe that the existence of a weak correlation between corporate governance principles and the trading duration of ISE firms should be interpreted as normal. The stock exchange market of Turkey is not that well established as to exert significant influence on ISE firms that exhibit longer trading duration than that of their counterparts. Chi-square tests, that are used to assess the correlation between the ISE-100 firms' corporate governance performance and their quotation duration, are shown in Table 8.

Table 8

Chi-Square Test Results for Variables of Performance Degree and Trading Duration of the ISE Firms

			Trading Duration in ISE		Total
			1-9 Years	10 & over Years	
Degree of Performance	Manufacturing	Count	7	5	12
		% within degree of performance	58,3%	41,7%	100,0%
		% within trading duration	22,6%	17,9%	20,3%
	Financial	Count	11	12	23
		% within degree of performance	47,8%	52,2%	100,0%
		% within trading duration	35,5%	42,9%	39,0%
	Services	Count	13	11	24
		% within degree of performance	54,2%	45,8%	100,0%
		% within trading duration	41,9%	39,3%	40,7%
Total		Count	31	28	59
		% within degree of performance	52,5%	47,5%	100,0%
		% within trading duration	100,0%	100,0%	100,0%

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	,392 (a)	2	,822
Likelihood Ratio	,393	2	,822
Linear-by-Linear Association	,011	1	,917
N of Valid Cases	59		

(a) 0 cells have expected count less than 5.
* (0.822>p) (0.822>0,05). Scores are significantly different on the Asymp. Sig. (2-tailed)

As shown in Table 9, there is a weak correlation between the corporate governance performance and the trading duration of the ISE firms since their first quotation.

Table 9

Correlation Between Corporate Governance Performances and Trading Duration in ISE

		Degree of Performance	Trading Duration in ISE
Degree of Performance	Pearson Correlation	1	,153
	Sig. (2-tailed)	.	,247
	N	59	59
Trading Duration in ISE	Pearson Correlation	,153	1
	Sig. (2-tailed)	,247	.
	N	59	59

5. Conclusion

As regards to our research questions the analysis of the Turkish corporate governance model provided us with the following results.

Firstly, the analysis of the Turkish corporate governance performance signals to a certain degree of institutional isomorphism i.e. common national characteristics in terms of the convergence of Turkish companies' corporate governance practices. The analysis of our results leads us to conclude that workers are the key stakeholders in the Turkish corporate governance model. It is highly interesting to note that workers as stakeholders were more important to the ISE firms than the shareholders. Despite sectoral discrepancies in some areas the following five categories of stakeholders are equally important for all ISE 100 firms. These are: top level management, customers, management board and majority shareholders. It is interesting to note that top level management is considered to be one of the main stakeholders in the Turkish corporate governance model.

Secondly, as regards to the differences and similarities between the Turkish corporate governance model and the Anglo-Saxon and/or Continental European model, we believe the following comments are accurate.

As we have seen previously there are two types of corporate governance models (shareholder value driven Anglo-Saxon corporate governance model vs. the Continental European model that attempts to provide amore inclusive approach by balancing the needs of a diversity of stakeholders). As compared with this binary classification, despite the commonalties with the Continental system in terms of the ownership structure, the detailed analysis of the Turkish corporate governance practices that are addressed to different stakeholders seems to suggest a hybrid case whereby ISE firms display important similarities and differences with both systems.

If one accepts the validity of the answers provided to our questionnaire it can be inferred that the importance associated with majority shareholders shows that the Turkish model shows significant similarities with the Anglo-Saxon corporate governance model. This result contradicts the previously mentioned research made by La Porta et al. (1998) that displayed poor protection of shareholders rights in Turkey. As our research is limited to the answers provided by ISE company managers this area needs to be further explored, possibly by more qualitatively oriented research (case studies etc.) analysing the actual influence of shareholders on corporate governance practices.

However, in line with La Porta et al's findings, the Turkish model differs from its Anglo-Saxon counterparts when we consider the importance associated with the minority shareholders. Contrary to the Anglo-Saxon model the latter category is not deemed to be important by the Turkish managers. We believe that this is associated with the low levels of publicly held shares in the ISE-100 firms.

The answers given by the ISE-100 executives seem to imply that the Turkish corporate governance model is associating a lot of importance to its societal partners as the companies scored very high in social responsibility performance. This approach is more in line with the stakeholder model of corporate governance model that assumes social responsibility. This can seem to imply that the Turkish model that is closer to Continental European model, an insight that has already been reinforced by the previous literature displaying significant similarities between the two models in terms of ownership structure. However it is important to note that, despite their rhetoric, Turkish companies' managerial efforts that are aimed at creating a more inclusive corporate governance model are not sufficiently robust enough other than the importance associated with their internal labour force. The views of other stakeholder groups (local government, civil society organisations, environmental pressure groups, trade unions) are not considered seriously by Turkish firms. Therefore even if one leaves aside the previously mentioned issue of majority shareholders (that despite the ambivalence about the findings seem to imply an inclination towards the Anglo-Saxon model in that area), the Turkish corporate governance system still does not fully converge with the continental European one when we consider the approach towards the stakeholders. We would not like, however, to solely blame the Turkish managers for this result. The low importance associated to trade unions by the ISE 100 firms can not be solely analysed from a managerial perspective implying that the Turkish managers are not interested in a healthy and co-operative atmosphere of industrial relations. This requires also the analysis of society-wide cultural values such as consensus building, co-operation etc...

Relatedly, our research findings seem to imply the existence of a hybrid Turkish governance model (i.e. the presence of common national characteristics that provides a unique combination of Anglo-Saxon and Continental European corporate governance practices). This can be interpreted as the outcome of Turkey's unique cultural, social and historical heritage. Such a perspective is also congruent with the fact that Turkish firms that are operating in the ISE are insulated from the convergence pressures of global financial markets, led by the Anglo-Saxon norms, as they display low levels of public ownership ratio and the relatively young character of Turkish stock exchange market (the public openness ratio of these firms is 18% on average, and the ISE has been only in place for the last 20 years).

The implications of our results are twofold. Firstly, on the national policy front, we believe that only regulatory changes that are aimed at implementing drastic transformations will not be sufficient in changing the Turkish corporate governance model. As can be seen from our literature survey the corporate governance models are heavily embedded within their national environment. This is also evident in the hybrid Turkish corporate governance model. Thus we believe that the business community and regulatory authorities in Turkey should develop policies that are more sensitive to national factors.

Secondly, the academic implications of our study signal the need to develop a new research agenda that will aim to a better understanding of the corporate governance models of the emerging economies, as the Turkish case signals the existence of hybrid models that are more sophisticated than the binary representation offered by Anglo-Saxon vs. Continental systems classification. We need to develop new theoretical/conceptual models for corporate governance typologies as well as providing further empirical research that will do justice to contemporary capitalist diversity and emerging hybrid corporate governance models.

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