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THE EFFECTS OF CORPORATE GOVERNANCE APPLICATIONS ON MANUFACTURING COMPANIES' PERFORMANCES DURING THE FINANCIAL CRISIS

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by

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To my best friends

APPROVAL PAGE

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The material included in this thesis has not been submitted wholly or in part for any academic award or qualification other than that for which it is now submitted.

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July, 2010

ABSTRACT

Selim ŞERBETCİ **July 2010**

THE EFFECTS OF CORPORATE GOVERNANCE APPLICATIONS ON MANUFACTURING COMPANIES' PERFORMANCES DURING THE FINANCIAL CRISIS

This thesis aims at providing information about the effects of corporate governance on the performance of the firms during the financial crisis. Firstly the reasons of the emergence of the corporate governance is focused on, then generally accepted principles of corporate governance were explained; Anglo-Saxon and Continental approaches were focused on. In the final part of the literature review, chronologic, legal and civil aspects of the corporate governance applications in Turkey are emphasized.

In the Empiric study, 167 manufacturing firms listed in Istanbul Stock Exchange were analyzed. The performance (ROA) of these firms in 2008 crisis was examined through SPSS 17.0 program. The relationship of the performance, detected with regression analyses, with corporate governance was determined.

According to the results of the analysis, it can be stated that having majority shareholders, more member of board or directors, having more age, having a high rate of being open to public, and its high import ratio have significant positive relationship on the firm performance during the period of crisis. On the other hand, there is a significant negative association between the debt ratio and firm performance. Having domestic or foreign shareholders, having CEO conducting two tasks, starting to be listed in the stock exchange in earlier periods and high rate of export ratio has no such significant association with firm performance.

Key words:

Corporate Governance, Performance, Financial Crisis, Manufacturing Firms

KISA ÖZET

Selim ŞERBETCİ **Temmuz 2010**

KURUMSAL YÖNETİM UYGULAMALARININ FİNANSAL KRİZ DÖNEMİNDE ÜRETİM FİRMALARI PERFORMANSLARI ÜZERİNE ETKİLERİ

Bu tez kurumsal yönetimin kriz döneminde şirketlerin performansına etkisinin ne olduğu hakkında bilgi vermeyi amaçlamaktadır. Öncelikle kurumsal yönetimin ortaya çıkış sebepleri üzerinde durulmuş, arkasından genel olarak kabul edilen kurumsal yönetimin temel prensipleri anlatılmıştır. Genel kabul gören iki temel hukuksal yaklaşım Anglo-Saxon ve Kıta Avrupası yaklaşımları ele alınmıştır. Literatür kısmının sonunda da Türkiye'deki kurumsal yönetim uygulamaların kronolojik, hukuki, ve sivil yönleri ele alınmıştır.

Ampirik çalışmada İstanbul Menkul Kıymetler Borsası'nda işlem gören 167 üretim firması analize tabi tutulmuştur. SPSS 17.0 programı kullanılarak 2008 finansal krizinde bu şirketlerin performansları (ROA) incelenmiştir. Regresyon analizi ile gözlenen performansların kurumsal yönetimle olan ilişkisi belirlenmeye çalışılmıştır.

Analizin sonuçlarına göre, çoğunluk hissedarlara sahip olmak, yönetim kurulunda daha fazla üye olması, yaşın daha büyük olması, halka açıklık ve ithalat oranının yüksek olması kriz döneminde şiket performansı ile anlamlı pozitif bir ilişki içinde olduğu söylenebilir. Diğer taraftan, borç oranı ile şirket performansı arasında anlamlı negative ilişki vardır. Yerli ve yabancı hissedarların olmasının, CEO'nun iki görevi idame ettirmesi, borsada işlem görmeye erken başlamanın ve yüksek orandaki ihracaatın şirket performası ile anlamlı bir ilişkisi yoktur.

Anahtar Kelimeler

Kurumsal Yönetim, Performans, Finansal Kriz, İmalat Firmaları,

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LIST OF ABBREVIATIONS

ADR	American Depository Receipts
BCCI	Bank of Credit and Commerce International
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CMB	Capital Markets Board of Turkey
COB	Chairman of the Board
EPS	Earning per Share
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IASs	International Accounting Standart
IPO	Initial Public Offering
ISE	İstanbul Stock Exchange
ISSA	International Ship Suppliers Association
LLSV	LaPorta,Florencio Lopez-De-Silanes,Andrei Shleifer,Robert W. Vishny
NGO	Non-governmental Organization
NYSE	New York Stock Exchange
OECD	Organization for Economic Co-operation and Development
ROA	Return on Assets
ROE	Return on Equity
SEC	Security and Exchange Commission
SOX	Sarbanes-Oxley Act
TCC	Turkish Commercial Code

TKYD	Türkiye Kurumsal Yönetim Derneği
TTK	Türk Ticaret Kanunu
TÜSİAD	Türkiye Sanayiciler ve İş Adamları Derneği
UFRS	Uluslararası Finansal Raporlama Standartları
UK	United Kingdom
UN	United Nations
US	United States
WB	World Bank

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INTRODUCTION

The structure of the companies have begun to alter due to globalization, increasing competition and narrowing profit margins; privatization and liberalization which gained acceleration by the removal of ‘iron curtain’ hastened the pace of the alteration. Prior to the structural alteration, the investors were the owners as well as the managers of the companies they had established. They used to take the strategic decisions of the companies they were financing. Hence, naturally the owner/owners were solely responsible for the profit and the loss.

In recent years, especially during the end of 1980s (Varış et al. 2001: 3) with the decrease of supply and financing getting more difficult in stock exchange, the relationships between the participative groups have been differentiated. Hence the shareholders have got the position of the company owners, but not the managers. In other words, the administrators, in line with their own decisions, have had the authority to use financial sources they do not possess. However, the administrators cannot obviously be expected to pay due attention to the use of these funds. As a matter of fact, in a potential loss, shareholders are held fully responsible for it.

The point of origin for the corporate governance emerged with the ideas related to the solution of the agency problem. However, the crises and scandals emerged afterwards revealed that principles of corporate governance cannot remain with a narrow angle for only shareholders.

As a matter of fact, South Korea, Taiwan, Singapore, Hong Kong, Indonesia, Philippines, and Malaysia realized a successful growth under the leadership of Japan,

known as ‘Asian Tigers’. There had been doubts about the healthy pace of the growth and Nobel Prize winner Swedish economist and sociologist Gunnar Myrdal gave hints of the upcoming crisis. In the end, the crisis broke out in the Southeast Asia in July 1997. Despite the effects of macroeconomic indications in the crisis, lack of institutional investigation and inspection paved the way for inadequacies in regulations and was effective in ruining depth portfolios of the banks. The unfavorable conjuncture that caused the crisis increased the need for innovative growth theories (Under Secretariat of Foreign Trade 2010). The Organization for Economic Co-operation and Development (hereafter OECD) put corporate governance principles report on agenda in 1998 also indicates how important the corporate governance is in getting rid of this type of crises (Doğan, 2007: 68).

Not only the financial crisis but also the scandals of companies increased the need for corporate governance. Many large scaled companies such as Parmalat, Barings Bank, Royal Ahold, Worldcom, Arthur&Anderson dramatically bankrupted or their value went down unimaginatively. For instance, Barings Bank was purchased by Holland centered bank and insurance company ING just for 1 euro per share (Mallin 2004: 2). However, Enron was the most dramatic of them all. Market price per share of Enron was 90,56 dollars at New York Stock Exchange (hereafter NYSE) in August 2000 and while it was the largest gas firm of America, it increased its ranking as high as 7th among the Fortune 500 firm rankings. The reason for the rapid increase in its market price was the declared high profits. However, these high profits were the result of the fact that special purpose entities did not show their loss in company balances. The worst part of it was that despite the fact that Arthur&Anderson, an independent audit firm, saw these accounting mistakes, it did

not sacrifice the company from which it received a great amount of 55 million dollars (Aysan, 2007: 22). The share price of the firm fell down to as low as 61 cents (%0,06 of the highest price) on 28 November 2001. Enron was making a history as the greatest bankruptcy of American history (Mallin, 2004: 2).

One of the things crises like 1997 Southeast Asia crises and Enron scandals taught the investors who want their investments to be paid back with a large income is that the financial statements of the firms do not always illustrate the truth. What corporate governance provides is the formation of control mechanism for institutional and/or individual investors to have their investments reliable.

The investors and creditors in globalizing financial markets have begun to observe to what extend OECD principles are applied by firms/countries before they act. Sticking to principles is vital for the company remaining between the two financing options, that is, being quoted on exchange and taking loan in order to grow.

Although corporate governance is rather a recent concept, it is closely related to the concepts such as principles of finance, economy, accounting, law, managing and organizational behavior (Mallin, 2004: 9).

Interest in corporate governance in recent years continues increasingly in academic community and the business world. For instance, in October 6, 2007 in a search at Econlist, with term of 'corporate governance', 47% of the result was between 1969 and 2001 and rest of it was 2001 to 2007 (Morey et al. 2009). Particularly the Enron crisis fastened the researches (Mallin, 2004: 3).

In this study, we will examine how corporate governance affects firms financially during crisis. The thesis is consisted of five parts.

The reasons for the emergence of the concept 'corporate governance' will be discussed in the Second Part following the Introduction; agency theory and various versions will be explained. Then, ease of finding finance will be emphasized on, and its significance will be focused on for a regular growth. At the final part, the connection between crisis and corporate governance, which paves the way for this thesis, will be emphasized on. Afterwards, basic components of corporate governance will be taken up with the details of accountability, responsibility, transparency and fairness. Furthermore, approaches to corporate governance will be glanced over and finally its condition in Turkey will be seen.

Literature review results will be examined at the third part. Whether there is a connection between performance and corporate governance, if there is, what kind of connections are depended on which parameters and information on whether the direction of the connection is positive or negative will be given.

At the fourth part, based on the financial crises in 2008, the performance of the manufacturing companies, applying corporate governance principles accurately, in the İstanbul Stock Exchange during the financial crisis will be studied in the light of wide range of data.

Results will be evaluated at the final section.

CHAPTER 1

CORPORATE GOVERNANCE

Almost nobody had known the concept of corporate governance a few decades ago, but with help of the scandals it has become common in business jargon as well as in public. What used to occur quietly behind closed boardroom doors is now a matter of considerable public interest. Since the term is fresh and concerned with a lot of interest group, it is grueling to make definition (Ararat and Uğur, 2003: 59). In addition to this as stated in OECD report about corporate governance, there is no unique model of good corporate governance.

However, the basic principles of good corporate governance are to promote transparent and efficient markets, to protect and facilitate the exercise of shareholders' rights, to ensure the equitable treatment of all shareholders, to ensure that timely and accurate disclosure is made on all material matters.

Definitions of corporate governance from various sources as follows:

Probably; Shleifer and Vishny broke fresh ground about corporate governance and said: Corporate governance mechanism basically tries to achieve get return the investment of suppliers of finance however to realize this goal some basic problems must be solved. Perhaps the biggest case is control of managers. The investors cannot be sure that the managers act on behalf of shareholder. Moreover sometimes managers run the company for self interest or choose ineffective projects (Shleifer and Vishny, 1997: 737). Corporate governance is the means by which minority shareholders are protected from expropriation by managers or controlling shareholders (Gürbüz 2005; Mitton 2001: 1).

However, OECD looks at the concept more comprehensively. Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. In addition to this, within the goals of company, the means of reaching these goals and monitor the performance are included. Existence of corporate governance provides a degree of confidence which results in lower cost of capital (OECD, 2004a) .

In the OECD working paper 'Corporate Governance Improving Competitiveness and Access to Capital in Global Markets', a comprehensive definition was made. That is,

> '*Corporations must be able to develop and implement their respective competitive advantages, to raise capital, to assembly and redeploy resources to that end and, at the same time, to meet the expectations of their shareholders, employees, suppliers, creditors, customers, communities and society at large.'(Millstein,1998: 13).*

Corporate governance refers to the structures and processes for the direction and control of companies. Corporate governance concerns the relationships among the management, board of directors, controlling shareholders, minority shareholders and other stakeholders. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital (Corporation, 2009).

The efficiency of the companies determines the strength of the country. Thereby they must be free to act within a framework of effective accountability which is created by system of corporate governance (Cadbury, 1992: 11).

There are practices about how the investment of financiers can be protected. In a broader sense, beyond the shareholders, corporate governance can sustain the rights of stakeholders by its applications in which dispossession will be omitted (Kula, 2006).

In a limited sense, corporate governance focuses on management of corporations, control of management and performance as well as system of relationships between ownership of corporations and management. The basic aim of the firms is creating a surplus for its interest group which consists of shareholder, employees, employers and suppliers (Gürbüz and Ergincan, 2004: 1).

A company must attract human and financial capital and work effectively to get profits in long term by not hurting entitled parties and public. To achieve these there will be some mandatory and voluntary rules called corporate governance (Doğan, 2007: 3) .

The relationships among the firm participants must be organized according to certain rules and principles (Varış et al. 2001: 2).

The rearrangement of the present institution in line with defined rules is called corporate governance. These arrangements aim at firms to the the most successful, most profitable, and most competitor (TÜSİAD, 2002: 9).

It is assumed in the work by Mckinsey conducted to explore perspectives of investors, who command 9 trillion dollar investment in 31 countries, towards corporate governance that there are independent managers, the payments of the managers are stock-related, the assessments are in regular norms and the firms sensitive to the needs of the investors apply corporate principles better (Mckinsey&Company, 2002).

Corporate governance is the unity of mechanisms that provides the financers with measuring their risks of investments, using their investments in the best places and supervising the management using this source (Rubach and Sebora, 1998: 168).

Corporate governance is a mechanism that protects investors from expropriation of managers and big shareholders (Gönenç and Aybar, 2006: 297).

If we see it from two different angles, it is the integrity of systems that organizes firm's relationships with the shareholders whereas in broader perspective it is the integrity of systems that arranges the relationships between the firm and the society (Aysan, 2007: 83).

1.1 Reasons of Emerging of Corporate Governance

Reasons of the existence of corporate governance vary from country to country and time. Although emerging crisis and firm scandals are the main reasons, the works carried out, publications and reports have not been limited with them. Capital Markets Board (hereafter CMB) stated that firms applying principles better may find low capital cost and their financial capabilities and liquidity indicate increases (CMB, 2005). However, OECD claimed that the pool of the investor would enlarge, competitive powers would increase, a better monitoring would be conducted and finance would be held for a longer period. On the other hand, it claimed that on country base, the brand value would increase and stability would be maintained in the financial market (OECD, 2004b).

Moreover, the principles would prevent someone to have extraordinary power and would increase transparency by forming control mechanism within the firm (Mallin, 2004: 4).

In the following subsections, the reason of emergency of corporate governance is explained in details. Firstly, agency theory which led to the emergence of the principles will be studied and four different versions of it will be explained. Then, by noticing the benefits of corporate governance applications, firm-based benefits are focused on. In the following part, easy and long due finance, overcoming crisis with less loss and sustainable growth skill are explained.

1.1.1. Agency Theory

Agency problem, in the most general meaning, means the person/institution (agent) that takes the authorities does not implement them in the way required, even misuse them. It is sometimes using them in the way that unjustly treats the part (principal) from where authorities were taken. These misuses take place in a wide range. It extends from administrators' placement of their personal benefits ahead of those of the shareholders/partners to avoiding high risk projects (Mallin, 2004: 10).

After Adam Smith, Berle and Means paid attention to this issue first and they stated that in developed economies, having control and possession at different hands would cause agency problems (Berle and Means, 1999). Jensen and Fama, evaluating the matter with a general prospect, stated that the problem is the separation of possession and control mechanism (Fama and Jensen, 1983: 6). This condition is seen more in Anglo-Saxon countries such as United Kingdom (hereafter UK) and United States of America (hereafter USA) where there is majority of the shareholders.

Firms were obliged to establish number of control mechanisms to prevent agency problem. These mechanisms lead to extra expenditures by using time and

financial resources called agency cost. Agency cost also includes structuring which is done to minimize conflicts of self-interests and the expenses of control mechanisms (Fama and Jensen, 1983: 2).

When we analyze voting process of the administrative positions of a firm, minority and majority shareholders selects managing committee, and the managing committee selects Chief Executive Officer (hereafter CEO) by voting. Despite CEO at the top, the managing committee determines the strategies of the firm and makes implementations in regard. Whereas a part of the financing is provided by the shareholders, another part is provided with the debts from the creditors. As a result of the applications, loss and benefits of the firms come out (See Figure 1).

As seen in the figure, shareholders transfer a part of their authority to managing committee, and the committee to the CEO. In every authority transfer, the agency problems appear as explained in the following subsections.

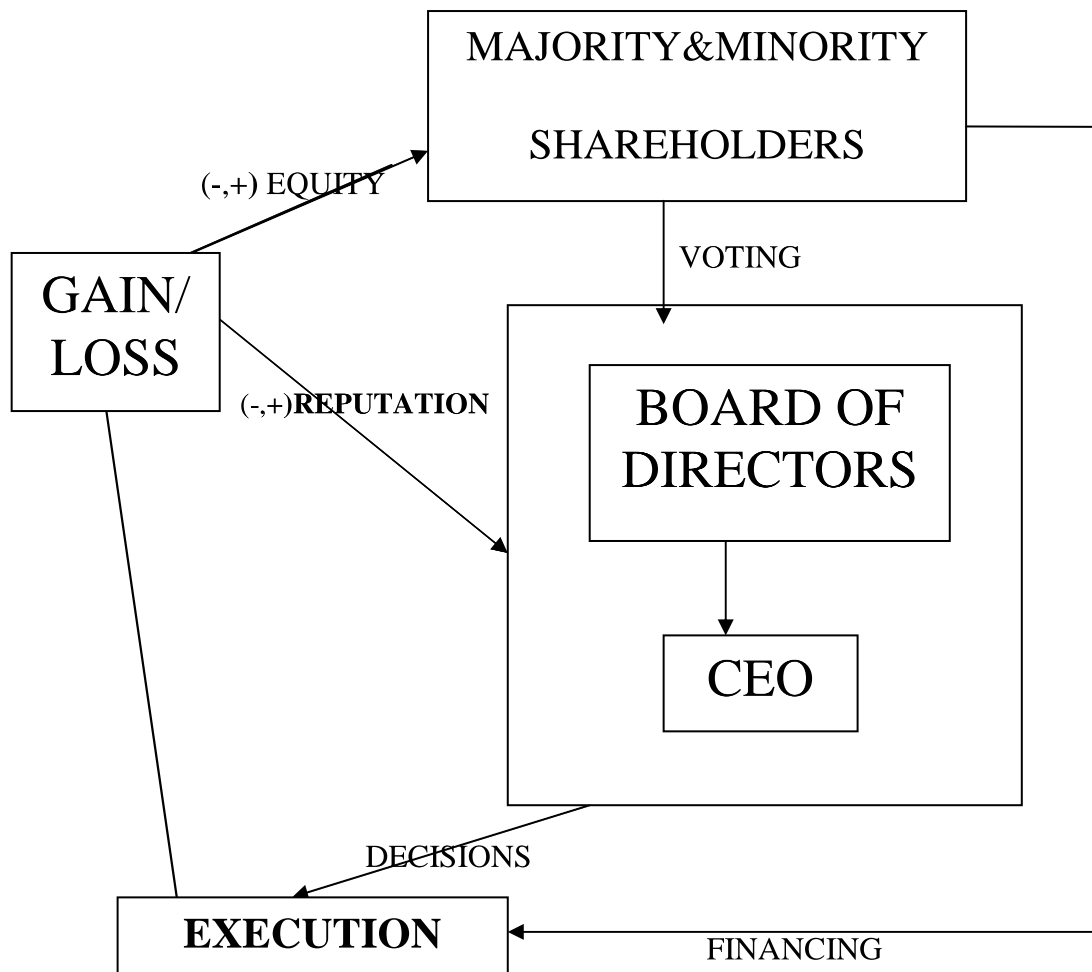

Figure 1: Relationship Between Parties

1.1.1.1. Agency Problem Between Managers and Shareholders

Agency theory and perhaps the emerging point of the corporate governance is the problem that firm managers (manager-agent) and firm financers (principal) are different. As pointed out by Adam Smith long ago, the managers cannot be expected to have the same anxiety while using the money of the others. As illustrated in Figure 1, although shareholders select the board of directors, their participation to the process of decision making is either very little or ineffective. No matter how shareholders are provided with participating in administration theoretically, serious

problems occur in practice. For instance, can it be possible for thousands and even sometimes millions of shareholders to get together? This is a significant matter in the business world where it is vital to have rapid and right decisions. In addition, it is doubtful for myriad of shareholders to give right decisions on a technical issue. As a matter of fact, the directors are also not willing to ask the opinions of all or majority of the shareholders. According to a report prepared by CMB in 2001, shareholders in EU follow a passive administration. Their opinion that it is difficult for votes to have a general influence, not willing to face a problem related to tax and having a short term investment are among the reasons (Varış et al. 2001: 16).

As we see in Figure 1, the responsibilities of the loss caused by wrong decisions are put on the shoulders of the shareholders. On the other hand, the directors would take their salaries on the conditions of both loss and benefit. The only loss is the loss of reputation. Although decrease of reputation paves way to difficulties in employment in the market, it remains little comparing to financial loss. This tends the directors to show irresponsible administration.

OECD in international level and CMB shareholders in our country are expected to have roles not only to select board of directors but also to participate in giving strategic decisions. Basic rights such as accumulated vote and single share single vote are needed to be provided (CMB 2005; OECD 2004b). The overlapping conflicts with the share certificates to be given to the managers can be converted to convergent benefits and then it can contribute to the solutions (Gugler et al. 2003: 17).

1.1.1.2. Stakeholder Theory

Stakeholder implies group or an individual concerned with the firm (Mallin, 2004: 43). A firm does not only consist of shareholders and administrators, but also in relation with many stakeholders such as creditors, employees, governments, customers, non-governmental organizations. Stakeholders are not limited to a certain country. Although shareholders become more prominent as they provide finance, the other stakeholders should not be ignored. As a matter of fact, for longevity and a sustainable growth of a firm, there should be no problems with the stakeholders.

The primary purpose of the firm is to maximize the profits of the shareholders as well as to consider the profits of the all other stakeholders in the same ratio. For example, according to Istanbul Stock Exchange (hereafter ISE) report, good relationships established with the employees affected the firm performance and long term success positively (Varış et al. 2001: 2). While principals expect the firm to make payments on time and sustain the continuity of good or service purchase, creditors expects debts to be paid back on time. While the government considers tax, customers want the continuation of products.

However, due to the fact that the basic rights of the shareholders are taken as the basic point, other stakeholders face serious problems. In addition to variation from country to country, legally the protection of shareholders is prior to that of stakeholders (Mallin, 2004: 43). Here emerges the stakeholder theory. In case the benefits of the shareholders coincide with those of the stakeholders, generally the

latter lose (Mallin, 2004: 14). It is vitally important for the directors to make balance among the coinciding benefits.

To emphasize, especially in the countries where civil law system is dominant agency problem is more significant comparing to the countries where Anglo-Saxon approach is settled. Yet, in the countries where family firms dominate and firm structures are not shareholder oriented, the relationship with the stakeholders cannot be ignored.

1.1.1.3. Agency Problem Between Managers and Chief Executive Officer

The Board of Directors selects a CEO capable of managing the firm (Mallin, 2004: 96). Despite this election, with their activities and applications, CEOs are known to have formed board of directors in line with their opinions, which diminishes both the variety of opinions and the quality of managing. For a solution, OECD and CMB recommend to have independent members in board of directors (CMB, 2005). Independent member is a person who has no beneficial relationship with the firm and has no ties with the members in the board of directors (Mallin, 2004: 106).

For instance, Royal Ahold, a Netherlander retailer, was one of the greatest firms in his sector. It was known to be 'Enron of Europe'. The firm bankrupted unexpectedly on account of the fact that in the firm, shareholder had no influence to join the administration and everything was controlled by the CEO who was dominant with a powerful contract (Mallin, 2004: 3).

1.1.1.4. Agency Problem Between Minority and Majority Shareholders

The shareholders are divided as minority and majority, although it may vary among the country. In our country, the shareholders with a share below 5 % are considered as minority, and the ones above 5% are considered as the majority shareholders. The board of directors is selected with the votes of all the shareholders or they are desired to be so. The board of directors assigns CEO, and he executes the company (Gürbüz, 2005: 1).

The basic problem here is that the board of directors is usually in favor of the majority shareholders. The main reason for such a condition is that generally majority shareholders receive more votes. Another reason is that the votes of the minorities do not reflect to election sufficiently. When we scrutinize it, we see that there are some reasons such as procedures for voting is not open, no right to vote as representative is granted and physical inadequacies. The effect of majority shareholders in the election may pave the way for minority shareholder's exploitation. As a matter of fact, the elected board of directors favors the majority shareholders more, and seems to desire to consider their benefits in the process of decision making (La Porta et al. 2002: 1148).

In order to protect minority shareholders from such exploitation, in a report CMB advised firms to have the principle of 'a share a vote', and there should be no insufficiency in the notification of all the shareholders and also stakeholders, to practice cumulative voting system. The application of the management principles of CMB where comply or explain principles are valid; increase year by year and the protection of the rights of minority shareholders are being preserved.

We have the opportunity to see shareholder and stakeholder relationships together in Figure 2.

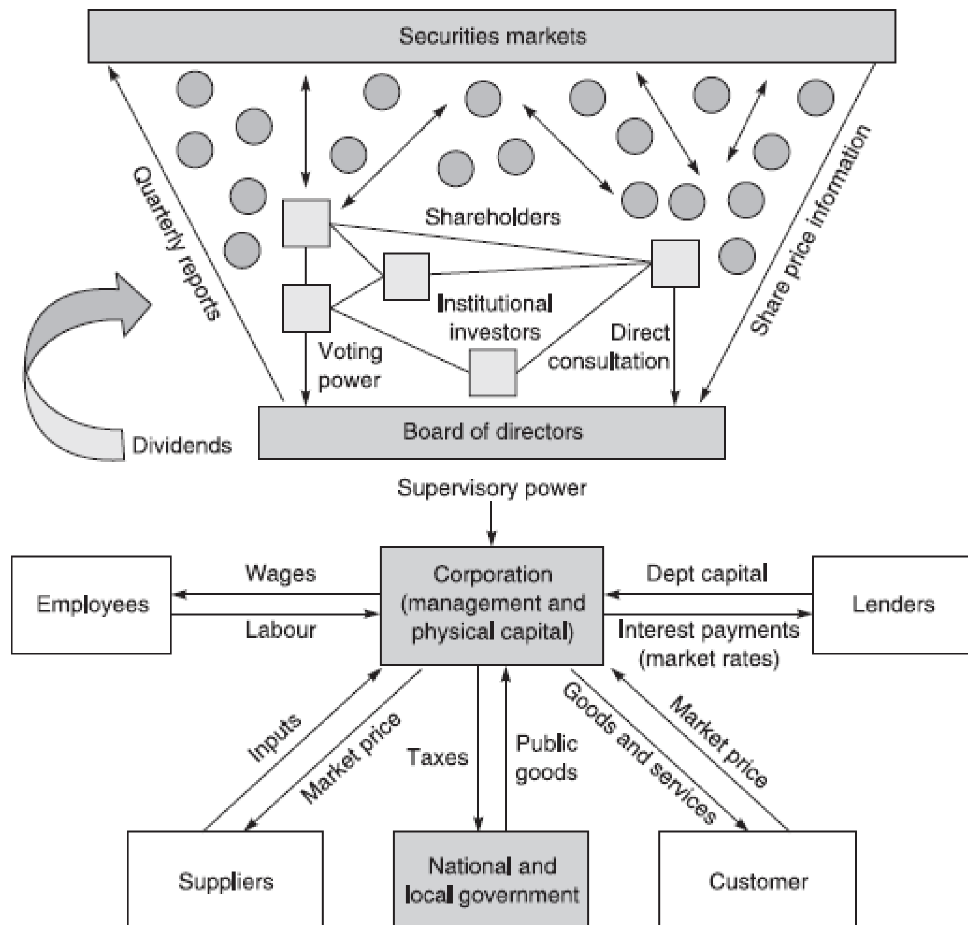

Figure 2: All Parties and Relationships among Themselves about Corporate Governance

Source: Berle, Adolf Augustus and Means, Gardiner Coit (1999), The Modern Corporation and Private Property (3 edn.; London: Transaction Publishing) 375.
Clarke, Thomas (2007), International Corporate Governance: A Comparative Approach (Great Britain: Routledge) 518.

1.1.2. Easiness of Finance

Globalization and increasing competition bore two significant problems. First, the need for finding fund easily, and second, how the banks providing finance to the firms will stand against the crisis. Good management is the solution for both.

As a matter of fact, the banks stand still on account of transparent management, and the firms managed better are seen to have higher rating from independent assessment foundations, hence find credits with lower costs (Ünal, May 27 2006).

Management and financing are the two foundation stones of a firm. Nowadays, financing is met in three basic ways: issuing share certificate upon being listed in the stock exchange, using the profits for investment rather than distributing them, and borrowing from the creditors. However, comparing to the first option, borrowing from the creditors is quite difficult, limited, onerous and expensive. It may also be a limited resource to use it for the growth of the profit. While family firms are being bound to use equity capital, other firms provide their financing by borrowings from the creditors on regular basis. On the other hand, corporate firms provide finances from the capital market (Aktaş, 2009) .

Quoting in the stock exchange has many advantages. First of all, there is no need to have face-to-face contact with the investors, be them minor or major. The shares of listed firms are purchased and sold in digital platform. The firms benefit from foreign resources, like retirement funds, in addition to domestic ones. In fact, the fund of retirements leads the ones having the prompt cash.

Hence, it is easy to obtain finance by being quoted in the stock exchange; however the financers desire to maximize the incomes of their investments. Thus, they prefer the firms where their investments will be safe. At this point, corporate governance step in. Observation reports and researches show that the investors prefer the firms with better corporate governance (Aysan, 2007: 22).

It is vitally important to adapt to corporate governance principles in order to obtain long term fund and decrease the cost of capital (Varış et al. 2001: 3). From

now on, for attracting foreign direct investment with low investment, it is extremely important to apply the principles (Mallin, 2004: 5).

The firms applying corporate governance principles effectively in Brazil reduced borrowing interest rate from Libor+%3.875 to Libor+%1. Fitch Ratings and S&P Banca raised the credit rating of Comerciala Romana for its successful applications in corporate and risk governance in 2004 (Aktaş, 2009).

Reversely, the firms not applying the principles completely pay more interest in borrowing and are being compelled to sell their share certificates to lower prices (Aysan, 2007: 22).

1.1.3. Sustainable Growth

Sustainable growth can be defined as to meet the needs of current generation without putting those of the future generations in danger.

The firms put effort to maintain sustainable growth while trying to achieve their goals and maximizing the profit. However, it is hard to explain the situation. For example, 90 % of the firms in Turkey and 80 % of the firms in the world are family corporations. 98 % of the firms in Turkey are entities with less than 10 employees (Aysan, 2007: 20). When we look at the life expectancy of the firms in the world and in Turkey, we notice that number of corporations transferring to 3rd generation in Turkey and those to 4th in the world is quite few. Generally, the rate of the firms surviving after the first generation is %32,2, and that after the second generation is %13, and the rate of the firms transferring to the third generation in Turkey is 5 % (Aktaş, 2009).

Analyzing the reasons behind it, the main reason is that the family firms cannot be institutionalizes in addition to the problems related to conflicts of interests, power and authority (Aktaş, 2009). In order to end such problems, the principles of corporate governance must be applied. Moreover, growth and competition are among the expectations of the firms from the corporate governance (Varış et al. 2001: 2).

Hence, entrepreneurs and professional administrators are required to put efforts to apply the principles of corporate governance. Accordingly, corporate governance is an assurance for the sustenance of both family corporations and the firms open to public (Aktaş, 2009). For a long term achievements of the firms, establishing good relations with the employees is seen to be an important factor (Varış et al. 2001: 2).

1.1.4. Ability to Overcome Crisis

Crisis, while changing the condition of the system of the present and that of the future, means the circumstances that emerge unexpectedly, with dominance of new rules and conditions, where rapid decision making is required and when it is late for precautions (Wikipedia, 2010). On the other hand, scandal means a disgraceful and humiliating event that causes big reactions (TDK, 2010).

Crisis and scandals are the hardest times for both countries and the firms. Loss, bankrupting entities, fall of employment, devaluation and long-term unreliability in sociological terms are the negative effects of a crisis. Not having crisis and getting rid of an unpreventable crisis are conditions desired by all parties.

The economies of all countries and the structures of the firms are all intertwined with each other due to globalization. It is quite difficult to claim that a crisis or a scandal may be limited to a country or a firm. For example although it is geographically too far, Southeast Asia crisis in 1997 affected Turkey as well. The origin of the Southeast Asia crisis was originated from microeconomic unbalances rather than macro level. Lack of corporate governance affected the competitive environment negatively, the investors with no reserve caused crises (Yurtoğlu, 2004: 615).

2001 crisis paved the way for the bankruptcy of 25 small or big banks. Banks not only bankrupted themselves but also put many subsidiaries in hardship, consequently 259 subsidiaries bankrupted with the banks. Our economy was narrowed by 9,5 % and high inflation and unemployment numbers constrained Turkey for a long time. The number of unemployment caused only by banks was 51.024 (Aysan, 2007: 23) .

One of the points of exit for corporate governance is the time of crisis and scandals. As a matter of fact, the declaration of OECD principles took place after Southeast Asia crisis, the emergence of Sarbanes-Oxley Act (hereafter SOX) occurred after Enron scandal (See Table 2). It is seen that the firms applying the principles have less financial loss and get rid of the crisis in shorter times. In order to have public reliability for the firms experiencing scandal, many countries issued new laws and required the application of number of corporate governance principles (Aysan, 2007: 74).

Table 1: Timeline Corporate Governance Regulations Around the World

Crisis	Beginning Time of Crisis	Institution or Country	Regulation	Time of Regulation
Maxwell	1990	United Kingdom	Cadbury Report	December 1992
Southeastern Asia Crisis	2 July 1997	Organization of Economic Cooperation and Development	Principles of Corporate Governance	May 1999
Financial Crisis	21 February 2001	Capital Markets of Turkey	Corporate Governance Principles	July 2003
ENRON	28 November 2001	United States of America	Sarbanes-Oxley	July 2002

Certain cases indicate that small steps towards corporate governance brought great advantages to the firms. For instance, after losing 71 million dollars in 1992, SGL Carbon AG, the high officials of the firm altered the governance principles of the firm. Firstly, transparent accounting rules were put into effect, then it was listed in NYSE, even the official language of the firm was amended to English. The income was seen to be increased 159 million dollar by the end of 1995 (Rubach and Sebora, 1998: 167).

1.2. Basic Principles of Corporate Governance

Principles of governance may vary from a country to another, even among the firms within the country. Firm governance structures depending on economical, legal and socio-cultural structures of the developing and developed countries and the governance principles to be applied to these structures may vary (Varış et al. 2001:

2). It seems quite difficult to have principles that can be applied to all the countries. This difficulty originates not only from legal infra structure but also from the differences in political perception (democratic Turkey and communist China) and firm structures (In Turkey family firms, in USA shareholders based firms and in China state firms). Another significant reason is that corporate governance concept is related to a number of concepts such as economy, accounting, management and finance (Mallin, 2004: 19).

OECD, who says ‘One does not fit all’, accepts variations; in addition, tried to determine basic principles that may be applied in every country. On account of the fact that not speaking a common language affects the integrations among the firms and countries and decisions of investments negatively, a solution has been sought. Hence, six significant issues namely ensuring the basis for an effective corporate governance framework, the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency ,the responsibilities of the board are given in details.

A result of principles’ variation depending on time and place is being non-binding. A flexibility of implementing or not has been made compulsory. Although it is a point criticized, non-binding rules would not weaken the competitive strength of the firms and they would deal more comfortably in the sector. In order to fill the gap, comply or explain principle was put into effect with Cadbury Report, and a precaution for the investors has been taken against misleading while giving decisions.

Generally acknowledged four basic principles are accountability, responsibility, transparency and fairness (TÜSİAD, 2002). The basic principles are

vitally important for corporate governance; however, it should not be ignored that addendums can be made to these principles.

1.2.1. Accountability

Accountability means the responsibility of the firm management against shareholders and the legal entity of the firm (CMB, 2005). In other words, while determining the strategies and objects and examining the results, the firm management is to prove the accuracy of the decisions and accepts the responsibility of probable results. In short, it is requirement of accounting for, answering and explanation (Menteş, 2009: 49). Managers of top level and low level, who are to develop the common denominator of the benefits in conflicts with each other, are also responsible against the board of directors (Aktaş, 2009).

In recent years, corporate investors have been involved in the administration more and moreover they act as not shareholders but the owners of the firms. Corporate investors are establishments to which many investors entrust their savings and expect certain incomes. Thus, in order to preserve their investments, 'people on the street' desire the augmentation of accountability (Mallin, 2004: 12).

Although independent from the firms, audits, who audit the firms' financial statements and are extremely important for investors, must account for the shareholders. It is inevitable for corporations with no requirement of accounting for to act irresponsible.

Along with the competition conditions getting tougher, administrators ask for more flexibility and authority, which increases the importance of the principle of accountability (Menteş, 2009: 49). Accountability for would increase with the

principles of corporate governance and prevent a part of economic losses (Aysan, 2007: 24).

In fact, not only private sector firms but also public institutions financed by the state, and civil society establishments financed by donations must also account for the society (Menteş, 2009: 50).

1.2.2. Responsibility

Responsibility principle means conducting all firm activities by considering the benefits of the firm and in accordance with laws and regulations (CMB, 2005). No matter how the firm management has responsibility to take high level decisions and implement them to maximize the income of shareholders within a short period, it should also maintain cooperation among the stakeholders, whom the firm is dependent on for a long term (Aktaş, 2009).

Whereas accounting for stands for the responsibility of the directors in the firm against the shareholders, the responsibility means the obligations to third persons. It is mandatory for the firm managers to establish a link between the obligation to advance the firm and the expectations of the profit share of the shareholders (Güner, 21 October 2006).

Every elected person is responsible against the electors. While CEO is responsible to the board of director that selects him/her, the board of director is responsible to the shareholders in advancing the corporation to better a place in the sector.

There is an emphasis on an interesting point in the foreword part of the OECD Report: trust and integrity. These two concepts are mentioned to emphasize

the significance of economic worth (OECD, 2004b: 12). This principle is important in the sense that it awards the rights in firm while punishes the wrongs.

According to a report prepared by Turkish Industrialists' and Businessmen's Association, for a better application of corporate governance, some of the responsibilities of the board of directors are listed as follows (TUSIAD 2002):

-To determine short term and long term objectives of the firm, examine the strategies to achieve the goals, contributions to its development and provide implementations;

- To examine strategic and financial performance of the firm and take precautions to improve;

- To select chief executor, to assess in accordance with certain performance criteria and determine his/her payment;

- To determine the communication and relationship approaches of the firm to shareholders and external authorities

- To determine work ethic rules for the firm and the employees and maintain their implementations.

1.2.3. Transparency

Transparency is to convey not only financial tables but also non financial information in a reliable, complete and comparable way to the public on time. If the information to be published is a commercial confidentiality or may affect the future investments of the firm negatively, it is not compulsory to publish it (CMB, 2005). Nevertheless, the way to convey is as important as the information itself. Information which cannot be accessed with a low cost and easily also harms transparency.

On account of the transparency that the investors would look at the firms confidently and find a ground to compare them to other firms by learning present and future performance. Corporate investors want transparency to be increased and be abided by the rules such as International Accounting Standard (IASs) due to firm scandals, high salaries paid to low performance and the investments that may destroy the investment of the shareholders completely (Mallin, 2004: 12). For a transparency principle to be implemented, accounting records must be standard for comparison of financial information (Aysan, 2007: 26). Shareholders are given more specific, transparent and accurate information with UFRS; moreover international consensus has been maintained and potential investors are provided to have comparison and give decision easily (Karacahisarlı, 22 April 2006).

For a company to increase its reliability and attract the investors accordingly, transparency is vitally important. It is obvious that investments cannot be expected in the market where transparency is not maintained and accordingly capital cost increases (Menteş, 2009: 47). One of the reasons of ‘opacity’ is concentrated ownership (Ararat and Uğur, 2003: 69).

Internal and external inspection mechanisms play important role in providing transparency. As recommended by CMB, the audit firms must be independent. All types of information such as ethic rules, the structure of the board of director and the literacy of directors and financial tables must be shared with the public opinion after they are audited.

Another advantage of transparency is to have precautions against crisis and scandals in advance. Incorrect and inadequate information may lead investors to act reversely and cause to diminish the confidence of the public as well. For instance,

one of the reasons for the emergence of Worldcom crisis was the inadequacy of transparency and information of the public (Aktaş, 2009).

In the privatization process of a company, the investors pay attention to transparency and reliability in addition to the profit of the project (Eroğlu, 29 April 2006).

1.2.4. Fairness

Fairness is the attitude of the management to all the parties related to the firm with no discrimination. The two major place with unfairness are firstly, between the majority and minority shareholders, and secondly between the shareholders and stakeholders. The managers tend to act closer to the majority shareholders, who hold the possessions. For a fair management, every share must have a right for one vote; and to benefit from the right, participation to general committee, representative or cumulative voting rights must be guaranteed. When a selection between shareholders and stakeholders is to be made, the selection is made in favor of the shareholders. However, the firms willing to continue long term profit and sustain their existence must consider both the parties equally. Fair management is important especially for the employees. The fairness of the firm especially in issues like employment, promotion, payment, work guarantee and work safety is important to establish an environment of confidence (Menteş, 2009: 52).

All parties are required to be conveyed necessary, sufficient and accurate information on time. Moreover, it must be cheap to access to this information. It is the duty of the managers to have necessary precautions to provide this (CMB, 2005).

As a matter of fact, it is hard for an investor who cannot practice his/her right to be informed to vindicate other rights.

It becomes quite difficult for a firm, which cannot protect the rights of the minorities, to attract investments (Aktaş, 2009).

1.3. Approaches of Corporate Governance

Which legal system is appropriate for corporate governance administration or the degree of appropriateness is not obvious (La Porta et al. 1996: 3). However, approaches to corporate governance are divided into two in general. These are Anglo-Saxon approach based on medieval law of England and Continental approach based on Roman law (Mallin, 2004: 11). Although the approaches are generally built up to protect the rights of the ones related to the firm, with the most general perspective of these two divisions, it is originated from differences in legal protection of the shareholders (Kula, 2006: 32). Anglo-Saxon system is also known as market control system whereas the other one is known as controlling shareholder control system (Cuervo, 2002: 85). The reason why the corporate governance is divided into legal categories rather than other criteria is that it is the most important factor in a legal system (Gugler et al. 2003: 26).

Although the approaches try to create common values, it is also a fact that every country interprets and implements the reports according to local terms. Just as they differed according to countries, the principle has also faced evolution according to time. The model of every country is different due to cultural, historical and technological background. No model is ideal or the best (Rubach and Sebora, 1998: 168).

Increasing economic relationships in the world, which is getting smaller and smaller due to globalization and widespread communication devices, compelled a formation of common terminology. Hence, several international organizations such as OECD, World Bank and some civil society foundations, published reports to determine common denominator. Opinions and principles have been tried to be designated covering both types of approaches in the reports. Especially the international investors want increase of transparency and standardization of accounting records to compare the firms in financial terms (Mckinsey&Company, 2002). Accountability, responsibility, transparency and fairness are accepted as basic corporate governance principles.

1.3.1. Anglo-Saxon Approach

United Kingdom and United States are the places where this approach is originated. There are two main reasons why it is originated especially in these countries. Firstly, law infrastructure of these two countries is based on England's medieval law. This law structure is based on common-law countries –including the US and other former British colonies – independent judges and juries and very flexible since decision is given in line with similar case (Mallin, 2004: 11).

The second reason is that the financial structure of these firms is based on shareholders. This paved the way for the adaptation of shareholder based corporate governance. The main purpose in Anglo-Saxon system is the maximization of shareholders. In order to actualize this target, market-based activity has always been priority for the firms. The managers have more responsibilities for the shareholders who can stand against residual risk (Rubach and Sebora, 1998: 169-71).

This is the longest term approach to the corporate governance and affected the rest of the world. Growing capital market and investment institutions of England and US is the reason of it (Clarke, 2007: 129). The countries where corporate governance is applied most effectively are USA (being the leading country), England, France Germany, Netherlands and some European Countries, Japan and some other Asian countries (Varış et al. 2001: 3). This system with disclosed base feature is also known as outsider system. In other words, to bear disclosed base feature means to form reliable and adequate information for the scattered investors and extra information is not given to any of group (Clarke, 2007: 130).

Corporate governance was mentioned first in Cadbury Report in 1992 in England. As in many reports, the emergence of this report took place after financial scandals and bankruptcy of firms (Mallin, 2004: 20). Cadbury Report was published by Committee on the Financial Aspects of Corporate Governance led by Sir Adrian Cadbury following BCCI and Maxwell crisis in December 1992. The report is important in the sense that it is the first extensive and bulky source and guided many report and research after it. The corporate governance concept was emerged first with the Cadbury Report (Erdikler, 25 March 2006). Main board and its composition, and non-executive director are emphasized on in general in the report. The application mentioned in most of the targets or explanation concept and its mechanism made the report more important (Mallin, 2004: 22).

Greenbury Report in 1995 and three years later Hampel Report in 1998 were published. This trio report was united and Combined Code was published by Financial Reporting Council. Naturally, new reports were needed in the lights of developing events and consequently, Myners Report, the Higgs Review and Smith

Review were published in the following years. Greenbury report was mainly about the payments of directors and recommended them to be explained. The main target that the report aimed at was to form a balance between performance and payments. Not only the firms in the stock exchange but also the ones outside were expected to pay attention to the recommendations (Mallin, 2004). Although Hampel Report was revised form of the previous two, it is especially important for it put the stakeholders on the agenda. While the relationships with the stakeholders continue in the report, it was recommended that the income of the shareholders had to be maximized. Interestingly, it was mentioned that the people to whom the directors are responsible are again shareholders (Mallin, 2004: 22) .

Similar to the UK, the emergence of corporate governance principles in the United States coincided with a crisis. Scandals such as Enron, Worldcom and Global Crossing paved the way for US Congress to establish NYSE Listing Rules immediately. Accounting Industry Reform Act in January 2002, with a better known name Sarbanes-Oxley Act was formed. Bringing serious responsibilities to CEO and CFO, SOX pulled the punishments to a reasonable extend: 1 million dollars fine or imprisonment up to ten years (Mallin, 2004). However, the best part of SOX is that it is the first corporate governance law (Aysan 2007: 78).

1.3.2. Continental Approach

Inspired by Roman law, modern commercial laws are divided into three categories in the Continental Europe law: French Continental Europe Law, German Continental Europe Law and Scandinavian Continental Europe Law. This is the most common law system in the world. Conquest imperialist movements and voluntarily

being copied played role in its development (Kula 2006: 69; LaPorta et al. 1997: 1132). There are laws and codes in the centre of this law system; and the judges are obliged to decide in accordance with the frames of these provisions. According to Anglo-Saxon, its flexibility is almost zero.

When it comes to system of law's reflection to business life, generally big shareholders dominate the boarding committee, hence the firm. Agency problem is less due to the fact that the stakeholders –workers, customers, local committees, government- are known better. Contradictory to the Anglo-Saxon system, the agency problem in Europe is caused by the conflicts between the minority shareholders and majority shareholders (Kula, 2006: 41). In order to increase control over the firms and solve agency problem, mechanisms such as pyramid corporate structure, shareholder agreement, discriminatory voting rights are used, thus it transmits from majority shareholders to the minority ones (Clarke, 2007: 171).

It established a mechanism that provides mutual benefits between the relationships, possession holders and firm managers in a system based on the relationships (Rubach and Sebora, 1998: 172). The difference of the system from the Anglo-Saxon system is that it places stakeholders to the centre instead of the shareholders. It is observed that bilateral favorable relationships with the stakeholders contribute to the sustenance of the firm in the long run (Varış et al. 2001). The fact that there is a bank at the centre facilitates the funding and decreases the risk as well (Rubach and Sebora, 1998: 173). Another reason of that is the lack of corporate investor, retirement and insurance fund in Europe. The existence of banks is the result of high debt/equity ratio often seen in the firms (Clarke, 2007: 171).

Besides its advantages, the system has disadvantages. First of all, legal and business structure does not allow changes. The firms adapting to changing business world loses their competitive strength partly. La Porta et al. stated that the protection of minority shareholders in the countries, where civil law/code is applied, is not sufficient (La Porta et al. 2002). In addition, minority shareholders are reluctant to practice their rights to vote in the general committee. Their belief that the votes can hardly have any general effect, not willing to face a situation related to tax processes and investing short term are among the reasons (Varış et al. 2001: 16). It must also be stated that the world's largest growing capital market and corporate investors of USA oblige a new type of movement in the countries where Continental Europe approach is valid.

1.3.3. Comparison of Approaches of Corporate Governance: Anglo-Saxon versus Continental

Rather than analyzing the approaches one by one, a comparative perspective may provide a better understanding. It is appropriate to scrutinize basic legal differences and then the results originated by them.

In Anglo-Saxon formation, the judges are expected to give decisions by using their former knowledge. For example, in shareholder protection, it is observed that whether the attitude of majority shareholders towards the minority ones change or not, and the decision is given. On the other hand, in Continental Europe Law, the judges are responsible for applying the rules, which are made by legislation, accurately. Unfortunately, legal lacunae sometimes victimize the shareholders (Kula, 2006: 72).

LLSV analyzed external finance's tie with legal structure, and they found out that the common law countries provide better protection to shareholders as well as the creditors. Among the civil law practicing countries, the countries practicing French law provides the least protection followed by those German Civil law and Scandinavian. In their study, the ratio of outsider held stock market to GNP ratio, Anglo-Saxon countries exhibit 60% whereas French civil law countries remained at 21% (La Porta et al. 1997).

While number of listed firm for 1 million people is 35 in common law countries, French civil law countries is 10, German civil law countries is 16,79 and Scandinavian civil law countries is 21,59. Since the cheapest and easiest way of finding finance is being listed in the stock exchange, the fact that this ratio is small in Continental Europe demonstrates that the firms prove progress.

Offering finance in cheap and easy way provides relatively advantageous competition atmosphere to the firms. If we look at the rate of public offerings to total companies, in the previous year common law countries 2,23 whereas civil countries average is remained around 0,8 (between 1995-1996). In other words, Germany had 7, France 10, USA 803 and India had 1114 public offerings. In terms of anti-director rights, which are necessary for the formation of larger and broader equity market, common law countries are far ahead of civil law countries. In a research where corporate governance management is compared according to financial issues, most American and Asian investors (respectively 65% and 61%) find corporate governance more important while the rate is 50 % in North America (Mckinsey&Company, 2002).

Another basic difference is the parties where agency problem is faced. Anglo-Saxon approach, unlike Continental Europe system where the large shareholders dominate, is a mechanism in which the market is dominant (Cuervo, 2002). In parallel with it, agency problem originates on account of the fact that majority property share holders, who possess most of the property rights in Continental Europe, exploits the rights of minority shareholders. On the other hand, in Anglo-Saxon approach, this self-interest conflict takes place between the professional managers and scattered shareholders (Kula, 2006: 41).

Some works analyzed Continental Approach by dividing into several groups. One of them is the work carried out by Rubach and Sebora. In his study, where there are two categories as Japan and Germany, the management is listed according to the importance it pays to the participants (Rubach and Sebora, 1998: 171). In the lights of previous data, let's see all corporate governance components comparatively in the Table 2.

Finally, whatever the approach is, a significant majority of the investors stated that they are ready to pay premium to those firms where corporate governance principles are applied. The ratio is 78% in Western Europe and Asia, while in North and Latin America, it is 76% (Mckinsey&Company, 2002).

Table 2: The Basic Differences Between Anglo-Saxon and Continental Approaches of Corporate Governance

	Anglo-Saxon Approach	**Continental Approach**	
+*Country*	US,UK	Japan	Germany
+ ***Percipient Claim Rankings***	Individuals	Business Network (Keiretsu)	Banks
	Institutions	Banks	Business Network
	Business Network	Government	Employees
	Employees	Institutions	Government
	Government	Individuals	Individuals
	Banks	Employees	Institutions
+***Governance Focus***	Capital Market	Transaction Network	Corporation
+***Measure of Governance Effectiveness***	Return on Financial Capital	Return on Social Capital	Return on Human Capital
****Ownership***	Dispersed	Concentrated	
****Investors Relationship***	Developed	Restricted	
****Control***	Board of Directors	Majority Shareholders	
****Effective Party of Board of Directors***	Outside Managers	Inside Managers and Outside who Relation with Big Shareholders	
****Capital Markets***	High Liquidity	Relatively Less Liquidity	
****Institutional Control***	Developed	Restricted	
****Cross Shareholding***	Restricted	Extensive	
****Number of Listed Firms***	Excessive	Fewer	
****Announcement of Activity reports***	Common	Not common	
****long term relationships of firm owners and relationships within the group***	Not common	Common	
****Best Application code***	Effective	Ineffective	

***Relationship Between Shareholders and Managers**	Restricted- Not Personal	Intensive
***Ownership Identity**	Institutional Investor	Families, Private Firms and Financial Institutions
****Some Members Countries**	Hong Kong, India, Canada, New Zealand, Malaysia, Israel, South Africa	Turkey, Belgium, Brazil, France, Greece, Mexico, Denmark, Italy, Taiwan, Norway, Sweden, Colombia
***** Desired Accounting System**	Generally Accepted Accounting Principles (GAAP)	International Accounting Standards (IAS)

Sources:
*Kula, Veysel (2006), Corporate Governance Shareholder Protection Applications and Turkish Sample (Istanbul: Papatya Publications) 200.

**LaPorta, Rafael, et al. (1997), 'Legal Determinants of External Finance', The Journal Finance, LII (3), 1113-50.

***Mckinsey&Company (2002), 'Global Investor Opinion Survey: Key Findings'.

+Rubach, Michael J. and Sebora, Terrence C. (1998), 'Comparative Corporate Governance: Competitive Implications of an Emerging Convergence', Journal of World Business, 33 (2), 167-84.

1.3.4. International Approach

Due to globalization, liberation of international trade, expansion of foreign direct investment, increasing competition conditions, advanced technology and the effects of communication devices, the world economy increased 2.5 times between 1985 and 2002. The import of goods and services increased 3.4 times (Clarke, 2007: 232). Globalization of finance sources, accelerated in 1990s. Development of free enterprise with neo-liberal applications and increasing existence of private insurance funds and new strategies they applied to find fund from capital market rather than loaning are among them (Clarke, 2007: 234).

By globalization of finance sources, the investors had to eat from the same plate and gave priority to corporate governance while investing as not to play for the wrong horse (Clarke 2007; Mckinsey&Company, 2002). Although the approaches to corporate governance are divided into two as Anglo-Saxon and Continental, there has been a need to designate international standards and first OECD, then some official and unofficial institutions carried out some works in this regard. The question of which system was more resistant comparing to others was desired to be answered in the 1990s.

1.3.4.1. Principles of Corporate Governance of Organization for Economic Co-operation and Development

Organization for Economic Co-operation and Development brings together the governments of countries committed to democracy and the market economy around the world to support sustainable economic growth, boost employment, raise living standard, maintain financial stability, assist other countries' economic development, contribute to the growth in world trade. The Organization provides a setting where governments compare policy experiences, seek answers to common problems, identify good practice and coordinate domestic and international policies (OECD, 2010).

The report of OECD Principles of Corporate Governance was prepared by OECD Ministers in 1999. While preparing the report, not only the opinions of bureaucrats but also the opinions of business sector, investors, professional groups at national and international levels, trade unions, civil society organizations and international standard setting bodies were asked. IMF and World Bank supervisors

also contributed to the report. Hence, international application authority was provided. In 2002, the report was examined and adjusted and has been an important source up to date. Not only for member nations but also for non-OECD countries, Principles are the guide book for an effective corporate governance framework.

Firms are vital for economic progress and personal and institutional investment can only gain value via companies. Change is also essential for firms to maintain their strength of competition. Thus, one of the significant points of the report is the emphasis of change. Initially, it is accepted that there is not only a single governance mechanism. As stated in the report, many crucial points from the structure of the boarding committee to the establishment of shareholder structures vary from country to country (OECD, 2004b: 3).

Besides, the aim of the report is to define common values and concepts. Hence, six important issues -ensuring the basis for an effective corporate governance framework, the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, the responsibilities of the board- are given in detail. Finally, it is stated that these applications may be altered and applied locally.

Being non-binding is one of the outcomes of Principles' variation depending on time and place. These rules bring forth the flexibility of application or non-application. It is the reactions of the investors, which we call 'invisible hand' that causes the enforcement of the rules. There is an emphasis on an interesting point in the foreword section of the report: trust and integrity. These two values are emphasized to award the significance of economic value (OECD, 2004b: 12).

Although OECD principles were thought to be implemented immediately, the firms in this regard acted slowly for three reasons. First of all, it is the thought that information published on account of transparency principle may harm the strength of competition. Second reason is the complex socio-cultural structure of the developing countries and postponement of applications by the people, who would lose their privileges. Final reason is weakness of the power in the countries that enforces the law (Ararat and Uğur, 2003: 60). The report basically aims to solve the problems that result from the separation of ownership and control. In addition to this, some extra gains will come with application of Principles. These are explained following paragraphs.

Ensuring the basis for an effective corporate governance framework: The responsibilities among various regulators must be determined accurately while designating framework, so that, there should be no overlapping and over-regulator. The structure and history of the country must be taken into consideration in law making. The laws must be ethical and disclosure. Utmost benefit of all the parties must be maintained. All the stakeholders must be considered. An everlasting bridge of contact must be established with the public.

Market performance must be the top priority while making law. Entrepreneurship must not be eradicated. According to Cadbury report, the law makers should leave a space for firms to use all the opportunities. The established rules are not enforced in place of the laws rather they are formed to draw a better framework. Thus, Principles, company law, securities regulation, accounting and auditing standards, insolvency law, contract law, labor law and tax law must be appropriate.

The rights of shareholders and key ownership functions: Shareholders are the most significant source of finance nowadays and they seem to preserve this title for a long time. As a matter of fact they can finance the firms easily, rapidly and constantly. Shareholders are indispensable need of firms.

The shareholders make living by possessing firm shares. Therefore, they should learn share processes regarding transfer, disposition, issuing additional share, distribution of dividend immediately, accurately and cheaply and their right to participate in the general committee where they can use their reactions against the processes and vote in general committee must be preserved. The shareholders must be informed beforehand about time and place for the general committee and the issues on the agenda and they should be allowed to contribute to the agenda of the meeting.

The greatest right obtained by possessing shares is the right to vote in the general committee and all the obstacles must be removed to implement it. Distant voting, accumulative voting and representative voting must also be permitted.

The equitable treatment of shareholders: The firm managers must preserve ex-ante ex post rights of the shareholders. The shares including the foreign and minority shares having the same type must enjoy equal treatments. They must have equal and accurate information to preserve their rights. As a matter of fact, every firm has right to designate its financing policies. Many national and international institutions support this right although they do not adopt ‘one share one vote’ principle.

Minor shareholders must be protected against the evil treatments of major shareholders and the ones obtaining information within; and the channels by means of which they can claim their rights must be open.

The role of stakeholders in corporate governance: The connection established with the stakeholders contributes to the profit and competition strength of the firms. The rights given to the stakeholders by commercial, business laws and TCC must be protected. Otherwise the legal means for the stakeholders to search their rights must be open. In order to know their rights and participate to the management, they must be able to access to adequate, accurate and regular information.

The stakeholders must possess freewill to move actively in unethical and illegal actions of the management. In fact, unfavorable circumstances overshadow not only the stakeholders but also discredit the firm and limit the financial opportunities.

The employers are one of the most vital elements of a firm. The career planning, performance assessment and payment policy of the employers must be clear. The employers must be taken into consideration while taking strategic decisions. Rights of loan suppliers must be protected against a probable bankruptcy.

Disclosure and transparency: Properties of disclosed information are regular, reliable, timely and honest. High level of disclosure results in easy capital and growing confidence and vise versa. In addition to this deficient knowledge is the cause of poor allocation tangible and intangible resources. Financial statement must allow controlling and create a ground to evaluate securities. While disclosing the

aims of the company, not only commercial but also environmental and ethical targets must be announced.

In any special circumstance special voting rights, cross shareholder, shareholder agreements that affect equality among shareholders must be disclosed. Company should share stakeholders' and employees' names. Moreover risks related with geographic area and sector must be disclosed. Thus these are the key elements that affect the performance of the company.

All disclosed information must correlate with international standards on account of the fact that investors are willing to compare the data within and among the countries. Channels and timing for the dissemination of information can be as important as content of the information itself. All applications about disclosure and transparency can survive without problem, if there is a timely, accurate and independent audit made by qualified and component auditors.

The responsibilities of the board: Although the board systems vary among countries, the rules aim to fit all kinds of structures. In the report, the basic duty of the board is to accomplish the desired gain for shareholder and solve the problem between clashing interests of the stakeholders. No opportunity for the inequality among the stakeholders must be given although the board will absolutely reflect the opinions of the shareholders for the fact that the shareholders make the choices of the board.

Board must pay utmost attention to the maintenance of ethic standards for the fact that the efforts spent for adaptation to ethical values brings credibility and trust not only for short term but also for a long term. Consequently, corporations may obtain financing easily and at low cost.

1.3.4.2. Other International Developments

In addition to Asian Development Bank, UN and other civil society institutions, OECD that provides firms better governance as well as prepares international principles for firms to stay in competitive environments, observed contributions from different parts of the world. The works aiming at establishing regional corporate governance integrities, are summarized as such in Clarke's book (Clarke, 2007: 251-66):

Commonwealth Association announced non-obligatory principles that guide the successive private as well as public firms. The principles announced by European Commission and European Bank for Reconstruction and Development targeted to protect the shareholders legally, provide transparency and meanwhile not to loss competitive skill.

In Corporate Governance of Non-listed Companies in Emerging Markets report, apart from the classical reports that always targets at stock exchange firms, in many family firms that are economically powerful, financial transparency, outside capital importance conflict resolution were emphasized on.

The World Bank in a published report explained the reasons why accountability and integrity that must protect domestic investor in poor countries. It is mentioned in the report that corporate governance does not only mean to provide investor confidence or being prepared to future risks. While developing principles, the companies were advised to consider the fact that international investors who have wider area of movement have sophisticated means to reduce risks, but there is a risk of domestic investors' losing the investment that they have collected in their entire life.

While Asian Corporate Governance Association stated in a report that rather than putting general rules into effect, local rules are more appropriate for the Asian countries; in its report, New York Stock Exchange placed independent directors and their tasks to ahead of the line.

Both the systems meet demands to complement other lacking aspects. Continental governance system, which establishes long term relationships with the shareholders, puts pressures on especially the oversea investors to protect the shareholders while Anglo-Saxon governance system, which places the investor into centre, expects steps from local shareholders for the sake of social and environmental responsibilities. In other words, insider system (Anglo-Saxon) sees pressures from the outsiders whereas outsider system sees pressures from the insiders. Continental governance system transparency and Anglo-Saxon governance system can succeed to establish international common system with increasing accountability.

Unfortunately, despite the fact that some of the titles emphasized by international regulations show common grounds, it cannot be denied that they have different points of view (Cuhruk and Özkan, 2004: 10). Common and different titles are as follows (See Table 3).

Table 3: The Main Parts of the Various Regulations About Corporate Governance

OECD	CLSA	World Bank	Sarbanes-Oxley	CMB
Rights of Shareholders	Discipline	Registration and Listing Requirements	Public Company Accounting Oversight Board	Rights and Equitable Treatment of Shareholders
Equitable treatment of Shareholders	Transparency	Treatment of Shareholders	Auditor Independence	Transparency, Disclosure and Accountability
Role of Shareholders in CG	Independence	Oversight of Management	Corporate Responsibility	Conflict of Interest and Social Responsibility
Transparency &Disclosure	Accountability	Disclosure & Transparency	Enhanced Financial Disclosures	Board Responsibilities
Board Responsibilities	Responsibility		Analysts Conflict of Interest	
	Fairness		Commissions Resources and Authority	
	Social Awareness		Studies and Reports	
			Corporate and Criminal Fraud Accountability	
			White-Collar Crime Penalty Enhancements	
			Corporate Tax Returns	
			Corporate Fraud and Accountability	

Source: Cuhruk, Hande and Özkan, Atinç (2004), 'Equity Research – TURKEY Special Report: Corporate Governance on Display', (Istanbul: HC İstanbul).

CHAPTER 2

PROGRESS OF CORPORATE GOVERNANCE IN TURKEY

In order to see the existing condition and development of corporate governance in Turkey, it is necessary to look from a broader frame. The assessments which consider domestic and international economic values, political and social impacts would also give consistent results. Following chapters are: chronological, legal framework, capital markets, civil initiative, macro scale works and summary.

2.1. Chronological Developments of Corporate Governance

In Republic of Turkey, as of its foundation (1923) until 1945, there had been an economic system in which the State was the leading actor. Although this impact continued until 1960s, private sector started to grow and market economy came to life with applications after 1945. This process continued with acceleration following the implementation of liberalization reforms on 24 January 1980 led by Turgut Özal (Ararat and Uğur, 2003: 63). Liberalization and privatization gained speed by the removal of Iron Curtain, as a result, even former communist countries such as Russia, Poland and China that stayed distant from institutionalization spent great efforts in this regard; the firms in our country also tried to cope with it.

As of the commencement of EU membership in 2004, the competitors of our firms were no more the national ones. Hence, transparency was increased to a great extend to attract the investors, a standardization for the accounting principles started

to be formed. Two points that the foreign investors especially keep in mind are firstly, firms with independent members take part in board of directors, and secondly the inspection of companies by independent firms. Turkish firms must keep this issue in mind (Erdikler, 25 March 2006). It is important to emphasize on the steps taken to be a member of EU. It is vitally significant to draw the investors in EU countries where we carry out more than half of our trade and which provide FDI most (Ararat and Uğur, 2003: 64). The Process of Candidacy of EU has played a role of a catalyst in the implementation of corporate governance principles.

However, corporate governance developed rapidly in the countries where competitive conditions were established; although some Asian countries such as Singapore, Hong Kong also joined the competition, OECD member our country, which tries to get share commodity and service share from the global market, became late (TÜSİAD, 2002: 9). One of the reasons is that most of the small scaled firms in our country belong to the state or families. This condition delayed the implementation of corporate governance due to the fact that state firms are reluctant to announce financial information and there is no habit of accounting for to the community. On the other hand, the idea that announcing financial information may smash up commercial life was dominant in the family firms (Aysan, 2007). Number of firms in Turkey is like holding companies and act like business groups, which resembles Korean Chaebols and Japanese Keiretsu. The firms, which are controlled by the founding family, finance short term investments through the money pool by means of the banks that they established (Yurtoğlu, 2004: 616).

Firms are founded by families in Turkey at a rate of 80%. Families, directly or indirectly, own more than 75 % of all firms. Generally the institutionalization

starts by the second generation (Fındıkçı, 2007). Although it is time consuming that professionals take over the supervision, the rise of the institutionalization is accelerated. Following this, initial public offering is a crucial move. Due to the fact that the ownership pass into other hand; from family to public, as discussed above, efforts to follow the codes of corporate governance increased in the listed firms.

It is natural that a longer corporate history has comparatively positive affects in explaining performance (Gürbüz, 2005: 2) As a matter of fact, according to ISE researches between the years 1998-1999, while the developments in providing CEO duality, which is among important corporate principles, and having independent directors is too little, we see developments in this respect (Varış et al. 2001).

When the firm structure is analyzed, the impacts of holding companies, which are like derivation of family firms, in Turkey is an obvious phenomenon. As a natural consequence of holding companies, dispersed shareholders are not prevalent. As found by this thesis, a single shareholder controls more than 50 % of the firm (See Figure 3). Control in the dispersed firms, a natural consequence of this phenomenon, remains relatively weak (Ararat and Uğur, 2003: 67). It is not worthless that Pricewaterhouse Coopers designated Turkey as the fourth among the countries where the transparency is least executed (Ararat and Uğur, 2003: 62). Turkey reflects the features of an infant market. Primary and Secondary markets lack corporate investors; transparency in secondary markets is not sufficient. Such limitations limit the use of foreign source (Gönenç and Aybar, 2006: 300). Moreover, density of the shareholders' structure affects transparency negatively (Ararat and Uğur, 2003: 69).

2.2. Legal Framework of Corporate Governance

If we continue to look at existing condition of corporate governance from legal window, which we have designated from economic and political frame, Trade Law provides legal background for the corporate governance in Turkey. Inspired by France in 1850, the law was formed and amended in the following years being affected from German, Switzerland and Italian law. The law drew a general template in issues regarding share contracts, foundation of firms and general committee meetings (Kula, 2006: 145). Authority and responsibilities were given to managing board with the Turkish Trade Law no 6762 dated 1.1.1956. In order to have reliable financial facts, effective inner and outer supervising mechanisms were decided to be established.

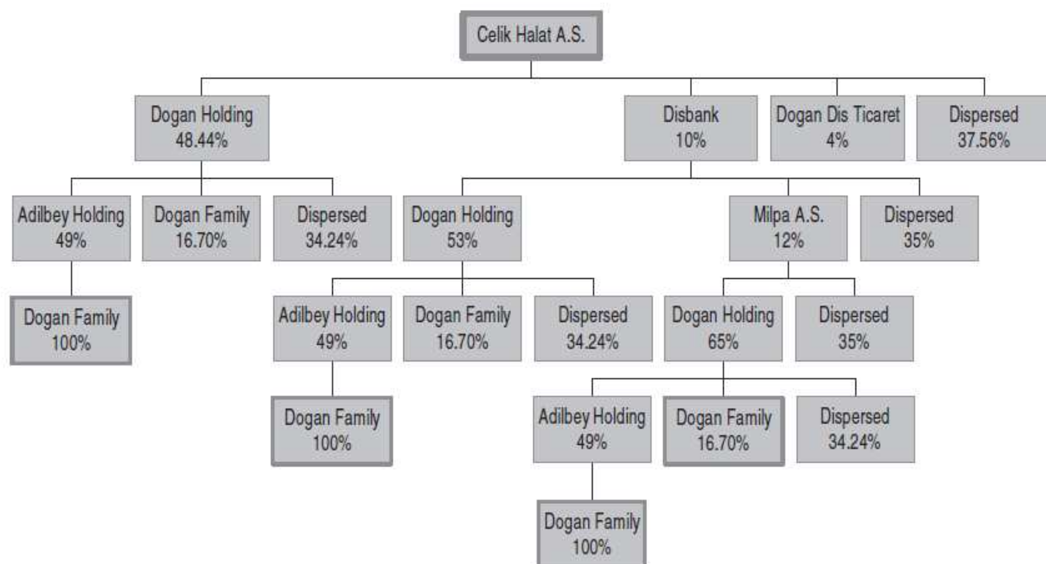

Figure 3: An Example of Pyramidal Ownership

Source: Orbay, Hakan and Yurtoğlu, B.Burçin (2006), 'The Impact of the Corporate Governance Structures on the Corporate Investment Performance in Turkey', Corporate Governance: An International Review, 14 (4), 349-63.

The Capital Market Law was put into effect in 1981 and CMB was established. Despite the fact that CMB was prepared by taking Anglo-Saxon principles into consideration, it is originated in civil law (Ararat and Uğur, 2003: 68). The Stock Exchange was established in Istanbul in 1986. ISSA G30 guidelines in 1996, Settlement and Custody Bank which was established with the considerations of 17f-5 of US SEC and CMB and ISE form the tripod of capital market (Ararat and Uğur, 2003: 66).

The independence of supervisors was obtained with the regulation no Seri: X 16 dated 4.3.1996 and they were decided not to carry our works such as fortification and expertise, and consultancy. This is greatly caused by the impact of SOX laws.

2.3. Capital Markets

As expressed in detail, CMB announced Principles of Corporate Governance on 4 July 2003. It is revised in 2005. Put into effect as of 2005, CMB, with the meeting held on 10 December 2004, required them to mention Corporate Governance Adaptation Report. It is expected that due to the report, corporate governance could be observed better (Gürbüz, 2005: 9).

Turkey has recently met with corporate governance principles. If we consider publicly-held companies as the aim of corporate governance, ISE was founded in 1986 and the first IPOs started in the late 1990s and the concept of corporate governance were talked about in the following years.

The Trade Law forms the legal base of Turkish business world. The law initialy was formed in 1850 inspired by France. Later on, amendments were made from German, Switzerland and Italian law and TTK (1956) be constituted (Kula,

2006: 145). Turkey is assessed under Continental Europe Law; and unfortunately France, which is the origin of the law and a branch of French Continental Europe, provides least protection for the shareholders (Kula, 2006: 70).

Among the legal institutions, CMB carried out the corporate governance applications first and published corporate governance principles in 2003. Opinions of ISE, private sector representatives, academicians and public institutions were also taken in order to expand the scope. Although, OECD's report published in 1999 was considered as the base, Turkey realities were not ignored. Another important legal development is the formation of XKURY by ISE.

2.3.1. Corporate Governance Principles of Capital Markets Board of Turkey

Competitive power became too much important among firms and countries. Since the physical existence of borders turned invisible, financial funds can change its position in a few minutes. Not only firms but also nations demand to maximize their profit (benefit) regardless of their own domestic markets.

That being said, CMB prepaid a framework about corporate governance in company with experts and representatives from ISE, academicians, private sector, professional organizations and NGO's. Just as OECD's corporate governance rules, addressee of the principles, largely publicly held joint stock companies, yet other joint stock companies, private and public companies can apply these principles. Though application of the rules in the framework is non-compulsory, 'comply or explain' attitude is in use.

By the decision taken on 10 December 2004, CMB decided that the annual reports to be published in 2005 would be in line with corporate governance (Gürbüz,

2005: 9). Report determined factors that tell the conjuncture of corporate governance in three levels: country level, capital market level and company level (See Table 4).

Table 4: The Factors' Effects of Corporate Governance Framework (CMB)

Country	• economic status, • financial conditions, • level of competition, • banking system, • level of development of property rights
Capital Market	• market regulations and infrastructure, • market liquidity, • existence of a sophisticated investment community • the level of implementation of international standards, • primarily accounting standards
Company	• public disclosure of financial and non-financial information, • equal treatment of shareholders, • practices and independence of the board of directors and financial benefits provided thereto, • capital structure, • level of free float, • liquidity of stocks, • level of participation of stakeholders in the decision making process, • sensitivity of the company to the environment • level of social responsibility

Source: www.cmb.org.tr

In the report, it is claimed that the returns of application of the Principles is a matter of life or death for both companies and countries.

For firms, corporate governance means, (CMB, 2005)

- ✓ low capital cost,
- ✓ increase in financial capabilities and liquidity,
- ✓ ability of overcoming crises more easily

- ✓ Prevention of the exclusion of soundly managed companies from the capital markets.

Regarding the country, corporate governance means,(CMB, 2005)

- ✓ improvement of a country’s image,
- ✓ prevention of outflow of domestic funds,
- ✓ increase in foreign capital investments,
- ✓ increase in the competitive power of the economy and capital markets,
- ✓ overcoming crises with less damage,
- ✓ more efficient allocation of resources attainment
- ✓ maintenance of a higher level of prosperity

Although it is widely accepted that there is no unique and perfect corporate governance model, the notions of equality, transparency, accountability and responsibility are main concepts in all international corporate governance literature.

Definitions of concepts:

Equality means the equal treatment of share and stakeholders by the management in all activities of the company and thus aims to prevent all possible conflicts of interest. Transparency, on the other hand, aims to disclose company related financial and non-financial information to the public in a timely, accurate, complete, clear, construable manner and easy to reach at low cost, excluding the trade secrets and undisclosed information. Accountability means the obligation of the board of directors to account to the company as a corporate body and to the shareholders. Responsibility defines the conformity of all operations carried out on behalf of the company with the legislation, articles of association and in-house

regulations together with the audit thereof (CMB, 2005: 6). In the report of CMB there are four main sections:

Shareholders: Emergence of corporate governance is a result of clashing interest among shareholders and professional executives while using pecuniary and managing rights. Hence, the solution to this matter lies in implementations of corporate governance principles. Basic rights of shareholders are to get accurate, timely information (exclude of trade secrets) and join the general meeting and vote to select the members of board. To fulfill the suggestions, mentioned above, CMB offers firms to establish a department that create and sustain the relationship among shareholders and board of directors. First thing to be done, accurate, secure and up-to-date data should be provided. Data can be about financial position, dividend policy, the candidate members attributes etc. Shareholders relations department must be accurate, timely and certain data. Any inequity among shareholders is unacceptable. Hence each shareholder has access to same level of information (exclude trade secrets) about company. This balance among minority and foreign shareholders must be created.

Each shareholder must be informed about agenda of general meetings and date, time and location must be announced via all means of communication. All financial statements, dividend policy, annual reports must be available. Agenda items should be depicted clearly prior to the meeting. Moreover the chairman must carry out the meeting which allows each shareholder exercise his/her right. Last but not least, during selection of members of the board, participants of meeting have knowledge about candidates in great detail.

Voting is the only administering power of shareholders, hence obstacles which prevent right to vote must be removed. Privileges on voting must be omitted as much as possible. Voting rights must be under guarantee and privileged shares must be restricted. In addition to this, via electronic voting or proxy, shareholder can use his/her voting right although he is not actually being present. To avoid an exploitation of minority shareholders, cumulative voting approach should be applied.

Dividend policy of the firm must be expressed clearly, in other words, it must exactly be known who, when and which amount of profit will be distributed.

Public disclosure and transparency: Two executives must be appointed to check transparency of the official document that should not contain any vague terms or target any specific group. Any change that affects value of firm must immediately be announced to the public. Moreover, ethical rules, dividend policy, financial statements should be disclosed with important notes, if any. For cheap, easy accessibility to information related to the company e.g. agendas of the general meetings, annual reports, periodical financial statements, all firms must have a multi-language website.

The threshold of the company's ownership structure is 5% according to CMB. Any person, who owns more than 5% of the company's capital, should disclose any change commercial and non-commercial transaction. In a table format, the ownership structure and rate of the shares must be announced with notes, if any. Reports and footnotes must not include any false or misleading data, and should be correlated with present laws, and international standards.

Auditors absolutely should be independent and reign in the company must be prevented. At most, auditors can be selected for two periods. Consultancy services

and audit services cannot be held by same person/company. Firms must be transparent as far as possible, however this concept should no harm the trade secrets or future investment of the company. The people, who can reach this kind of information, must disclose the informaiton to the public and necessary precautions should be taken. At last any hot development e.g. lawsuits, change in capital structure or major activities, bankruptcy must be shared with stakeholders.

Stakeholders: Stakeholder is broader concept than shareholder, and includes employees, creditors, customers, suppliers, trade unions, NGO's, government and potential investors. The company must avoid the implementation that results in any loss in stakeholders interest. To carry out this mission an effective dialogue e.g. regular informative meeting is in need between stakeholders and the company. The procedures about hiring, training, career planning and remuneration should be clear. Board of directors must create ethical, social responsible rules.

Board of directors: Most vital applications are performed by board of directors all over the company. Balancing the clash among the interest groups is one of the main functions of board of directors. Other fundamental functions of the board of directors are setting the aims, and the means of reaching these targets. Members of the board of directors and executives must do duty in fair, transparent, accountable, reliable and in good faith. The board must be composed of executive and non-executive members who are qualified enough to perform his/her duty. Any appointment made by board of directors should not contradict with current legislation or international regulations. The number of the independent members must be one third of the total.

2.3.2. Istanbul Stock Exchange Corporate Governance Index

In order to see and develop ISE firms' adaptation to the principles made public by CMB, an indexed under the name XKURY was formed. ISE Corporate Governance Index (XKURY) consists of firms that apply the principles of corporate governance.

The grading organizations evaluates the firms in respect to their adaptations to principles; and the firms receiving grade of 6 out of 10 enters the Index. It commenced on 31.08.2007 by the notification of 5 firms that received 6 points out of 10. In order to stay in the record, the firms in the Index are provided facilitations for registration fee. Doğan Yayın Holding is the first to announce corporate governance index point as 8.0 on 19 April 2006.

It is obvious that the index would be a source of prestige and priority for the national and foreign investors when they value their investments. The success of the firms in the Index will also be an indication for other firms. The interest for the Index increases every year, while there were 7 firms in Index in 2006, there were 15 firms in 2008 and the number reached to 26 in 2009. The pleasing thing is that in addition to the number of listed in the XKURY increases, while average rating was 7,86 in 2007, it increased to 8,14 in 2009.

Table 5: Firms Listed in the Corporate Governance Index at ISE till 2010

	Number of Firm	Cumulative	Updates	Mean of Corporate Governance Rating
2006	1	1	0	8,00
2007	6	7	2	7,86
2008	8	15	8	7,86
2009	11	26	12	8,14
2010	1	27	2	8,37

Source: www.tkyd.org

2.4. Civil Initiative

When we look at the applications of corporate governance principles in Turkey, we see TUSIAD at the front. TUSIAD put first code of the best practice into effect in December 2002. It is highly important that this is even prior to regulation of CMB.

Civil society establishments did not remain silent against this issue, and in order to establish corporate governance understanding with its best implementations, Turkey Corporate Governance Association (TCGA) was founded in 2003. As many as 500 boarding committee members and high level administrations put efforts to improve existing condition and overcome obstacles of Corporate Governance in Turkey. Association exhibits active workings and organized 14 programs in Konya, Erzurum, Trabzon, Bursa, Gaziantep, Denizli, Adana, Ankara, Kocaeli, İzmir,

Diyarbakır, Kayseri, Antalya and Eskişehir in May 2006 and May 2007. 408 boarding committee members and high level managers participated in these programs. Turkey Corporate Governance Map was researched with Boston Consulting Group, OECD governance principles were translated to Turkish and distributed to 26.000 people with Capital journal. It has been publishing Corporate Governance Journal since January 2008 (TKYD, 2010b).

2.5. Macro Scale Works about Corporate Governance in Turkey

Researches have been conducted by international and Turkish policymakers, regulators and academicians on corporate governance. These studies now focus on not only financing issues in emerging markets but also firm performance and balance between the law and market conditions (Ararat and Uğur, 2003: 71).

It is explored with a research, in which investors' legal protection against exploitation was analyzed, carried out by LLSV with sampling from 49 countries, that the countries where common law is applicable find more external finance comparing to the countries including Turkey that are subject to civil law. As a matter of fact, since he/she will be protected against the exploitation, the investor will not hesitate to use the finance he/she has. Turkey ranks at the bottom of even the French civil law countries where shareholder protection is the least (LaPorta et al. 1997).

World Bank and IMF, with the Report on the Observance of Standards and Codes (ROSC), watched legal environment and applications in reporting in Turkey; and specified that it is not developed enough.

Table 6: Comparison of Turkey with Anglo-Saxon and Continental Approaches

Criteria	Anglo-Saxon (English origin average)	Continental (French origin average)	Sample Average	Turkey
External Cap/GNP	0,6	0,21	0,4	0,18
Domestic Firms/Pop	35,45	10	21,59	2,93
Accounting Standarts	71	54,5	64	51
IPOs/Pop	2,23	0,19	1,02	0,05
ROI	1,02	0,59	0,75	0,52
Antidirectors Rights	3,39	1,76	2,44	2
One-Share=One-Vote	0,22	0,24	0,22	0
Creditor Right	3,11	1,58	2,3	2
Rule of Law	6,46	6,05	6,85	5,18
Debt/GDP	0,68	0,45	0,59	0,15
Tobin's q	1,3724	1,2022	1,2728	n.a
Growth in Sales	12,88	11,03	12,64	n.a
CF Rights	0,25	0,32	0,29	n.a
Control Rights	0,33	0,43	0,39	n.a
Wedge	0,08	0,11	0,1	n.a

n.a: not avaliable

Sources: Rafael LaPorta,Florencio Lopez-De-Silanes,Andrei Shleifer,Robert W. Vishny (1997), 'Legal Determinants of External Finance', The Journal Finance, LII (3), 1134-38

Gugler, Klaus, Mueller, Dennis C., and Yurtoğlu, B.Burçin (2003), 'Corporate Governance and the Returns on Investment, Finance Working Paper', (European Corporate Governance Institute), 53.

LaPorta, Rafael, et al. (2002), 'Investor Protection and Corporate Valuation', *The Journal Finance,* LVII (3), 1147-70.

External cap/ GNP: The ratio of the stock market capitalization held by minorities to gross national product for 1994.
Domestic firms/Pop:Ratio of the number of domestic firms listed in a given country to its population (in millions) in 1994.
Accounting Standarts: Ratio of the acconting application in the selected sample out of 100 points.
IPOs/Pop: Ratio of the number of initial public offerings of equity in a given country to its population (in millions) for the period 1995:7-1996:6.
Antidirectors Rights: An index aggregating shareholder rights. The index is formed by adding 1 when: (1) the country allows shareholders to mail their proxy vote; (2)shareholders are not required to deposit their shares prior to the General Shareholders' Meeting; (3) cumulative voting is allowed; (4) an oppressed minorities mechanism is in place; or (5) when the minimum percentage of share capital that entitles a shareholder to call for an Extraordinary Shareholders' Meeting is less than or equal to 10% (the sample median). The index ranges from 0 to 5.
One-Share=One-Vote: Equals one if the Company Law or Commercial Code of the country requires that ordinary shares carry one vote per share, and 0 otherwise.
Creditor Right: An index aggregating creditor rights. The index is formed by adding 1when: (1) the country imposes restrictions, such as creditors' consent or minimum dividends, to file for reorganization; (2) secured creditors are able to gain possession of their security once the reorganization petition has been approved (no automatic stay); (3) the debtor does not retain the administration of its property pending the resolution of the reorganization; (4) secured creditors are ranked first in the distribution of the proceeds that result from the disposition of the assets of a bankrupt firm. The index ranges from 0 to 4.
Rule of Law: Assessment of the law and order tradition in the country. Average of the months of April and October of the monthly index between 1982 and 1995. Scale from 0 to 10.
Debt/GDP: Ratio of the sum of bank debt of the private sector and outstanding nonfinancial bonds to GNP in 1994, or last available.
CF Rights: The fraction of the cash-flow rights held by the firms's controlling shareholder
Tobin's q: The ratio between the market value and replacement value of the same physical asset
Control Rights:Fraction of the firm's voting rights,if any, owned by its controlling shareholder
Growth in Sales:The tree-year geometric average annual growth rate in sales
Wedge: The difference between control rights and cash-flow rights

World Bank and IMF especially recommended that accounting must be standardized and controlled from a single hand, and it must be mentioned in new Commercial Code to be established. The report also pointed out that the financial statements which cannot be controlled effectively whether they are prepared in a reliable way are not open to all the investors and causes opaque investment condition (WorldBank, 2007).

Heidrick & Struggles, a leadership advisory firm, considered composition of the board, working style of the board, transparency as the main dimensions in EU

countries in 2009. Turkey scored only 23 points whereas UK scored 77, France 60 and Austria 36; EU average was 56. Some of the points worth noting are as follows (Heidrick&Strugless, 2009):

- ✓ 87 % Turkish firms maintained CEO duality but 8 % COB is former CEO.
- ✓ Size of the board is 8.5 in Turkey versus 11.8 members across Europe.
- ✓ With the average age of 54.6, Turkish boards have the youngest members in Europe.
- ✓ Half of the Turkish companies have a committee, that is, audit committee.
- ✓ When we analyze remuneration of directors, Turkey ranks at the bottom with 22.000 € in the list where Switzerland ranks the top with 194.000 €.
- ✓ In Turkey, full board meeting is held four times more than Europe.

2.6. Summary and Recommendations

When assessed in general, it is seen that Turkey does not implement Corporate Governance principles completely. The reasons are summarized in the following paragraphs:

The investors do not see Turkey as a reliable port due to Turkey's structure which is not transparent. Low liquidity, high volatility, high cost of capital (low firm valuation) and limited new capital formations are the characteristics of the market. Because of the number of family firms, controlling shareholders has significant place in shareholding structure and have leveraged cash flow rights due to privileged shares and pyramidal ownership structures. Manager and other employees have

expropriation risk. Unfortunately, shortcomings in the legal and regulatory framework increase the percentage of the investor.

However, Turkey's big market have maintained advantages for the applications conducted in recent years for foreign direct investment such as young population, cheap labor force, geographical advantages. Recent developments in the financial sector which could respond to financial crisis in 2001 cannot be ignored (WorldBank, 2007). Some developments are still required to turn the advantages to investments.

> *This will require an effective corporate governance system which relies on a combination of firm level and institutional control. An effective property rights regime, enforcement of contract law, a well-regulated banking sector, adequate and enforced bankruptcy procedures, sound securities markets, laws and regulations that ensures competition and remove barriers to foreign investment, transparent and fair privatization procedures, transparent and fair taxation regimes, an independent, well-functioning judicial system, effective anti-corruption measures, empowered and participative public, an investigative and informed media, strong reputational agents (self regulatory bodies such as accounting and auditing professionals, corporate governance analysts, consumer activist and environmentalist), an active, integrity-based business community are essential institutional components of good corporate governance (Ararat and Uğur 2003: 71).*

Turkey, trying to maintain local high standards with institutional reforms, effective and timely implementation, with merger and acquisitions in the country and joint venture abroad is powerful enough to achieve it (Heidrick&Strugless, 2009: 4). Paying attention to transparency and equity in stock exchange reports, and standardizing accountings, will facilitate domestic and foreign investors to a great extend (WorldBank, 2007: 31).

Finally, it is worth to mention that corporate governance in Turkey is integrity of principles demanded by the present and potential investors rather than

being a requirement for the firms. The awareness for corporate governance can increase only by the increase of the demands (Gürbüz, 2005: 16).

While family firms use equity capital, professional firms obtain their finance by loaning from the creditors regularly. On the other hand, corporate firms get their financial resources from capital markets (Aktaş, 2009).

CHAPTER 3

PERFORMANCE and CORPORATE GOVERNANCE

3.1. Corporate Governance and Performance

There is a general consensus that while taking feedback, it may be appropriate to see if the corporate governance principles work out in practice. These feedbacks, which have vital importance for the investors, are obtained with the empiric relationships between corporate governance and performance. So far most studies have shown that corporate governance mechanism has correlated closely with the company value (Shleifer and Vishny, 1997).

As a matter of fact, it is natural that, in empiric works that examine relationships between the corporate governance and performance, the results contradict with each other due to the fact that they are carried out under different time intervals on different samples and different conditions. Despite this, according to researches which use firm based performance criteria in works that take dividend income as performance criteria, more positive results were found out (Gürbüz, 2005: 3).

Klapper and Love (2002) researched for World Bank, the relationship between emerging market corporate governance and firm performance (ROA and Tobin's Q) in 14 countries including Turkey. Based on questionnaire results on discipline, transparency, independence, accountability, responsibility and fairness, concludes that firms with better corporate governance have higher market value. When the country factor is added, the positive impact gets stronger. Also past growth

rates are positively associated with good corporate governance. It is discovered that in the countries where legal protection is comparatively weaker, the application of corporate governance principles provided higher returns (Klapper and Love, 2002).

In their research, **Chu, Chen and Wang (2008)** selected financial service industry as the sector and ROA as dependent variable. They investigated the association between market share and profitability. It is statistically proved with ANOVA results that there is a positive relationship between market share and ROA. It is explored that the firms with foreign investors show better performance (Chu et al. 2008).

Gugler, Mueller and Yurtoğlu (2003) also conducted a study to investigate the legal relationship of the return on investment and application level of corporate governance. Basic approaches and their impact on the corporate governance in the related country were analyzed. They found that, if the agency problem could be minimized, the growth ability would increase to a certain level. This concluded high rate of ROI. Moreover, in the research in which the weakest system was the French, Anglo-Saxon legal system provided the strongest protection relative to Scandinavian and German systems (Gugler et al. 2003: 12).

Gompers, Ishii, and Metrick (2003) divided 1500 US firms as democratic (protecting the shareholders at maximum level) and dictator. Stronger shareholder rights lead to better operating performance and higher market valuation. According to the researches in 1990s, the returns of the firms that provide more protection to share holders add 9 % more (Gompers et al. 2003).

In their research, where 539 large firms from 27 countries in which law and specific rules was taken base in share holder protection criteria, **La Porta, Lopez,**

Shleifer and Vishny (2002) tried to measure performance (Tobin's Q). In the firms with better protection of shareholder, there is little minority expropriation. Better investment opportunities and Higher cash-flow ownership by the controlling shareholders leads to higher Tobin's q (LaPorta et al. 2002).

By using corporate governance principles, **Chen, Kao, Tsao and Wu (2007)** setup 'Governance Index' with the criteria of CEO duality, size of the board, managements' holdings and block shareholders' holding. The Index, which is formed under the circumstances, is significantly related to equity prices (Chen et al. 2007).

Black (2001) conducted a research on 21 Russian firms. He found a strong correlation between a governance index and the share prices of Russian firms. A worst to best governance improvement predicts a 700-fold increase in firm value. Although the result is very surprising owing to the fact that the sample is small, it is significant for a country like Turkey where legal protection is comparatively weak (Black, 2001).

Black, Jang and Kim (2006) studied Korean firms by forming a corporate governance index (KCGI). The works of LLSV, in which countries were compared in terms of protecting minority share holders, had a firm-level integral observation. A difference of 160 % was formed between the ones receiving the best and the worst KCGI grade among 515 firms. It is seen that if half of the members consisting the board composition are from abroad, it returns extra 13% (Black et al. 2006).

With the corporate governance index they formed for the Chinese firms and ROA, **Wei'an and Yuejun (2007)** attempted to designate the level of relationships of several variations such as earning per share, operating cash flow per share, total asset turnover. With the help of index, they found that application of corporate

governance principles in a right way results in better profitability, higher stock expansion ability, growth and development potential (Wei'an and Yuejun, 2007).

Durnev and Kim (2005) used a multi-country approach to assess whether governance choices predict firms' market value. It has been found that higher scores on both the CLSA corporate governance index and disclosure level index predict higher Tobin's q for a sample of 859 large firms in 27 countries. The corporate governance is more important in the countries where legal protection is weaker (Durnev and Kim, 2005).

In a research, the criteria is investment relative to the cost of capital (qm) to measure the corporate governance effect. There is English origin 1.02 percent and French origin 0.59 percent, the ratio of African countries' return on investment is 0.77 between the two. This is a proof that there is strong corporate governance among the African countries against the expectations (Gugler et al. 2003: 12). In researches for firm-level governance, the firms within the same country showed great variations. For example in data in which average of application level is 54.11/100, the firms in Pakistan took values between 17.25 and 66.68 (Klapper and Love, 2002: 9).

Following the works that explored the performance relationships, let's look at the works that show impacts of corporate governance effects on the performance of firms during the time of crisis. Followings can be listed among the reasons why corporate governance becomes more important in crisis; there is more minority shareholder expropriation and investors are more willing to direct their investments towards other places (Mitton, 2001: 216).

3.2. Corporate Governance and Performance During the Crisis

Corporate governance, proving its financial effects recently, has become an important factor in the period of directing the financial investments of the corporate as well as individual investors. The researches continue to trace the impact of corporate governance on various sectors. This has been going on increasingly in academic and business world recently. A number of studies have examined that corporate governance is an important factor in financial markets and firm value (Mitton 2001; Wei'an and Yuejun 2007; Yuejun 2006).

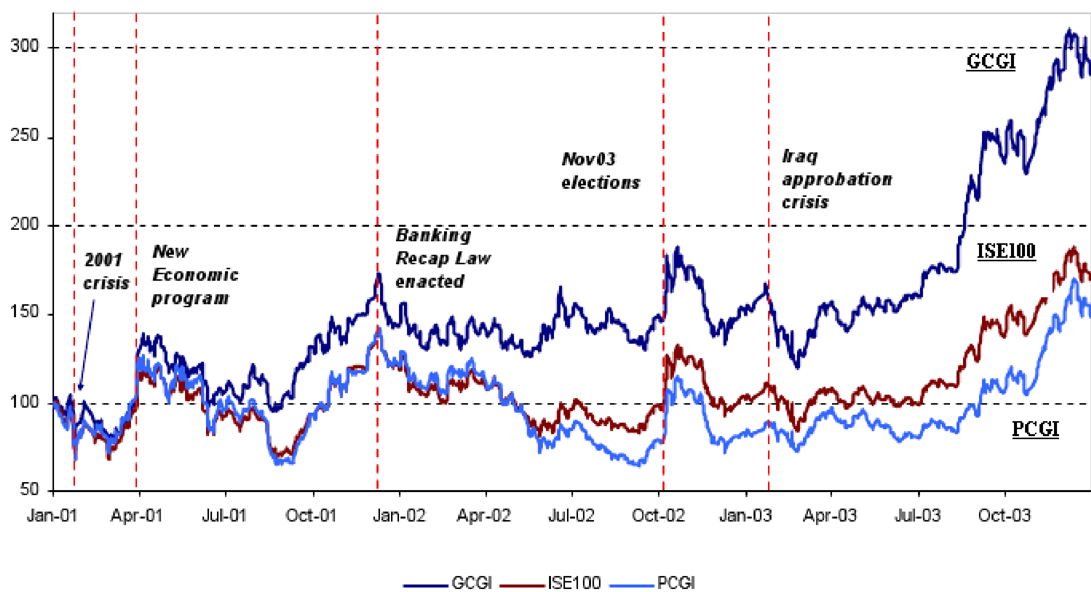

Figure 4: Relation between Level of Corporate Governance and Firm Performance
Source: Cuhruk, Hande and Özkan, Atinç (2004), 'Equity Research – TURKEY Special Report: Corporate Governance on Display', (Istanbul: HC Istanbul).

Vital importance of corporate governance surfaces during a time of crisis. The firms, which applied the principles of corporate governance well during the crisis (GCGI), performed well in ISE and vise versa (See Figure 4). After all, corporate governance concept appeared after large-scale companies' collapses. As a matter of fact, the emergence and rise of corporate governance principles took place

after big financial crisis and scandals. In fact, declaration of OECD principles was followed by Southeast Asia Crisis, and the emergence of Sarbanes-Oxley Act took place after Enron scandal. Many countries issued laws to regain the confidence of public towards the firms experiencing scandals, and were bound to apply a series of corporate governance principles (Aysan, 2007: 74).

Crisis refers to a situation that alters the present and future condition of the available system, emerges unexpectedly, in which new rules and conditions become dominant, and it is necessary to take decisions rapidly and when it is too late to take precautions (Wikipedia, 2010). On the other hand, economic crises can be defined as the experience of any phenomenon such as recession, inflation or deflation (Eğilmez, 2009: 48). Losses, bankrupting corporate, fall of employment, decrease in the prize of share certificates, devaluation of currency and long term sociological distrust are among the negative effects of a crisis (Gönenç and Aybar 2006: 299).

Mitton (2001) conducted a research on 398 firms between the years 1997-1998 on the impacts of corporate governance during the crisis on firm performance by using disclosure quality, ownership structure and corporate diversification criteria. He selected these criteria especially for the reason that they would maximize the protection of minority shareholders. Diversification affected negatively while other criteria had positive effects. The fact that the corporate governance brings more stock return during the crisis proved within the frames of these criteria (Mitton, 2001).

In their research on 800 firms, **Lemmon and Lins (2003)** stated that time of crises wrecks their investments, as a result of which the exploitation of minority shareholders by the majority shareholders increase. The pyramid structures formed by controlling shareholders are seen to have less stock returns. While pyramid

structures bring 12 % less return, by the interval of managers this ratio increases to 20 %. On the other hand, in the observations prior to crisis, it was said that the pyramid structures did not cause significant differences (Lemmon and Lins, 2003).

In their work, in which they analyzed 1997 Korean Crisis, **Baek, Kang, and Park (2004)**, they explored that the crisis pave the way for smaller equity of concentrated ownership and unaffiliated firms. While firms with high flexibility got out of the crisis with the smallest loss, the firms with chaebol structure got smaller incomes. It was seen that the incomes with high leverage, highly diversified small firms got lesser and lesser (Baek et al. 2004).

Chang, Park, Yoo (1998) studied mechanisms that caused crisis in Korea. They accepted ill managed administrative mechanisms type such as crony capitalism, over-investment and high debt. However, they said that no great systematic change was needed in corporate governance for a solution. They said that such changes would Americanize Korean firms (Chang et al. 1998).

Although the works studying performance relationships in Turkey are not adequate, they continue increasingly.

Varış, Küçükçolak, Erdoğan and Özer (2001) conducted one of the most extensive works on the Istanbul Stock Exchange between the years 1998-1999 analyzing 275 firms in the stock exchange. They scrutinized the relationships between the market and the financial performance keeping the OECD corporate principles in mind. As market value, volatility, cumulative adjusted return market performance; loaning, profitability, liquidity and performance criteria were selected. With the application of corporate governance principles, the firms came to the forefront in regard to the criteria mentioned above.

Gürbüz and Ergincan (2006) analyzed the performance of the firms according to the principles prepared by CMB on ISE-30 firms. The Index was developed with the criteria such as being open to public, concentrated ownership and measured the firms with a scale between 0 and 100. They divided the firms into 5 groups (the best is 5 and the worst is 1), and made a comparison among the sub groups. The increase of 10 points in the corporate governance index led 0,2 point increase for the 1st group, 3 points for the 2nd group, 4 points for the 3rd group, 1,1 for the 4th group and 4,6 points for the final group. The results demonstrate that the share income of the firms applying corporate governance is more.

There are works that analyze performance relationship in Turkey by taking corporate governance principles as criteria during the crisis.

Gönenç and Aybar (2006) carried out a study of 12 months concentrating on ownership and business group affiliation in 198 non-financial firms that covers 2001 February crisis. Concentrated ownership performance was found to be negative and significant. This is the variable that made the most important impact on the study. They analyzed the stock return of the non-affiliated firms, and against the expectation they did not find significant difference among the ones dependent in a group. Another result is the fact that the period of crisis increases exploitations.

Whereas almost all the firms perform better while the market conditions are good, the firms applying the corporate governance codes in the crisis lose less during recession. In other words, the firms which were not rigid in applying governance principles lose more in the crisis (Baek et al. 2004: 310). Losing more in crisis is one of the reasons for the emergence of the importance of corporate governance in crisis. As a matter of fact, to take the decreased profit to a certain level, there is more

exploitation. The investors who do not feel themselves secure at the commencement of a crisis direct their financial supports to other countries and sectors (Baek et al. 2004; Mitton 2001).

With the bankruptcy of 10 banks in 2001, Turkish treasury bills were taken from the foreigners, which led to capital outflow and caused a serious liquidity pressure. The indications of the crisis was seen when Central Bank quitted providing liquidity. The crisis, whose indications were seen clearly, broke out with the conflict between the Prime Minister and the President on 21st February. It caused Turkish currency to lose 31 % value within two days (Gönenç and Aybar, 2006: 299). Not only the banks collapsed themselves, they put many entrepreneurs in adverse conditions, as a matter of fact 259 associations were collapsed with the banks. Our economy was shrank 9,5 % in average; the high number of inflation and unemployment caused hardships in our country. The number of unemployed people was 51.024 only due to the collapse of the banks (Aysan, 2007: 23).

Financially strong firms find capitals with low interest rate for a long term easily including the period of the crisis and make a significant difference in comparison to their competitors (Ünal, May 27 2006). The firms preserving their market and share values gain great advantage after crisis.

CHAPTER 4

THE EFFECTS OF CORPORATE GOVERNANCE APPLICATIONS ON MANUFACTURING COMPANIES'PERFORMANCE DURING THE FINANCIAL CRISIS

4.1. Research Objective and Hypothesis

The objective of this study is to investigate the impact of corporate governance principles on firm performance during the 2008 financial crisis. For this purpose, an empirical model is set up including a dependent variable (ROA), eleven independent variables (largest block shareholder of firm, local and foreign affiliation, board size, CEO duality, firm age , the rate of public share, time span from initial public offering, import ratio, export ratio, debt ratio) and two control variables (firm size, sub-sectors). The model of the study is figurized below:

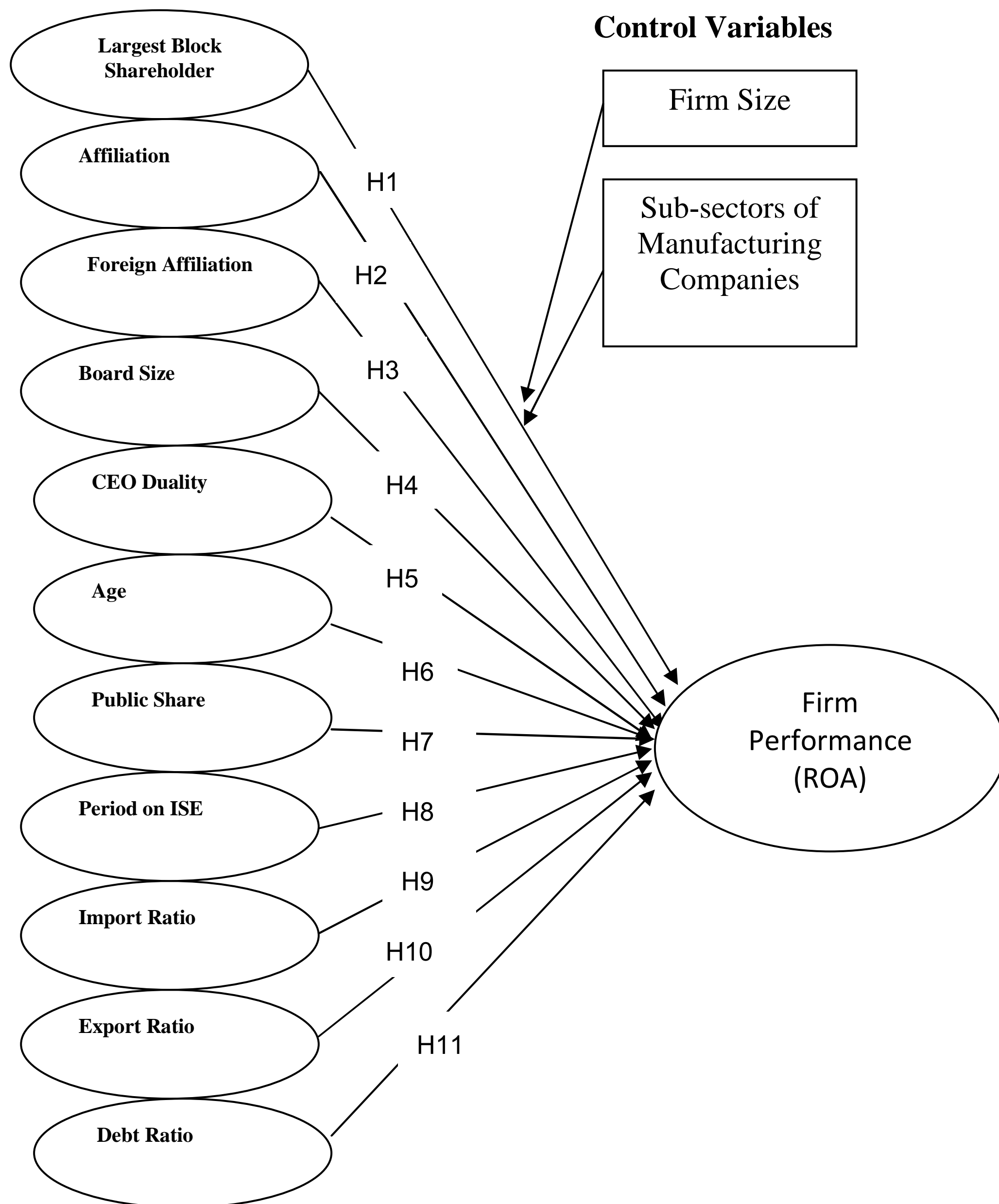

Figure 5: Hypothesis and Control Variables

H1.Concentrated shareholder has positive association with the firm's performance.

The basic problem of corporate governance is the conflict between large shareholders and minority shareholders. It is just because the benefits of these parties do not overlap. The researches of effect of concentrated shareholders are increasing around the world. The overall effect of this variable, however, remains unclear. Concentrated ownership and in parallel with rising pyramidal structures concludes to lower return on assets, lower market to book ratio, lower dividends (Yurtoğlu, 2004). Concentrated ownership leads to an opacity at the center with a bank, which causes the fall of investments (Ararat and Uğur, 2003: 69).

The basic challenge of concentrated ownership is exploitation of minority shareholder. Even if the rights of minority shareholders are abused for the sake of majority shareholders' interest. Furthermore, unfortunately election of the board of directors has reflections of this abuse. Members of the board of directors will seek benefit of electors, majority shareholders instead of other parties' rights. In parallel with this theory a study examines this relationship between the members of the board of directors and CEO. Research results disclosed that, the rate is 27 % between each other, 6% with CEO. Meaningfully, in candidate firms of ISE, respectively these rates are 38% and 18% (Varış et al. 2001: 123).

Moreover, sometimes large shareholders can themselves engage in expropriation. Individual shareholders usually do not seek to exercise governance rights but may be highly concerned about obtaining fair treatment from controlling shareholders and management (OECD, 2004b: 12).

Since they also provide an environment for the formation of pyramid structures, concentrated ownership affects the performance negatively. This is because the pyramid structures are the ones in which family members reign and the professionals have difficulties to conduct their works (Gugler et al. 2003: 20). For example, chaebol, which are varieties of family structure, have less share incomes during crisis (Baek et al. 2004: 310).

On the other hand, the controlling shareholders' behavior has a positive correlation with information disclosure level which leads better governance. Previous studies reveal that if there is a block shareholder, the monitoring the board of directors and managers became easier. The higher the information disclosure is, the higher the ROE is, as well as the ROA, EPS and financial security (Wei'an and Yuejun, 2007). Large shareholders can benefit minority shareholders because they have the power and incentive to prevent expropriation (Mitton, 2001). Perhaps the greatest contribution of the large shareholders is to reduce agency problems between the administration and the investors. It seems probable to form better governance mechanisms and prevent taking unwanted decisions (Shleifer and Vishny, 1997). The advantage of concentrated ownership is in addition to reducing agency problem it provides a good financial performance (Loderer and Waelchli, 2009: 13). Even at times when the protection of investors is weak, ownership concentration resolves agency conflict between controlling and minority shareholders (Durnev and Kim, 2005: 1488). Along with bringing various interpretations about the performance of concentrated ownership, some researches show that the firms with dispersed ownership showed lower performances in Anglo-Saxon whereas they brought high

return on investment in the countries with weaker corporate governance (Gugler et al. 2003: 12).

H.2 There is a positive association between affiliation and firm performance.

A situation that occurs when one company owns a minority interest in another company in that mostly a well-known company is holder of the shares. Some works presupposes not minority but directly or indirectly at least 50 percent share (La Porta et al. 2002: 1154). Affiliated companies are more ambitious to follow rules of corporate governance (Yurtoğlu, 2001).

If the majority of the shareholders are not individuals but firms, the control of the board of director is better. As a matter of fact, it is difficult for a single person (no matter if he is a big shareholder) to have technical knowledge and time to maintain the control of the company alone (Varış et al. 2001: 123). Moreover, it is expensive and tiresome. It is for this reason that the shareholders rely more on the companies of specific institutions. Such firms, consequently, feel more desires for funding. The firms consisted of many firms are affected less from the crisis owing to inner group cooperation (TKYD, 2010a: 13).

Some of the firms in Turkey have holding entities and they resemble Korean Chaebol as they act like business groups. The firms obtain financing short term and long term investments through the money pools created by the banks they establish. The importance of it increases when hot money is reduced and the interest rates are increased (Gönenç and Aybar, 2006: 300). According to a research conducted on Japanese firms (kerietsu) with high affiliation rate, there are lower returns on investment relative to their costs of capital than do independent companies (Gugler et

al. 2003: 21). In researches when the return of the firms are calculated, it was observed that they brought less return in crisis (Baek et al. 2004: 310). In some other studies, stock returns of non-affiliated firms are analyzed, contradictory to the expectations, no significant difference was found among the firms affiliated to a group (Gönenç and Aybar, 2006: 310).

H.3 There is a positive relationship between foreign affiliation and firm performance.

A portion of shares of the firms in the stock exchange is held by the foreign investors. The reliance to these companies is quite a lot in developing countries like Turkey. It is for the psychological reasons as much as it is due to positive approach that money transferred from abroad facilitates to get rid of a likely depression in financial adversities. Besides, it is a factor that investing firms are to be firms with high brand value.

The sensitivity of the foreign investors in controlling their investments in other countries is at high level. It is known that the firms whose shares belong to foreign investors demonstrate better performances (Chu et al. 2008: 823). For firms, having foreign partners affect the protection of minority shareholders positively. It causes a higher protection of minority shareholders in comparison to the firms not protecting the performance (Tobin's Q) of the firms (La Porta et al. 2002: 1154). Foreigner investors affect the returns of the firms positively during crisis, in other words a smaller fall is experienced (Baek et al. 2004: 310). It is known that non-domestic investors prefer larger firms. As a matter of fact, the probability of

formation of asymmetric information is lower comparing to the small firms (Lin and Shiu, 2003: 40).

H.4. There is a positive relationship between number of total directors and overall performance of firms.

Board of director is the mechanism that takes firm's strategic decisions which are subject to supervision for implementations. It is consisted of members selected by the shareholders. The selection of means to reach assigned goals is another task of the board of director. The committee executes by establishing sub-committees such as audit, nomination and risk committees etc. It also plays a key role in establishing connections between the managers and the shareholders (Mallin, 2004: 96).

The number of board members varies depending on the size and type of the firm. As a matter of fact, many researches show that having a definite number of members facilitates the works and control to a great extend. It is observed that the shares of the firms which are administered and supervised well are preferred by the investors. Furthermore, excessive number makes communications between the administrators more difficult, hence the period of giving decision extends (Heidrick&Strugless, 2009: 4) .

To mention an accurate number, according to a report prepared by CMB, the size of board of director is recommended as maximum 12 in Belgium and 13 in Greece while it is limited to minimum 3 in Sweden. Spain considered that the number of board is convenient between 5 and 15. Holland, Portugal and France did not assign any number; however they recommended that the size of committee

should not be so large to prevent effective participation to general committee (Varış et al. 2001: 21).

Whereas Jensen stated that the number above 7 or 8 decrease its affectivity, Lipton and Lorsch said that it is essential to limit the number 10 (Chen et al. 2007: 252). TÜSİAD recommend that the number should be changed between 5-15 members according to the needs of the firm without altering the main contract. Moreover, it is said that the odd number of members do not block decision making process (TÜSİAD, 2002: 20).

According to a research conducted by Yermack on 452 US firms in a period of 7 years, a more effective committee was formed by fewer numbers, the control mechanisms worked productively and it was reflected to the value of the firm positively (Yermack, 1996) (See Figure 6). Other works also supported the same results. Exceeding number of members is negatively related to equity prices (Chen et al. 2007: 257).

When measured with other criteria, various outcomes are found about financial performance. Board size has positive relation with total asset turnover (TAV) but negative relation with ROE (Wei'an and Yuejun, 2007: 14).

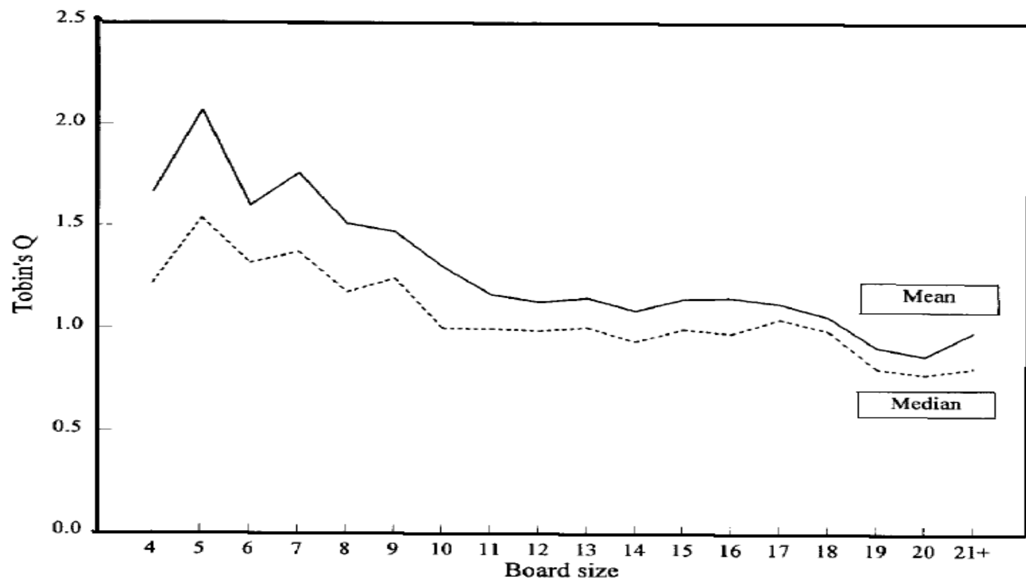

Figure 6: Relationship between Board Size and Performance
Source: Yermack, David (1996), 'Higher Market Valuation of Companies with a Small Board of Directors', *Journal of Financial Economics,* 40, 185-211.

H.5. There is a negative association between CEO duality and firm performance.

The expression of ‘duality’ refers a man wears two hats- one Chairman of the Board (COB) and Chief Executive Officer (CEO). The fact that Chairman (COB) and Chief Executive Officer (CEO) have the same tasks causes administrative gap for two basic reasons. Firstly, the efficiency of the person, who would both take strategic decisions that may affect the future of the company and implement them on time, would decline depending on the workload. It is unavoidable that such declined efficiency leads to wrong decisions and thus to financial loss (Rechner and Dalton, 1991: 155).

Secondly, CEOs have responsibility for the board of administration and shareholders. If the CEO is also the chairman of the board (COB), the control

weakens due to business turbulence for he will be the one heading the board of administration to whom he has responsibility to (Chen et al. 2007; Geneen 1984).

However, although the stated theory is quite important for large firms, CEO duality has seen to have made negative effects in small scaled firms (Chen et al. 2007: 253). Yet, decisions in small scaled firms do not vary and the field of application remains narrow. The company will have economic loss for the fact that the presence of CEO duality leads the company to have a bulky structure. (Palmon and Wald, 2002: 223).

H.6. There is a positive relationship between firm age and performance.

Age is taken as variable in the studies as it is a factor that impacts the firm in many ways including its impact on corporate governance. While number of studies claim that the performance of the firms getting aged move positively; (Agarwal and Gort 2002; Bahk and Gort 1993; Baker and Kennedy 2002; Fındıkçı 2007;Gürbüz 2005; Varış et al. 2001) others claim the opposite (Cooley and Quadrini 2001; Lang and Stulz 1994; Loderer and Waelchli 2009). Some of the studies asserted that the age factor did not have any affect (Yurtoğlu, 2004).

Organizational immortality is a target that every firm aims to reach at. In fact, the more the years pass by, learning increases with day-to-day activities. Education of the employees and the contributions of R & D department are important in it. They specialize in some production phases and increase their profitability (Bahk and Gort, 1993). Cost reduction is maintained through learning-by-doing, and the firm may establish a system for knowledge, ability and skill, it copies the system in lower prices and uses means of communication that gets cheaper and faster, and may

transfer to educational phase with no cost. (Agarwal and Gort, 2002: 185). In a work that studies delisting of the firms from the stock exchange, when return is analyzed in respect to the years, the returns of the 10s is lower than those of 20s (abnormal returns) (Baker and Kennedy, 2002: 340).

There are also disadvantages of age. Older firms lose their ability to compete in the industry. In addition to slower growth, reduced flexibility, older assets, reduced R&D investment are seen. Higher CEO compensation, declining ownership concentration and larger boards pave the way for unqualified corporate governance. Along with profitability measure (ROA) one of the issues that the thesis studies, it causes the fall of Tobin's Q and gross margin values. The rate of fall for ROA is 0.15 % for the first ten years and 0.10% and the following ten years (Loderer and Waelchli, 2009: 4-22). Moreover, employment and job creation skills are also reduced (Cooley and Quadrini, 2001: 1287). Some studies reached at different results. Being listed in the stock exchange or having long history of establishment do not impact the profitability of a firm greatly (Yurtoğlu, 2004: 624).

H.7.The percentage of public shares has a positive relationship with firm's performance.

Financing through issuing shares to the public is gaining momentum; hence a company is to maintain many criteria accordingly. What controls the principles for whether the criteria are maintained is firstly CMB aforementioned in detail. The control mechanism passes to stock exchange users while the company joins the stock exchange. This forms a control level right proportional with company's being open to public. In other words, it is not expected that the sensitivity to the changes in the

stock exchange of the firms which is open to public to a small extend and the one with a great extend are not the same.

Furthermore, new firms willing to join the stock exchange are being obliged to have corporate governance at maximum level. This paved the way for candidate firms to start declaring their corporate governance index. (TKYD 2010) The rate of being open to public affects corporate governance applications positively (Gürbüz, 2005: 16).

We can understand the positive impact through the firms not open o public. For instance, since agencies are not bound to be open to public, the general committee is consisted of fewer members; the shares are collected at the hands of specific people and the appointment of a higher level administrator take place in an oligarchic order (Varış et al. 2001: 123).

H.8.There is a positive relationship between time interval since initial public offering and performance of firms.

Being listed in the stock exchange is important for the firms both financially and for corporate governance perspective. As a matter of fact, there are firms that take the year of being listed in the stock exchange as base (B. S. Black et al. 2006: 36). Listing affects not only ownership structure but also capital structure and growth opportunities (Loderer and Waelchli, 2009: 15).

By the recent arrangements of CMB, to be open to stock exchange means to be open to control. As of joining the stock exchange, firms are obliged to publish their financial statements and report of consistency to corporate governance. The reports published for transparency are scrutinized by lots of people for investment

and research (Klapper and Love, 2002: 14). Optimistic perspective towards the firms whose information can easily be accessed by the investors leads the value of their shares to increase.

New firms are less preferred by the foreigners for the fact that their data is little and calculation of beta is hard (Chen et al. 2007: 29). It was clearly seen in Todd Mitton's research that firms, which are members to ADR, provide more transparency encouraging investors to invest more on these firms. According to regression analysis, ADR is correlated with a higher return of 10.8% over the crisis period (Mitton, 2001: 217). In addition, adaptatin to corporate governance rules shows increase depending on the years in country base and stock exchange-firms base in private sectors (Varış et al. 2001).

It is seen in the researches that general performance (Tobin's Q) increases in the first years of being listed in the stock exchange, but reduces in the following years. The rate of increase goes as far as 116.9 %. From the 9th years on, industry falls lower than median (Loderer and Waelchli, 2009: 19). While CEO and COB separation, a significant corporate governance criteria, was quite low between the years 1998-1999, it increased to 89 % in 2007. Depending on the years, the firms in the stock exchange increases their application of principles (Varış et al. 2001).

A negative and significant correlation was detected with Tobin's q (B. S. Black et al. 2006). On the other hand, there are also researches proving that being listed in the stock exchange do not impact the percentage of the profitability significantly (Yurtoğlu, 2004: 624).

H.9. There is a positive relationship between export rate and performance of firms.

Sales volume is an important indicator to measure economic performance. Export proportion in sales somehow shows the strength of the company to a financial crisis.

Large firms with high sales conclude smaller negative exposure before and during crisis (Gönenç and Aybar, 2006: 298). Foreign investors prefer the firms that have high export ratio (Lin and Shiu, 2003: 40). As a result of these preferences, finding finance becomes easier and it affects profitability positively (Kang and Stulz, 1997). The foreign investors know that the returns of the firms with high export rate are in line with the US stocks (Chen et al. 2007: 21).

Export is negatively related with persistent profitability because of increased fluctuations in internationally open markets (Yurtoğlu, 2004: 621).

Some works could not reach enough reliability level with different results. It is found out as insignificant in the works that analyze profitability and growth opportunities (B. S. Black et al. 2006). It is found that this variable did not have significant impact in the comparisons prior and post crisis period (Gönenç and Aybar, 2006: 310).

H.10. There is a positive relationship between import ratio and performance of firms.

Import cost, which is a sensitive indication of firms financially, must be considered especially in the period of crisis. The increase in the variable, which is an

important effect on the inflation, impacts the returns of the firms greatly (Bruno, 1978). It is set to show its impact on the firm during the fluctuation of exchange rate.

H.11.There is a negative relationship between debt ratio and performance of firms.

The effects of debt on control of firm are unclear. Though some researchers claim that debt has a role of control (Wei'an and Yuejun, 2007), some say that a determined level debt has a negative effect (Friedman and Johnson, 2000). Firms get into debts for expansion and investment.

On the other hand, according to CMB report, creditor financial establishments and banks provide influence on the administration and supervision of the company (Varış et.al. 2001: 123). Creditors play an important role in a number of governance systems and can serve as external monitors over corporate performance (OECD, 2004b: 12). A key aspect of corporate governance is concerned with ensuring the flow of external capital to companies both in the form of equity and credit (OECD, 2004b: 46).

In their research Wei'an and Yuejun found the lower the financial leverage is, the higher the Return on Equity, Return on Assets, Earning per Share and Tobin's Q (Wei'an and Yuejun, 2007: 14). Some of the earlier studies proved that high rate of loaning paves the way for negative results especially it may affect the investment decisions of the individuals and foreign investors (Kang and Stulz, 1997). The works studying high leverage during crisis explored that it brings low returns (Baek et al. 2004: 310).

4.2. Research Methodology

In following sections the sample of the study and dependent, independent and control variables will be explained.

4.2.1. Sample and Data Collection

The data set has been collected from the income statements, balance sheets of 167 manufacturing companies on ISE (Istanbul Stock Exchange) web site and legal declarations in www.kap.gov.tr. From June 1, 2009, all listed firms must disclose financial statements, explanatory footnotes, material events and all other disclosures. Since information published in The Public Disclosure Platform (KAP) includes present and previous data, it was vitally important for the research. Since this thesis will look especially in crisis, net income and assets values belong to 2008. Besides, the independent variables date back to 2007.

SPSS 17.0 program was used during the analysis.

In this study, the thesis want to find out if the publicly-held manufacturing companies, which have better corporate governance codes, come into value more than which don't. While making the analysis, the question 'which of the selected features of the firm was affected more' would be answered.

4.2.2. Measurement of Variables

In the study one dependent variable and eleven independent and two control variables are used. The explanations about the variables are given in the following paragraphs.

ROA (Net Income/Total Assets) is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at

using its assets to generate earnings. It is calculated by dividing a company's annual earnings by its total assets.

This indicator gives investors an idea of how effectively the company is utilizing its assets to generate net income. The higher the ROA, the better, because the company is getting more return on less investment (Investopedia 2010). Data alone can be used as performance criteria, (Baker and Kennedy 2002; Chu et al. 2008; Frame and Kamerschen 1997;Yurtoğlu 2004), it can be used with other criteria as well (Klapper and Love 2002; Loderer and Waelchli 2009; Rechner and Dalton 1991; Wei'an and Yuejun 2007; Yuejun 2006). However, although ROA was used with other criteria (return on investment, return on sales etc) to measure profitability, these measurements give close results with ROA (Szymanski et al. 1993: 9).

Largest block shareholder is the density of shareholder in firms and it is used to see the impact on the corporate governance**.** Even though some works put 5% (Chen et al. 2007) and some other 10% limit (Gugler et al. 2003), it is not taken a limit in the thesis as it was generally accepted (Yuejun 2006; Yurtoğlu 2001).

Table 8: Descriptive Statistics

	Largest Block Shareholder (%)	Board Size	Age	Public Share (%)	Period on ISE	Import Ratio (%)	Export Ratio (%)	Debt Ratio
Valid	167	167	167	167	166	160	159	165
Missing	0	0	0	0	1	7	8	2
Mean	48,6	6,2	38,1	34	16,6	26,5	23,2	0,5
Median	49,3	6	38	31,5	16	19,6	16	0,4
Mode	30,0	5	38	16,0	24	0	0	0,2
Std. Dev.	22,8	2	12,2	19,6	5,4	25,3	23,8	0,4
Range	99	10	65	92,9	20	100	100	3,4
Minimum	0,3	2	10	0	4	0	0	0
Maximum	99,4	12	75	92,9	24	100	100	3,5

In Table 8, the mean of largest block shareholder (%48) is foreseeable. Companies exhibit highly concentrated and centralized ownership structure (Yurtoğlu, 2001). This is because Turkey is evaluated as an Anglo-Saxon tradition which does not contain dispersed shareholder. In other words, as it is discussed in previous parts, in Anglo-Saxon approach, majority of the control of shares belongs to one person or enterprise. Only 8 companies have shareholders which have smaller than %10.

Affiliation variable was used as it may show difference due to condition arise from the exposition of the firms by acting together with the affiliated firms and acting alone (Black et al. 2006; Chu et al. 2008; Gugler et al. 2003). The way of formation shows difference from a country to another, there are holdings in Turkey, keiretsu in Japan or chaebols in Korea. Due to cross sharing (Gugler et al. 2003: 21) and pyramid structures (Yurtoğlu, 2004: 622), a small percentage of a country, in fact, belongs to other firms. In the sampling, it was found out that 79.1 % firms have

connections with the others, which is a common condition for countries where Anglo-Saxon philosophy is not settled (See Table 9).

Table 9: Sub-sectors Included in the Sample of the Study

	Affiliaton		**Foreign Affiliation**		**CEO Duality**	
Sub-sectors	**#**	**%**	**#**	**%**	**Exist**	**Non-exist**
Foresty Products and Furniture	1	50,0	0	0,0	1	1
Other Manufacturing Firms	2	66,7	0	0,0	0	3
Metal Main Industry	11	84,6	3	27,3	0	13
Paper Products,Printing and Publ.	15	100,0	3	20,0	0	15
Food, Beverage and Tobacco	18	75,0	9	50,0	3	21
Chemistry, Petrol,Rubber and Plastic Products	21	87,5	8	38,1	3	21
Stone and Soil Products	23	88,5	5	21,7	2	24
Metal Products and Equipment Products	25	92,6	11	44,0	4	23
Textiel Clothing Goods and Leather	22	66,7	0	0,0	4	29
Manufacturing Companies	**17**	**150**	**138**	**82,6**	**39**	**28,3**

Whether a part of shareholders was foreigners was checked with ***foreign affiliation*** variation (Chu et al. 2008). Although the rate of affiliation was high in the research, the rate of possession by the foreigners is 22,3 %.(See Table 9) The sectors with the highest rate of foreigners are food, beverage and tobacco. From this point of view, we see that foreign investors do not show expected interest in Turkish financial sector.

Board size factor was determined by counting one by one in the reports published by the firms. Regardless of position, everyone was included in counting. The average number of the boarding committee is 6,2; and mode is 5 maximum 12.

CEO duality is an important variable of corporate governance and there is a tendency to separate the tasks. As a matter of fact, the rate also increases in our country. While the CEO duality rate was 12,8% between the years 1998-1999, in this research the rate is seen to increase to 89 % (150 of 167). The variable was used in numberless studies (Berle and Means 1999; Chen et al. 2007; F.Fama and C.Jensen 1983; Palmon and Wald 2002).

Age was calculated as the year of registration was taken as base (Chu et al. 2008; Evans 1987;Yurtoğlu 2004: 622). However, some studies took the year of being listed to the Stock Exchange rather than the year of registration (Loderer and Waelchli, 2009). According to the research, the average is 38,1 and maximum is 75. This data proves how young our firms are. From Table 8, it is easily seen in Turkey that the companies are young. 119 companies of 165 are gathered between 25 to 50 years. Another implication is that the firms struggle to sustain in the sector and that their life is not that long. The general rate in the world is close to it. According to a study conducted on 2285 firms listed in the NYSE between the years 1978 and 2004, the average age of the firms is 23 years (Loderer and Waelchli, 2009: 16).

While ***rate of public share*** is calculated, corporate investors were excluded and the rate of share of individual investors was taken .By looking at affiliation ratio, expected result for rate of public share is not surprising. There is almost no rate more than %50 and average is 34%. (See Table 8) As discussed above Anglo-Saxon tradition's tendency is less dispersed ownership.

Initial public offering variable is used to determine the period of time that the firms have been in the stock exchange. Since the capital markets of Turkey are not very developed (LaPorta et al. 1997), being listed or the age of being in the stock

exchange are not taken as variations in other studies. However, this variation was used in the studies abroad and their relationship with other variations was scrutinized (Agarwal and Audretsch 2001; Loderer and Waelchli 2009). The average of firms being in the stock exchange in Turkey is 16,6. This is a close average comparing to other markets. In a study conducted between the years 1978-2004 on 2285, listing average is 14 and year of being quoted in the NYSE is 8 years (Loderer and Waelchli, 2009: 16). In another study, this average is found as 15,66 (Black et al. 2006: 10).

Import ratio is put to show the effect of fluctuation in the rate of foreign currency on the firms. Ratio of import costs to total cost of goods sold as proxies for the extent and nature of international involvement of the firms. In Table 8 sampling average is 26,5 for maximum value 100 and for minimum value it is 0.

Export rate which shows sales volume to foreign country is an important indicator to measure economic performance. In the thesis, the rate is the ratio of export sales to total net sales. Export proportion in sales somehow shows the strength of the company to a financial crisis (Chen et al. 2007; Mitton 2001: 236;Yurtoğlu 2004: 362). In Table 8, sampling average is 26,5 maximum value 100 minimum and 0 minimum value.

Debt ratio is used in the thesis to evaluate the firms from financial point of view. Used in conjunction with other measures of financial health, the debt ratio can help investors determine a company's level of risk. Creditors play an important role in a number of governance systems and can serve as external monitors over corporate performance (OECD, 2004b: 12). Sample average is found as 0,5, which shows that Turkish production sector carries out its activities in risk free environment.

Firm size is measured by market capitalization which is calculated with the multiplication of outstanding shares and the closing prices (Chen et al. 2007). Some works have taken only the asset as the base (Agarwal and Audretsch 2001; Lang and Stulz 1994; Mitton 2001; Yurtoğlu 2004) while others considered market value of the firm's equity (Baker and Kennedy, 2002). There are also other firms that considered market capitalization (Gompers et al. 2003) and sales as the size of a firm (Klapper and Love 2002). It is used as control variable in the thesis (Black et al. 2006).

Sub-sector variable was used because the degree of corporate governance applicability may differ among sub-sectors. The sub-sectors are Forestry Products and Furniture; Metal Main Industry; Paper Products, Printing and Publication; Food, Beverage and Tobacco; Chemistry, Petrol, Rubber and Plastic Products; Stone and Soil Products; Metal and Equipment Products; Textile, Clothing Goods and Leather and finally the production firms falling out of these categories (See Table 7)

Table 10: Subsectors of Manufacturing Firms

	Number	**Percentage**
Sub-sectors of Manufacturing Companies	**#**	**%**
Forest Products and Furniture	2	1,2
Other Manufacturing Firms	3	1,8
Metal Main Industry	13	7,8
Paper Products, Printing and Publication	15	9,0
Food, Beverage and Tobacco	24	14,4
Chemistry, Petrol, Rubber and Plastic Products	24	14,4
Stone and Soil Products	26	15,6
Metal Products and Equipment	27	16,2
Textile Clothing Goods and Leather	33	19,8
Manufacturing Firms	**167**	**100,0**

Table 11: Description of Variables

Dependent Variable	
Return on Assets (ROA)	Calculated by dividing a company's annual earnings by its total assets. ROA is an indicator of how profitable a company is relative to its total assets. ROA data of 2008 was used to analyze the crisis.
Independent Variables	
Largest Block Shareholder	This variable was selected by taking the greatest shareholder into consideration. Being corporate and individual entity are not considered. Source: 2007 data was used. The data was collected from www.kap.gov.tr. In public disclosure platform (KAP) website. An authorized staff from firm exhibits their ownership structure in largest to smallest.
Affiliation	For this variable, a dummy variable was employed, with a value of 1 for firms with block shareholder of company was holding company, a value of 0 otherwise. A situation that occurs when one company owns a minority interest in another company. The rate of the corporate bodies among the shareholders was taken. Whether the corporate bodies are foreign or native were not paid attention to. Their being investor was not also paid attention. Mostly a well-known company is holder of the shares. Source: it is based on the announced shareholder data in 2007 at www.kap.gov.tr (public disclosure platform (KAP)).
Affiliation local or foreign investors	With respect to affiliation of the firm, a dummy variable was again employed, with a value of 1 for firms with block shareholder of company was foreign investor, a value of 0 otherwise. Although many of the provisions can be made stronger or weaker (e.g., supermajority thresholds can vary between 51 and 100 percent), no strength distinctions were made and coded all provisions as simply "present" or "not present." This methodology sacrifices precision for the simplicity necessary to build an index. Source: it is based on the announced shareholder data in 2007 at www.kap.gov.tr (public disclosure platform (KAP)).
Board Size	Board size is measured by the number of managers of the board of directors. It is taken as considering the boarding committee as single in year 2007 Public Disclosure Platform. (Since the boarding committee of some of the firms was not published, it is taken from the websites of the firms.) Source: it is based on the announced shareholder data in 2007 at www.kap.gov.tr (public disclosure platform (KAP).

CEO Duality	With regard to the management, there are two options: either Chief Executive Officer(CEO) also serves as Chairman of Board(COB) or not. If CEO and COB is the same person, a dummy variable with a code of 1 was placed, while 0 was coded if operations are not controlled by CEO. (Since CEO and COB of some of the firms in 2007 were not clear, it is decided by looking at the data of earlier years.) Source: It is based on the announced shareholder data in 2007 at www.kap.gov.tr (public disclosure platform (KAP)).
Age	The age of firm refers to the length of years since the firm has been established. The age of the firms until 2010 was calculated by taking their year of foundation as base. Source: data published at www.imkb.gov.tr in 2007.
Rate of Public Share	The rate of public share refers to the percentage of ownership of common people. 2007 shareholders excluding corporate ones are taken. Source: it is based on the announced shareholder data in 2007 at www.kap.gov.tr (public disclosure platform (KAP)).
Initial Public Offering (IPO)	The time period from production firms' first date of going to public to 2010 in years. Firms' later removal of share certificates was ignored. Source: Date announced in 2007 at www.imkb.gov.tr web site.
Import Ratio	The term refers to the ratio of cost of import to total costs. This data was directly extracted from the almanac of firms announced in 2007. The lacking ones were completed by calculating from the balance of firms for the mentioned year. Source: Data and balances at the websites of the companies in 2007 announced at www.imkb.gov.tr .
Export Rate	The share of exports to total net sales. It is taken by calculating percentage from the Yearbook of the firms in 2007.
Debt Ratio	A ratio that indicates what proportion of debt a company has relative to its assets. It is obtained from the balance sheet of the companies for 2007 published at ISE web site.

Control Variables	
Firm Size	Market Value: it is calculated by multiplication of outstanding shares and the closing prices at the latest announcements in the stock exchange; and it is prepared by taking 2007 assessment ratios published at ISE web site (thousand YTL)
Sub-Sectors of Manufacturing Firms	167 manufacturing firms were taken as base in the thesis. subsectors of this sector were designated. Nine subsectors were designated: Forest Products and Furniture; Metal Main Industry; Paper Products, Printing and Publication; Food, Beverage and Tobacco; Chemistry, Petrol, Rubber and Plastic Products; Stone and Soil Products; Metal and Equipment Products; Textile, Clothing Goods and Leather and finally the production firms falling out of these categories.

4.2.3. Control Variables

In the thesis firm size and sub-sectors of manufacturing firms are used as control variables. To gain further insight into the nature of the association between corporate governance and performance, the thesis examine the influence of size and sub-sectors on our results.

4.2.3.1. Firm Size

Large and small entities of the firms have both negative and positive results for both sides in respect to their relationships with the elements of corporate governance.

Being a large firm has disadvantages. Not only financial needs of the firms in great scales more but also even smaller mistakes of firms cause large economic loss. Firms paying attention to esteemed administration are more cautious in informing the investors and not making any mistake in comparison to small firms. On the other hand, during the crisis, as oppose to the expectations, the bigger firms had more

delisting comparing to small firms. Being delisted show how low performance of the firm got (Baker and Kennedy, 2002: 351). Firms with smaller scales, by occupying strategic niche, sustain their life without any threat and provide profits for the shareholders (Porter, 1979: 220). Larger firms do worse high stock volatility and get less stock returns which harm shareholder benefits (Lang and Stulz, 1994: 1253). Small and younger firms take on more debt and have higher Tobin's Q values. The more the firm enlarges, the lesser the potential for job facility and growth rate get. Profitability and rate of job reallocation is negatively related with firm size (Cooley and Quadrini, 2001: 1302). Most importantly, small firms face large need for outside financing and have better governance mechanisms (Klapper and Love, 2002: 4).

Besides the disadvantages, it is also stated that being a big firm affects the performance positively. There are mechanisms such as reputation building, public scrutiny, listing on international exchanges that reduce the exploitation of minority shareholders (LaPorta et al. 2002: 1154). Since it is a greater reputation that larger firms are to protect, they are to be more consistent in their operations (Mitton, 2001: 217). Hence, large firms reduce the impact of informational asymmetry (Chen et al. 2007: 21). Interestingly, following ISE's announcement of at least 5 of the 6 firms having points above 10 to Stock Exchange, 13 of 27 firms are also ISE-30 firms in the XKURY index commenced on 31,08,2007. In respect to their life within the stock exchange, while only half of the smaller firms are delisted in the firm within 10 years, 54 % of large firms sustain in the stock exchange (Agarwal and Audretsch, 2001: 31). Small firms have a positive relation with hazard rate (Agarwal and Audretsch 2001; Agarwal and Gort 2002: 189).

The defense of small firms against takeover is weaker in comparison to large firms, they are sold cheaply in takeover. Moreover, their being delisted is 3 times more than that of large firms (Baker and Kennedy, 2002: 350). Positive change in the firm size increases firm's probability of sustenance (Evans, 1987: 577). Foreign investors generally prefer large firms (Kang and Stulz, 1997). Decrease of returns during the period of crisis is lower in the large firms (Baek et al. 2004: 310). As a matter of fact, the foreign investors prefer to invest in large firms on account of the fact that bureaucratic obstructs in front of the large firms are removed (Lin and Shiu, 2003: 40).

Companies that are larger in size have higher ROE, ROA, earnings per share and financial security and lower Tobin's Q value. The empirical results also demonstrate that large scale companies perform better on their profitability, the stock expansion ability, operational efficiency, financial elasticity and safety, while their market value is lower (Wei'an and Yuejun, 2007: 14).

Besides, in small firms whereas Gibrat's law (firm growth is independent of firms size) severe, it is not in large firms (Evans, 1987: 579).

4.2.3.2 Sub-sectors of Manufacturing Firms

Sub-sector reacts differently to the period of crisis within itself. While some sectors are affected at a minimum level, some sectors experience great losses. While the firm performance demonstrates consistent movements within the same sub-sectors, the results between the sectors may contradict to each other (Yurtoğlu, 2004: 621).

The effects are especially seen in the period of financial crisis (See Figure 6).

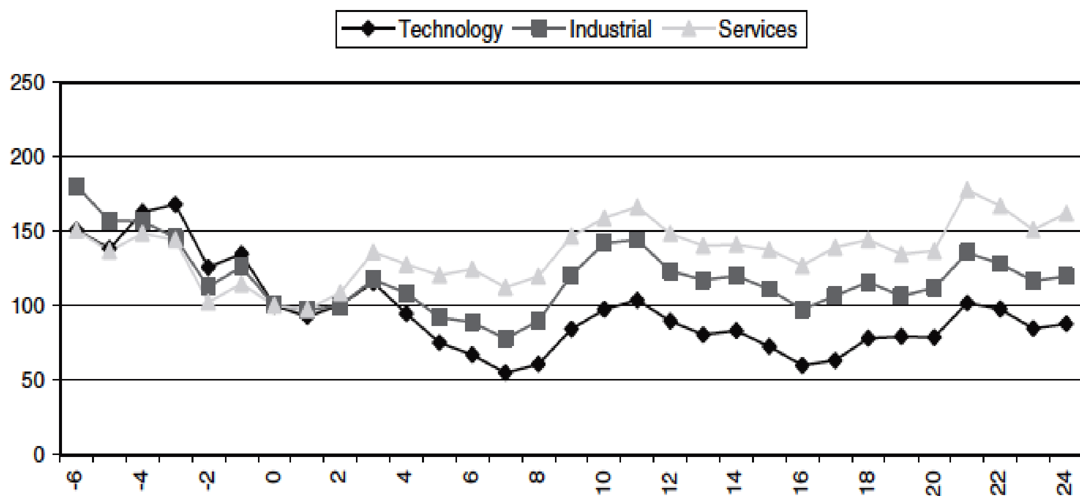

Figure 6: Fluctuations in sectors in ISE from August 2000 to August 2001.
Source: Gönenç, Halit and Aybar, C. Bülent (2006), 'Financial Crisis and Firm Performance: empirical evidence from Turkey', *Corporate Governance: An International Review,* 14 (4), 297-311.

Sectoral differences may sometimes cause different results for corporate governance (Gürbüz, 2005: 5).

4.3. Model

In the regression model we measure the dependent variable ROA with nine independent variables. Firm size and sub-sectors are control variables for this model.

$ROA = \alpha + \beta1 * LBSH + \beta2 * AFF + \beta3 * FAFF + \beta4 * BOD + \beta5 * CEOD + \beta6 * AGE + \beta7 * PUB + \beta8 * IPO + \beta9 * IMP + \beta10 * EXP + \beta i11 * DEBT + \varepsilon$

Here;

ROA = Net income over total assets of firm at 2008,

LBSH = Largest block shareholder of firm,

AFF = Classification of firms depending on their connection with a business group,

FAFF = Classification of affiliated firms on their connection with a foreign business group,

BOD = number of board of directors of firm,

CEOD = CEO also serves as the COB of firm,

AGE = Age of the firm,

PUB = Free float of firm,

IPO = Time span since initial public offering of firm,

IMP = Ratio of import cost to total cost of goods sold of firm,

EXP = Ratio of export sales to total net sales of firm,

DEBT = Debt ratio of firm,

α= Constant

β 1- β 11 = Beta coefficient

ε = error

4.4. Analysis of Findings

Firstly in order to analyze the results Pearson correlation analysiswas conducted among variables (See Table 13). According to correlation table, a significant positive correlation was found between the board size and ROA ($P<0,01$). It is seen that the more the board size the more the performance is. There is also a significant positive correlation between the age and ROA ($P<0,05$). The older firm the higher the performance is. However, there is a significant negative association between the debt ratio and the performance of the firm ($P<0.01$). In other words the more the debts of the firms the lower the performance is during the crisis period. No significant relationship was found between the financial performance of the firms and the other variables (i.e largest block shareholder of firm, local and foreign affiliation, CEO duality, the rate of public share, time span from initial public offering, import ratio, export ratio)

Table 12 :The Pearson Correlation Analysis Among Variables

		ROA2008	Largest Block Shareholder	Affiliation	Foregin Affiliation	Board Size	CEO Duality	Age	Public Share	Period on ISE	Import Ratio	Export Ratio	Debt Ratio
ROA2008	Pearson Correlation	1	0,088	0,058	0,11	,295**	-0,04	,173*	0,032	0,144	0,155	-0,045	-,716**
	Sig. (2-tailed)		0,258	0,458	0,157	0	0,609	0,025	0,678	0,065	0,051	0,576	0
Largest Block Shareholder	Pearson Correlation	0,088	1	,455**	,285**	-0,01	-0,07	,186*	-,611**	,271**	0,134	-0,021	0,012
	Sig. (2-tailed)	0,258		0	0	0,902	0,366	0,016	0	0	0,092	0,793	0,883
Affiliation	Pearson Correlation	0,058	,455**	1	,225**	,194*	-0,107	0,102	-,295**	,223**	0,069	0,004	-0,017
	Sig. (2-tailed)	0,458	0		0,003	0,012	0,168	0,189	0	0,004	0,389	0,962	0,824
Foregin Affiliation	Pearson Correlation	0,11	,285**	,225**	1	,173*	-0,054	,153*	-,434**	,156*	0,06	0,033	-0,076
	Sig. (2-tailed)	0,157	0	0,003		0,025	0,488	0,049	0	0,045	0,452	0,679	0,334
Board Size	Pearson Correlation	,295**	-0,01	,194*	,173*	1	-0,117	,206**	-0,133	,187*	0,09	-0,117	-,264**
	Sig. (2-tailed)	0	0,902	0,012	0,025		0,133	0,008	0,086	0,016	0,26	0,142	0,001
CEO Duality	Pearson Correlation	-0,04	-0,07	-0,107	-0,054	-0,117	1	-0,087	0,143	-0,044	-0,002	-0,053	0,022
	Sig. (2-tailed)	0,609	0,366	0,168	0,488	0,133		0,262	0,065	0,574	0,985	0,504	0,776
Age	Pearson Correlation	,173*	,186*	0,102	,153*	,206**	-0,087	1	-,271**	,413**	-0,001	-0,104	-0,047
	Sig. (2-tailed)	0,025	0,016	0,189	0,049	0,008	0,262		0	0	0,993	0,193	0,546
Public Share	Pearson Correlation	0,032	-,611**	-,295**	-,434**	-0,133	0,143	-,271**	1	-,201**	-0,03	0,046	-0,008
	Sig. (2-tailed)	0,678	0	0	0	0,086	0,065	0		0,009	0,705	0,567	0,921
Period on ISE	Pearson Correlation	0,144	,271**	,223**	,156*	,187*	-0,044	,413**	-,201**	1	,199*	0,012	-0,033
	Sig. (2-tailed)	0,065	0	0,004	0,045	0,016	0,574	0	0,009		0,012	0,877	0,67
Import Ratio	Pearson Correlation	0,155	0,134	0,069	0,06	0,09	-0,002	-0,001	-0,03	,199*	1	,212**	-0,019
	Sig. (2-tailed)	0,051	0,092	0,389	0,452	0,26	0,985	0,993	0,705	0,012		0,007	0,811
Export Ratio	Pearson Correlation	-0,045	-0,021	0,004	0,033	-0,117	-0,053	-0,104	0,046	0,012	,212**	1	0,105
	Sig. (2-tailed)	0,576	0,793	0,962	0,679	0,142	0,504	0,193	0,567	0,877	0,007		0,19
Debt Ratio	Pearson Correlation	-,716**	0,012	-0,017	-0,076	-,264**	0,022	-0,047	-0,008	-0,033	-0,019	0,105	1
	Sig. (2-tailed)	0	0,883	0,824	0,334	0,001	0,776	0,546	0,921	0,67	0,811	0,19	

*.Correlation is significant at the 0.05 level (2-tailled)　　**.Correlation is significant at the 0.01 level (2-tailled)

Secondly, the regression analysis was conducted. The regression analysis indicates the effect of corporate governance principles on firm performance (ROA).

Table 13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
	,775[a]	,600	,570	,168776392131169	,600	19,787	11	145	,000

a. Predictors: (Constant), Debt Ratio, Public Share, Import Ratio, CEO Duality, Export Ratio, Age, Affiliation, Board Size, Foreign Affiliation, Period on ISE, Largest Block Shareholder

The adjusted R- Square value (0,570) shows that explanatory power of independent variables on dependent variable is quite high. Table 14 indicates the coefficients of independent variables in the model.

Table 14: Results of Regression Analysis without Control Variables

	Coefficients		
	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
(Constant)	-0,307	0,100	
Largest Block Shareholder	0,002	0,001	0,193**
Affiliation	-0,031	0,042	-0,045
Foreign Affiliation	0,044	0,035	0,075
Board Size	0,015	0,008	0,120**
CEO Duality	-0,008	0,048	-0,009
Age	0,003	0,001	0,122**
Public Share	0,003	0,001	0,251***
Period on ISE	0,002	0,003	0,035
Import Ratio	0,001	0,001	0,105*
Export Ratio	0,000	0,001	0,015
Debt Ratio	-0,415	0,034	-0,675***

*,**,*** Significant at 0.1, 0.05 and 0.01 level respectively

Based on the findings in Table 14, if model is written; ROA = -0,307 + 0,193* LBSH - 0,045*AFF+ 0,075*FAFF+ 0,120*BOD -0,009*CEOD + 0,122*AGE + 0,251*PUB + 0,035*IPO + 0,105*IMP + 0,015*EXP -0,675*DEBT + ε

In addition to analysis presented in Table 14 which does not incorporate control variables, Table 15 presents the results of analysis in which control variables included.

Table 15: Standartized Coefficients

		Model 1	Model 2								
		Reg. W	**Regression Weight**								
	(Constant)										
INDEPENDENT VARIABLES	Largest Block Shareholder	0,194[a]	0,162[b]	0,191[a]	0,196[a]	0,194[a]	0,189[a]	0,188[a]	0,199[a]	0,194[a]	0,192[a]
	Affiliation	-0,046	-0,059	-0,043	-0,039	-0,046	-0,046	-0,050	-0,046	-0,047	-0,044
	Foreign Affiliation	0,075	0,042	0,067	0,072	0,075	0,074	0,068	0,076	0,083	0,073
	Board Size	0,118[b]	0,093	0,118[b]	0,126[b]	0,120[b]	0,123[b]	0,115[b]	0,123[b]	0,111[c]	0,118[b]
	CEO Duality	-0,009	-0,012	-0,008	-0,013	-0,008	-0,005	-0,013	-0,012	-0,009	-0,008
	Age	0,122[b]	0,123[b]	0,127[b]	0,118[b]	0,123[b]	0,122[b]	0,114[c]	0,118[b]	0,132[b]	0,125[b]
	Public Share	0,251[a]	0,216[a]	0,248[a]	0,252[a]	0,251[a]	0,241[a]	0,247[a]	0,254[a]	0,258[a]	0,248[a]
	Period on ISE	0,035	0,022	0,039	0,029	0,036	0,033	0,045	0,034	0,016	0,037
	Import Ratio	0,104[c]	0,111[b]	0,115[b]	0,111[b]	0,106[c]	0,101[c]	0,098[c]	0,104[c]	0,127[b]	0,104[c]
	Export Ratio	0,015	0,018	0,015	0,008	0,014	0,012	0,003	0,016	0,019	0,017
	Debt Ratio	-0,675[a]	-0,66[a]	-0,68[a]	-0,67[a]	-0,67[a]	-0,67[a]	-0,67[a]	-0,67[a]	-0,66[a]	-0,67[a]
CONTROL VARIABLES	Firm Size	0,005	—	—	—	—	—	—	—	—	—
	Textile, clothing goods and leather	—	-0,132[b]	—	—	—	—	—	—	—	—
	Food, beverages, tobacco	—	—	0,034[b]	—	—	—	—	—	—	—
	Paper, paper pr., print and publishment	—	—	—	-0,05[b]	—	—	—	—	—	—
	Chemicals,petrol,rubber and plastic	—	—	—	—	-0,005	—	—	—	—	—
	Metal products manufacturing	—	—	—	—	—	0,032	—	—	—	—
	Machinery and equipment	—	—	—	—	—	—	0,051	—	—	—
	Foresty products and furniture	—	—	—	—	—	—	—	0,021	—	—
	Stone and soil based industry	—	—	—	—	—	—	—	—	0,076[c]	—
	Other manufacturing firms	—	—	—	—	—	—	—	—	—	0,017

— Not Calculated [a,b,c] Significance level 0.01, 0.05 and 0.1 respectively Reg. W. Regression Weight

The regression results support Hypothesis 1 at the 5% significance level. Hence there is a significant positive association between the rate of the largest shareholder's and the firm performance. While this result is parallel to the results of some previous studies (Chen et al. 2007; Loderer and Waelchli 2009; Mitton 2001; Shleifer and Vishny 1997; Yuejun 2006), it contradicts some others, (Ararat and Uğur 2003; Gugler et al. 2003;Yurtoğlu 2004). Therefore, it proves that large share

holders have positive impacts on the control mechanism and in the period of crisis when the investors have problems of cash, it supports this structure. The pyramid structures do not cause any problem in our country where there is Continental approach. When we add control variables to model, only the textile industry, which is a manufacturing subsector, clothing goods and leather effects are decreased and let it fell to 0.16. In other words, large shareholders have negative impacts in the textile sector.

However, a significance association could not be found between both affiliation and firm performance, and foreign affiliation and firm performance. Hence Hypothesis 2 and Hypothesis 3 are rejected. Whereas the affiliation is negative direction at 0.045 rate, the foreign affiliation rate is 0.0075 in positive direction. However, the significance value of these variables is 0.41 and 0.21 respectively. Affiliation results are like Gönenç and Aybar (2006) found out to be insignificant and the same with the negative results of Gugler et al. (2003) and Baek et al. (2004). On the other hand, foreign affiliation result produced the same type of outcomes as Chu et al (2008) and La Porta et al. (2002) the results are consistent with Baek et al. who studied the period of crisis. While the transfer of share from a firm to another is unwelcomed, the connection of it to the foreign firms is found out to be positive. When we add control variables to model, the affiliation variable decreases the impact of textile, which is a manufacturing subsector, clothing goods and leather to -0.59, however, the impact of paper, paper pr. print and publishing increases -0,39. It means, while being connected to group is negative in the textile sector, it affects the paper sector positively. Foreign affiliation variable decreases the impact of textile,

clothing goods and leather, and increases stone and soil based industry variable at 0.83.

Board size variable has significant positive association with the ROA. The relationship is found to be positive 0,05 level. Therefore Hypothesis 5 is accepted. Hence, the board size affects the ROA positively. When we evaluate firm size with the subsector one by one, the rate changes very little (between 0,09 and 0,126). The number of administrators is not affected on the ROA depending on firm size and seb-sector differences. While it conflicts with results found by Chen et al. (2007) and Yermack (1996), it is positively correlated with the reports prepared by TÜSİAD and CMB.

Hypothesis 5 predicts that there is a negative association between CEO duality and firm performance .The results indicated that there is no such significant association. Hence Hypothesis 5 is rejected. Like the study of Palmon and Wald (2002), who discovered that the variation changes depend on the firm size and that it affects the large firms negatively and the small firms positively, and it is thought that the results may alter with the firm size; in the circumstances when the firm size is added to control variable, although the results are negative, it is found not to be significant. However, similar results with Rechner and Dalton (1991), Chen et al. (2007) and Geneen (1984) are attained. An alternative interpretation is that since the high level firms completed the discrimination of CEO and COB tasks, it may have resulted significant.

Firm age has significant positive association with firm performance at the 0,05 level. Hence Hypothesis 6 is accepted. The more the firms get aged the more positive impact makes the firm profitability in the period of crisis. While the result is

consistent with some of the earlier studies (Agarwal and Gort 2002; Bahk and Gort 1993; Baker and Kennedy 2002; Fındıkçı 2007; Gürbüz 2005;Varış et al. 2001), it is not with the others (Cooley and Quadrini 2001; Lang and Stulz 1994; Loderer and Waelchli 2009). The result confirms the hypothesis. The control variable did not have significant effect on the percentage of explaining ROA.

Public share variable has significant positive association with the ROA. The relationship is found to be positive 0,01 level. Therefore Hypothesis 7 is accepted. The firms, whose shares are controlled by the public more, affect the profitability positively in the period of crisis. Since the rate of being open to public cause transparency and trust, the result is not a surprise. This exhibits positive correlation with the studies in Turkey (Gürbüz, 2005). The control variables did not have significant affect on public share's explanation rate of ROA.

Hypothesis 8 predicts that there is a positive association between period on ISE variable and firm performance. The results indicated that there is no such significant association. Hence Hypothesis 8 is rejected. It found similar results with Black et al. (2006) and Yurtoğlu (2004). When we add control variables to model, it declines only stone and soil based industry, a manufacturing subsector and decreases it to 0,01. The effects of the other variables are almost nothing. The life expectancy in the stock exchange impacts ROA very little in the period of crisis.

Import ratio variable has significant positive association with the ROA. The relationship is found to be positive 0,1 level. Therefore Hypothesis 9 is accepted. The results show that having domestic sales paves the firms to be affected less from the crisis. While the result is in the same direction with some studies (Bruno, 1978), it is not with the others.

Hypothesis 10 predicts that there is a positive association between export ratio and firm performance. The results indicated that there is no such significant association. Hence Hypothesis 10 is rejected. It found similar results with Lin and Shiu (2003), and Kang and Stulz (1997). The control variables did not have important effects on export ratio’s explanation of ROA percentage.

The regression results support Hypothesis 11 at the 1% significance level. Hence there is a significant negative association between the debt ratio and firm performance. This shows that the ROA of the firms with bigger debts losses more value comparing to the other ones. Thus Hypothesis 11 is accepted. The result confirms earlier studies that higher debt rates causes negative results for the firms and affects the investment decisions of the individual and foreign investors (Kang and Stulz 1997; Wei'an and Yuejun 2007). The firm size and the subsectors of production sectors do not affect debt ratio’s rate of explaining ROA.

CONCLUSION

The fact that financial sources have become globalized changed the way that firms find funds; by being listed on the stock exchange the firms went on finding finances both from domestic and international individuals and firms. In order to realize financial source expectations for the firms being open to public, entire principles of what we call corporate governance must be applied with utmost attention. With the largest definition, corporate governance is to meet the expectations of all the parties interconnected with the firm at optimal level.

The emerging point of the corporate governance is the authority problem between the administrators and the fund raisers of the firm. This problem of the authority is sometimes between the manager and the shareholders and sometimes between CEO and the other administrators, and sometimes between minority and majority shareholders. It is observed that with the corporate governance, finding funds has become easier; the firms have longer and healthier life and get rid of the period of crisis with less loss.

There is no complete consensus on the corporate governance principles due to its interconnection with more than one field such as accounting, finance, law, administration and that its formation is relatively new. The reports and studies published have compromised on the principles of accountability, responsibility, transparency and fairness.

Although almost all the countries and groups have published their own corporate governance principles, there are two approaches to the topic. The first of them is the Anglo Saxon approach, which is market oriented, focuses on the rights of

the shareholders and where English originated law is dominant. The other one is, Continental approach, which gives priority to the rights of the shareholders, and where Roman law is dominant. Certainly, globalization obliged single dominator respectively. OECD and some regional establishments have taken some steps on the matter.

The fact that corporate governance principles generally aim at the firms open to public and that the rate is low in Turkey, the attentions paid on this topic remained relatively low. It is seen that the attention to it may increase only with its being open to the public. Turkey fell behind developed markets in protecting the shareholders legally and socially, which prevents foreign investors to invest patiently. Developments in this regard would trigger the investments. It is known that legal arrangements contribute positively to the application of the principles in the world where there are two general approaches. It is necessary that these arrangements should continue in Turkey.

In this thesis, the impact of corporate governance principles on firm performance in crisis period is investigated. Despite the fact that it has already been mentioned that corporate governance principles generally affect the firm performance positively its effects especially during the crisis has not been researched on well. This thesis aims to fill in this gap.

As the principles for corporate governance is quite extensive, the variables for measuring the level corporate governance application varies. In the thesis 11 independent variables (largest block shareholder of firm, local and foreign affiliation, board size, CEO duality, firm age, the rate of public share, time span from initial public offering, import ratio, export ratio and debt ratio) and 2 control variables (sub-

sector in manufacturing sector, firm size) were taken and their impacts on the firm performance (ROA) during 2008 crisis were analyzed.

According to the results of the analysis, we can state that having majority shareholders, more member of board or directors, having more age, having a high rate of being open to public, and its high import ratio have significant positive relationship on the firm performance during the period of crisis. On the other hand, there is a significant negative association between the debt ratio and firm performance. Having domestic individual or foreign shareholders, having CEO conducting various tasks, starting to be operated in the stock exchange in earlier periods and high rate of export ratio has no such significant association.

After adding the control variables, according to the results of the analysis, we can state that sub-sectors of food, beverage, tobacco and stone and soil based industry have significant positive relationship on the firm performance during the period of crisis. On the other hand, there is a significant negative association between sub-sectors of textile, clothing goods, leather and paper based industry and firm performance.

The limitation of the study is the fact that the study has been conducted only within the period of a year. Better results can be obtained by adding the period before and after the crisis. What distinguishes this study from the earlier ones is that the contributions of corporate governance principles to the firm performance in the period of crisis were analyzed. Moreover, this thesis paves the way for the probability of the analysis of recent 2008 financial crisis. It also provides richness of data as the number of independent variables is comparatively more than the other studies.

The company should have low rate of debt, which affects the profitability during the crisis negatively; the responsibilities of managing director and CEO must be separated from each other, dependence of other firms must be reduced by forming an opaque structure. If there has to be dependence, it is reasonable that it must be for the foreign investors.

Finally, it is the human beings who carry out all the arrangements and alterations; and implements them. The humanitarian dimension of corporate governance is of utmost importance. All the attempts, including corporate governance, in any field ignoring humanitarian dimensions will face failure.

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