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Institutional Transformation and Corporate Governance Implications in Turkish Banking Industry

Türk Bankacılık Sektöründe Yaşanan Kurumsal Dönüşüm ve Kurumsal Yönetim Uygulamaları

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Abstract

Globalization and free movement of capital arise new necessitates for firms, managers, workers, investors and governments. To maintain capital security in such environment is the main concern of various international authorities such as OECD, IMF and WB. The main objective of these institutions is to ensure the countries in general and firms specifically, to become more transparent in information disclosure, fair and accountable to shareholders and responsible to all stakeholders. The corporate governance concept was generated in this manner and countries that follow the principles of good governance gain competitive advantage in terms of attracting both domestic and foreign investors. The need for good governance arose after the financial crisis of 2001 which was caused by corrupted banking industry. This date was taken as the start point of institutional transformation in Turkish banking industry in which corporate governance started to be evolved. As an emerging market and family dominated business environment, governance principles were firstly published by Capital Market Board of Turkey in 2003. Therefore, this study intends to explore the institutionalization of board related corporate governance practices in Turkish banking industry during 13 years period between 2000 and 2012 by observing the adaptation of publicly traded banks on Borsa Istanbul. By elaborating this institutional transformation period, all existing actors and legal regulations were included to be able to draw a wider picture of the field. The relationships among governance practices and firm characteristics were also investigated to control if there are differences between the sampled banks. This study explores how listed banks adopted the governance principles to gain legitimacy to increase the trust in industry to attract both local and foreign investors.

Keywords: Institutional Transformation, Corporate Governance, Board of Directors, Banking Industry, Turkey

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LIST OF ABBREVIATIONS

BAT	: The Banks Association of Turkey
BIST	: Borsa Istanbul Stock Exchange
BRSA	: Banking Regulation and Supervision Agency
CB	: Central Bank of Turkey
CEO	: Cheif Executive Officer
CGAT	: Corporate Governance Association of Turkey
CMB	: Capital Markets Board of Turkey
EU	: European Union
IFC	: International Finance Corporation
IMF	: International Monetary Fund
ISE	: Istanbul Stock Exchange
OECD	: Organisation for Economic Co-operation and Development
SDIF	: Savings Deposit Insurance Fund of Turkey
TCC	: Turkish Commercial Code
TUSIAD	: Turkish Industrialists and Businessmen Association
UNCTAD	: United Nations Conference on Trade and Development
WB	: World Bank

1. INTRODUCTION

In today's global and continuously growing markets, firms need more capital and investors. As the free movement of capital increases, the competition between the countries to attract investors increases as well. Each country tries to provide safer environment for investment by trying to become more transparent, accountable, fair and responsible to be preferred which are also the main concerns of corporate governance. As the world changes, the firms do as well; bigger corporations with more shareholders and separated controllers. Therefore, a new concept and perception is necessary to manage these diffused relationships between the firm and all stakeholders. The concept of corporate governance has gained importance at this point with consolidating principles for the organizations to make them behave more responsibly and vigilantly (Baysinger and Hoskisson, 1990). Although the corporate governance concept was first mentioned by World Bank in 1989, the principles of governance were published firstly by OECD which was taken as a guide by all countries. Numerous principles have been declared under the this concept about firm control, protection of shareholders' rights, and objective evaluation criteria which can be grouped under four different categories; shareholders, public disclosure and transparency, stakeholders and board of directors. However, by keeping the main concerns of corporate governance same, each country prepares its own code to be adopted by the firms that constitute the business environment.

Especially, after the big corporate humiliations that create a tremendous impact around the world like Enron and Tyco, both practitioners and scholars started to pay attention to monitoring problem of big corporations. Organizations started to be seen as structures that use social capital and deliver benefit or detriment to society. The main objective is to infuse the governance logic to the firms which became bigger and more dispersed and more prone to be corrupted. Therefore they should concern about not only their own profit but also their stakeholders while they make decisions. In other words, it has been understood that the reason behind the firm scandals and financial crisis is ineffective management. That is why corporate governance concept was generated and expanded in countries as it was in Turkey after 2003.

These governance principles can be seen as the beginning of a new management perspective around the world but each country generates its own principles based on their institutional context which influences the way of doing business of the firms. Each organization adapts to the environment by using its own way because they have specific characteristics, backgrounds and strategies (Eisenhardt, 1989). Most of the recent studies focused on the institutionalization of corporate governance mechanism in countries and the transformation period. Since it is a radical system change for a country, the adoption of governance practices by firms is worth to analyze. The environmental changes affect the firms' practices in order to gain legitimacy, but they generate their own way of adaptation if it is not a rule-like, compulsory change (Powell, 1991). Some scholars think that institutionalized practices are perceived as the way of doing the job and firms internalize or adopt without questioning while others argue that this could be a partial adaptation by keeping some parts persistent (Lane, 2003).

Therefore, by keeping these arguments in mind, this study focused on the institutionalization of corporate governance practices in Turkish banking industry, observing mainly the adaptation of board related governance practices by listed Turkish banks. The reason behind the selection of banking industry is the essential position of this industry for the national economy which provides the big proportion of capital resources to the business environment since the stock market is not that much used by Turkish firms yet. Therefore, the collapse of banking industry means the collapse of whole industries in Turkey as well. This makes the efficient corporate governance model more essential for banking industry.

Organizational practices or patterns are influenced through there different layers; societal level, industry level and organizational level (Louma and Goodstein, 1999). Therefore, without understanding the environment, organizational level studies would be incomplete. As a result, this study firstly evaluated the institutional transformation experienced by the banking industry with including the reasons and effective actors and then the organizational level changes or adaptation of practices were observed for 13 years period between 2000 and 2012. There are four key events that created this transition but the financial crisis started the fire in 2001. Due to this financial crisis, many banks went bankrupt, were seized by the government or were acquired by others and this aggravation showed the lack of regulations and importance of good corporate governance. As the most important component of a national economy, the finance sector was taken under close control. Subsequently, government authorities started to strictly regulate and monitor the finance sector. After those strict regulations and corporate governance practices, finance sector attracted the foreign investors whose entrance expanded the adaptation of governance practices within the banking industry. Within this institutionalization process, the board of directors was selected as the focal point of this study since it is the most visible aspect of the firms and essential in effective implementation of governance principles and has the most active role in the adaptation process to that institutional transition.

As a result, this study will question the impact of that institutional transformation within the banking industry in terms of board related corporate governance practices. The main research question of this study is to understand the evolution of corporate governance mechanism within the banking industry by also understanding the institutional transformation period. In other words, this field-level study explores the board related governance adaptation process of banking industry through the institutional transformation period experienced between the years 2000 and 2012. By observing the board structures of the listed banks, the characteristics such as size, age, ownership structure and control type of the firms is also taken into account if they create any difference in terms of adaptation or not. While collecting and analyzing the data the following questions are called. To what extent does the institutional transition bring change to listed banks in terms of board structure and to what extent coercive forces influence the organizational change? Is it that simple to adopt the environment notwithstanding the path dependency and what is the role of organizational patterns or habits? Therefore, this study will describe whether the listed banks adapted the board related governance practices ceremonially or they internalized the governance logic entirely.

2. THEORETICAL BACKGROUND

The aim of this chapter is to provide a theoretical framework for a better understanding of the results of this study. Although the main focus of the study is the board of directors as a significant part of corporate governance mechanism, it is important to explain the theories that are used to identify governance studies. Therefore, this chapter includes the literature about institutional theory in order to understand the organizational environment, the diffusion of practices within this environment, the responses of organizations to changes in environment and the process of the institutionalization of new practices. The dialectical perspective is also included which fills the gap of institutional theory in understanding the change and transformation process. Path dependency theory is also included to investigate the new practices which could be shaped by path dependent practices as well. Lastly, the theories that overwhelm all studies about the board of directors are included to provide a framework for the main focus of this study. These theories are agency theory and resource dependency; both of them brought a different perspective to board studies and also institutional theory again which lightens another point of view for the board of directors.

2.1. Institutional Theory

Both institutional and resource dependency theories suggest that external pressures limit the organizational behavior and resistance reduces the survival chance. In order to gain legitimacy, they should respond the environment (Pfeffer and Salancik, 1978; Meyer and Rowan, 1977; Friedland and Alfrod, 1987). According to institutional theory, if a behavior is perceived as the right way of doing something while increasing the social welfare, it means this practice is legitimized. The legitimacy is related with extensive and common normative judgments and values which are diffused by external sources or institutional actors like regulatory bodies, government agencies, laws, professions or interest (Scott, 1995; Suchman, 1995). These institutional actors influence organizations to change (Leblebici, Salancik, Copay and King, 1991; Greenwood and Hinnings, 1996; D'Aunno, Succi and Alexander, 2000). In order to have persistence, organizations should adapt to institutionalized or habitualized practices. In other words, if a practice is perceived as important and legitimate, it is more likely be institutionalized within organizational structure (Powell, 1991; Selznick, 1992). However, resource dependency theory, emphasize the task environment as the source of external pressures because they are the ones who control the resources. In order not to live resource scarcity, organization should adapt, control or manipulate the environment (Oliver, 1991).

Institutional theory mainly claims that institutionalized patterns influence the organizational structures (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Tolbert and Zucker, 1983; Meyer, Scott and Deal, 1983; Scott, 1987; Hinnings and Greenwood, 1988). While defining such a powerful institutional context, they ignore the active agency role and organizational strategy unlike resource dependency theory. The main criticism even by own theorists comes because of this issue. Although early studies of this theory ignore the socially constructed institutional context relatively newer studies paid attention to role of agency and organizational rationality within their studies. Based on this new vantage point, organizations can either adapt or resist, can be passive or influential and practices can be taken for granted or controlled by agency but all of these depend on the level of institutional forces (Powell, 1985, Perrow, 1985; Covaleski and Dirsmith, 1988; DiMaggio, 1988, Mezias, 1990; Oliver, 1991; Goodstein, 1994; Greenwood and Suddaby, 2006).

According to Meyer and Rowan (1977), institutionalized practices and structures become socially rationalized myths and organizations within the field adopt these myths ceremonially. They call them as myths because these beliefs cannot be tested objectively. They defined formal structures different than other studies and suggested that formal structures have symbolic and action-generating properties. In other words, organizations use their formal structure for symbolic purposes because society observes the formal structure as the outcomes of the organizations to provide legitimacy. This formal structure and actual behaviors of the organizations can be different because they do not always bring efficiency to organization and even decrease it. However, in order to gain legitimacy and continuity, organizations adopt these institutional norms or rules and separate the formal structure from actual activities, or they are loosely coupled. In other words, organizations send the signal to the environment about adaptation of institutionalized practices while having a different internal structure. Therefore, it turns a rhetoric thing to gain legitimacy. Actually, this shows the active role of agency because it is a kind of resistance to institutional pressure.

Dimaggio and Powell (1983) conducted another important study of institutional theory and focused on the importance of environmental adaptation and how organizations within the same context resemble to each other due to the adaptation to same environment with different reasons. Organizations are exposed to same regulations and laws and that is called as coercive isomorphism; they can imitate the successful organization especially under the uncertainty and this is called as mimetic isomorphism and lastly professions and norms impel the organizations to behave in the same way and this is called as normative isomorphism. If the environmental adaptation of organizations is similar, it creates isomorphism but there can be differences as well.

Contrary to DiMaggio and Powell (1983), there are other scholars who do not believe in isomorphism. According to them, organizational identity, which affects the way of adaptation, prevents similarity between organizations. If the organizational identity is not choral with institutionalized practices, even if they adapt to environment, it would not be a sustainable change. Some organizations are more dynamic, risk-takers and have less formal structures while others are efficiency-oriented and less dynamic, the former is called as prospector and the latter is called as defender (Wolfgram, Boal and Hunt, 1998). It cannot be expected that these two types of organizations adapt their environment in similar ways. Prospector organizations are more likely to respond the environmental changes whether there is a coercive force to change or not. Therefore, even though defenders and prospectors operate in the same institutional context, they behave differently.

Tolbert and Zucker (1983) also suggested that the organizational adaptation to environment, which brings positive image and access to resources, creates isomorphism but it cannot be independent from efficiency. They also described the institutionalization as a process which has three phases. Pre-institutionalization phase involves a few number of adaptation and organizations lack adequate knowledge about the issue; in the semi-institutionalization phase the practice start to diffuse and gain normative acceptance although it is still a fresh one. Since there is not a determined and one way to do it, agencies have active role in the formation of this phase. The last phase is full-institutionalization which means the practice has been taken for granted and there is not any different implementation anyway. However, Kostova and Roth (2002) claimed that institutionalization process does not necessarily follow this order because sometimes semi-institutionalization comes after habitualization.

2.1.1. Diffusion of Institutionalized Practices

Since the national institutional systems are affiliated with and influence each other, they are open to change (Djelic and Quack, 2007). Institutionalized practices or features are transformed by culture, structures and routines (Perrow, 1986). Especially when the countries have strong ties within the same network or have trade relationships, they are more likely to imitate their practices (Guler, Guillen and Macpherson, 2002). As a result, isomorphism can be at national level as well as at organizational level (Jepperson and Meyer, 1991). Other scholars also suggest that states play key roles in diffusion of a practice by imitating other successful countries. Since state has the power to make the organizations to behave in a certain way, the practice is institutionalized by coercion (Coles, 1989). For instance, corporate governance became an accepted mechanism in OECD countries in 2000s and then USA adapted to this by publishing Sarbanes-Oxley Act and then diffused worldwide (CGAT, 2006). Nowadays, corporate governance is a broadly institutionalized concept and it is an essential criterion for foreign investors while seeking countries to invest especially for the family-dominated environments (Coombes and Watson, 2001).

2.1.2. Organizational Response to Institutional Context

Organizational adaptation to the environment consists of two parts which are implementation and internalization. Implementation means the development of habits in terms of institutionalized practice while internalization means the development of consensus for adaptation within the organization (Kostova and Roth, 2002). To understand the adaptation degree of a practice, these scholars generated a framework. According to their study, there are four adaptation degrees to an institutionalized practice. The first degree is called as "*active*" in which organizations both implement and internalize the practice; the second degree, called as "*minimal*", organizational implementation and internalization are both low; the third degree is called as "*assent*" in which the practice is internalized but the implementation is low because institutional context do not support it yet. The last degree is "*ceremonial*" in which the practice is highly implemented because of intense regulatory pressure while the internalization is low. If there is implementation of the practice alone without internalization it means ceremonial adoption (Kostova and Roth, 2002). It occurs either when the employees do not think that the practice is valuable or when there is uncertainty about the practice, they just do it for legitimacy (Tolbert and Zucker, 1983). In other words, they behave symbolically to defend themselves within an uncertain environment (DiMaggio and Powell, 1983).

There are other researches which agree with the existence of organizational resistance although environmental changes create critical problems for the organization (Starbuck, Greve and Hedberg, 1978). There is a dilemma between the adaptation to the environment and resistance. If organizations resist changing, they live difficulties in accessing to resources and lose their legitimacy and social support. All of these reduce the chance of survival for the organizations. On the other hand, if they adapt to their environment, organizations become rigid structures and lose their special abilities and identities which reduce survival chance by missing the opportunities. Therefore, it is not possible to say one of these is the right thing to do, organizations should decide whether to adapt or resist according to their own interests (Oliver, 1991).

Additionally, there are some limitations about the environmental adaptation. These are the abilities and capacity of organization to change, the organizational desire to change, the divergence of institutional practices and organizational interests or organizational concerns about losing the control. Therefore, before responding to the environment, organizations interrogate the existing situation. According to Oliver (1991), organizations ask five questions in order to analyze the nature of institutional pressures. These questions are why it is necessary, who constitutes this, what is the content, who does control and what is the context; based on the answers organization make a decision. If the adaptation brings legitimacy or efficiency, if the institutional actors who force to behave is a powerful, if organization is dependent to this actor, if the institutionalized practice converges to organizational values or interests, if there are laws and sanctions and if there is uncertainty, organizations tend to adapt their environment. If there are different situations, organizational response to environment differs.

As a result, Oliver (1991) categorized the responses of organizations based on the institutional change, respectively, *acquiescence, compromise*, *avoidance*, *defiance* and *manipulation*. Firstly, organizations can adapt to the institutionalized practice by taking for granted, by imitating others and by consciously obeying the rules or norms. The second respond can be unqualified conformity by creating balance between organizational interests and institutional context, or by pacifying the adaptation with minimum resistance or by bargaining with external actors to create a specific version to themselves. The third respond is to avoid the change by symbolic acceptance, by shirking from internal analysis, or by escaping from the industry or country. The forth response is to defy which is another way of resistance by ignoring the institutional context, by challenging the practice or by attacking to external forces. The final response is to manipulate the situation by co-optation, lobbying or controlling the institutional elements.

Beyond all of these, it is not rational to evaluate whether there is active agency role or not for some issues which are highly-institutionalized and became social facts (Goodrick and Salancik, 1996). If it is not the situation, organizations play an active role in institutionalization process of the practice and they can manipulate it based on their interests. Therefore, differences occur within the context regarding the institutional forces. Since organizations are individual players within the institutional context, their interests step in as long as the institutional context allows. For instance, if there is a law which is open to manipulations, organization more likely to resist and this does not cause to lose legitimacy (Goodrick and Salancik, 1996). This kind of uncertainties about the practices tolerates organization to behave differently and existence of alternative ways of adaptation drives organization both to behave particularistic or interest-seeking and to get involved into institutionalization process (Pfeffer and Salancik, 1978; Oliver, 1991; Goodrick and Salancik, 1996). Therefore, Goodrick and Salancik (1996) identified the situations that can bring uncertainty to the context. According to them, if the institutional goals are certain but the ways to reach is not clarified; if the reason of institutionalized practice is not certain and if the institutional values are not certain, it is expected that the institutional context would be uncertain and organizational interest would be involved into the process. In order to understand how these interests will shape the process, organizations should be known. Therefore, it is important to know the organizational characteristics such as ownership structure or size to evaluate the institutionalization process.

2.1.3. Institutional Transformation and Dialectical Perspective

Until the end of 1900s, institutional theorists emphasized to show institutional construction, reproduction and isomorphism rather than conflict, change and practice variations. They (Whitley, 1992; Lane 1995; Berger and Dore, 1997; Hall and Soskice, 2001; Hollingsworth and Boyer, 1997) did not mention about a radical socio-economic change due to the lack of understanding of system transformation, importance on system coherence or institutional complementarity which means that the absence or emergence of an institution affects the efficiency of another institution (Lane, 2003). Their only concern was about incremental changes and how cognitive, normative and regulative forces make the institutions to comply with a standard set of practices. These authors claimed that change of institutional logic or system transformation is only possible with extreme external shocks.

Before going in depth, it is better to differentiate institutional transformation and reform. Fourie (1999) defined the reform as the *modification without fundamental change* while transformation as the *radical change of form, shape and nature of institution*. Institutional transformation includes cognitive transcendence, mindset, and change. In other words, it is the change of logic as a whole which means the change of organizational culture and establishment of new values. It is followed by organizational reengineering that organizations review and redesign their forms to comply with new forms. Moreover, Lounsbury (2002) defined the institutional transformation as the *destruction of old one and building up a new institution.* It is an institutional design which means the emergence of rules, procedures and structures of institution and their realization (Alexander, 2005). It occurs whenever institutions are created and changed through human action either through evolutionary or purposive design. He identified three different levels of institutional design. The highest level addresses the institutional design that contains the whole society such as governance mechanisms or establishment of a new constitution. The second one is meso-level institutional design which addresses the planning and implementation structures such as a new economic development program. The last one is lowest level design that includes the intra-organizational practices such as teams or committees.

However, relatively recent studies started to question the assumptions about the change. Is such a big external shock necessary to change a system? Does the system change only with external impacts? Do the institutions complement each other with such a strong manner? Could not an institution change independently? Is an institution, already in place, changed by other stakeholders in terms of their own interests? These questions brought the new point of views to the system change and transformation literature (Becker, 2001; Beyer and Hassel, 2002; Deeg, 2001; Hoepner, 2001; Mahoney, 2001; Morgan and Kubo, 2002 and Thelen, 2000). These authors emphasized that system could change by the impacts of cumulative factors or an evolution could be lived. It does not have to be by external reasons; internal agents could also trigger the change. The negotiating power and interests of internal actors are started to be considered by new theorists which is consistent with system theory.

Indeed, in past three decades, institutional theory has a paradox about explaining change. Since theorists define the institution as a power that makes the actors adopt the same practice, it is important to ask how new institutions emerge despite that power. Absolutely there were studies which claimed that actors are not passive toward institutions such as Oliver (1991). However, if the interests of an actor are institutionally constructed, how could it be possible having different interests to change the existing situation? This inherited paradox of institutional theory was dealt by Seo and Creed (2002) whose theoretical base is ***dialectical perspective*** which tries to understand change. The change starts with a stable condition and an alternative practice occurs that creates the change and the new one continues until the newest one comes. Therefore, the four basic principles that Seo and Creed used for explaining the institutional change comes from Benson's (1977) dialectical view as shown in Figure 1. The first principle is *social construction* which means that a practice is socially constructed by the help of social interactions between actors, organizations, fields or states. These are all interconnected with each other with a loosely coupled connection. So, divergence and incompatibility can emerge because of the autonomous social structures and this was defined as *totality*. In other words, various autonomous agents could bring differences and incompatibilities. The third principle, *contradiction*, creates tensions or crises within the institution which are essential for change. If the legitimacy does not meet efficiency, if the adaptation prevents being responsive or if institutional conformity creates inter-institutional incompatibility then the contradictions occur. The last principle of dialectical view is *praxis* which means collective human action to change the existing practice by searching new possibilities. With these four principles, Seo and Creed filled the gap of institutional theory which did not mention about when the active and autonomous agent becomes a change agent. This is possible with continuous tension which triggers the change agents to create new alternative and mobilize the new practice by the help of institutional entrepreneurs.

Certainly, there are unchanging parts of the systems as well and these authors are aware of that fact. This is the reason why latter theorists use hybridization concept to include these stable parts of system in transformation studies. There are established logics of systems which limit the actors' practices and orient the generation of new institutions. Therefore, the establishment of an entirely new institution is very rare. Therefore, a new concept was started to use; the *hybridization* which evolves when the former complementarity vanishes and the different parts of the system are dominated by different logic (Deeg, 2001). Lane (2003) also defined hybridization as *there are path dependent parts of the system that do not change while other parts are reflective to innovations.* Characteristics of existing institution impact the emergent one. It means the complementarity no longer exists and different parts are dominated by different logics. Recent studies that try to explore major transformational or national changes do not focus on isomorphism anymore. Changes are not always isomorphic; there can be non-isomorphic changes by local innovations which are being dispersed by regulatory agencies such as associations (Greenwood, Suddaby and Hinnings 2002). Definitely, the symbols, routines and artifacts are still important concepts but similarity approach is replaced with tailored practices. Through active agents and institutional backgrounds, practices are obtained in different manners in each institution or even in organization which brings the hybridization.

Former studies gave importance to transformation, institutional change, deinstitutionalization, also the reasons of change and responses of the organizations but could not explain the system transformation as a process (Lane, 2003). Whereas, the institutional transformation should be analyzed as a process since changes do not occur as a breakdown. Practices change in a period of time and should be analyzed by qualitative methods. That is the reason why a forum was generated on transformation studies in 2002. With the increasing interest on that topic, Dacin et al (2002) called the papers to observe the different methodologies and theoretical perspectives merged with this issue. Most of those recent studies explored the reasons that bring institutional change, the responses of organizations, institutional entrepreneurship and the deinstitutionalization as a process.

Before mentioning these relatively new transformation studies, it is important to understand Oliver's (1992) study because latter ones followed her perspective. Oliver (1992) stated that institutional perspective that lead organizational changes can alter because of challenges about status quo, new habits and customs and the loss of practice value. She defined three major reasons that create pressure on institutions to change norms and practices. These are *functional*, *political* and *social* pressures for deinstitutionalization which leads either to dissipation or rejection as shown in Figure 1. Oliver also mentioned about the moderating factors in deinstitutionalization process which are *entropy* and *inertial pressures*. Entropy means that each system tends to dissolve after a period of time. On the other hand, inertial pressures come from the path dependency. These two reasons are effective in deinstitutionalization process and should be observed as well.

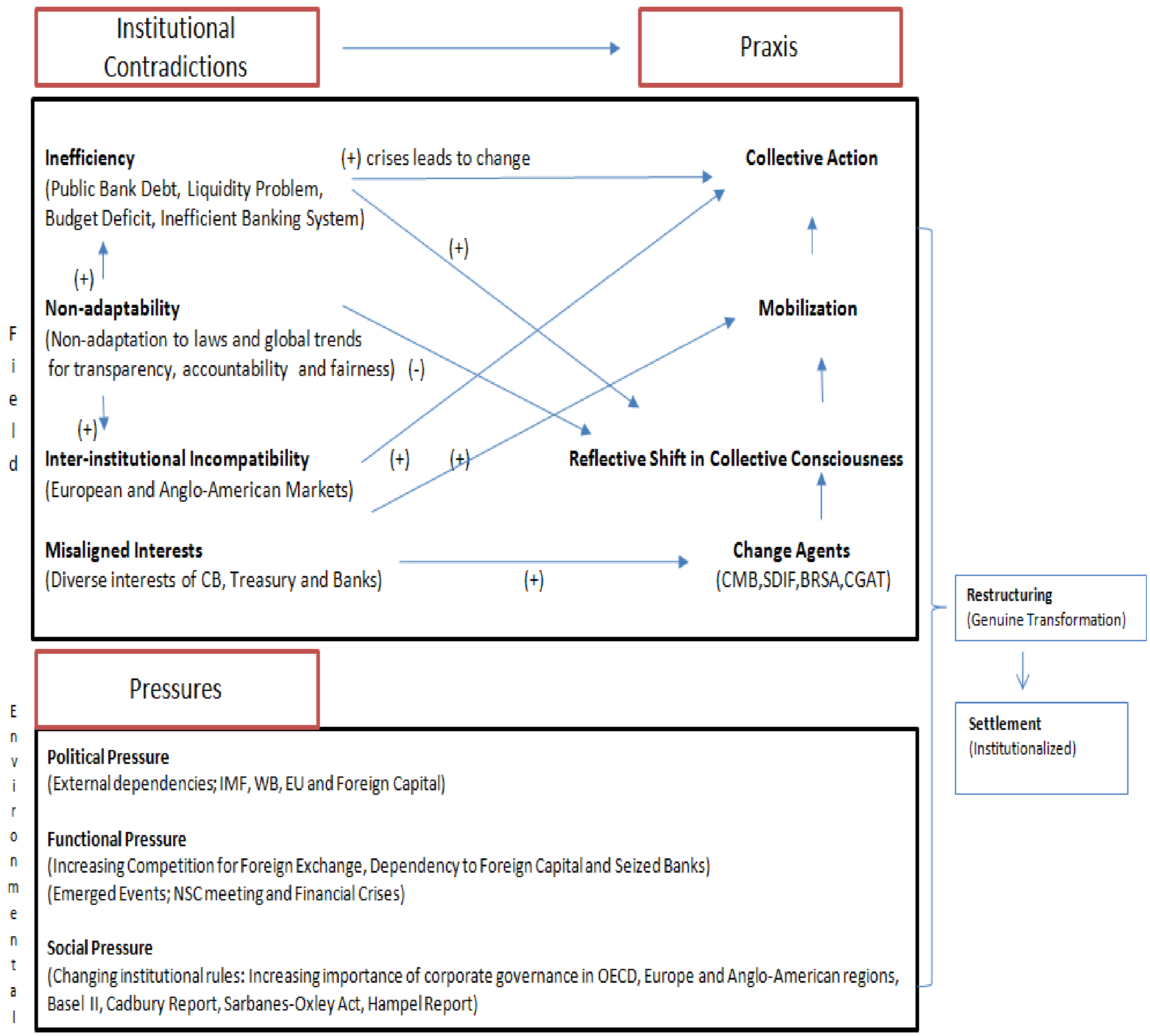
The first pressure that Oliver defined is functional one which consists of the problems about performance or utility of a practice could be the reason of deinstitutionalization. As evidence, Thornton's (2002) study certified that the institutional logic changed in high education publishing sector due to the increasing resource competition and market acquisitions. Similarly, Lounsbury (2002) observed the field of finance in US for 48 years and explored how environmental trend of deregulation that spread in other related industries triggered the logic transformation from regulatory to market logic. That study examined all professional associations to understand the occupational change of finance professionals and status mobility. Moreover, Kraatz and Moore (2002) also showed how changing trends made the public higher education institutions to adopt a new curriculum.

Another pressure defined by Oliver was political one which means the shifts in interests and power distribution. That kind of pressure could come from environmental changes, crises or questioning the legitimacy of an existing practice. As evidence, Townley (2002) observed how performance measures and business planning transformed to the public sector in Canadian museums. She used Weber's rationality in order to understand institutional change and observed that practices with coercive forces were adopted but mimetic pressures were rejected by museums. Alternatively, Greenwood et al (2002) looked at the institutional change process of Canadian accounting professional associations for 20 years. They observed the significant roles of associations in negotiating and lobbying the new concepts with professionals and in reframing the identities of this profession. They also examined how the boundaries of the field changed during this transformation period and defined 6 stages of change. The first stage is *Precipitating Jolts* in which an event changes the established practice by technical disruption, regulatory change or social upheaval. Second stage is *Deinstitutionalization* which means that new ideas trigger the change and disturb the field by new players and institutional entrepreneurs or by decreasing existing actors. In the third stage, *Preinstitutionalization*, organizations seek solutions to problems by innovations or technical viability paramount. The next stage is *Theorization* in which abstract solutions are justified and practice gains moral legitimacy. The fifth stage is *Diffusion* of the practice to the field by gaining pragmatic legitimacy. The last stage is *Reinstitutionalization* of the practice which started to be taken as taken for granted.

The last type of pressure on institutions is because of social reasons that come from changes in society such as differentiation of groups, divergent beliefs or law changes (Oliver, 1992). When the new comers, who have different backgrounds, come to organizations; they interpret the same frameworks in a different manner. That decreases the consensus and leads to question the existing practices (Zilber, 2002). He emphasized the importance of institutional entrepreneurs in his study. Another study, conducted by Lane (2003), investigated the changes in corporate governance of German Corporations to understand whether they are converged to Anglo-American Model or not. He also analyzed the change by giving importance to internal actors' interests and negotiating power. In fact, institutional entrepreneur were firstly defined by DiMaggio (1988) who serves as agent of new practices that are aligned with his interests.

Based on these theories, an institutional transformation map was generated by using the studies done by Seo and Creed (2002) and Oliver (1992). Figure 1 show this map which is designed to clarify how a practice is institutionalized with the impacts of institutional contradictions and praxis in the field level and various pressures in the environmental level. The institutional transformation that is the subject of this study will be described on this map below.

Figure 1 Map of Institutional Transformation



Until these days, various studies were conducted on institutional change, transformation or deinstitutionalization by many researchers. To exemplify those studies, it would be beneficial to mention about some of them. For instance, Whitley and Czaban (1998) investigated the institutional transformation period in Hungary after the transition to capital economy. They investigated the product markets, employment and ownership structure and observed that the role of state decreased when the economy turned into market economy. Furthermore, Fourie (1999) looked at the institutional transformation in terms of implications for academic staff at South African Universities. Lee and Pennings (2002), observed the German professional service firms in accounting sector which lived a transformation period after 1925 which was generated by political pressures. This population level study showed that the partners-only organization forms of these service firms replaced by partner and associations form. They generated an institutional transformation model for the changes sourced by non-coercive forces. In their model, population has variety of new forms of a practice. Firms filter these forms and give positive feedback to one of them and select that practice. While adapting this new way of doing something, firm characteristics impact the adaptation process.

On the other hand, while most studies mention about internally sourced transformation, there are also other transformation studies whose theoretical base is resource dependency theory. These kinds of researches claim that change comes from the scarce resources within the environment. For instance, Sheer and Lee (2002) claimed that there are specific situations in which the change is inevitable because of scarce resources within the environment. They indicated that if an essential resource is scarce, actors start to look for new alternatives and this could trigger the transformation as well.

When we come today, it is easily recognized that the content of the recent studies was enriched. One of those ascendant studies was conducted by Flingstein and McAdam (2011). They generated the Strategic Action Field Theory which is a *general theory of social change and stability rooted in a view of social life as dominated by a complex web of strategic action fields*. They pointed several key components of this theory. The *strategic action field* is the social order in which actors with same understandings and aims interact with each other. They were influenced by existing definitions of social orders in institutional theory such as Bourdieu's (1992) *field*, Powell's (2005) *network* and Fligstein's (1996) *market* definitions. Within the each Strategic Action Field, actors have common understandings and consensus, power was distributed unequally, rules are clear and active agents could have his\her own way to do something. However, these fields are usually disorganized and open to change because of different implementations of a practice by active actors. Another component of their study includes actors of the fields. *Incumbents* are the ones whose interests are best fitted by the existing conditions; *challengers* are the ones who seek for alternatives and *governance units* are the ones who generate the rules and serve as internals such as associations.

Strategic Action Field Theory also gives importance to social skills. Skilled actors or institutional entrepreneurs could trigger the change to increase their own interests. These are effective people who take support of others and mobilize their behaviors easily. They also define a broader environment for the field by including the distant and proximate fields. The change of one field could alter the other dependent fields as well. That is the reason why the transformation studies should also look other related fields by broadening the field environment. Another component of this theory includes the external factors such as exogenous shocks or field ruptures. Sometimes, the change comes from an exogenous shock within the field or other related fields such as crises. In that kind of uncertainty situation, actors seek for new opportunities. Innovative ones start to be mobilized by imitation of others and the field is settled by the help of state and external parties. To summarize, the theory of Flingstein and McAdam (2011) shed light to further studies about the components of study, the boundaries of the studied field, main actors to be identified and effective external factors if exist.

2.2. Path Dependency

While evaluating the organizational involvement, active agency role, change and transformation process, the concept of path dependency is also important. Path dependency is defined by Sewell (1996) as the impacts of historical events on the potential future events. Organizations are affected by the consequences of their past behaviors and take action based on their previous experiences. Series of connected events create the institutional patterns and some events stabilize the process which is the main focus of path dependency studies. Additionally, for institutional stability, legitimacy and socialization of a practice are important and these two can stabilize the emerging path-dependencies (Beyer, 2006).

Due to the path dependency, when there is uncertainty or chaos, organizations tend to behave as they used to before because they are more experienced and safer in doing older practices (Johnson, 2001). Behaving path dependent is a strategic decision for organizations because they choose to repeat the practice even there is another alternative way. In other words, the effects of previous decisions come to present time and also determine the future opportunities (Mahoney, 2000). The events occurred before, eliminates the some parts of practices and stabilize them (Djelic and Quack, 2007).

Most of the researchers agree and claim that possible future alternatives are being effected or dependent to previous conditions and actions. Namely, change agents who are looking for new alternatives have affected visions which lead to inertia and path dependency after a period of time (Pierson, 2000). Hence, new practices are not completely different from the old path. Instead it can be seen a reproduction of existing ones and occurring changes reflect the old versions (Stark, 1992).

External changes occasionally create radical breaks and leads to path to transfer to another way. Path dependency studies define the change as either a radical change from exogenous factors or a change followed by an unexpected event. Mahoney (2000) indicated that early important events such as wars or specific things such as a resign of a political leader can trigger the change. However, it does not have to be a change after an unexpected event. Transformation to a new path can be affected by both exogenous and endogenous factors (Deeg, 2001). Djelic and Quack (2007) also claim that both inefficiency and previous events are affective in change process. The previous events could eliminate the some parts of practices and stabilize them and efficiency could be the reason of change. However these cannot be a motive alone behind the new institutionalized patterns.

According to Pierson (2000), path is characterized by a self-reinforcing sequence of events which means that the effects of small events increase and trigger the change. He also defined the levels of being path dependent. At the first stages, things are open and changeable. With the positive feedbacks or possibility of gaining better returns, path moves and as the path moves, things become bounded. Mahoney (2000) also agreed with that by claiming that being path dependent or supporting the change depends on the interests of agents. On the other hand, there are other researchers that do not believe in that a small event could trigger the change (Schwartz, 2001 and North, 1991). They read the institutional change as evolutionary which is the cumulative consequence of both formal and informal changes.

2.3. Theories for Board Structure Studies

The ideal structure of the board has been discussed by scholars for a long time. Researchers that have looked into different aspects of boards like size, insider and outsider ratios and CEO duality show the differences among countries or environments. These studies can be grouped as two; first group explains the structure of boards and the second one shows the relationship between the board structure and performance of the firm.

The prior studies on board mainly started with identification of the importance of board for organization (Fama and Jensen, 1983; MacAvoy et al., 1983; Weisbach, 1988; Zahra and Pearce, 1989). Studies that deal with structure can also be separated based on their theoretical framework. From the agency perspective, boards stand for to decrease the tension between management and shareholders (Jensen and Meckling, 1976; Fama and Jensen, 1983; MacAvoy et al, 1983; Baysinger and Butler, 1985; Weisbach, 1988). These researches give importance to composition of board, CEO duality and board size as structure aspects (Dalton and Kesner, 1987; Hermalin and Weisbach, 1988; Pearce and Zahra, 1992; Jensen, 1993; Daily and Dalton, 1994; Barnhart et al, 1994; Bathala and Rao, 1995; Daily and Schwenk, 1996; Johnson et.al, 1996; Brickley et al, 1997; Hermalin and Weisbach, 1998; Shivdasani and Yermack, 1999; Mak and Roush, 2000; Prevost et al, 2002; Carter and Lorsch, 2003; Hopt and Leyens, 2004; Raheja, 2005; Lane at al., 2006; Blumentritt, 2006; Boone at al., 2007; Cheng et al, 2007).

According to them, mainly from the ***agency perspective***, board reduces the conflict between owner and manager by separating the management and monitoring aspects. The responsibility of management side is implementation of decisions and the other side, board, controls and evaluates them. Agency theory deals with the problems between the owners (principals) and managers (agents) whose interests and aims are different than each other. The separation of ownership and management brings the agency problem in organizations. Since investors can only get asymmetric information which makes them bounded rational, they find to invest in an entrepreneur risky. Although they make contracts, there are lots of possibilities that they could not take into account. The corporate governance mechanism becomes a part in that case by limitating the behaviors of managers and protecting the rights of each part (Shleifer and Vishny, 1996). Therefore, the structure of the board is essential for being an efficient organization because only objective and independent boards give their decisions based on professional criteria. That is the reason why academic researchers have focused on the boards of directors.

From the ***resource dependency perspective***, boards create a linkage between external environment and firm to access resources and bring legitimacy (Pfeffer, 1972; Pfeffer and Salancik, 1978; Bazerman and Schoorman, 1983; Boeker and Goodstein, 1991; Pearce and Zahra, 1992; Gales and Kesner, 1994; Daily and Schwenk, 1996). Pfeffer (1972) claimed that environmental changes affect the composition of boards. Therefore scholars compared different countries with paying attention to environmental dimension and declared that even the structure of boards is close to each other; their role and impact are different for each country (Li, 1994; Corbetta and Tomaselli, 1996; Gedajlovic and Shapiro, 1998; Hillman et al, 2000; Mak and Li, 2001; Prevost et al, 2002; Cutting and Kouzmin, 2002; Yoshikawa and Phan, 2003; Hopt and Leyens, 2004; Corbetta and Salvato, 2004). The gap becomes more apparent while studying family businesses because the structure and role of board of directors in family business are more crucial (Daily and Dalton, 1993; Millstein and MacAvoy, 1998; Klein, 1998; Dehaene et al, 2001; Bonn et al, 2003; Abdullah, 2004; Ibrahim et al, 2006). There are also studies that looked at different aspects of boards like women involvement (Higgs, 2003; Almazan and Suarez, 2003, Medland, 2004; Farrell and Hersch, 2005; Adams and Ferreira, 2007, Huse et al, 2009) and sudden deaths of CEO (Nguyen and Neilsen, 2010).

The second group of studies focused on the impact of board structure on performance and growth opportunity of firm. Some of them found positive relationships (Pfeffer, 1972; Baysinger and Butler, 1985; Schellenger at al., 1989; Rosenstein and Wyatt, 1990; Agrawal and Knoeber, 1996; Daily and Dalton, 1993; Eisenberg at al., 1997; Millstein and MacAvoy, 1998; Klein, 1998; Core et al, 1999; Franks et al, 1999; Vafeas, 1999; Dehaene et al, 2001; Yoshikawa and Phan, 2003; Hillman and Dalziel, 2003; Abdullah, 2004; Ibrahim et al, 2006; Abdullah, 2006; Coles et al, 2007; Braun and Sharma, 2007; Adams and Ferreira, 2009; Amran and Ahmad, 2009). Many of them resulted that it is not possible to describe a generalized board characteristics that brings superior performance in any kind of business context. In other words, they found negative or no relationship between board composition and performance (MacAvoy, et al, 1983; Agrawal and Knoeber, 1996; Hermalin and Weisbach, 1998; Klein, 1998; Dalton et al, 1998; Lawrence and Stapledon, 1999; Bhagat and Black, 1999; Harris and Raviv, 2006).

With the light of ***institutional theory***, board of directors, which is the one of the most visible features of organizations, should be composed and functioned regarding the institutional norms, values and rules in order to gain legitimacy. The institutional context describes an *ideal board* as a formal structure and this cannot be the most efficient version for the firms. Therefore, firms can adapt this ideal board either ceremonially or internalize it due to the symbolic impact of boards on society. In other words, this formal board structure or practice is defined in an institutional context and organization respond to this practice by either compliance or resistance in different levels. Existence of laws and highly institutionalized practices leads to pure compliance but before this phase, organizations play active roles and get involved in this process. By adapting to this ideal type, firms send transparency signals to especially foreign investors and also other stakeholders (DiMaggio and Powell, 1983; Baum and Oliver, 1991; Louma and Goodstein, 1999). This is especially important for listed firms because investors seek for legitimate firms to invest which are less likely to fail and low-risky (Baum and Oliver, 1991). In post-financial crisis period, boards are more responsive to the environment because of increasing pressure of shareholders. Since it is the responsibility of boards to increase the firm performance, in crisis period it is risky to lose legitimacy by resisting to the environment. By adapting to the environment, boards reflect myths to be perceived as rational identities (Berger and Luckman, 1967; Starbuck, 1976).

3. LITERATURE REVIEW

In this chapter, the corporate governance concept is defined before providing detail knowledge about the structure of board of directors which is the main focus of this study. With the help of this knowledge, the firm level concepts will be reviewed in order to understand the adaptation of new characteristics of board of directors as one part of corporate governance mechanisms.

3.1. Definition of Corporate Governance

Firms are experiencing irregularities and bankruptcies in many countries which damage both national economy and investors of these firms. As a result, being a transparent, accountable, fair and responsible is almost an obligation for the organizations. With the increasing consciousness about corporate governance, the rights and interests of all stakeholders became the main concern of the firms. Increasing the efficiency, defining appropriate missions and visions, setting the aims and strategies are all important components of organizations. However, trust is more important than all because the lack of it would affect the all possible outcomes of the organization. That is why corporate governance is an essential concept for both organizations and the society as whole because it is closely related with power and welfare distribution. In other words, this mechanism shapes the logic of political economy of the country. Since it is linked with all systems within the country, corporate governance system can be seen as an institutional logic (Lane, 2003).

Corporate governance could be defined in many different ways but the universally accepted main principles of the concept are transparency, accountability, responsibility and fairness. It is basically the mechanism that regulates the rights and responsibilities between the organization and its stakeholders. It aims to solve potential interest conflicts between the shareholders and management due to these two groups is separate. The shareholders want to protect and increase their returns from investment while managers try to take the compensation of their efforts. Sometimes, these two kinds of interests can conflict or their risk perception can differ and the problem occurs. The importance of corporate governance rises at that point. Especially for listed firms for whom investors seek trust to invest, public disclosure and independent external audit became very important issues.

This concept was defined by different international and national associations. One of these definitions was made by OECD (2004) which can be summarized as corporate governance includes the relationships between management, board of directors, shareholders and other interest groups of the organization. It also increases the efficiency and growth of the firm by raising the trust of investors. Another definition by World Bank (1999) indicates that corporate governance is the combination of rules, codes, regulations and implications that makes organization to work efficiently and increase the economical returns by attracting the capital. As a national association TUSIAD (2002) described governance mechanism as the entire relations between management, shareholders, board members and employees of the organization with all other institutions that are closely or loosely related.

3.2. Global Standards of Corporate Governance

Corporate governance have started to become important in developed countries such as USA, England and other European countries since 1980s but with the support of international organizations, it increasingly spread to the world in the last three decades. Especially the big corporation scandals and abuse of power, financial crises, growing importance of private sector and most importantly the increasing international dependencies with the globalization increased the consciousness on corporate governance. After the corporation scandals that endanger the nation's economy, globally accepted rules and codes were accelerated such as Sarbanes-Oxley Act (2002).

There are several published reports prepared in different countries on behalf of improvement of corporate governance practices. The first report was constructed in 1987, with the name of *Treadway Commission* in USA, which aimed to emphasize the important role of audit committees in order to prevent the corruption. This was regarded to the firms registered to NYSE, NASDAQ and AMEX stock markets. The second one, *Cadbury Report*, was prepared in 1992 for the firms traded in London Stock exchange which defined the frame of governance principles and extended throughout the world by being the base of OECD Report. The main concerns of this report were the composition and function of board of directors, separation of CEO and chairman roles and establishment of audit, remuneration and compensation committees. Rather than a compulsory manner, this report was based on "comply or explain" attitude in order to improve self-regulation which is also used as a governance standard of today world (Dastan, 2010). Following those, other voluntary based reports were prepared such as the *Dey Report* of Canada (1994), the *Greenbury Report* (1995) and *Hampel Report* (1998) in UK.

Additionally, OECD started to study about governance in 1960s and the first principles guide was prepared in 1999 which is one of the most widely known and used report in the world. OECD defined the main concerns of corporate governance; accountability, fairness and transparency. They presented this report as a guide for member countries rather than strict regulations by defining and they recognized that "*one size does not fit at all*", which means each country should identify its own principles based on main concerns of governance. Each country was recommended to establish its own principles based on their characteristics and these principles should be open to change and should aim to both listed and non-listed firms.

Unfortunately, all of those reports could not stop the big firm scandals at the beginning of 2000s. Enron, WorldCom, Tyco and many other big corporations faced with collapses because of unaccountability, abuse of power, corruptions and excessive compensation level of top management. Those experiences, which damaged the trust of investors and negatively affected the country's economy, increased the importance of corporate governance in world. However, as the most affected country, USA constituted a new regulation for the firms traded in NYSE. The *Sarbanes Oxley Act* was prepared in 2002 by following those scandals and brought new regulations and sanctions. It aimed to make firms to generate internal audit mechanisms, public disclosure and to protect shareholders' rights (Kahraman, 2008).

The main purpose of these global standards are to prevent the abuse of power of top management, inequalities between shareholders, hostile takeovers; to protect the rights of stakeholders; to decrease the interest conflicts, agency cost and to increase the trust toward the organization (Aktan, 2006). However, it does not mean that there is only one model of good governance. Countries try to conduct their own corporate governance mechanisms based on the general conditions of the country such as economic situation or competition, the development of capital markets in terms of infrastructure and regulations and the firm characteristics such as board of director structure or capital ownership within the country (Akbulak, 2011). The existing laws, cultural values and socio-economical conditions impact the regulations and implications of governance mechanism in each country. Although accounting rules, auditing standards or capital market structure are different, the main principles of good governance are the same.

3.3. Expansion of Corporate Governance

It should also be considered that the most of governance principles are voluntary based and there is not any sanction. Therefore, laws and governance principles should complement each other for a better implication. The organizations comply with the principles since it attracts the investors and increases the trust toward the firm which brings economic returns (Dogu, 2003). The better corporate governance is the more financial support the firm takes and the more economic gain it earns. Besides the organizational benefits, corporate governance is also essential for global economic order. From the organizations' perspective, good governance brings low cost capital, rising liquidity and financial opportunities, invulnerability to crisis and acceptance in capital markets. From the country side, good governance mechanism means good country image, keeping capital inside, attracting foreign investors, competition advantage in capital markets, low effect of crisis and increasing welfare (Dogu, 2003). Therefore, macroeconomic politics, markets and even competition are interrelated with governance mechanism in a country.

The corporate governance solve the agency problem by mechanisms such as board of directors, compensation systems, dominance of majority shareholders, the risk of hostile takeover and the labor market of professionals (Ulgen and Mirze, 2004). The board members are the people who are employed by majority shareholders or are voted by the dispersed firms. Boards are the head of governance mechanism in the firm in terms of decision making, adaptation and implementation of governance practices. On the other hand, compensation system is an important component of governance mechanism in terms of incentives and motivation for top management in decision making on behalf of shareholders. Correct compensation policies make the managers feel like in the same boat and give shareholders the opportunity to guide managers in favor of their interests. Presence of majority shareholders, as another part of governance, decreases the agency cost by preventing the board members to behave inappropriately in terms of shareholders' interests. Hostile takeovers are another reason for managers to behave in favor of shareholders and firm interests. Because in such case, there is a risk of job losing for managers which makes managers motivated to run a successful business in long run. The last aspect of governance mechanism is defined as labor market of professionals which is important for managers' long term success and carrier development. A well-known and successful manager will have always demand for other employment opportunities and this would only be possible by previous success stories.

Denis (2001) also defined the governance mechanisms as the legal mechanisms, internal and external control mechanisms, and the product/service competition. He claims that the legal requirements and legislations are the main support of governance mechanisms. He also mentions about internal control mechanisms which involves board of directors, compensation policies, majority shareholders and debt of the firms. Distinctly from the Ulgen and Mirze's study, he claims that existence of debt decreases the agency problem by preventing the firm to distribute dividends which is one of the main problematic issues between owner and manager. The external mechanism refers to independent audit firms which inspect the activities of organizations objectively to protect the rights of all stakeholders. The last component defined by Denis is product/service competition which means that successful management makes also the firm successful in market and that would bring profit and chance to live longer. Therefore, the risk of being unsuccessful in competition prevents the managers to behave inappropriately.

3.4. Board of Directors as a Component of Corporate Governance

As mentioned before, following the big scandals like Enron and WorldCom, both researchers and professionals started to seek the best practices for firm management. Since people observed that bad management could bring bankruptcy even for the world's biggest corporations, all stakeholders became more conscious about management practices and protection of their rights. The lack of efficient audit mechanism started to be a big problem for all but especially the listed firms in stock exchange markets. Therefore, the board of directors is an essential component of governance mechanisms since they are the ones who are responsible of implementation. Board of directors can be defined as the most important component of organizational strategy that manages the firm with the aim of profit gaining by being responsible to all stakeholders (TUSIAD, 2002).

The most important role of board of directors is monitoring the internal practices and decision makers. They are also responsible for extending the boundaries of organization by creating relations with environment. As the one of the most important component of governance mechanism, boards of directors are the main aim of many researchers to define the most appropriate board structure for fluent governance practices. However, good governance concept is more than fulfilling the minimum requirements of principles and duties. All actors should commit to perform governance practices in whole process of business.

The members of boards determine the efficiency of boards; more executive members mean high dependency to top management or family and tend to be stewards (Ulgen and Mirze, 2004). Investors seek for accountability from corporate boards and audit committees and this will enhance the quality of managerial stewardship (Cohen et al., 2002). *Stewardship theory* claims that managers serve as stewards who regard organization success than personal one. They think that when organizations meet their goals, it also meets their personal goals. Good governance mechanism makes the agents to become involuntary stewards (Davis et al., 1997). On the other hand, long term employment also makes executives to behave as stewards and think that the survival of the organization in long term is more important than their current personal interests (Monks and Minow, 2004).

3.5. Studies about the Structure of Board of Directors

Previous studies mainly focused on board size, composition, leadership structure and CEO Tenure of board as main aspects of board structure. The ***size*** of the board is defined as the number of board members. Jensen (1993) claimed that board size affects the monitoring ability of boards. In large boards, it is more difficult for CEO to dominate all members and this provides a more objective monitoring ability to board members (Mak and Roush, 2000). Although larger boards with more outsider directors bring much more information, knowledge, experience and other important resources, there are several drawbacks such as communication difficulties or longer decision-making process (Lipton and Lorsch, 1992; Yermack, 1996; Kula, 2005). According to Pfeffer (1972), the size of board and composition is the result of environmental reasons such as regulation degree and the firm's needs for capital. Therefore, the observation of board size is important in order to understand if any kind of changes in environment affects the board size, such as regulation or act (Linck et al, 2008).

The *composition* of board is defined as the insider and outsider percentage of the board. This is an essential dimension for board studies because to enable transparent and accountable boards outside directors are necessary as indicated by governance codes. In literature, the proportion of outside directors, who are not salaried executives of firm, shows the independence of board (Abdullah, 2006). Many scholars believe that outside directors bring independency to board and state that they monitor the CEO and top management more objectively than inside directors do (Weisbach, 1988; Byrd and Hickman, 1992; Johnson et al, 1996; Cotter et al, 1997; John and Senbet, 1998; Dennis, 2001; Klein, 2002; Kula, 2005). From the agency theory perspective, outsiders improve the accountability to shareholders. For instance, Nguyen and Neilsen (2010) claim that outsider directors undertake the responsibility of monitoring for three reasons. Firstly, outsiders do not live agency conflict; secondly, they objectively monitor due to the risk of losing reputation and thirdly, their technical expertise makes them good monitors. The need for independent boards increases when the countries do not have conscious for the protection shareholders' right like Turkey (Kula and Tatoglu, 2006). Although there are different criteria for the number of independent members, there is a consensus about that the lack of independent member would decrease the efficiency and performance of organization (Baraz, 2004). However, in family dominated business context, boards generally involve insiders or trusted outsiders, stewards, selected by family, in order to sustain family control (Goksen and Oktem, 2009). In parallel, Goksen and Karatas (2008) found that family members and insiders consist of 70% of the boards which means outsider dominated boards are not frequent for Turkish firms.

Consequently, a group of scholars advocate that outside directors cannot be independent and do not have an impact on performance or value of firms because they are being nominated by existing CEO and top management and involving in decision making process (MacAvoy et al, 1983; Hermalin and Weisbach, 1991; Perry, 1995; Bhagat and Black, 1997, 1999; Klein, 1998, Raheja, 2005). So, there is a disagreement about whether the outsider directors are really independent or not. Being from outside does not mean being independent always. Oktem and Usdiken (2008) studied Turkish large family business groups and found that majority of boards consists of non-executives who are *executives of group firms*, *retired executives from group firms* or *representatives of affiliated firms* which means they are not outsiders.

Another aspect of board structure is leadership structure which is defined as whether the role of CEO and the chairman are held by the same person or not. The ***CEO duality*** occurs when these roles are held by one person (Daily and Dalton, 1993). Defendants claim that CEO duality accelerates the decision making process and creates powerful and definite leadership (Solomon, 1993; Alexander et al, 1993; Finkelstein and D'Aveni, 1994; Brickley et al, 1997; Mak and Roush, 2000; Abdullah, 2002; Abdullah, 2006). However there are studies that show that firms with CEO duality are less valuable, less transparent, accountable and more prone to fail (Hambrick and D'Aveni, 1992; Daily and Dalton, 1993; Daily and Schwenk, 1996; Yermack, 1996; Weir and Laing, 2001; Elloumi and Gueyie, 2001). Agency theory defends the separation of these roles in order to prevent self-seeking practices of CEOs and interest conflicts (Eisenhardt, 1989). They think that when there is CEO duality, the monitoring ability and the flexibility of the board weaken while the power and dominance of chairman/CEO enlarge (Coles and Hestely, 2000). Resource dependency theory also supports the separated roles of CEO and chairman to have more objective and motivated participation of other members in boards (Zahra and Pearce, 1989; Jensen, 1993). Since duality brings a concentrated power on CEO/chairman position, it makes the board dependent which is not appropriate for good governance. Cadbury report also emphasizes the separation of these roles for a more balanced distribution of power and authority within the board.

CEO Tenure which means the number of years that CEO has performed in the firm is another aspect of structure in board literature. The tenure was related to many other aspects of board of directors. For instance, Linck et al (2008) suggested that it tends to be CEO duality when the tenure of the CEO is long. Another tendency is to relate the board independence with CEO tenure; the more tenure CEO has means the more influence he/she has on board members (Hermalin and Weisbach, 1998; Shivdasani and Yermack, 1999; Carter and Lorsch, 2003). When CEOs have long tenure, they would be there while selecting the outsider directors and that can manipulate the independency of boards. Moreover, Coles et al (2007) found that there is a negative relation between CEO tenure and insider proportion of board while firm age and CEO age are positively related. On the other hand, there are several studies that examined the impact of CEO tenure on firm performance and value (Anderson and Reeb, 2003; Amran and Ahmad, 2009).

Board of directors consists of several *committees* which enhance the role of board, facilitate the tasks of board members by preliminary studies and special knowledge and bring efficiency in terms of time (Clarke, 2007). Existing committees also provide information to non-executive members of the boards by making the board more independent. Each board establishes the required committees and the ones they need most. Those could be audit, risk, corporate governance, compensation or nomination committees. The *audit committee* is responsible from monitoring the financial statements, external auditors, internal control systems and compliance to legal requirements. By preventing the frauds, audit committee has a critical role in corporate governance mechanism which is also emphasized by international authorities such as Sarbanes-Oxley Act, Cadbury Report and NYSE (Dastan, 2010). There are several studies in literature about the existence of audit committee such as Dechow et al (1996) who found that firms without audit committee have more tendency to corrupt than the similar firms in the same industry that have an audit committee.

Another one is *corporate governance committee* which is responsible from developing, monitoring and enhancing the compliance to governance principles. Identifying, evaluating and compensating board members transparently and defining the relevant policies and strategies are the roles of this committee. This committee also coordinates the relationship between shareholders and firm and the nomination of board members if there is not a nomination committee (CMB, 2005). The *nomination committee* is responsible from identifying the suitable board member nominees who have adequate qualifications and experience and evaluating them objectively. Like this, *compensation committee* is also important to identify responsibilities of board members, compensation and incentive policies and to resolve the possible interest conflicts. The compensation level of executives and independent members is a critical issue and should be set carefully (Boruntas, 2004).

4. TURKISH CONTEXT

This chapter includes firstly an overview of Turkish economy and business environment and secondly Turkish banking industry as the focus area of this study. In the third part, the evolvement of corporate governance in Turkey is identified starting with explaining the four key elements of institutional transformation period. This part is composed of experienced financial crises in Turkey, effectuated regulations following the crises, expansion of corporate governance by identifying the main actors and studies of corporate governance in Turkey and lastly the involvement of foreign investors to the country.

4.1. An Overview of Turkish Business Environment

The organizations and ownership structures are determined by the corporate law of the country. If the all types of shareholders' rights are being protected by law in a country, the ownership structure could be more dispersed. For example, in Anglo-Saxon countries like USA, minority shareholders' rights are well protected whereas the civil law in Continental Europe does not protect them like that. La Porta et al (1999) conducted a survey to understand the relationship between ownership structure and control of the firms by analyzing the top 20 listed firms in 27 different countries. Their aims were to observe the most broaden ownership structure types in the countries (who controls the firm; incorporated or majority shareholders), dominant shareholders (family, private entities or state) and the hold of control (majority shareholders; complex or pyramidal structures). The results of the study showed that the multi-partners are not common and were observed only in Anglo-Saxon countries. In other countries, firms are mostly owned by families or states. Pyramidal structures allow dominant shareholders to control the firm as top executives and in such countries the minority shareholders' rights are not being protected well.

This could explain the prevalence of family firms in those countries such as Turkey which is a developing and civil law country in which private sector dominates the market economy like other emerging economies. In those countries, dominated by family businesses, the majority of shares, management of the firm and liquidity control are held by family members. La Porta et al (1999) observed that in such firms non-family shareholders could not become the authority and intervene the managerial decisions even they have big amount of shares. This is the same for Turkish business culture.

The family business could be defined as presence of more than one family member in the same firm either as shareholders or as executives (Pazarcik, 2002). Family business is also defined as an enterprise in which ownership and management are held by family members and the profit is divided within the family (Tabalujan, 2002). The statistics show that Turkish business is mainly dominated by SMEs and 95% of all firms are family businesses. In these family firms, the owners are generally also the managers and board members which could be seen as a drawback but the longest lived are those ones at the same time (Sonmez and Toksoy, 2011).

The market liberalization and modernization of capital market eventuated with the establishment of Istanbul Stock Exchange in 1980s, fifty years later than foundation. Although market has been liberalized, state has a dominant role and there is an unstable, in-transparent and risky environment both for local and international investors which makes economy to remain in emerging phase (Bugra, 1994). Turkish economy is mainly based on SMEs and 95% of those are family business (Sarrafoglu, 2009). Moreover, 80% of listed firms are owned by a family which means family business is the most common form of organization (Yurtoglu, 2003). Families are the dominant shareholders and the separated ownership and control is only possible with pyramidal ownership structure (Demirag and Serter, 2003). The high level of family involvement is an obstacle for governance practices (Balic, 2007). In such context, in which state controls financial system and families control firms, transparency and fair management are essential for firm control because of the credit-based investment.

On the other hand, the capital market was also characterized by this context in which the liquidity was low, volatility was high and the capital was costly because of the lack of regulations and legal framework (Ararat and Ugur, 2002). These are all the reasons why the foreign investors found Turkish capital market risky to invest. Because foreign investors see the governance practices as essential as firm performance before making decision of investment and they are ready to pay more for the organizations that adopt governance mechanisms. However, the intensive involvement of family in business made the establishment of corporate governance mechanism costly for Turkish organizations in terms of decreasing control, declaration of firm performance to public, employing management professionals or the institutionalization of new governance practices (Kurt, 2008). This context has started to be changed after the first financial crisis in 2001and the actions taken to bring governance practices brought stability and credibility to the country as will be mentioned below (Ararat and Ugur, 2004).

4.2. Turkish Banking Industry

As mentioned above, finance sector is essential for economy which could be the main reason of a crisis in a country or even worldwide. The main roles of finance in a country are transferring the existing monetary resources to necessary parties by sharing the risk and to provide liquidity to the economy. By doing these, they increase the efficiency and economical growth in a country (Sevim, 2012). The banks, which are the main actors of finance sector, are the main scope of this study and should be analyzed in detail for a well understanding the Turkish context. Because, bad managed banking industry is always a risk for businesses and could bring crisis. Therefore, effective banking industry is essential not only for capital market but also for good governance practices. All too soon, the main characteristics and structure of Turkish banking industry will be explained below.

In Turkey, banking industry has a more important role than other countries because of under development of other means of finance mechanism such as capital markets. Therefore, the economical movements, accumulation of public savings and distribution of capital are the duties of banking system. The banking system involves banks, financial institutions, Central Bank as a main authority and other regulative authorities such as SDIF and BRSA and lastly the associations like BAT, all of which will be mentioned in the following part in detail.

The banking industry has a complex structure because changes within the field come through regulations but economic and politic agents are active as well which could be the change agents of praxis as shown in Figure 1. It is possible to classify the banks either based on ownership or their functions. Based on the ownership, there are private and public banks in Turkish banking industry. The private banks are the ones whose capital is held by private people or corporations. Based on the functions, on the other hand, there are three different types of banks which are defined in Banking Law No. 5411. The *deposit banks* are the ones whose main purpose is accepting deposit and issuing loans for their own name and accounts. The *participation banks* are the ones whose main aim is to collect fund through current and participation accounts and issuing loans and credits. The last type is *development and investment* *banks* which are issuing loans and credit and accepting deposit or participation fund (BRSA, 2013). Turkish banking industry is an oligopoly in which there are 48 banks by the end of 2013 and 32 of them are deposit banks and 13of them are development and investment banks and 4 of them are participation banks (BAT, 2013). The existence of public banks negatively affects the industry since those are under the effect of political decisions. Additionally, all of the banks give all kind of banking services in Turkey. In this sense, Turkish banking industry looks like Continental Europe system rather than the Anglo-Saxon model (Mesutoglu, 2008).

However, it would be better to look at historical transition of banking industry. There is a rooted banking industry in Turkey which goes back to 1800s, to the Ottoman Empire period. In those years, banks were owned by or co-established foreigners mainly. However, with the establishment of Turkish Republic, the first Turkish banks were founded in 1920s such as Is Bankasi, which is one of the banks within the sample of this study. Under the statism policy, those banks were established in order to support and finance the local firms. Until 1930s, many local, private and public banks were founded as well as the Central Bank of Turkey. However, the development of private banks was experienced after 1940s and there were about 30 private banks when it comes to 1960s. After that, development and investment banks were included in the industry to leverage the economic conditions by developing the main industries. This limited and state controlled position of banking industry continued until 1980 which was the turning point of Turkey with the acceptance liberalization policy. Increasing resources and new regulations to make the industry more efficient, effective and competitive changed the climate of the banking industry which became more attractive for foreign investors.

With the establishment of stock exchange market in 1981, the share of banks in financial system decreased because of the investors' choice of using stock market as an alternative capital source (Dincer, 2006). Additionally, Banking Law No. 3182 came into force in 1985 which brought international standards to audit and banking operations, permission to the entrance of new foreign and local investors, free floating interests rates of credits to the banking system and declared the establishment of a new regulative body, SDIF. After 1994, SDIF gave government assurance to bank deposits which increased the moral hazard by increasing the burden of state. This was because of the increasing number of seizures bad managed banks by SDIF. This became a problem until the mid of 2000 when the BRSA turned into an independent authority which became responsible from all banks rather than Central Bank and Treasury. The rising liquidity risk level and interest rates increased the liabilities of commercial banks. As a result, the deficit occurred in foreign exchange and money existed from country by the escape of foreign investors which collapsed the banking industry. To overcome the current situation, banks started to take external debts by increasing the level of open interest 10 times more than the standard level. This brought many bankruptcies and seizures and the banking crisis as mentioned below (Yigitoglu, 2005).

In 1990s, negative tenor of macroeconomic variables damaged the ability of existing banks, especially the public ones, to support long term investments. They could only provide credits with high interest rates and could not comply with international standards and lost their competition advantages. The frequently changing regulations and their transparency problems did also not help to them in competition era and left them incompatible in international market which was defined as one of the institutional contradictions that bring the transformation by Seo and Creed (2002) and shown in Figure 1. Addition to bad managed banks, there were also incorrect state decisions that made this industry unaccountable and intrasparent. For instance, one of the Turkish banks had financial difficulties in leveraging its branch in another country and a public bank funded it which was not welcomed by foreign investors. In other words, the Turkish banking industry was not seen as an attractive market for others because of intransparent, unfair and corrupted structure (Uygur, 2001).

There were various defects of this industry such as slow decision making due to the one authorized body (Central Bank), lack of long term planning, ineffective control mechanisms, lack of implication of international standards, high level of corruption, subjective evaluation criterion, inadequate flow of information and inflexible organizational structure (Kahraman, 2005). This inefficient banking system could be seen as a contradiction that triggers the institutional transformation by creating a shift in the collective consciousness, as shown in Figure 1. As a result, one of the main conditions of the IMF package, taken after 2001, was the restructuring of weak and problematic banking industry. The cumulative effects of all these events and reasons created a system logic change which was supported by powerful actors and political system.

4.3. Corporate Governance in Turkey

In order to understand the evolvement of Corporate Governance in Turkey, it is essential to explain the pre-conditions that trigger the debates and adoption of governance mechanism. Indeed, the corporate governance could be seen as a part of the institutional transformation period experienced in Turkey after 2000. Therefore, before elaborating the corporate governance in Turkey, it would be more proper to explain the previous events which evolved and shaped the governance practices. The financial crises and the following strict regulations, especially for banking industry, prepared the framework of governance mechanisms which are all parts of the institutional transformation in Turkey. In this manner, this chapter starts with four key elements of institutional transformation including corporate governance and then continues with board specific topics which are the main focus of this study.

4.3.1. Four Key Elements of Institutional Transformation in Turkey

Although corporate governance practices are guided by legislations and authorized actors in a country, the economic situation, effective past events, cultural values and main actors are also important. Therefore to explore the adaptation process, understanding the laws and regulations and main actors would be beneficial. But another important issue about Turkey is the financial crises that occurred in 2001 and 2008 which can be seen as milestones of Turkish economy but mainly for finance industry (BRSA, 2011). In other words, the restructuration of banking industry, limited amount of foreign investments and vulnerability toward financial crisis forced the Turkish firms and government to become more transparent, accountable and fair.

This adaptation process could be seen as a transition period and should be analyzed by separating the exogenous and endogenous factors. Endogenous factors are banks, main actors, whose returns decreased dramatically after banking crisis in 2001 due to their role in making the system inefficient. The second endogenous factor is internally sourced crisis that occurred in 2000 and 2001. The regulations increased and changed following crisis and governance practices are the last endogenous factors. On the other hand, exogenous factors are international regulatory agents such as IMF and World Bank and foreign investment whose entry and exit shape the transition process.

The transition period is important to analyze since the organizations respond to these changes by restructuring their forms. In order to provide a detail understanding, this period could be described under 4 intra-related themes. Firstly, the financial crises occurred in 2001 could be seen as the trigger of system change within the field of finance. It was followed by strict regulations and the entrance of corporate governance principles to Turkish business life. The last issue is the involvement of foreign investors in Turkish financial markets. Therefore, the following part will explain this institutional transition period in detail and will draw a wide picture of Turkish context, mainly of banking industry which is the main scope of this study. At the end of this part, the institutional transformational model of Turkish governance system will be given as a summary of this part. The model of Turkey is constructed by using Seo and Creed (2002) and Oliver's (1992) study which was shown in Figure 1 above.

4.3.1.1. Financial Crises of Turkey

The crisis is defined as a critical situation and milestone that could conclude as better or worse case (Webster, 1982). In crisis situation, the action must be taken as soon as possible in order to comply with the occurred changes. Since during crisis periods big fluctuations occur in product and service market, production and finance sector in terms of price and quantity, it brings a change process for countries and organizations, even for people. Therefore, financial crisis is the sum of sudden problems that negatively affect the nation's economy and even other economies. Also, as the unexpected events, financial crisis create functional pressures (Oliver, 1992) in the environment which leads to institutional transformation as shown in Figure 1.

The reasons of the crisis can be various such as budget deficit, current account deficit, public debt, high level of unemployment, exchange rate fluctuations, decreasing international trade, increasing cost of capital and credit or any other reason that negatively affects the growing rate of the country (Sevim, 2012). According to reasons that trigger the crisis, it can be defined as a monetary or banking crisis. Monetary crisis is the fast devaluation of a country's currency (for fixed exchange rates) or significant deviations from average rate of exchanges (floating exchange rates) while banking crisis is about the declining efficiency of banking industry, rise in bankruptcies and sudden withdrawal of bank deposits (Sevim, 2012). In other words, in fixed exchange rate systems, when the demand suddenly goes to foreign currencies rather than national currency, central bank runs out of foreign currency. This is called as monetary crisis (Delice, 2003). The sudden change in the value of national currency increases the stress of debts which are taken in foreign currencies. On the other hand, especially in emerging economies, banking crisis occurs before monetary crisis and lasts longer and is more negatively effective on economy (Sevim, 2012). Sometimes bankruptcy of only one bank could trigger the banking crisis if this bank has a dominant role in banking industry (Delice, 2003).

Another crisis type could be systematic crisis which means the deterioration of financial market as a whole due to the limitations on central bank's capability of being last lender of resort. This limitation breaks the payment balance of a country and leads to a banking crisis. This case generally occurs in fixed rate systems because this policy increases the commercial deficits and the loss of foreign exchange reserves (Delice, 2003). The systematic crisis involves both monetary and banking crisis because in order to mention about a systematic crisis, the financial system breaks, stock market collapses and economic conditions fluctuate systematically (Sevim, 2012).

In today's global world, these different types of crises could occur together, sequently or could trigger each other. For instance, researches show that banking crisis occurs before monetary crisis which makes the banking crisis to get deepen (Kaminsky and Reinhart, 1999). Whatever the reason and type of crisis, they always cause economic fluctuations and instability in the country. Therefore, the crises are not only important for a special industry or firms but also essential for sates, associations and even for other countries. There are many researches on understanding the effects of crisis on national income, unemployment (Reinhart and Rogoff, 2008), stock market, growth rate (Gencturk et al., 2009) and on import and export rates in a country (Weeks, 2009). As a result of globalization, financial fluctuations are not only effective in the country that lives crisis. Instead, these shocks could spread many other financial markets, in which the exchange rate is the dominant factor (Baek and Jun, 2011). In post crisis period, exchange rate excessively increases and it makes the capital to run out for safer countries.

There are three important crises occurred in Turkey that could be seen as milestones. The first one is a monetary crisis which is followed by a banking crisis in 2001. The last one is a global systematic crisis that was not effective as previous ones because of actions taken after 2001. In the following section these crises will be explained in detail.

Monetary Crisis of 2000

During 1980s, liberal market economy was dominant in Turkey which means the flexible exchange rates and real interest rate policies were shaping the economy. The last period of 1990s was characterized by a coalition government of Democratic Left Party, Nationalist Movement Party and Motherland Party. There was a state with big budget deficits that tried to be saved by development packages of IMF and this inefficiency could be taken as one of the institutional contradictions defined by Seo and Creed (2002) and showed in Figure 1. Since the inflation rate was high and the economic growth was not that good (Bakır and Onis, 2009), in 1999, IMF prepared an economic program to reduce the inflation rate and to provide a continuous economic growth. This program, which consisted of a rigid monetary policy and many other important structural reforms, took out the responsibility of monetary policy from Central Bank. As a result the exchange rate for the following year was stabilized based on inflation predictions and announced to the public which created a foreign supply dependent economy (Dinçer, 2006). The tax rates and the product prices were increased by the demand of IMF. Therefore, as an external dependency, IMF created political pressure (Oliver, 1992) on Turkey which is an environmental impact of institutional transformation shown as in Figure 1.

At the beginning, the new package and adaptation process to EU created a positive environment in which the foreign investments increased. After the IMF program, the capital inflow gained speed and the money supply increased which allowed the interest rates to decrease. This headed the banking industry to short-term foreign supplies and increased the risk of the industry by making it sensitive to speculations (Ertekin and Basturk, 2005). However, in a short period of time, this positive climate started to change because of many different reasons. Based on Figure 1, this context could be seen as the inefficiency brought by external dependencies to the country which leads to the change in praxis.

The incorrect policies of IMF, Central Bank and Treasury, the weakness of banking industry and the sudden exit of foreign investment prepared the base of this crisis. Although there was a positive view about IMF package at beginning, there was a broad negative belief about the last IMF package because of various reasons. First of all, this was not the first package for decreasing the inflation but none of them had worked. The fixed foreign exchange rate policy came with that package was not welcomed by business and finance world because of drawbacks. The fixed rate policy prevented Central Bank to apply an active monetary policy and to supply money in order to solve liquidity problem which increased the interest rates and dragged the banks to bankrupt (Uygur, 2001).This could be seen as the misaligned interests of the essential actors in the economy which triggers the praxis by changing the agents as shown in Figure 1. Within the transformation period, Central Bank of Turkey became an independent institution from political pressures. The main responsibilities of CB were defined as to provide price stability in financial sector and to prevent the liquidity from affecting the inflation rate (BRSA, 2009). CB was prevented to provide credit to public, to advance money to treasury and to monetize for suppress the public debt (Bakir and Onis, 2009). Due to the foreign currency liquidity problems, CB tried to solve it by selling foreign exchange in the market but behaved carefully in order not to affect the floating rate regime. All of these decreased the inflation rate (Serdengecti, 2002).

On the other hand, the Treasury was borrowing with low interest rates which created big profit potential for the Demirbank, one of the main actors in banking industry. This bank collected all treasury bonds by using overnight borrowing from other banks. When the liquidity problem occurred and volatility increased, banking industry also increased the interest rates of overnight borrowing about third times and obstructed the procedures to protect themselves. As a result, Demirbank which is vulnerable to interest rates entered into a critical period (Karamuk, 2011). After all, Demirbank was seized by BRSA in December, 2000 with a big rate of debt which shook the whole banking industry.

Like Demirbank, other banks with liquidity problems borrowed from Central Bank which sold foreign currencies to everyone as much as they wanted. At the end of two weeks, CB lost 5.5 billion dollars which increased stress and pressure on financial market. On the other hand, current deficit increased because of the price raise of durable goods and oil. Addition to all of these, the demand for privatization of telecommunication by IMF created a tension within the parties of coalition government (Ertekin and Basturk, 2005). Both these negative reasons and the report prepared by Deutsche Bank in 2000 which stated that the interest rates would increase made the Turkey less attractive for foreign investors. These speculations triggered massive capital outflows, reduction in growth and rise of inflation rate and unemployment (Keyman and Onis, 2007). When the private banks needed foreign exchange in order to overcome their budget deficit, they could not find necessary fund and support (Karamuk, 2011).

Therefore, the new IMF package could not achieve its goals and brought many drawbacks such as it increased the external debt to about 4 billion dollars and liquidity crisis (Karamuk, 2011). The main reason that made this package unsuccessful was implementing in such country with inadequate infrastructure of banking industry. In other words, increasing interest rates, foreign exchange rated and decreased reserve of CB, prepared a crisis situation and Turkey lived a monetary crisis in November, 2000 (Uygur, 2001). As a result of this crisis, the excessively increase of interest rates placed public and seized banks to hardship due to their too much need for overnight debt (BRSA, 2001).

Banking Crisis of 2001

The financial crisis, occurred in 2001, is described as the most effective crisis of the Turkish history since it extremely affected the national economy. The reasons of that crisis were evaluated by many scholars and the main reason pointed by all was the weakness of banking industry. According to Ozatay and Sak (2002), the main reasons leading to the financial crisis are high level of public debt and the structure of banking industry which is less financially efficient to finance the public debt. Another claim is that the broken financial discipline caused to financial crisis in Turkey (Togan, 2001). Similarly, Uygur (2001) suggests that due to the ineffective banking industry, money came through foreign debt and speculations allowed to foreign investment to exit and caused the financial crisis. Other scholars also blame fast economical growth and banking system for creating instability and for opening the Turkish economy speculations that caused the financial crisis (Isik, Duman and Korkmaz, 2004). According to Keyman and Onis (2007), there is a certain consensus on that disequilibrium in banking industry induced that crisis but it was also related with fiscal imbalances. Due to the lack of regulations of state, like all other organizations, there was not accountability and transparency for the banking industry which has a critical role on the national economy. It is obvious that if a country does not have a strong and accountable financial sector, a crisis can occur any time like in Turkey whose economy is mainly dominated by banking industry (Togan, 2001). These are all the elements of institutional contradictions which affected the praxis by mobilizing the resources and changing the collective mind as shown in Figure 1.

To understand their point of views, it is important to look at the pre-crisis conditions. After the monetary crisis in 2000, banking industry was started to be restructured with new rules and regulations such as changes in Banking Law No. 4491, 5020, 4969 and 4605, Regulations of SDIF, Accounting Standards and the status of Banking Association of Turkey (BRSA, 2009). However, many of them were not executed until the end of 2001 which is the nonadaptability, an institutional contradiction defined by Seo and Creed (2002) as shown in Figure 1. The main reason behind these changes was restructuration of especially public banks which create a burden for government budget. As a result, the negative climate increasingly continued until the first months of 2001 with many bank bankruptcies and seizures.

Although the monetary crisis could be seen as the main reason, there are other reasons that trigger the following banking crisis. After 2000, the low profitability prevented the banks to provide credits and to reinforce their capital and especially the private banks had to take foreign credits to finance their investments. However, the burden of public banks was on Treasury, it was out of money and not able to pay that debt. There was a big amount of debt payment (6 billion dollars) that the Treasury had to pay in February 2001. On the other hand, the devaluation decreased the capital reserves within the country. Following these stressful conditions, the unexpected argument between the Prime Minister and President during the National Security Council meeting on February 19, 2001 worsened the conditions and objectified the most effective crisis in Turkish history. On the same day all economic and financial parameters suddenly changed. Because of improper policies of Central Bank which tried to save existing exchange rate policy by supplying Turkish Lira to the market. Those are the reasons behind the inefficient economy and banking system in Turkey that triggers the transformation process as shown in Figure 1.

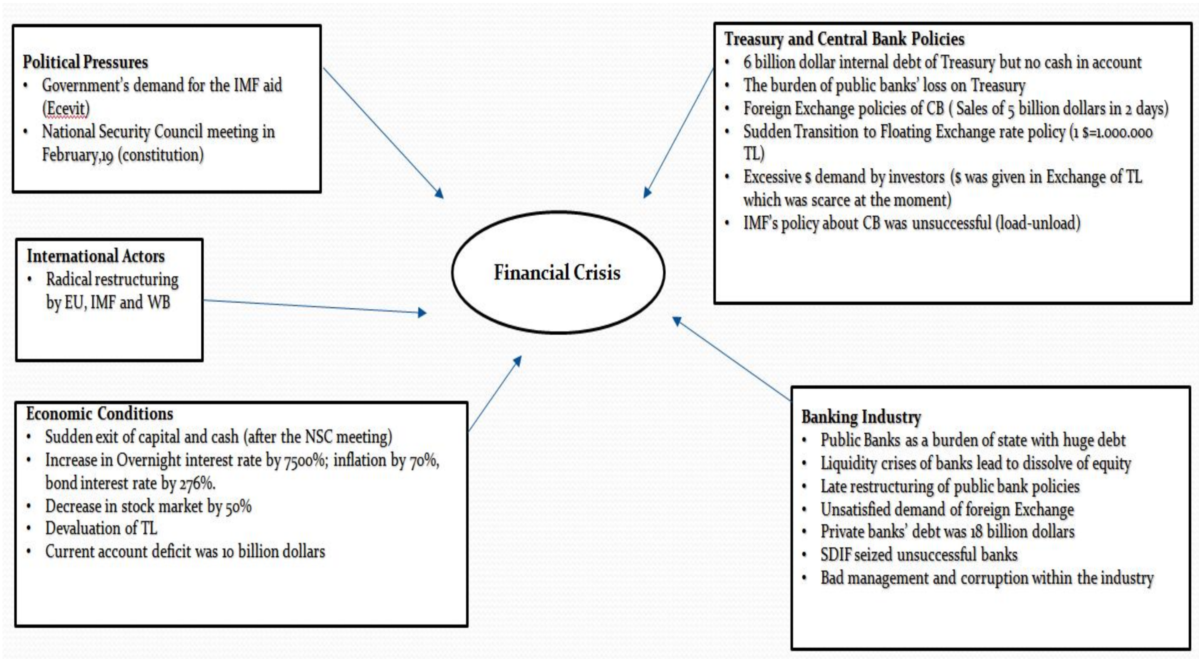
As a result, the overnight interest rate increased in one day to 7500% in interbank market, foreign-exchange reserves of Central Bank decreased by 5.36 billion dollars, foreign capital exited with the amount of 7.5 billion dollars, stock market lost value, interest rates increased, the exchange rates increased by 40% and the budget deficit increased to 10 billion dollars (Uygur, 2001). In the following two days, banks sought for liquid but could not find and as a result the foreign exchange rate policy was changed to floating exchange rate which devaluated the

Turkish Lira. The owners' equity of banks started to decrease and the unpaid debt rate of the banks increased to 28% because their balance of payment balance was dissolved, especially state-owned banks were deeply indebted (Bakır and Onis, 2009). All of those together prepared the infrastructure of that banking crisis.

After that financial crisis, like in other sectors, many banks went bankruptcy and were seized by SDIF. Between the years 1999 and 2003, 20 banks were seized by SDIF, 8 of them were closed and 11 banks were merged (Esen, 2005). The number of banks decreased after 2001 because of seizures and mergers in order to prevent bankruptcy to strengthen the structure and to decrease the risk (Yigitoglu, 2005). Private Banks, on their hand, were supported by internal debt to discharge their foreign currency deficit (Bakır and Onis, 2009). All of those created functional pressures on the country which could be seen as the environmental factors of institutional transformation period as shown in Figure 1. Additionally, in 2002, a new party was acceded alone after 15 years period which brought the stability to the environment (Bakır and Onis, 2009). With the new political period, the country was in an elevated mood because of increased GNP, decreased inflation rate and budget deficit. All of these attracted foreign investors to invest Turkey; in 2003 the level of FDI was under 2 billion dollars while in 2006 it was about 16 billion dollars (Keyman and Onis, 2007).

By looking all of these experience, it would not be wrong to say that the main actors of this crisis are public banks and Central Bank. In other words, the fragility of banking industry and the lack of regulative state prepared the basis of that banking crisis. With the light of these reasons, a map of crisis was drawn below.

Figure 2 Map of Banking Crisis 2001



Post-crisis period

The restructuration periods generally emerge following the financial crisis (Bakır and Onis, 2009). This is because of the invasive outcomes of banking crisis to the national economy by damaging the macroeconomic stability. Therefore the big amount of the cost of financial crises is being regarded by the restructuration efforts such as strict regulations by the state. Before the financial crisis, Turkish government tended to be regulative but could not success due to the lack of legal infrastructure and dispersed authorities about the financial sector. In other words, there were still laws that protect the owner of the bankrupted banks and Ministry of Economy was authorized to give license to banks and other decisions were under the responsibility of other institutions. For instance, license for opening a new bank or privatization was dependent to political relations (Bakır and Onis, 2009). However, the financial crisis was costly for public and state in terms of lack of credits for investors, tax burden for public, financial loss for bank owners and also for bank customers. Being indebt compelled the government to change their policies. That is the reason why countries need restructuring programs and regulations after the crisis.

Those two crises experiences clarified the fragility of Turkish financial system and its problematic structure such as owners' equity deficiencies and the lack of internal audit mechanisms. The high interest rates, devaluation of Turkish Lira and other consequences of sequential crises caused big amount of loss in banking industry. All seized banks, bankruptcies, decreasing trust towards the industry and exit of foreign investors forced to a restructuration movement. Therefore, it could be defined as a turning point for Turkey. This new period could be called as regulatory neoliberalism period in which the regulations increased and new regulatory bodies emerged. Therefore, the financial crisis can be thought as an essential fraction of the institutional transition as shown in Figure 1. In other words, this post-crisis period could be called as a transition to more powerful economy. Although it was a national transformation, the focus was on banking industry which was the main source and the most affected industry of the last crisis. The aim was to lessen the financial burden of public banks, to solve the problems of seized banks and to leverage the private banks. All of those changes could be possible with under strict monitoring and control of the industry by regulative authorities.

To leverage the financial imbalance of banks and to provide continuous profitability for them are only possible by such a regulative state. As in other developing countries, in Turkey, these programs were supported by international authorities like IMF, WB and EU (Esen, 2005). Under the restructuring period, many changes and new regulations were made to generate macroeconomic stability. In order to provide a more efficient and competitive banking system, to increase the maintainability of financial sector and to generate a continuous trust for the country, many legal and institutional arrangements were implemented. Such regulatory shifts or changes let to organizational change (Smith and Grimm, 1987) and this is the reason why the regulatory context is an important part of this study.

In this transformation period, existing actors and their power changed and new dominant actors emerged. The external institutions, IMF, World Bank and EU, became more dominant and committed actors (Keyman and Onis, 2007) who emphasized the lack of regulative state policy and supported to establish independent new authorities to monitor the industries. IMF still has a power on governmental decisions because of a new developmental package which aimed to restructuring banking industry and public funding and obtaining stability in foreign exchange and interest rates. On the other hand, because of being in compliance process to EU, government decided to adopt international standards (Dinçer, 2006). Therefore, those actors create political pressures on the country by increasing the external dependencies which prepares the infrastructure of institutional transformation as shown in Figure 1. The floating exchange rate policy continued, the export increased and the price stability was obtained with the help of independent Central Bank. Even this positive climate could not prevent early elections and the Justice and Development Party was selected.

The new government followed a more restricted policy and brought many changes. These changes are the legislation of a new Banking Law, changes in Turkish Commercial Code, the capitalization of Central Bank and Banking Regulation and Supervision Agency (BRSA) as an independent institution to monitor and restructure the banking industry, emergence of new actors such as Capital Market Board, the changes in status of existing bodies like Banking Association of Turkey, reorganization of state-owned banks, leverage of private banks, the involvement of risk management mechanism like Basel and the separation of Saving Deposit Insurance Fund (SDIF) as an independent institution to control the balance of payments of banks. These new agents are the ones that mobilize the institution by changing the collective mind and motivating the collective human action as shown in Figure 1. The public banks are not a burden on government anymore and they are being funded by treasury bonds to discharge their debts and to leverage their owner's equity. All these actors will be explained in detail in the following section.

Consequently, as the most effective financial crisis of Turkish history, 2001 crisis could be defined as the trigger of many reforms in banking industries and also Turkish economy. In the post-crisis period, the banking industry was started to be restructured in terms of the operational and financial organization of public banks, the development of seized banks, the restructuration and reinforcement of private banks (Dincer, 2006). As a result, Turkey reached a stronger financial market and a better economy in terms of stability and growth by learning from the mistakes. After realizing the weakness in financial sector and lack of regulations, Turkey entered into a restructuring process which protected from the following crisis.

Systematic Financial Crisis of 2008

After 2001, another financial crisis occurred in 2008 but this time the crisis came externally, from USA which lived mortgage related turbulence. The decreasing price of real estate's motivated the investors to buy their second or third houses with using bank credits which increased the volume of mortgage. However, the borrowers could not able to payback their debts by placing banks to hardship. These banks tried to obtain their funds by selling their stocks and increasing their risk level. With the bankruptcy of Lehman Brothers, the most important investment bank of USA, the negative impact diffused to whole world and became a global crisis

(Ozatay, 2009). After that kind of a big global crisis, many packages and programs have been started to conduct all around the world and this lead to a growth in the world economy in 2010. This context became more advantageous for the developing countries than developed ones because developed countries provided extended monetary policies to support the world economy. As a result, the capital flows to the developing countries due to the higher interest rates.

Needless to say that there are negative impacts of that crisis on Turkey such as the decrease in demand for export goods, international credit supplies and also national credit supplies. Turkey was also affected from this global crisis in terms of capital flow and decreasing level of export. However, as a developing country, with a safely growing finance sector, Turkey is one of the countries that escape lightly from that global crisis. The restructured financial sector and regulative state policies saved Turkey from being affected more destructively (Bakır and Onis, 2009). The accepted Basel II standards also saved the banking industry which aimed to increase the capital adequacy ratio of banks to prevent capital inefficiency problems during financial crisis periods. Therefore, with enough capital ratio and various important policy reforms taken after 2001 crisis, Turkey was less affected this global crisis.

As mentioned above, the influence area of financial crises is excessively wide which could drag a country to collapse. Therefore, to become less vulnerable to global crises, countries should be proactive by adopting necessary mechanisms such as corporate governance. This global crisis experiences also proved the importance of governance mechanisms and how important the managerial corruption is. The Lehman Brothers example showed the significance of monitoring and control functions of board of directors in terms of risk management and incentive decisions. Therefore, standard makers such as OECD emphasized the importance of risk management after 2008 in their governance principles (OECD, 2009). The increasing global consciousness about the corporate governance creates social pressures on the country for changing the habits as shown in Figure 1.

It is obvious that the countries that internalized the governance mechanisms are less affected from crises and other sudden events. For Turkey, applying more strict and regulative state policies increased the credibility and economic stability which also motivated organizations to implement voluntary based governance principles. However, there are still defects on governance practices in Turkey because of inadequate sanctions on implementation of governance principles, concentrated ownership and family dominance in business life (Ugur and Ararat, 2004).

4.3.1.2. Regulative Framework after Financial Crises

With all of these restructuring and transition efforts, it is being tried to create a more stable, transparent and safer financial sector in Turkey in order to attract foreign investors to leverage current situation. The movements for imposing the adaptation of corporate governance are also for this reason; to become more transparent, fair and accountable.

This transition period affected the structure and functioning of all firms in each sector. Financial sector is one of the most effected ones in terms of regulations and corporate governance practices. The reflections of corporate governance on the finance sector are different than other business areas because the transparency and accountability are essential for the financial institutions which are the main aspects of governance. Some of the regulations are specific to financial sector and some of them are for all listed firms and non-adaptibility to these regulations make the country incompatible in international era and as a result creates a motivation to mobilize the institution as shown in Figure 1. Especially, banking industry has specific and rigid regulations. Since the focus of this study is to describe the structure of board of directors of listed banks, specific laws and regulations by the leading actors for the banking industry will be described below.

Banking Law No. 5411

With Banking Law No. 5411, corporate governance entered to legislation for the first time and inured in 2005 which means the governance principles became rules for the finance sectors. This law is applicable for institutions which are under the scope of Banking Law (banks, financial holdings, insurance, leasing and factoring firms) and the evaluation and monitoring of compliance degree are the responsibilities of BRSA. The principles within the law were specified by BRSA with taking the advice of CMB. The corporate governance part of this law includes 4 parts; management, internal systems, competent authorities and financial reporting. The management part includes principles about board of directors, audit committee, CEO, prohibition of signing authority, property declaration and casebook. The principles under the internal systems are liabilities, internal control system, risk management and internal audit. The third part, competent authorities, is related with independent audit firms, rating institutions and supportive services. Finally, financial reporting part includes principles about the accounting and reporting systems, consolidated financial reports, signing procedures of financial reports, annual reports and the responsibilities of board of directors for preparation and monitoring of the annual reports (BRSA, 2011; Coordination Council for the Improvement of Investment Environment, 2011).

The restructuring after crisis involves also the changes on the Banking Law. These changes are addition of a consolidated equity definition, restriction on non-financial affiliates of banks (the rate of affiliation must be under 15% of their own equity), extension of credit description and acceleration of merger and acquisition procedures (the total assets rate must be under 20% in overall) (BRSA, 2001). These changes were generated by EU directions to increase the regulations and supervision in order to have a more transparent and efficient banking industry. Like EU, IMF and WB also supported that reform to bring international standards to Turkey in terms of internal audit, risk management (Basel Principles) and corporate governance (OECD Principles) (BRSA, 2009).

This law identifies the required features and experience that a board member should have in Article 8 (a, b, c, d). A person, who adjudicated for bankruptcy deferment or became bankrupt previously and whose compromise demand was rejected before, is restricted to become a board member. Also, a person, who holds share or control of other banks or other financial firms that are refined, abrogated from operating and transferred to the fund, is restricted to become board member. Additionally, heavy imprisonment, jail sentence more than 5 years, any kind of crime about embezzlement, corruption, stealing, deceit, forgery, statutory offence or military offence prevent someone to become a board member (Banking Law, 2005).

In the Article 25 of Law No.5411, there are specific regulations for CEO features and capabilities. To become a CEO in a financial firm, the undergraduate degree of the person must be from law, economy, finance, banking, business administration. If a person does not graduate from any of these departments, he/she must have a graduate degree on these subjects. Near the educational background, CEO nominee must have at least 10 years experience in banks or management of other sectors (Banking Law, 2005).

Article 23 of this law specifies that board size of banks must consist of at least 5 members including CEO who is the natural member of the board. Any person who becomes a board member must declare the documents about his/her capabilities identified above to BRSA within 7 days. Additionally, chairman and CEO positions must be held by separate people. The responsibilities of board members includes to satisfy the requirements of laws about the internal control, risk management, internal audit, financial reporting and to determine the authorities and responsibilities within the firm (Banking Law, 2005).

The Article 24 of the Banking Law obliges to construct an audit committee to monitor and observe the board of directors. This committee must consist of at least two members and these members must be non-executive directors of the board. The necessary documents about the features of audit committee members must be declared to BRSA in 7 days. The main responsibilities of this committee are to regard the efficiency of internal control, risk management and internal audit, to control the accounting and financial reporting standards and to observe the effectiveness of external audit firm. The committee must meet at least two times in a year and prepare an operation and recommendation report for board of directors. Moreover, there are two other committees, mentioned in Banking Law, which are credit and coordination committees. The Article 51 states that the authority to open a credit belongs to board of directors but this responsibility can be delegated to credit committee or CEO. Also, The Article 100 mentions about coordination committee which is responsible of providing information about financial analysis, risk calculation results and creating a linkage between firm and SDIF or other institutions (Banking Law, 2005).

Turkish Commercial Code

This Law with number 6762 that came into force in 1957 and amended in 2011 as 6362 (valid from 2012) regulates the commerce, industry and other service business. The reasons behind those revisions are the transparency and trust problems, to increase the registered economy, to comply with EU laws, to attract foreign investors, and to increase the power of firms within the international market competition. The new law aims to prepare an appropriate regulative infrastructure for corporate governance principles and defines the CMB as the authorized actor for governance (Kahraman, 2008). The new law emphasizes the internal and independent audit mechanisms, the importance of disclosure and managerial decisions. It regulates the establishment of corporation, protection of capital, independent audit mechanisms with international standards, usage of information technologies for declarations, managerial structure, adaptation of international accounting standards, enlargement and strengthening the rights of shareholders, preventing the concession of voting rights and responsibilities of authorized people (Deloitte, 2008). In other words, with this law, corporate governance principles became the standards for all public and private firms rather than being specific to publicly traded firms.

Turkish Commercial Code (amended) objectifies the main principles of governance for both limited liability and incorporated firms. It protects the shareholders' rights by preventing the shareholders loan and clearly regulates the rights of knowledge acquisition and investigation of shareholders which is also regulated by CMB. This law already points out the authorized and supervisory bodies: BRSA for banks and CMB for the firms which obligatory and voluntarily comply with governance principles. Firms must declare any kind of information about their financial situation and operations and shareholders could investigate the firm to learn more efficiently. The declaration of meeting information, shareholders' attendance to annual meetings and voting rights are also legislated under this law but their involvement to decision making during meetings depends on the judgment of board of directors. Although much information is given during annual meetings to shareholders, if they could not attend these meetings, they could delegate voting rights to someone else. The representative person can be anyone; he/she does not have to be another shareholder of the firm which was a condition in old version of this law (TCC, 2011).

Turkish Commercial Code entails the disclosure any kind of extraordinary changes and situations to public such as changes in articles of association, capital changes, mergers and acquisitions and sale of assets. This law also legislate the managerial structures and practices that permit to establish a board of directors with one member and legal entities to become board members. Each board member became responsible to compensate the damages that sourced from the abuse of power. The members do not have to be a shareholder anymore which increases the number of professionals on boards. Moreover, the wanted skills of members were increased and at least half of the board members should have higher education degrees. The members should be selected by shareholders for dispersed firms and in case of an important situation that contradicts with interests of firm, the board members could be dismissed (TCC, 2011).

4.3.1.3. Corporate Governance Mechanism in Turkish Context

Studies on governance showed that good governance mechanism is as essential as financial performance of the firms for investors who think that countries that adopt governance practices broadly are less risky than others. That shows the importance of governance once again especially in today's economic world, in which countries are mostly interdependent and interrelated (Kahraman, 2008). As the importance of this subject has been understood, many laws, prescriptions and suggestions are declared in each country. However, there are internationally accepted reports and principles, as mentioned above, Cadbury Report, Sarbanes-Oxley Act, Hampel Report and OECD Principles which create social pressure in every country to change the habits and adopt the governance practices as shown in Figure 1. Therefore, each country prepares its own governance codes and frameworks by adapting these global standards to their countries by considering country specific features and infrastructure, as Turkey did also. Like other countries, Turkey also learned from its experiences and started the restructuring period in essential institutions and sectors after the destructive financial crisis. The financial crisis in 2001 showed the importance of good governance because transparency and accountability are very important issues for the behalf of national economy. Good governance and regulations can decrease the occurrence of financial crisis (Uyar, 2008). It is suggested by many researches that firms that internalize the corporate governance principles are less prone to financial crisis, capable of efficient usage of resources and attractive for foreign investors (Johnson et al, 1999; Mitton, 2002; Erdonmez, 2003; Erkens, et al, 2009). According to a report prepared by World Bank and International Finance Corporations (2010), weak governance contributes to failure of banks and bank failures lead to financial crisis in a broader aspect. Therefore, Turkey also started to search the ways to solve existing economical problems, to decrease the risk level and to leverage the firms. As a result, all necesarry infrastructures were constructed in order to identify the most appropriate governance standards in Turkey.

The corporate governance adoption is mainly undertaken by big corporations which are mostly listed ones. These firms have more professional managers in order to overcome managerial overlaps and conflicts between firm and family (CGAT, 2010). In Turkey, corporate governance practices should be adopted firstly by family firms since the capital is accumulated by them and other listed big group firms. However, there are not so many listed firms in stock market in Turkey because of avoiding to share ownership. This is because Turkish firms and families want to keep information about the firm inside and prefer to get funds from banks rather than stock market. Especially SMEs avoid being involved in stock market due to the regulations and sanctions of being listed. With a high rate of informal sector, transparency and disclosure are not welcomed by most of the firms. This also prevents the adoption of governance mechanism and it downgrades the country within the international competition era. Based on the report of IMD (2010), Turkey is ranked as 47 in terms of worldwide competition power. However there is a hopeful progression in Turkish private sector which was leveraged by especially banking industry that performed successfully during the international crisis period (Sonmez and Toksoy, 2011).

The existing corporate culture and ownership structure in Turkish business environment affects the implementation of these principles. The corporate culture of Turkey, which is shaped by informal relationships and personal connections, is relatively diverged from the logic of corporate governance. The family dominance in business life is another drawback of Turkey in terms of governance practices. Even the majority of listed firms (74%) are owned and controlled by families and this concentrated ownership structure lowers the investor protection, especially for the minority shareholders (Demirag and Serter, 2003). These conditions and system defects that discourage the investors are the push effects of corporate governance model of Turkey whereas being a developing country is a pull effect that attracts them (Ararat and Ugur, 2003). Turkish governance model is composed of the contrasts and have features of different models. It is like an insider model due to the given importance to workers more than the shareholders while emphasizing the rights of customers and majority shareholders which look like an outside model (Tuzcu, 2004).

The first action was to translate OECD principles to Turkish language in 2002 by TUSIAD. The second step was the establishment of Corporate Governance Association of

Turkey in 2003. Following this, Capital Market Board prepared a governance code in 2003 by a special committee to generate governance principles of Turkey by the lead of Capital Market Board including board members of Borsa Istanbul Stock exchange, specialists from Turkish Corporate Governance Forum and many other people from universities, public institutions and private sectors (CMB, 2005). The main focus of these principles is on equality, transparency, accountability and responsibility of Turkish firms. However, since this guide was not supported by legal framework, the compliance level was very low at the end of 2005. To increase the compliance level a new requirement was generated which is to prepare a compliance report. The aim of this report, which became a standard for all listed firms at the end of 2009, was to leverage the voluntary based governance mechanisms. After amendment in 2005, this governance guide was changed with various communiqués in several times over the past years to increase the compliance level. The last version of CMB principles was published in 2011 which included more strict rules rather than advices due to the low level of compliance throughout the listed firms. By adding the legal framework to the governance model, the practices started to be supported by a variety of rules, laws and codes in terms of shareholders' rights and responsibilities such as being informed about important decisions, attending to annual meetings, voting, involvement to important decision making process during annual meetings, the transparency of share handovers, declaration of any important changes and equality of shareholders which are clearly defined in OECD Principles.

Therefore, it has been a decade that Turkish society met corporate governance principles which was prepared for the firms by the Capital Market Board as a change agent of institution (Erturk, 2003). Although there are still many defects of Turkish governance mechanism such as low or even non attendance of independent board members, overseeing the rights of majority shareholders and the power and control of low number of shareholders in decision process, it has lived a progress from the beginning (Ozilhan, 2002). However, the actual motivation of the governance practices was international institutions like IMF and WB which realized the bad management and corruption were the main reasons that make the Turkish banking industry such fragile and vulnerable and proposed as one of the most urgent problems to be solved in Turkey. One of the conditions in post-crisis program of IMF was good governance for both public and private sector. WB also provided two different loans for good governance practices in Turkey (Erturk, 2003). By doing this Turkey would be able to attract foreign investors by decreasing the risk of their investments because they seek for accountability and transparency, which are the main aspirations of corporate governance. Existing foreign investors in Turkish business environment implemented these principles firstly by motivating the local firms as well.

4.3.1.3.1. Development of Corporate Governance in Turkish Banking Industry

Financial system in a country should be constructed on trust. Since it is at the center of a nation economy, banking industry should be in close relationship with government and should have a substantial organizational structure and management. This kind of a trustable structure is only possible with corporate governance mechanism and legal authorities should certify the protection of shareholders, employees, customers and deposit holders' rights. It is more difficult and essential to constitute governance mechanism in banking industry than other industries because it is more complicated and fragile against managerial corruption and less transparent.

Corporate governance in banking industry involves the identification of corporate targets, prosecution of banking operations, execution of accountable management attitude, protection of all stakeholders' rights and complying with all kind of existing rules and regulations (Acikel, 2006). Therefore, there are different controlling and monitoring ways within the banks such as independent audit firms, board of directors and legal authorities (BAT, 1999). Shareholders could also monitor the operations of a bank but it is not that easy to identify and evaluate the structure, operations and performance of a bank by individuals because of asymmetric information. Since the nature of banking industry obstructs the implementation of governance mechanisms, state has a dominant role in controlling and monitoring. All of those features make the banking industry remarkable to analyze in terms of the adaptation of corporate governance practices.

In Turkish Banking industry, corporate governance mechanisms have been developed through various reforms taken by laws such as Turkish Commercial Code, Banking Law, regulations by BRSA, BAT and CMB and international guides such as OECD principles and Basel Committee for the last two decades which were all mentioned below. For instance Banking Law, in which a separate title was assigned to governance, or BRSA that published a corporate governance code for the banking industry in 2006 in order to increase the adaptation of practices by banks could be seen as the head of governance culture in Turkish banking industry. Another important factor was the acceptance of Basel standards which aims to make banking industries more transparent, flexible and less vulnerable to risk.

As a closer view, in the third part of Banking Law with number 5411 includes various regulations for the governance practices within the banking industry. The internal audit and control mechanisms, risk management, financial reporting standards, board of directors, top executives and audit committee are the main topics of this law in terms of governance. This law also authorizes the BRSA as a formal authority for the legislation and monitoring of banking governance practices. BRSA published 7 banking industry specific corporate governance principles in 2006 which are determining the corporate values and strategic goals; identifying the authority and responsibilities of executives; selecting qualified board members who are able to evaluate the banking operations objectively and independently; selecting qualified executives who are conscious about their role in terms governance practices; conducting independent audit mechanism; internalizing compensation policies that are compatible with corporate values and ensuring transparent management within the banks (BRSA, 2006).

In addition to these, Basel Committee published a report as a worldwide reference in 1999 in order to enforce the governance practices in banking industry of the countries. This report, which was revised in 2005 with the name of Basel II, underlines the importance of board of directors and top management in terms of adaptation of governance mechanism and includes eight principles for good governance in banking industry. Those principles identify the required board member qualifications, the functions, composition and responsibilities of boards, compensation policies, transparency issues and disclosure within the top management (BAT, 2002). The restructuration of Turkish banking industry after 2001 facilitated the adaptation to Basel standards. Although Basel II was accepted in 2008, it took time to provide all necessary infrastructures for those new standards and features. Therefore, from 2011, the industry started to change in terms of internal credit rating systems, risk vulnerability, transparency, flexibility and regulations. As a result, banking industry became less risky in terms of possible credit based crisis since they take Basel II in account while supplying credits and board of directors was involved in the risk management process (BRSA, 2011).

All of those actors and their actions provided a more accountable, more transparent and less risky banking industry in Turkey. In other words, they reinforced the governance mechanisms in Turkish banking industry and implicitly the Turkish economy. There are various supportive laws, regulations and both international and national actors which prevailed the development of governance practices in Turkey. They will be explained in detail in the following section.

As a result of all those reconstructions and strict regulations within the transition period, Turkish banking industry lives and grows in better-quality conditions. The increased confidence and trust within the industry attract foreign investors which could be easily observed by looking the increasing number of mergers and acquisitions and direct investments. Therefore, it would not be wrong to say that Turkish banking industry approaches to global standards in terms of accounting, operations and governance practices (Aysan and Ceyhan, 2008). As an evidence of this, Ararat and Cetin (2008) found out that listed banks are more transparent when they compared them with other firms and international banks.

Although the finance is the sector in which the governance is dispersed at most, there are still several defects. Currently existing institutionalized internal audit mechanism, stability in economy and politics, positive conditions in competition are preparing the necessary infrastructure for governance culture in Turkey. However, the high rate of current deficit and external debts negatively affect the governance processes in banking industry. For instance, the existence of independent members in banks' boards increases but they do not have equal conditions with majority shareholders yet.

4.3.1.3.2. Main Actors of Corporate Governance in Turkey

Regulative actors are very essential in shaping the adaptation process of a new practice set by preparing the collapse of old practices and advocating the new ones. Therefore, as another part of transition period, the entrance of new actors and reauthorized existing actors are as essential as rules and regulations. All of those actors contributed to adaptation process of corporate governance practices by monitoring, controlling, publishing principles, legislating, guiding or imposing sanctions. In other words, either with establishment or restructuring, all actors lived a transition period in terms of responsibilities, duties and authorization. Especially listed and financial firms are under a close trail by these regulative bodies and institutional actors. Some of them are international actors which are effective worldly wise and national actors which are responsible for the implementation and monitoring of governance practices of the firms operating in Turkey. The banking industry specific actors mentioned above are also essential in terms of broadening of governance such as BRSA, BAT and Basel Committee of Turkey.

4.3.1.3.2.1. International Actors

OECD (The Organisation for Economic Co-operation and Development)

As an economic co-operation and development organization, OECD was founded in 1960 in order to improve social welfare of world population (OECD, 2013). Although the policies generated under OECD aim to provide stability in member countries firstly, they also contribute to economic development of other countries and a worldwide objective competition. Recently, there are 34 member countries under OECD and Turkey is one of the first member and founder countries which attended in 1961 (OECD, 2013).

At the end of 1990s, especially banking industries, governments and private sectors of member countries required a guide and international standards for corporate governance practices. The main reason behind this demand was the increasing number of countries that embraced market economy in which the importance of private firms raised. The more weight private sector gained, the more important corporate governance became. This is because good governance assures the efficient use of resources by private sectors and the protection of all stakeholders' rights. As a result, the Ad-hoc Task Force on Corporate Governance was founded to prepare a report by the help of other international actors such as IMF and WB and they published governance principles in 1999 (Darman, 2009). Although this was the first international attempt in terms of governance, Cadbury report prepared in 1992 became a pattern for OECD principles which is a widely used guide for all countries. As mentioned before, OECD prepared those standards to provide a common understanding about corporate governance under the philosophy of "*one size does not fit at all*", and recommended to all countries to establish their own principles (OECD, 2013). Therefore, these principles are not compulsory, rather they are as a guide for the countries and they need to generate their own principles under the main topics of corporate governance. Those topics are shareholders' rights, fairness and transparency, disclosure and the responsibilities of board of directors.

TUSIAD initiated the governance mechanism in private sector by translating the OECD principles in Turkish in 2002. After that in 2003, Capital Market Board of Turkey prepared governance principles for Turkey based on OECD principles. Since corporate governance is a developing concept, as it broadens, new principles and changes are needed. Therefore OECD amended those principles in 2004 in order to regain the public trust toward capital markets and private sectors. Turkey also followed this revision in 2005 by adding the new and developed principles which are 'comply or explain' rationale rather than strict rules. In other words, OECD continuously operates to develop corporate governance cultures in both member and the rest of countries by either revisions of principles or conducting regular researches to understand the existing situation of the countries in terms of implementation of those practices. There are various valuable researches that OECD conducted in Turkey in terms of governance practices which will be mentioned in the following relevant sections.

European Union

Due to the growing number of multinational corporations and international trade, integration of capital markets, developing information technologies, firm scandals and increasing consciousness of corporate governance, the council of EU could not remain indifferent with corporate governance. They prepared a plan to amend the corporate law and draw a corporate governance frame for member countries in 2003. In the following year, they established a forum to analyze the governance practices in member countries. They emphasized the importance of the protection of shareholders' rights, disclosure, transparency, voting rights, composition of board of directors and audit mechanisms under 'comply or explain' rationale. The member countries were told to advise the firms to have non-executive members, enough number of independent members and separated CEO and chairman roles and selection of qualified members. In 2006, the audit committee became obligatory for the member countries' firms and the international disclosure of all necessary information became compulsory in 2007. When they conducted a research in 2007 to understand the compliance levels of member countries, they observed that EU principles were included in the governance codes of most countries but the compliance level was low in the countries in which comply or explain rationale was not supported by legal system (Darman, 2009).

Although Turkey is not a member country, as a candidate it tries to internalize the EU standards and its approach towards corporate governance encourage the Turkish government as well. In fact, with the acceptance of OECD principles and revised TCC, Turkey approaches to

EU standards and there are no big differences in terms of legal infrastructure of governance practices.

IMF (International Monetary Fund)

IMF was founded by 44 countries after the Second World War in order to wrap economical wounds by supplying monetary fund's to countries in need. From the date of foundation, IMF is one of the architectures of the international finance structure. The main objectives of IMF are to generate reforms and development programs to provide economical stability and to decrease the inflation rates in member countries. It also supports the country wise institutional reforms and development of private sectors of the countries. In order to provide sustainable global growth, transparency and accountability should be high which is possible only with good governance. Therefore, in 1997 IMF Executive Board developed a governance guide to emphasize the importance of good governance in efficient use of public resources, in preventing the corruption, to develop sustainable growth and economic stability (Boorman, 1997).

Although the governments are the main responsibilities of corporate governance in the countries, IMF officials could only be supporters that informs and advises for the deficiencies and necessary actions. Under the Article IV consultations, the involvement of IMF should be as a technical assistance or advisor for only the economical issues of governance mechanisms. These involvement areas could be banking industries, treasury, budget decisions, tax policies, audit mechanisms and their regulations which are essential in terms of private sectors, economic development and sustainability. Therefore, IMF analyzes the countries objectively in terms of governance before providing the support and development programs. Otherwise, those deficiencies or defects within the country could prevent the success of IMF assist (Boorman, 1997).

Although the relationship between IMF and Turkey started in 1946, the first stand-by agreement was signed in 1961. Within this long relationship IMF supplied funds 19 times to Turkey and the highest amount was supplied after 2001 crisis. At the end of 2004, the debt of Turkey increased to 21.6 billion dollars and as a result IMF dependence of Turkey increased year by year. Providentially, Turkey paid the last installment and finished its debt in 2013 (Dilekci, 2013). Taking fund from IMF supplied liquidity and facilitated the current monetary situation of Turkey while bringing heavy conditions imposed by IMF. They always assigned duties and restructuration obligations in many areas such as restructuration of banking industry, social security system, privatization of public institutions, legal improvements and others. Turkey had to comply with those conditions in order to take the needed funds and they are not always in favor of the nation and increased the external debt of country (Aktas, 2014).

Restructuring of banking industry and compliance to corporate governance principles were the conditions of development package taken after 2001. Turkish government had to take those conditions into account and started to change the banking system with necessary policy and legal changes and CMB published the governance principles in the following year. Therefore, it would not be wrong to say that IMF is one of the main actors that trigger the governance culture in Turkey.

World Bank

Similar to IMF, World Bank was founded after the Second World War with the aim of decreasing the poverty in the world. In order to leverage the welfare of world population, they needed to develop investment tools and conditions, to increase the employment and to create a sustainable growth around the world. There are 187 member countries which are also the member of IMF because it is a precondition to be a member of WB. Every year, an evaluation report was being written for each member countries to identify the strong and weak parts of their economies. As a result of those reports, WB provide required services and supports to the countries such as supplying funds, advising or capacity development (Aktas, 2014). Corporate governance is one of these issues that WB gives importance in terms of management and controlling of the firms within the country because good governance increases the firm performance and achievement to external resources. WB and IMF, together, evaluate the governance infrastructures of the member countries time to time and question the legal system and endogenous adjustments for the governance mechanisms. Additionally, WB established a program to support corporate governance infrastructures of member countries by comparing the OECD principles and compliance of the countries, by helping them to prepare an action plan to reinforce the institutional capacity and to increase the awareness among the country (World Bank, 2014).

As a member country since 1947, WB supplied 26.8 billion dollars fund to Turkey until today. They supported not only with funds but also with many legal and structural changes in order to reach world standards (Aktas, 2014). In terms of governance practices, as IMF and WB work together, it is the same initiation that comes after 2001 by IMF packages.

4.3.1.3.2.2. Local Actors

Capital Market Board of Turkey (CMB)

Capital Market Board of Turkey was founded in 1981 with the amendment of Capital Market Law which authorized CMB to regulate and supervise the capital market by conducting regulations to organize the market instruments and institutions. CMB "*takes the necessary measures for forestering the development of capital markets, and hence to contribute to the* *efficient allocation of financial resources in the country while ensuring investor protection"* (CMB, 2014). CMB is a regulative and independent authority which is under the control of the Minister of Economy. This regulatory body supervises and controls brokerage houses, banks, mutual funds, investment firms, Borsa Istanbul Stock Exchange and Gold Exchange and Clearing and settlement bank (CMB, 2014). The main responsibilities of the board include primary and secondary markets and financial intermediation. They are responsible to take required actions to disclose all necessary information to the public, to monitor the institutions in terms of compliance, to enlarge capital markets, to educate the professionals employed in listed firms and boards and to regulate the public disclosure platform (CMB, 2014).

The CMB published the first corporate governance principles targeting the publicly traded firms in 2003 based on OECD principles and this guide mainly targeted the listed firms but these are also applicable for other firms (Erturk, 2003). These principles were not obligatory but it was based on “comply or explain” principle. Therefore, if firms do not comply with any principle, it has to explain the reasons in annual report and disclose to public under compliance report, which became an obligation in 2004 for the listed firms. The obligation of compliance reports improved the governance mechanisms within the firms because of being forced to explain the reasons for not complying. However, there were also principles which have recommendation-like feature and firms do not need to explain if they do not comply. Although there was not any legal regulation or obligation for the implication of these principles, firms believe that good corporate governance will bring financial success and increase the value of firm (Ararat, 2005). The principles were amended in 2005 after OECD published the new version of governance code which includes 3 new principles and adjustments in 2 principles.

After 2005, a study conducted by CMB showed that 276 firms disclosed their compliance reports for the previous year. From those first reports, several points are appointed. Firstly, the awareness of the corporate governance concept was low; the compliance with obligatory principles was much more than voluntary-based ones; the privileges of voting right and dividend were still existing; websites were not so much used for public disclosure; the relationship between firm and shareholders were not so close; firms were less likely to share information and the participation rate to general shareholders' meeting was low (Coordination Council for the Improvement of Investment Environment, 2011).

In order to keep up with worldwide improvements and to become stronger against changing economical conditions, several revisions were required within principles and Communiqués. CMB followed the international standards and made several changes. Governance principles were amended in 2011 again but before this revision, new commercial law allowed CMB to assign obligatory principles to listed firms. After the enforcement of new TCC, CMB has the right and initiative to enlarge the obligations or advises to the firms in terms of governance practices and also has the right to implement sanctions and claims. Under the new version of governance code, the board changed the `comply or explain` rationale and identified several obligatory principles. Therefore, and the last and recent version of governance code includes obligatory principles due to the low compliance of firms under comply or explain rationale.

With those new regulations, after 2011, CMB made several changes targeting all listed firms except the surveillance market. They separated the firms into three groups based on firm value and the rate of currently traded shares of the firms. Each group has different level of obligations and the first group includes the firms whose value is more than 3 billion Turkish

Liras and current traded shares more than 750 million Turkish Liras. The firms within the first group are the biggest ones and any problem that could occur in those firms could affect the all market. In other words, the risk level is high for those firms and the obligations and rules are the highest, as a result. However, the second and third groups involve the firms that have less systematic impacts and they are being subjected to minimum requirements and less regulations (CMB Communiqué, 2011).

The corporate governance principles of CMB consist of four main topics which are shareholders, public disclosure and transparency, stakeholders and board of directors. In the part of shareholders, there are principles about facilitating the exercise of statutory rights of shareholders, equal treatment for each shareholder, their rights to obtain and evaluate information and to participate the general shareholders' meeting, their voting, minority and dividend rights and the transfer of their shares. The second part is about the public disclosure and transparency which includes principles for public disclosure of relationships between shareholders and executives, external audit, insider trading and disclosure of important events. The third part is about stakeholders that includes firm policy for stakeholders, their participation to management, protection of assets, human resource policy, ethical rules and social responsibilities of the firms. The last part includes principles about board of directors. The functions, responsibilities, duties of the boards, election and remuneration of board members, the committees and executives are the identified principles about the boards (CMB Communiqué, 2011).

With the recent Communiqués, many practices have been changed and new ones have been added to governance principles by CMB. Firstly, external audit was separated from consultancy service and to take consultancy service was prohibited during audit period. Also, CMB forced audit firms to wait at least two years to audit the same firm and obliged listed firms to compose an audit committee for trustable information flow to public. The number of required committees increased and corporate governance, remuneration, compensation and risk committees became compulsory. Additionally, the requirements of board composition changed in terms of size, non-executive involvement, the qualifications, involvement and role of independent members which will be given in detail under the following parts (CMB Communiqué, 2011).

CMB also have regulations for protecting the rights of shareholders. The handovers of shares are regulated by CMB and certain rate of change in ownership structure must be declared to public as a special announcement. Moreover, CMB define that any extraordinary changes and situations must be declared to public such as changes in articles of association, capital changes, mergers and acquisitions and sale of assets. However, these rules only deal with declaration rather than the involvement of shareholders to these decisions. OECD principles also mention about public disclosure which is also legislated by CMB. Firms must clearly declare their financial performance, capital and managerial structure periodically to public.

Borsa Istanbul (BIST)

Borsa Istanbul Stock Exchange was established in 1985 as a financially independent authority and the name changed to Borsa Istanbul in 2012. It is a self-regulatory body that is responsible for all kind of regulations and management of capital market in Turkey. BIST has supported the corporate governance by generating the Corporate Governance Index which includes the listed firms that are evaluated and graded by CMB with their compliance level since 2005. The firms that have corporate governance rating more than 6 out of 10 are included in that index which motivates Turkish firms to comply with governance principles. At the end of 2008, there were 12 firms within this index and currently there are 47 firms (Borsa Istanbul, 2014). As a motivation to be involved in that index, BIST applied discounts in registration fees for the firms accepted to that index.

Corporate Governance Association of Turkey (CGAT)

From the beginning of its establishment in 2003, Corporate Governance Association has been supporting the governance in terms of creating awareness and adaptation in Turkey by publishing various reports and researches, education programs and conferences. This association relates the private sector, government, media, regulative bodies and academia in order to develop governance mechanisms (CGAT, 2013). CGAT conducted several researches to identify the current situation and to broaden the governance culture.

Turkish Industry and Business Association (TUSIAD)

Turkish Industry and Business Association, established in 1971, aim to support development of Turkey by consolidating the businessmen, scientists and academics under the same roof (TUSIAD, 2013). TUSIAD took the first step of governance awareness in Turkey by translating OECD principles to Turkish in 2002 and conducted a study on ideal board of directors in terms of their structure, composition and independence (TUSIAD, 2002). They also gave specific definitions for member qualifications such as being able to analyze financial situation of the firm, to provide a different point of view and creativity to board and having knowledge about the laws and regulations within the country. These member selection criteria should be disclosed and the corporate governance committee should be responsible for eliminating the nominees to be selected by shareholders voting. There should be other committees as well for an efficient implementation of governance. These necessary committees are audit committee, corporate governance committee, top management education committee and compensation committee which is responsible for board member compensations by either salary or bonus. That study also mentions about the ideal board structure in which independent members are dominant and the only executive member should be the CEO. TUSIAD also recommends separating chairman and CEO duties in order to prevent interest conflicts and to bring independency to decision making process (TUSIAD, 2002).

They are still supporting this process by conducting various researches and studies on governance mechanisms in order to define the Turkey specific ideal governance implementation. Recently, TUSIAD emphasized the importance of corporate governance in creating transparency and trust in business life and suggested to internalize the principles as a part of corporate culture (Boyner, 2011). Therefore, it seems that after two important financial crises, Turkish government and other institutional actors understood the importance of governance principles and encourage the firms to comply with them in order to be more enduring toward the potential crisis and to prevent the future destructions.

4.3.1.3.2.3. Actors in Banking Industry

Banking Regulation and Supervision Agency (BRSA)

Another institution that supports the building of corporate governance mechanism in Turkey is BRSA which was established in 1999. The capacity of BRSA was increased to organize, regulate and supervise the banking industry at first but later other financial institutions were involved under the responsibility of BRSA in 2005 but came into force in 2006. The main responsibilities are to supply stability and trust to the financial markets, to develop the credit system, to protect the rights of investors and to regulate the foundation, mergers, stock exchange of the leasing, factoring and finance firms. In other words, BRSA should provide a safe, stable, efficient and competitive financial market; monitor and control efficiently; construct a flexible risk management; develop transparent and fair context for customers and lastly should have an effective corporate governance mechanism. BRSA is responsible from both banks and other financial firms to provide authorization to start their activities, all kind of mergers, acquisitions, stock transfers, opening a new subsidiary or branch and nomination of executives (BRSA, 2011).

Based on the Banking Law No. 5411, BRSA published a guide for governance principles of banks called as “Corporate Governance Principles of Banks” in 2006. The main objective of this guide is to manage the structure and process of only banks regarding the corporate governance mechanism. According to this guide, the board of directors of banks is responsible to determine and disclose the mission and vision of the banks, to decide the strategies and ethical code, to construct the information flow channels within the bank, to monitor the operations and performance, to identify the authorities and responsibilities within the bank and to comprehend the responsibilities and duties of board member position. Moreover, the compensation decision of board members and top management are made by board of directors regarding to the objective criteria for each person (BRSA, 2006). BRSA also regulates the foreign banks operating in Turkey but their policies are inadequate for foreigners and Turkish banks abuse this weakness by making partnerships with foreign investors (Apak, 2007). In this guide, there is no specific regulation for the structure of the board of directors rather the main focus is on roles and responsibilities of board.

More specifically, governance principles for Turkish banking industry involves setting corporate values and strategic aims, establishing an appropriate board of directors, declaring the mission and vision to public, clear definition of rights and responsibilities of people, motivating ethical behavior and establishing the necessary information network to be aware of any kind of unwelcome situation. Banks should internalize transparent governance practices in terms of shareholders rights and responsibilities, public disclosure, all stakeholders and board of directors. Board of directors is responsible to employ suitable top managers, to define their responsibilities and to make clear performance evaluations and compensation policies. Therefore, members should be people who are loyal, transparent, fair and accountable and able to evaluate firm independently. The board structure is another essential issue for BRSA which explains that size of the board should be enough for making decisions independently and for working efficiently and fast (BRSA, 2011).

After the financial crisis, deinstitutionalization was eventuated in a transparent process by informing both finance sector and public. The audit process of the BRSA, was changed to a risk-oriented perspective, and each organization was started to be rated based on many different parameters. With the new structure, all independent audit firms should be authorized by BRSA and their audit reports are collected under a database system. As a regulative body, if BRSA realizes any kind of contradiction to its legislation, it has the right to be prudent. The banks, who do not comply with audit reporting standards, have to pay a penalty to BRSA for 2007 (BRSA, 2009).

Savings Deposit Insurance Fund (SDIF)

The Saving Deposit Insurance Fund (SDIF) was firstly established as a unit in 1983 under the Central Bank. In 1999, this unit was taken under the responsibility of BRSA until 2003 when the SDIF reorganized as an independent institution and prepared new legislations for bankruptcy by the help of World Bank (Bakır and Onis, 2009). The main responsibilities of that institution are to determine the scope and amount of the savings and deposits, to insure them, to determine the risk based insurance premiums timetable, to manage the banks whose operating permission is revoked, to strengthen the financial bodies, to manage the mergers and acquisitions and to provide confidence and stability at financial sector (SDIF, 2011). To leverage the private banks and to construct the necessary infrastructure for regulation and supervision, SDIF seized the problematic banks after the 2001 crisis (Esen, 2005). Between 1999 and 2003, SDIF seized 20 banks that 11 of them were merged with other banks and others were closed (Yigitoglu, 2005).

The Banks Association of Turkey (BAT)

The Banks Association of Turkey, which was established in 1958, contributed to corporate governance practices by translating the Basel guidance to Turkish language and by publishing Ethical Principles in Banking Industry for the members. It includes setting corporate targets, operating daily activities, protecting shareholders' interests and obeying the existing rules and regulations. By adopting these principles, banking industry would be more efficient in terms of corporate governance practices. To control and implement these practices, there should be 4 different control mechanisms within the organization structure of a bank. Firstly, board of directors or audit committee should control, authorized personnel of daily operations should monitor, independent audit firms should control and finally risk management functions monitor the banks (BAT, 1999).

BAT also emphasizes the importance of transparency and provides public disclosure in terms of board structure, structure of top management, main operations and incentive and compensation policies. The board of directors and top management are responsible for the firm performance. Hence they should be people who have necessary skills, could investigate the firm strategies, provide accountable structures and control and monitor operations of bank. In other words, Basel Committee thinks that the main responsible body for corporate governance is board of directors. However there are other groups and institutions that support governance practices such as shareholders, customers, auditors, banking associations, governments, capital market boards and even employees (BAT, 1999).

Basel Banking Committee

Basel Banking Committee, which was founded by the central banks of G-10 countries (Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Netherland, Spain, Sweden, Swiss, UK and USA), prepared a guide in 1999 (Basel II) to help banking industries of member countries in terms of adoption the governance practices (Kurt, 2008). The guide was constructed based on OECD principles and main objectives were to clarify an appropriate governance model and frame for the banks and to make the banks comply with it and to help the governments to monitor and evaluate the industry. This committee focuses on the risk management and internal audit mechanisms and tries to generate a risk management culture within the banking industry in order to create a more efficient and stronger structure (Ozince, 2005). They also emphasize to construct a banking specific model based on the corporate governance principles and appoint the board of directors as responsible from the governance practices. Therefore, Basel II convention has three main objectives which are to identify minimum capital need, to have an audit mechanism and to create a market discipline (Ozince, 2005). It was first revised in 2001 and then 2003, in 2004 and lastly in 2010 as Basel III which includes new legislations and adjustments after the evaluation of 2008 global crisis (BRSA, 2011).

In Turkey, it was 2003 when a committee was founded under the BAT with the risk managers of the banks and BRSA officials in order to generate the necessary infrastructure and to develop a joint implementation strategy. After the revision of Basel II convention in 2004, BRSA prepared a final report in 2005 including the general provisions on principles. With the acceptance of Basel II, a new compliance period started for the Turkish banking industry for both

Basel and EU standards. Within the following years, Turkish banks tried to comply with those standards by increasing the compliance level year by year. As a result, Basel II brought to banking industry an efficient risk management, more discipline in terms of disclosure and compliance to corporate governance practices (Kurt, 2008).

4.3.1.3.3. Researches on Governance Practices in Turkey

There is a rich literature of corporate governance research about Turkey which includes the studies about the overall compliance to governance principles and the ones that focus on disclosure, transparency, rights of shareholders and board of directors specifically.

First of all, CMB conducted sequential surveys between 2004 and 2008 to question the compliance of listed firms to the governance principles. In 2004, they sent questionnaires to 303 listed firms to measure the compliance level as a general. This survey showed that firms, involved in BIST All Index, do not perfectly comply with the principles. The results showed that 52% of the firms have risk management and internal control mechanism, only 11% of them disclosed the ethical code to public, 50% disclosed their mission and vision statements (CMB, 2004). Additionally, only 31% of the firms published their compliance reports while it increased to 71% in 2006. However, the published reports were not that satisfactory in terms of content which did not included all required information. The rate of the establishment of investor relations department was only 50% in 2005 but it was 89% in 2008. While only 77% of the firms had websites in 2005, this ration increased to 95% in 2006 and through their websites 86% of them published their financial and annual reports, 82% of them published their articles of associations and 75% of them published their general meeting reports in 2006. However, in 2007, based on the survey conducted on top 100 listed firms, CMB observed that 92 of them disclosed all kind of required reports and knowledge about the firm through their websites and there were only 5 firms that did not have an official website. Lastly, the results of CMB study, conducted in 2008, showed that the invitations of general meeting were not broadened enough (CMB, 2004; 2005; 2006; 2007; 2008).

In 2005, Corporate Governance Association of Turkey also made a research on understanding the governance level in Turkey by analyzing the biggest 123 firms (Out of 1000, only 123 responded) operating in Turkey. The sample group of that study well represented the population and that is why the results are important to understand the current situation at that moment. The results showed that most of the firms did not have enough knowledge about how to implement governance principles; the rights of minority shareholders were not well-protected; the level of transparency and public disclosure was inadequate. Lastly, the committees are not common in Turkey. Although established committees are disclosed, mostly their working procedures and compositions are not in accordance with principles and only a few of them have corporate governance committee (OECD, 2006). All of these results mean that there are many deficiencies in terms of the implementation of governance practices (Kurt, 2008).

The disclosure and transparency of Turkish listed firms were also observed by Fitch Ratings, S & P and Corporate Governance Forum of Turkey in 2007. Based on their surveys, the disclosure and transparency level was not sufficient yet. For instance, S & P and Corporate Governance Forum of Turkey co-worked the five firms which are the most transparent and four of them were also the biggest firms of Turkey in 2006. They observed that the remuneration policies, nomination process of board members and voting agreements were the least disclosed issues (Balic and Ararat, 2007). As a proof of that, Fitch Ratings also found out the low level of disclosure in Turkey, especially in terms of remuneration (Fitch Ratings, 2007). IMF also published a report in 2007 about the low level of transparency in Turkey and recommended to improve corporate governance mechanisms. However, the most recent report of WB scored the countries in terms of three dimensions of investor protection and Turkey scored 9 in transparency of transactions; 4 in liability for self-dealing and 4 in shareholders' ability to sue officers and directors (World Bank, 2010).

OECD also made an essential pilot study about corporate governance in Turkey in 2006 which was defined as governance reform by Ararat (2007) who stated that the results of OECD report brought radical changes in terms the implementations of governance practices. She also mentioned about the support of market liberalization and large firms that adopt these practices as leaders in that reform. This report graded the compliance level of the country in terms of corporate governance. Within this report, there were 15 topics about the board of directors and only one of them is broadly implemented while other 14 principles were partly implemented in Turkey. The only principle that was broadly implemented was about ethical standards that boards should apply and disclose these standards to public. However, only a few of the firms had effective investor relations department for disclosure. Based on this study, most of Turkish firms did not explain the reasons of not complying with CMB principles. Due to the dominant pyramidal and complex ownership structures, transparency level was low. The accountability was also low because the remuneration is not disclosed (OECD, 2006). As a contradiction, recent research done by Oktem and Goksen (2009) showed that the outsider proportion had increased about 25% in last years.

After 2005, firms started to be trailed in terms of compliance to corporate governance principles by grading their compliance level (Erdonmez, 2003). The BRSA have sanctions for the financial firms that do not comply with the laws and regulations. Therefore, it is not surprise to see the high level of compliance of these regulations either by a symbolic or internalized manner. However, for the CMB principles, although there is not any legal regulation about the implication of all principles, firms believe that good corporate governance will bring financial success and increase the value of firm (Ararat, 2005).

In Turkey, shareholders with small amount of shares are more related with their dividend returns rather than representation of their rights and they even do not attend general annual meetings (Akarkarasu, 2000). Another observation done by Kurdoglu (2007) showed that there are listed Turkish firms that even do not have websites. On the other hand, the ones that have websites are not publishing their annual reports, ownership structure or remuneration of the board members. Turkey also failed in terms of transparency studies with medium level of disclosure (Balic, 2007). A relatively recent study demonstrated that although published principles of CMB in 2003 is a turning point for corporate governance in Turkey, nothing changed until the rule of mandatory reporting was legislated in 2004 (Balic, 2007). However, there are also firms who do not explain the reasons of non-compliance in their reports.

In terms of nomination process and qualifications of the board members, the results of several studies showed that boards were not adequately independent yet and the nomination process was not being disclosed sufficiently. The nomination process and policies were not disclosed and generally the nominees were determined by controlling shareholders before the general shareholders meeting and the election process was made for formality (OECD, 2006). According to CMB studies, only 15% of firms explained the educational and experience requirements for board members and therefore the nomination process of members in 2004. However, this rate increased in 2005 and 59% of the firms explained their nomination process which was compatible with governance principles while 12% of them disclosed the qualifications of board members. This is parallel to the anecdotal results of World Bank research which claimed that the non-executive directors are being appointed based on controlling shareholders recommendations and will (World Bank, 2010). Additionally, 63% of the firms declared the information about the responsibilities and roles of board members' in other group firms in 2005. At the end of 2006, 80% of top 100 firms explained their nomination processes and 55 of the firms disclosed the CVs of board members whereas 80 firms disclosed in 2008 (CMB, 2004; 2005; 2006; 2008).

The results of CMB studies showed that firms were comparatively more accurate in terms of board compositions. In 2004, 78% of all listed firms and 88% of top 100 firms had both executive and non-executive directors (CMB, 2004). However, according to OECD (2006), there was not enough number of non-executive and independent directors in boards for objective judgment because the boards were mainly dominated by executive members. Another survey by CMB, conducted in 2008, showed that there were only 10 firms in whose boards' executive members hold more than half and in 20 firms boards had less than 7 members (CMB, 2008). Similar to board members qualifications, remuneration or member selection, independent board members were not clearly defined and it was not easy to understand whether the external auditors were independent or not (Kurt, 2008). In 2004, only 26% of all listed firms had declared to have independent member and this ratio decreased to 18% in 2005 but only 6 firms had independent directors complying with CMB principles. This was because of the inadequate definition of independency (CMB, 2005). The report of Fitch Ratings (2007) also confirmed that the independency of boards were not adequate in Turkey. However, in 2008, 36 of top 100 firms had independent director which was under the ratio recommended by CMB (CMB, 2008).

Since mostly board members were also family members, they were not compensated based on performance and they even do not disclose the performance of board members. Therefore, board members can follow their selfish interests (OECD, 2006). Based on the results of CMB surveys, in 2004, only 4% of the firms internalized performance based compensation while this rate increased to 28% in 2005. Also, 58% of the firms disclosed the relevant information in terms of supplying any kind of debt or credit to board members (CMB, 2004; 2005). In 2008, CMB observed that 55 of top 100 firms declared their compensation policies, incentive mechanisms and the role and responsibilities of board members while most of the firms did not disclose the compensation amounts of board member (CMB, 2008). Lastly, about the committees within the board of directors, only 9% of all listed firms had corporate governance committee in 2004 whereas 13% of them had both corporate governance and audit committees in 2005which increased to 63 in 2008. Only 28 of 240 firms declared the reasons of why they did not establish those committees (CMB, 2004; 2005; 2008).

As a conclusion, with the light of this knowledge on corporate governance in Turkey, it would not be wrong to say that Turkey diverge from Anglo-Saxon model of governance. The low level of disclosure, the low level of protection of shareholders' rights, the control held by dominant shareholders, dense ownership structure and the insider dominated board compositions make the Turkey more similar to Continental European model (Mesutoglu, 2008). The existence of family members in boards and board member characteristics could be defined as less accountable with dominance of executive members, inadequate number of independent members, low level of disclosure about board member qualifications and compensation policies and inadequate number of committees.

4.3.1.4. The Involvement of Foreign Investment in Turkey

As the last aspect of this transition period, the involvement process of foreign investors is essential to clarify. Investment is seen as the most critical factor for development but the necessary amount could not be supplied by only national resources. There are various definitions of foreign investment such as the transferring capital from one country to others by people or corporations (Caves, 1971). It is also defined as movement of capital within countries.

Foreign investment is very critical for development of emerging economies by decreasing the budget deficits, increasing the production and leveraging foreign trade of invested country. Involvement of foreign investors is also important for decreasing the unemployment level and cost of production by obtaining cheap raw materials, know-how and new technologies. It also brings a more fair competition environment to the country (Duzenli, 2006). All of these contribute the growth of country. However, the impacts of foreign investments could vary according to countries by increasing the economic growth in some countries while affecting it negatively in others based on country specific characteristics and other growth factors as well. If there are defected trade, price and financial policies, foreign investments damage the resource allocation and economic growth (Carkovic and Levine, 2002). This kind of negative effect mainly occurs when the banking industry starts to be unable to close its debts and the banks tend to close their deficits by external debts. This kind of an environment makes the foreigners to exit suddenly which injures the economy more (Dekle and Kletzer, 2001).

There are various reasons for foreigners to invest in another country. Through this way, investors obtain cheaper raw materials, labor and other factors of production, gain know-how, enlarge target market and take advantage of various tax and custom privileges and technologies. Therefore, to attract foreign investors a country should have political stability, well established infrastructure, well developed governance mechanisms and should provide encouraging policies for foreigners such as tax exemption (Gocer, 2012). In other words, there are pull effects of countries to attract foreigners such as independency of capital and finance sectors, technological developments, low level of taxation, floating exchange rate policy, monetary incentives, well developed governance mechanisms, privatizations and low level of bureaucracy (Ozcan and Ari, 2010). That is why countries that realize the importance of foreign investment try to provide these conditions by making various restructuring on policies and infrastructures.

For countries without enough resources to finance its investments, there are two solutions. The first one is using existing reserves and the second solution is attracting foreign investors either through external debt or capital inflow. In other words, foreign investors could be involved either as a debtor or equity owner. A foreigner can be an equity owner in terms of direct investments such as establishing a firm, a partnership with local investors or mergers and acquisitions. All kind of investments owned by foreigners or the partnership with local investors is called as foreign direct investment (SPO, 2000). They could also be involved through portfolio with issuing bill and buying and selling firm stocks. The last way of investment is using short term credit tools. Foreign Direct Investment (FDI) means being the owner of a domestic firm and at the same time holding the control of it while portfolio investment means being owner of a domestic firm without holding the control (Itay and Razin, 2005). Portfolio investments involve selling and buying stocks, shares and other tools of capital market which are easier for foreign investors to exit from the country in a short time (Saglamer, 2003).

The post crisis periods are more prone to foreign capital in order to stand up and develop again. Therefore, government should apply motivative policies and take necessary action to attract foreign investors. As evidence, the fall of capital flow to developing countries in 1980s made the countries to facilitate and motivate the entrance of foreign investment (Aitken and Harrison, 1999). Especially for emerging countries like Turkey that do not have enough savings and limited stock markets. These conditions are believed to increase the foreign involvement in order to close budget deficits, to deepen stock markets and to transfer technologies which increase the productivity level of the country (Carkovic and Levine, 2002).

Both countries and firms realized the importance of governance mechanisms in order to attract foreign investments. Since investors seek for accountability and transparency (Solomon, Lin and Norton, 2003). When all other factors are equal, foreign investors will tend to select the countries with well established governance structures (Globerman and Shapiro, 2003). Although Turkey could be seen as the leader country in terms of given incentives to foreign investors, the level of foreign capital inflow is not adequate. This is because foreign investors seek for appropriate social, cultural and political developments as much as adequate protective regulations. The importance of accountability, transparency and fairness appeared in this issue as well. Therefore, good governance practices are also important for foreign investments as much as legal protection. As an evidence of this, the rise of foreign capital inflow after 2005 when the governance practices started to be involved widely in Turkey. The statistics are powerful enough not to see this as a coincidence (Cetinkaya, 2003).

Foreign capital inflow is important for Turkey due to the four factors; to increase financial power, to learn and adapt new technologies, to increase the productivity and to broaden market opportunities (Cetinkaya, 2003). Nowadays, Turkey started to attract foreign investors by obtaining the necessary technological and transportation infrastructure, both unskilled and skilled labor classes, relatively cheap resources and developing governance structures. However, there is a fluctuating historical development of foreign involvement in Turkey.

The first years of Turkish Republic, 1920s were the years that attracted foreigners with various incentives but 1930s were not the same. Because of wars and worldwide crisis and protective policies of government, the entrance of foreign investors stopped in those years. The closed economy model, in order to develop national investors, prevented the entrance of foreigners until the end of 1970s and they preferred other countries instead of Turkey. However, these conditions changed in 1980s with restructuration and transition of economy with market liberalization. The floating exchange rate and interest rate policy, incentives for exports, decreasing custom tax and many other actions taken to attract foreigners became successful. The average foreign capital inflow increased to 93 million dollars between the years 1981 and 1987 (Aydemir et al., 2012). This rate increased to about 2 billion dollars until 1994 which was a more static period in terms of capital flow. The crisis occurred in 1994 increased the inflation rate and created an unstable environment which deported the foreign investors by decreasing until 2005. From that year the foreign investment level increased to 10 billion dollars and 22 billion in 2008. With the impact of global crisis 2008, it started to fall again but increased to around 16 billion dollars at the end of 2011 but around 12 billion dollars in 2012 (UNCTAD, 2013).

After 2001 banking crisis, the restructuring reforms, privatization policies, mergers and acquisition within the financial sector attracted foreign investors again. In other words, the internationalized standards of banking industry due to EU adaptation, rigid regulations, corporate governance efforts, competition law, the economic growth and privileges for foreigners attracted the foreign investment (Dincer, 2006; Apak and Tavsanci, 2008; Ozcan et al, 2009). The most attractive industries for foreigners are service business and it is followed by production, agriculture and energy sectors. The banking industry comes as the first area in service businesses while chemical and automotive industries are the leaders in industry (Cetinkaya, 2003). Three different ways preferred by foreign investors are acquisition, block-holding and taking up shares in BIST (Apak and Tavsanci, 2008).

However the entrance of foreign investors in Turkish banking industry goes back to the beginning of republic because the real banking activities started with foreigners under the roof of Ottoman Bank which acted as a Central Bank at that time (Apak and Tavsanci, 2008). These scholars categorized the history of foreign participation in banking industry in five eras. The first period goes to Ottoman Empire in the mid-1800s when the Ottoman Bank was established by the British capital. This was followed by other foreigners and until the 1920s there were 25 banks which were either as a branch or direct investment. After the proclamation of republic, the second era began in which about ten banks were opened by direct investment. The next period was not like the previous ones because of the protective policies were dominant and public banks started to establish and foreigners were restricted until 1980s. The fourth period which covers the years between 1980 and 2001 was characterized by the market mechanism and flexible exchange rate. At the end of this era there were 24 foreign banks in Turkey (Apak and Tavsanci, 2008). From 1990s, the foreign investors preferred to enter by mergers or acquisitions rather than an organic growth (Dinçer, 2006). According to the World Bank report (2007), the restructuration period contributed to annual growth of Turkey with 7.5% of growth rate between the years 2002 and 2006. Also, the decreased inflation rate and increased GDP raised the country to 20 World ranking yet the high level of external debt. All those reasons together with the nomination process of Turkey to EU and the lack of regulations for foreign investors attracted the foreign investors. At the end of 2006, the foreign investment level increased to 1.939 million dollars (World Bank, 2007).

There is no restriction for the entrance of foreign investment to the banking industry, even there are privileges to foreigners and they are less amenable to law than Turkish firms. The Law No. 4875 is related with the foreign direct investment regulations to reduce and facilitate the investment procedures. Additionally, a new institution was established named as the Coordination Council for the Improvement of Investment Environment to represent the opportunities provided to investors (BRSA, 2009). Therefore, the share of foreign investors in banking industry increased to 40% in 2008 and 28% of the bank shares were held by foreign investors in BIST by the end of 2006 (Apak and Tavsanci, 2008; Dinçer, 2006). Although entrance of foreigners brings competition, it also increases the transparency within the industry (Bakır and Onis, 2009).

4.3.2. Actions Taken for Structuring the Board of Directors in Turkey

Board of directors, as the main focus of this study, constitutes one of the most important instruments in corporate governance. It is the first place that authorities and regulative bodies control and monitor to understand the governance practices because the decision makers are in the boardroom. In general, boards do not have central and strategic roles in Turkey but boards should be the place of reviewing and guiding the corporate strategy and major policies and plans. Although board members are responsible for these reports, the lack of enough sanctions makes the most of the board members inactive in selection, monitoring and compensation practices. There is a mentality of board members to assert the shareholder’s rights who brings him/her to the board prior to interests of all shareholders. Although board decisions are being approved by shareholders, there is still abuse of shareholders’ rights due to the lack of certain legal restrictions about the protection of minority shareholders' rights which was also the result of CGAT's research in 2005.

There are various principles about the function and composition of board of directors published by different authorities and laws. All existing board related compulsory and advisory principles and regulations will be identified in this section. Firstly, CMB principles, which were amended in 2011 and came to force in 2012, include the following principles for the responsibility of boards. These principles target all listed firms (CMB, 2011).

- Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of firm and the shareholders.

- Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly

-The board should apply high ethical standards. It should take into account the interests of stakeholders.

- The board should review and guide corporate strategy, major plans of action, risk policy, annual budgets and business plans; set performance objectives; monitor implementation and corporate performance; and oversee major capital expenditures, acquisitions and divestitures.

- The board should monitor the effectiveness of the firm's governance practices and making changes as needed.

-The board should select, compensate, monitor and, when necessary, replace key executives and oversee succession planning.

- The board should align key executive and board remuneration with the longer term interests of the firm and its shareholders.

- The board should ensure a formal and transparent board nomination and election process.

- The board should monitor and manage potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.

- The board should ensure the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

-The board should oversee the process of disclosure and communications.

- The board should be able to exercise objective independent judgment on corporate affairs.

- In order to fulfill their responsibilities, board members should have access to accurate, relevant and timely information.

The amended CMB principles (2013) include both compulsory and advisory articles for the ideal board composition for listed firms. Some of the principles are compulsory only for the first group firms (firm value more than 3 billion TL) and some of them are still advisory and in comply or explain based. CMB expects the compliance of the listed firms from 2011 and the listed banks from 2012. These principles are

- In case of CEO Duality, the reasons should be disclosed to public. (Compulsory for all)

- There should be at least 5 members in boards. (Compulsory for all)

- At least half of board members should be non-executive directors (Compulsory for all)

- There are various criterions for being an independent member which are not being in any kind of trade relationship with the firm (viable for the candidate and his close relatives);

not being employed as an executive in the firm for the last five years; not having the shares of firm more than 5%; not being an owner or in any kind of business relationship with independent audit, consultancy, supplier and customer firms for the last five years; having required qualifications, education, experience and enough time in order to become an independent member; being settled in Turkey (at least half of independent members should comply with this criteria) and not being a board member more than in three firms whose owners and top executives are same with the firm. (Compulsory for all)

- An independent member should not be employed in public sector rather than universities and should not be the board member in the firm for more than 6 years (Those two criterions are not compulsory for the firms that are operating based on public service or public licenses)

- At least one third of board should be independent directors but there should be at least 2 independent members. (Compulsory for the firms of 1. and 2. groups; for the 3.group firms, 2 independent members should be enough). For the definition of independent members, there are specific standards for banks. Based on bank-specific privilege, there should be at least 3 independent members and the member of audit committees of banks could be accepted as independent members although those members were not selected based on independent member criterion. If all of the independent members are the members of audit committee, then at least one of them should comply with independency criterions. Also, those criterions are taken account for all independent members that are not a member of audit committee of banks.

- The independent member should be selected for at most three years but it is possible to become a candidate again. (Compulsory for all)

- An independent member nominee should be evaluated by nomination committee firstly that evaluates the independency of nominees. Then, after the approval of board of directors, the nominees list should be sent to CMB 60 days before the general meeting. If CMB approves the nominees, they should be disclosed to the public with the general meeting invitations and should be voted in general meeting. (Compulsory for all rather than 2. and 3. group firms)

- For the cases of resignation or loose of independency criteria of an independent member, this member should report this to both CMB and public. Until the following general meeting, a temporary member should be selected by board with the guide of nomination committee. (Compulsory for all rather than 2. and 3. group firms)

- The majority of independent directors should vote for the important decisions in order to take those issues in general meeting agenda. (Compulsory for all)

- There should be at least one woman member in board of directors. (Advisory for all)

- Audit, risk and remuneration committees (compulsory except banks) and corporate governance and nomination committees are compulsory for all firms. Under the conditions of not establishing nomination and remuneration committee, corporate governance committee should cover these responsibilities.

- Committees should include at least 2 members. If there are only two members, both of them should be non-executive directors. If there are more than two members in the committees, at least half of them should be non-executive members. The chair of the committees should be independent members. It is possible to include experts in committees although they are not board members. (Compulsory for all)

- All members of audit committee should be independent members (Compulsory for all)

- At least one member of audit committee should have at least 5 years accounting experience (Advisory for all)

- CEO and Chairman should not be a member of any committee. (Compulsory for all)

- One board member should not attend more than one committee. (Advisory for all)

- Board members should be compensated based on firm performance but any kind of credit or debt should not be supplied to members (Advisory for all)

- Independent directors should not be compensated based on performance (Compulsory for all)

- Compensation policies should be disclosed to the public (Advisory for all)

Before the amendment in 2011, CMB principles were all advisory and comply or explained based. There was not specific principle about the educational background of the members but the situations under which a candidate could not be a board member were given clearly. Any person that convicted of non-conformity with legislations, sentenced with heavy imprisonment and have imprisoned for more than 5 years and sentenced to any kind of disgraceful crimes should not be a board member. After the revision, the required qualifications of a board member were identified clearly. There was not a minimum requirement for board size but now there is an obligation to have at least 5 members. The recommendation of involvement of at least 50% of non-executive directors became an obligation after the amendment. Additionally, it was recommended to have the number of independent members at least one third of the board which became an obligation for first and second group firms and existence of at least two independents for all listed ones (CMB, 2011).

While the existing independency criterions stayed same additional ones were included such as not having any kind of trade relationship with the firm or other related group firms for the last five years (it was two years in previous code); not being employed in public sector rather than universities and having enough time for the responsibilities of being a board member (CMB, 2011).

Additionally, there are principles about structure of committees. Firms can establish any number of committees that are thought to be necessary. However, audit, risk, remuneration, corporate governance and nomination committees became compulsory with the amendment. Corporate governance committee could be responsible if the nomination and remuneration committees were not established. The former governance guide was recommending only audit and corporate governance (CMB, 2011). All differences between the governance principles published by CMB in 2005 and 2011 were given in the table below.

Table 1 Changes in Corporate Governance Principles published by CMB in 2005 and 2011

	CMB, 2005	**CMB Communiqué, 2011**
Board Size	No recommendation	Minimum 5 members
Independent Member	At least 1/3 of board members	At least 1/3 of board members Minimum 2 members Selected for at most 3 years Additional criterions for independency
Board member selection	No recommendation	Nomination Committee Approval of CMB
Woman Member	No recommendation	1 woman member (Advise)

Although the legislative framework strengthened the infrastructure of corporate governance in Turkey, highly concentrated ownership and the lack of obligations decreased the compliance level of the firms. Therefore, OECD (2006) recommended to Turkey to establish an obligatory framework to improve the governance practices in Turkey. As a result, the required amendments were made within the law and governance principles after 2011. In case of not complying or obeying the governance principles, CMB is capable for sanctioning such as penalties, fines or license cancellations. It has also a right to impose an interim injunction or take legal action. If the required compliance was not obtained even though there are enough board members, after providing 30 days period to the firm, CMB could assign a new board to the firm. This new board with new independent directors and other board members make the strategic decisions and register to the firm records (CMB, 2011). However, CMB is not authorized to sanction directors for their bad performance even the minority shareholders could not, instead this is in the hand of majority shareholders through general meetings (World Bank, 2010).

Other essential regulations related with board of directors are provided by amended TCC in which the importance of board member responsibilities is emphasized. This law identifies the boards as the only responsible authority for the governance mechanisms of the firms. Therefore the selection of board members is also essential for good governance. Under the Article No.361, it is being clarified that firms could insure any kind of financial losses sourced from the mistakes of board members but it should disclose this information (TCC, 2011).

On the other hand, BRSA have contributed to the development of corporate governance of banking industry since 2006 by publishing banking specific governance principles. According to these principles, banks were recommended to select qualified board members and to educate and train the executive members consistently. Additionally, banks were recommended to establish audit, credit and corporate governance committees (BRSA, 2006).

The board of directors within the banking industry, addition to BRSA, was also legislated by Banking Law. The amended Article No. 4389 obligates the existence of at least two independent directors within the board which should involve at least 5 members. This article also clarifies the independency criterions which are not having any kind of kinship with the owners and executives of the banks.

Based on this knowledge, it would be beneficial to see the chronological progress of Turkish corporate governance in a table below. By using the Karpuzoglu's study (2010), table was enlarged to recent dates.

Table 2 The Chronological Progresses of Corporate Governance in Turkey

	AUTHORITY	**REGULATION**
December, 2002	TUSIAD	Translation of OECD Principles in Turkish
February, 2003	CMB	Publication of Corporate Governance Principles
December, 2003	CMB	Compliance Ratings
December, 2004	CMB	Disclosure of Compliance Reports
February, 2005	BIST	Corporate Governance Index
February, 2005	CMB	New Governance Principles based on OECD revision
November, 2005	Turkish Government	Draft of New Turkish Commercial Code
November, 2005	BRSA	Banking Law
June, 2006	CMB	Independent Audit Standards
November, 2006	BRSA	Publication of Corporate Governance Principles for Banking Industry
May, 2007	BRSA	Acceptance of Basel II
August, 2007	BIST	Corporate Governance Index
March, 2008	CMB	Evaluation of governance practices and disclosure of listed firms
June, 2009	CMB	Launch of Public Disclosure Platform
December, 2011	CMB	New Communiqués with Obligatory Principles
July, 2012	Turkish Government	New Turkish Commercial Code

4.4. The Summary of the Literature Review

The literature reviewed in order to define main concepts and to provide a general perspective about the institutional transition process and corporate governance. The environmental changes should also be analyzed in order to understand organizational practices. Concerning the institutional transition studies, there is one group of researchers who claim that organizations manipulate environment while others claim that organizations could become either active or passive agents based on the level of institutional force. If there is not a legal compulsion, organization could be active in shaping the practice. Another group mentions about organizational resistance to change in order not to lose their existing investments, abilities and identities. There is a group of researchers who believe that organizations could not change completely due to path dependency. Therefore, organizations should decide if they would change or resist. Moreover, the characteristics of organizations and state are also believed influential in the process of practice institutionalization. Therefore, to understand the government policies and firm characteristics such as size and ownership are important to understand institutionalization process.

There are also different points of views in explaining the change. Many researchers believe that change comes with external shocks, while others believe that cumulative effects of many events trigger the change. Active internal agents also could bring the change by creating alternative ways. Divergent interests of actors could also bring the change by creating tension within the system. Therefore institutional transformation could be sourced by emerged trends, crises, new actors or by other environmental factors.

Subsequently, there is growing importance of trust and awareness and adaptation of governance mechanism in all over the world. Governance mechanisms protect the rights of all stakeholders and prevent the bad management. As a most important part of governance, board of directors is at the center of many studies. One group claims that boards create the external linkages and brings resources to firm while others think that boards solve the agency problem between manager and owner. Another group, on the other hand, claims that the adaptation of environmentally defined ideal board brings legitimacy to organization. This ideal board should involve more executive members than non-executives and adequate independent members. The CEO and chairman should be separated people and tenure of CEO should not be that long which decreases the dependency level of board. Moreover, the size of board should be enough to make decisions independently.

Turkish context, mainly banking industry, was also examined in terms of regulations, main actors and current governance practices. With pyramid and complex ownership structure of businesses which are dominated by family firms, Turkey is a developing country. The dominant share is held by SMEs in economy but there are big holdings and corporations as well. Turkey is characterized by crises lived in 2000, 2001 which was the most effective crisis of Turkish history, and 2008 global crisis which was not that effective because of restructured banking industry. After crisis period, regulations increased in order to decrease informal sector and to become more transparent and accountable. Various laws and rules were legislated and new regulatory actors emerged especially for banking industry. This industry was struggling alone for last the 14 years with high level of external debt and corruption level, and need for foreign capital to develop.

Moreover, governance practices gained importance in post-crisis period. Although there are still many defects, governance practices are started to be implemented more in recent years mostly by big and listed corporations mainly. Board of directors in Turkish firms are characterized by low and even no involvement of independent directors, still higher number of executive members than non-executives, separated CEO and chairman roles, low number of committees and involvement of family members to the boards. This is also understood by foreign investors who invest in Turkey by direct or portfolio investments but the volume is not adequate yet.

So, the question about the current board structure of Turkish listed banks and which kind of a transition period they lived after 2000 until today is yet to be answered. Therefore, the scope of this study is mainly to understand this transformation period in terms of board structure of listed banks. Referring the institutional transformation model (Figure 1), there are both field and environmental level factors that bring the collective human action or praxis and as a result the restructuring of the existing practices and settlement of new ones. The theoretical background and literature review of this study provided necessary background knowledge to construct the transformation map and identifying the context helped to understand how this transformation period emerged in Turkey in terms of corporate governance in banking industry.

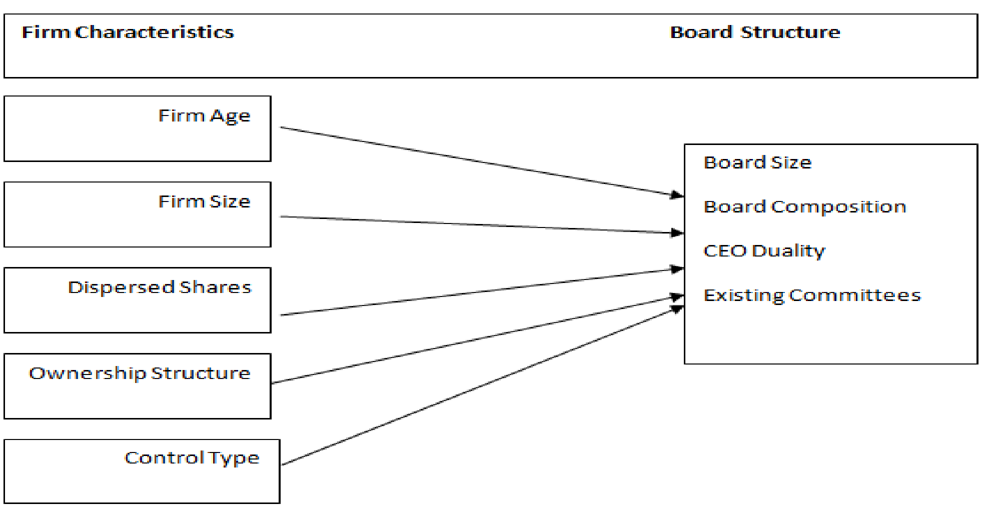
Based on this, the inefficient banking industry system, having large amount of public debt and budget deficit and liquidity problems prepared the base of financial crises in Turkey after 2000 which was an adequate reason to change the collective mind and to create the collective action for praxis. Beside this, the low level of adaptation to existing laws and low consciousness about the main concerns of corporate governance until 2000 increased the incompatibility of Turkey in international competition era. Additionally, interest conflicts between the main actors of banking industry also caused to generate new agents who brings or starts the change.

Beside these contradictions within the existing institution, there are environmental factors as well which motivates the actors to restructure the institution and settle down new habits. These are political pressures which came from the external dependencies of Turkey that are IMF, EU, WB and foreign investors as well. Since the lack of their support would collapse the financial sector and Turkish economy, the suggestions and requirements of these actors had to be done. The preconditions of their supports brought the corporate governance practices to the country firstly. The functional pressure, on the other hand, came from the functional problems of banking industry which is dependent to foreign capital and also the unexpected events that weaken the defected banking system such as financial crises. Lastly, the changing global environment and increasing conscious about corporate governance concept forced to Turkey to adopt this new trend and to restructure the existing institution.

5. METHODOLOGY

This chapter involves the research methodology of the study by referring to the theoretical framework. It reveals the scope of the study and research objectives, the selection of most representative sample, variables that are identified to understand current governance adaptation, the data collection method and data analysis procedures in detail. This chapter also includes the research model to understand the changing board structure in banking industry through the institutional transformation period. Therefore, the institutional transformation map (Figure 1) was enlarged by adding the firm level that models the board structure. Figure 3 shows the firm level of the model which was constructed by using the research model of Oba et al. (2010). Based on the model of these researchers, board structure is an element of structural configurations which under the institutional environment level. In this study, the board structure and the firm characteristics that affect the adaptation of board related principles were included to the model for firm level.

Figure 3 Determinants of Board Structure at Firm Level



Therefore, this study focused on to understand the board structure of the listed banks for 13 years period and how did the board structure changed over the transformation period and if the firms characteristics of the banks created a difference in terms of adaptation of governance principles or not.

5.1. The Objectives and Scope of the Research

Having a strong and efficient banking system is essential for the economic development of a country. Especially for the countries like Turkey, in which the capital is mainly allocated through the banks, transparent and accountable financial systems are required. Under this light, the corporate governance mechanism is a must to extinguish the risk of failure and loss of trust within this industry. No matter how important it is, countries could not comply with the governance practices simply since the adoption process of governance mechanism is a very complicated and sustained process. Although the governance adoption decisions are firm level strategies, designing the governance mechanism is an institutional level movement within the countries. This is why the existing institutional context; regulative framework and actors are also important factors within the evolution of governance mechanisms.

Therefore, this is an exploratory study which aims to understand the evolution of corporate governance mechanism within the banking industry by also understanding the institutional transformation period. It aims to understand the impact of institutional context on management approach of firms, focusing on Turkish banking industry. In other words, this field-level study explores the governance adaptation process of banking industry through the institutional transformation period between the years 2000 and 2012. By looking from the perspective of institutional theory, this research explores the specific process and how new governance practices evolved and adopted by sampled banks. Adaptation of governance mechanisms will be analysed only by focusing the board of directors of sampled listed whose shares were being traded before 2000. By doing that, this study provides the implementation level of governance principles on board of directors by also detecting the defects of banking industry in terms of corporate governance practices.

The recent literature involves many board focused governance studies but this study contributes to the literature by providing the knowledge about how corporate governance has evolved within an industry in a specific time which could be seen as an institutional transformation period. The restructuration efforts, new regulations and actors and the adoption attempts to new practices make this period a transformation process. As a result, this exploratory research aims to answer the question of which changes occurred within the institutional transition period in terms of board related corporate governance mechanisms and practices of listed banks. This study also observes the firm characteristics such as firm size, age, ownership structure and control type in order to understand if there is a difference between the different types of banks in terms of the adoption of governance practices through this period.

5.2. Data Collection Procedures

In order to conduct an effective and representative research, two different exploratory research methods were used in this study. First one is Secondary Data Analysis with longitudinal panel data set and the second one is Experience Surveys which consists of interviews with three knowledgeable and experienced people (Zikmund, 2003). Therefore the data was collected from both various published resources as secondary longitudinal data and through interviews with two board members of sampled banks and an officer who worked as an expert in CMB as primary data.

Firstly, in order to observe institutional changes that occurred between the years 2000 and 2012, a longitudinal panel dataset was constructed in terms of identified variables. This secondary data was collected mainly from internal data of banks from their annual reports, compliance reports, articles of association, firm websites and reports of annual shareholders meetings. Since the sampled banks are incorporated listed firms that have to declare their annual reports in every quarter in a year and also must disclose any kind of changes in Public Disclosure Platform and their websites, some part of data set was collected from these sources. However, the website archive of most banks includes only last five or six years and they did not include all kind of necessary information for this study.

Therefore, the most part of this panel data set was mined by the researcher by using different ways and tools. In order to obtain the data for previous years, a website was used, called as Wayback Machine that shows the website archives. If the necessary data was not found in website archive, the second way was to call the investor relation departments of banks. Some of the banks were very helpful and answered the questions very quickly while others rejected to give information rather than published on Public Disclosure Platform. As a forth way of data mining, researcher applied to take appointment from banks individually to achieve the missing data.

Secondly, the interviews, were conducted which are essential for both cross-checking the results obtained from secondary data analysis and to elaborate the different perspectives that explain the transformation period and current situation based on their experiences and knowledge. Semi-structured interviews were conducted with three interviewees (See Table 3) after collecting and analysing the longitudinal data to cross check the results.

Table 3 Information about the Interviewees

Name	Position of the Interviewee	Place of the Interview	Duration of the Interview
Anonymous	Specialist in CMB	University	25 minutes
Ali Tigrel	Former Independent Member	Home Office	35 minutes
Fusun Akkal	Independent Member	Office	30 minutes

The main aim of the interviews was to clarify and learn the experiences of the banks in terms of board related governance practices by the help of these expert individuals, not to develop conclusive evidences. To learn the participants' opinions and experiences, exploratory and less formal questions were asked otherwise question-answer style interviews would prevent to achieve detailed knowledge. Therefore, non-directive questions were precisely selected in order to understand the adaptation process of banks to governance mechanisms during that period and how they deal with the regulative bodies for the parts that they did not comply. To learn their thoughts and comments, interviewees were limitedly guided and constrained with questions and they had enough time and comfortable climate to explain their experiences and knowledge. The interview questions are given in Appendix 1.

Interviews were conducted in different places and researcher took detailed notes during the interviews. The first interview, with an expert in CMB for 12 years, was conducted in a university that she gave a lecture as a guest speaker. Because of the uncomfortable office environment, she did not prefer to talk there and also asked to keep her name confidential. To be able to make an official interview, she needs to get permission from her manager. Therefore, she preferred an informal interview and answered all questions without any discomfiture since she trusted in researcher in terms of privacy. This kind of a confidential and informal interview was not a problem for the study's progress as long as she was telling her experiences and sharing her knowledge without hesitation.

The second interviewee, Ali Tigrel, was a former independent board member in one of the sampled banks of this study. He was a manager in Foreign Investment Directorate and former director of Economic Planning Directorate. He is still an independent board member in one of listed firms in Turkey and advising a family group firm. The interview was conducted in his home office in a comfortable environment and he did not hesitate to answer any question.

The third interviewee, Fusun Akkal, is an independent board member in one of the sampled banks. She is also board member in Corporate Governance Forum of Sabanci University and CGAT. The interview was conducted in her private office which was very comfortable. Therefore, she answered all questions evidently without any hesitation

5.3. Sample Selection

The aim of this study is to explore an institutionalization process. Therefore, an in depth analysis on a precise sample is essential for a better understanding. Since random and probabilistic sampling methods could prevent a detailed comprehension, a non-probability sampling technique was used in this study in which sample is selected on the basis of personal judgment (Zikmund, 2003). As a non-probability method, purposive sampling was used in this study. It is also known as theoretical or judgment sampling, which is used to select the precise and representative sample by the use of judgment and efforts of researchers (Kerlinger, 1986). In other words, it aims to select the sample based on the criteria that are identified by the researcher. However, using such a sample involves many risks for error and not suitable for generalizing the results.

As a qualitative research, the aim of this study is to explore rather than to make generalization about the population. Therefore, purposive sampling method is acceptable for this study with its error risks.

The identified criteria for sample selection are to be a bank operating in Turkey and to be quoted in BIST before 2000. This is because being able to make a comparison of practices before and after the transition period. Based on the index in BIST that is called as Banks, only the banks were selected that comply with this criterion. Therefore, the sample size of this study is 11 banks; 4 of them are family banks, 3 of them are privately owned, 3 of them are foreign banks and 1 of them is a public bank (See Appendix 2 for detailed information about sampled banks). It could be thought as a small one but determining the sample size for qualitative researches depends on the information quality and judgment of researcher, research method and research objectives (Sandelowski, 1995).

For the experience survey interviews, again as a non-probability method, convenience sampling procedure was used to select interviewees. Although the variability and bias of estimates cannot be measured with this technique, this is not a disadvantage for this study. Because the interviews were conducted for cross-checking the results gathered from data analysis. Therefore, the most convenient experienced and knowledgeable recent and former board members and a specialist officer from CMB were interviewed.

5.4 Variables

The variables of this study were selected based on the corporate governance principles and regulations for the listed banks in terms of board structures. The moderating effects of firm characteristics, as control variables, on the governance practices were also explored in order to evaluate practice differences. These are age, size, ownership structure, the proportion of publicly traded shares and control type of firms.

5.4.1. Variables about Structure of Board of Directors

5.4.1.1. Board Size

Board size is the number of seats on board. According to Turkish Commercial Code, board of directors should involve at least 3 people while the Banking Law (2005) and CMB (2011) indicate that there must be at least 5 people in boards including the chairman. There are regulations about the minimum size of boards, but not for the maximum. However, TUSIAD (2002) recommends that the board size should not be more than 15 members. Each firm has been authorized to identify their board size with the approval of shareholders in annual meeting. In this study, the data about the board size was collected from the annual reports mainly but for earlier years information the BIST news archive and Wayback machine were used.

5.4.1.2. Board composition

The member selection is important for accountability of boards. Board members should be the people who became insolvent, shareholder or manager of bankrupted banks and other financial institutions that were confiscated before and punished for any kind of disgraceful offence, is precluded to be a board member (CMB, 2003). There are also specific features defined for board members by Banking Law (2005). In order to be a board member if he/she should not be adjudicated for bankruptcy deferment or became bankrupt previously and rejected for a compromise demand before. Board member should not be a shareholder or controller of other banks or other financial firms that are refined, abrogated from operating and transferred to the fund. If a person has heavy imprisonment, jail sentence more than 5 years, any kind of crime about embezzlement, corruption, stealing, deceit, forgery, statutory offence or military offence, he/she could not become a board member (Banking Law, 2005). TUSIAD (2002) also recommends that the corporate governance committee should be responsible for board member nominee's selection.

The board of directors involves *executive* and *non-executive* directors. The *executive* directors have an employment relationship with the firm for a long time. The *non-executive* directors do not have any employment relationship with the firm and do not get involved daily activities of firm. CMB (2003), BRSA (2006) and Banking Law (2005) recommended that more than the half of board should consist of non-executive directors but currently it is an obligation that majority of board members must be non-executive directors (CMB Communiqué, 2011).

Until the revision of CMB principles in 2011, it was suggested that at least one third of board members should be *independent* directors but now it is an obligation. With the amendment, there must be at least two independent members in each board. The independent directors are selected for at most 3 years but it is possible to select them again (CMB Communiqué, 2011). This last communiqué defined a privilege for banks; the members of audit committees could be defined as independent members. Although the required independency criterions and nomination process are not compulsory for the members of audit committee, CMB allows identifying them as independent directors only for banking industry (CMB Communiqué, 2011). If all independent directors are the members of audit committee in a firm, then at least one of them should satisfy the requirements of independency. Similarly, all independent directors that do not attend audit committee have to carry all of those requirements (CMB Communiqué, 2011).

Amended TCC enhanced the role of independent directors whose approvals are necessary for important board decisions. In case of disapproval of majority of independent directors, relevant decisions should be voted through general meetings (TCC, 2011). BRSA also emphasized the independency of board and obligated to have independent directors in banks' boards under the draft of new Banking Law in 2006. According to the revised law (Financial Services Law), at least two of the five members of the board must be independent directors while identifying the criterions of independency (BRSA, 2006).

The rate of independent members should be at least 25% at the beginning and should be increased to 50% over time. This ratio should be more than half of board members for finance sector (TUSIAD, 2002). In order to select one person as an independent member, nomination or corporate governance committees should prepare a list of nominees and send it to CMB 60 days before the general meeting. CMB eliminates the inappropriate ones before presenting the nominees for voting in general meetings. CMB rely on the nominees' own declarations on independency and do not inspect them by using different resources. Therefore, if a nominee prepares a biased declaration about herself, this becomes an offence if anyone complains and notifies this to CMB. Otherwise, CMB does not carry out a detailed inspection for the nominees. In case of resignation or loose of independency, existing director should disclose his justification to the public. The nomination committee recommends a new nominee and the approved member continues until the next general meeting (CMB Communiqué, 2011).

In order to be an independent director, the person and his/her close relatives should not have any employment relationship with firm for the last five years, the audit firm, consulting firm, supplier or other affiliated firms, the person should be the representative of a specific group, any of close relatives of his/her should not hold the share of the firm more than 5% and the this person should not have any financial gain from the firm other than the salary. The person who becomes a board member more than 6 years for the firm during the last 10 years should not be an independent director. If the member is a shareholder because of involving in board, the share should not be more than 1% to become independent. Also, an independent member should not be a board member in more than 3 group or related firms (CMB Communiqué, 2011). Independent director should have a permanent address in Turkey (at least half of the independent directors should satisfy this criteria) and should have enough time for board membership. People who worked in regulatory authorities, self-regulatory institutions and universities as an instructor can be seen as independent member but this is not possible for other public officers (CMB Communiqué, 2011).

For this variable, the independent member data was collected based on the banks declarations and was not inspected by researcher at the beginning. After data collection process, each independent member was investigated by researcher one by one by using all kind of CVs and internet based records about these people. At the end of this inspection, it was observed that some of the members do not comply with the independency definitions given by CMB. The relevant data was collected from annual reports, compliance reports, and articles of association about for the last five years. However, the data for earlier years was collected through Public Disclosure Platform, newspaper archives, BIST news archive, Wayback Machine and LinkedIn.

5.4.1.3. CEO Duality

As a natural member of board, CEO nominees should have graduate or undergraduate degree on law, economy, finance, banking, business administration. Also should have at least 10 years' experience in sector (Banking Law, 2005). This study observed the data about CEOs' education and sector experiences which was collected from annual reports, Public Disclosure Platform, CVs, newspapers' archives and LinkedIn.

To function independently from the organization and to monitor the performance efficiently, CMB (2011) requires separate CEO and chairman. However, board of directors can assign one of the board members as chairman. According to Banking Law (2005), the CEO and chairman must be separate people and CEO is a natural member of the board. CMB also recommends separation of these roles and if there is duality, firms have to explain the reasons (CMB Communiqué, 2011).In this study, the CEO and chairman roles are observed if they are separated or not. The relevant data was collected from compliance reports, articles of association and annual reports for the recent years. However, for earlier years, newspaper archives, BIST news archive and Wayback Machine were used.

5.4.1.4. CEO Tenure

CEO Tenure is identified by looking the number of years CEO performs that duty. Board members and CEO are selected for generally 2 or 3 years but they can be selected again. This study finds out the average CEO tenure for the banking industry and if there is a relationship between the CEO Duality and long tenure. The data was collected from annual reports, compliance reports, and articles of association about for the last five years. However, the data for earlier years was collected through newspaper archives, BIST news archive, Wayback Machine, CVs, LinkedIn and telephone calls with investor relation departments.

5.4.1.5. Committees

Board of directors builds up relevant committees in order to perform more effectively and transparently. To bring transparency, the chairman of each committee should be from independent directors. CMB recommends that each committee should have at least two members and if there are more, the majority of members should be non-executive directors and chairs of other committees should be independent members. Each board member should attend only one committee except CEO and chairman who should not attend any committee (CMB Communiqué, 2011).

CMB obligates to establish audit committee since 2003 and recommends establishing risk, compensation and corporate governance and nomination committees to all listed firms. In case of the absence of nomination and compensation committees, corporate governance committee should take their responsibilities (CMB Communiqué, 2011). However, Banking Law obligates the financial institutions to establish audit, risk, credit and coordination committees with at least 2 non-executive members. While Turkish Commercial Code (2011) obligates the audit committee (Article No. 366 and No.378) and recommends the risk committee, BRSA (2006) also recommends establishing corporate governance and compensation committees. Both Basel Committee and CMB declare that all members of audit committee should be independent directors. Also CMB advises to include an experienced (more than five years) accounting specialist within the audit committees (CMB Communiqué, 2011).

In this study, the existing committees of the firms were identified. The relevant data was collected from the annual reports, compliance reports, articles of association and websites for the recent years. However, earlier years' data was collected through BIST news archive, Public Disclosure Platform, Wayback Machine, telephone calls with investor relation departments of banks and face-to-face talks with department officers.

As a summary of the rules and regulations about board of directors by different regulative bodies, the following table is beneficial to compare.

Table 4 Regulations and Recommendations for Board of Directors

	CMB Communiqué, 2011	Banking Law, 2005
Board Size	Minimum 5 people	Minimum 5 people
Board Composition	Non-executive members (1/2)	Non-executive members (1/2)
Independent Members	Independent Members (1/3) Minimum 2 people	Appropriate number
CEO Board Membership	No recommendation	Natural member
CEO Duality	Separated	Separated
Committees	Audit, Risk, Corporate Governance, Compensation and Nomination	Audit, Credit and Coordination

5.4.2. Control Variables

To understand the adaptation process, it is important to know about size and ownership structure (Goodrick and Salancik, 1996). Therefore, firm level characteristics such as firm size, age, ownership structure, proportion of dispersed shares and control types of the banks were included as controlling variables in order to understand the differences between banks in terms of adaptation of voluntary practices and structures. The ownership structure differences show the influence of majority owners on adaptation process while control type of firms show the influence of managers whom could be owner or a professional.

5.4.2.1. Firm Size

The firm size is taken as the total number of employees that worked in the firm for a year. The size could be important in terms of understanding whether the adaptation level of governance practices changes based on the firm size or not. This data was collected from annual reports mainly but the earlier years' information was gathered from Wayback Machine, BIST news archive and telephone call with investor relation departments.

5.4.2.2. Firm Age

The firm age is taken based on the establishment year of the firm. The firm age also could be important in terms of understanding whether the adaptation level of governance practices changes based on the firm age or not. This data was collected from firm websites.

5.4.2.3. Ownership Structure

To have knowledge about ownership provides the opportunity to identify the influence of owners in adaptation process. This gives chance to understand if there is a difference between foreigners involved banks and family owned banks in terms adaptation of a particular practice.

The ownership structure is evaluated based on direct voting rights which means the ownership percentages were taken as it was without calculating the ownership structure of each shareholder group. In other words, if a shareholder is a group firm, it was taken as privately owned without taking in account the foreign or state ownership percentages of this group firm. The majority shareholders were calculated by accumulating the share percentages of similar groups such as family firms, private firms, state, foreign owners and others which could be any kind of shareholder rather than those. The ownership structure was grouped as family owned, privately owned, foreign owned and state owned.

However, while some of the banks have a rigid ownership structure, for others different ownership structures could occur at the same time, even the ownership structure of a number of banks could change over years. For example a bank could change from being family owned to foreign. Therefore, in order to identify those differences and their effects on practice adaptation, two different ownership structures were identified; the first one is *dominant ownership* and the second one is *participated ownership* structure. The dominant ownership structure was calculated based on the most percentage of shares; for example if the family shares are the most, this bank was taken as a family owned or if the foreign shares are much more than other types, this bank was taken as a foreign owned bank. The participated ownership, on the other hand, was calculated in a manner in which the all kinds of ownerships were taken into account if there was any. For example, if a family group holds the 20% of the shares while the state holds 10%, these two different ownership groups were taken as present at the same time by coding both of them as existent. This data was collected from annual reports mainly but for earlier years, Wayback Machine and BIST news archive were used.

5.4.2.4. Proportion of Dispersed Shares

The ratio of publicly traded shares was also taken into account to understand if there is a difference between the banks' practice adaptation in terms of their dispersed percentages. This is also a control variable for this study because the more dispersed shares could mean the more transparency and accountability consciousness for the banks. This data was collected from annual reports mainly but the earlier years' information was gathered from Wayback Machine and BIST news archive.

5.4.2.5. Control Types

The last control variable is the control type of the banks which differentiate in terms of the people who hold the control of firm. This variable was collected based on the identity of chairman. If the chairman is a member of the group who holds the majority of shares, the bank was taken as owner-controlled. However, if the chairman is a random people, it was taken as a manager-controlled bank. The relevant data was collected from the available annual reports and websites of the banks for the recent years. However, earlier years' data was collected through BIST news archive, Public Disclosure Platform and Wayback Machine.

5.5. DATA ANALYSIS

The relevant data for all the variables above was collected for 13 years and entered to Microsoft Excel software. To analyse this longitudinal panel data set, a data analysis and statistical software, called as StataSE version 11, was employed by exporting the prepared excel file to this software. First of all, the descriptive statistics and frequency analysis were conducted to identify all variables. Correlation analysis was also conducted in order to understand if there is a significant relationship between all numeric variables of this study. The independent T test, ANOVA, Kruskal Wallis, chi-square test and contingency tables were conducted to test the relationship and differences between the variables. Lastly, logit model was used to understand the effect of control and board related variables on establishing the required committees.

5.5.1. Panel Data Set

The multi-dimensional data, including time and cross sectional data dimensions, provides a better understanding of changes during a specific period. The three main goals of panel studies are to identify the variety of one unit during a period, to explain one or more variables in terms of others and to conclude each unit in terms of related variables. There are many advantages of studying with panel data set; increasing reliability due to the high amount of observations, opportunity to test more complicated relationships, being able to control the effect of constant variables due to heterogeneity, less occurrence of multicollineartiy problem and the opportunity to conduct analysis even with short period of time series and limited number of variables (Celik, 2009). However there are limitations of panel data sets such as panel data collection is more complicated and time consuming than other methods since the relevant data especially for previous years could not be easy to reach. Also there are methodological problems with panel data sets which contradict to statistical assumption of random sample property. Therefore it is not possible to conduct some tests that require independency assumption (Celik, 2009).

Since this study aims to understand the transition period in banking industry, the best way to understand the changes during this period of time is to collect panel data. Therefore, the panel data was collected for the years between 2000 and 2012. For this 13 years period, 31 variables for 11 banks were collected for each year and there are 143 observations for each variable. Those observations were analysed in terms of descriptive statistics and correlation as the aim of this study is to describe the changes occurred within the experienced transition period.

The descriptive statistics were conducted to understand the changes and new institutionalized practices about board structure after the institutional transition period. Descriptive statistics that includes descriptive and frequencies are essential for understanding the consistent practice patterns and also summarize the all observations. Frequency analysis tabulates and graphs the frequencies and descriptive of variables by summarizing the data set with percentage values. The crosstabs and contingency tables were applied as well in order to organize data groups to facilitate the comparisons between variables. Besides these, bivariate and univariate analyses, such as correlations, were also conducted within this study.

5.5.2. Hypotheses Formulation

In order to answer the research question and to identify the relationship between variables, the relevant hypotheses were developed and tested in this study. Formerly mentioned control variables were investigated to comprehend whether there is a relationship between those and other variables for board related governance practices or not. Additionally, many variables were tested in order to observe the existing relations within each other. Although the sample size is 11, the number of observations is 143 which are adequate to conduct both parametric and nonparametric tests to test the hypotheses. Therefore Independent T-test, Chi-square test and Kruskal Wallis tests were used in order to understand how the institutional transformation period changed the banks' compliance of corporate governance principles, the relevant hypotheses were determined. The hypothesis testing and the results will be explained under the following chapter.

6. FINDINGS

This chapter includes the findings and interpretation of the research which were acquired by the statistical program STATA. The results of descriptive statistics, frequencies and correlation analyses of the sampled banks will be discussed in detail. Also this chapter will include the hypothesis testing results for the relevant variables.

6.1. Descriptive Statistics and Frequency Analysis

There are two different categories for the sample's descriptives; the first category involves the features of the banks such as age, size, ownership structure and control type while the second category involves the statistical results of board related variables such as board size, board composition, CEO Duality, CEO Tenure and committees. Each variable will be examined in detail by showing the changes through the 13 years period by supporting the findings with relevant and possible justifications that could bring the adoption changes in terms of board related governance practices. This statistics give the opportunity to compare the different type of banks in terms of their governance practices. In this way, as the main objective of this study, the transformation period will be better understood.

6.1.1 Banks Related Descriptive Statistics and Frequencies

There are 11 sampled banks which are quoted to Borsa Istanbul stock exchange market and all are under the supervision of corporate governance authorities mentioned above. Therefore, they are obliged or expected to comply with governance principles and explain if they do not. In this part, the banks were analysed with using the identified variables by calculating the means or counting the frequencies when necessary. The statistical values, graphs and frequency tables or charts will be provided for each bank related variable. Firstly, Table 5 reports the descriptive statistics of all bank related variables (minimum and maximum values, mean and standard deviation). Within this study, 11 banks were observed for 13 years and there are 143 observations for each variable. Bank related statistical results provide the needed information to understand the sampled banks.

Table 5 Descriptive Statistics for the Banks

	Minimum	Maximum	Mean	Standard Deviation
Firm Age	20	88	44.46	21.32
Firm Size	278	24667	6638.62	6452.4
Family Ownership	0	96%	32.27	35.8
Foreign Ownership	0	99%	10.97	23.1
Private Ownership	0	79%	20.53	28.9
State Ownership	0	99%	9.74	28.4
Proportion of dispersed shares	0.2	51%	23.32	14.4
Managerial Control	0	1	63%	
Owner Control	0	1	37%	

Based on these observations, the average firm age is 44.5 while the oldest bank is 88 years old and the youngest one is 20 at the end of the year 2012. The average firm size for all observations is 6638.6 as the smallest bank has 278 employees and the largest one has 24.667 personnel. Another important issue is the ownership structure which was grouped as family, foreign, private and state. When the all observations for 13 years were evaluated, the most frequent ownership type is family group with 32% and private ownership follows it with 20.53% and then foreigners come with 10.97% whereas the less observed ownership type is state with 9.74%. The maximum values also show that there are banks which are mainly owned by a family (96%), by foreign investors (99%), by the state (99%) or by private owners with 79%. In other words, family ownership is more widespread among the sampled banks while the public ownership is quite low compared with the other ownership types. The last aspect of ownership structure is the ratio of dispersed shares. The average ratio of dispersed shares is 23.3% while there are banks whose more than half shares are being traded. Also the minimum value shows that there are banks whose only 0.2% of shares are being traded.

Other subjects to be looked are the control types of observed banks and their board structures. Based on the all observations again, the average of banks controlled by managers (0.63) are more frequent than the owner-controlled (0.37) ones. The reason why these values are less than 1 is the code of variables. The control type variables were coded as 1 if the controller is a professional manager and 0 if he is not. Therefore, 0 means that the bank is being controlled by a family member and vice versa. The results, then, show that most of the banks are being controlled by managers for the overall observations.

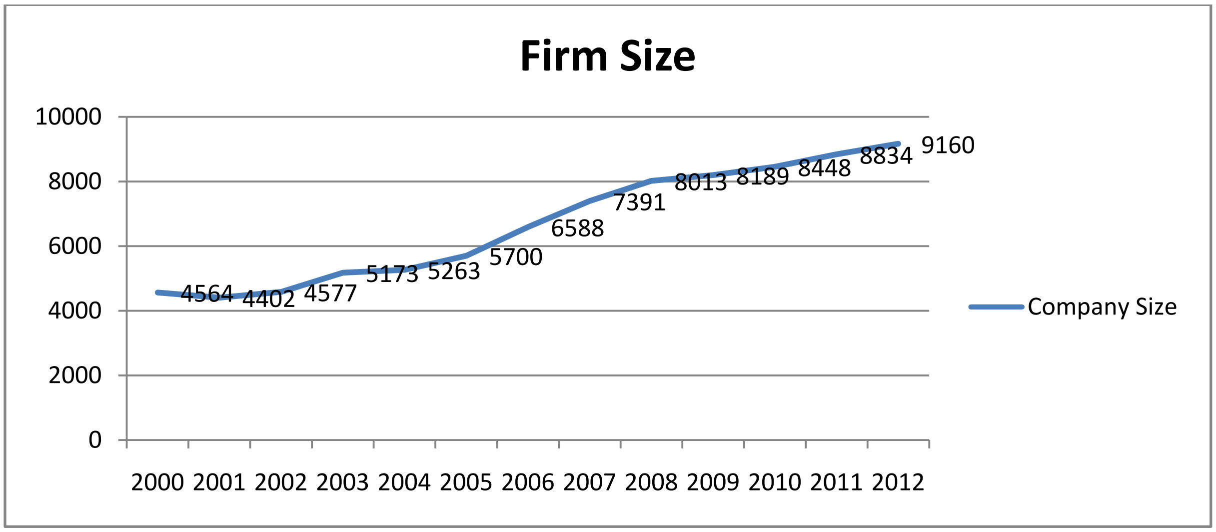
6.1.1.1. Firm Age

The mean of sampled banks' age is 44.5 based on the all observations while the mean is 50.5 for the year 2012 which is the current average for the firm age. In 2000, which is the beginning of the observations included in this research, the average age of the banks is 38.5. Although there is an 88 years old bank, sampled banks could be said as relatively young if it is thought the root of Turkish banking industry is based on 19th century. On the other hand, the average length of quoted time of those banks to stock market is 23 years while there are banks whose shares are being traded for 28 years.

6.1.1.2. Firm Size

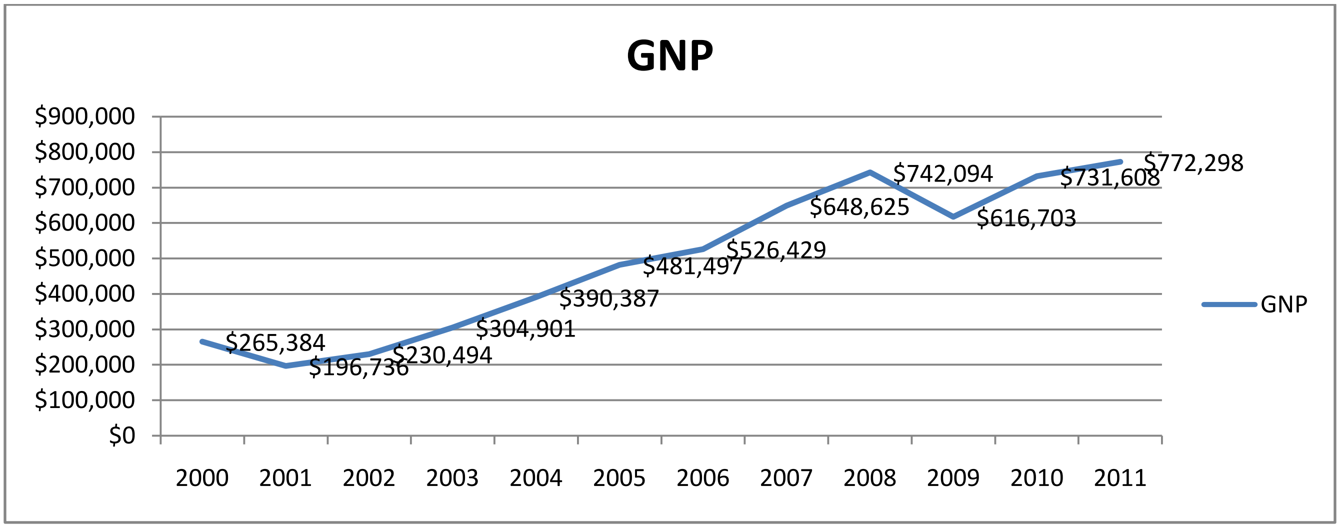
The banks in the sample have different sizes and the average number of employees working in these banks for all observations is 6638.6. The average sizes were also calculated for each year as well and it could be easily observed from the Figure 4, the banks are getting bigger year by year.

Figure 4 Yearly Changes in Firm Sizes



However, it would be an incomplete interpretation without including the parameters of Turkish economic development and specific banking industry values during this period. Between the years 2000 and 2011, Turkish Gross National Product with current prices (inflation not included) showed large variations. Figure 5 includes those values in million dollars which were taken from the Association of Treasury Controllers' website.

Figure 5 GNP with Current Prices



Source: http://www.hazine.org.tr/tr/index.php/ekonomi/ueretim-ve-bueyueme

When compared to the Turkish economic development for the same period of time, the increasing sizes of banks are comparatively parallel with the growth rate of Turkey. Certainly, there are several falls in economic grow that crisis times such as in 2001 and after 2008 but it did not reflect in banks' sizes that much. Especially the global crisis in 2008 did not decrease the personnel of the banks instead they employed more workers.

However, it would be more truthful to look at banking industry specific values for a better understanding and comparison. Based on the profit margins of banking industry for recent years, there is a decrease on interest rate margins, return on asset ratios and net profit margins as shown in Table 5.

Table 6 Profitability Indicators for Banking Industry

	2006	2007	2008	2009	2010	2011	2012
Interest Rate Margins	4.81	5.03	5.23	5.87	4.61	3.86	4.42
ROAA	3.20	3.37	2.54	3.21	2.95	2.27	2.33
ROAE	25.36	26.9	20.56	25.5	22.14	18.1	18.49
Net Profit Margin	32.01	35.82	27.83	33.2	36.14	30.65	30.42
Provision Expenses/Total Income	12.73	14.44	18.41	22.6	14.08	15.14	20.45

Source: http://www.turcomoney.com/turk-bankacilik-sektoru.html

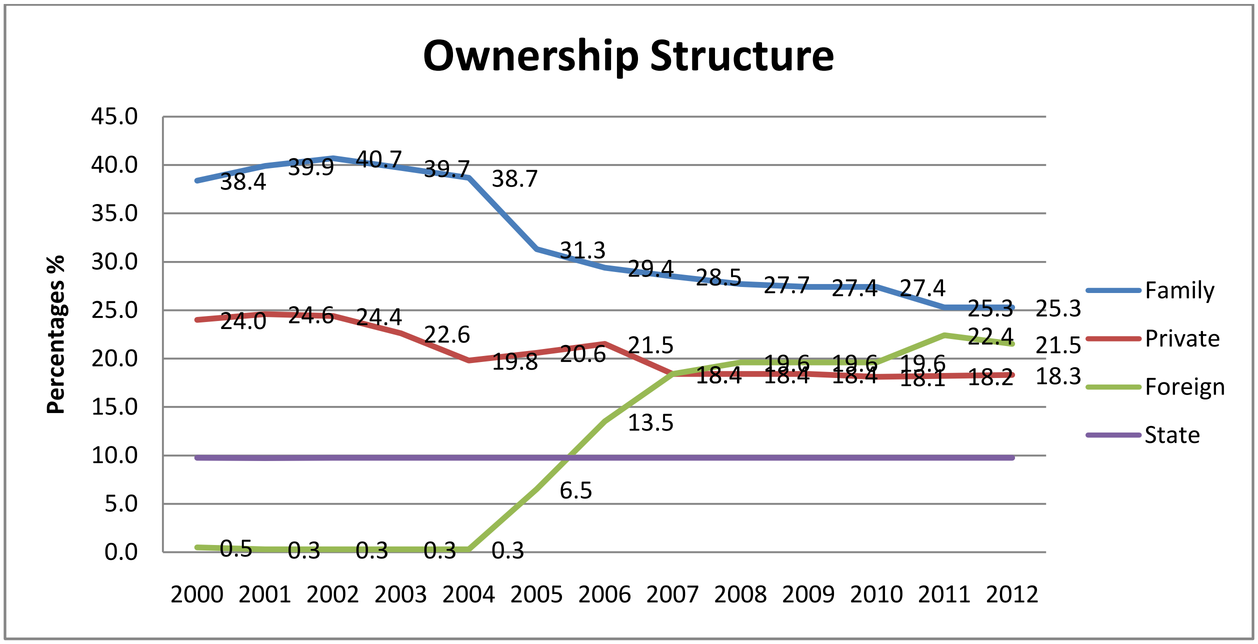
As it is clear from the Table 6, the global crisis in 2008 negatively affected the profitability of banking industry but in the following years Turkey started to gain its previous high rates. Although there are relatively high interest rate margins and return of owners' equity, provision expenses are creating a restraint on the financial situation of banks. As a result, the existing conditions during the last 7 years did not negatively affect the size of the banks and they did not necessitate the downsizing strategy at recent years due to the negative experiences.

6.1.1.3. Ownership Structure

To identify the ownership structure of the sampled banks is essential to compare the banks in terms of the adoption of each board related governance practice. In this way, the differences between family owned and foreign owned banks or other banks will be more apparent. The ownership structure variable was grouped under four; family, private, foreign and state. The majority shareholders were calculated by accumulating the share percentages of similar groups such as family firms, private firms, state, foreign owners. As mentioned before, the ownership types were evaluated based on direct voting rights without calculating the ownership structure of each shareholder group or firm. In other words, if a shareholder is a family holding than its share was taken as family without considering the foreign or state involvement in this family group firm. Based on such calculation, the participated ownership structures were identified for the sampled banks. However, for a detail understanding the transition through the period, the dominant ownership structures were also identified based on the highest amount of shares. By clarifying the dominant shareholder of the bank, it will be easier to observe how the banks diverge in terms of board related practice adoptions. This is especially essential for understanding the practice changes within the banks whose dominant shareholders change as well during this period. Moreover, the percentage of publicly traded shares was taken into account to clarify the effects the amount of dispersed shares in terms of adopting the governance practices.

Before the separation of participated and dominant ownership structures, it would be beneficial to observe the ownership changes during 13 years for all banks. Figure 6 shows the changes for this period by taking all types of ownership in percentages. Based on the observations, state owned banks keep same during this period and private ownership also follows the same trend. However, family ownership is decreasing after 2002 while the involvement of foreign investors is suddenly increasing after 2004. The overall family ownership mean is 32.3% which means that about half of the sampled banks are participated by families with different percentages. However, the family involvement decreased from 38.4% in 2000 to 25.3% at the end of 2012. The frequency analysis shows that within the 143 observations, family participation is present in 69 of them which mean quite a lot. At the beginning of the observed period there were 6 family participated banks but at the end it became 4 which could be seen as the result of increasing foreign investments. The overall frequency of foreign-participated banks is about 11% and they were observed 35 times within the overall observations. Remarkably, the sampled banks were purely domestic before 2005 and foreign participation started with 2 banks in 2006 but it increased to 5 at the end of 2012.

Figure 6 Ownership Structure in Percentages



The foreigners entered to the Turkish banking industry by mainly taking the shares of families. Based on the report prepared by BRSA, until 2005, foreign investor's involvement to the Turkish banking industry was between 3 and 5% which is under the world average. At that period, both the demand of foreign investors to invest Turkish banks and the demand of local banks to sell their banks increased. One of the important reasons of this is the publication of Basel II convention in 2004 which estimated that locally supported multinational banks would be dominant in developing countries. Therefore, foreign investors preferred investing to local banks by acquisition or block-holding because of their know-how(BRSA, 2005).As mentioned before, there are many essential reasons for foreigners to invest in Turkey after 2004 such as restructuring reforms within the banking industry, acceptance of international standards under the nomination process to EU membership, acceptance of Basel II, strict regulations, adaptation to corporate governance practices especially after 2005, low level of regulations and some privileges for foreign investors and the economic developments. Additionally, deep rooted banking industry, existing technological and transportation infrastructure, skilled labour and cheaper resources made the Turkish banking industry attractive for foreign investors.

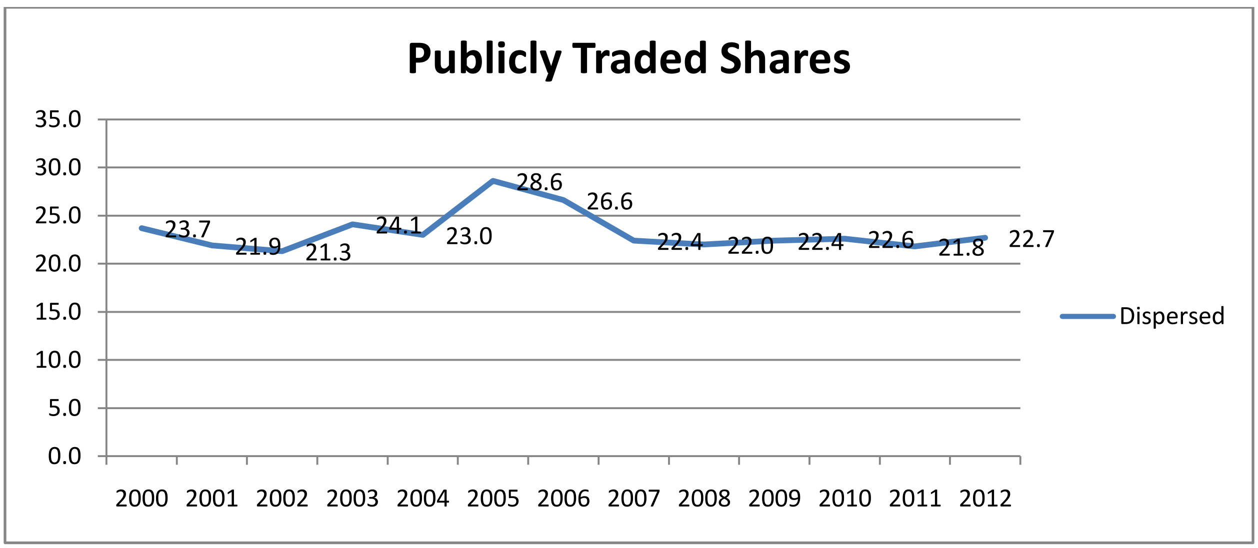
According to UNCTAD report (2013), after 2005 the level of foreign investment increased to 22 billion dollars from 10 billion and although it decreased after the global crisis in 2008, it started to increase after a while. The observations of this study also proved those facts but the foreign investors did not exit from the sampled banks after 2008 instead they sustained their positions.

Other ownership structures are privately owned and publicly owned banks with the average percentages respectively 20.5% and 9.7%. The overall frequency of privately-participated banks is 38% within the all observations. In other words, until 2011 there were 4 privately-participated banks but it increased to 5 in 2011. As shown in Figure 4, there is not a distinctive change for private ownership category and no change for the state ownership. Within the all observations, public banks are the least observed ones (26 observations out of 143). The state ownership for the sampled banks did not change through the observed period and stayed at two development banks. One of them is a completely public bank with 99% while there is a minority shareholding for the other bank with only 8%.

Until here, the ownership structure was taken based on the participation however it is also important to see the dominant ownership by taking only the dominant shareholder as the owner of the bank. For the relationship and comparison analyses, these two types of ownership structures will be taken into account to understand if there is a difference or not. This control variable will demonstrate the majority shareholders' differences in terms of board related governance practices for the sampled banks. Based on the dominant ownership structure, 44% of the sampled banks, which is about half of the sample, are mostly owned by a family. On the other hand, the overall frequencies of privately-owned, foreign owned and public banks are respectively 32%, 15% and 9%.

The last aspect of ownership structure variable is the level of publicly traded shares of the banks. This is an important issue because the level of dispersed shares could affect the compliance of governance principles. The mean of publicly traded shares is 23.3% but there are observations in which more than half of the shares are being traded. The percentages of publicly traded shares are shown in the Figure 7 below.

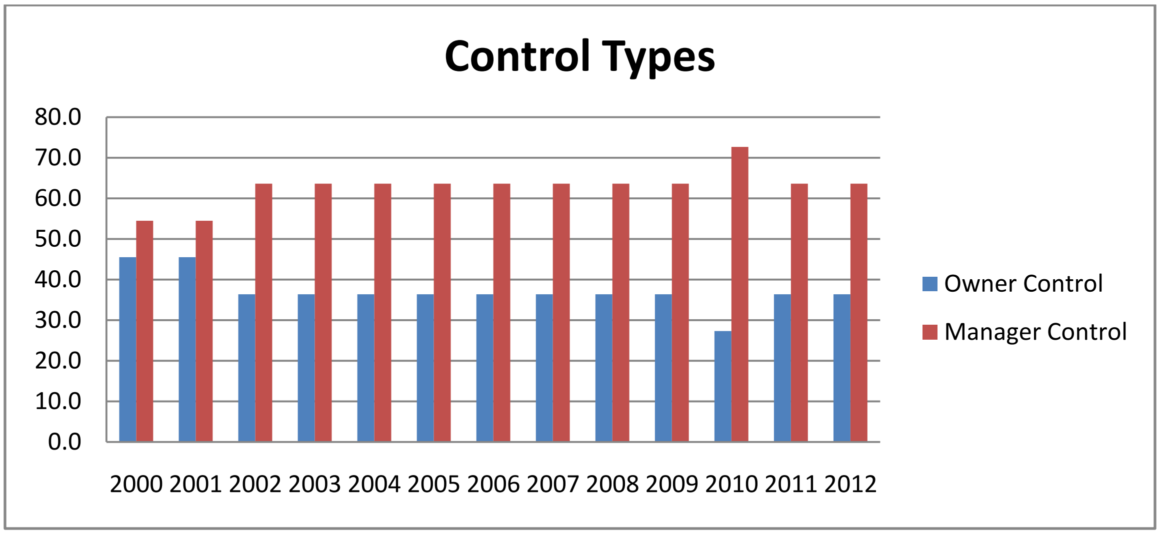
Figure 7 The Percentages of Publicly Traded Shares



6.1.1.4. Control Type

The sampled banks were grouped based on the identity of controlling authority in other words based on who the chairman is. If the chairman is a member of the group who holds the majority of shares, the bank was taken as owner-controlled. However, if the chairman is a random people, it was taken as a manager-controlled bank. Based on this categorization, the overall frequency of owner controlled banks is 37% and as shown in Figure 8, there is a tendency to decrease in the role of owner in firm control as a chairman. There is a small decrease in the owner's controlling role after 2002 which decreased to 36% (4 banks) from 45% (5 banks). On the other hand, the overall frequency of the banks that are being controlled by a professional is 63% and there is a 10% increase in manager-controlled banks.

Figure 8 The Frequencies of Owner and Manager Controlled Banks



Also, based on dominant ownership structure, 78% of family owned banks are being managed by a family member and 19% of foreign owned banks are being controlled by a family member whose share is less than foreigners. This is a remarkable result which means that foreign investors prefer the family dominated banks to invest and they leave the control to the family rather than employing a professional manager. Additionally, 22 % of family owned banks are being managed by professionals and 81% of foreign owned banks are being controlled by managers while all of the privately owned and public banks are being controlled by professional managers.

6.1.2. Board of Directors Related Descriptive Statistics and Frequency Analysis

As the second category, board related descriptive statistics show the transformation of the banks in terms of adopted corporate governance practices for this period. The size and composition of the boards, the separation of CEO and chairman roles, the established committees and tenure of the CEOs are all important to observe in order to understand the transition of governance practices during this period. The relevant regulations and important events will be identified in detail to understand the changes of adoption for each practice.

Based on the observations, showed in Table 7 below, the average board size is 8.97 as the largest board observed has 12 members while the smallest has 6 people. Average number of executive members is approximately 4; non-executive members are nearly 6 and the independent member average is less than 1. The highest number of independent members observed in a board is 5. The CEO Duality was codified as 0 and 1 and it was observed in 15% of all observations. The CEO tenure is another variable whose mean is 4.41 which is not a long tenure compared to the board membership. The last board related variable is existing committees with the mean of 3.4 and the highest number of committees in one bank is 7.

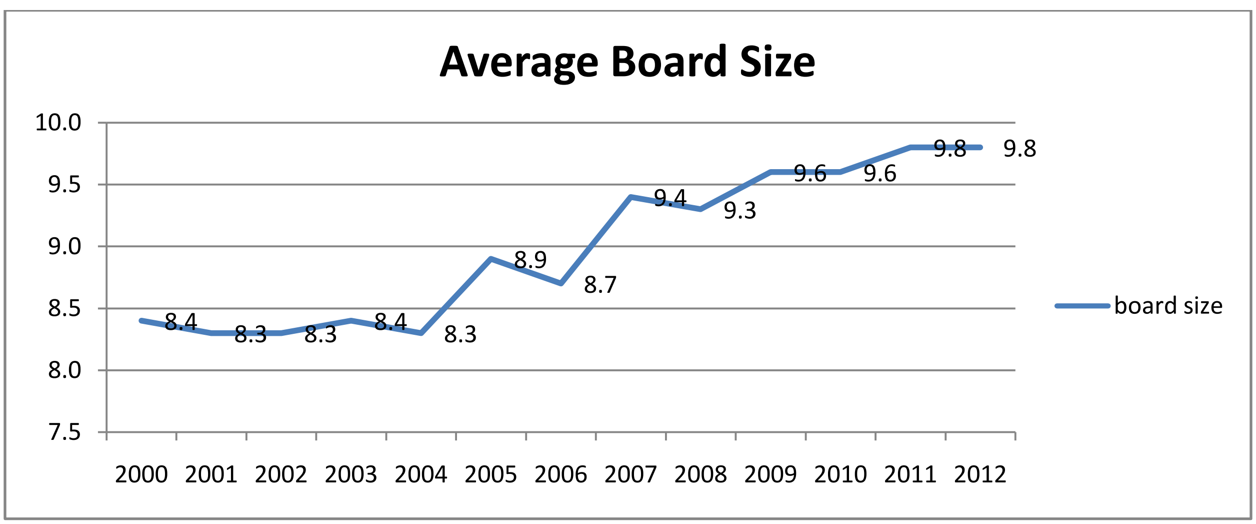
Table 7 Descriptive Statistics and Frequencies of the Board of Directors

	Minimum	Maximum	Mean	Standard Deviation
Board Size	6	12	8.97	1.73
Executive Members	1	9	3.43	2.0
Non-Executive Members	0	10	5.55	2.6
Independent Members	0	5	0.51	1.14
CEO Duality	0	1	0.15	0.36
CEO Tenure	1	13	4.41	2.84
Number of Committees	0	7	3.35	1.91

6.1.2.1. Board Size

The mean for sampled banks' board sizes is 8.97 members with minimum 6 members and maximum 12 members in a board. As shown in Figure 9 below, there is a yearly rising trend in board sizes that increase from 8.36 to 9.81 members.

Figure 9 The Mean of Board Sizes



Until 2005, there was only one regulation and one advice about the board size of firms. The old Turkish Commercial Code No.6762 obligated minimum 3 members (TCC, 1956) while TUSIAD (2002) recommended that board size should include at least 5 and at most 15 members. The first published governance principles by CMB (2003) did not make any recommendation for board size. Each firm has been authorized to identify their board size with the approval of shareholders in annual meeting. However, in 2005, Banking Law obligated the banks to have at least 5 members in the boards and following that, CMB also obligated at least 5 members including the chairman by under the new Communiqué in 2011.

Based on the observations, those requirements were obtained by all sampled banks but there are 2 breakpoints in the graph of board size means. The first rise was observed in 2005 which increased to 8.9 from 8.3 members. This could be the effect of Banking Law and also the governance principles published by CMB. Although CMB principles did not mention about board size, they recommended consisting non-executive members as the majority of board and also at least one third of the board as independent members. Amended CMB principles in 2005 said "*The number of the members for the board should be determined to facilitate producing efficient and constructive works by the board of directors, adopting rapid and rational decisions and effectively organizing formation and working of committees*" (CMB, 2005). In addition to this, the obligation to publish compliance reports in 2005, made more listed firms to adopt CMB's governance principles. Therefore, firms that adopted these practices should include more people to their boards.

The second rise in board sizes was experienced in 2007 which increased to 9.4 members from 8.7 members in 2006. This could be sourced from the publication of banking specific governance principle by BRSA in 2006. Although a specific board size was not clarified within those principles, they recommended having enough members to work efficiently, effectively, rationally and also to establish necessary committees. Therefore, to establish the required committees, firms could enlarge their boards. The third interviewee, Fusun Akkal, also mentioned about the growing board sizes because of establishing the required committees and involving independent directors. The Basel II convention, accepted in 2007, also recommended having adequate number of board members. Furthermore, the Corporate Governance Index also motivated the listed firms to comply with governance principles. This could be another reason for including more members to boards.

After 2007, the board sizes continued to increase gradually due to the launch of Public Disclosure Platform in 2009 and publication of new communiqué of CMB principles in 2011. This is because, until this date all sampled banks complied with the existing principles and recommendations already. Therefore, the new obligations and regulations did not change the board sizes that greatly.

6.1.2.2. Board Composition

In respect to board composition, the overall mean of executive members is 3.43 (36%), the mean of non-executive members is 5.55 (59%) and the mean of independent members is 0.51(5%). The lack of non-executive and independent members was observed in sampled banks although there are regulations about the board composition ratios. Within the 143 observations for 13 years, in 9 cases there was not any or at most 1 non-executive member and in 110 cases there was not any independent members which makes 77% of all observations.

Figure 10 Board Composition

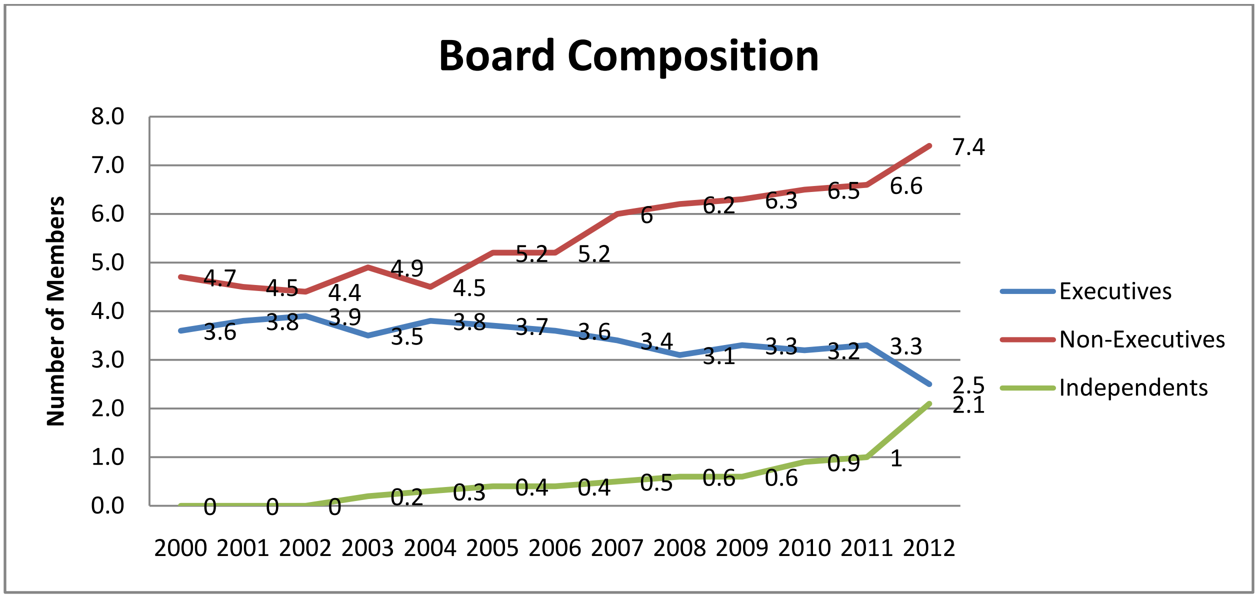


Figure 10 shows the means of executive, non-executive and independent directors yearly. There is a rising trend in the numbers of non-executive and independent members in the boards while the number of executive members is decreasing year by year. The executive members are being replaced by non-executives. The number of non-executive members relatively increased in 2003 which could be the result of the publication of OECD principles in 2002 by TUSIAD. TUSIAD recommended having only one executive member who is the chairman and the rest of the board should be non-executive members. There is a decrease in the mean of non-executive members in 2004; this could be the reason of the resignation of board members during the fiscal period. The empty seats were replaced by an executive member until the end of the year.

After 2005, the involvement of non-executive members is increasing year by year which could be the results of amended CMB principles in 2005, legislated Banking Law in 2005 and publication of banking specific governance principles by BRSA in 2006 all of which recommended that more than the half of board should consist of non-executive directors. Also the obligation to publish compliance reports in 2005, the launch of corporate governance index in 2007 and the obligation to disclose all required information through Public Disclosure Platform after 2009 made the sampled banks to include more non-executive members. After 2011, the most effective motives behind the more non-executive members could be the new communiqué of CMB which brought an obligation that majority of board members must be non-executive directors (CMB Communiqué, 2011). Additionally, the second interviewee, Ali Tigrel, mentioned that after 2006, the number of non-executive members increased. Not like before, the members are being selected form retired bank officers rather than politicians and public officers as it was before. He also stated that firms are more conscious in recent years in terms of board composition decisions because they believe in the benefits of having an objective board with outsiders.

On the other hand, as shown in Figure 10, although the overall mean of the number of independent directors is 0.51, it is increasing yearly from 0 in 2000 to 2.1 at the end of 2012. Until 2003, there was not any independent director within the boards. The first movement started in 2003 could be the results of the principles published by TUSIAD in 2002 which recommended having independent members at least 25% of the boards at the beginning and it should be increased to 50% in a short time. Especially for the finance sector, TUSIAD recommended that at least one more than half of the boards should be independent directors. The effect of obligation for the disclosing of compliance reports should be taken into consideration as well which could also impact the involvement of independent directors. Following this, CMB (2005) also recommended having independent directors that should comprise at least 1/3 of the boards.

According to one of governance studies conducted by European Union in 2003, board of directors should be composed of mainly independent directors. This is a comply or explain based principle for the member countries. EU does not obligate the countries to comply its principles rather they recommend using these principle as guidance to prepare their own governance codes based on the country's regulative and cultural framework. The declaration of EU about independent directors could also impact the governance practices in Turkey as a country that tries to be involved to EU.

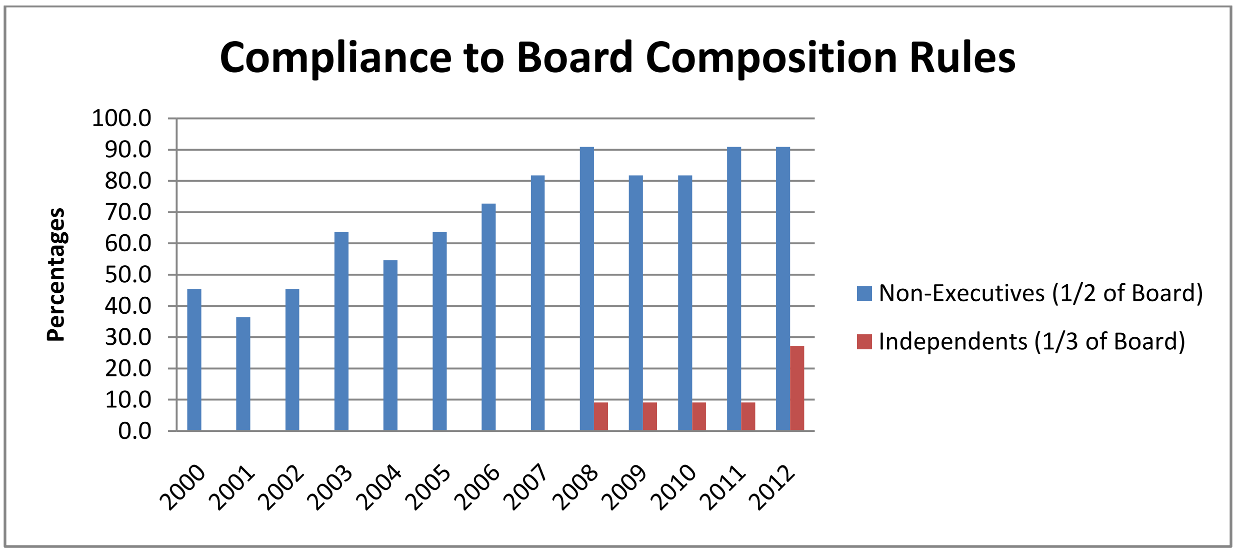
Moreover, principles published by BRSA in 2006 also recommended having adequate number of independent directors without specifying exact numbers. However, BRSA, contrary to CMB, declares that any non-executive member who does not have any kind of relationship with group or affiliated companies could be taken as independent member. Therefore, banks use this declaration in their favor while identifying the independent members. The third interviewee, Fusun Akkal, stated this as a conflict between the two authorities which should be solved as soon as possible according to her. The acceptance of Basel II could be another motive which recommended including a large enough number of independent directors for objective judgment within the board. During this period, the Governance Index and Public Disclosure Platform could also be seen as the supportive factors for the increasing number of independent directors. However, none of them brought an obligation for independent directors rather those regulations were on comply or explain basis. Therefore, the low level of independent directors could be explained with the lack of obligation and any sanction.

There is a gradual rising in the number of independent directors which suddenly increased after 2011 when CMB turned this recommendation to an obligation. According to the new communiqué, independent directors must comprise at least 1/3 of the boards and in any case must not be less than two members. Although at the end of 2012, there were still 4 banks (2 privately dominated banks, a foreign dominated and a family dominated bank) that did not have 2 independent members, the third interviewee Fusun Akkal claimed that the number of independent directors is increasing in banking industry. She stated that banks, mainly the controlling shareholders, realized the importance of independent directors in terms of good governance. Especially, family owned banks give more importance to this issue, she said.

CMB also specified the qualifications of being independent since the responsibilities of the board members increased as well. Amended TCC (2012) also enhanced the role of independent directors whose approvals are necessary for important board decisions and who are responsible to compensate the loss sourced by their mistakes. Ali Tigrel also mentioned about the rising responsibilities and voice of independent members with new communiqués of CMB after 2011. When he compared with previous years, there is a noticeable difference in the roles and responsibilities of independent members. He stated that as an independent member, he is braver to disagree with any issue that he does not believe. However, he is also aware of that it could be the result of being in different types of firms because he thinks that in family owned firms, even the independent members are not that influential and independency does not work efficiently as it is in non-family firms. He also pointed that by the help of increasing conscious about corporate governance, even the family firms are more careful and sensitive in terms of complying with the principles.

Figure 11 also show the compliance level of the sampled banks to the principles of including non-executive members at least half of the boards and independent members at least 1/3 of boards. If the bank complies with those principles, the variables were coded as 1 and 0 otherwise. The number of compliances is increasing each year. The mean of executive members constitutes 38% of board members when the mean of board size is taken into account which also means that the non-executive members constitute the 62% of boards (Board size mean=8.97). This result shows that sampled banks comply with the majority of non-executive member principles. The full compliance to the non-executive principle is around 69% in overall observations. However, there is only 1 bank (family dominated) that do not comply this principle yet.

Figure 11 Compliance to Board Composition Principles



As shown in Figure 11, the compliance to the principle that declares at least one third of board should be independent members is observed only after 2008 by less than 10%. When the average board size (8.97) is taken into account, the independent directors constitute 6% of the board members which is expected to be at least 33%. The full compliance to the independent member principle (1/3) is 5.5% in overall observations which started with one bank (family dominated bank) in 2008 and at the end of 2012 three more banks (a foreign, a family and a state dominated bank) complied with this principle. This is because the privilege that was given to listed banks about the date of compliance which is at the end of 2012.

Table 8 Qualifications for Independent Members Declared by CMB in 2005

CMB Principles Amended in 2005
Professionals worked in regulatory authorities and self-regulatory institutions
Existing board members who are included for less than 7 years
People and their close relatives who do not have any employment or trade relationship and any capital with firm and its subsidiaries, affiliates or other group firms within the last 2 years
People who are not selected to the board as the representatives of group of shareholders
Professionals who did not work before in external audit, consultant firms and the firm that supply significant amounts of service/product under the managing positions within the last 2 years
People whose close relatives up to 3 degree did not work as manager or not hold the shares more than 5%
People who do not receive any kind of compensation, not hold more than 1% of shares

For independent member variable, the data was collected based on the banks declarations and descriptive statistics were calculated based on this. However, this research also compared the criteria for being independent and the declaration of sampled banks in terms of independency of members. Each independent member was investigated by using all kind of CVs and internet based records about these people. Until 2011, all independent members were investigated based on the required qualifications for independent members (As shown in Table 8) which specified in amended CMB principles (2005).

However, in 2011 CMB published new communiqués which added new qualifications for the independent director requirements as shown in Table 9. Those new qualifications more clearly specified the independency criteria. With legitimate justifications, firms could include independent directors who do not comply with one or several qualifications at most for one year.

Table 9 New Communiqués for Independent Directors in 2011

People who do not have any employment or trade relationship and any capital with firm and its subsidiaries, affiliates or other group firms within the last 5 years
Professionals who did not work before in external audit, consultant firms and the firm that supply significant amounts of service/product under the managing positions within the last 5 years
People who are not selected to the board as the representatives of group of shareholders
People whose close relatives up to 3 degree did not work as manager or not hold the shares more than 5%
People who are not board members for more than 6 years in the last 10 years
Professionals who are not employed in any public institutions after the date of nomination other than universities
People who are independent directors in less than 3 firms within the same group and less than 5 listed firms
People who do not receive any kind of compensation, not hold more than 1% of shares
People who are the residents of Turkey based on Income Tax Law
People who have occupational experience and adequate knowledge
Existing independent directors could nominate again but task duration is 3 years

The new communiqué (Series IV. No.56), published in 2011 but legislated in 2012, brought several privileges to the listed banks in terms of governance principles. The first one is the acceptance of the members of audit committees as independent directors. If all independent directors are also the member of audit committee, then at least one of those members should comply with those criteria. The second one is about the nomination and selection process of the independent directors. All listed firms rather than banks should identify the nominees before the annual meeting and send the list to CMB for the inspection. Therefore, only the approved nominees could be elected in annual meetings. However, banks could select the independent directors without the inspection by CMB. Other privileges are about the qualifications of independent directors which were written as italic in Table 8.

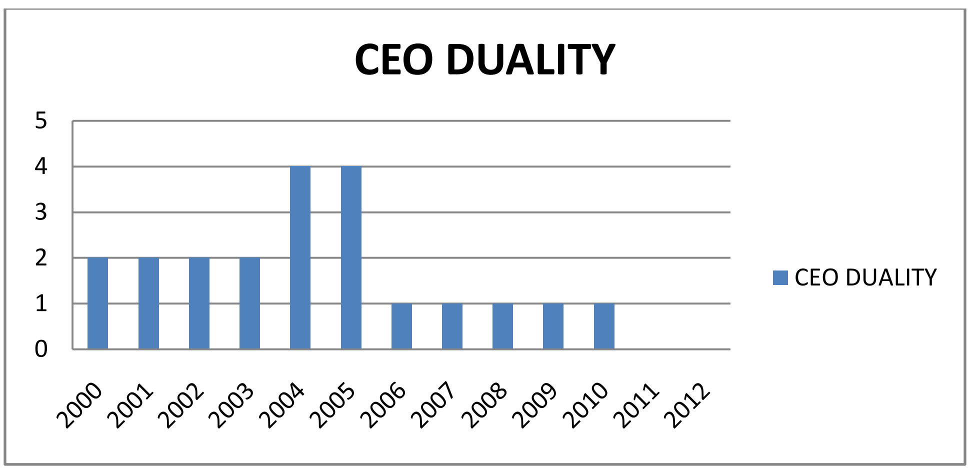
According to those regulations and recommendations, all independent directors were investigated if they comply with those criteria by considering the privileges given to the banks. There were 27 independent directors in the sampled banks during 13 years and 5 of those directors did not comply with independency criteria due to the privileges of banks. While doing this, amended CMB principles were taken into account until 2012 and directors selected after 2011 were inspected based on new communiqués. Firstly, one of the family dominated banks (Akbank) had two independent directors in 2012 but one of them has been working in the bank for 22 years and an executive member since 2009. This bank defines him as an independent director since he is a member of audit committee. Although this director does not comply with any criteria for audit committee and independency, he could be assigned as independent director by taking the advantage of privilege given by CMB in the new communiqué. The other independent director of this bank has been worked as a non-executive board member for the last 14 years which is a long tenure for being an independent member. Secondly, in a foreigner dominated bank (Finansbank), there are three independent directors; two of them were included in 2007 and the other one in 2010. Their independency was not valid until the publication of new communiqué in 2011 since they have been working in other group firms.

Second and third interviewees, Ali Tigrel and Fusun Akkal, also mentioned about the selection of independent directors and they stated that the political relations affect the selection decisions. They meant that although there is an official selection criteria set by CMB, there is fraud in this selection process by government and other public institutions. Therefore, they do not believe in the objectivity of CMB in regulating these issues.

6.1.2.3. CEO Duality

As mentioned above, duality was coded as 1 if the bank has CEO duality and 0 if the roles are separated. Based on this codification, the mean of this variable is observed as 0.15 which is very close to 0 and means that most of the sampled banks separated these roles. The overall frequency results show that in 15% of observations there is duality but it was not observed after 2010 as shown in Figure 12. Until 2004, there were only two banks (a privately owned and a state bank) that had CEO duality while it increased to 4 in 2004 and decreased again to 1 bank in 2006. This bank was the state owned one which was expected to comply to principles instead this bank had duality until the end of 2010.

Figure 12 The Frequency of CEO Duality



It is observed that the compliance to this principle is high within the sampled banks. Although there was not any movement about governance principles until 2002, there were only two banks that had duality. This number increased to 4 between 2004 and 2006 due to the declarations of TUSIAD in 2002 and CMB in 2003. Both of them declared that the roles of chairman and CEO should be separated because CEO should be accountable to board. In order to evaluate the performance of the firm and employees objectively and to prevent possible interest conflicts, these two roles should be separated. However, this number decreased to only one bank after 2006 which could be the effect of amended CMB principles and Banking Law in 2005 which obligated the banks to separate these roles and declared the CEO as a natural member of board. Finally, the full compliance to this principle was obtained in 2011 which could be the result of new communiqué which required separation of roles and an explanation if there is still duality.

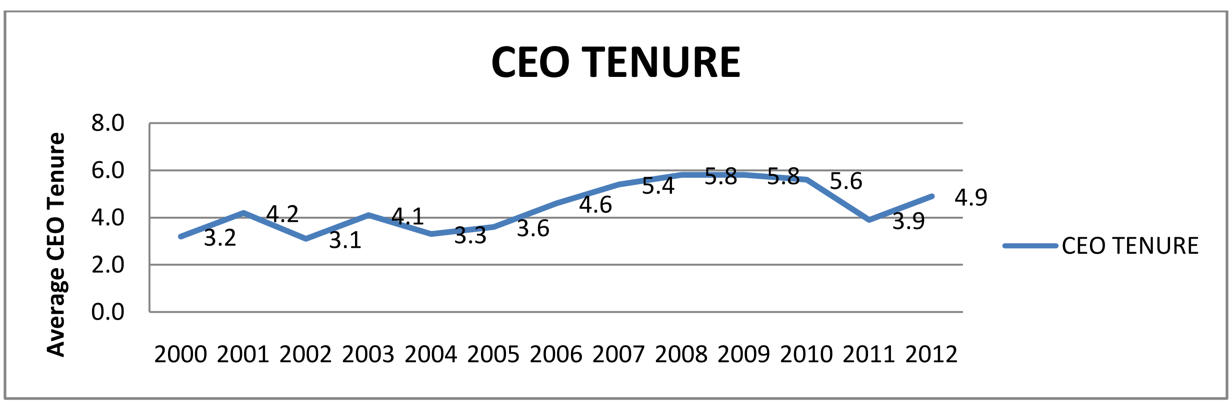
Ali Tigrel mentioned that CEOs of family owned firms are like the officers of families. In other words, they are stewards and could not make decisions independently form the chairman, especially when the chairman is a family member. He did not run across with CEO duality in his board membership career but he thinks that these roles should be separated. He also disagrees with the family member's chairman roles because he believes in that existence of family members in boards negatively affects the objectivity of board decisions. According to him, family members do not give up their positions and power in family firms even they acquire foreign partners. However, Fusun Akkal, the third interviewee, disagreed and claimed that family members are holding the chairman position as a symbol after governance adaptations. According to her, board members of banks need technical knowledge and experience about banking industry but most family members or dominant shareholders are lack of these necessary skills. Therefore, their existence in board is a kind of tradition and they are not capable of attending the banking specific decisions of boards. She stated that their existence does not affect or put pressure on the board members. However, she also added that since the board members are being selected by the family members or other dominant shareholders, they feel comfortable with their decisions. As a result, including independent members and their independence in board do not mean that boards are transparent and objective in Turkish banking industry.

6.1.2.4. CEO Tenure

The tenure of CEO was found out by counting the number of years that a CEO performed in the bank. Governance principles do not identify certain period for CEO duties instead there is limitation for the years that they are selected for. However, they could be selected again and there is not any recommendation or regulation for how many times a person could be selected as CEO. Although there is not a limitation about the tenure of CEO, there are studies in literature that claimed the long tenure creates similar effects of duality. Therefore, this study also investigated the tenure of the CEOs.

Although the mean of CEO tenure of sampled banks is 4.4 years, high tenured CEOs were observed such as 13 years in a family dominated bank (Garanti Bankasi) and 12 years in a privately owned bank (Is Bankasi) while the shortest tenure was 1 year. When the firm based tenure average was observed the shortest tenure means were 2.1 in a family dominated bank (Yapi Kredi) and 2.9 in a foreign dominated bank (Finansbank).

Figure 13 Yearly Average of CEO Tenure



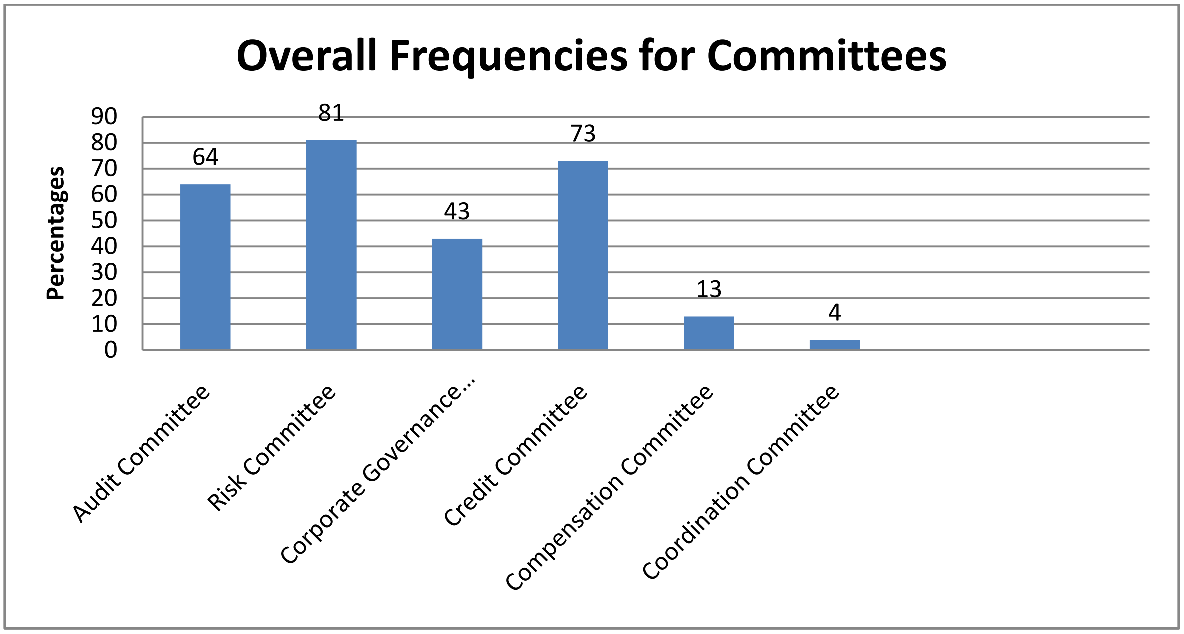
As shown in Figure 13, the yearly average of CEO tenure is not that high for sampled banks but as mentioned above there are outliers like 13 and 12 years which could be thought as long enough to mention about duality effect. In other words, long tenure limits the objectivity of professional CEO in terms of the evaluation of firm and employees' performance and the accountability. As stated by stewardship theory, those long tenure executives turn into steward of the owners or majority shareholders in long run and start to lose the objective functionality. This was also one of the important points that the second interviewee mentioned. He thinks that CEOs are generally working in Turkish firms for long periods and they stand as stewards of families. Based on his independent director experiences, there are board members and CEOs who are within the board for long term and they usually do not oppose to the chairman's and majority shareholders' decisions. What he said about the long tenure is well-matched with the literature.

6.1.2.5. Committees within the Board of Directors

This study identified the existing committees in each sampled bank for the 13 years. The mean of the number of committees is 3.35. The bank which has the highest number of committees has 7 while no committee was observed in another bank especially in the beginning of 2000s. As it is clear in Figure 14, while some of the committees are more frequent, others are not that common. Among the sampled banks, the most observed one is risk committee with 81% which is followed by credit committee with 73%. The changing frequencies are based on the regulations and recommendations about those committees by essential authorities and laws.

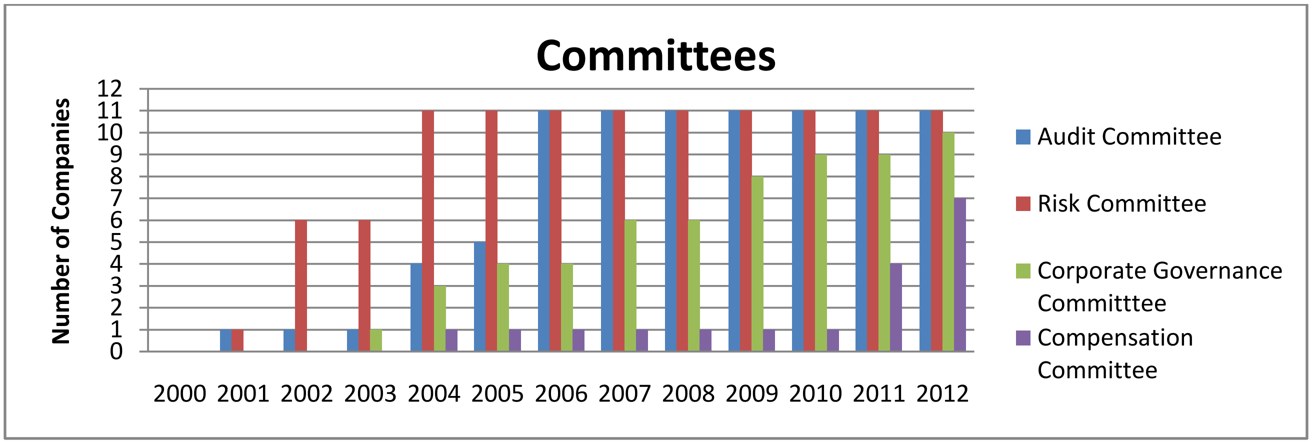
Although Figure 14 provides a general view for the committees; it would be more beneficial to observe each type of committee in detail. Those committees investigated in this research were identified by looking all kind of related principles and laws. Therefore, Figure 15 shows yearly changes in the number of committees which are either obligated or recommended by various authorities and laws.

Figure 14 Overall Frequency Analysis for Existing Committees



Ali Tigrel stated that the number of committees is increasing with the existence of foreign investors to business environment and governance principles also positively affect. He thinks that foreign investors also increase the functionality and independency of the committees. Additionally, the third interviewee, Fusun Akkal, thinks that committees are well functioned in banking industry due to the work spillover of banks' boards, the existing committees facilitates the board member duties. According to her, Turkish banks establish the committees primarily to get benefit from them rather than to comply with governance principles.

Figure 15 The Comparison of Existing Committees Yearly



First of all, the ***audit committee*** was only observed in one privately owned bank (Is Bankasi) until 2004 and after that year the number increased to four and to five in 2005 and suddenly to 11 in 2006. In other words, the full compliance for audit committee was obtained in 2006. The first reason behind this relatively rapid adoption could be the recommendation under the good governance code, published by TUSIAD in 2002, which assigned very essential duties to this committee. Following this the sudden increase in the number of audit committee could be explained with comply or explain based principle of CMB published in 2005 and the Banking Law legislated in the same year. Like TUSIAD, CMB also emphasized the importance of audit committee which was identified as being in charge of supervision of the financial and operational activities of firms. Addition to CMB principle, Banking Law (Article 24) obligated to all banks to establish an audit committee which is responsible for internal audit, risk management and accounting system of the banks. All other progresses and principles publicized after 2006 such as acceptance of Basel II and new communiqué of CMB in 2011 did not change the result for the sampled banks because all of them established this committee in 2006. Although banks do not have to establish this committee because of the privileges provided by CMB under the communiqué (2011), all sampled banks established this committee. The second interviewee thinks that firms, especially banks, place more importance to audit committee and are more careful and sensitive in compliance with the principles about this committee.

Secondly, the overall frequency of ***risk committee*** is 81% which is the most observed committee within the sampled banks. It was first observed in 2001 in one privately owned bank (Is Bankasi) and in the next year 5 more banks established a risk committee. The full compliance to this governance practice was obtained in 2004 which could be thought as an early adoption. This is the result of the code that was publicized by BRSA in 2001 with the name of internal audit and risk management systems. This code obligated the banks to establish a risk committee. Therefore, the compliance to this component of governance principles was supported by banking regulations before the movements of dissipation of governance mechanism such as Basel II, new communiqué of CMB and Turkish Commercial Code which recommended establishing the risk committee. Again, this committee was not an obligation for banking industry after the communiqué (2011); all of the sampled banks complied with this principle as well.

Another committee which is increasingly observed year by year is c***orporate governance committee***. The overall frequency of this committee is 43% and it was firstly observed in 2003 in a family dominated bank (Turk Ekonomi Bankasi). This could be the result of the good governance code of TUSIAD which recommended having corporate governance committee to operate the governance practices and to bring transparency in identifying appropriate nominees for board seats, in evaluation of compensating board members.

In 2004, this number increased to 3, to 4 in 2005 and to 6 in 2007. This rise after 2004 could be related with the principles published by CMB in 2003 and amended in 2005, The Article No. 25 under the Banking Law (2005) and the banking specific principles of BRSA in

2006. All of them recommended and obligated to establish corporate governance committee. In the following years, the number of banks that established this committee increased to 8 in 2009 and to 9 in 2010. This increase could be the result of Basel II, the introduction of Governance Index or the launch of Public Disclosure Platform. In addition to those, this increase in the compliance could be the retarded impacts of previous movements that are mentioned above due to the time lap. Lastly, new communiqué of CMB (2011) also obligated the listed firms to establish corporate governance committee. Therefore, at the end of 2012, there is only one privately owned bank (Is Bankasi) which has not established this committee yet. This shows that there is not any deterrent sanction for the banks to adopt governance mechanisms. This was one of the points that the first interviewee (A specialist in CMB) mentioned; she did not see any implementation of the sanctions for the last 11 years she worked in there. Although this is comply or explain based principle until 2011, the explanations were not well evaluated by the authorities as she said. The second and third interviewees also agreed with that they have not seen any kind of sanction by CMB in terms of governance practices compliance. Besides, the compliance report of this bank for 2012 did not include any kind of explanation for the lack of corporate governance committee.

The next one is ***compensation or remuneration committee*** which was observed with a relatively low level, 13%. It was firstly observed in 2004 in a family dominated bank (Turk Ekonomi Bankasi) and this number increased to 4 in 2011 and to 7 at the end of 2012. Although TUSIAD (2002) recommended establishing compensation committee for the evaluation and deciding the compensation level of board members, sampled banks did not comply with this principle until 2004. Following this, the Article No. 25 of Banking Law (2005) mentioned that compensation committees should be established and also the BRSA (2006) and Basel II (2007) recommended to banks having this committee. Addition to these, introduction of Corporate Governance Index and the obligation to disclose any information through Public Disclosure Platform did not increase the number of banks that established this committee. However, the new communiqué of CMB (2011), which declared the compensation committee as an obligation, increased the compliance level of sampled banks. There are still 4 banks that did not establish this committee at the end of 2012. This incompatibility could be the consequence of the obtained privileges of banking industry by CMB under the new communiqué published in 2011. According to this, all listed firms have to establish compensation committee except the banking industry. The second reason could be a declaration within the same communiqué which states that in the lack of nomination, risk and compensation committees, corporate governance committee could perform their duties. The bank that did not establish corporate governance committee was investigated also and the compensation committee was observed in this bank.

Addition to this, the new communiqué also mentioned about the establishment of ***nomination committ****ee* in order to identify appropriate board member nominees, their education and evaluation. However, in case of the absence of nomination committee, corporate governance committee should take their responsibilities. Therefore, all sampled banks were observed if they established this committee in 2012 and only one bank (family dominated) established this committee and 4 of them mentioned that this task was done by corporate governance committee (Communiqué of CMB, 2011) while the rest 6 banks did not mention anything about the nomination process and committee.

Finally, all other committees that were mentioned in the amended CMB principles in 2005 and Banking Law were investigated in this study. These are strategic planning, human resource and ethics committees none of which was either obligated or recommended by CMB instead they were told as committees observed in many countries. Moreover, Banking Law (2005) recommends the financial institutions to establish credit (Article No.51) and coordination committees (Article No.100). This study concerned with these committees as well in order to question the adoption of sampled banks whether they internalize the governance mechanism or only implement the necessary principles. The overall observation showed that ***credit committee*** was observed in 73% of all cases which was established by only one family dominated bank (Finansbank) in 2000 and consistently increased; to 2 in 2001, to 4 in 2003, to 6 in 2005 and to 10 in 2006 while the full compliance was obtained in 2008. This full compliance could be the result of the code published by BRSA in 2006 about the credit operations of banks obligated to establish this committee. Moreover, the ***coordination committee*** was established by only one family dominated bank in 2008 while the other committees were not observed any of the sampled banks.

6.2. Correlation Analysis

Pearson correlation analyses were conducted to see the pattern and the strength of the relationship between the all numerical variables of this study. Table 9 shows the correlation coefficients between the explanatory and control variables and the asterisk near the values mean that there is a statistically significant relationship between the two variables. In other words, p value is less than 0.05 for the association between two variables.

As shown in Table 10, there are 45 statistically significant relationships. However, the strength is less than 40% in 34 relations and more than 60% in 4 relations. The strongest negative relationship is between the number executive and non-executive directors ($r = -0.75$, p value= 0.00), which is an expected association; as the non-executive directors increase, the number of executive members decreases. The second strong positive relation was observed between firm size and firm age (r = 0.72, p value= 0.00). This is again a predictable association as the firm gets older, the number of employees increases. The third one is the negative relationship between the percentages of family and private ownership (r = -0.65, p value= 0.00). This means as the family ownership decreases, the private ownership increases within the sampled banks which is again an unsurprising result. Moreover, board size is strongly positively correlated with the number of non-executive directors (r = 0.65, p value=0.00) and also relatively strongly correlated with firm size (r = 0.45, p value=0.00) and firm age (r = 0.56, p value=0.00). In other words, as the firm age and size increase, the size of board of directors' increases as well and this also raises the number of non-executive directors.

Additionally, the percentage of dispersed shares of sampled banks is positively correlated with the number of executive directors (r = 0.48, p value=0.00) and with the firm age (r = 0.56, p value=0.00) and negatively correlated with the state ownership percentage (r = -0.48, p value=0.00). Therefore, the more the firm is being traded in capital market, the more executive members they have. Normally, this is expected to increase non-executive directors rather than the executives but this was the case for the sampled banks. Also, as the firm age increases the dispersed ownership percentage of the banks increases as well while the state ownership percentage decreases which is also negatively correlated with the number executive directors (r = -0.42, p value=0.00). This means as the public ownership increases, the number of executive members decreases expectedly. The last relatively significant relationship is between foreign ownership percentage and the number of existing committees (r = 0.40, p value=0.00) which means as the foreign ownership raises the number of committees does as well.

Table 10 Correlations between numerical variables for the sampled banks

	BankSize (1)	BankAge (2)	Disp (3)	Fam(4)	For(5)	Priv(6)	State(7)	BoardSize (8)	Non-ex (9)	Ex (10)	Ind(11)	CEOTen (12)	Comm (13)
(1)	1.0000												
(2)	0.7173*	1.0000											
(3)	0.3561*	0.5599*	1.0000										
(4)	0.0203	-0.2140*	-0.1037	1.0000									
(5)	0.1813*	-0.1350	-0.1904*	-0.1933*	1.0000								
(6)	-0.2176*	0.1102	0.2220*	-0.6446*	-0.2418*	1.0000							
(7)	-0.3032*	-0.1871*	-0.4786*	-0.3116*	-0.1640	-0.1907*	1.0000						
(8)	0.4468*	0.5587*	0.1640	-0.0622	0.3339*	-0.0421	-0.3346*	1.0000					
(9)	0.0675	0.2477*	-0.2598*	-0.2345*	0.1972*	0.0965	0.0981	0.6453*	1.0000				
(10)	0.2968*	0.1575	0.4814*	0.2533*	0.0298	-0.1627	-0.4169*	0.0176	-0.7525*	1.0000			
(11)	-0.1521	-0.3298*	-0.2833*	0.1536	0.2798*	-0.2153*	-0.0042	0.2110*	0.1141	0.0326	1.0000		
(12)	0.1998*	0.1718*	0.1879*	-0.2194*	0.0719	0.1421	-0.0669	0.0353	0.0154	0.0102	-0.0576	1.0000	
(13)	0.3007*	0.1582	0.0073	-0.1913*	0.4001*	-0.0365	-0.0651	0.2053*	0.1575	-0.0310	0.3405*	0.1980*	1.0000

6.3. Hypothesis Development and Testing

With respect to the literature review and evaluation of the existing context, relevant hypotheses were developed to understand the relationship between the variables of this study. By using the control variables, this study aimed to understand if there is difference between the different characteristics of sampled banks in terms of the adoption of governance principles during 13 years. The relationships were analysed in a time process by the help of panel data. Therefore the variables in each hypothesis were evaluated for 13 years. To test the hypotheses, Kruskal Wallis, Independent T-test, Chi-square Test with contingency tables and Logistic Regression (Logit Model) were used. To provide assumptions of the test, which are the normality and equal variances, Shapiro-Wilk and Bartlett's test were used.

6.3.1. Board Size

The relationships between board size and other numeric variables were observed by correlation analysis above and already showed that board size is positively correlated with firm size, age and number of non-executive directors. However, under this section, possible relationships between board size and ownership structure and control types were tested.

H1a: There is significant difference between different ownership structures in terms of board size

There are four different types of ownership structure as the independent variable (1=family, 2=private, 3=foreign, 4=state) and board size is a numeric variable. Therefore the most appropriate test is one-way ANOVA to understand if the ownership structure impact the board size or not within the 95% confidence interval. Before conducting the test, normality and equal variances assumptions should be provided. The histograms for each category of ownership structure variable showed that the distribution is not normal. Since they are not normally distributed, there is no need to check variance equality. Therefore, a non-parametric test should be conducted instead of one way ANOVA which is called as Kruskal Wallis, shown in Table 10.

Table 11 Equality of Different Ownership Structures for Board Size

Ownership Structure	**Obs**	**Rank Sum**
1	63	4186.50
2	46	3605.00
3	21	2160.00
4	13	344.50
Chi-squared=29.554 with 3 d.f.	Probability=0.0001	
Chi-squared=29.554 with ties=30.510	Probability=0.0001	

Post Hoc Tests

1 & 2	chi-squared with ties =	3.681 with 1 d.f.	probability =	0.0551
1 & 3	chi-squared with ties =	16.994 with 1 d.f.	probability =	0.0001
1 & 4	chi-squared with ties =	24.236 with 1 d.f.	probability =	0.0001
2 & 3	Chi-squared with ties =	3.127 with 1 d.f.	probability =	0.0770
2 & 4	chi-squared with ties =	4.508 with 1 d.f.	probability =	0.0337
3 & 4	chi-squared with ties =	25.124 with 1 d.f.	probability =	0.0001

The chi-square test statistics for this test showed that there is at least 1 inequality among the medians of ownership structure groups (p value=0.0001<0.05).The post-hoc tests revealed that the board size of family owned bank is statistically different from foreign (p value=0.0001<0.05) and state banks (p value=0.0001<0.05) while it is also different for state and foreign banks (p value=0.0001<0.05). Board size is higher in foreign banks than family and the state bank. For the other ownership structures there is not any statistically significant difference in terms of board size.

H1b: There is significant difference between different control types in terms of board size

There are two different categories under the variable control types as the independent variable (1=owner, 2=manager) and board size is a numeric variable. Therefore the most appropriate test is independent t-test to understand if there is difference between the banks that are controlled by manager or owner in terms of their board size within the 95% confidence interval. Before conducting the test, normality assumption should be provided by Shapiro-Wilk test which showed that the board size is normally distributed (p value=0.00897<0.05). The variances are assumed to be unequal while conducting the t-test which was shown in Table 12.

Table 12 Independent T-test with Unequal Variances

Group	**Obs**	**Mean**	**Std.Err.**	**Std. Dev.**	**95% Conf. Interval**	
1	53	9	0.134693	0.9805807	8.72972	9.270282
2	90	8.95556	0.216608	2.054926	8.52516	9.385952
Combined	143	8.972028	0.144822	1.731823	8.685742	9.258314
Diff		0.044444	0.2550713		-0.45997	0.5488546
Diff = mean(1)-mean (2)					t=0.1742	
Satterthwaite's Degree of freedom=136.264					Pr (|T|> |t|) = 0.8619	

There are 53 observations in which an owner controls the bank and in 90 observations the control is held by a manager. The mean of board size for owner-controlled banks is 9 and for others it is 8.95 which could be seen as very similar (mean difference = 0.044). The results of the t-test showed that there is not a statistically significant difference between these two control types in terms of board size (p value=0.8619>0.05). Therefore, no matter who controls the firm, board size does not change.

6.3.2. Board Composition

The correlation analysis showed that the number of executive members is positively related with the proportion of dispersed shares and negatively related with state ownership. Also it was observed that board size and number of non-executive members are positively associated. In this part, board composition was evaluated by looking the compliance of the principles for both non-executive (more than half of the board) and independent member (at least 1/3 of board). Therefore control variables were analysed for each principle separately. Ownership structure variables was taken as the dominant ownership rather than participated.

H2a: There is a significant difference between the compliance to board composition principles in terms of firm size

There are four different categories under the variable board composition as the independent variable (1=only non-executive principle, 2=only independent principle, 3=compliance to both, 4=no compliance) and firm size is a numeric variable. Therefore the most appropriate test is one way ANOVA to understand if the size of banks creates a difference in terms of compliance to board composition principles within the 95% confidence interval. Before conducting the test, normality and equal variances assumptions should be provided. The histograms for each category of ownership structure variable showed that the distribution is not normal. Therefore, instead of ANOVA, Kruskal Wallis test was used for this hypothesis.

Table 13 The Effect of Firm Size on Compliance to Board Composition Principles

Board Composition		Obs		Rank Sum
1		93		6456.50
2		1		136.00
3		6		244.00
4		43		3459.50
Chi-squared with 3 d.f. =7.970		Probability=0.0466		
Chi-squared with ties=7.970		Probability=0.0466		
Post Hoc Tests				
1 & 2	chi-squared with ties =	2.119 with 1 d.f.	probability =	0.1455
1 & 3	chi-squared with ties =	1.517 with 1 d.f.	probability =	0.2180
1 & 4	chi-squared with ties =	1.767 with 1 d.f.	probability =	0.1838
2 & 3	chi-squared with ties =	2.250 with 1 d.f.	probability =	0.1336
2 & 4	chi-squared with ties =	2.867 with 1 d.f.	probability =	0.0904
3 & 4	chi-squared with ties =	9.489 with 1 d.f.	probability =	0.0021

As shown in Table 13, test statistics showed that there is at least 1 inequality among the medians of board composition categories (p value=0.0466<0.05). The post-hoc tests revealed that the firm size of the sampled banks differs only between the ones that comply both principles and the ones that do not comply with any (p value=0.0021<0.05). The firm size is higher for the banks that do not comply with any principles than the banks that comply with both board composition principles. This is surprising because it was expected that the more firm size the more compliance to board related principles.

H2b: There is a significant difference between the compliance to board composition principles in terms of firm age

Again for the age of the firm and the compliance to board composition principles, the most appropriate test is Kruskal Wallis because there is not normal distribution and equal variances. Table 14 shows that the p value of chi-square statistics is 0.0182 which is less than 0.05 which means that there is at least 1 inequality among the medians of board composition categories in terms of firm age. The results of post hoc test showed that the differences are between the banks that comply with both principles and the banks that comply with only non-executive principles (p value=0.0044<0.05) and the ones that do not comply with any composition related principles (p value=0.0365<0.05). The banks that do not comply with any of the composition related principles are older than the banks that comply with both principles. As it was observed for firm size, the banks that comply with only non-executive principle are older than the ones that comply with both principles. This is interesting because it was expected to increase the compliance level of banks as the firm gets older and bigger.

Table 14 The Effect of Firm Age on Compliance to Board Composition Principles

Board Composition	**Obs**	**Rank Sum**
1	93	7087.00
2	1	127.50
3	6	166.50
4	43	2915.00
Chi-squared with 3 d.f. =10.043	Probability=0.0182	
Chi-squared with ties= 10.047	Probability=0.0182	

Post Hoc Tests

1 & 2	chi-squared with ties =	1.306 with 1 d.f.	probability =	0.2532
1 & 3	chi-squared with ties =	8.096 with 1 d.f.	probability =	0.0044
1 & 4	chi-squared with ties =	1.139 with 1 d.f.	probability =	0.2858
2 & 3	chi-squared with ties =	2.250 with 1 d.f.	probability =	0.1336
2 & 4	chi-squared with ties =	2.871 with 1 d.f.	probability =	0.0902
3 & 4	chi-squared with ties =	4.371 with 1 d.f.	probability =	0.0365

H2c: There is a significant difference between the compliance to board composition principles in terms of proportion of dispersed shares

The relation between the proportion of dispersed shares and the compliance to board composition principles was tested by Kruskal Wallis since there is not normal distribution and equal variances. Table 15 below shows that there is at least 1 inequality among the medians of board composition categories in terms of dispersed ratio of sampled banks (p value=0.0001<0.05).

Table 15 The Effect of Dispersed Ratio on Compliance to Board Composition Principles

Board Composition	Obs	Rank Sum
1	93	6027.00
2	1	142.50
3	6	122.00
4	43	4004.50

Chi-squared with 3 d.f. =26.220	Probability=0.0001
Chi-squared with ties= 26.313	Probability=0.0001

Post Hoc Tests

1 & 2	chi-squared with ties =	2.953 with 1 d.f.	probability =	0.0857
1 & 3	chi-squared with ties =	6.852 with 1 d.f.	probability =	0.0089
1 & 4	chi-squared with ties =	14.089 with 1 d.f.	probability =	0.0002
2 & 3	chi-squared with ties =	3.500 with 1 d.f.	probability =	0.0614
2 & 4	chi-squared with ties =	2.758 with 1 d.f.	probability =	0.0968
3 & 4	chi-squared with ties =	15.590 with 1 d.f.	probability =	0.0001

Therefore, the post hoc test revealed to understand if the ratio of dispersed shares brings a change in terms of the compliance to board composition principles. Based on the results, there is difference between the banks that only comply with non executive principle and the banks that comply with both (p value=0.0089<0.05) and none of them (p value=0.0002<0.05). Also, there is difference between the banks that comply with both and none of these principles (p value=0.0001<0.05). In other words, the dispersed ratio is higher in the banks that comply with only non-executive principle than the banks that comply both and none. Additionally, the dispersed share is more for the banks that do not comply with any principle than the ones that comply with both. However, it is expected that as the shares of bank dispersed more, the compliance to principles also should increase.

H2d: There is a significant difference between the compliance to board composition principles in terms of board size

The relation between the board size and the compliance to board composition principles was tested by Kruskal Wallis since there is not normal distribution and equal variances.

Table 16 The Effect of Board Size on Compliance to Board Composition Principles

Board Size		Obs	Rank Sum
1		93	7780.50
2		1	68.00
3		6	506.00
4		43	1941.50
Chi-squared with 3 d.f. =25.975	Probability=0.0001		
Chi-squared with ties= 26.816	Probability=0.0001		

Post Hoc Tests

1 & 2	chi-squared with ties =	0.240 with 1 d.f.	probability =	0.6240
1 & 3	chi-squared with ties =	0.025 with 1 d.f	probability =	0.8748
1 & 4	chi-squared with ties =	25.436 with 1 d.f.	probability =	0.0001
2 & 3	chi-squared with ties =	0.618 with 1 d.f	probability =	0.4319
2 & 4	chi-squared with ties =	0.729 with 1 d.f.	probability =	0.3931
3 & 4	chi-squared with ties =	6.750 with 1 d.f.	probability =	0.0094

Table 16 shows that there is at least 1 inequality among the medians of board composition categories in terms of board size of sampled banks (p value=0.0001<0.05). Therefore, the post hoc test revealed to understand if the board size brings a change in terms of the compliance to board composition principles. Based on the results, there are differences between the banks that do not comply with any of the principles and the ones that only comply with non executive principle and the banks that comply with both. The results showed that the banks that comply with both principles about the board composition have more people in boards than the ones that do not comply with any principle about composition as expected. Additionally, the banks that comply with only non-executive rule have more members in board than the ones that do not comply with any.

H2e: There is a significant difference between different ownership structures in terms of the compliance to board composition principles

This hypothesis was tested by using the chi-square test in a contingency table in order to understand if the banks with different ownership structures comply to board composition principles differently or not within the 95% confidence interval. There are four different types of ownership structure variable (1=family, 2=private, 3=foreign, 4=state) and 4 different categories under the compliance variable (1=only comply with non-executive principle; 2=only comply with independent principle; 3=comply with both; 4=no compliance).

Table 17 Contingency table for ownership structure and board composition

Ownership structure		**Compliance to board composition principles**				
		1	**2**	**3**	**4**	**Total**
1		24	1	5	33	63
	%	38.10	1.59	7.94	52.38	100.00
2		36	0	0	10	46
	%	78.26	0.00	0.00	21.74	100.00
3		21	0	0	0	21
	%	100.00	0.00	0.00	0.00	100.00
4		12	0	1	0	13
	%	92.31	0.00	7.69	0.00	100.00
Total		93	1	6	43	143
		65.03	0.70	4.20	30.07	100.00

Pearson chi2 (9) = 41.9776   Pr = 0.000

The p value associate with chi-square tests statistic is 0.00 which is less than 0.05 as shown in Table 17. Therefore the null hypothesis is rejected which means the rows and columns of contingency table are dependent. In other words, there is a relationship between ownership structure and compliance with board composition principles. In most of the observations (65%), there is compliance with only non-executive principle and in only one case there is compliance with only independent principle. The compliance with both principles is observed only in 4% of overall observations and nearly all of them are family dominated banks. Besides, in 30% of the observations, sampled banks do not comply with any of principles about board compositions and 77% of them are family dominated banks. It is obvious that the independent member principle is being violated by the whole sample while non-executive principle is adopted by all foreign and state banks. Ali Tigrel, second interviewee, also stated that the compliance level of firms increase with the foreign involvement. However, the third interviewee, Fusun Akkal, disagreed with that and claimed that foreign investors invested to banking industry because of rising compliance to governance principles. She thinks that published governance principles after 2003 sent the good governance signals to foreign investors and foreign investors preferred Turkey as an emerging and profitable country to invest.

H2f: There is a significant difference between different control types in terms of the compliance to board composition principles

This hypothesis was also tested by using the chi-square test in a contingency table in order to understand if the banks with different control types comply to board composition principles differently or not within the 95% confidence interval. There are two different control types (1=owner, 2=manager) and 4 different categories under the compliance variable (1=only comply with non-executive principle; 2=only comply with independent principle; 3=comply with both; 4=no compliance).

Table 18 Contingency table for control type and board composition

Control Type		**Compliance to board composition principles**				
		1	**2**	**3**	**4**	**Total**
1		19	1	5	28	53
	%	20.43	100.00	83.33	65.12	37.06
2		74	0	1	15	90
	%	79.57	0.00	16.67	34.88	62.94
Total		93	1	6	43	143
	%	100.00	100.00	100.00	100.00	100.00

Pearson chi2 (3) = 32.7424   Pr = 0.000

As shown in Table 18, there is a statistically significant difference between control types and compliance to board composition principles (p value=0.000<0.05). This means control types and compliance to board composition principles are dependent. In most of the observations, sampled banks that comply with non-executive principle are being controlled by managers (79%) while the banks that do not comply with any of the composition principle are being mostly controlled by an owner. This means the banks that are under the control of owner violate the composition principles more than the ones under a professional manager.

6.3.3. CEO Duality

The CEO duality variable was evaluated based on each control variable to understand if there is a relationship or not. CEO duality was only observed by using frequency analysis before but in this part all possible relationships were identified between the duality and other variables such as firm size, age, dispersed ratio, ownership structure, compliance to board composition principles and control types.

H3a: There is significant relationship between firm size and the compliance to CEO duality principle

There are two different categories under the variable CEO duality as the independent variable (0=separated roles, 2=duality) and firm size is a numeric variable. Therefore the most appropriate test is independent t-test to understand if there is difference between the banks that separated the roles of CEO and chairman or not in terms of their firm size within the 95% confidence interval. Before conducting the test, normality assumption should be provided by Shapiro-Wilk test which showed that the firm size is normally distributed (p value=0.000<0.05).

The variances are assumed to be unequal while conducting the t-test which was shown in Table 19.

Table 19 Independent T-test for Firm Size and CEO Duality Assuming Unequal Variances

Group	**Obs**	**Mean**	**Std.Err.**	**Std. Dev.**	**95% Conf. Interval**	
0	122	7479.025	599.3444	6619.975	6292.464	8665.585
1	21	1756.238	231.3515	1060.186	1273.647	2238.829
Combined	143	6638.615	539.5767	6452.399	5571.974	7705.256
diff		5722.786	642.4463		4452.7016992.872	
Diff = mean(0)-mean (1)					t=8.9078	
Satterthwaite's Degree of freedom=140.829					Pr (|T| > |t|) = 0.0000	

There are 122 observations in which those roles are separated and in 21 observations with CEO duality. The mean of firm size for the banks without duality is 7479 and for others it is 1756 which are quite different (mean difference = 5722). The results of the t-test showed that there is a statistically significant difference between these groups in terms of firm size (p value=0.0001<0.05). Therefore, CEO duality is observed in smaller banks. In other words, as the firm gets bigger they tend to separate the CEO and chairman roles as expected.

H3b: There is a significant relationship between firm age and the compliance to CEO duality principle

This hypothesis was also tested by using independent t-test to understand if there is difference between the banks that separated the roles of CEO and chairman or not in terms of their firm age within the 95% confidence interval. Before conducting the test, normality assumption should be provided by Shapiro-Wilk test which showed that the firm size is normally distributed (p value=0.0001<0.05). The variances are assumed to be unequal while conducting the t-test which was shown in Table 20.

Table 20 Independent T-test for Firm Age and CEO Duality Assuming Unequal Variances

Group	Obs	Mean	Std.Err.	Std. Dev.	95% Conf. Interval	
0	122	46.13115	2.016258	22.2703	42.13943	50.12286
1	21	34.7143	2.299216	10.53633	29.91821	39.51037
Combined	143	44.45455	1.783178	21.3237	40.92954	47.97955
diff		11.41686	3.058053		5.29325	17.540447
Diff = mean(0)-mean (1)					t= 3.7334	
Satterthwaite's Degree of freedom=57.0149					Pr (|T| > |t|) = 0.0004	

The mean of firm age for the banks without duality is 46 and for others it is 34 which are quite different (mean difference = 11). The results of the t-test showed that there is a statistically significant difference between these groups in terms of firm age (p value=0.0004<0.05). Therefore, CEO duality was observed in younger banks. In other words, as the firm gets older they tend to separate the CEO and chairman roles as expected.

H3c: There is a significant relationship between the proportion of dispersed shares and the compliance to CEO duality principle

This hypothesis was also tested by using independent t-test to understand if there is difference between the banks that separated the roles of CEO and chairman or not in terms of the ratio of dispersed shares within the 95% confidence interval. Before conducting the test, normality assumption should be provided by Shapiro-Wilk test which showed that the proportion of dispersed shares is normally distributed (p value=0.00011<0.05). The variances are assumed to be unequal while conducting the t-test which was shown in Table 21.

Table 21 Independent T-test for the Ratio of Dispersed Shares and CEO Duality Assuming Unequal Variances

Group	Obs	Mean	Std.Err.	Std. Dev.	95% Conf. Interval	
0	122	25.15574	1.247842	13.78286	22.68531	27.62617
1	21	12.61905	3.009094	13.7894	6.342187	18.89591
Combined	143	23.31447	1.20745	14.439	20.92778	25.70159
diff		12.5367	3.25757		5.856558	19.21682
Diff = mean(0)-mean (1)					t= 3.8485	
Satterthwaite's Degree of freedom=27.3366					Pr (|T| > |t|) = 0.0006	

The mean of dispersed shares for the banks without duality is 25% and for others it is 13% which are quite different (mean difference = 12%). The results of the t-test showed this difference is statistically significant (p value=0.0006<0.05). Therefore, CEO duality was observed in les traded banks. In other words, as the traded shares of the firm increase, they tend to separate the CEO and chairman roles as expected.

H3d: There is a significant relationship between the board size and the compliance to CEO duality principle

This hypothesis was also tested by using independent t-test to understand if there is difference between the banks that separated the roles of CEO and chairman or not in terms of their board sizes. Before conducting the test, normality assumption should be provided by Shapiro-Wilk test which showed that the board size is normally distributed (p value=0.00897<0.05). The variances are assumed to be unequal while conducting the t-test.

Table 22 Independent T-test for the Board Size and CEO Duality Assuming Unequal Variances

Group	Obs	Mean	Std.Err.	Std. Dev.	95% Conf. Interval	
0	122	9.254098	0.1515675	1.674117	8.954031	9.554166
1	21	7.333333	0.221825	1.01653	6.870614	7.796052
Combined	143	8.972028	0.1448223	1.731823	8.685742	9.258314
diff		1.920765	0.2686616		1.378405	2.463125
Diff = mean(0)-mean (1)					t= 37.1494	
Satterthwaite's Degree of freedom=41.5374					Pr (|T| > |t|) = 0.000	

As shown Table 22, the mean of board size for the banks without duality is 9 and for others it is 7 (mean difference = 1.9). The results of the t-test showed this difference is statistically significant (p value=0.000<0.05). Therefore, CEO duality was observed in smaller boards. In other words, as the board size of the firm increase, they tend to separate the CEO and chairman roles as expected.

H3e: There is a significant difference between different ownership structures in terms of the compliance to CEO duality principle

This hypothesis was also tested by using the chi-square test in a contingency table in order to understand if the banks with different ownership structures comply to CEO duality principle or not within the 95% confidence interval. There are four different types of ownership structure variable (1=family, 2=private, 3=foreign, 4=state) and 2 different categories under the duality variable (0=separated roles, 1=duality).

Table 23 Contingency table for ownership structure and CEO duality

Ownership structure		CEO Duality	
	0	**1**	**Total**
1	62	1	63
%	50.82	4.76	44.06
2	38	8	46
%	31.15	38.10	32.17
3	20	1	21
%	16.39	4.76	14.69
4	2	11	13
%	1.64	52.38	9.09
Total	122	21	143
	100.00	100.00	100.00

Pearson chi2 (3) = 61.2877 Pr = 0.000

Table 23 shows the results of the chi-square test statistically significant (p value=0.00<0.05) and this means there is difference between different ownership types in terms of having CEO duality. In 15% of the observations, there is duality and most of these banks were privately owned or a public bank. Interestingly, the state owned bank, which is only one within the sample of this study, violated this principle for 11 years. As a rule-maker, the government does not comply with the governance rules individually. The most compliance to this principle was observed in family owned banks which were followed by foreign ones. In both of them, duality was observed only once (for only one year) in overall.

H3f: There is significant difference between different control types in terms of the compliance to CEO duality principle

This hypothesis was also tested by using the chi-square test in a contingency table in order to understand if the banks with different control types comply to CEO duality principle or not within the 95% confidence interval. There are two different types of ownership structure variable

(1=owner, 2=manager) and 2 different categories under the duality variable (0=separated roles, 1=duality).

Table 24 Contingency table for control type and CEO duality

Control Type		**CEO Duality**		
		0	**1**	**Total**
1		53	0	53
	%	43.44	0.00	37.06
2		69	21	90
	%	56.56	100.00	62.94
Total		122	21	143
		100.00	100.00	100.00

Pearson chi2 (1) = 14.4954 Pr = 0.000

As shown in Table 24, CEO duality differs in terms of who controls the bank (p value=0.00<0.05). All of the owner controlled banks separated the CEO and chairman roles while 77% of other banks under the manager control comply with this principle.

6.3.4. Committees

The results of frequency analysis for existing committees were given above and the correlation analysis about the number of existing committees showed only one positive relationship with foreign ownership. In this part, the existence of each committee was evaluated if there is a relationship between them and other board related and control variables which are firm size, age, ownership structure, board composition, proportion of dispersed shares and control type. First of all, the committees were analysed by using Logistic Regression or Logit Model by taking all possible predictor variables into account if they are effective in establishment of each committee or not. In other words, a significant model was tried to be identified to understand the factors that affect the existence of each committee.

H4a: Firm size, age, ownership structure, board composition, proportion of dispersed shares and control type has increasing effect in establishing an audit committee.

As shown in Table 25, the number of observations for audit committee is 111 which are because of the missing data about the established committees. Most of the sampled banks did not disclose their committee information before 2003. Moreover, the result of chi-square test (37.38 with p value=0.00 >0.05) shows that this is a significant logit model which is better than an empty model. However, p values, which are associated with the coefficients of each predictor variable, are more than 0.05 except firm size and the 4th category of board composition (no compliance to both principles) variables.

Table 25 Logit Model for Audit Committee

Logistic Regression						Number of Observations = 111 LR chi2 (7) = 37.38 Prob > chi2 = 0.000
Log Likelihood= -57.704536						Pseudo R2 = 0.2446
Audit Committee	Odds Ratio	Std.Err.	Z	P > |z|	(95% Conf. Interval)	
Firm Size	1.0000226	.00000872	2.59	0.009	1.0000055	1.0000397
Firm Age	.9987577	.0197973	-0.06	0.950	.9606998	1.038323
Dispersed Ratio	.9990113	.0255733	-0.04	0.969	.9501251	1.050413
Ownership Structure						
2	5.483242	5.680466	1.64	0.100	.7198126	41.76913
3	Empty					
4	3.410306	3.89713	1.07	0.283	.3631466	32.02615
Control Type						
2	.4501641	.3984907	-0.90	0.367	.0794103	2.551906
Board Composition						
2	Empty					
3	Empty					
4	.1683924	.1079035	-2.78	0.005	.0479606	.5912353

Therefore, only these two predictors could be used to understand how one unit change impacts the existence of audit committee. The coefficient of firm size variable is 1.00 which means every unit change in firm size also increase the log odds of having an audit committee by a factor of 1.00 which is a very small ratio. Additionally, one unit change in the banks that do not comply with any of board composition principles decreases the log odds of having an audit committee by a factor of 0.2.

Although there are significant predictors for this logit model, the effect of those variables are very small. Therefore, this model does not make any sense for the sample of this study like other possible logit models for risk, corporate governance and compensation committees. So, the entire following hypothesis was statistically tested and the p value was less than 0.05 for all but the coefficients of the variables were not significant enough to conduct a logit model.

H4b: Firm sizes, age, ownership structure, board composition, proportion of dispersed shares and control type has increasing effect in establishing a risk committee.

H4c: Firm size, age, ownership structure, board composition, proportion of dispersed shares and control type has increasing effect in establishing a corporate governance committee.

H4d: Firm size, age, ownership structure, board composition, proportion of dispersed shares and control type has increasing effect in establishing a compensation committee.

6.3.4.1. Audit Committee

Since the logit models for the committees were not that reasonable, the best thing to identify the relationships between the committees and other variables is to conduct independent T-tests and chi-square test with contingency tables. Each committee was investigated if there is a relationship with ownership structure, board composition, control type, CEO duality, board size, the amount of dispersed shares and the size and age of the firm.

H5a: There is a statistically significant difference between different types of ownership structures in terms of establishing an audit committee.

This hypothesis was tested by using chi-square statistics within 95% confidence interval and shown in a contingency table as these two variables are categorical. As shown in Table 26, there is a significant relationship between ownership structure and the existence of audit committee (p value=0.002<0.05). First of all, the number of observations is 139 for audit committee because of the missing data. This committee was observed in 64% of the overall observations and the 36% comes from the observations before 2006 which was the year that all sampled banks established an audit committee. There is a full compliance to this governance principle by foreign banks which are followed by privately owned (64%) and others. This result approves the importance of audit committee for other countries which was seen as one of the conditions of being transparent. Ali Tigrel also stated that foreign involved firms are more prone to establish audit committee since they give importance to the transparency and accountability which are being monitored objectively by well functioned audit committee.

Table 26 Ownership Structure and Existence of Audit Committee

Ownership structure		Audit Committee		
		0	**1**	**Total**
1		29	24	63
	%	46.03	53.97	100.00
2		15	27	42
	%	35.71	64.29	100.00
3		0	21	21
	%	0.00	100.00	100.00
4		6	7	13
	%	46.15	53.85	100.00
Total		50	89	139
		35.97	64.03	100.00

Pearson chi2 (3) = 15.1527 Pr = 0.002

H5b: There is a statistically significant difference between different types of control in terms of establishing an audit committee

This hypothesis was also tested by using chi-square statistics within 95% confidence interval and shown in a contingency table as these two variables are categorical. As shown in Table 27, there is not a statistically significant difference between the sampled banks that are controlled by manager or owner in terms of establishing an audit committee (p value=0.285>0.05). This could be the result of that all sampled banks established this committee before 2007 no matter whom holds the control of the firm.

Table 27 Control Type and Existence of Audit Committee

Control Type		Audit Committee		
		0	**1**	**Total**
1		22	31	53
	%	41.51	58.49	100.00
2		28	58	86
	%	32.56	67.44	100.00
Total		50	89	139
	%	35.97	64.03	100.00

Pearson chi2 (1) = 1.1408 Pr = 0.285

H5c: There is a statistically significant relationship between the existence of CEO duality and establishing an audit committee

This hypothesis was tested by using chi-square statistics within 95% confidence interval and shown in a contingency table as these two variables are categorical. There is a statistically significant difference between the banks that separated the role of CEO and chairman and others with duality in terms of establishing an audit committee (p value=0.036<0.05). As shown in Table 28, this committee was observed in 67% of the sampled banks that separated these roles while it was observed in 41% of the banks that did not separate. Therefore, the banks that do not have duality tend to establish this committee more than the banks that have CEO duality. It is expected that the banks with CEO duality should establish an audit committee to emphasize the transparency more than others but within this sample it was not the case.

Table 28 CEO Duality and Existence of Audit Committee

CEO Duality		**Audit Committee**		
		0	**1**	**Total**
0		40	82	122
	%	32.79	67.21	100.00
1		10	7	17
	%	58.82	41.18	100.00
Total		50	89	139
	%	35.97	64.03	100.00

Pearson chi2 (1) = 4.3917 Pr = 0.036

H5d: There is a significant relationship between the firm size and establishing an audit committee

There are two categories under the audit committee variable (0=absence, 1=existence) and the firm size is a numerical variable. Therefore, this hypothesis was tested by using independent t-test to understand if there is difference between the banks that established an audit committee or not in terms of their firm sizes. As tested before the firm size variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

As shown Table 29, the mean of firm size for the banks without an audit committee is 4018 and for others it is 8277 (mean difference = 4258). The results of the t-test showed this difference is statistically significant (p value=0.000<0.05). Therefore, the banks that established the audit committee are bigger than the ones that do not establish. In other words, as the firm size of the firm increase, they tend to establish an audit committee as expected.

Table 29 Firm Size and Existence of Audit Committee Assuming Unequal Variances

Group	**Obs**	**Mean**	**Std.Err.**	**Std. Dev.**	**95% Conf. Interval**	
0	50	4018.68	565.9127	4001.607	2881.436	5155.924
1	89	8277.213	757.1573	7143.008	6772.522	9781.905
Combined	139	6745.367	552.4894	6513.753	5652.928	7837.806
diff		-4258.53	945.2748		-6127.749	-2389.318
Diff = mean(0)-mean (1)					t= -4.5051	
Satterthwaite's Degree of freedom=137					Pr (|T| > |t|) = 0.0000	

H5e: There is a significant relationship between the firm age and establishing an audit committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established an audit committee or not in terms of their firm age. As tested before the firm age variable is normally distributed but the variances are assumed to be unequal while conducting the t-test. Table 30 shows that the mean of firm age for the banks without an audit committee is 37 and for others it is 48 (mean difference = 11). The results of the t-test showed this difference is statistically significant (p value=0.0015<0.05). Therefore, the banks that established the audit committee are older than the ones that do not establish. In other words, as the firm gets older, they tend to establish an audit committee as expected.

Table 30 Firm Age and Existence of Audit Committee Assuming Unequal Variances

Group	Obs	Mean	Std.Err.	Std. Dev.	95% Conf. Interval	
0	50	36.92	2.710048	19.16293	31.47396	42.36604
1	89	48.50562	2.321356	21.89963	43.89241	53.11883
Combined	139	44.33813	1.83365	21.61841	40.71245	47.96381
diff		-11.5856	3.56834		-18.65493	-4.516305
Diff = mean(0)-mean (1)					t= -3.2468	
Satterthwaite's Degree of freedom=113.31					Pr (|T| > |t|) = 0.0015	

H5f: There is a significant relationship between the proportion of dispersed shares of the firm and establishing an audit committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established an audit committee or not in terms of the ratio of dispersed shares. As tested before the dispersed ratio variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

Table 31 Dispersed Ratio and Existence of Audit Committee Assuming Unequal Variances

Group	Obs	Mean	Std.Err.	Std. Dev.	95% Conf. Interval	
0	50	23.8	1.779475	12.58279	20.22401	27.37599
1	89	22.96629	1.66127	15.67239	19.66487	26.26772
Combined	139	23.26619	1.237915	14.59481	20.81845	25.71392
diff		0.833708	2.434409		-3.986002	5.653418
Diff = mean(0)-mean (1)					t= 0.3425	
Satterthwaite's Degree of freedom=120.617					Pr (|T| > |t|) = 0.7326	

As shown in Table 31, the mean of dispersed ratio for the banks without an audit committee is 24% and for others it is 23% (mean difference = 1%). The results of the t-test showed this difference is not statistically significant (p value=07326>0.05). Therefore, no matter the amount of dispersed shares, the existence of an audit committee does not change. It is expected that the more dispersed ratio of the firm the more tendency to establish an audit committee. However, this kind of a relationship was not observed in this study.

H5g: There is a significant relationship between the board size of the firm and establishing an audit committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established an audit committee or not in terms of the board size. As tested before the board size variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

Table 32 Board Size and Existence of Audit Committee Assuming Unequal Variances

Group	**Obs**	**Mean**	**Std.Err.**	**Std. Dev.**	**95% Conf. Interval**	
0	50	8.2	0.217594	1.538619	7.762729	8.637271
1	89	9.46067	0.177268	1.672343	9.108391	9.812957
Combined	139	9.007194	0.1467318	1.729943	8.717061	9.297328
diff		-1.26067	0.2806615		-1.816941	-0.7044072
Diff = mean(0)-mean (1)					t= -4.4918	
Satterthwaite's Degree of freedom=108.91					Pr (|T| > |t|) = 0.0000	

Table 32 shows that the mean of board size for the banks without an audit committee is 8 and for others it is 9 (mean difference = 1). The results of the t-test showed this difference is statistically significant (p value=0.000<0.05). Therefore, he banks that established the audit committee have more people in board of directors than the ones that do not establish. In other words, as the board size increases, they tend to establish an audit committee as expected

6.3.4.2. Risk Committee

In this section, the possible relationships will be identified between the existence of risk committee and ownership structure, board composition, control type, CEO duality, the amount of dispersed shares and the size and age of the firm.

H6a: There is a statistically significant difference between different types of ownership structures in terms of establishing a risk committee

This hypothesis was tested by using chi-square statistics within 95% confidence interval and shown in a contingency table as these two variables are categorical. Based on the results of chi-square test, there is not a significant relationship between ownership structure and the existence of risk committee (p value=0.051>0.05). Therefore, there is not any difference between different types of ownership structure in terms establishing this committee. This could be the result of the full compliance to this principle by sampled banks in 2004. In other words, 19% of absence of this committee comes from the years before 2004 (Table 33) and there are only 27 observations that does not have a risk committee.

Table 33 Ownership Structure and Existence of Risk Committee

Ownership structure		**Risk Committee**		
		0	**1**	**Total**
1		16	47	63
	%	25.40	74.60	100.00
2		7	35	42
	%	16.67	83.33	100.00
3		0	21	21
	%	0.00	100.00	100.00
4		4	9	13
	%	30.77	69.23	100.00
Total		27	112	139
		19.42	80.58	100.00

Pearson chi2 (3) = 7.7714 Pr = 0.051

H6b: There is a statistically significant difference between different types of control in terms of establishing a risk committee

This hypothesis was tested by using chi-square statistics within 95% confidence interval and shown in a contingency table as these two variables are categorical.

Table 34 Control Type and Existence of Risk Committee

Control Type		**Risk Committee**		
		0	**1**	**Total**
1		12	41	53
	%	22.64	77.36	100.00
2		15	71	86
	%	17.44	82.56	100.00
Total		27	112	139
	%	19.42	80.58	100.00

Pearson chi2 (1) = 0.5664 Pr = 0.452

As shown in Table 34, the conducted chi-square test showed that there is not a statistically significant difference between the control types in terms of establishing a risk committee (p value=0.452>0.05). Thus, the existence of risk committee does not change based on whoever control the firm. This could be the result of early adoption to establishing this committee by the sampled banks. 27 observations could be inadequate to show any difference between the control types in terms of existence of the risk committee.

H6c: There is a statistically significant relationship between the existence of CEO duality and establishing a risk committee

This hypothesis was tested by using chi-square statistics within 95% confidence interval and shown in a contingency table as these two variables are categorical.

Table 35 CEO Duality and Existence of Risk Committee

CEO Duality		Risk Committee		
		0	**1**	**Total**
0		23	99	122
	%	18.85	81.15	100.00
1		4	13	17
	%	23.53	76.47	100.00
Total		27	112	139
	%	19.42	80.58	100.00

Pearson chi2 (1) = 0.2085 Pr = 0.648

As shown in Table 35, there is not a significant difference between the sampled banks that separated the CEO and chairman role or not in terms of establishing a risk committee. As it was seen in previous hypothesis testing, the early adoption of banks to this principle prevents to observe any difference between in the case of CEO duality and not.

H6d: There is a significant relationship between the firm size and establishing a risk committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established a risk committee or not in terms of their firm sizes. As tested before the firm size variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

Table 36 Firm Size and Existence of Risk Committee Assuming Unequal Variances

Group	Obs	Mean	Std.Err.	Std. Dev.	95% Conf. Interval	
0	27	3439.407	750.099	3897.629	1897.557	4981.258
1	112	7542.339	640.1157	6774.348	6273.907	8810.771
Combined	139	6745.367	552.4894	6513.753	5652.928	7837.806
diff		-4102.93	986.1017		-6070.112	-2135.752
Diff = mean(0)-mean (1)					t= -4.1608	
Satterthwaite's Degree of freedom=69.0769					Pr (|T| > |t|) = 0.0001	

As shown Table 36, the mean of firm size for the banks without a risk committee is 3439 and for others it is 7542 (mean difference = 4102). The results of the t-test showed this difference is statistically significant (p value=0.0001<0.05). Therefore, the banks that established the risk committee are bigger than the ones that did not establish. In other words, as the firm size of the firm increase, they tend to establish a risk committee as expected.

H6e: There is a significant relationship between the firm age and establishing a risk committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established a risk committee or not in terms of their firm age. As tested before the firm age variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

Table 37 Firm Age and Existence of Risk Committee Assuming Unequal Variances

Group	**Obs**	**Mean**	**Std.Err.**	**Std. Dev.**	**95% Conf. Interval**	
0	27	34.7037	3.663874	19.03805	27.1725	42.2349
1	112	46.66071	2.044413	21.63604	42.60957	50.71186
Combined	139	44.33813	1.83365	21.61841	40.71245	47.96381
diff		-11.9570	4.195664		-20.41436	-3.499665
Diff = mean(0)-mean (1)					t= -2.8498	
Satterthwaite's Degree of freedom=43.7183					Pr (|T| > |t|) = 0.0066	

Table 37 shows that the mean of firm age for the banks without a risk committee is 34 and for others it is 46 (mean difference = 12). The results of the t-test showed this difference is statistically significant (p value=0.0066<0.05). Therefore, the banks that established the risk committee are older than the ones that did not establish. In other words as the firm gets older, they tend to establish a risk committee as expected.

H6f: There is a significant relationship between the proportion of dispersed shares of the firm and establishing a risk committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established a risk committee or not in terms of the ratio of dispersed shares. As tested before the dispersed ratio variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

Table 38 Dispersed Ratio and Existence of Risk Committee Assuming Unequal Variances

Group	**Obs**	**Mean**	**Std.Err.**	**Std. Dev.**	**95% Conf. Interval**	
0	27	20.25926	2.158659	11.21672	15.82207	24.69645
1	112	23.99107	1.441172	15.25194	21.13529	26.84685
Combined	139	23.26619	1.237915	14.59481	20.81845	25.71392
diff		-3.73181	2.595532		-8.940303	1.476679
Diff = mean(0)-mean (1)					t= -1.4378	
Satterthwaite's Degree of freedom=51.9265					Pr (|T| > |t|) = 0.1565	

As shown in Table 38, the mean of dispersed ratio for the banks without a risk committee is 20% and for others it is 23% (mean difference = 3%). The results of the t-test showed this difference is not statistically significant (p value=0.1565>0.05). Therefore, no matter the amount of dispersed shares, the existence of a risk committee does not change. It is expected that the more dispersed ratio of the firm the more tendency to establish a risk committee. However, this kind of a relationship was not observed in this study.

H6g: There is a significant relationship between the board size of the firm and establishing a risk committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established a risk committee or not in terms of the board size. As tested before the board size variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

Table 39 Board Size and Existence of Risk Committee Assuming Unequal Variances

Group	Obs	Mean	Std.Err.	Std. Dev.	95% Conf. Interval	
0	27	8.296296	0.3103844	1.612805	7.658292	8.934301
1	112	9.178571	0.1625361	1.720121	8.856495	9.500648
Combined	139	9.007194	0.1467318	1.729943	8.717061	9.297328
diff		-0.88227	0.3503662		-1.589604	-0.1749467
Diff = mean(0)-mean (1)					t= -2.5182	
Satterthwaite's Degree of freedom=41.4839					Pr (|T| > |t|) = 0.0157	

Table 39 shows that the mean of board size for the banks without a risk committee is 8 and for others it is 9 (mean difference = 1). The results of the t-test showed this difference is statistically significant (p value=0.0157<0.05). Therefore, the banks that established the risk committee have more members in their boards than the ones that did not establish. In other words, as the board size increases, they tend to establish a risk committee as expected.

6.3.4.3. Corporate Governance Committee

In this section, the possible relationships will be identified between the existence of corporate governance committee and ownership structure, board composition, control type, CEO duality, the amount of dispersed shares and the size and age of the firm.

H7a: There is a statistically significant difference between different types of ownership structures in terms of establishing a corporate governance committee

This hypothesis was tested by using chi-square statistics within 95% confidence interval and shown in a contingency table as these two variables are categorical.

Table 40 Ownership Structure and Existence of Corporate Governance Committee

Ownership structure		Corporate Governance Committee		
		0	**1**	**Total**
1		43	20	63
	%	68.25	31.75	100.00
2		29	13	42
	%	69.05	30.95	100.00
3		0	21	21
	%	0.00	100.00	100.00
4		7	6	13
	%	53.85	46.15	100.00
Total		27	112	139
		19.42	80.58	100.00

Pearson chi2 (3) = 33.5997 Pr = 0.000

Based on the results of chi-square test, there is a significant relationship between ownership structure and the existence of corporate governance committee (p value=0.00<0.05). First of all, the number of observations is 139 for corporate governance committee because of the missing data (Table 40). This committee was observed in 81% of the overall observations and 10 of the sampled banks established this committee until the end of researched period. As the audit committee, the foreign owned banks are the ones that all establish this committee; the public bank is the follower with 46% of compliance. Additionally, this committee was observed only about 31% of the family and private banks' observations.

H7b: There is a statistically significant difference between different types of control in terms of establishing a corporate governance committee

This hypothesis was tested by using chi-square statistics within 95% confidence interval and shown in a contingency table as these two variables are categorical. As shown in Table 41, the conducted chi-square test showed that there is not a statistically significant difference between the banks that are controlled by a manager or an owner in terms of establishing a corporate governance committee (p value=0.508>0.05). Therefore, the people who control the bank and the existence of a corporate governance committee are not related.

Table 41 Control Type and Existence of Corporate Governance Committee

Control Type		**Corporate Governance Committee**		
		0	**1**	**Total**
1		32	21	53
	%	60.38	39.62	100.00
2		47	39	86
	%	54.65	45.35	100.00
Total		79	60	139
	%	56.83	43.17	100.00

Pearson chi2 (1) = 0.4383 Pr = 0.508

H7c: There is a statistically significant relationship between the existence of CEO duality and establishing a corporate governance committee

This hypothesis was tested by using chi-square statistics within 95% confidence interval and shown in a contingency table as these two variables are categorical. Table 42 shows that there is not a statistically significant difference between the banks that separated the role of CEO and chairman or not in terms of establishing a corporate governance committee (p value=0.729>0.05). Although the banks with CEO duality are expected to have a corporate governance committee more than the others, an important difference was not observed within this sample. This could be the result of small sample.

Table 42 CEO Duality and Existence of Corporate Governance Committee

CEO Duality		**Corporate Governance Committee**		
		0	**1**	**Total**
0		70	52	122
	%	57.38	42.62	100.00
1		9	8	17
	%	52.94	47.06	100.00
Total		79	60	139
	%	56.83	43.17	100.00

Pearson chi2 (1) = 0.1197 Pr = 0.729

H7d: There is a significant relationship between the firm size and establishing a corporate governance committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established a corporate governance committee or not in terms of their firm sizes. As tested before the firm size variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

As shown Table 43, the mean of firm size for the banks without a corporate governance committee is 8021 and for others it is 5065 (mean difference = 2955). The results of the t-test showed this difference is statistically significant (p value=0.0055<0.05). Interestingly, the banks that established a corporate governance committee are smaller than the ones that did not establish. Although it is expected that the bigger banks have more tendency to establish a corporate governance committee, the result of this study showed the reverse. In other words, as the size of the firm decreases, they tend to establish a corporate governance committee surprisingly.

Table 43 Firm Size and Existence of Corporate Governance Committee Assuming Unequal Variances

Group	**Obs**	**Mean**	**Std.Err.**	**Std. Dev.**	**95% Conf. Interval**	
0	79	8021.025	799.7626	7108.445	6428.82	9613.23
1	60	5065.75	675.6534	5233.589	3713.771	6417.729
Combined	139	6745.367	552.4894	6513.753	5652.928	7837.806
diff		2955.275	1046.961		894.9665	5025.584
Diff = mean(0)-mean (1)					t= 2.8227	
Satterthwaite's Degree of freedom=136.888					Pr (|T| > |t|) = 0.0055	

H7e: There is a significant relationship between the firm age and establishing a corporate governance committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established a corporate governance committee or not in terms of their firm age. As tested before the firm age variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

Table 44 Firm Age and Existence of Corporate Governance Committee Assuming Unequal Variances

Group	Obs	Mean	Std.Err.	Std. Dev.	95% Conf. Interval	
0	79	50.43038	2.517558	22.37655	45.41831	55.44245
1	60	36.31667	2.295106	17.77781	31.72417	40.90916
Combined	139	44.33813	1.83365	21.61841	40.71245	47.96381
diff		14.11371	3.406701		7.377065	20.85036
Diff = mean(0)-mean (1)					t= 4.1429	
Satterthwaite's Degree of freedom=136.699					Pr (|T| > |t|) = 0.0001	

Table 44 shows that the mean of firm age for the banks without a corporate governance committee is 50 and for others it is 36 (mean difference = 14). The results of the t-test showed this difference is statistically significant (p value=0.0001<0.05). Therefore, the younger banks more tend to establish a corporate governance committee than older banks. This result is interesting because it is expected that as the firm gets older, the tendency to comply with principles should increase. However, this was not the case for the sample of this study.

H7f: There is a significant relationship between the proportion of dispersed shares of the firm and establishing a corporate governance committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established a corporate governance committee or not in terms of the ratio of dispersed shares. As tested before the dispersed ratio variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

As shown Table 45, the mean of dispersed ratio for the banks without a corporate governance committee is 26% and for others it is 18% (mean difference = 8%). The results of the t-test showed this difference is statistically significant (p value=0.0013<0.05). Therefore, the banks with less dispersed shares tend to establish a corporate governance committee more than the ones that are more dispersed to public. This is again an unexpected result since the more dispersed banks are expected to establish a corporate governance committee more than the less dispersed ones in order to be complied with governance mechanisms.

Table 45 Dispersed Ratio and Existence of Corporate Governance Committee Assuming Unequal Variances

Group	Obs	Mean	Std.Err.	Std. Dev.	95% Conf. Interval	
0	79	26.74684	1.524278	13.54808	23.71223	29.78144
1	60	18.68333	1.906055	14.76424	14.86933	22.49734
Combined	139	23.26619	1.237915	14.59481	20.81845	25.71392
diff		8.063502	2.440588		3.231764	12.89524
Diff = mean(0)-mean (1)					t= 3.3039	
Satterthwaite's Degree of freedom=121.123					Pr (|T| > |t|) = 0.0013	

H7g: There is a significant relationship between the board size of the firm and establishing a corporate governance committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established a corporate governance committee or not in terms of the board size. As tested before the board size variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

Table 46 shows that the mean of board size for the banks without a corporate governance committee is 8 and for others it is 9 (mean difference = 1). The results of the t-test showed this difference is not statistically significant (p value=0.8802>0.05). Therefore, no matter the board size is the tendency to establish a corporate governance committee does not change. It is an unexpected result since the number of seats in the board increases the number of committees should increase as well.

Table 46 Board Size and Existence of Corporate Governance Committee Assuming Unequal Variances

Group	Obs	Mean	Std.Err.	Std. Dev.	95% Conf. Interval	
0	79	8.987342	0.1797016	1.597223	8.629583	9.3451
1	60	9.033333	0.2458315	1.904203	8.541426	9.525241
Combined	139	9.007194	0.1467318	1.729943	8.717061	9.297328
Diff		-0.88227	0.3503662		-1.589604	-0.1749467
Diff = mean(0)-mean (1)					t= -0.1510	
Satterthwaite's Degree of freedom=114.229					Pr (|T| > |t|) = 0.8802	

6.3.4.4. Compensation Committee

In this section, the possible relationships will be identified between the existence of compensation committee and ownership structure, board composition, control type, CEO duality, the amount of dispersed shares and the size and age of the firm.

H8a: There is a statistically significant difference between different types of ownership structures in terms of establishing a compensation committee

This hypothesis was tested by using chi-square statistics within 95% confidence interval and shown in a contingency table as these two variables are categorical.

Table 47 Ownership Structure and Existence of Compensation Committee

Ownership structure		Compensation Committee		
		0	**1**	**Total**
1		58	5	63
	%	92.06	7.94	100.00
2		38	4	42
	%	90.48	9.52	100.00
3		12	9	21
	%	57.14	42.86	100.00
4		13	0	13
	%	100.00	0.00	100.00
Total		121	18	139
		87.05	12.95	100.00

Pearson chi2 (3) = 20.4386 Pr = 0.000

As shown in Table 47, based on the results of chi-square test, there is a significant relationship between ownership structure and the existence of compensation committee (p value=0.00<0.05). Because of the missing data, there are 139 observations for the compensation committee. This committee was observed only in 13% of the overall observations and 7 of the sampled banks established this committee until the end of researched period. The foreign banks are the ones that comply most with 43% while this percentage is 10% for private banks and 8% for family banks. Surprisingly, as a rule maker, state owned bank did not establish this committee during the observed period. This issue was also pointed out by third interviewee, Fusun Akkal. She claimed that state owned banks do not comply with governance practices but instead they are expected to be the first movers to motivate other firms. If the state, as a rule maker, could not make their banks to adapt these principles, it would be wrong to expect others to comply. It also creates unfair competition in banking industry, she said.

H8b: There is a statistically significant difference between different types of control in terms of establishing a compensation committee

This hypothesis was tested by using chi-square statistics within 95% confidence interval and shown in a contingency table as these two variables are categorical.

Table 48 Control Type and Existence of Compensation Committee

Control Type		**Compensation Committee**		
		0	**1**	**Total**
1		49	4	53
	%	92.45	7.55	100.00
2		72	14	86
	%	83.72	16.28	100.00
Total		121	18	139
	%	87.05	12.95	100.00

Pearson chi2 (1) = 2.2179 Pr = 0.136

Table 48 show that there is not a statistically significant difference between the banks, which are being controlled by a manager or an owner, in terms of establishing a compensation committee (p value=0.136>0.05). Thus, establishing a compensation committee does not change based on the control type of the firm. This could be the result of relatively low number of existence of this committee within the sample.

H8c: There is a statistically significant relationship between the existence of CEO duality and establishing a compensation committee

This hypothesis was tested by using chi-square statistics within 95% confidence interval and shown in a contingency table as these two variables are categorical.

Table 49 CEO Duality and Existence of Compensation Committee

CEO Duality		Compensation Committee		
		0	**1**	**Total**
0		106	16	122
	%	86.89	13.11	100.00
1		15	2	17
	%	88.24	11.76	100.00
Total		121	18	139
	%	87.05	12.95	100.00

Pearson chi2 (1) = 0.0241 Pr = 0.877

As shown in Table 49, there is not a significant difference between duality and separated roles in terms of establishing a compensation committee (p value=0.877>0.05). This could be the result of low level of compliance to this principle by sampled banks (only 18 observations) which could be inadequate to observe a difference.

H8d: There is a significant relationship between the firm size and establishing a compensation committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established a compensation committee or not in terms of their firm sizes. As tested before the firm size variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

Table 50 Firm Size and Existence of Compensation Committee Assuming Unequal Variances

Group	Obs	Mean	Std.Err.	Std. Dev.	95% Conf. Interval	
0	121	6469.967	574.0645	6314.71	5360.359	7633.575
1	18	8415.167	1818.998	7717.353	4577.417	12252.92
Combined	139	6745.367	552.4894	6513.753	5652.928	7837.806
diff		-1918.2	1907.433		-5890.508	2054.108
Diff = mean(0)-mean (1)					t= -1.0056	
Satterthwaite's Degree of freedom=20.5262					Pr (|T| > |t|) = 0.3263	

As shown Table 50, the mean of firm size for the banks without a corporate governance committee is 6469 and for others it is 8415 (mean difference = 1918). The results of the t-test showed this difference is not statistically significant (p value=0.3263>0.05). Therefore, no matter the size of firm is the tendency to establish a compensation committee does not change for the sample of this study.

H8e: There is a significant relationship between the firm age and establishing a compensation committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established a compensation committee or not in terms of their firm age. As tested before the firm age variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

Table 51 Firm Age and Existence of Compensation Committee Assuming Unequal Variances

Group	Obs	Mean	Std.Err.	Std. Dev.	95% Conf. Interval	
0	121	43.47934	1.982259	21.80485	39.5546	47.40407
1	18	50.11111	4.697301	19.92896	40.20067	60.02155
Combined	139	44.33813	1.83365	21.61841	40.71245	47.96381
diff		-6.63177	5.09843		-17.16655	3.90301
Diff = mean(0)-mean (1)					t= -1.3007	
Satterthwaite's Degree of freedom=23.4885					Pr (|T| > |t|) = 0.2060	

Table 51 shows that the mean of firm age for the banks without a compensation committee is 43 and for others it is 50 (mean difference = 7). The results of the t-test showed this difference is not statistically significant (p value=0.2060>0.05). Therefore, no matter the age of bank is the tendency to establish a compensation committee does not change for the sample of this study.

H8f: There is a significant relationship between the proportion of dispersed shares of the firm and establishing a compensation committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established a compensation committee or not in terms of the ratio of dispersed shares. As tested before the dispersed ratio variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

Table 52 Dispersed Ratio and Existence of Compensation Committee Assuming Unequal Variances

Group	Obs	Mean	Std.Err.	Std. Dev.	95% Conf. Interval	
0	121	23.49587	1.343135	14.77448	20.83655	26.15518
1	18	21.72222	3.209265	13.61576	14.95126	28.49318
Combined	139	23.26619	1.237915	14.59481	20.81845	25.71392
diff		1.773646	3.478993		-5.41681	28.964103
Diff = mean(0)-mean (1)					t= 0.5098	
Satterthwaite's Degree of freedom=23.3753					Pr (|T| > |t|) = 0.6150	

As shown Table 52, the mean of dispersed ratio for the banks without a compensation committee is 23% and for others it is 21% (mean difference = 2%). The results of the t-test showed this difference is not statistically significant (p value=0.6150>0.05). Therefore, no matter the dispersed ratio of firm is the tendency to establish a compensation committee does not change for the sample of this study.

H8g: There is a significant relationship between the board size of the firm and establishing a compensation committee

This hypothesis was tested by using independent t-test to understand if there is difference between the banks that established a compensation committee or not in terms of the board size. As tested before the board size variable is normally distributed but the variances are assumed to be unequal while conducting the t-test.

Table 53 Board Size and Existence of Compensation Committee Assuming Unequal Variances

Group	Obs	Mean	Std.Err.	Std. Dev.	95% Conf. Interval	
0	121	8.892562	0.1612629	1.773892	8.573273	9.211851
1	18	9.77778	0.2748209	1.165966	9.197956	10.3576
Combined	139	9.007194	0.1467318	1.729943	8.717061	9.297328
diff		-0.88521	0.3186412		-1.535774	-0.2346578
Diff = mean(0)-mean (1)					t= -2.7781	
Satterthwaite's Degree of freedom=30.2151					Pr (|T| > |t|) = 0.0093	

Table 53 shows that the mean of board size for the banks without a compensation committee is 8 and for others it is 9 (mean difference = 1). The results of the t-test showed this difference is statistically significant (p value=0.0093<0.05). Therefore, the banks that established the compensation committee have more people in their boards. In other words, as the board size increases, they tend to establish a compensation committee as expected.

At the end of this hypothesis testing part, it would be beneficial to see all hypotheses and their results in a table.

Table 54 Summary of Hypotheses Testing

Hypothesis	Testing Method	Result
There is significant difference between different ownership structures in terms of board size	Kruskal Wallis Test	Significant
There is significant difference between different control types in terms of board size	Independent T-test	Not Significant
There is a significant difference between the compliance to board composition rules in terms of firm size	Kruskal Wallis Test	Significant
There is a significant difference between the compliance to board composition rules in terms of firm age	Kruskal Wallis Test	Significant
There is a significant difference between the compliance to board composition rules in terms of proportion of dispersed shares	Kruskal Wallis Test	Significant
There is a significant difference between different ownership structures in terms of the compliance to board composition principles	Chi-Square Test	Significant
There is a significant difference between different control types in terms of the compliance to board composition principles	Chi-Square Test	Significant
There is a significant difference between the compliance to board	Kruskal Wallis Test	Significant

composition rules in terms of board size		
There is significant relationship between firm size and the compliance to CEO duality principle	Independent T-test	Significant
There is a significant relationship between firm age and the compliance to CEO duality principle	Independent T-test	Significant
There is a significant relationship between the proportion of dispersed shares and the compliance to CEO duality principle	Independent T-test	Significant
There is a significant relationship between the board size and the compliance to CEO duality principle	Independent T-test	Significant
There is a significant difference between different ownership structures in terms of the compliance to CEO duality principle	Chi-Square Test	Significant
There is significant difference between different control types in terms of the compliance to CEO duality principle	Chi-Square Test	Significant
Firm size, age, ownership structure, board composition, proportion of dispersed shares and control type has increasing effect in establishing an audit committee.	Logistic Regression	Significant
There is a statistically significant difference between different types of ownership structures in terms of establishing an audit committee	Chi-Square Test	Significant
There is a statistically significant difference between different types of control in terms of establishing an audit committee	Chi-Square Test	Not Significant
There is a statistically significant relationship between the existence of CEO duality and establishing an audit committee	Chi-Square Test	Significant
There is a significant relationship between the firm size and establishing an audit committee	Independent T-test	Significant
There is a significant relationship between the firm age and establishing an audit committee	Independent T-test	Significant
There is a significant relationship between the proportion of dispersed shares of the firm and establishing an audit committee	Independent T-test	Not Significant
There is a significant relationship between the board size of the firm and establishing an audit committee	Independent T-test	Significant
There is a statistically significant difference between different types of ownership structures in terms of establishing a risk committee	Chi-Square Test	Not Significant
There is a statistically significant difference between different types of control in terms of establishing a risk committee	Chi-Square Test	Not Significant
There is a statistically significant relationship between the existence of CEO duality and establishing a risk committee	Chi-Square Test	Not Significant
There is a significant relationship between the firm size and establishing a risk committee	Independent T-test	Significant
H6e: There is a significant relationship between the firm age and establishing a risk committee	Independent T-test	Significant
There is a significant relationship between the proportion of dispersed shares of the firm and establishing a risk committee	Independent T-test	Not Significant
There is a significant relationship between the board size of the firm and establishing a risk committee	Independent T-test	Significant

There is a statistically significant difference between different types of ownership structures in terms of establishing a corporate governance committee	Chi-Square Test	Significant
There is a statistically significant difference between different types of control in terms of establishing a corporate governance committee	Chi-Square Test	Not Significant
There is a statistically significant relationship between the existence of CEO duality and establishing a corporate governance committee	Chi-Square Test	Not Significant
There is a significant relationship between the firm size and establishing a corporate governance committee	Independent T-test	Significant
There is a significant relationship between the firm age and establishing a corporate governance committee	Independent T-test	Significant
There is a significant relationship between the proportion of dispersed shares of the firm and establishing a corporate governance committee	Independent T-test	Significant
There is a significant relationship between the board size of the firm and establishing a corporate governance committee	Independent T-test	Not Significant
There is a statistically significant difference between different types of ownership structures in terms of establishing a compensation committee	Chi-Square Test	Significant
There is a statistically significant difference between different types of control in terms of establishing a compensation committee	Chi-Square Test	Not Significant
There is a statistically significant relationship between the existence of CEO duality and establishing a compensation committee	Chi-Square Test	Not Significant
There is a significant relationship between the firm size and establishing a compensation committee	Independent T-test	Not Significant
There is a significant relationship between the firm age and establishing a compensation committee	Independent T-test	Not Significant
There is a significant relationship between the proportion of dispersed shares of the firm and establishing a compensation committee	Independent T-test	Not Significant
There is a significant relationship between the board size of the firm and establishing a compensation committee	Independent T-test	Significant

7. DISCUSSION

In this study, the aim was to observe the institutional transformation lived in Turkey after 2000 in terms of corporate governance adaptation of listed banks by focusing only the board structure. Therefore, in this chapter the findings of the study will be evaluated with the relevant studies in literature. By doing this, firstly the institutional transformation process will be concerned and then the effects of the transformation will be identified in boards of the sampled banks. The research question of this study was to understand the governance adaptation process of listed banks through the institutional transformation period between 2000 and 2012. The existing institutional context was drawn firstly which is important factor of organizational design and then the organizational level board structure was observed in order to clarify the changes in the boards of listed banks. As an exploratory study, the adaptation period was observed and the changes in boards were identified by taking the firm characteristics into account to understand if there is a difference between different types of banks in adaptation to governance mechanisms.

7.1. Institutional Transformation

This study is constructed on the tenets of institutional theory and institutional transformation studies which is believed that entrance of corporate governance to the field provides organizational restructuring in the firms' boards. In other words, transformed institutionalized patterns influence the organizational structures (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Tolbert and Zucker, 1983; Meyer, Scott and Deal, 1983; Scott, 1987; Hinnings and Greenwood, 1988). This was the start point of this study and the research was designed based on this tenet of institutional theory by disagreement with the earlier theorist (DiMaggio and Powell,

1983) who claimed isomorphism within the institutions. If there was isomorphism, there would not be any difference between the firms in the field in terms of governance practices. However, this study accepts the role of active agent (Wolfgram, Boal and Hunt, 1998) in this transformation process and also emphasizes the firm characteristics in terms of governance adaptation. This is also the claim of dialectic perspective that defines the change by emphasizing the different interests of the actors within the same institution.

First of all, this study claims that Turkey lived an institutional transformation period after 2000 in which corporate governance is legitimized. The experienced transformation was mapped before by using the studies of Seo and Creed (2002) and Oliver (1992) but this chapter summarizes the signs of institutional transformation. In Turkey, there were institutional contradictions and continuous tension that brought the praxis and the genuine transformation of the field. The first reason was the inefficient financial system and banking industry (Seo and Creed, 2002). The collective action for adopting governance mechanism was resulted from the inefficient financial system and economical model of Turkey due to high level of public debt, budget deficit and liquidity problems which also leaded to sequential financial crises in 2000 and 2001. This inefficient financial system was constraining the actors in the field and new alternatives or restructuration was believed to necessary for the field. This could be understood from the movements of TUSIAD that brought the governance concept to business life firstly in 2002.

The malfunctioned system also created functional pressures in economy and banking industry (Oliver, 1992). In other words, the overall mindset changed in Turkey to change the organizational culture and structure to become less vulnerable to the instable environment of banking industry as Fourie (1999) claimed. He also mentioned about the organizational reengineering after the mindset change as it was the case in Turkey which lived a highest level institutional design after 2001 especially (Alexander, 2005). The proof of this could be observed in the empirical results of this study. Although the logic of corporate governance mechanisms is not parallel to such cultures that family business dominated the business environment with pyramidal and complex structure, the corporate governance mechanism gained legitimacy and was institutionalized in Turkey (Balic, 2007).

The existent system inefficiency was also the results of previous events, incorrect government policies and enforcements of international actors (Djelic and Quack, 2007) that Turkey is dependent to leverage the economy. For instance, IMF enforced conditions for providing a development package after 2001 crisis and Turkey complied with them all. However, Turkey did not have adequate infrastructure for the new policies and the results were not that expected and increased the malfunctionality of the financial sector and economy as a whole. As external dependencies, IMF, EU adaptation process and required WB funds created political pressure on Turkey (Oliver, 1992) and provided the framework of institutional restructuring in terms of governance practices.

Moreover, the sequential crises and system defects decreased the international compatibility of Turkey in global market and lowered the entrance of foreign investors that the country was in need (Seo and Creed, 2002). Therefore, this incompatibility derived the mobilization of new practices and even the collective action of banks in complying with all conditions because the banking industry had to take foreign investment to leverage. However, the strict regulations and several recommendations for corporate governance mechanisms in post-crisis period after 2001 were not obtained by all banks. They could not adopt them that easily because of their path dependencies and existing business culture of Turkey. It could be the efforts of the firms to secure and preserve their resources to keep their position in safe during institutional transformation period as Resource Dependency theory suggested (Pfeffer and Salancik, 1978; Thompson, 1967; Kostova and Roth, 2003).

Therefore, this non-adaptability (Seo and Creed, 2002) also decreased the shift in collective consciousness since all of them could not move together. In fact, regulatory changes alone are enough to bring organizational changes (Smith and Grimm, 1987) as it was in Turkish banking industry. The banks are under the control of laws and regulations by several government authorities such as BRSA, SDIF, CMB, banking law and TCC. Some part of the governance practices are compulsory or in comply or explain basis, so there is consensus in compliance with those principles.

Institutional change could be the result of questioning the status quo and decreasing value of existing practices (Oliver, 1992). However, experienced change is not a total change because of the entropy and inertial pressure, In other words, some parts of the existing system could be path dependent and inertial to change (Sewell, 1996). The existing dominance of family ownership structure in Turkish business culture prevents the total change within the organizations (Lane, 2003). Although there are defendants of a radical change by an external factor, it was not the case in Turkey (Mahoney, 2000). Because, the existing conditions and explained several endogenous and exogenous factors together triggered the transformation in Turkish banking industry.

One of these factors that could shape the transformation period is active agent. The existence of institutional actors could diffuse new practices (Leblebici, Salancik, Copay and King, 1991; Greenwood and Hinnings, 1996; D’Aunno, Succi and Alexander, 2000; Kostova and Roth, 2002; Starbuck, Greve and Hedberg, 1978) and actors within the field could respond to the institutional changes by being active, passive or resisting which depend to the existence institutional forces (Powell, 1985, Perrow, 1985; Covaleski and Dirsmith, 1988; DiMaggio, 1988, Mezias, 1990; Oliver, 1991; Goodstein, 1994; Greenwood and Suddaby, 2006).Also the divergent interests of existing actors trigger the change (Oliver, 1992).

Parallel to dialectic view, this study justified the role of active agents; the misaligned interests of CB and Treasury of Turkey and banks created the need for new regulations and new agents (Seo and Creed, 2002) who are also the ones that shape the changes such as re-authorized CB, BRSA, Basel II and SDIF for the banking industry, the field. Near them, there are other local change agents of the expansion of corporate governance; CMB, CGAT, BIST and TUSIAD. These agents provided to change the collective mind in terms of the importance of governance mechanisms and also mobilized the resources and new practices which leaded to praxis change and transformation by either obligations or recommendations. Addition to these local agents, there are international actors, responsible from the expansion of corporate governance logic in global era such as OECD, Cadbury Report, Sarbanes-Oxley Act and Basel committee. Those actors and their global standards created social pressure in Turkey to follow the governance trends otherwise it would be underscored in the ranking of international competition and become incompatible to attract foreign investors (IMD, 2010).

By only looking at rich literature about governance adaptation of Turkey, the changes and transformation could be identified. Studies showed that most of the companies did not understand the corporate governance well; and disclosure, accountability and transparency were low (CGAT, 2005; CMB, 2005; OECD, 2006; Fitch Ratings, 2007; S&P, 2007; Balic, 2007; IMF, 2007). In 2004, CMB surveyed the listed companies in terms of corporate governance practices and observed that the disclosure is very low and only 31% published their compliance reports which did not include all kind of required information. However, today the compliance report is taken as for granted and every firm publishes it with required information which means that this practice is fully institutionalized (Tolbert and Zucker, 1983).

Another practice that was fully institutionalized during this period is having an official website to disclose the necessary information to the public. According to CMB's study (2005), only 77% of the listed firms had website while it increased to 95% in the following year and to full compliance today. Addition to this, OECD (2006) prepared a report for the compliance level of Turkey and found that there is only one principle is broadly implemented while the rest 14 principles are only partially implemented. While collecting the relevant data of this study, the only difficulty was lived about the information of committees for the years before 2003. After 2004, all of the companies either disclosed the required information through websites or answered through e-mails. This study observed that disclosure increased during this period as a support of WB report in 2010 which ranked the transparency and disclosure of Turkey as 9 out of 10. This could be the result of studying the banking industry which is more transparent and closer to global standards by legal forces (Ararat and Cetin, 2008; Aysan and Ceyhun, 2008).

All of these reasons prepared the framework of institutional transformation in Turkish banking industry in terms of corporate governance. The transformation is evaluated in detail by focusing and observing the changes in board structures of listed banks between 2000 and 2012. Like experienced historical events, findings of this study also supported the existence of institutional transformation in terms of corporate governance. Institutional transformation is followed by organizational change or reengineering after 2000 (Alexander, 2005) because the importance of transparency and accountability was understood after living the severe conditions of financial crises and system inefficiencies.

7.2. Transformed Board Structure

There is an experienced institutional transformation within the Turkish banking industry but there is not a consensus for the compliance to each principle. Based on the observation of this study, there is not an ideal board structure defined by the environment and adapted by all firms as agency theory suggested (Jensen and Meckling, 1976 Jensen and Meckling, 1976; Fama and Jensen, 1983; MacAvoy et al, 1983; Baysinger and Butler, 1985; Weisbach, 1988). For sure, the banks responded to the environment especially in post-crisis periods (Berger and Luckman, 1967) but it was not in the same manner for each bank. The agents could response to the transformation within the field differently based on their interests. Therefore, in this part, differences observed in this study will be summarized.

The experienced changes in the banking industry and also in Turkey as a whole after 2000 affected the organizational structures of the firms as Pfeffer (1992) claimed in her research. This study focused on the board structures of listed banks in order to understand the institutionalization of corporate governance in Turkey. Before detailing the transformation in board structure, the firm characteristics were observed as well in order to understand the organizational change during the transformation period.

The size of the sampled banks increased during this period which is parallel to the economic development and growth rate of Turkey at the same time. The profitability of the Turkish banking industry is in good level but it is not possible to talk about an industry growth. Although the mean of firm size was 6639 employees in the listed banks, the average size increased from 4564 to 9160 people within the sampled banks. The firm size was found out related with board structure variables in this study as also CGAT (2010) stated that bigger firms comply more. The age of the firms, on the other hand, was 45 years in average which is a quite older industry. There are banks that were being traded in BIST for even 28 years in the sample.

The ownership structure of the sampled banks is separated to four groups as family, private, foreign and state banks. Although Turkey has a family dominated business environment, which is not a desirable environment for corporate governance, (La Porta et al., 1999; Yurtoglu, 2003; Demirag and Serter, 2003; Balic, 2007; Goksen and Oktem, 2009) the result of this study showed that family ownership is decreasing year by year. Although the family ownership average is 32% (69 in 143 observations) in the sampled banks, this ratio was 38.4% in 2000 and decreased to 25.3% in 2012. Until 2005, the sampled banks were purely domestic, but then foreign investors started to enter the Turkish banking industry. The foreign investors involved in banking industry after 2006 by partnerships with local banks. Although their entrance could be seen as a positive impact for the banking industry, defected trade, monetary and financial policies of Turkey was not ready for foreign investment yet in those years (Aitken and Harrison, 1999; Carkovic and Levine, 2002). Therefore, the early entrance of foreign investors fluctuated the industry and was caused foreign investors to escape again in a short time. As a functional pressure, it was an adequate reason for institutional transformation.

However, recently there is an increase in foreign investments again. The foreign investment increased to 21.5% in 2012 which was 0 until 2005. This is the proof of increasing adaptation to governance mechanism in Turkish banking industry because foreign investors seek corporate governance adaptation criteria in investing especially to family dominated environment (Coombes and Watson, 2001; Mangena and Tauringana, 2007; Gursoy, 2006). This could be a bilateral effect which came first is not that clear. Although the third interviewee, Fusun Akkal claimed the reverse, according to Ali Tigrel, the second interviewee, foreign investors prefer the banks within the group companies because they found them more secure to invest. However, the Turkish group companies are held by families mostly and the other corporate firms are more costly to invest. Therefore, the banks that attracted foreign investors tend to adapt governance practices more than other firms. The findings of this study also prove that because the adaptation to governance principles that target board structure increased more after 2005. This finding is in accordance with the previous studies claiming that the foreign ownership affects the corporate governance practices positively (Coombes and Watson, 2001; Mangena and Tauringana, 2007; Gursoy, 2006).

On the other hand, the private and state ownership did not change that much during this period for the sampled banks as the dispersed ratio. The proportion of traded shares of sampled banks was 23.7% in 2000 and decreased to 22.7% at the end of 2012. Whereas, there is a 5% decrease in the ratio of owner control of sampled banks and 10% increase in managerial control which could be seen a positive matter for corporate governance. 78% of family banks and 19% of foreign banks are being controlled by families, which is in accordance with the literature (La Porta et al., 1999; Demirag and Serter, 2003; Sonmez and Toksoy, 2011).

In this study, the board structure was identified by observing the size and composition of the board, CEO duality and tenure and the committees established under the boards (Dalton and Kesner, 1987; Hermalin and Weisbach, 1988; Pearce and Zahra, 1992; Jensen, 1993; Daily and Dalton, 1994; Barnhart et al, 1994; Bathala and Rao, 1995; Daily and Schwenk, 1996; Johnson et.al, 1996; Brickley et al, 1997; Hermalin and Weisbach, 1998; Shivdasani and Yermack, 1999; Mak and Roush, 2000; Prevost et al, 2002; Carter and Lorsch, 2003; Hopt and Leyens, 2004; Raheja, 2005; Lane at al., 2006; Blumentritt, 2006; Boone at al., 2007; Cheng et al, 2007).

The results of this study about the board size of sampled banks showed that there are 9 members in the boards of listed banks averagely. This number was 8 in 2000 and 10 at the end of 2012 which means that there are more members in the boards now. Although there are only regulations about the minimum board size in Turkey, the banks enlarged their boards (Minimum 3 members by TCC (1956); Banking Law (2005) and Minimum 5 members by CMB (2011)). This increase is the result of changed regulations about board composition, needs of firms for foreign capital and establishing corporate governance mind for including more outsiders to the board. In other words, the regulative changes affected the board size as Pfeffer (1972) and Linck et al. (2008) claimed. Additionally, the larger boards could be preferred to enlarge the boundaries of the firm by supplying more links and contacts during the transformation period which is relatively unstable as resource dependency theory claims (Zahra and Pearce, 1989).

The correlation analysis showed that board size is positively correlated with firm size and firm age as it was also claimed by Linck et al. (2008). This is an expected result because as firms grow and get older their needs for capital increase as well and they need to send legitimacy signals to investors by adapting the governance principles. In other words, outsiders included to the board enlarge the size of boards of banks. The board size is also positively correlated with the ratio of foreign involvement in ownership. This is also the result of compliance to outsider dominated board principle by the involvement of foreign investors. Foreigners increased the compliance level of sampled banks to the principles in Turkey which will be mentioned in appropriate sections below. Whereas, the state ownership is negatively correlated with board size and this could be seen as the result of being in a safer position in Turkey by the support of government.

It is also observed that there is a statistically significant difference between different ownership structures in terms board size. Family, public and foreign banks are different in terms of board size. Foreign banks (10) have more people in boards than family owned (9) and public banks (7). Indeed, this study did not find a support for the argument about smaller board preference of the family owned and controlled banks to prevent the decrease of CEO dominance (Forbes and Milliken, 1999; Goodstein et al., 1994). Conversely, the board size of family banks increased during the observed period from 8.5 to 9.8 members. However, a statistically significant difference was not observed between different control types in terms of board size.

The size of the board matters if it includes enough members to be able to an independent board. Therefore just looking the size of Turkish banks does not provide any clue about the independence or objectivity of the board. It is important to identify the composition of the board. According to findings of this study, there is a statistically significant relationship between board size and compliance to composition principles. The banks that do not comply with any principle about board composition (8 members) have less people than the ones that comply with only non-executive rule (10 members) and the ones that comply with both (10 members). Therefore, Turkish listed banks with larger boards comply with the board composition principles more while the larger boards are within the foreign banks.

There is a large consensus about the outsider dominated boards to increase the objectivity and independency of boards form the management of the firm (Weisbach, 1988; Byrd and Hickman, 1992; Johnson et al, 1996; Cotter et al, 1997; John and Senbet, 1998; Dennis, 2001; Klein, 2002; Kula, 2005; Cadbury, 2002; OECD, 1999). Outsiders increase the resource access, network ties and shareholder wealth (Pfeffer, 1972; Fama and Jensen, 1983; Rosenstein and Wyatt, 1990; Baysinger and Hoskisson, 1990; Carpenter and Westphal, 2001; Johnson et al., 1993). There are also studies claim that in uncertain environment, firms tend to have more non-executive members in their boards to reach more capital and other resources (Boyd, 1990; Hillman et al., 2000; Gulati and Westphal, 1999). The results of this study also showed that the board composition trend changed during the transformation period of institutionalization of corporate governance in Turkish banking industry. The number of executive members decreased from 3.6 to 2.5 while the number of non-executive members increased to 7.4 from 4.7 which is a noticeable rise especially after 2003. This means banks understood the importance of outsiders in the boards and started to adapt this principle which was supported by legal force as well.

The board composition was also evaluated in previous studies and there was an agreement about the insider dominated board structure of Turkish firms which are also family dominated. The percentage of executive members was 78% in 2004 (CMB), was high in 2006 (OECD), was 70% in 2008 (Goksen and Karatas, 2008), was 75% in 2009 (Goksen and Oktem) and only 10% of the firms had insider dominated boards in 2008 (CMB, 2008). However, this study showed that the boards of listed banks are outsider dominated contrary to previous studies. The results of frequency analysis showed that the average percentage of executive members is 38% and the percentage of non-executives is 62%. The average number of non-executive members was 5.5 in the sampled banks which is a relatively high ratio when the mean of board size is thought as 9 members. More than half of the banks' boards are dominated by outsiders. In 2000, the non-executive members constituted the 57% of the board which increased to 74% at the end of 2012.

Therefore, although there is an increase in the number of non-executives in the sampled banks, their boards were already not insider dominated before the transformation period. This could also be understood by looking the compliance level of board composition principles. In

2000, the compliance to the principle of having more than 50% of non-executive members was 46% and it increased to 90% in 2012. Since having more executive members increases the dependency to top management and members tend to be stewards (Ulgen and Mirze, 2004), by having more outside directors in their boards, banks sent legitimacy signals to the field and attracted more investors. However, adopting the rationalized myths in the field could be only ceremonially to gain legitimacy while the actual behavior is different (Meyer and Rowan, 1977; Baum and Oliver, 1991; Dogu, 2003). This is the case for Turkish listed banks as well because although their boards consist of many non-executive members, these members are being selected form the trusted people in order to keep on family dominance and control in boards (Goksen and Oktem, 2009; CMB, 2010). This study found the support for argument about intransparent selection process of board members and low level of disclosure the CVs of members (CMB, 2004; 2005; OECD, 2006; Kurt, 2008). The second and third interviewees also mentioned about the intransparent selection process of board members and their inadequacies of being non-executive members or behaving as outsiders. On the contrary, they behave as officers of families, they said. This is also proved by the long tenure of board members in sampled banks; there were members with 20 years tenure in the same bank.

As parallel with previous studies and reports, the selection process was not disclosed by Turkish listed firms. It was planned to include this study as one of the variables but the relevant data was not accessed for the years before 2007. Therefore, like other companies listed in BIST, banks are not transparent and even objective in member selection as well. Both the second and third interviewees, Ali Tigrel and Fusun Akkal, agreed with that political relationships are being used during the nomination of the members and even for the approval of independent directors by CMB. Ali Tigrel also mentioned that the profile of non-executive members changed during this transformation period. Previously, the most required members were politicians or retired public officials due to their governmental relationships as resource dependency theory claimed. However, recently the banks prefer to include more professionals and experienced members in banking industry such as retired officers or a manager from another group company, he said. However, it should be kept in mind that those members are being selected by controlling shareholders and could not be that independent or objective. Fusun Akkal also stated that both non-executive and independent directors are being nominated by controlling shareholders and they prefer people who are secure and similar to them. Therefore, the member selection process is not transparent and objective according to both interviewees.

On the other hand, the independent directors are very rare even in the boards of listed banks. The mean of the number of independent directors was 0.51 in this study which was observed only in 33 cases (23%) of all 143 observations. The number increased from 0 to 2.1 at the end of 2012 but the independent directors still consist of only 6% of the boards. Contrary to previous studies that observed more independents in boards of listed Turkish firms such as 26% in 2004, 18% in 2005 and 36% in 2008 by CMB, this study did not observe that much independent directors in boards of sampled banks. This is parallel with the report of Fitch Ratings (2007) which claimed that Turkish firms did not understand the concept of independency and the numbers are inadequate to have independent boards. Although the independent directors are important to bring profession, to decrease the possible coalition between board members, to protect resources and to increase the monitoring ability of the boards, Turkish banking industry realized these recently. In countries such Turkey, independent directors are more important since there is not enough protection of shareholders' rights (Kula and Tatoglu, 2006). However, based on the observation of this study, there is not enough number of independent directors in boards.

The selection and nomination process of independent directors are not different from the non-executives. Although CMB published more strict principles for the selection and nomination criteria of independent directors, this function is not being performed properly. When the independent directors of sampled banks evaluated, there were members whose qualifications are not matched with CMB's requirements. As Ali Tigrel told, political links and several frauds are going on in this process of governance mechanism. The lack of sanctions for not complying the principles makes firms to violate the principles that they do not want to internalize as the first interviewee, CMB specialist confessed. In such conditions, they ceremonially comply with them like some of sampled banks. They declared to have many independent directors but their independency is not valid n actual. Therefore, the level of compliance to the principle stating that independent directors should consist of 1/3 of board members is 6% in sampled banks. Near this low level, the existing independent directors could not be able to behave as independent especially in family banks, as mentioned by Ali Tigrel. He claimed that family banks are including these members to gain approval from CMB and to attract investors (Dogu, 2003) but generally these members could not speak or resist the decisions made by controlling shareholders. The existence of independent directors diverges with the Turkish family dominated business culture which avoids to share inside information with others. However, the third interviewee, Fusun Akkal disagreed with that and claimed that independent directors could behave independently in boards even the controlling shareholders are present in the board. Parallel with her claim, this situation started to change with institutionalization of corporate governance which could be seen from the increasing number of independent directors and decreasing ratio of family ownership.

The compliance to board composition principles was analyzed with various control variables in this study if there is any significant effect on firms' compliance decisions. There is a significant relationship between firm size and board composition and the banks that do not comply any of those principles are bigger than the ones that comply with both non-executive and independent principles and the ones that comply with only non-executive rule. This could be the result of that big banks are less indebted to send legitimacy signal to the field than the smaller ones. Another reason could be that the biggest ones are family banks in the sample of this study and families hesitate to include outsiders to the boards. This result is not in accordance with the literature that claims that boards are more crucial for family firms (Daily and Dalton, 1993; Millstein and MacAvoy, 1998; Klein, 1998; Dehaene et al, 2001; Bonn et al, 2003; Abdullah, 2004; Ibrahim et al, 2006). This resistance to board composition also shows the active agent role in transformation process.

The age of firm is also significantly different in terms of compliance to board composition principles. The banks that comply with both rules are the youngest ones within the sample while oldest ones comply either only non-executive or none of them. This could be the result of path dependency of older firms that do not want to change their existing practices easily in such transformation period to protect their current positions (Pfeffer and Salancik, 1978; Thompson, 1967; Kostova and Roth, 2003). Younger banks comply with both principles more to increase their legitimacy and to attract investors. Additionally, the proportion of dispersed shares is also significantly effective in compliance to board composition principles. The banks that are more dispersed comply with only non-executive or independent rule while the banks that comply both of them are less dispersed.

The ownership structure and control types are also significant in terms of board composition decisions of banks. Based on the findings of this study, 38% of family banks, 78% of private banks and all of the foreign banks comply with only non-executive rules while 52% of family and 22% of private do not comply with any of them. The frequency of the banks that do not comply with any of the board composition principles is 30% which is quite high ratio. Foreign banks are more sensitive in board composition (Gursoy, 2006; Kim and Kang, 2010; Gietzmann and Ireland, 2005). This could be the result of the inadequate legal support and sanctions for not complying the governance principles as all of the interviewees admitted. The control type of the banks, on the other hand, created a difference in terms of board composition decisions of sampled banks. Findings of the study showed that 79% of the banks that comply with only non-executive rule are being controlled by a manager while most of the banks that do not comply with any principle are being controlled by owners. Therefore, the managers are more sensitive to comply with the principles to reduce the risk of their positions whereas owners are more comfortable in not complying or violating the principles in such environment which is lack of sanctions.

Another aspect of board structure is CEO duality which is observed in this study. There are both defendants (Solomon, 1993; Alexander et al, 1993; Finkelstein and D'Aveni, 1994; Brickley et al, 1997; Mak and Roush, 2000; Abdullah, 2002; Abdullah, 2006) and opponents of duality like agency theorists (Eisenhardt, 1989; Hambrick and D'Aveni, 1992; Daily and Dalton, 1993; Daily and Schwenk, 1996; Yermack, 1996; Weir and Laing, 2001; Elloumi and Gueyie, 2001). Since it is thought that duality decreases the functionality and flexibility while increases the dependencies of the boards, firms tend to separate these roles for good governance (Zahra and Pearce, 1989; Jensen, 1993; Coles and Hestely, 2000). The observations of this study showed that the duality is not that common in Turkish listed banks; the duality was observed before 2010 in only 15% of all observations. Although the duality is not common in the sampled banks, this is again of the ceremonial adaptation to governance mechanism (Meyer and Rowan, 1977; Baum and Oliver, 1991). As previous studies and one of the interviewee, Ali Tigrel, of this study told CEOs are behaving like stewards of the controlling shareholders and families in Turkish firms (Goksen and Oktem, 2009). He mentioned that based on his observations in boardrooms, CEO behave like a dependent officer of family other than bringing an objective point of view to the board. Long tenure of the CEOs and intransparent board member selection process observed in this study also proved this issue. Long tenured stewards, CEOs of Turkish firms, oversee the interests of the firms more than their own concerns as Monks and Minow (2004) told.

Based on the findings of this study, each firm characteristics studied in this research significantly affects the existence of duality. Smaller and younger banks have more duality than the bigger and older firms. Similarly, the firms that separated these roles are more dispersed banks which are mostly private and public banks and also they have bigger boards. Family banks are more sensitive in this issue and have less duality than others because they seek for legitimacy more than other banks to attract investors. Furthermore, banks that are being controlled by owners do not have duality.

The long tenure creates duality affect in boards (Linck et al., 2008) and decreases the independency of the boards (Hermalin and Weisbach, 1998). Since the long tenured CEOs exist in selection process of the board members, they tend to select people who are similar to themselves and manipulate the independency of boards (Shivdasani and Yermack, 1999; Carter and Lorsch, 2003). Moreover, Coles et al (2007) found that there is a negative relation between

CEO tenure and insider proportion of board while firm age and CEO age are positively related. In this study, it was found that the CEO tenure for listed banks is 4.41 in average but there is a CEO who worked in same bank for 13 years which is quite enough to become a steward as Ali Tigrel said. The correlation analysis showed that tenure is correlated with firm size, age, the dispersed ratio and the family ownership but all of them are weak relationships with less than 20%.

Existing committees are also in the focus of this study which is essential in efficiency of the board and information flow within the insiders and outsiders (Clarke, 2007). Each committee has different benefits to the firm; audit committee prevents frauds and corruption (Dastan, 2010; Dechow et al., 1996). Corporate governance committee enhances the boards in terms of monitoring and transparency (CMB, 2005). While the compensation committee is essential to identify the responsibilities of board members, compensation and incentive policies and to resolve the possible interest conflict (Boruntas, 2004).

In this study, audit, risk, corporate governance and compensation committees were observed, which are required by governance authorities. The number of committees in the sampled banks was correlated with firm size, family and foreign ownership ratio, board size, number of independent directors and CEO tenure which are weak relationships but the strongest correlation was with foreign ownership ratio.

Additionally, the firm characteristics were observed if they are effective in establishing the required committees. Firstly, there is a significant difference between the banks that establish audit, risk and corporate governance committees and others that did not establish in terms of firm size. However, there is not a significant relationship between firm size and compensation committee. The bigger banks established audit and risk committees more than the smaller ones while the corporate governance committee was established by smaller bank more. Secondly, the firm age is also effective in establishing audit, risk and corporate governance committees but not with compensation committee. Older firms establish audit and risk committees whereas younger firms establish the compensation committee more.

Another aspect of firm characteristic is ownership structure which is not significant for risk committee while it is effective for audit, corporate governance and compensation committees. The audit committee was established by all foreign banks, by 54% of family banks and 64% of private banks. The corporate governance committee was established again by all foreign banks, 32% of family banks and 31% of private banks and the state banks established it in 2007. The compensation committee, which is not a common one, was established by 43% of foreign banks, 8% of family banks and 10% of private banks.

The control type of the banks did not create any significant difference in terms of establishing the required committees while the dispersed ratio is only effective in establishing a corporate governance committee. The banks that established the corporate governance committee are less dispersed than the others. The existence of CEO duality is only effective in establishing the audit committee but not in risk, corporate governance and compensation committees. Based on the findings, 92% of the banks that established the audit committee separated the CEO and chairman roles. Lastly, the board size was also taken into account to understand the impacts of establishing the required committees. While it was not significant for corporate governance committee, bigger boards established the audit, risk and compensation committees more than the banks with smaller boards.

As mentioned above, firms in the field responded to these governance practices differently. While some of them adapted the practices firstly, others complied lately or even did not adapt the practice (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Baum and Oliver, 1991; Louma and Goodstein, 1999). These organizational decisions, either acceptance or resistance, could be sourced from organizational path dependency especially for older banks or could be the prevailing family dominated business culture of Turkey.

Based on these response differences, Table 55 summarizes the compliance of sampled banks to each principle about board structure (To see the name of banks See Appendix 2). There are banks that do not comply some of the principles yet while there are banks that acquiescence and compromise or avoid from the principles (Oliver, 1992). The acquiescence could be the bank 2 which is a family dominated bank that accepts the principles as general. Whereas other family owned banks like 1 and 4; private banks like 5 and 9 are compromising the principles by adopting only the ones that meet their own interests only.

Table 55 The Transformation of Board Structure of Sampled Banks

	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Board Size	9.4	9.1	9.4	8.9	11	9.6	6	8.4	7	10.9	9.2
Non-Executives	2007	2000	2003	no	2000	2002	2008	2000	2000	2000	2003
Independents	NO	2008	2012	2012	NO	NO	NO	NO	2012	NO	NO
CEO Duality	NO	NO	NO	NO	NO	2006	NO	NO	2011	NO	NO
CEO Tenure	3.9	4.4	2.9	7	6.2	3.8	5.2	4.5	3.8	4.9	2.1
Highest Member Tenure	15	16	18	20	18	10	10	16	7	17	7
Audit Committee	2006	2004	2006	2004	2001	2006	2006	2004	2006	2006	2005
Risk Committee	2002	2002	2004	2002	2001	2004	2002	2004	2004	2004	2002
Corporate Governance Committee	2009	2005	2004	2012	NO	2007	2004	2008	2007	2009	2010
Compensation Committee	NO	2012	NO	2012	2011	2012	NO	2004	NO	2011	2011

Although this study observed a decrease in the level of family ownership, they are still in there with a relatively high percentage. As their existence decreases, the level of compliance is increasing year by year. However, the level of compliance is also related with the lack of legal support to the governance mechanism in Turkey (Dennis, 2001). Turkish firms are not eager to adapt voluntary based principles; this was also proved by the low number of committees. This was also pointed by Ali Tigrel and Fusun Akkal who claimed that the sanctions and existent framework is not adequate to motivate the firms to comply with governance principles. According to them, listed banks are sensitive to be legitimate and are prone to comply the principles in order to take the government support and attract the investors. Since the Turkish banking industry is strictly regulated and dominated by government, firms in the field have to be in the same line with them to be in the safer side in such instable environment. This was also proved by the first interviewee from CMB who claimed that there is not enough inspection and sanction for the firms. Having 12 years experience, she thinks that voluntary based principles are not appropriate for the business culture of Turkey. However, CMB also realized this and increased the sanctions with new communiqués after 2012.

Finally, both the result of this study and the interviewees agree with the increasing level of compliance in Turkish listed firms during the observed period. However, it would not be wrong to claim that governance practices gained more importance by the entrance of foreign investors after 2005. Although the governance practices are costly to implement for Turkish firms due to the relinquishment from the power and control held by dominant shareholders and the privacy of inside information about the family firms, the compliance level increased after 2005 (Kurt, 2008). Surely, there is not a full compliance to all practices about board structure, but it would not be wrong to talk about a transformation within the listed banks as Ararat and Ugur (2004) claimed.

8. CONCLUSION

Corporate governance was evaluated by different researchers and authorities until today. When the different definitions of this concept were analyzed, it consists of rights and responsibilities and the relationship between shareholders, employees, customers and other stakeholders. There are two different types of governance systems which are Anglo-Saxon and Continental European model which is also internalized by Turkey. However, no matter the model of the governance system, it concerns about four main topics; transparency, fairness, accountability and responsibility. These subjects are defined to regulate financial and managerial functions of firms due to the presence and growth of family businesses, inadequacies in management, the separation of ownership and management in recent years, the rising need for global capital and the increasing importance of stock markets. Therefore, in such current context, audit should not be inside of the firm anymore instead, it is a function of firm that should be continuously monitored by all stakeholders. That is the main objective of corporate governance, to make the organizations more auditable and controllable.

Turkey could not remain indifferent to this concept and the necessary steps were taken after the financial crisis of 2001 as a condition of IMF development package. However it gained acceleration after the entrance of foreign investors to the country and their leadership in compliance to these principles. The experienced changes within the financial conditions, foreign investment, regulatory framework of Turkey, the restructuration of banking industry after 2001, the external dependencies of the national economy and increasing competition in the global environment pushed the policy makers and even the firms to question the existing conditions and to seek for new alternatives. To attract the needed capital, the country should provide a financial system and business environment, which is one of the main objectives of corporate governance. Especially for the banking industry, which stands at the heart of the national economy, the risk and cost of capital are increasing continuously.

The globalization of the banking industry, the effects of banking crises and developments on the nation's economy position this industry in a critical point. This industry contributes to the industrial development of the country, capital distribution, national economy and the efficient banking system are essential for the welfare of a nation. Therefore, strict regulations, monitoring and good governance are vital for banking industry which is the main focus of this study. Since the bad management is one of the factors of financial crisis, to prevent this risk corporate governance is essential for banking industry. By observing the existing situation of governance adaptation of Turkish listed banks, this study contributed to the literature in terms of identifying if there is risk of possible crisis sourced by bad management like experienced in 2001.

As an oligopoly market, Turkish banking industry is both regulated by international standards and national regulations. The corporate governance principles also aim to construct reliable banking system to attract investors since the industry in need for capital. Therefore, the movements for adaptation of corporate governance mechanism in baking industry are TCC, Banking Law, principles of BRSA and CMB, studies of BAT, BIST and SDIF. However the compliance to the principles is not full for each principle even the state owned bank do not comply with the principles. Also there are other effects like family dominated business culture and path dependencies of banks. These were observed in this study by focusing on the board structure related principles.

The corporate governance mechanism is constructed on three main trivets which are ownership structure, control types and board of directors as managerial structure. This study focused on only one of them, the board structure by taking ownership and control into account as well in order to understand the transformation period in banking industry starting from 2000. This date was chosen due to be able to make a comparison and a better understanding the change process in boardrooms until 2012. The panel data was collected from 11 banks (1 public development and 10 private deposit banks) which of them are owned by families (4), foreigners (3), private owners (3) or state (1). The board structure of the banks was identified by five variables; board size, board composition, CEO duality, CEO tenure and existing committees while the firm characteristics were analyzed by firm size, firm age, ownership structure, control type and proportion of dispersed shares.

The characteristics of sampled banks showed that although the banking industry has a long history in Turkey, the listed ones that entered the capital market before 2000 are relatively the younger banks. The size of them is quite big and the family ownership is most common structure type. Although the foreign banks are less than the privately dominated banks, their existence is increasing yearly. The proportion of dispersed shares of the banks is quite low and this shows that Turkish banks are limitedly traded in stock market. The control of these banks is mostly at the hand of professional managers which is a positive circumstance for good governance.

When 11 sampled banks' characteristics were observed; the average firm size is 6638.6, the firm age is 44.46, the ratio of dispersed shares is 23.32, the family ownership ratio is 32.27, private ownership is 20.53, foreign ownership ratio is 10.97 and the state ownership is 9.74. Firm size is significantly positively correlated with board size and the number of existing committees. There is a negative relationship between firm size and the compliance to board composition principles, CEO duality and the establishment of corporate governance committee. Secondly, firm age is also positively correlated with board size and the existence of audit and risk committees whereas it is negatively related with the board composition decisions, CEO duality and corporate governance committee. Furthermore, the ratio of dispersed shares is negatively related with CEO duality and establishment of corporate governance committee. The existence of family in ownership is significantly and positively related with compliance to board composition principles and the number of committees whereas it is negatively related with CEO duality. Finally, the foreign ownership is also positively related with board size and the number of committees while private banks create only difference for audit committee and state bank is negatively correlated with board size.

The board structures of sampled banks were also observed; board size is 8.97, the number of non-executive members is 5.55, the number of independent directors is 0.51, the CEO tenure is 4.41 and the number of committees is 3.35. The high number of board members means more democratic representation of shareholder and less dominance of decisions of majority. With average 8.97 people in boards, Turkish banks could be thought as democratic and less dominated however the intransparently selected board members behave as stewards of families or controlling shareholders. Although the majority of boards (62%) are held by non-executive members, the qualifications of these members are not matched with the requirements of being non-executive members such as members form group companies or long tenured board members.

The independent directors, on the other hand, are very limited in Turkish listed banks and were not present until 2004. With only 0.51% percent of independent directors, it would be not wrong to say that Turkish listed banks' boards are not independent. The low compliance to this principle could be the inadequate definition of being independent and the weak legal support for this principle. That is the reason why CMB published a communiqué in 2011 to refine the requirement for independency and set the at least two independent directors rule for listed firms. However, since the selection process of independents is not transparent due to the firms and CMB itself, the selected independent directors could not bring independency to the board. Therefore, the quality is more important than the quantity of independents because there could be five independents in a board without having a voice in family firms. As one of the interviewee mentioned, as an independent member, he could not bring independency to the board of family bank but had a voice in a private firm after 2007. This could be sourced from the changes in rights and responsibilities of independent directors or the existence of family ownership and control in the board. Therefore, family dominated firms need an exact number of independent directors to obtain the majority of votes in order to have an independent board.

Moreover, Turkish listed banks generally separated the roles of CEO and chairman but because of long tenured CEOs, the disadvantages of CEO duality continue. The committees are the last aspects of board structure in this study. The required ones were established but the recommended ones were not common. While all of the sampled banks established the risk committee before 2005 and the audit committee before 2007, the corporate governance committee was observed in 43% of overall cases. Similarly, the compensation committee was also rare (13%). This could be the result of the banks did not establish these committees also did not internalize the governance concept. The Continental European model boards of Turkish firms consist of family members, inadequate independent directors, intransparent member selection process, long tenured members as stewards and inadequate committees.

All of these results of this study showed that the adaptation of board related governance practices are increasing during the observed period. In other words, sampled banks strengthened their governance mechanism during the observed period which could be seen as a remarkable transformation process in terms of board structures. By using the experiences form 2000 and 2001 crises, the restructuration of banking industry and the entrance of corporate governance mechanisms and new authorities reinforced this industry. The new authorities of governance practices motivate Turkish firms for adapting the principles which are CMB, BRSA, TCC, Banking Law, Basel II, TUSIAD and BIST. By the help of all of them, governance practices started to evolve and expand to the banking industry which was also proved by the success of banking industry during global 2008 crisis.

However, there are still deficiencies in governance structures and practice adaptations due to the fact that banking industry was restructured. The disclosure level for compensation amounts of board members and board selection processes is not adequate yet. Also, comply or explain basis principles (Continental European model) do not work well for Turkish business culture which is also realized by CMB which changed the recommendations to obligations in 2014.

To summarize, the results of this study showed that although it started to decrease, family dominated ownership structure and path dependent parts of the firms do not allow an entire transformation in terms of board related governance implications. Foreign partnered or owned banks comply more than family, private and even state banks. There are fully institutionalized practices such as having enough number of non-executive members, separating the roles of CEO and chairman and establishing audit and risk committees. Even though listed banks comply with these principles nominally, the intransparent board member selection process, trusted outsiders and CEOs and not establishing recommended committees show the actual intent of the firms which is to send legitimacy signal. Besides, listed banks violate the important principles such as including adequate number of independent members and disclosing the required information by either not explaining the reasons or manipulating the existent laws and regulations. This shows the deficiency of Turkish governance model in terms of legal framework and sanctioning especially for the family dominated business culture which is an obstacle for corporate governance logic.

Although the banking industry should be self-motivated to adopt these principles in order to attract foreign investors, Turkish banking industry does not understand the importance and benefits of governance practices yet. Especially when the effects of previous crises were thought, Turkey should avoid such circumstances by constructing the good governance of financial system and make the firms to internalize these principles.

8.1. Limitations of the Study

This study showed how corporate governance was evolved in Turkish banking industry. As a field level study, it only focused on listed firms in banking industry and could overlook some points in the whole picture. These points are the lack of observation of changes in interorganizational relationships which are important connections for structuration; the lack of observation of boundary spanning of the field because of regulations and governance arrangements. The changes lived in other connected fields could affect the observed one but by focusing on only one field, it is not possible to observe them.

One of the limitations is about the sampling method. Purposeful sampling does not allow making generalization of the results to the whole population. Therefore, as the data was collected from only listed banks before 2000, to make a generalization for other countries even for other industries of Turkey is not proper. Moreover, the sample size was another limitation which is relatively small and inadequate for many statistical methods like regression model or factor analysis.

Another limitation is about the interviews. Since the interviewees tend to talk about the specific banks that they work with, to take general answers to the questions was difficult. This limitation could be eliminated by interviewing board members who are present in the boards of more than one bank.

The last limitation of this study is about the data which was mostly collected from the websites of sampled banks. The accuracy of this data could be mistrustful since the banks could manipulate the information about themselves. Therefore, the banks are assumed to be transparent and reliable for the declared information. Also, related with this issue, although a bank disclosed that to comply with one principle, it could do it only ceremonially and not implement in actual. This was tried to understand by interviews as double check of collected data but it is not possible to correct all data.

8.2. Implications and Suggestions for Further Studies

This study both focused on the institutional transformation within the banking industry and the institutionalization of board related governance practices. In other words, it is a field level exploratory study that also identified the organizational level changes and transition. Therefore, this study contributes to literature by exploring the existing conditions and inadequacies of banking industry. It also identifies the transformation period for banking industry in terms of board structure. In this manner, this study could be a guide for understanding the necessary developments in order to prevent such possible bad management crises before and also to secure its position in case of global crises.

The board structure was studied by taking the firm characteristics into account and this gives the opportunity to understand which type of firms are more prone to adopt or resist the governance practices. By collecting both secondary and primary data, the reliability of the results was enhanced. The collected panel data for 13 years makes the observations of this study valuable but the interviews were also conducted for cross check the results. Therefore, the information gathered from board members' experiences and their own observations helped to draw the whole picture of boards of listed banks.

However, further researches could also include the compensation level of board members to understand the independency of the board members more detailed. The inadequate disclosure about this issue did not allow including this variable but for more recent years, the data is available in annual reports and general annual meeting reports. Moreover, the selection process of board members should be examined in future studies to observe if the board members are being selected as stewards or to bring objectivity or independency to the board.

Future research could focus on the results of new obligations legislated by CMB in 2012 and 2014 and make a comparison between the results of this study. Also the classification of CMB for listed firms could be used if there is difference between them in terms of governance practices adaptation. Another suggestion for new researchers could be to include listed firms from other industries to be able to make a generalization for all listed Turkish firms.

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10. APPENDICIES

10.1. Appendix 1: Semi-structured Interview Questions

The semi-structured interviews were conducted to three interviewees in different times and places. Although there are prepared questions, during each interview additional probing and prompting questions were asked according to the answers of the respondents.

- How do you define corporate governance? What kinds of issues arose?
- What kind of changes have you experienced during your board membership? Did you notice any change in board structure?
- How was restructuration in banking industry reflected in boards?
- What happens if a firm does not comply and not explain the reason of non-adaptation?
- Which kind of obligations are legal authorities are being concerned while making board related decisions?
- Could you please explain the executive and non-executive board member selection process? Are independent members being selected objectively? Do you think this process work effectively in accordance with corporate governance principles?
- What do you think about CEO duality? Why do firms prefer to keep these positions in one hand?
- Could you explain the decision making process for establishing board committees? Do you think that committees are well functioned? What happens if the required committees are not established?

- Is there any impact of foreign investors in terms of board structure decisions and compliance to principles? Do foreign investors invest the firms that adopted governance mechanism or do the firms more tend to comply with them after foreign involvement?
- What could be the reasons behind the adaptation of principles? Do the firms comply with principles because of regulations? Why do they comply with recommended ones?
- Do you think that family ownership and presence in board room affect the board structural decisions, CEO effectiveness and members' independence?
- What kinds of conflicts, if any, have firms faced with governance mechanisms and authorities?
- Do you have any other thoughts and suggestions about these issues?

10.2. Appendix 2: About Sampled Banks

1. AKBANK

As a Sabanci Holding group bank, Akbank was established in 1948 and its shares started to be traded in BIST in 1990 and in American Depository Receipt in 1998. 20% of its shares were taken over by Citibank Overseas Investment Corporation in 2006. The size of the bank is 16.315 at the end of 2012 and this bank is being controlled by owner and the family ownership ratio is 49%.

2.ALTERNATIF BANK

As the Anadolu Holding group bank, Alternatif Bank was established in 1992and its shares started to be traded in BIST in 1995. The ratio of family ownership is 95.86% and the control of the bank is held by owner. The size of the bank is 1230 at the end of 2012.

3. FINANS BANK

As the Fiba Holding group bank, Finans Bank was established in 1987and its shares started to be traded in BIST in 1990 and in London Stock Exchange in 1998. 46% of its shares were taken over by National Bank of Greece in 2006. The size of the bank is 12.061 at the end of 2012 and this bank is being controlled by owner until 2009 and then a professional manager was assigned as chairman. The foreign ownership is 99.8% at the end of 2012.

4. GARANTI BANKASI

As the Dogus Holding group bank, Garanti Bankasi was established in 1946and its shares started to be traded in BIST in 1990 and in international stock market in 1993. 26% of its shares were taken over by General Electric in 2005. The size of the bank is 17.285 at the end of 2012 and this bank is being controlled by owner. The foreign ownership is 25% and the family holds 24% of the shares at the end of 2012.

5. IS BANKASI

As a privately owned bank, Is Bankasi was established in 1924as the first national bank of Turkish Republic. Its shares started to be traded in BIST in 1998 and in London Stock Exchange in 1998. The size of the bank is 24.411 at the end of 2012 and this bank is being controlled by a professional manager. The 41% of its shares is held by foundation and 28% is held by one of the political parties of Turkey at the end of 2012.

6. SEKERBANK

Sekerbank was established by the sugarbeet cooperative farmers in 1953 and its shares started to be traded in BIST in 1997. 34% of their shares were sold to Bank Turanalem JSC in 2006 and the foundation ownership percentage decreased to 34% at the end of 2012. The size of the bank is 3565 and the control is held by a professional manager.

7. TEKSTILBANK

As the Akin Holding group bank, Tekstilbank was established in 1986and GSD Trade Company bought 30% of the shares in 1992 but it increased to 76% at the end of 2012. Its shares started to be traded in BIST in 1990. The size of the bank is 841 at the end of 2012 and this bank is being controlled by a professional manager.

8. TURK EKONOMI BANKASI

This bank was founded as Kocaeli Public Bank in 1927 but was bought by Colakoglu Group in 1982. Its shares started to be traded in BIST in 2000 and 50% of its shares were taken over by BNP Paribas in 2005. The size of the bank is 9.288 at the end of 2012 and this bank is being controlled by a professional manager. The foreign ownership is 68% and the family holds 28% of the shares at the end of 2012.

9.TURKIYE KALKINMA BANKASI

This state owned development bank was founded in 1975 and its shares started to be traded in BIST in 1991. The size of the bank is 690 at the end of 2012 and this bank is being controlled by professional manager who is assigned by the government.

10. TURKIYE SINAI KALKINMA BANKASI

This is a private develoment bank which was founded in 1950 by the support of WB and CB of Turkey. Its shares started to be traded in BIST in 1986. The size of the bank is 345 at the end of 2012 and this bank is being controlled by a professional manager. The private ownership is 50% and the state holds only 8% of the shares at the end of 2012.

11. YAPI VE KREDI BANKASI

As the Cukurova Holding group bank, Yapi ve Kredi Bankasi was established in 1944and its shares started to be traded in BIST in 1987. 58% of its shares were taken over by another holding named as Koc Group in 2006. The size of the bank is 14.733 at the end of 2012 and this bank is being controlled by owner. The private ownership is 82% but this includes indirect foreign investors at the end of 2012.