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# CORPORATE GOVERNANCE QUALITY IN TURKEY: SCOPE FOR OPTIMISM

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## CONTENTS

- Macroeconomic stability and the quality of CG
- The case of Turkey; *scope for optimism*
- Conclusion and comments on the role of CG in emerging markets; *the missing element*



# MACROECONOMIC STABILITY AND CG QUALITY\*

## CG quality and Firm Characteristics

- Growth opportunities

- Concentration of ownership

- Need for external finance/cash holding

- Size of the firm

- Protection of investor rights chosen by the firm

## CG quality and Country Characteristics

- Financial and economic development

- Legal framework

- Political choice and culture

*\*Based on a working paper with Mehmet Ugur -Greenwich U.*



## SUMMARY of RESEARCH

- Research shows that the quality of CG chosen by the firms depend on the cost and benefits  
&  
the cost of improving CG is higher in less developed countries and the benefits are weaker
- We argue that macroeconomic instability is conducive to poor CG quality in less developed countries as demonstrated in the case of Turkey



## THE CASE of TURKEY

1970-1999: Increasing macroeconomic instability  
(liberalisation without stabilisation)

1994 – 2000 – 2001 : 3 Financial crises and  
oscillations between rent distribution and  
non-credible attempts to stabilise

- Macroeconomic instability undermined the credibility and the moral authority of the government as a rule setter and as an enforcer
- Macroeconomic instability generated perverse incentives to adopt low CG standards



## 2002-2004; RETURN TO STABILITY

EU Commission's Accession Report (2004):

“ Economic and political stability have been substantially improved since the 2001 economic crises. Previously high inflation has come to historic lows, political interference has been reduced and institutional and regulatory framework has been brought closer to international standards. Thus, an important change towards a stable and rule-based economy has taken place.”

- *underpinned by Financial Sector and Public Sector reforms*
- *CG Principles issued by CMBT in July 2003*



## INDICATORS of CG IMPROVEMENTS

- Voluntary Disclosure, Investor Relations activities
- Reduction in CML Violations, reduction in unregistered economy
- Increased Foreign listings
- Heated debates on CG, CG activism



*But confusion continues :*

“ Boards should function in the interests of controlling shareholders and in accordance with their orders”

*CEO of a leading Turkish conglomerate*

The reward to better governance for the controlling shareholder is related to the level of development of the financial markets and access to external finance and the cost of committing to better CG standards.



# WHAT IS MISSING?

McKinsey's Investors



## POLICY RECOMMENDATIONS

- Incentives to encourage investments in emerging markets beyond “the most liquid” stocks; long term investments in better governed companies (CG flavoured indexes)
- Encouraging independent research and analysis on CG quality of the firms (Information)
- Regulations to transform Institutional Investors’ into “McKinsey’s investors”



## References:

- Doidge, Karolyi, Stulz (2004)
- Berglöf, Pajuste (2004)
- Yurtoglu (2002, 2003)
- Black (2001)
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