CORPORATE GOVERNANCE COMPLIANCE: A STUDY OF THE PUBLICLY TRADED COMPANIES ON İSTANBUL STOCK EXCHANGE

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ABSTRACT

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In the contemporary global world, corporate governance is one of the most frequently referred business term. This study examines the corporate governance compliance reports submitted to Capital Markets Board (CMB) by the publicly traded companies on İstanbul Stock Exchange (ISE). In the analysis, relation among corporate governance compliance and size and ownership structure is investigated. Corporate governance compliance scores of the companies are obtained from Corporate Governance Index constructed based on CMB's Corporate Governance Principles. The results indicate that size for the entire sample of companies has positive effect on total corporate governance score and all sub index scores; in addition, under different sector categories, size affects total and sub index scores positively except service sector. The public ownership percentage singly measures ownership concentration and it affects corporate governance scores positively except stakeholders and board of directors sub indices scores for all companies. For sector categories, ownership concentration has positive effect on only general corporate governance compliance and shareholders sub index scores for finance companies. Foreign ownership percentage has positive effect on shareholders sub index score derived for all and manufacturing sector companies while its effect is negative for all other scores measured. The findings of this study contribute to the relevant literature and welcome new research initiatives within the same area in Turkey.

Keywords: Corporate Governance Compliance, Size, Ownership, ISE, CMB

ÖZ

KURUMSAL YÖNETİM UYUMU: İSTANBUL MENKUL KIYMETLER BORSASINDAKİ HALKA AÇIK ŞİRKETLER ÜZERİNE BİR ÇALIŞMA

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Günümüz küresel dünyasında, kurumsal yönetim en sık bahsedilen iş terimlerinden biridir. Bu çalışma İstanbul Menkul Kıymetler Borsası (İMKB)'ndaki halka açık şirketler tarafından Sermaye Piyasası Kurulu (SPK)'na bildirilen kurumsal yönetim uyum raporlarını incelemektedir. Analizde, kurumsal yönetim uyumu ile büyüklük ve sahiplik yapısı arasındaki ilişki incelenmektedir. Kurumsal yönetim uyum puanları SPK Kurumsal Yönetim İlkeleri'ni temel alarak oluşturulan Kurumsal Yönetim İndeksi'nden elde edilmektedir. Sonuçlar tüm örneklemdeki şirketler için büyüklüğün, toplam kurumsal yönetim puanı ve tüm alt endeks puanları üzerinde olumlu bir etkisi olduğunu göstermektedir; ek olarak, farklı sektör kategorileri altında, büyüklük, hizmet sektörü dışında toplam ve alt endeks puanlarını olumlu etkilemektedir. Halka açıklık tek başına sahiplik yoğunluğunu ölçmektedir ve kurumsal yönetim puanlarını menfaat sahipleri ve yönetim kurulu alt endeks puanları dışında bütün şirketler için olumlu etkilemektedir. Sektör kategorileri için sahiplik yoğunluğu sadece genel kurumsal yönetim uyumu ve pay sahipleri alt endeks puanında finans şirketlerinde olumlu bir etkiye sahiptir. Yabancı sahiplik yüzdesinin, tüm şirketler ve üretim sektörü şirketleri için elde edilmiş pay sahipleri alt endeks puanı üzerinde olumlu etkisi var olmakla beraber, ölçülen diğer tüm puanlar üzerindeki etkisi negatiftir. Bu çalışmada elde edilen bulgular ilgili literatüre katkıda bulunmakta ve aynı alan içinde Türkiye'de yeni araştırma girişimlerine ön ayak olmaktadır.

Anahtar Kelimeler: Kurumsal Yönetim Uyumu, Büyüklük, Sahiplik Yoğunluğu, İMKB, SPK

Dedicated to the memory of my father, Uğur Erensoy. I still feel his great love in every moment of my life.

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And last to all;

I would thank you from the bottom of my heart, but for you my heart has no bottom.

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CHAPTER I

INTRODUCTION

In the contemporary global world, corporate governance is one of the most frequently referred business term. The Enron scandal in 2001 was a significant event strengthening the pursuit of good corporate governance internationally. The US responded the challenge with the Sarbanes-Oxley Act in 2002 while the UK initiated the Higgs and Smith Reports in 2003 (Solomon, 2004). Various other company scandals took place within many countries; and these countries and national and international organizations such as Organization for Economic Co-operation and Development (OECD) responded to the scandals with regulations and guidelines for stronger corporate governance. OECD first developed OECD Principles of Corporate Governance in 1999 for both OECD and non-OECD countries and revised the principles in 2002. CMB issued Corporate Governance Principles in July 2003 and amended them in February, 2005. After evaluation of many countries' corporate governance regulations, CMB's principles are based mainly on OECD Principles of Corporate Governance and general principles of corporate governance used around the world while considering the own characteristics of corporate environment in Turkey; in other words, requirements of Turkish company structures and legal and practical implications in Turkey (Nilsson, 2007).

This study examines the corporate governance compliance reports submitted to Capital Markets Board (CMB) by the publicly traded companies on İstanbul Stock Exchange (ISE). In the analysis, relation among corporate governance compliance and size and ownership structure is investigated to determine the main instruments that affect compliance.

A general picture of corporate governance is drawn in Chapter II. First, I analyze theoretical framework of the concept which are the agency theory, the transaction cost theory, the stakeholder theory, the stewardship theory, the resource dependency theory and the systems theory and then I explain the multitheoretic view considered in this study. Second, I give some definitions of the concept and the views on these definitions to have a general understanding of corporate governance. Following, I present OECD Principles of Corporate Governance on which this research is based on. Chapter 2 ends with the explanation of generally accepted principles of corporate governance which are equality, transparency, accountability and responsibility.

Chapter III outlines the development of corporate governance around the world. First, I give a general picture of the issue. Second, I examine the corporate governance structures and developments within the US, Germany and Japan in order to see examples from Anglo-Saxon, Continental Europe and Asia Pacific models of corporate governance. Third, I review OECD Principles of Corporate Governance as CMB's Corporate Governance Principles are mainly based on these principles. Lastly, a general framework of CMB's Corporate Governance Principles is explained.

Relevant literature on the measurement of corporate governance compliance and its relations with various other aspects are given in Chapter IV. The chapter starts with CMB’s studies on corporate governance compliance of publicly traded companies on ISE and continues with the international studies.

Chapter V presents the analysis measuring the relation between corporate governance compliance and size and ownership structure of the publicly traded companies on ISE. I use size and ownership structure data of 330 ISE companies derived from the publicly disclosed information as of 2009 and I obtain corporate governance compliance scores from the Corporate Governance Compliance Index that I constructed based on CMB’s Corporate Governance Principles. The results indicate that size for the entire sample of companies has positive effect on total corporate governance score and all sub index scores; in addition, under different sector categories, size affects total and sub index scores positively except service sector. The public ownership percentage singly measures ownership concentration and it affects corporate governance scores positively except stakeholders and board of directors sub indices’ scores for all companies. For sector categories, ownership concentration has positive effect on only general corporate governance compliance and shareholders sub index scores for finance companies. Foreign ownership percentage has positive effect on shareholders sub index score derived for all while its effect is negative for all other scores measured.

Some of the findings of this study are strictly in line with the previous literature findings while some others present contradictory ideas to the literature. Also, some findings of the study contribute to the opposing ideas within the previous literature.

CHAPTER II

CORPORATE GOVERNANCE IN CONTEXT

2.1. Definitions of Corporate Governance

Corporate governance term has many theoretical and empirical definitions in the literature.

The term should be distinguished from management. Management is related to the daily operations of business like production, while on the other hand, corporate governance refers to rules, regulations and best practices for securing shareholder claims, enhancing competitive power and reaching capital within the global environment (Solomon, 2004).

A survey questionnaire that is conducted among a large number of the UK institutional investors evaluates the views on many corporate governance definitions (Solomon, 2004).

Table 1 demonstrates the summary of the survey questionnaire.

Rank	Corporate governance is...	Average response
1	...the process of supervision and control intended to ensure that the company's management acts in accordance with the interests of shareholders (Parkinson, 1994).	Strongly agree
2	...the governance role is not concerned with the running of the business of the company *per se*, but giving overall direction to the enterprise, with overseeing and controlling the executive actions of management and with satisfying legitimate expectations of accountability and regulation by interests beyond the corporate boundaries (Tricker, 1994)	Agree
3	...the governance of an enterprise is the sum of those activities that make up the internal regulation of the business in compliance with the obligations placed on the firm by legislation, ownership and control. It incorporates the trusteeship of assets, their management and their deployment (Cannon, 1994)	Agree
4	...the relationship between shareholders and their companies and the way in which shareholders act to encourage best practice (e.g., by voting at AGMs and by regular meetings with companies senior management). Increasingly, this includes shareholder 'activism' which involves a campaign by a shareholder or a group of shareholders to achieve change in companies (The Corporate Governance Handbook, 1996)	Some agreement
5	...the structures, process, cultures and systems that engender the successful operation of the organization (Keasey and Wright, 1993).	Some agreement
6	...the system by which companies are directed and controlled. (The Cadbury Report, 1992).	Some agreement

Table 1: Definitions of corporate governance: institutional investors' views (Solomon, 2004, p.71)

In this study, OECD definition of corporate governance is used since the corporate governance compliance study is done through CMB's Corporate Governance Principles which are mainly based on OECD Principles of Corporate Governance.

OECD definition of corporate governance is;

Corporate governance involves a set of relations between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined ("OECD Principles of Corporate Governance", 2004, p.11).

2.2. Theoretical Framework of Corporate Governance

Each theoretical framework approaches the corporate governance subject with a different perspective being rooted from different disciplines (Solomon, 2004). Theoretical frameworks have their own rationale and constraints. Although some of them view the same issue oppositely, they contribute to understand various aspects of the corporate governance subject (Clarke, 2007).

The concept of corporate governance may be taken into consideration with a broad or narrow point of view. The narrow point of view can be seen in "agency theory" which restrains the concept as a relation between a company and its owners who are "shareholders", while the broad point of view can be seen in "stakeholder theory" which takes the concept as a relation between a company and its "stakeholders" and is a more comprehensive and attractive way of looking at the issue (Solomon, 2004).

Many other theories approach the corporate governance concept with different perspectives as explained below in detail.

2.2.1. Agency Theory

Agency issue was first explored in the study of Ross (1973) where it was described as the relation between two or more parties in which the "agent" is acting for, behaving on behalf of or representing the "principal" in decision making processes. The agency theory whose detailed theoretical explanation was first done in the study of Jensen and Meckling (1976) assumes that company managers, referred as "agents", do not generally decide for welfare maximization of company shareholders referred as "principals".

This essential challenge for corporate governance practices is not recent as Smith stated (2005) that "*The directors of such companies; however, being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own*" (p.606).

This theory has a less optimistic view on manager's behavior (Tricker, 2009). Figure 1 demonstrates the governance relation according to the agency theory.

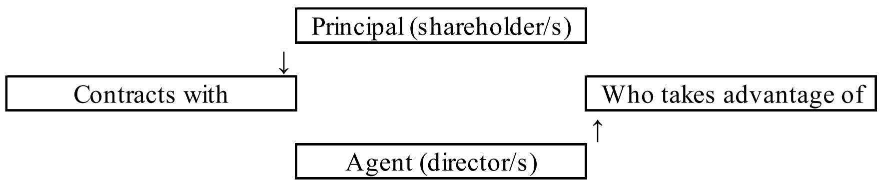

Figure 1: The governance relation (Tricker, 2009, p.219)

The "agency problem" requires company shareholders to monitor management of the company which puts forward two important issues. First, how it would be possible for shareholders to perform control on the company management; and second, it would be costly and troublesome to oversee managers' actions (Solomon, 2004).

Several attempts are performed in order to align shareholders' and managers' interests which lead to "agency costs". One way of monitoring managers' actions is forming an optimal contracts' "nexus" between shareholders and managers. This process is costly for both shareholders and managers. For instance, providing information about risk management in annual reports brings in additional costs to the accounting continuum and organizing meetings with shareholders is resource consuming (Solomon, 2004). Jensen and Meckling (1976) describe "agency costs" as the sum of shareholder's expenditures on monitoring, managers' expenditures which are binding and the loss of residual. There are also direct ways for shareholders to monitor management of the company. One way is to be effective on company management through voting in general shareholders' meetings; while another one that relates with voting rights is the takeover mechanism ensuring shareholders to vote for a takeover if they are not satisfied with the company management which in turn puts managers under the pressure of losing their jobs. An extreme action for shareholders to align their interests with managers is to pass shareholder resolutions on which they aggregately lobby on the company issues about which they are not comfortable with as a group. Another way that is related with significant institutional investors is to perform one-to-one meetings between an investment institution representative and a company manager.

If the shareholders' attempts to monitor company management and market mechanism are insufficient then government intervention is needed in order to improve corporate governance for companies. As agency problems occur within companies all over the world, policy documents and codes of good corporate governance revealed by governments are witnessed frequently (Solomon, 2004).

Main limitation of the agency theory is that the supposals of the theory are very restricted undermining the complex nature of the organizations as it only focuses on agent principal debate (Zahra & Pearce, 1989; and Stiles & Taylor, 2001). Also, as the before mentioned optimal contracts between shareholders and managers are comprehensive, finding a role for governance structure is difficult because some actions that need to be taken in the future do not take place in these initial contracts (Hart, 1995).

2.2.2. Stakeholder Theory

Stakeholder theory that was first exposited in *Strategic Management: A Stakeholder Approach* (Freeman, 1984) states that a company holds corporate accountability to a wide range of stakeholders.

The theory states in general that the companies which are big enough to affect the society permeatively should be accountable to various other parts of the society not only to their shareholders. Stakeholders are not only being affected by companies but also they are effective on companies by holding a "stake" in the company rather than simply a "share". Stakeholders are composed of shareholders, employees, suppliers, customers, creditors, communities in the environment of the company's transactions and the general public (Solomon, 2004). The analysts of the theory state that all parties with legitimate interests in the company shall get benefits and there is no priority in terms of these interests and benefits (Donalds & Preston, 1995). Figure 2 demonstrates the stakeholder model of the company.

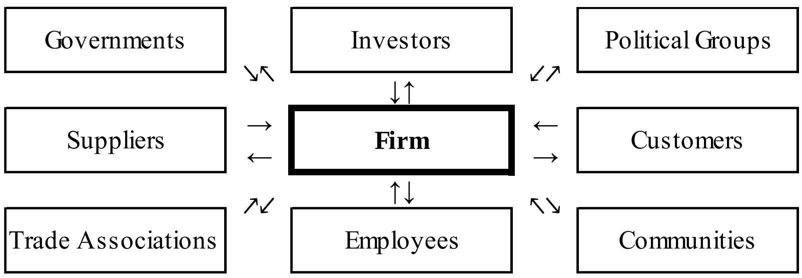

Figure 2: Contrasting models of the corporation: The stakeholder model (Donaldson & Preston, 1995, p.69)

The theory has also extreme advocates who take the environment, animal species and next generations in the stakeholder definition (Solomon, 2004). Also, some proponents argue that companies should hold accountability to a great variety of stakeholders more than companies' present responsibilities to shareholders which were defined by company law (Tricker, 2009).

The stakeholder theory lacks attaching priority among multi-stakeholder relations (Clarke, 2007) and multiple stakeholder responsibilities may create too much freedom for managers (Zahra & Pearce 1989; and Stiles & Taylor 2001). It is also argued that serving for the best interest of stakeholders does not end governance problems but may also create new issues such as those rooted from lack of value increasing incentives for the company and having confusing goals (Sundaram & Inkpen, 2004).

2.2.3. Transaction Cost Theory

Transaction cost theory was defined by Coase (1937) that a company can get rid of extra costs by performing transactions internally rather than outside the company. The theory was also explained in Cyert and March's essential work *A Behavioral Theory of the Company* (1963) that the company should not be perceived as an impersonal economic identity performing in an environment with ideal markets and equilibriums but rather as an entity embracing people with diversified thoughts and goals.

Companies try to internalize their operations as far as possible for the sake of their own benefits. This internalization takes away ambiguity on future prices and quality of goods and services since it paves the way for less business risk by ensuring companies to control problems occurring from the supplier deals. It is extremely costly for companies to conduct their transactions outside the company; therefore, it is less costly for them to do it on their own by vertical integration (Solomon, 2004).

The theory assumes that economic parties practice “bounded rationality” and “opportunism”. Williamson (1996) stated that companies should transact in an economizing way on bounded rationality while at the same time; they are protected from the threats of opportunism.

One of the limitations of transaction cost theory is similar with the one of agency theory where the theory undermines the complex nature of the organizations with its restricted supposals (Zahra & Pearce, 1989; and Stiles & Taylor, 2001). Transaction cost theory is also insufficient in explaining the scope of the company because governance structures formed with the theory may not be in line with governance arrangements-in-place or these governance arrangements may have set specific means of governing additional transactions (Argyres & Liebeskind, 1999).

2.2.4. Stewardship Theory

Contrary to the agency theory stewardship theory assumes that managers’ legal responsibility is not to themselves but to shareholders and they do not perform activities in favor of their own interests but act accountably with autonomy and honesty (Tricker, 2009).

According to the theory, managers have tendencies on success, self-abandonment and devotion towards significant work. Thus, managers’ chase of the company goals and satisfaction of shareholders and other related parties are strongly related (Clarke, 2007)

The theory perceives managers performing actions as stewards of the shareholders' benefits (Tricker, 2009). Figure 3 demonstrates the shareholder and manager relation according to the stewardship theory.

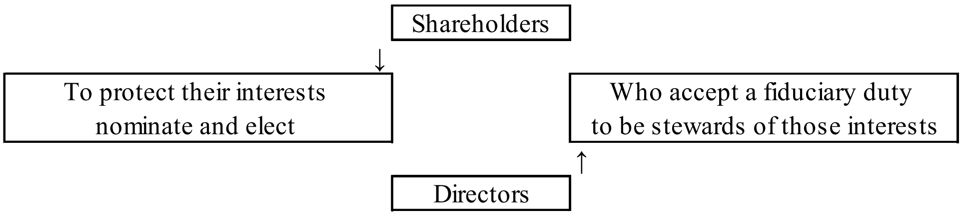

Figure 3: The shareholder/director relation (Tricker, 2009, p.224)

The theory states that if company control is shifted from shareholders to professional managers, this will affect management of companies positively. The managers with the control power will have opportunity to access operating information of the company. They will maximize company profits, in other words the shareholders' returns with their commitment, knowledge and expertise (Muth & Donaldson, 1998).

Proponents of the theory state that managers have to act for the benefit of employees, customers, suppliers and other recognized stakeholders but legally they are accountable first to the shareholders. They state that disagreements between the company and the stakeholders should be settled legally with competitive restraints in the market to preserve entities' rights (Tricker, 2009).

The stewardship theory is not largely tested which is a disadvantage as criticized by some opponents (Zahra & Pearce 1989; and Stiles & Taylor 2001). It is also argued that a manager will generally not perform like the steward defined by the theory (Arthurs & Busenits, 2003).

2.2.5. Resource Dependency Theory

Resource dependency theory states the importance of interdependencies between companies instead of evaluating them in terms of only management aspirations. Therefore, it contributes to the view of corporate governance by introducing a critical external dimension (Clarke, 2007). The theory assumes that the governance of a company is the key element in order to acquire the sources for reaching its goals. In other words, the theory perceives corporate governance externally from an internal view and it sees the governance as an administrative instrument to link the company to its environment. The sources in the environment to reach company goals include markets of new customers and competitors, funding instruments, knowledge and involvement in social networks (Tricker, 2009).

Social networks perception assumes that people acting in corporate governance area share similar characteristics that tie them through a network. Lifestyle perception presumes that backgrounds of people play a role in order to take place in a network. These networks can be both advantageous and disadvantageous for the company governance practices (Tricker, 2009).

The resource dependency theory is limited with giving high importance to resource allocation rather than usage of resources; and the theory also does not consider the function of networks affecting behaviors (Zahra & Pearce 1989; and Stiles & Taylor 2001). Opponents also argue that concentrating on only environmental links causes neglect of other activities such as advising, monitoring and strategizing (Kiel & Nicholson, 2003).

2.2.6. Systems Theory

Systems theory refers to a general science covering the whole and is interested in the relation among the parts and the effect of the whole on the conducts of the parts (McArdle & Reason, 2007). A system may be envisioned as a circle and instruments within the circle are its components. The system can become broader or narrower as the components increase or decrease and all other forces are settled outside the boundary, within the environment (Chin, 1961).

Systems theory states that there is a systems hierarchy in order to explain every situation. Three criteria are being used to understand a system. First, systems' boundaries help to understand what is in and out of the system. Systems are founded by human beings and they can be ruined in order to satisfy the necessities of people using it. Second, which level the systems placed in and what they reserve within defines a level of abstraction for the systems. Third, the transactions between the inputs and outputs of the systems explain the systems' functions (Tricker, 2009).

In terms of corporate governance, the systems theory questions the boundaries of corporate governance concept. In the related literature, there are a vast number of different arguments related to corporate governance limits. It can be concluded that a choice of relations can be made from various entities such as managers, corporate identities, shareholders and associates, governing entities, negotiators, auditors, regulative and legal actors, culture, organizations and all other stakeholders tied to these corporate identities in some way (Tricker, 2009).

Critics of systems theory argue that systems theory indicates a single-system equilibrium that is reached with linear effects through key variables while critics of the theory state a multiple, temporary and moving equilibrium that exists with nonlinear casual effects between and within systems (Duit & Galaz, 2008).

2.3. Multitheoretic View on Corporate Governance

A multitheoretic view on corporate governance is used in order to understand all variables those internal to the company and those components of the broader environment. (Young & Thyil, 2008)

In their survey, Daily, Dalton and Cannella (2003) state that in order to determine the instruments to have a better functioning within the organization, a multitheoretic view on corporate governance should be adopted. For instance, the board of directors may be the most important internal governance mechanism. Agency theory is used to conceptualize the controlling and monitoring functions of the directors while other theories are needed to be taken into consideration in order to demonstrate other roles of directors such as resource, service and strategy roles.

For the purpose of this thesis, a multitheoretic view is taken into consideration since the corporate governance compliance study is done through CMB's Corporate Governance Principles which are based on a broad range of instruments to have good corporate governance.

2.4. Principles of Corporate Governance

Many global studies are performed on corporate governance and these studies indicate that there cannot be one accepted corporate governance model for every country and each country shall consider its own peculiar circumstances (“OECD Principles of Corporate Governance”, 2004). That is to say, corporate governance practices are affected from cultural and legal influences (Solomon, 2004). However, all generally accepted corporate governance approaches indicate four concepts as principles of corporate governance (“CMB’s Corporate Governance Principles”, 2003) which are defined by OECD’s Business Sector Group on Corporate Governance (“S&P’s Corporate Governance Scores”, 2002) and also emphasized in CMB’s Corporate Governance Principles. These concepts are equality, transparency, accountability and responsibility (“CMB’s Corporate Governance Principles”, 2003).

2.4.1. Equality

Equality refers treating all minority and majority shareholders and other stakeholders equal (Darman, 2010) in all company activities and taking measures in order to prevent possible conflicts (“CMB’s Corporate Governance Principles”, 2003). All shareholders are equal in terms of right to register their shares, sell their shares, participate and vote in general shareholders’ meeting, elect members of board of directors, have information from the company timely and regularly and share the profit of the company (Darman, 2010).

2.4.2. Transparency

Transparency requires a company to disclose all financial and non-financial information about the company in a timely, accurate, complete, understandable, interpretable, cheap and easily accessible manner (Darman, 2010) excluding trade secrets ("CMB's Corporate Governance Principles", 2003). OECD states a company is accountable and transparent only if the declarations of the company include the real financial situation and operational results. The most reliable sources of this information are the company's audited balance sheet, income statement, cash flow statement, financial statements' disclosures and explanations (Darman, 2010).

2.4.3. Accountability

Accountability is the responsibility of board of directors to give the account of core decisions affecting the company, risk management and monitoring functions (Darman, 2010) as a corporate body ("CMB's Corporate Governance Principles", 2003) to all shareholders and stakeholders. Board of directors shall behave in favor of the company interests and be ethical. They shall carry the responsibility of monitoring in all circumstances rather than only in times of crisis (Darman, 2010).

2.4.4. Responsibility

Responsibility is auditing the compliance of company operations with the related legislation, company's articles of association and inside regulations. In publicly traded companies with various minority shareholders, if shareholders cannot control managers effectively these lead to conflicts of interest and “agency costs” (Darman, 2010).

CHAPTER III

HISTORICAL DEVELOPMENT OF CORPORATE GOVERNANCE

3.1. Corporate Governance around the World

Corporate governance as a term first evolved in the mid-1980s; however, questioning governance of corporations in modern perception has its roots in 1840s (Steger & Amann, 2008).

Before the rise of industrialization, family businesses and state owned companies were the only actors of the business environment in the US. Rapid industrialization led to enormous problems in the economy and paved the way to the stock market crash in the US and the UK in 1856. Europe which was not affected from this tragedy due to its not sufficiently developed markets suffered the same fate with the US and the UK in the following major crisis (Steger & Amann, 2008).

In the next 150 years, asset price inflation has always been an unsolved and one of the most important problems of the economic arena which was revealed with “dot.com bubble” attracting many “hit-and-run” investors whose aim is to get rich in a short period of time. When the speculative bubble bursts, it is the small investors who suffer from losing large amounts of money (Steger & Amann, 2008).

In order to convince investors, governments' actions were to have new regulations; however, it did not prevent the stock market crashes in 1873 and 1929 which ended up with new regulations such as auditing company books and regulatory stock market monitoring (Steger & Amann, 2008).

According to many arguers, having new regulations instead of averting the bubbles is not the solution. So, it is problematic whether corporate governance practices are really successful (Steger & Amann, 2008).

The importance of corporations has increased tremendously in the 21^{st} century. The corporations have become the pushing forces of economic prosperity and life standards. Both in the developed and developing economies, with the high level of privatizations, corporations are the dominant actors and the governments are shrinking in terms of responsibilities within the economy. Investors of these corporations ask for transparency and accountability against the capital they have invested in the company; therefore countries and companies who are in need of funds have implemented ways of reaching more global capital (Monks & Minow, 2001).

21^{st} century has welcomed various regulations on corporate governance such as new legislations, codes and best practice catalogs in order to arrange relations between companies and their stakeholders; however, the beginning of the century also witnessed major corporate scandals (Steger & Amann, 2008).

The corporate scandals are summarized in Table 2.

Company	Year	Country	Detail
Daewoo	1998	South Korea	Accounting fraud embezzlement by former CEO
Flowtex	1999	Germany	Insolvency after exaggerating sales figures
Enron	2001	USA	Bankruptcy of the seventh largest US company due to accounting fraud
Marconi	2001	UK	Bankruptcy due to overpriced acquisitions and to neglecting of controls
Swissair	2001	Switzerland	Insolvency due to wrong strategy, inefficiencies of the board
HIH	2001	Australia	Stock market manipulation
One Tel	2001	Australia	Overstretching of budget for overambitious acquisitions
Allied Irish Bank(AIB)	2002	Ireland	Loss of $961m in unauthorized trading
Worldcom	2002	USA	Company collapses with $41bn debt due to fraudulent accounting
Tyco	2002	USA	Overstretching of budget for overambitious acquisitions leading to bankruptcy
Vivendi	2002	France	Overstretching of budget for overambitious acquisitions leading to losses of $23.3bn
Royal Ahold	2003	Netherlands	$500m accounting fraud
Parmalat	2003	Italy	Undisclosed debts of €14.3 bn
Volkswagen	2005	Germany	Abuse of corporate funds to provide inappropriate benefits

Table 2: Corporate governance scandals (Steger & Amann, 2008, p.6)

Following these events, as a reaction, governments amended new regulations for corporate governance among which Sarbanes-Oxley of the US legislated on 30 July 2002 is the most considerable one (Steger & Amann, 2008). The Sarbanes-Oxley Act has offered three important changes to corporate governance practices. First, Sarbanes Oxley brought changes on processes of auditing and presenting financial data which are audit-related changes. Second, with Sarbanes Oxley, board of directors should be redesigned to reduce conflicts of interest or interpersonal pressures so that directors will monitor the management more judgmentally. The act requires directors to involve in processes that may provide more self-awareness and diligence. Third, Sarbanes Oxley brought new rules on disclosure and transparency. Some change disclosure and transparency requirements directly while some others bring forth more influential reaction (Clark, 2005).

Table 3 illustrates the years that various countries have their first codes of practice or policy documents on corporate governance.

1992	1993	1994	1995	1996	1997	1998
UK		Canada South Africa	Australia France	Spain	Japan The Netherlands USA	Belgium Germany India Italy Thailand
1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Brazil Greece Hong Kong Ireland Mexico Portugal South Korea OECD ICGN (International Corporate Governance Network) Commonwealth	Denmark Indonesia Kenya Malaysia Romania The Philippines	China Czech Republic Malta Peru Singapore Sweden	Austria Cyprus Hungary Pakistan Poland Russia Slovakia Switzerland Taiwan	Finland Lithuania Macedonia New Zealand Turkey Ukraine Latin America	Bangladesh Iceland Norway Slovenia OECD	Jamaica ICGN

Table 3: Corporate governance diffusion: First codes of practice or policy documents (Solomon, 2004, p.6)

3.2. Corporate Governance in the US, Germany, Japan and OECD

It is deemed sufficient to examine the historical development of corporate governance in the US, Germany and Japan which are good examples of corporate governance practices of Anglo-Saxon, Continental Europe and Asia Pacific models. Since the corporate governance compliance study of this thesis is done through CMB’s Corporate Governance Principles which are mainly settled on OECD Principles of Corporate Governance, OECD principles are also examined.

In Section 3.3., the development of corporate governance in Turkey is analyzed on the basis of CMB’s Corporate Governance Principles.

3.2.1. The US

In the US history, 1929 crisis was a turning point as a financial disaster that resulted with a long period of depression damaging American public opinion on economic environment. Soon after, Wall Street crashed leading to closing of banks. Furthermore, investment banking was separated from commercial banking with the *Glass-Stegall Act* and the *Banking Act* in 1933 introduced by the new governance of Roosevelt. It was also forbidden for commercial banks to collaborate with brokerage companies and perform investment banking activities. With the *Gramm-Leach-Billey Act* in 1999, the separation was blurred (Clarke, 2007). Securities and Exchange Commission (SEC) prepared the *Securities Act* in 1933 and the *Securities Exchange Act* in 1934 among which the former was related to securities' distribution while the latter was on having authority on securities industry. The *Public Utility Holding Company Act* which was enacted in 1935 regulated the electric and gas holding companies. The *Trust Indenture Act* was added to the *Securities Act* of 1933 in 1939. The *Investment Company Act* of 1940 which was amended in 1970 and 1980 regulated various governance issues in investment companies in order to repress abusing of customers of these companies. With the *Investment Advisers Act* in 1940, the investment advisors including companies and sole practitioners were enforced to be registered with SEC. The *Securities Investor Protection Act* of 1970 was enacted to constitute a guarantee for the investors in the incidents of bankruptcies (Clarke, 2007).

Post-war era of the US until 1970s were prosperous years as economy was in good condition, the US companies were successfully developing and managers were not in the realm of internal monitoring and product market competition. In

1970s, company failures showed up mainly as a result of the lack of board of directors' monitoring on managers as well as the inability of managers. In 1977, The SEC came up with a new rule enforcing all New York Stock Exchange listed companies to establish audit committees of independent directors (Clarke, 2007).

In 1980s, with the enrichment of institutional investors, junk bonds paving the way for new actors to have corporate control, Leveraged Buy-Outs (LBOs) and Management Buy-Outs (MBOs), companies become commodities of trade rather than sources of prosperity. Takeovers become more frequent with the revocation of anti-takeover laws of country. Since the trust in the market for regulating corporate management disappeared, committees were established in the US companies in order to enhance the role of board of directors and company management monitoring (Clarke, 2007).

It is a fact that for the near future of US, institutional investors will play a major role in corporate governance with the rapid and huge increase on their financial assets largely composed of shares and bonds hold (Clarke, 2007).

In the US, the responsibility of securities law belongs to the federal state. Company law enactments are done by individual states among which Delaware is the most attractive one chosen by companies that have the autonomy to prefer which state to incorporate with. Nearly half of the companies in NYSE and more than half of the companies in Fortune 500 companies are incorporated with Delaware in terms of company law. When it is needed, SEC and the Congress are intervening in the issues of company law at the federal level and such an intervention limits the states in enforcing laws (Clarke, 2007). Mark Roe (2005) analyzes the relation between federal state and Delaware and states that Delaware is superseded by the Congress with the recent act of Sarbanes-Oxley in 2002 following the Enron and WorldCom scandals.

3.2.2. Germany

In Germany, after the release of OECD Principles, first, the Frankfurt Principles Commission for Corporate Governance submitted its Code of Best Practice in January 2000 which was delivered to and received well by all listed companies. Then, the Initiative Group for the German Code of Corporate Governance in Berlin released its German Code of Corporate Governance. In May 2000, by the Government Commission, “Corporate Governance – Company Management – Company Supervision – Modernization of Companies Act” was established focusing on the potential deficits of German company management and supervision system. Finally, the Government Commission submitted the German Corporate Governance Code on February 26, 2002. Recent research finds that 85.2% of DAX companies comply with the suggestions of the code. Since being introduced, German Corporate Governance Code has been amended for four times and a total of 28 amendments have been made. The amendments made were criticized by some companies because each amendment required new internal compliance processes which resulted in more expenditures and efforts (Rosen, 2007).

One of the most important issues in German corporate governance is the relevance of codetermination in company management. Critics address that whether the codetermination model that has not been updated since 1976 is suitable with the requirements of today’s corporate governance. An appropriate, updated and internationally accepted solution for codetermination problem is searched in Germany (Rosen, 2007).

When compared with the Anglo-Saxon model, rather than capital markets and external investors, Germany's corporate governance is shaped with corporations which depend heavily on big internal investors and financial companies. In many German private companies, the same person is both the shareholder and the manager and there is generally a major shareholder in publicly traded companies. Therefore, German companies' ownership structure is more concentrated than the US companies. It is interesting that German companies' shares are hold by other German companies with more than 40% rather than individuals and institutional investors. Also, a shareholder culture does not exist in Germany since 30 percent of its GDP is composed of market capitalization of stocks listed while the ratios are over 100 percent in countries such as the US, the UK and Sweden (Luo, 2007).

Banks are the most important actors of the German corporate governance system similar to other European countries. Banks become the biggest shareholders of the companies by giving loans to them since the companies require financing in the stock market otherwise become defaulter. The shares hold by banks in the companies do not generally exceed 10 percent while the legislation only states that a bank cannot hold shares of a company more than 15 percent of its own capital (Luo, 2007).

German system again differs from the Anglo-Saxon model since banks in the Anglo-Saxon model do not own shares of the companies that they lend to. Banks effect on shaping German corporate governance is very high as they hold shares, position their representatives in the supervisory boards and vote as proxies for individual shareholders keeping their shares with them. The interests of public shareholders are not well protected in Germany because banks which hold big percentage of shares in the German companies vote as proxies and pay attention to the company's survival rather than its stock price. Banks avoid companies taking risky investment decisions by voting while German companies having shares within other German companies also pursue the same way of voting with the same interest because they want to maintain the advantages of intercompany commercial contracts (Luo, 2007).

There are supervisory and executive boards within German companies. The supervisory board holds a responsibility separated from executive duties, nominates members of the executive board, approves all strategic decisions of the company and does not carry liability for the decisions of management in contrast with interests of shareholders. So, supervisory board is not the gatekeeper of shareholder benefits. The executive board is accountable for the company operations and gives reports to the supervisory board (Luo, 2007).

Rapid globalization has paved the way for some alteration within German corporate governance. Companies started to act internationally which reinforces culture-based governance models (Luo, 2007).

3.2.3. Japan

Japan has established a corporate governance model unique on its own since it rebuilt its industry in the post World War II period. Characteristics of the Japanese system are interesting to explore. "Relation investing" is successfully established in Japan. Affiliated companies usually have cross-shareholdings in which customers and suppliers are generally included. Predominantly, there is a major shareholder which is a "main" bank or a "keiretsu" partner. "Keiretsu" can be referred to the concept of "relation investing". One critic has stated that the Japanese "kereitsu" system is going to be broken up since investors are uncomfortable with the unsuccessful asset pricing due to the system (Monks & Minow, 2001).

Japanese Ministry of Finance is the most dominant player of the Japanese government's regulatory control on the business environment. The close-range relation between Japanese corporate and governance actors generally led to corruption. Returns of shareholders are neglected by companies which give importance to growth and market share and takeover incidents are very rare in Japan since there is lack of corporate control (Monks & Minow, 2001).

In May, 1998 Japan Corporate Governance Forum issued its corporate governance code. The forum was established by executives, academics, lawyers and representatives of shareholders believing the necessity of improvement of Japanese governance. According to the code, the Japanese corporate governance model is more "holistic" than the West model. Various constituencies form the companies of Japan but the code gives priority to shareholders while it also recommended "a sense of corporate solidarity with social harmony". Major shifts are stated by the code among which having more external directors, establishing independent audit, pay and nomination board committees are the considerable ones. With the call of the forum, Tokyo Stock Exchange has put the code to its Listing Rules; therefore improvements are supervised (Monks & Minow, 2001).

3.2.4. OECD

3.2.4.1. OECD in Context

Article 1 of OECD Convention was signed in Paris on December 14, 1960 and was enforced on September 30, 1961. OECD is authorized to establish policies on;

– to achieve the highest sustainable economic growth and employment and a rising standard of living in member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;

– to contribute to sound economic expansion in member as well as non-member countries in the process of economic development; and

– to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations ("OECD Principles of Corporate Governance", 2004, p.2).

The original members of OECD are Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the UK and the US. In 1964 Japan, in 1969 Finland, in 1971 Australia, in 1973 New Zealand, in 1994 Mexico, in 1995 Czech Republic, in 1996 Hungary, Poland and Korea, in 2000 Slovak Republic joined the organization as member countries ("OECD Principles of Corporate Governance", 2004).

3.2.4.2. OECD Principles of Corporate Governance

OECD Principles of Corporate Governance was prepared in 1999, following OECD Council Meeting at ministerial level on April 27-28, 1998 in order to establish corporate governance standards and guidelines for national governments, related international organizations and private sectors of the countries either OECD or non-OECD (“OECD Principles of Corporate Governance”, 2004).

Financial Stability Forum adopted the principles as one of the Twelve Key Standards for Sound Financial Systems. The principles also established a basis for corporate government component of World Bank (WB)/International Monetary Fund (IMF) Reports on the Observation of Standards and Codes known as ROSC (“OECD Principles of Corporate Governance”, 2004).

In 2002, OECD Steering Group composed of representatives of OECD countries was assigned to review the principles within OECD countries through surveying of OECD Council Meeting at Ministerial level. WB, IMF and Bank for International Settlements (BIS) were the other observers together with the *ad hoc* observers which are Financial Stability Forum, the Basel Committee, and the International Organization of Securities Commissions (IOSCO) (“OECD Principles of Corporate Governance”, 2004).

OECD Steering Group consulted to experts from countries which have contributed to Regional Corporate Governance Roundtables organized by OECD in Russia, Asia, South East Europe, Latin America and Eurasia. The group also cooperated with non-OECD countries with the support of Global Corporate Governance Forum (“OECD Principles of Corporate Governance”, 2004).

In addition, OECD took help of various interest parties at national and international levels. OECD website was used to take public comment and the various responses taken were declared to the public again on the website ("OECD Principles of Corporate Governance", 2004).

It was decided that 1999 Principles should be revised according to the new evolvements with keeping "a non-binding principles-based approach" ("OECD Principles of Corporate Governance", 2004).

The document is composed of two parts among which the first part covers the principles and sub-principles while the second part comprises annotations to the principles for understanding them in detail ("OECD Principles of Corporate Governance", 2004).

3.2.4.2.1. Sections of OECD Principles of Corporate Governance

The sections covered in OECD Principles of Corporate Governance are as follows;

I) Ensuring the basis for an effective corporate governance framework;

II) The rights of shareholders and key ownership functions;

III) The equitable treatment of shareholders;

IV) The role of stakeholders;

V) Disclosure and transparency

VI) The responsibilities of the board ("OECD Principles of Corporate Governance", 2004).

- **Ensuring the Basis for an Effective Corporate Governance Framework**

The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities ("OECD Principles of Corporate Governance", 2004, p.17).

- **The Rights of Shareholders and Key Ownership Functions**

The corporate governance framework should protect and facilitate the exercise of shareholders' rights ("OECD Principles of Corporate Governance", 2004, p.18).

- **The Equitable Treatment of Shareholders**

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights ("OECD Principles of Corporate Governance", 2004, p.20).

- **The Role of Stakeholders**

The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises ("OECD Principles of Corporate Governance", 2004, p.21).

- **Disclosure and Transparency**

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company ("OECD Principles of Corporate Governance", 2004, p.22).

- **The Responsibilities of the Board**

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders ("OECD Principles of Corporate Governance", 2004, p.24).

3.3. CMB's Principles

3.3.1. CMB in Context

CMB is the authorized entity to regulate and supervise security markets of Turkey. The institution was founded with the Capital Markets Law enacted in 1981. Its responsibilities are to make detailed regulations, initiate instruments for and organize the security markets.

The mission of CMB is;

"to make innovative regulations, and perform supervision with the aim of ensuring fairness, efficiency and transparency in Turkish capital markets, and improving their international competitiveness ("CMB Our Mission", 2011).

3.3.2. CMB's Corporate Governance Principles

Following the global developments, CMB's Corporate Governance Principles was first issued in July, 2003 and then amended in February, 2005 ("CMB's Corporate Governance Principles", 2003). As of 2004, ISE companies are required to include a corporate governance compliance statement in their annual reports (Ararat & Orbay, 2006). A committee composed of experts and representatives of ISE and Corporate Governance Forum of Turkey, established by CMB was assigned to prepare the principles. The committee considered ideas of various valued academicians, private sector representatives, public organizations and trade bodies while preparing the principles. Regulations of various countries were examined, and mainly OECD Principles and general principles recommended all over the world were utilized with considering own circumstances of Turkey ("CMB's Corporate Governance Principles", 2003).

The principles are established primarily for the publicly traded companies; however, they are thought to be applicable to other companies and organizations acting in the private or public sector. Implementing the principles is "optional". However, the status of principles' implementation, if not implemented reasons thereof, conflicts due to insufficient implementation and whether a change in company's future governance acts is planned should be explained in the annual report and made public ("CMB's Corporate Governance Principles", 2003).

"Comply or explain" approach is taken within the principles; however, some principles have letter "R" on their sides which indicate that they are only recommendations. Therefore, no disclosure is needed for the recommendations but if it is needed, “comply or explain” approach may be applied to them in the near future (“CMB’s Corporate Governance Principles”, 2003).

The principles do not pave the way to exceptions to the current regulations. Thus, the responsibilities of the publicly traded companies under the current regulations are maintained. The principles are established beyond current regulations with expectation of fulfilling shortcomings of the current regulations; therefore, they may be directive for the future arrangements within the current regulations. The principles will be reviewed periodically in order to accommodate with the future conditions (“CMB’s Corporate Governance Principles”, 2003).

The sections covered in CMB’s Corporate Governance Principles are as follows;

1) Shareholders
2) Disclosure and Transparency
3) Stakeholders
4) Board of Directors (“CMB’s Corporate Governance Principles”, 2003)

As understood from the section titles, CMB’s Corporate Governance Principles are in line with OECD Principles of Corporate Governance. The principles are deeply analyzed in Chapter 5 during the explanation of the Corporate Governance Index based on these principles and used in the research of this study.

CHAPTER IV

CORPORATE GOVERNANCE IN LITERATURE

In the literature, there are many studies measuring corporate governance compliance and relating the results with some other aspects.

4.1. CMB's Studies

This thesis is based on CMB's Corporate Governance Principles; thus, I will first discuss the studies of CMB on corporate governance compliance.

Payları İMKB'de İşlem Gören ve Ulusal 100 Endeksine Dahil Olan Şirketlerin Kurumsal Yönetim Uygulamalarına İlişkin Değerlendirme (Assessment of Corporate Governance Practices of Companies Traded on ISE and Included in National 100 Index) (2011), one of the studies of CMB was conducted to find whether ISE 100 companies have good corporate governance practices and whether they inform their shareholders effectively. CMB used the website of the companies, disclosures of material events, financial statements and annual reports as the sources of data. The result of the study states that the disclosures in corporate governance compliance reports of many ISE 100 companies do not involve the detailed information stated in the corporate governance compliance report format and the statements within the reports are quite standard. The study also indicates that these problems are also observed for other companies that are not taken into the scope of the study.

Kurumsal Yönetim Uygulama Anketi Sonuçları (Results of Corporate Governance Practice Survey) (2004), another study of CMB was implemented through sending surveys to ISE companies in order to define their corporate governance compliance level. Although implementing the principles is optional, CMB aimed to bring corporate governance principles to companies' attention. All the companies listed in ISE as of the research date were taken into consideration. As of June 26, 2004, 303 companies were being publicly traded on ISE and the surveys were sent to the companies by e-mail. 249 of companies returned their answers and 248 of them were used in the study. It is considerable that among ISE 30 companies, 26 of them returned their answers.

The results of the study presented in Table 4 are interesting to examine.

COMPANY	ISE 100	ISE 30
discloses mission/vision to public	50%	69%
board of directors approves strategic decisions taken by managers	87%	96%
board of directors reviews the goal reaching performance of the companies monthly or every three months	Nearly all	
has risk management and control mechanisms established by board of directors	52%	69%
discloses the authorities and responsibilities of the board of directors in the articles of association	79%	88%
distribution of roles among board of directors is done and disclosed in annual reports	77%	77%
timely and accurate informing mechanisms for board of directors on the very material issues are established	77%	85%
establishes ethical rules for the company and employees	56%	65%
ethical rules are disclosed to public	11%	19%
prohibits the managers from competing with the company	Approximately 50%	
members of board of directors have equal voting rights	Nearly all	
members of board of directors have positive or negative voting rights	24%	35%
has provisions in the articles of association that enable shareholders and stakeholders to call board of directors to meeting	31%	12%
has necessary qualifications of members of board of directors in articles of association	15%	
has executive and non-executive members within board of directors	78%	88%
has independent members within board of directors	26%	42%
has cumulative voting procedure	Almost no	
has procedures that the corporate governance committees would adapt	9%	23%
has prohibitions and enforcements for ex-managers not to work in a rival company	18%	

Table 4: Results of Corporate Governance Practice Survey (Kurumsal Yönetim Uygulama Anketi Sonuçları (Results of Corporate Governance Practice Survey), 2004, p.2-4)

İMKB Şirketleri Tarafından 2005 Yılında Yayınlanan Kurumsal Yönetim Uyum Raporlarına İlişkin Genel Değerlendirme (Overall Assessment of Corporate Governance Compliance Reports Issued by ISE Companies in 2005) (2005) is another study of CMB which examines the corporate governance compliance reports of ISE companies as of 2005. The results of the study reveal that corporate governance awareness as a concept is low among companies. In corporate governance compliance reports of companies, there are no explanations on the reasons of non-compliance to the principles. Generally, the compliance to principles enforced with the means of regulations is better than the compliance to optional principles. Companies give importance to material event disclosures as the percentage of the companies that comply with this principle is 86%. According to CMB, most cheapest and effective method of informing shareholders is electronic form; but only 56% of companies apply this method so, CMB concluded that the method has to be popularized. 35% of companies have privileges regarding voting rights, 19% have privileges in dividend distribution and 25% have practices hindering shareholders to freely transfer their shares which are practices not recommended by CMB. There is a weak relation between the companies and their shareholders and the percentage of companies that disclose their information policy is also low which indicates that companies do not share information with their shareholders. The company-shareholder relation is also problematic due to shareholders themselves since the percentage of participation in general shareholders' meetings and the number of shareholders' requests of information from the company is very low. In some corporate governance compliance reports, it is stated that within a year no information request from shareholders is received which shows that shareholders perceive themselves as "stock owners" rather than "shareholders". Therefore, CMB concluded that in order to establish a shareholder culture in Turkey, investors need to be educated. One other result shows that the number of companies in which independent board of directors' membership presence is very low and also the number of committees that shall be established through recommendation of corporate governance principles is very dramatic. It is also interesting that companies inform their stakeholders, mostly the customers and suppliers, more than their shareholders, although there is no regulatory obligation for it. Lastly, it is concluded that companies find it difficult to relate the principles to the regulations.

4.2. Standard&Poor's (S&P's)' Corporate Governance Rating Method

S&P's developed a corporate governance scoring methodology in *Standard&Poor's Corporate Governance Scores* study (2002). It is stated in the study that, one corporate governance model cannot be accepted for all countries and companies since various "best practice" codes with different perspectives take place in each country. None the less, standards that can be valid for all countries and companies can be actualized. OECD's Business Sector Group on Corporate Governance defined four main principles of corporate governance that can be applied universally which are "equality, transparency, accountability and responsibility" as explained in Section 2.4 of Chapter II. These principles can be utilized in order to prepare a corporate governance scoring methodology for separate entities. The methodology established by S&P's can be applied to each country and company in conjunction with or individually. In addition, the "Country Governance Classification" measures the degree the factors in legal, regulatory and market environment form a basis for good corporate governance. A single company will not necessarily score high if Country Governance Classification is high scored while also a high scored Corporate Governance company can be present in a low scored Country Governance Classification country. Corporate Governance Scores pave the way for comparing single companies within a country notwithstanding those companies within different countries.

Shvyrkov and Vorobyev (2006) conducted a report of S&P's in which the S&P's scoring method was applied to Wimm-Bill-Dann Foods OJSC, a company in Russian Federation. S&P's raised the company's Corporate Governance Score from "CGS-7" to "CGS-7+" and Russia's national scale Corporate Governance Score from "CGS-7.3" to "CGS-7.7". The corporate governance compliance progress of the Russian company was related with the good performance of board and governance mechanisms due to the new CEO. According to S&P's, CEO succession decision reflects the effectiveness of independent managers and influential shareholders on well-established governance methods.

4.3. Corporate Governance and Size and Ownership

- **Corporate Governance and Size**

In the study of Werder, Talaulicar and Kolat (2005), the corporate governance compliance based on German Corporate Governance Code issued in 2002 among German listed companies is examined. Among the companies listed on Frankfurt Stock Exchange, compliance declarations of 408 are taken into consideration. The comparative analysis reveals that company size is strongly related with compliance to the code since larger companies bear lower relative compliance costs. The findings also point out that smaller companies listed either in SDAX or in no index perceive the code as an impractical tool. Laing and Weir (1999) study on the extent of Cadbury compliance and its effect on corporate performance within the UK between the years 1992 and 1995. They find that larger companies have more corporate governance compliance than smaller companies. Cadbury (1995) reports that 90% of largest 100 UK companies have full compliance with the Cadbury Code while only 26% of smallest companies fully comply with the code. Gompers, Ishii and Metrick (2003) state that there is a positive relation between company size measured by the natural logarithm of market capitalization and their governance index while also Brown and Caylor (2006) reveal a significant and positive relation between company size measured by the natural logarithm of total assets and Gov-Score in their Pearson correlation results. Clifford and Evans (1996) and Mallin and Ow-Yong (1998) also state in their studies that corporate governance compliance is positively associated with company size. Nippani, Vinjamury and Bathala (2008) examine the corporate governance structures in the banking industry. The study analyses the relation between major corporate governance characteristics and size of banks. The data consists of a sample of 542 banks for the year 2003 derived from ISS (Institutional Shareholder Services, Inc.). They find that large banks perform better corporate governance practices. Nippani and Washer (2005) also find that smaller banks underperform compared to larger banks in terms of corporate governance.

Gravis's study (2009) differs from the other literature findings. The study is based on the "Entrenchment Index" developed by Bebchuk, Cohen and Ferrell in 2009 and examines corporate governance compliance of the US listed companies in 2000, 2004 and 2007. The study reveals that companies differentiate in terms of governance when they are grouped by total assets and market capitalization and lower mean entrenchment scores are obtained from the smallest and largest company groups. The result of the study indicates that relation between corporate governance and size may not be linear.

- **Corporate Governance and Ownership Concentration**

Fama and Jensen (1983) mention about the effect of ownership concentration on raising cost of capital due to lower market liquidity and decreasing diversification opportunities for investors. Javid and Iqbal (2008) study a sample of 60 companies for the period between 2003 and 2008 in order to determine the factors influencing ownership concentration and their effects on other aspects of the company such as performance. They find a negative relation between corporate governance practices and ownership concentration. Bozec Y. and Bozec R.'s study (2007) is based on the relation between ownership concentration and corporate governance compliance for a sample of Canadian companies listed on the Toronto Stock Exchange. The corporate governance compliance of the companies is measured by the index developed by Report on Business in 2002. The study reveals results in line with the expropriation effect argument that indicates a negative relation between corporate governance compliance and deviation from one share-one vote rule. Dhnadirek and Tang (2003) investigate the status of Thai corporate governance system before the 1997 Asian financial crisis. They find that Thai corporate governance system lacks diversity in governance tools and ownership concentration is an ineffective tool for good management. In order to strengthen the Thai corporate governance systems, the researchers state the importance of solving ownership concentration problems.

- **Corporate Governance and Foreign Ownership**

Gürsoy’s study (2006) analyses the relation between foreign ownership and corporate governance. The study indicates that foreign shareholders change or at least affect the corporate governance practices of the companies, in proportion with the amount of their shares. According to the researcher, the change in Turkish corporate governance practices will be more visible in the near future due to the increasing number and control of foreign shareholders within Turkish companies. Mangena and Tauringana’s study (2007) investigates the relation between foreign share ownership and corporate governance structures in Zimbabwe, a developing country in Southern Africa. The findings of the study reveal that corporate governance practices such as disclosure, high proportion of non-executive directors, institutional share ownership and audit committee independence are all positively significant with foreign share ownership. The researchers state that the results of their study are in line with the notion in the literature that foreign investors prefer to invest in companies with better corporate governance practices. Kim and Kang (2010) find that foreign equity ownership is positively related with corporate governance compliance and foreign investors are more sensitive to the corporate governance issue than domestic investors. Ajinkya, Bhorjah and Sengupta (2005) and Gietzmann and Ireland (2005) also reveal a positive relation between foreign ownership and corporate governance.

- **Shareholders and Size**

Newboulds, Straya and Wilson (1977) state that shareholders are treated more equally in large companies than in small companies.

- **Shareholders and Ownership Concentration**

Edwards and Weichenrieder (2004) state that beneficial effects of ownership concentration to shareholders such as "greater monitoring of management, reduced incentives to exploit minority shareholders due to greater cash-flow rights" are at least as large as and sometimes significantly larger than the harmful effects such as "greater private benefits of control due to greater control rights". Wu, Xu and Yuan (2009) find in their study that there is a positive relation between ownership concentration and legal shareholder protection in state-controlled companies while in non-state-controlled companies; they find an inverse relation between the two variables.

Some other studies in the literature are similar with the last finding of Wu and his colleagues. Kuznetsov and Muravyev (2001) state in their study that ownership concentration has negative effects on corporate governance practices since large shareholders are interested in maximizing value for themselves and neglect interests of minority shareholders. Boubakri, Cosset and Guedhami (2005) investigate a sample of 209 companies from 39 countries and find that strong shareholder protection is associated with lower ownership concentration.

- **Shareholders and Foreign Ownership**

The literature presents studies analyzing the relation between returns of shareholders and foreign ownership; however, it lacks studies on relation between protection of shareholder rights and foreign ownership. Jensen and Ruback (1983) indicate that shareholders of companies acquired by foreign investors get positive and significant returns. Harris and Ravenscraft (1991) conclude in their study that foreign companies offer higher wealth gains than those of US companies. Parhizgari and Boyrie (1995) investigate whether shareholder returns of US targeted companies are affected from foreign acquisitions during the period between 1979 and 1990. They find that in the long run, the relation between the increase in shareholder returns and foreign acquisitions is negative and insignificant while in the short run, about 20% of targeted companies' returns of shareholders increase with the acquisition announcement but later disappear. Dodds and Quek (1985) also find a share price increase for at least half a year after the foreign acquisition of a company. Pettway and Yamada (1986) indicate that in small ratio mergers with foreign companies there is a shareholder's gain while in large ratio mergers shareholders' wealth decreases.

On the contrary to all, Servaes and Zenner (1996) find that between the years 1980 and 1986, returns of targeted companies acquired by foreign investors dropped tremendously while also the period between 1981 and 1986 witness higher returns after acquisition of domestic bidders compared to those of foreign bidders.

- **Public Disclosure and Transparency and Size**

Buzby (1975) finds a positive association between size of a company's assets and level of disclosure. The researcher also states that disclosing information is less preferable for smaller companies since full disclosure of their activities will put them in a competitive disadvantageous position within their industry. Cerf (1961) finds a significant positive relation between the scores of disclosure index that he has constructed and company size measured with total assets. Singhvi and Desai (1971) improve Cerf's study and index and again find that company size and level of disclosure is positively related. Salamon and Dhaliwal (1980) test whether asset size of diversified companies which voluntarily disclose financial information is larger than the asset size of diversified companies which does not disclose financial information and justify their hypothesis. Bozzolan, Favotto and Ricceri (2003) use sales as a measure of company size and find a significant positive relation between size and intellectual capital disclosure level. Guthrie, Petty and Ricceri (2004) takes market capitalization as the company size measure and they also find that size and disclosure is significantly and positively related. Aksu and Kösedağ (2006) find in their study that larger companies have higher quality disclosures. Choi (1973) finds that the level of financial disclosure reduces the company's cost of capital and since large companies rely more on public external financing than small companies, large companies may choose to extent their level of disclosure. Supporting the finding of Choi, Jensen and Meckling (1976) also suggest that as financial disclosure level increases, company's cost of capital decreases. Also, Shapiro and Wolf (1972) support the idea that larger companies use more public financing than small companies.

One other study in the literature states opposing arguments to the above mentioned studies. Haniffa and Cooke (2002) suggest that smaller companies are more willing to disclose information since they want to minimize uncertainty in order to gain stakeholders' confidence.

- **Public Disclosure and Transparency and Ownership Concentration**

Guedhami and Pittman (2006) investigate 190 privatized companies from 31 countries and find evidence that extensive standards for disclosure reduce ownership concentration.

- **Public Disclosure and Transparency and Foreign Ownership**

Most of studies in the literature examining the relation between foreign ownership and public disclosure and transparency are based on developed countries. Frost and Kinney (1996) examine the disclosure practices of foreign and the US issuers registered with SEC and trade in the US markets. The researchers find that the extent of public disclosure is low among foreign issuers. Murray, Decker and Dittmar (1993) find that non US issuers use relevant disclosure forms less than the US issuers. Silkenat (1994) emphasizes that SEC has exempted foreign issuers from some requirements of disclosure in order to attract foreign companies to the US capital markets.

On the contrary, a study in the literature concludes with a different result. Leuz and Verrecchia (2000) find that foreign ownership and disclosure made by companies is positively related.

- **Stakeholders and Size**

The study of Darnall, Henriques and Sadorsky (2009) concludes that smaller companies are more responsive to value-chain, internal and regulatory stakeholder pressures.

- **Stakeholders and Ownership Concentration**

Shleifer and Vishny (1997) argue that in the case of concentrated ownership, large investors may use their power in order to maximize profits sometimes at the expense of other interest groups so they state a negative relation between ownership concentration and stakeholders' relations.

- **Stakeholders and Foreign Ownership**

Holtbrügge and Puck (2009) investigate German companies in Russia in terms of stakeholder relations and find that the foreign companies in Russia are more successful in terms of accessing necessary information, improving administrative decision-making and eliminating political risks when they develop good stakeholder relations.

- **Board of Directors and Size**

Davis, Yoo and Baker (2003) state that smaller companies lack advantageous director networks. Thurman (2000) reveals the difficulty of recruiting directors for small companies compared to large companies. The Hampel Committee Report (1998) also finds that small companies bear various difficulties in board development and regulatory compliance.

- **Board of Directors and Ownership Concentration**

Doğan and Smyth (2002) investigate Malaysian companies listed in Kuala Lumpur Stock Exchange over the period 1989 and 2000 and find that there is a negative relation between concentration of ownership and board remuneration. A before mentioned study of Bozec Y. and Bozec R. (2007) is consistent with the substitution effect argument with indicating a negative relation between board composition sub index rating and ownership concentration.

- **Board of Directors and Foreign Ownership**

Mason (1993) states that in foreign owned companies in the US, board of directors should include at least two US nationals in order to function well so they mention about the negative effect of foreigners to board functioning.

CHAPTER V

THE STUDY OF THE RELATION BETWEEN CORPORATE GOVERNANCE COMPLIANCE AND SIZE AND OWNERSHIP STRUCTURE

5.1. Aim of the Study

This study examines the corporate governance compliance reports submitted to CMB by the publicly traded companies on ISE in order to rate the corporate governance practices of the listed companies. In the analysis, relation among corporate governance compliance and size and ownership structure is investigated. I completed the corporate governance compliance scores for the companies by using the Corporate Governance Compliance Index constructed based on CMB’s Corporate Governance Principles. Size and ownership structure data of the companies are derived from the publicly disclosed information.

5.2. Hypotheses of the Study

Based on the previous literature results and aim of the study, hypotheses of the thesis are determined as followings:

Corporate governance compliance score of a company will depend on company size, ownership concentration and foreign ownership such that:

H_{1a}: Company size positively affects the corporate governance practices; hence, the larger the company the greater the corporate governance score.

H_{1b}: Ownership concentration negatively affects the corporate governance practices; hence, the less ownership concentration the greater the company corporate governance score.

H_{1c}: Foreign ownership positively affects the corporate governance practices; hence, the more foreign ownership percentage the greater the company corporate governance score.

Shareholder relations compliance score of a company will depend on company size, ownership concentration and foreign ownership such that:

H_{1d}: Company size positively affects the shareholder relations practices; hence, the larger the companies the greater the shareholders sub index score.

H_{1e}: Ownership concentration negatively affects the shareholder relations practices; hence, the less ownership concentration the greater the shareholders sub index score.

H_{1f}: Foreign ownership positively affects the shareholder relations practices; hence, the more foreign ownership percentage the greater the shareholders sub index score.

Public disclosure and transparency compliance score of a company will depend on company size, ownership concentration and foreign ownership such that:

H_{1g}: Company size positively affects the public disclosure and transparency practices; hence, the larger the companies the greater the public disclosure and transparency sub index score.

H_{1h}: Ownership concentration negatively affects the public disclosure and transparency practices; hence, the less ownership concentration the greater the public disclosure and transparency sub index score.

H_{1i}: Foreign ownership negatively affects the public disclosure and transparency practices; hence, the less foreign ownership percentage the greater the public disclosure and transparency sub index score.

Stakeholder relations compliance score of a company will depend on company size, ownership concentration and foreign ownership such that:

H_{1j}: Company size negatively affects the stakeholder relations practices; hence, the smaller the companies the greater the stakeholders sub index score.

H_{1k}: Ownership concentration negatively affects the stakeholder relations practices; hence, the less ownership concentration the greater the stakeholders sub index score.

H_{1l}: Foreign ownership positively affects the stakeholder relations practices; hence, the more foreign ownership percentage the greater the stakeholder relations practices.

Board of directors' practices compliance score of a company will depend on company size, ownership concentration and foreign ownership such that:

H_{1m}: Company size positively affects the board of directors' practices; hence, the larger the companies the greater the board of directors sub index score.

H_{1n}: Ownership concentration negatively affects the board of directors' practices; hence, the less ownership concentration the greater the board of directors sub index score.

H_{1o}: Foreign ownership positively affects the board of directors' practices; hence, the more foreign ownership percentage the greater the board of directors sub index score.

5.3 Methodology

5.3.1. Descriptive Information about Study Variables

The data of this study is composed of 330 companies listed on ISE as of 2009.

Firm size varies between sectors, it is noticeable that the mean of total assets in TL millions is 92.33 in finance sector companies and 7.42 and 12.86 in manufacturing and service sectors subsequently. This indicates that finance sector companies' asset sizes are noticeably higher than manufacturing and service sector companies' ones.

The means of family or group ownership percentages are 44.05 in finance sector, 49.21 in manufacturing sector and 53.30 in service sector which indicates that family or group ownership is more widespread among service sector companies.

Foreign ownership percentage is relatively low among all companies compared with the other ownership percentages. Manufacturing sector companies have a higher mean in terms of foreign ownership indicating that foreign investors are more interested in manufacturing companies than others.

Public ownership percentage means are 48.49, 34.97 and 37.43 in finance, manufacturing and service companies subsequently. Thus, it can be concluded that finance companies are more publicly traded than other companies.

In terms of dependent variables, general corporate governance index score and the sub indices' scores do not show large variations between sectors except the higher mean of stakeholders sub index score in manufacturing companies. So, I conclude that manufacturing companies are more successful in terms of managing stakeholder relations.

Table 5 reports the full set of descriptive statistics (mean, median, standard deviation, minimum and maximum) for all companies.

DESCRIPTIVE STATISTICS
ALL

	Total Assests (in TL millions)	Family or Group Ownership (in percentage)	Foreign Ownership (in percentage)	Public Ownership (in percentage)	Corporate Governance Index Score	Shareholders Sub-Index Score	Public Disclosure and Transparency Sub-Index Score	Stakeholders Sub-Index Score	Board of Directors Sub-Index Score
n	330	330	330	330	330	330	330	330	330
Mean	32,52	48,42	10,94	39,23	46,70	55,91	46,46	50,44	40,23
Median	2,05	51,88	0,00	34,75	50,00	60,00	42,86	55,00	41,98
s.d.	139,80	27,97	25,54	24,94	17,74	20,30	22,28	21,35	19,06
Min	0,01	0,00	0,00	0,16	0,00	0,00	0,00	0,00	0,00
Max	1.163,34	99,08	99,84	100,00	76,68	86,00	97,62	95,00	81,48

Table 5: Descriptive statistics - All companies

Table 6 reports the full set of descriptive statistics for the companies in finance sector.

DESCRIPTIVE STATISTICS
FINANCE

	Total Assests (in TL millions)	Family or Group Ownership (in percentage)	Foreign Ownership (in percentage)	Public Ownership (in percentage)	Corporate Governance Index Score	Shareholders Sub-Index Score	Public Disclosure and Transparency Sub-Index Score	Stakeholders Sub-Index Score	Board of Directors Sub-Index Score
n	94	94	94	94	94	94	94	94	94
Mean	92,33	44,05	6,87	48,49	48,03	55,62	49,54	44,84	43,35
Median	2,22	50,44	0,00	45,17	50,00	60,00	50,00	50,00	41,98
s.d.	251,06	29,98	22,74	29,72	18,64	21,60	23,93	20,15	19,58
Min	0,03	0,00	0,00	0,16	0,00	0,00	0,00	0,00	0,00
Max	1.163,34	99,08	99,84	100,00	76,68	86,00	90,48	90,00	77,78

Table 6: Descriptive statistics - Companies in finance sector

Table 7 reports the full set of descriptive statistics for the companies in manufacturing sector.

DESCRIPTIVE STATISTICS
MANUFACTURING

	Total Assests (in TL millions)	Family or Group Ownership (in percentage)	Foreign Ownership (in percentage)	Public Ownership (in percentage)	Corporate Governance Index Score	Shareholders Sub-Index Score	Public Disclosure and Transparency Sub-Index Score	Stakeholders Sub-Index Score	Board of Directors Sub-Index Score
n	181	181	181	181	181	181	181	181	181
Mean	7,42	49,21	13,69	34,97	46,49	56,98	44,45	54,34	39,14
Median	2,02	52,25	0,00	30,96	49,22	60,00	42,86	55,00	41,98
s.d.	17,09	26,51	27,60	20,53	17,09	19,40	20,89	21,28	18,73
Min	0,07	0,00	0,00	0,64	0,00	0,00	0,00	0,00	0,00
Max	111,50	97,30	99,36	98,69	75,65	86,00	92,86	95,00	81,48

Table 7: Descriptive statistics - Companies in manufacturing sector

Table 8 reports the full set of descriptive statistics for the companies in service sector.

DESCRIPTIVE STATISTICS
SERVICE

	Total Assests (in TL millions)	Family or Group Ownership (in percentage)	Foreign Ownership (in percentage)	Public Ownership (in percentage)	Corporate Governance Index Score	Shareholders Sub-Index Score	Public Disclosure and Transparency Sub-Index Score	Stakeholders Sub-Index Score	Board of Directors Sub-Index Score
n	55	55	55	55	55	55	55	55	55
Mean	12,86	53,30	8,84	37,43	45,13	52,87	47,79	47,18	38,47
Median	2,07	57,26	0,00	32,00	50,26	56,00	47,62	55,00	40,74
s.d.	28,59	28,57	22,00	25,52	18,42	20,96	23,46	21,25	18,96
Min	0,01	0,00	0,00	2,08	0,00	0,00	0,00	0,00	0,00
Max	139,79	94,52	97,92	99,70	69,95	80,00	97,62	75,00	75,31

Table 8: Descriptive statistics - Companies in service sector

5.3.2 Sources of Data

The analysis includes all publicly traded companies on ISE as of 2009. There were 351 stocks listed in the companies section of ISE website. (“IMKB”, 2011) 14 of the stock codes refer to a total of 5 companies. For instance, a company has three stocks on ISE under different codes and for these companies, one code is taken into the analysis and shown with a symbol “*” following the codes of the companies shown in the Corporate Governance Index. 11 of the stocks are funds and are excluded from the analysis. After these adjustments, the analysis is conducted over a total of 330 companies.

Independent variables are total asset size, foreign ownership percentage, family or group ownership percentage and public ownership percentages. They are measured by the data collected from the website of “Public Disclosure Platform” of Turkey (“Kamuyu Aydınlatma Platformu”, 2011).

Total asset size data is obtained from annual balance sheets of companies as of 2009 from the website of "Public Disclosure Platform" of Turkey. The ownership percentages data is again derived from the website of "Public Disclosure Platform" of Turkey. Each company is selected one by one from the companies section of the system and the ownership percentage data is recorded. The companies are classified as finance, manufacturing and service sector companies according to their core businesses again derived from the same website.

Table 9 presents the classification of companies.

Sector	Core Business
Finance	Financial Institutions Leasing
Services	Education, Health, Sports and Other Social Services Electricity, Gas and Water Transportation, Telecommunication and Storage Wholesale and Retail Trade, Hotels and Restaurants
Manufacturing	Construction and Public Works Manufacturing Industry Mining Technology

Table 9: Sectors according to core businesses

5.3.3. Corporate Governance Index

The corporate governance compliance data is derived from the Corporate Governance Compliance Index which is self-constructed for this analysis based on CMB's Corporate Governance Principles. The index is composed of 193 items which are under 4 sub indices and 26 titles. The 4 sub indices are; Shareholders Sub index, Public Disclosure and Transparency Sub index, Stakeholders Sub index and Board of Directors Sub index. Appendix A reflects the sub indices, rates, ownership percentages and sector data of the companies.

Under Shareholders sub index, there are 6 titles which are Shareholder relations Department, The Use of Shareholders Rights to Obtain Information, Information on Shareholders' Meeting, Voting Rights and Minority Rights, Dividend Policy and Deadline for Dividend Distribution and Transfer of Shares.

Under Public Disclosure and Transparency sub index, there are 5 titles which are Company Information Disclosure Policy, Disclosure of Material Events, The Company's Website and Its Contents, Disclosure of the Company's Ultimate Controlling Individual Shareholder/Shareholders and Disclosure on Insiders.

Under Stakeholders sub index, there are 5 titles which are Informing Stakeholders, Participation of the Stakeholders in the Management, Human Resources Policy, Information on Relations with the Clients and Suppliers and Social Responsibility.

Under Board of Directors sub index, there are 10 titles which are The Structure and Composition of Board of Directors and Independent Members, Qualifications of Board Members, The Mission, Vision and Strategic Goals of the Company, Internal Control and Risk Management Mechanism, Authority and Responsibilities of the Members of the Board Directors and Executives, Principles of Activity of the Board of Directors, Prohibition of Carrying Out Transactions with the Company and Prohibition of Competing with the Company, Ethical Rules, Number, Structure and Independency of Committees Established by the Board Of Directors and Remuneration of the Board of Directors.

The corporate governance compliance reports of all companies are obtained in order to rate the Corporate Governance Index. The data is first tried to be obtained from the website of CMB; however, it is noticed that some companies' websites do not go for a link for corporate governance compliance report while also most of the links are not updated. Therefore, websites of each company is searched and the corporate governance compliance reports are downloaded from the investor relations sections of the websites. 57 companies have disclosed their corporate governance compliance within their annual reports, 24 of them neither have a corporate governance compliance report nor a website which are assessed in the index with zero point. The remaining companies have their corporate compliance reports separately and most of them disclose their reports under investor relations sections of their websites while some put them under different section headings within the websites.

The index is rated with either “1” or “0” point for each item under titles. The rating explanations are important in order to understand the index correctly.

5.3.4. Corporate Governance Index Rating

Below, the rating method of each item in the Corporate Governance Index is presented.

	Mean (in percentage)	Max (in percentage)
SHAREHOLDERS SUB-INDEX	55,91	86,00

			Sub-Title	Gets "1" point if;
Shareholders Relations Department	54,32	100,00		
			Department	there is a shareholder relations department within the company
			Manager Name	the name of the shareholders relations department manager is disclosed
			Staff Name	the names of shareholder relations department staff or the persons dealing with shareholder relations are disclosed
			Communication Information	the communication information for shareholder relations department staff or the persons dealing with shareholder relations and if it is disclosed
			Operations	the main operations carried out by the shareholders relations department or the persons dealing with shareholder relations in the related period are disclosed
			Number of Applications	the number of shareholder applications made to the shareholders relations department or to the persons dealing with shareholders relations is disclosed
			Number of Responses	the number of responses given with respect to shareholders applications made to shareholders relations department or to the persons dealing with shareholders relations is disclosed
			Reason if No Department	the company has a shareholder relations department or if the appropriate reason for not establishing the department is disclosed
The Use of Shareholders Rights to Obtain Information	57,42	100,00		
			Number of Information Requests	the number of shareholders' information requests is disclosed
			Content of Requests	the content of shareholders' information requests is disclosed
			Evaluation of Requests	shareholders' information requests are evaluated
			Electronic Forms	electronic forms are used efficiently for informing shareholders on improvements
			Method of Announcement	the ways of informing shareholders on improvements are disclosed
			Special Auditor in Articles of Association	the articles of association has a provision for arranging an individual right to request assigning a special auditor
			Special Auditor Request	the requests for assigning a special auditor are disclosed or if there is no request for assigning a special auditor

Information on Shareholders' Meeting	53,24	94,12		
			Shareholders' Meetings	the shareholders' meetings within the related period are held and disclosed
			Attendance Quorum	the attendance quorum is disclosed
			Stakeholders Participation	the stakeholders have participated in the shareholders' meeting
			Media Participation	the media has participated in the shareholders' meeting
			Method of Invitation	the way of inviting shareholders to the shareholders' meeting is disclosed
			Time for Registration of Registered Shares	there is no time anticipated for shareholders with registered shares in order to record themselves in company share ledger for participating in the shareholders' meeting or if there is no shareholders with registered shares
			Reason for Time Anticipation	the appropriate reason of anticipating a time for shareholders with registered shares in order to record themselves in company share ledger for participating in shareholders' meeting is disclosed or if there is no shareholders with registered shares
			Type of Prior Information	the kind of information made available to shareholders before shareholders' meeting is disclosed
			Place of Information	where the information made available for shareholders before shareholders' meeting is disclosed
			Questions	the shareholders use their right to pose questions at the shareholders' meeting or if there is no question posed by shareholders
			Answers	the shareholders questions have been answered or if there is no question posed by shareholders
			Proposals	the shareholders use their right to make proposals at the shareholders' meeting or if there is no proposal made by shareholders
			Results of Proposals	the ways of concluding the shareholders' proposals are disclosed
			Important Decisions in Articles of Association	the articles of association has a provision to allow significant decisions like divestiture, sale, purchase or lease of assets to be made only in the shareholders' meeting
			Reason if No Provision	the appropriate reason of not having a provision to allow significant decisions like divestiture, sale, purchase or lease of assets to be made only in the shareholders' meeting in the articles of association is disclosed
			Participation Easiness	there are attempts by the company to ease the participation of shareholders to the shareholders' meeting
			Place of Minutes	the minutes of shareholders meeting are kept ready for shareholders and where they are kept is disclosed
Voting Rights and Minority Rights	47,07	83,33		
			Privilege	there is no privileged right on voting in articles of association
			Explanation on privilege	the privileged rights on voting in articles of association are explained or if there is no privileged right on voting in articles of association
			Type of privilege	how the privileged rights on voting in articles of association are exercised is disclosed or if there is no privileged right on voting in articles of association
			Mutual Ownership Voting	the companies in mutual ownership leading to sovereignty do not cast their votes in shareholders' meeting
			Minority Rights	the minority shares are being represented in management
			Cumulative Voting	there is cumulative voting procedure within the company

Dividend Policy and Deadline for Dividend Distribution	61,21	100,00		
			Privilege	there is no privileged right on distribution of dividends in articles of association
			Type of privilege	the kind of privileged rights on distribution of dividends in articles of association are explained
			Disclosure of Dividend Policy	there is a dividend policy made to public
			Disclosure in Shareholders' Meeting	the description of dividend policy has been disclosed in shareholders' meeting
			Reason if No Policy	the appropriate reason for not having a dividend policy is disclosed or if there is a dividend policy
			Legal Period for Profit Distribution	the dividend distribution has been realized within the legal period
			Reason if Period Not Obeyed	the appropriate reason for not realizing the dividend distribution within the legal period is disclosed or if the dividend distribution has been realized within the legal period
			Legal Result if Period Not Obeyed	the legal results encountered due to not realizing dividend distribution within the legal period is disclosed or if the dividend distribution has been realized within the legal period
Transfer of Shares	74,75	100,00		
			Restriction in Articles Of Association	there is no provision restricting transfer of shares
			Information on Restriction	the information on provisions restricting transfer of shares are disclosed or if there is no provision restricting transfer of shares
			Reason for Restriction	the appropriate reason of having provisions restricting transfer of shares is disclosed or if there is no provision restricting transfer of shares

	Mean (in percentage)	Max (in percentage)	Sub-Title	Gets "1" point if;
PUBLIC DISCLOSURE AND TRANSPARENCY SUB-INDEX	46,46	97,62		
Company Information Disclosure Policy	50,55	100,00		
			Disclosure Policy	there is a disclosure policy of the company
			Information	the disclosure policy explains information to be disclosed
			Method, Frequency	the disclosure policy includes appropriate requirements as form, frequency and method of information disclosure
			Frequency of Media Confrontation	the disclosure policy includes information on the frequency of board of directors and executives' media confrontation for disclosing information
			Public Disclosure Meetings	the disclosure policy includes information on the frequency of public disclosure meetings
			Method of Answering Questions	the disclosure policy includes methods of answering the questions submitted to company
			Reason if No Policy	the appropriate reason of not having a disclosure policy is disclosed or if there is a disclosure policy of the company
			Reason if Policy Not Disclosed	the appropriate reason of not disclosing the disclosure policy to public or if the appropriate reason of not having a disclosure policy are disclosed or if there is a disclosure policy of the company
			Names of Responsibles	the names of people responsible for implementation of disclosure policy are disclosed
			Duties of Responsibles	the duties of people responsible for implementation of disclosure policy are disclosed
Disclosure of Material Events	58,84	100,00		
			Number of Material Event Disclosures	the number of disclosures on material events in parallel with CMB regulations during the accounting period is disclosed
			Number of Additional Disclosures	the number of additional disclosure statements requested by CBM and ISE on disclosure of material events is disclosed
			Number of Disclosures in Foreign Stock Exchange	the number of disclosures on material events in foreign stock exchanges is disclosed or if the shares of company are not dual listed
			Disclosure in Home Country	the disclosures on material events in foreign stock exchanges when the shares of company are dual listed are also disclosed in the home country or when the shares of company are not dual listed
			Reason for Not Timely Disclosure	the appropriate reason for not disclosing material events on time is disclosed
			Sanction for Not Timely Disclosure	the sanctions imposed by CMB for not disclosing material events on time are disclosed

The Company's Website and Its Contents	36,36	100,00		
			Website	there is a website of the company
			Web Address	the company's website address is disclosed
			Trade Registry	it is disclosed that there is information on trade register in the website
			Shareholder, Management Structure	it is disclosed that there is information on ownership and management in the website
			privileged Shares	it is disclosed that there is information preferred shares in the website
			Changes in Trade Register Gazette, Date, Number	it is disclosed that there is information on the date and number of trade register gazettes the changes are expressed
			Articles of Association	it is disclosed that the articles of association is in the website
			Material Event	it is disclosed that publicly disclosed material information is in the website
			Annual Report	it is disclosed that annual reports of the company are in the website
			Financial Statements	it is disclosed that periodical financial statements are in the website
			Prospectuses	it is disclosed that prospectuses are in the website
			Circulars	it is disclosed that circulars are in the website
			Agenda of Shareholders' Meeting	it is disclosed that agendas of general shareholders' meetings are in the website
			List of Participants	it is disclosed that list of general shareholders' meeting's participants is in the website
			Minutes	it is disclosed that minutes of general shareholders' meeting are in the website
			Form for Proxy Voting	it is disclosed that form of proxy voting at the general shareholders' meeting is in the website
			Forms for Proxy Solicitation, Tender offers	it is disclosed that mandatory information forms prepared for proxy solicitation and tender offers are in the website
			Minutes of Board of Directors Meetings	it is disclosed that minutes of significant board of directors' meeting are in the website
			Frequently Asked Questions	it is disclosed that frequently asked questions including requests for information, queries and notifications and responses thereof are on the website
			Reason if No Website	the appropriate reason of not having a website is disclosed or if there is a website of the company
			Reason for Not Providing Information	the appropriate reason of not having necessary contents on the website or if at least the half of necessary contents are on the website
Disclosure of the Company's Ultimate Controlling Individual Shareholder / Shareholders	69,24	100,00		
			Disclosure of Ultimate Controllers	the company's ultimate individual shareholder or shareholders determined after eliminating the effects of indirect and mutual ownership are disclosed to public
			Reason if No Disclosure	the appropriate reason of not disclosing the company's ultimate individual shareholder or shareholders determined after eliminating the effects of indirect and mutual ownership to public or if the company's ultimate individual shareholder or shareholders
Disclosure On Insiders	63,54	100,00		
			Disclosure of Insiders	the list of insiders is disclosed to public
			The List of Insiders	the list of insiders is disclosed within the corporate governance report even if it is disclosed to public before
			Reason if No Disclosure	the appropriate reason of not disclosing the list of insiders is disclosed or if the list of insiders is disclosed to public

	Mean (in percentage)	Max (in percentage)
STAKEHOLDERS SUB-INDEX	50,44	95,00

	Mean	Max	Sub-Title	Gets "1" point if;
Informing Stakeholders	88,38	100,00		
			Informing	the company stakeholders are informed on the issues related to themselves
			Methods of Informing	the ways of informing the company stakeholders on the issues related to themselves are disclosed
			Reason if No Informing	the appropriate reason of not informing stakeholders on the issues related to themselves is disclosed or if the company stakeholders are informed on the issues related to themselves
Participation of the Stakeholders in the Management	44,04	100,00		
			Activities for Participation to Management	the attempts for participation of stakeholders in management are explained
			Model for Participation	a model has been established regarding participation of stakeholders in management
			Kind of Participation	the involvement to the model established regarding participation of stakeholders in management is explained
Human Resources Policy	42,32	100,00		
			Policy	the company has a human resources policy
			Main Principles of Policy	the main principles of the human resources policy are explained
			Reason if No Policy	the appropriate reason of not having a human resources policy is disclosed or if the company has a human resources policy
			Representative	a representative responsible for the relations between the company and its employees has been assigned
			Name of Representative	the name of the representative responsible for the relations between the company and its employees is disclosed
			Duties of Representative	the duties of the representative responsible for the relations between the company and its employees are disclosed
			Reason if No Representative	the appropriate reason of not assigning a representative responsible for the relations between the company and its employees is disclosed
			Complaints on Discrimination	it is disclosed that there has been no complaints done by employees especially on discrimination
			Solution for Complaints	the complaints done by employees have been sold or if it is disclosed that there has been no complaints done by employees especially on discrimination
Information on Relations with the Clients and Suppliers	77,58	100,00		
			Activities for Client and Supplier Satisfaction	what has been done for customers and suppliers' satisfaction is disclosed
Social Responsibility	38,26	100,00		
			Social Responsibility Activities	the activities regarding social responsibility are explained
			Law Suits on Environmental Damages	there is no law suit against the company regarding damages given to the environment
			Results of Law Suits	the results of the law suits against the company regarding damages given to the environment are disclosed or if there is no law suit against the company regarding damages given to the environment
			Environmental Effect Evaluation Reports	there are environmental effect evaluation reports on activities

	Mean (in percentage)	Max (in percentage)		
BOARD OF DIRECTORS SUB INDEX	40,23	81,48		
The Structure and Composition of Board of	27,30	92,31	Sub-Title	Gets "1" point if;
			Sorting of Executive, Non-Executive and Independent	the chairman and members of the board of directors are sorted whether they are executive, non-executive or independent
			Names of Board Members	the names of the members of the board of directors are disclosed
			Name of Executive Chairman/General Director	the names of the chairman of the board of directors and the general director are disclosed
			Executive Chairman Same with Board Chairman	the chairman of the board of directors and the general director are different persons
			Reason if Same	the appropriate reason of chairman of the board of directors and the general director are being the same persons is disclosed or if the chairman of the board of directors and the general director are different persons
			More than Half of Board Executive	less than half of the members of the board of directors are executive
			Reason if So	the appropriate reason of at least half of the members of the board of directors being executive is disclosed or less than half of the members of the board of directors are executive
			No or Less Than Two or One Third Independence Member	there are at two or more independent members at the board of directors composing at least one third of the board
			Reason if So	the appropriate reason of having two or more independent members at the board of directors composing at least one third of the board or if there are at two or more independent members at the board of directors composing at least one third of the board
			Independency Statements	the independency statements of the independent members have been disclosed
			Actions for Jeopardize of Independence	there are actions taken regarding a situation jeopardizing the independency of independent members in the related period
			Rules, Restrictions for Duties Outside	there are rules to regulate or restrict the duties of the members of the board of directors carried out of the company
			Reason if No Restriction	the appropriate reason of not having rules to regulate or restrict the duties of the members of the board of directors carried out of the company or if there are rules to regulate or restrict the duties of the members of the board of directors carried out

Qualifications of Board Members	13,72	100,00		
			Knowledge, Skill	the members of the board of directors have high level of knowledge, skills and qualifications
			Experience, Background	the members of the board of directors have specific experience and background
			Conviction of Non-Conformity	the members of the board of directors have not been convicted of crimes specified in the specific legislations
			Analysis of Financial Statements	the members of the board of directors are capable of analyzing and interpreting financial statements and reports
			Legal Regulations	the members of the board of directors have basic knowledge on legal regulations regarding the company
			Participating in All Board Meetings	the members of the board of directors are able to participate in all board of directors' meetings in the related year
			Qualifications in Articles of Association	the necessary qualifications of the members of the board of directors are disclosed in the articles of association
			Training Program if No Qualification	there is a training program for the members of the board of directors who have not the necessary qualifications
			Topics of Program	there is an adaptation program regarding the new members of the board of directors including appropriate issues
			Activities of Corporate Governance Committee	the corporate governance committee have studies regarding the adaptation program
			Reason if No Principle	the appropriate reason for members of board of directors not having at least half of the necessary qualifications and company not having necessary training and adaptation program or members of board of directors having at least half of the necessary qualifications and company having necessary training and adaptation program
The Mission, Vision and Strategic Goals of the Company	58,48	100,00		
			Mission/Vision	there is a company mission and vision has been determined by the board of directors
			Public Disclosure	the company mission and vision has been disclosed by the board of directors
			Mission/Vision Explanation	the company mission and vision is described
			Approval of Strategic Goals	the board of directors approve the strategic goals set by management
			Implementation Process of Goals	the board of directors has supervised the process of implementation of strategic goals
			Performance Reviews	the board of directors has reviewed past performance of the company
			Frequency of Reviews	the board of directors frequently reviews past performance
			Method of Reviews	the kind of method followed by the board of directors to review past performance is disclosed
			Reason if No Principle	the appropriate reason of not applying more than half of the above mentioned items or if the company has applied at least half of the above mentioned items
Internal Control and Risk Management Mechanism	76,26	100,00		
			Mechanism	there is a control and risk management mechanism established by the board of directors
			Information on Mechanism	the information on the operation and the efficiency of the control and risk management mechanism is given
			Reason if No Mechanism	the appropriate reason of not having a control and risk management mechanism is disclosed or if there is a control and risk management mechanism established by the board of directors

Authority and Responsibilities of the Members of the Board Directors and Executives	83,64	100,00		
			Authority, Responsibility in Articles of Assocciation	the authorities and responsibilities of the members of the board of directors and executives are explicitly disclosed in the articles of association
			Reason if No Provision	the appropriate reason of not having the authorities and responsibilities of the members of the board of directors and executives explicitly disclosed in the articles of association or if authorities and responsibilities of the members of the board of dir
Principles of Activity of the Board of Directors	38,96	100,00		
			Method to Determine Agenda	the method of board of directors in determining the agenda of board of direcotrs' meetings is disclosed
			Number of Meetings	the number of board of directors' meeting held in the related period is disclosed
			Participation	the participations to the board of directors' meetings are disclosed
			Method, Process of Invitation	the methods and procedures of calling the members to the board of directors' meeting are disclosed
			Secretariat	there is a secretariat formed to inform board of directors' members
			Dissenting Opinions in Minutes	the dissenting opinions discussed in the board of directors' meetings are explained in the minutes of the meeting
			Informing Company Auditors in Writing	the legal company auditors are informed in writing regarding the dissenting opinions
			Independent Dissenting Opinions in Minutes	the dissenting opinions of independent board members are disclosed to public
			Attendance in Person to Material Subjects	the members of the board of directors participate to board of directors' meetings in person which important issues specified by CMB will be discussed
			Questions in Minutes	the questions of the members of the board of directors are recorded in the minutes of board of directors' meetings
			Weighted Voting, Negative Veto	the members are not granted with weighted voting rights or negative veto rights
			Reason if No Principle	the appropriate reason of not applying more than half of the above mentioned items is disclosed or if the company has applied at least half of the above mentioned items
Prohibition of Carrying Out Transactions with the Company and Prohibition of Competing with	41,62	100,00		
			Prohibition	the prohibitions of carrying out transactions and competing with company have been implemented to the members of board of directors
			Reason if Competing Transactions	the appropriate reason of board of directors' members carrying out transactions or competing with company is disclosed or if prohibitions of carrying out transactions and competing with company have been implemented to the members of board of directors
			Conflicts of Interest	the conflicts of interests raised due to board of directors' members carrying out transactions or competing with company are disclosed or if prohibitions of carrying out transactions and competing with company have been implemented to the members of board of directors
Ethical Rules	62,95	100,00		
			Ethical Rules	the ethical rules have been established by the board of directors
			Reason if No Rule	the appropriate reason of not establishing ethical rules is disclosed or if ethical rules have been established by the board of directors
			Disclosure to Employees	the ethical rules have been disclosed to employees
			Public Disclosure	the ethical rules have been disclosed to public

Number, Structure and Independency of Committees Established by the Board Of Directors	31,28	92,86		
			Corporate Governance Committee	the corporate governance committee has been established by the board of directors
			Other Committees	committees other than audit committee have been established by the board of directors
			Chairman	the committees' chairmen are disclosed.
			Members	the committees' members are disclosed
			Qualifications	the qualifications of committees' chairmen and members are disclosed
			Frequency of Meetings	the frequency of committees' meetings is disclosed
			Activities	the activities of committees are disclosed
			Procedures	there are procedures to be followed by the committees during the execution of activities
			Reason if No Committee	the appropriate reason of not establishing a corporate governance committee is disclosed or f corporate governance committee has been established by the board of directors
			Independent Chairmen	the chairman of each committee has been selected from the independent members of the board of directors
			Two members, Two Independent or Most	both of the members in committees with two members and most of the members in committees with more than two members are non-executive members of board of directors
			Duties in More than One Committee	the members of the committees do not serve in more than one committee
			Reason if No Principle	the appropriate reason of not applying more than half of the above mentioned principles is disclosed or if at least half of the above mentioned principles are applied
			Conflicts of Interest	the conflicts of interests raised due to not applying more than half of the above mentioned principles are disclosed or if at least half of the above mentioned principles are applied
Remuneration of the Board of Directors	54,82	100,00		
			Right, Compensation, Wage	there are rights, compensations and wages granted to the board of directors' members
			Criteria	the criteria to determine rights, compensations and wages are disclosed
			Performance Remuneration	the board of directors is remunerated according to their anf company performance
			Loan	the company does not lend money to any members of the board of directors and managers
			Credit	the company does not provide credits to any members of the board of directors and managers
			Prolonging Time	the company does not prolong the terms of existing loans and credits or if the company does not lend money or provide credits to any members of the board of directors and managers
			Improvement of Conditions	the company does not improve the borrowing conditions or if the company does not lend money or provide credits to any members of the board of directors and managers
			Credit Extension for Third Party	the company does not give credits through a third person or if the company does not lend money or provide credits to any members of the board of directors and managers
			Warranty, Guarantee	the company does not provide any warranty or guarantee to the members of the board of directors or if the company does not lend money or provide credits to any members of the board of directors and managers
			Reason if No Provision	the appropriate reason of not applying more than half of the above mentioned items is disclosed or if at least half of the above mentioned items are applied

5.4. Model

The model assumes that $Score_j=f(LNsize, pubpct, fampct, frgpct)$

$Score_j$ as the dependent variable refers to *ilkeuyum, paysah, kamuayd, mensah* and *yonkur*.

ilkeuyum refers to the total rate the company gets from corporate governance compliance. *paysah* refers to the rate the company gets from compliance to shareholders sub index. *kamuayd* refers to the rate the company gets from compliance to public disclosure and transparency sub index. *mensah* refers to the rate the company gets from compliance to stakeholders sub index. *yonkur* refers to the rate the company gets from compliance to board of directors sub index.

The independent variables are *LNsize*, *pubpct*, *fampct* and *frgpct*.

LNsize refers to natural logarithm of asset size of the company. *pubpct* refers to publicly traded percentage in company's ownership structure. *fampct* refers to family or group percentage in company's ownership structure. *frgpct* refers to foreign ownership percentage in its ownership structure.

Through the analysis, I explore the association between ISE companies' corporate governance compliance and their sizes and ownership structures. The analysis comprises four steps. In the first step, all companies are taken into consideration while in the other steps; companies are analyzed separately according to their sectors which are finance, manufacturing and services.

Results are expected to vary among sectors as companies' characteristics differ according to their sectors.

5.5. Correlations between Study Variables

Pearson’s two- tailed correlation analyses are conducted to see the pattern and the strength of the associations between study variables.

Table 10 presents the correlations between study variables.

		FAMPCT	FORPCT	OTHPCT	PUBPCT	LNSIZE	ilkeuyum	paysah	kamuayd	mensah	yonkur
FAMPCT	Pearson Correlation	1	-,549(**)	-,478(**)	-,522(**)	,220(**)	-0,019	-0,054	-0,044	0,031	0,010
	Sig. (2-tailed)		0,000	0,000	0,000	0,000	0,725	0,331	0,428	0,570	0,856
	N	330	330	63	330	330	330	330	330	330	330
FORPCT	Pearson Correlation	-,549(**)	1	-0,099	-,392(**)	,195(**)	0,098	,124(*)	0,060	,141(*)	0,060
	Sig. (2-tailed)	0,000		0,442	0,000	0,000	0,076	0,025	0,279	0,010	0,274
	N	330	330	63	330	330	330	330	330	330	330
OTHPCT	Pearson Correlation	-,478(**)	-0,099	1	-0,061	-0,005	0,053	0,022	0,046	0,164	0,032
	Sig. (2-tailed)	0,000	0,442		0,638	0,968	0,678	0,862	0,721	0,199	0,801
	N	63	63	63	63	63	63	63	63	63	63
PUBPCT	Pearson Correlation	-,522(**)	-,392(**)	-0,061	1	-,457(**)	-0,092	-0,071	-0,035	-,204(**)	-0,080
	Sig. (2-tailed)	0,000	0,000	0,638		0,000	0,094	0,196	0,530	0,000	0,145
	N	330	330	63	330	330	330	330	330	330	330
LNSIZE	Pearson Correlation	,220(**)	,195(**)	-0,005	-,457(**)	1	,356(**)	,313(**)	,272(**)	,304(**)	,334(**)
	Sig. (2-tailed)	0,000	0,000	0,968	0,000		0,000	0,000	0,000	0,000	0,000
	N	330	330	63	330	330	330	330	330	330	330
ilkeuyum	Pearson Correlation	-0,019	0,098	0,053	-0,092	,356(**)	1	,892(**)	,803(**)	,792(**)	,926(**)
	Sig. (2-tailed)	0,725	0,076	0,678	0,094	0,000		0,000	0,000	0,000	0,000
	N	330	330	63	330	330	330	330	330	330	330
paysah	Pearson Correlation	-0,054	,124(*)	0,022	-0,071	,313(**)	,892(**)	1	,627(**)	,712(**)	,744(**)
	Sig. (2-tailed)	0,331	0,025	0,862	0,196	0,000	0,000		0,000	0,000	0,000
	N	330	330	63	330	330	330	330	330	330	330
kamuayd	Pearson Correlation	-0,044	0,060	0,046	-0,035	,272(**)	,803(**)	,627(**)	1	,530(**)	,615(**)
	Sig. (2-tailed)	0,428	0,279	0,721	0,530	0,000	0,000	0,000		0,000	0,000
	N	330	330	63	330	330	330	330	330	330	330
mensah	Pearson Correlation	0,031	,141(*)	0,164	-,204(**)	,304(**)	,792(**)	,712(**)	,530(**)	1	,692(**)
	Sig. (2-tailed)	0,570	0,010	0,199	0,000	0,000	0,000	0,000	0,000		0,000
	N	330	330	63	330	330	330	330	330	330	330
yonkur	Pearson Correlation	0,010	0,060	0,032	-0,080	,334(**)	,926(**)	,744(**)	,615(**)	,692(**)	1
	Sig. (2-tailed)	0,856	0,274	0,801	0,145	0,000	0,000	0,000	0,000	0,000	
	N	330	330	63	330	330	330	330	330	330	330

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

Table 10: Correlations between study variables for all companies

As presented in Table 10, family ownership percentage is negatively correlated with public and foreign ownership percentages (r= -.522, p< .01; r= -.549, p< .01 respectively). This is as expected because as percentage of either family, public or foreign ownership increases, the others decrease. In addition, family ownership percentage is positively correlated with size (r= .220, p< .01), so ISE companies with more family ownership percentage are larger in size. Moreover, public ownership percentage is negatively correlated with foreign ownership percentage and size (r= -.392, p< .01; r= - .457, p< .01). So, as public ownership percentage of an ISE company increases, its size decreases. Also, foreign ownership percentage is positively correlated with size (r= .195, p< .01), thus, ISE companies with more foreign ownership percentage are larger on average. Moreover, ilkeuyum is positively correlated with paysah, kamuayd, mensah and yonkur (r= .892, r= .803, r= .792, r= .926; p< .01 respectively). It is also as expected because ilkeuyum is composed of paysah, kamuayd, mensah and yonkur, so as either paysah, kamuayd, mensah and yonkur increases, ilkeuyum also increases. Also, paysah is positively correlated with kamuayd, mensah and yonkur (r= .627, r= .712, r= .744; p< .01 respectively). In addition, kamuayd is positively correlated with mensah and yonkur (r= .530, r= .615; p< .01 respectively). Last, mensah is also positively correlated with yonkur (r= .692, p< .01). These last positive correlations show that if a company has a good score in one sub index, it is the same for the other sub indices.

5.6. Outliers in the Sample

Table 11 shows the outliers in the sample.

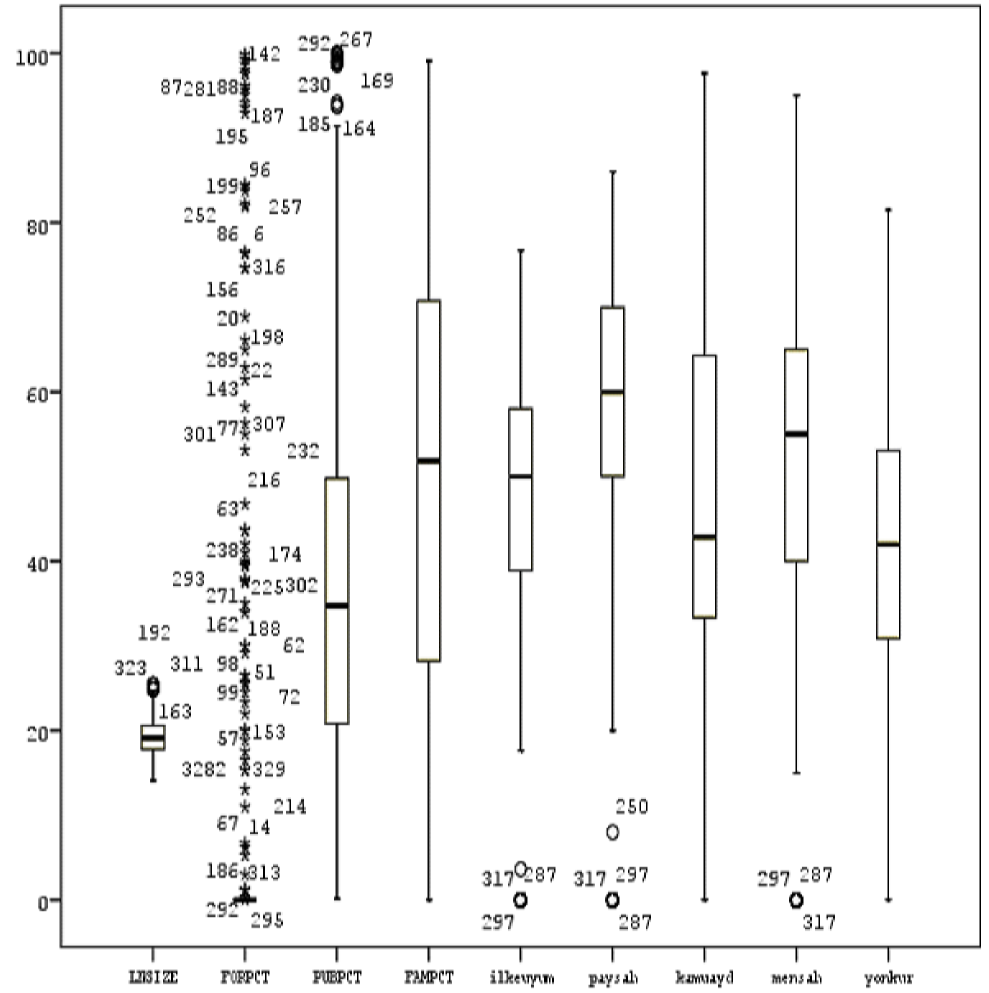

Table 11: Outliers in the sample

There is no outlier in the data belonging to fampct, kamuayd and yonkur. Outliers in LNsize, pubpct, ilkeuyum, paysah and mensah are negligible. There are many outliers in frgpct because most of the companies in the sample do not have foreign ownership percentage in their ownership structure so the companies with foreign ownership are seen in the table as outliers.

5.7. Analysis

5.7.1. Conduct of the Analysis

In order to test the hypotheses, regression analysis is conducted with PASW18.

First, the regression analysis is run in order to find the relation between four independent variables which are *LNsize*, *frgpct*, *pubpct*, *fampct* and the dependent variable *ilkeuyum*. The significance level of this analysis is 10%. When collinearity statistics is examined, it is found that three of the tolerance values are under the value of 0.20 and the three of the VIF values are above the value of 4 representing collinearity between the independent variables *pubpct* and *fampct*. Therefore, public ownership is chosen to be analyzed singly in order to measure ownership concentration. The new model for the analysis assumes $Score_j = f(LNsize, pubpct, frgpct)$.

5.7.2. Results of the Analysis and Discussion

After creating the new variable; first, the factors that affect the degree of general corporate governance compliance with CMB requirements are investigated as presented.

The explained variance is 13.6% ($F(3, 326) = 17.17$, $p < .1$). Size ($\beta = 3.24$, $p < .1$) predicts the general corporate governance compliance significantly and positively. Thus, H_{1a} is supported. The finding is in line with the related literature. As mentioned in the literature review, Werder and his colleagues (2005), Laing and Weir (1999), Cadbury (1995), Gompers and his colleagues (2003), Clifford and Evans (1996), Mallin and Ow-Yong (1998), Nippani and his colleagues (2008) and Nippani and Washer (2005) all find significant positive relation between company size and corporate governance compliance. Not surprisingly, my finding for ISE companies supports the results of the studies around the world. As indicated before, in the literature, only study of Gravis (2009) concludes that relation between company size and corporate governance may not be linear.

Public ownership percentage ($\beta = .08$, $p < .1$) also predicts the general corporate governance compliance significantly and positively. As indicated above, public ownership percentage is analyzed to measure ownership concentration, so will be referred as ownership concentration thereafter. With this result, I cannot support $H_{1b.}$ The finding is not in line with the relevant literature. As mentioned in the literature review, Fama and Jensen (1983), Javid and Iqbal (2008), Bozec Y. and Bozec R. (2007) and Dhnadirek and Tang (2003) all conclude in their studies that companies with ownership concentration lack good corporate governance practices so they indicate a negative relation between ownership concentration and corporate governance practices. My finding is opposing the relevant literature; however it may be perceived to be specific to Turkey since there are no other studies in the literature investigating the relation between ownership concentration and corporate governance for Turkey. Also, as I measure ownership concentration with public ownership percentage and since the companies listed on ISE have to obey corporate governance principles, a positive relation between corporate governance compliance and ownership concentration measured by public ownership percentage is not surprising.

Foreign ownership percentage ($\beta = .05$, *n.s*) does not predict general corporate governance compliance, I cannot support H_{1c} and this result again contradicts with the relevant literature. As mentioned before, Gürsoy (2006), Mangena and Tauringana (2007), Kim and Kang (2010), Ajinkya and his colleagues (2005) and Gietzmann and Ireland (2005) all conclude that foreign ownership in a company affects the corporate governance practices positively. Since my finding is specific to Turkey, I can conclude that this finding shall be compared with the finding of Gürsoy as his study is also specific to Turkey.

Second, I investigate the factors that affect the degree of compliance with the shareholders sub index in the full sample.

The explained variance is 11% ($F(3, 326)= 14.01$, $p< .1$). Size ($\beta= 3.30$, $p< .1$) predicts the compliance to shareholders sub index significantly and positively; thus, I support H_{1d}. The finding is in line with the finding of Newboulds and his colleagues (1977) as they conclude in their study that shareholders are treated more equally in large companies than in small companies.

Public ownership percentage ($\beta= .11$, $p< .1$); that is, ownership concentration also predicts the compliance to shareholders sub index significantly and positively, so I cannot support H_{1e}. My result is in line with some studies in the relevant literature but contradicts with more studies. Edwards and Weichenrieder (2004) find in their study that ownership concentration is beneficial to protection of shareholders' rights. Wu and his colleagues (2009) also conclude with the same argument for state-controlled companies however, they find the opposite for non-state controlled companies. Similar to Wu and his colleagues' last finding, Kuznetsov and Muravyev (2001) and Boubakri and his colleagues (2005) find a negative relation between ownership concentration and protection of shareholders' rights. Since the literature presents opposing ideas on this issue, my finding shall be perceived in the light of all and specific to Turkey. It is interesting that although the previous studies in the literature mention a positive relation between ownership concentration and corporate governance compliance in general, the studies indicating a negative relation is more when the dependent variable is protection of shareholders' rights instead of general corporate governance compliance. Oppositely, my finding does not differentiate and it can be again related to the previous mentioned situation that I measure ownership concentration with public ownership percentage.

Foreign ownership percentage (β= .08, p< .1) predicts the compliance to shareholders sub index significantly and positively and the result supports H_{1f}. As indicated in the literature review part, the literature presents studies analyzing the relation between foreign ownership and returns of shareholders; however, it lacks studies on relation between foreign ownership and protection of shareholder rights. Jensen and Ruback (1983), Harris and Ravenscraft (1991) conclude in their studies that companies with foreign investors have higher shareholder returns than others. Parhızgari and Boyrie (1995) and Dodds and Quek (1985) state a positive gain for shareholders of foreign acquired companies in the short run. Pettway and Yamada (1986) find a positive gain for shareholders in small ratio mergers. On the contrary to all, Servaes and Zenner (1996) find higher shareholder returns after acquisition of companies by domestic bidders. Since there is no similar study within the literature examining the relation between foreign ownership and protection of shareholders' relations, my finding has a contribution for the case of Turkey, as stating a positive relation between the two variables. My research also paves the way for new research initiatives in Turkey examining the relation between foreign ownership and shareholder returns as the literature around the world presents various examples on this issue. Moreover, it is challenging that the relation between general corporate governance compliance and foreign ownership is insignificant while it is positively significant between shareholder relations sub index score and foreign ownership. I may conclude that in Turkey, the corporate governance practices in general are not affected by foreign ownership while in terms of shareholder relations, the companies with more foreign ownership percentage are better performing.

Third, I examine the factors that affect the degree of compliance with public disclosure and transparency sub index in the full sample.

The explained variance is 8.6% ($F(3, 326)= 10.26$, $p< .1$). Size ($\beta= 3.32$, $p< .1$) predicts the compliance to public disclosure and transparency sub index positively and significantly thus, H_{1g} is supported. The result is in line with most of the findings in the literature. Buzby (1975), Cerf (1961), Singhvi and Desai (1971) and Salamon and Dhaliwal (1980) find a positive relation between disclosure level and company size measured with total assets. As they measure company size with total assets, they are thoroughly in line with my finding. Furthermore, Bozzolan and his colleagues (2003) measure company size with total sales, Guthrie and his colleagues (2004) use market capitalization as the measure of company size and they also find a positive relation between the variables. Aksu and Kösedağ also state a positive relation between higher qualified disclosures and company size. Choi (1973) mentions about the positive effect of financial disclosure in reducing a company's cost of capital and states that large companies are in need of more external financing than small companies, so he concludes that large companies will be more willing to disclose information. Jensen and Meckling (1976) and Shapiro and Wolf (1972) also support the findings of Choi in their studies. As mentioned in the literature review part, a study in the literature state opposing arguments to my finding and the previous results mentioned above. Haniffa and Cooke (2002) are the researchers who do not find a positive relation between size and public disclosure and transparency. As there is only one study reaching an opposite statement, my finding is in line with and contributes to the current literature for Turkey case.

Public ownership percentage; thus, ownership concentration ($\beta = .12$, $p < .1$) predicts the compliance to public disclosure and transparency sub index positively and significantly, so I cannot support $H_{1h.}$ the finding is not in line with the finding of Guedhami and Pittman (2006) who state the opposite explained in the literature review part. It should be paid attention that as mentioned in previous parts, the literature presents negative relations between ownership concentration and general corporate governance compliance and shareholder relations compliance and my findings for all are opposite. Again, although the literature states the opposite, I find a positive relation between ownership concentration and my dependent variable public disclosure and transparency level. Likewise the previous ones, this result may be again related to the fact that I measure ownership concentration with public ownership percentage.

Foreign ownership percentage ($\beta = .04$, *n.s*) does not predict the compliance to public disclosure and transparency sub index. I cannot support H_{1i}. My finding is not in line with the relevant literature as the related studies find a negative or positive relation between the two variables. Frost and Kinney (1996) and Murray and his colleagues (1993) state that foreign issuers in the US disclose less information than domestic issuers. Silkenat contributes to these finding by mentioning about SEC's exemption of foreign issuers from some disclosure requirements. However, the literature again presents opposing ideas as the study of Leuz and Verrecchia (2000) finds a positive relation between foreign ownership and disclosure practices. It is noteworthy that the studies in the literature finding a negative relation between the two variables are done for US. My study is specific to Turkey and definition of foreigner may involve US issuers however in the studies mentioned, US issuers are domestic. Thus, the differentiation between the literature results and my finding is not surprising.

Fourth, I analyze the factors that affect the degree of compliance with stakeholders sub index in the full sample.

The explained variance is 10.2% ($F(3, 326) = 12.31$, $p < .1$). Size ($\beta = 2.62$, $p < .1$) predicts the compliance to stakeholders sub index significantly and positively, this result cannot support H_{1j} and contradicts with the study of Darnall and his colleagues (2009) mentioned in literature review part. It is interesting that the dependent variable size still preserves its effectiveness on corporate governance instruments but the result contradicts with the literature for the first time.

Public ownership percentage; ownership concentration ($\beta = -.05$, *n.s*) does not predict the compliance to stakeholders sub index. I cannot support $H_{1k.}$ The finding of Shleifer and Vishny (1997) indicates a negative relation between the two variables; my finding also states a negative but not a significant relation. My finding in this part differs from my previous results since ownership concentration significantly predicts the previous variables, for the stakeholders' part, I do not find a significant relation between the dependent variable and ownership concentration. It is remarkable that as I measure ownership concentration with public ownership percentage, I may also conclude that the quality of stakeholder relations in ISE companies do not vary according to the percentage they are open to public.

Foreign ownership percentage (β= .06, *n.s*) does not predict the compliance to stakeholders sub index significantly and I also cannot support $H_{1l.}$ A related study of Holtbrügge and Puck (2009) examine foreign companies in Russia and concluded with a positive relation between these two variables. As I mentioned before, my study is specific to Turkey and a foreigner may also be a Russian issuer for me, so the contradiction between the similar study in the literature and my finding is normal. It is also seen that foreign ownership again does not affect the dependent variable except the shareholders' relations part.

Lastly, I assess the factors that affect the degree of compliance with board of directors sub index in the full sample.

The explained variance is 12% (F(3, 326)= 14.66, p< .1). Size (β= 3.30, p< .1) predicts the compliance to board of directors sub index significantly and positively and this supports H_{1m}. Relevant literature states the similar findings with my result. Davis and his colleagues (2003), Thurman (2000) and Hampel Committee Report (1998) all mention about the difficulties of having a well-functioning board in small companies as mentioned in the literature review. It is seen that, for the full sample, size predicts the all dependent variables. I may conclude that, as the size of an ISE company gets larger, the compliance to general corporate governance and to the separate instruments of corporate governance increases.

Public ownership percentage, ownership concentration (*β*= .08, *n.s*) does not predict the compliance to board of directors sub index significantly and I cannot support H_{1n}. The finding opposes with the relevant literature as Doğan and Smyth (2002) and Bozec Y. and Bozec R.'s (2007) findings state a negative relation between ownership concentration and functioning of board of directors. My finding contributes to the related literature on this issue with a different result. As mentioned before, I also do not find a significant relation between ownership concentration and stakeholder relations and similar to the conclusion of that result, I may state that as I measure ownership concentration with public ownership, the well functioning of board of directors of ISE companies do not vary according to the percentage they are open to public.

Foreign ownership percentage (*β*= .02, *n.s*) does not predict the compliance to board of directors sub index, so I again cannot support H_{1o}. Since the suggestion of Mason (1993) explained in the literature review contradicts with my finding, my finding is not in line with the relevant literature. According to the literature, except public disclosure and transparency practices, foreign ownership has a positive effect on general corporate governance compliance and other corporate governance instruments separately. Considering my results, I only find a significant and positive relation between shareholder relations practices and foreign ownership; the other relations are all insignificant. I may conclude that in Turkey, as an ISE company's foreign ownership percentage increases, it has better shareholder relations.

Table 12 shows the summary of the results of the analysis applied to all companies.

$Score_j = \beta_0 + \beta_1 LnSize + \beta_2 frgpct + \beta_3 pubfamdf + \varepsilon$

All	Ilkeuyum			Paysah			Kamuayd			Mensah			Yonkur		
	β	t	p	β	t	p	β	t	p	β	t	p	β	t	p
C	-19,250	-1,917	0,056	-12,802	-1,100	0,272	-22,557	-1,739	0,083	1,320	0,107	0,915	-26,602	-2,442	0,015
Lnsize	3,236	6,827	0,000	3,304	6,016	0,000	3,322	5,426	0,000	2,617	4,499	0,000	3,302	6,421	0,000
frgpct	0,045	1,166	0,245	0,084	1,873	0,062	0,042	0,840	0,402	0,057	1,186	0,236	0,020	0,476	0,634
pubpct	0,081	1,844	0,066	0,107	2,101	0,036	0,118	2,077	0,039	-0,048	-0,888	0,375	0,078	1,631	0,104*
R2	0,136			0,114			0,086			0,102			0,119		
Adj R2	0,129			0,106			0,078			0,093			0,111		
F	17,173			14,012			10,255			12,308			14,660		

j=(Ilkeuyum, Paysah, Kamuayd, Mensah, Yonkur)
*p< .1

Table 12: Results of the analysis – All companies

I extend the findings of relevant literature by applying the analysis with the same variables throughout the subsamples which are finance, manufacturing and service sectors. The literature lacks studies on the same variables within different sectors so I discuss the findings in this section in the light of my previous findings.

In the finance sector, first, I test whether size, foreign ownership percentage and public ownership percentage; thus, ownership concentration predict the general corporate governance compliance. Explained variance is 20.8% ($F(3, 90)= 7.87$, $p< .1$) and while both size ($\beta= 3.47$, $p< .1$) and public ownership percentage ($\beta= .15$, $p< .1$) predict the general corporate governance compliance significantly, foreign ownership percentage ($\beta= .04$, *n.s*) does not.

Second, I investigate whether size, foreign ownership percentage and public ownership percentage predict the compliance to shareholders sub index. Explained variance is 19.3% ($F(3, 90)= 7.15$, $p< .1$) and while both size ($\beta= 4.07$,

$p < .1$) and public ownership percentage ($\beta = .22$, $p < .1$) predict the compliance to shareholders sub index significantly, foreign ownership percentage ($\beta = -.01$, *n.s*) does not.

Third, I examine whether size, foreign ownership percentage and public ownership percentage predict the compliance to public disclosure and transparency sub index. Explained variance is 11.1% ($F(3, 90) = 3.76$, $p < .1$) and while size ($\beta = 3.25$, $p < .1$) predicts compliance to public disclosure and transparency sub index significantly, both public ownership percentage ($\beta = .16$, *n.s*) and foreign ownership percentage ($\beta = .07$, *n.s*) do not.

Fourth, I analyze whether size, foreign ownership percentage and public ownership percentage predict the compliance to stakeholders sub index. Explained variance is 30.0% ($F(3, 90) = 12.85$, $p < .1$) and while size ($\beta = 4.24$, $p < .1$) predicts compliance to stakeholders sub index significantly, both public ownership percentage ($\beta = .14$, *n.s*) and foreign ownership percentage ($\beta = .07$, *n.s*) do not.

Lastly, I assess whether size, foreign ownership percentage and public ownership percentage predict the compliance to board of directors sub index. Explained variance is 15.6% ($F(3, 90) = 5.53$, $p < .1$) and while size ($\beta = 3.03$, $p < .1$) predicts compliance to board of directors sub index significantly, both public ownership percentage ($\beta = .11$, *n.s*) and foreign ownership percentage ($\beta = .04$, *n.s*) do not.

In the finance sector, the results differ from the results for shareholders and public disclosure and transparency sub indices. It is seen that although foreign ownership predicts the compliance to shareholders sub index significantly and positively for the full sample, it does not predict this compliance score for the companies in the finance sector. I can conclude that in finance companies, shareholder relations' practices are independent from foreign ownership for finance companies on ISE. It is again considerable that although ownership concentration predicts the compliance to public disclosure and transparency sub index significantly for the entire sample; in the finance sector, it does not. According to my study, it can be concluded that ownership concentration does not affect disclosure practices of finance companies on ISE. Similar with the results for the all companies, size is an important determinant of corporate governance compliance and all sub indices compliance for finance companies.

Table 13 shows the summary of the results of the analysis applied to the companies in the finance sector.

$Score_j = \beta_0 + \beta_1 \text{LnSize} + \beta_2 \text{frgpct} + \beta_3 \text{pubfamdf} + \varepsilon$

Finance	Ilkeuyum			Paysah			Kamuayd			Mensah			Yonkur		
	β	t	p	β	t	p	β	t	p	β	t	p	β	t	p
C	-27,125	-1,528	0,130	-34,095	-1,642	0,104	-22,080	-0,915	0,363	-44,923	-2,490	0,015	-21,052	-1,094	0,277
Lnsize	3,473	4,546	0,000	4,072	4,557	0,000	3,250	3,129	0,002	4,241	5,463	0,000	3,030	3,658	0,000
frgpct	0,037	0,447	0,656	-0,008	-0,077	0,939	0,073	0,650	0,517	0,068	0,807	0,422	0,038	0,424	0,673
pubpct	0,149	1,830	0,071	0,215	2,254	0,027	0,161	1,451	0,150	0,137	1,659	0,101	0,105	1,193	0,236*
R2	0,208			0,193			0,111			0,300			0,156		
Adj R2	0,181			0,166			0,082			0,277			0,127		
F	7,866			7,154			3,761			12,852			5,527		

j=(Ilkeuyum, Paysah, Kamuayd, Mensah, Yonkur)

*p< .1

Table 13: Results of the analysis – Companies in finance sector

In the manufacturing sector, first, I test whether size, foreign ownership percentage and public ownership percentage predict the general corporate governance compliance. Explained variance is 14.3% ($F(3, 177)= 9.87$, $p< .1$) and while size ($\beta= 4.09$, $p< .1$) predicts the general corporate governance compliance significantly, both public ownership percentage (β= .03, *n.s*) and foreign ownership percentage (β= .04, *n.s*) do not.

Second, I investigate whether size, foreign ownership percentage and public ownership percentage predict the compliance to shareholders sub index. Explained variance is 12.7% (F(3, 177)= 8.60, p< .1) and while both size (β= 3.99, p< .1) and foreign ownership percentage (β= .10, p< .1) predict the compliance to shareholders sub index significantly, public ownership percentage (β= .04, *n.s*) does not.

Third, I examine whether size, foreign ownership percentage and public ownership percentage predict the compliance to public disclosure and transparency sub index. Explained variance is 10.6% (F(3, 177)= 6.99, p< .1) and while size (β= 4.43, p< .1) predicts the compliance to public disclosure and transparency sub index significantly, both public ownership percentage (β= .06, *n.s*) and foreign ownership percentage (β= .01, *n.s*) do not.

Fourth, I analyze whether size, foreign ownership percentage and public ownership percentage predict the compliance to stakeholders sub index. Explained variance is 4.8% (F(3, 177)= 2.94, p< .1) and while size (β= 2.39, p< .1) predicts the compliance to stakeholders sub index significantly, both public ownership percentage (β= -.05, *n.s*) and foreign ownership percentage (β= .04, *n.s*) do not.

Lastly, I assess whether size, foreign ownership percentage and public ownership percentage predict the compliance to board of directors sub index. Explained variance is 13.1% ($F(3, 177) = 8.86$, $p < .1$) and while size ($\beta = 4.38$, $p < .1$) predicts the compliance to board of directors sub index significantly, both public ownership percentage ($\beta = .04$, *n.s*) and foreign ownership percentage ($\beta = .01$, *n.s*) do not.

In the manufacturing sector, size predicts the general corporate governance compliance and compliance to all sub indices in line with the results for the full sample and finance sector and in addition; it is interesting that only foreign ownership percentage predicts the compliance to shareholders sub index while I find no relation between the other independent variables and corporate governance compliance scores.

Table 14 shows the summary of the results of the analysis applied to the companies in the manufacturing sector.

$Score_j = \beta_0 + \beta_1 LnSize + \beta_2 frgpct + \beta_3 pubfamdf + \varepsilon$

Manufacturing	Ilkeuyum			Paysah			Kamuayd			Mensah			Yonkur		
	β	t	p	β	t	p	β	t	p	β	t	p	β	t	p
C	-33,298	-2,099	0,037	-22,158	-1,219	0,224	-42,443	-2,143	0,034	9,769	0,469	0,640	-46,073	-2,631	0,009
Lnsize	4,086	5,198	0,000	3,992	4,434	0,000	4,432	4,515	0,000	2,392	2,318	0,022	4,383	5,051	0,000
frgpct	0,035	0,736	0,463	0,098	1,783	0,076	0,013	0,215	0,830	0,043	0,686	0,494	0,006	0,119	0,906
pubpct	0,034	0,508	0,612	0,042	0,550	0,583	0,057	0,683	0,496	-0,050	-0,577	0,565	0,038	0,514	0,608*
R2	0,143			0,127			0,106			0,048			0,131		
Adj R2	0,129			0,112			0,091			0,031			0,116		
F	9,874			8,597			6,994			2,943			8,863		

j=(Ilkeuyum, Paysah, Kamuayd, Mensah, Yonkur)

*p< .1

Table 14: Results of the analysis – Companies in the manufacturing sector

In the service sector, first, I test whether size, foreign ownership percentage and public ownership percentage predict the general corporate governance compliance. Explained variance is 4.8% ($F(3, 51)= 0.87$, $p< .1$) and none of the variables as size ($\beta= 1.86$, *n.s*), public ownership percentage ($\beta= .05$, *n.s*) and foreign ownership percentage ($\beta= .06$, *n.s*) predict the general corporate governance compliance.

Second, I investigate whether size, foreign ownership percentage and public ownership percentage predict the compliance to shareholders sub index, it is found that the explained variance is 5.8% ($F(3, 51)= 1.04$, $p< .1$) and none of the variables as size ($\beta= 2.39$, *n.s*), public ownership percentage ($\beta= .14$, *n.s*) and foreign ownership percentage ($\beta= .06$, *n.s*) predict the compliance to shareholders sub index.

Third, I examine whether size, foreign ownership percentage and public ownership percentage predict the compliance to public disclosure and transparency sub index. Explained variance is 2.6% ($F(3, 51)= 0.45$, $p< .1$) and none of the variables as size ($\beta= .97$, *n.s*), public ownership percentage ($\beta= .07$, *n.s*) and foreign ownership percentage ($\beta= .14$, *n.s*) predict the compliance to public disclosure and transparency sub index.

Fourth, I analyze whether size, foreign ownership percentage and public ownership percentage predict the compliance to stakeholders sub index. Explained variance is 7.4% ($F(3, 51)= 1.37$, $p< .1$) and none of the variables as size ($\beta= 2.56$, *n.s*), public ownership percentage ($\beta= -.04$, *n.s*) and foreign ownership percentage ($\beta= .01$, *n.s*) predict the compliance to stakeholders sub index.

Lastly, I assess whether size, foreign ownership percentage and public ownership percentage predict the compliance to board of directors sub index. Explained variance is 4.5% ($F(3, 51)= 0.81$, $p< .1$) and none of the variables as size ($\beta= 1.83$, *n.s*), public ownership percentage ($\beta= .002$, *n.s*) and foreign ownership percentage ($\beta= .03$, *n.s*) predict the compliance to board of directors sub index.

It is considerable to find in the service sector that none of the independent variables predicts the general corporate governance compliance or the compliance to the sub indices. I can conclude that size, ownership concentration and foreign ownership do not affect corporate governance compliance scores for service companies on ISE.

Table 15 shows the summary of the results of the analysis applied to the companies in the service sector.

$Score_j=\beta_0+\beta_1 LnSize+\beta_2 frgpct+\beta_3 pubfamdf+\varepsilon$

Service	Ilkeuyum			Paysah			Kamuayd			Mensah			Yonkur		
	β	t	p	β	t	p	β	t	p	β	t	p	β	t	p
C	6,960	0,241	0,810	1,115	0,034	0,973	25,558	0,687	0,495	-0,710	-0,022	0,983	2,802	0,094	0,925
Lnsize	1,864	1,317	0,194	2,386	1,490	0,142	0,969	0,531	0,598	2,559	1,590	0,118	1,834	1,257	0,214
frgpct	0,060	0,488	0,628	0,060	0,429	0,669	0,137	0,858	0,395	0,010	0,070	0,944	0,033	0,261	0,795
pubpct	0,047	0,425	0,673	0,141	1,128	0,265	0,063	0,446	0,658	-0,040	-0,315	0,754	0,002	0,015	0,988*
R2	0,048			0,058			0,026			0,074			0,045		
Adj R2	-0,008			0,002			-0,031			0,020			-0,011		
F	0,865			1,042			0,454			1,368			0,807		

j=(Ilkeuyum, Paysah, Kamuayd, Mensah, Yonkur)
*p< .1

Table 15: Results of the analysis - Companies in the service sector

The results indicate that size for the entire sample of companies has positive effect on total corporate governance score and all sub index scores; in addition, under different sector categories, size affects total and sub index scores positively except service sector. So except service companies, corporate governance compliance and size are related. The public ownership percentage singly measures ownership concentration and it affects corporate governance scores positively except stakeholders and board of directors sub indices scores for all companies. For sector categories, ownership concentration has positive effect on only general corporate governance compliance and shareholders sub index scores for finance companies. It is seen that ownership concentration measured with public ownership percentage shows differences in results for all companies and sector categories and it has no effect on corporate governance scores of service or manufacturing companies. Foreign ownership percentage has positive effect on shareholders sub index score derived for all and manufacturing sector companies while its effect is negative for all other scores measured. Thus, foreign ownership only affects shareholders relations in all ISE companies and specifically in manufacturing companies.

5.7.3. The Limitations of the Study

The findings of this study must be interpreted in the light of some potential limitations. First, it shall be noted that as the "Corporate Governance Index" is rated according to the corporate governance compliance reports of companies, all the findings within the reports shall not be taken as given. The reports may be misleading in the way that some companies may have declared to obey some criteria that their practices are not actually in line with while also some others may have declared less information than they actually perform.

Another thing to mention for this study is that although all sub indices are measured in terms of percentages, the number of items within the sub indices is not equal.

Lastly, the findings of this study are unique to Turkey since the analysis is done on ISE companies; thus, results for one country may not be applicable to other countries.

CHAPTER VI

CONCLUSION

This study examines definitions, theoretical framework, principles, historical context, some country and organization practices and Turkey's implementations of corporate governance. Furthermore, the literature findings on the relations of corporate governance and its instruments with various other aspects within companies are analyzed. After presenting a general picture on corporate governance, an analysis is conducted in order to find the relation between corporate governance compliance and size and ownership structures of the publicly traded companies on ISE. The results are specific to Turkey as ISE data is used.

In the first step of analysis, when all of the sectors are considered, it is seen that corporate governance compliance is positively related with the size of ISE companies. This result is in line with the most of the previous literature findings. Size preserves its effectiveness on all sub index scores and the results are in line with the literature except stakeholder relations part. One other positively related variable is the public ownership percentage; referred to as ownership concentration in my study. The positive relation between ownership concentration and general corporate governance compliance contradicts with the findings in the relevant literature; however it shall be noted that my result is specific to Turkey and ownership concentration is measured by public ownership percentage. Ownership concentration has also positive effect on shareholders and public disclosure and transparency sub indices scores but again the results contradict with the literature. In the case of foreign ownership, it has positive effect on only shareholders sub index score and the result is in line with the literature.

In the second step of analysis, finance sector companies are taken into consideration. In finance companies, general corporate governance compliance is again positively related with size and ownership concentration and the result is the same with compliance to shareholders sub index. However, in finance sector, only size preserves its effectiveness on the other compliance parts. It is observed that neither ownership concentration nor foreign ownership is effective on compliance to public disclosure and transparency, stakeholders and board of directors sub indices for ISE companies in finance sector.

In the third part of analysis, manufacturing companies are taken into consideration and in terms of both compliance to general corporate governance and all other sub indices, size is an important factor to determine the level of corporate governance. Among other independent variables, it is interesting that only foreign ownership affects the shareholders sub index score positively.

In the fourth part of analysis, service sector companies are taken into consideration and it is noteworthy that none of the factors determine the level of corporate governance in service sector including size. That is to say, it is observed in service companies on ISE that, corporate governance compliance is independent from the factors of size, ownership concentration and foreign ownership.

This study analyzes the relation between corporate governance compliance and size and ownership structure of ISE companies. The findings are considerable in comparison with the previous literature. More research on corporate governance compliance in Turkey and its relation with other aspects of companies is welcomed.

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APPENDIX: CD OF CORPORATE GOVERNANCE INDEX