

THE IMPACT OF MANAGERS' AND/OR DIRECTORS' PERCEPTIONS OF
CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCES
OF THE INDUSTRIAL FIRMS IN TURKEY: COMPARISON
OF THE STOCKHOLDER AND THE STAKEHOLDER
GOVERNANCE MODELS

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Thesis Abstract

Süleyman Gökhan Günay, “The Impact of Managers’ and/or Directors’ Perceptions of Corporate Governance on the Financial Performances of Industrial Firms in Turkey: Comparison of the Stockholder and the Stakeholder Governance Models”

The purpose of this thesis is to compare firms that implement stakeholder governance model with the firms that implement stockholder governance model in terms of their financial performances in Turkey. Since no comprehensive corporate governance model is found during the literature review, the universal model of corporate governance is induced by the help of twelve theories and thirty-six variables. These twelve theories and thirty-six variables are either related to stockholder governance and/or stakeholder governance models. After the process of induction, this corporate governance model is deduced with the research findings related to the stockholder and stakeholder governance models. The study has five important findings. First, it is found that business environment in Turkey shifted from the public-interest dominated culture to the self-interest dominated culture. Second, the firms which give importance to corporate social responsibility (CSR) will not carry additional financial burdens when compared to the firms which do not operationalize CSR activities for their stakeholders. Third, stakeholders (i.e. environment and society) are perceived by the corporate governors as the irrelevant stakeholders. These empirical findings suggest that corporate social performance rather than corporate social responsibility makes sense for the corporate governors in Turkey due to their ignorance of society and natural environment as a relevant stakeholder for their firms. Fourth, corporate governors have tendencies to perceive their firms as a bundle of human assets, be accountable to their stockholders, cooperate with their stakeholders, and form stable relationships with their stakeholders. Fifth, industrial firms in Turkey operate in a chaotic and paradoxical environment.

Tez Özeti

Süleyman Gökhan Günay, “Yöneticiler ve Yönetim Kurulu Üyelerinin İşletme Yönetişimi Algılamalarının Türkiye’deki Sanayi Şirketlerinin Finansal Performansları Üzerindeki Etkisi: Hissedar ve Paydaş Yönetişim Modellerinin Karşılaştırması”

Bu tezin amacı Türkiye’de paydaş yönetim modeli uygulayan şirketlerle hissedar yönetim modeli uygulayanları finansal performanslarına göre karşılaştırmaktır. Literatür taraması boyunca kapsamlı bir işletme yönetim modeli bulunamadığından dolayı universal bir işletme yönetim modeli 12 teori ve 36 değişken yardımıyla tümden gelim yöntemiyle oluşturulmuştur. Bu 12 teori ve 36 değişken hissedar ve/veya paydaş yönetim modelleriyle ilgilidir. Tümden gelim yöntemiyle oluşturulan bu işletme yönetim modeli, hissedar ve paydaş yönetim modelleri ile ilgili olan araştırma bulguları kullanılarak tüme varım yöntemiyle indirgenmiştir. Çalışmanın beş önemli bulgusu vardır. Birincisi, Türkiye’deki iş çevresi toplum çıkarlarının baskın olduğu bir kültürden, bireysel çıkarların baskın olduğu bir kültüre doğru kaymıştır. İkincisi, kurumsal sosyal sorumluluğuna (KSS) önem veren şirketler KSS faaliyetlerini paydaşları için icra etmeyen şirketlerle kıyaslandığında ek bir finansal yük taşımamaktadırlar. Üçüncüsü, paydaşlar (çevre ve toplum) şirket yöneticileri tarafından önemsiz paydaşlar olarak algılanmışlardır. Bu empirik bulgular, Türkiye’deki şirket yöneticileri toplum ve doğal çevreyi şirketlerinin önemli bir paydaşı olarak görmezlikten gelmelerinden dolayı şirket sosyal sorumluluğundan ziyade şirket sosyal performansının anlamlı olduğunu ifade etmektedir. Dördüncüsü, şirket yöneticilerinin şirketlerini insan varlığından oluşan bir demet olarak, hissedarlarına karşı sorumlu olarak algılamaya, paydaşlarıyla işbirliği yapmaya ve paydaşlarıyla düzenli ilişkiler kurmaya eğilimleri vardır. Beşincisi, Türkiye’deki sanayi şirketleri kaotik ve çelişkili bir çevrede faaliyet göstermektedirler.

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List of Abbreviations

- A: Rational stockholder governance
- Δ : Convergent stockholder governance
- Σ : Convergent stakeholder governance
- Ω : Normative stakeholder governance
- V1: SI: Self-interest
- V2: STPSVM: Short-term profit/shareholder value maximization
- V3: BA: Bundle of Assets
- V4: ASLEC: A set of legal and economic contracts
- V5: ZSG: Zero sum game
- V6: REINDEP: Resource in/dependence
- V7: ASYMMETRIC: Asymmetric information
- V8: ACSTOCK: Accountability to stockholders
- V9: SAM: Stakeholders as mean
- V10: UNFAIR: Unfairness
- V11: DT: Distrust
- V12: DH: Dishonesty
- V13: HM: Hierarchy/Market
- V14: STP: Short-term perspective
- V15: PC: Passive communication
- V16: FSI: Firm/stakeholder influence
- V17: CSI: Corporate social irresponsibility
- V18: NCB: Non-cooperative behaviors
- V19: OPBEH: Opportunistic behaviors

V20: UFB: Unfair behaviors

V21: UNSTABLE: Unstable relationships with stakeholders

V22: HAPCO: Haphazard communication

V23: DRH: Dyadic relationships/Hierarchy

V24: LOC: Low organizational commitment

V25: CYNIC: Cynicism

V26: LOWCITIZEN: Low organizational citizenship

V27: NOINNOCON: No innovation concern

V28: EFFICON: Efficiency concern

V29: BADREPUT: Bad reputation

V30: DISSATISFACT: Stakeholder dissatisfaction

V31: NOEXPERIENCE: No experience

V32: ENTROPY: Entropy

V33: EXTRINSIC: Extrinsic motivation

V34: UNBALANCED: Unbalanced growth

V35: VULNERABLE: Vulnerability to crisis

V36: LOWORGANWEALTH: Low organizational wealth

S1: MI: Mutual-interests

S2: LTPMVA: Long-term profit maximization/value added

S3: BHA: Bundle of human assets

S4: ASSC: A set of social contracts

S5: PSS: Positive-sum strategy

S6: REINTER: Resource interdependence

S7: SYMMETRIC: Symmetric information

S8: ACSTAKE: Accountability to stakeholders

S9: SAE: Stakeholders as an end
S10: FAIR: Fairness/Legitimacy
S11: MT: Mutual-trust
S12: IH: Integrity/Honesty
S13: NW: Network
S14: LTP: Long-term perspective
S15: AC: Active communication
S16: SPAR: Stakeholder participation
S17: CSR: Corporate social responsibility
S18: CB: Cooperative behaviors
S19: TBB: Trust-based behaviors
S20: FB: Fair behaviors
S21: STABLE: Stable relationships with stakeholders
S22: SYSCO: Systematic communication
S23: NWR: Network relationships
S24: HOC: High organizational commitment
S25: GOOD: Goodwill
S26: HIGHCITIZEN: High organizational citizenship
S27: INNOCON: Innovation concern
S28: NOEFFICON: No efficiency concern
S29: GOODREPUT: Good reputation
S30: SATISFACT: Stakeholder satisfaction
S31: EXPERIENCE: Experience
S32: EXISTENCE: Firm Existence
S33: INTRINSIC: Intrinsic motivation

S34: SUSTAIN: Sustainable growth

S35: IMMUNIZED: Immunization to crisis

S36: HIGHORGANWEALTH: High organizational wealth

CSR: Corporate social responsibility

CSP: Corporate social performance

AT: Agency theory

TCE: Transaction cost economics

RSA: Royal Society for encouragement of Arts Manufactures and Commerce

NGO: Non-governmental organization

CGI: Corporate governance index

SMEs: Small and Medium Size Enterprises

CHAPTER I

INTRODUCTION

Corporate governance is a conundrum that is especially debated among business scholars in the last two decades. It is a conundrum because it is tried to be explained and solved by so many theories but none of them was successful in explaining this phenomenon. When the ownership of a firm is separated from its management, corporate governance issues have arisen (Tricker, 2000), especially in Anglo-Saxon countries. The divergence of the stockholders' interests from the managers' interests due to separation of ownership and management of the firm is first emphasized by Adam Smith (1776). Due to the poor performance that led to major losses in the shareholder value in U.S. companies (e.g. General Motors, IBM, Amex, and Westinghouse), corporate governance concept gained public attention in these types of countries. Corporate governance also gained public attention because of the failure and fraud in U.K. companies such as Polly Peck, Mirror Group, and BCCI (MacMillan and Downing, 1999). U.S. companies such as Enron and World Com are recent examples to the corporate governance issues. Due to the massive participation of U.S. households in equity markets (Mills and Weinstein, 2000), poor performance of U.S. companies attracted public attention also. In the case of U.K. firms, institutional investors are the major actors in the corporate governance system. In

other words, the governance practices of these financial institutions led to the fraud, pay disparities between the directors and the employees, and failures that attracted public attention in U.K. (Plender, 1997). Similar unethical organizational behaviors are also very common in Turkey. Due to this type of issues many articles and books have been written about corporate governance in the world. Besides, most of the countries declared their own corporate governance principles. OECD (1998; 2003; 2004) published reports regarding this issue. United Nations Environmental Program (UNEP) developed an index for measuring the economic, environmental, and social performance of firms (Clarke, 1998a), which is also closely related with the corporate governance. Some of the governmental institutions and non-governmental organizations (NGOs) also declared the principles and processes of corporate governance in Turkey. For example, Capital Markets Board of Turkey (2003) and Turkish Industrialists' and Businessmen's Association (2002) published reports about corporate governance. Therefore, all of these books, articles and reports show the importance of corporate governance phenomenon in the world. Thus, Tricker (2000) stated that nineteenth century was the century of entrepreneurship, twentieth century was the century of management, and the twenty-first century will be the century of corporate governance.

There are two contrasting paradigms or opposing camps in corporate governance: stockholder and stakeholder governance (Friedman and Miles, 2002; Gamble and Kelly, 2001; Letza, Sun, and Kirkbride 2004; Prabhaker, 1998; Sternberg, 1997; Turnbull, 1997a, 2002; Vinten, 2001). Some scholars advocated stockholder governance model (Demsetz, 1983; Fama, 1980; Fama and Jensen, 1983a; Fama and Jensen, 1983b; Jensen and Meckling, 1976; Shleifer and Vishny, 1997; Williamson, 1988) and the others advocated stakeholder governance model

(Clarke, 1998a; Ertuna, 1973, 2003, 2005a; 2005c; Greenwood, 2001; MacMillan and Downing, 1999; Mills and Weinstein, 2000; O’Higgins, 2001; Plender, 1998; Post, Preston and Sachs, 2002a; 2002b). According to the stockholder governance model, only the interests of the stockholders should be considered in the governance of corporations. According to the stakeholder governance model, there are no guidelines as to which stakeholder group gets a priority (O’Higgins, 2001). In other words, the interests of the stakeholders should be considered in the governance of corporations. As it can be understood from the title of the thesis, the purpose of this thesis is to compare firms that implement stakeholder governance model with the firms that implement stockholder governance model. In order to compare these two governance models, there is a need to define corporate governance because no commonly accepted theory or paradigm has been developed about corporate governance yet. There is no coherence about corporate governance that explains theoretically or empirically how the modern corporation is run (Pettigrew, 1992), which will also help us to solve the corporate governance conundrum. Although Philip Stiles attempted to form corporate governance theory (Clarke, 1998b), there is still a quest for an optimal or superior theoretical model of corporate governance (Letza, Sun, and Kirkbride 2004; Tricker, 2000).

Although “what is corporate governance?” is an important research question in the thesis, it is not enough. As it is known, a theory also needs to answer the questions how, why, when, where and who (Whetten, 1989). In order to answer these research questions about corporate governance theory, inductionist rather than a deductionist method is first used, as indicated by Mintzberg (2005), in the thesis. As a result of the process of induction, it is found that agency theory, resource-dependence theory, transaction cost economics theory, stakeholder-agency theory,

instrumental stakeholder theory, traditional stewardship theory, corporate social performance theory, corporate social responsibility theory, integrative social contract theory, modern stewardship theory, resource-based theory, and normative stakeholder theory contribute to the corporate governance phenomenon. But induction is not sufficient for the constitution of a good corporate governance model. A good model needs to be interwoven with the processes of induction and deduction. Thus, the process of deduction is conducted via implementing field studies in terms of in-depth interviews with the directors and/or managers of industrial firms in Turkey after the induction of corporate governance theory. The transcribed in-depth interviews are coded with the variables of stockholder governance and stakeholder governance models that are induced from the theories mentioned above. As a result, the firms that implement stakeholder governance model are compared with the firms that implement stockholder governance model in terms of their financial performances. The purpose of this thesis is to show which corporate governance model, viz. stockholder governance or stakeholder governance, is more successful for the industrial firms in terms of their financial performances. Besides, corporate social responsibility (CSR) is an important concept, which is closely related with the corporate governance, for the firms in our contemporary age (Ertuna, 2003, 2005a). Hence, the other purpose of this research is to find out whether CSR activities are advantageous for the firms or not in terms of their financial performances.

Firms that can create and maintain a competitive advantage are expected to survive and exist in the twenty-first century. Competitive advantage is defined as a firm's way of doing things that are difficult to copy by the other firms (Hamel and Prahalad, 1996; Nahapiet and Ghoshal, 1998). Out-performing the other companies (Jones, 1995; Scholes and Clutterbuck, 1998; Wheeler and Sillanpää, 1998) is

another definition of competitive advantage. When firms can offer unique products and services and have a good reputation (Ertuna, 2005b) or when organizational commitment by stakeholders (Plender, 1998) is achieved, competitive advantage is expected to emerge as a business result. Besides, firms that form relationships such as active communication (Logsdon and Lewellyn, 2000; Post, Preston, and Sachs, 2002b) or cooperative (Buchholz, 2005) and trust-based behaviors (Barney and Hansen, 1994; Jones, 1995; Jones and Wicks, 1999) with their stakeholders are also expected to create competitive advantage for themselves. These types of relationships are closely related with the stakeholder governance model. For example, Royal Society for encouragement of Arts Manufactures and Commerce (1995) or (RSA) conducted a study in U.K. and concluded that stakeholder governance led to competitive advantage for the British firms. Hence, an important purpose of this study is to test whether Turkish industrial firms, which give importance to their stakeholders or implement stakeholder governance model, will generate competitive advantages (Pfeffer, 1994) or not. Therefore, this thesis is expected to make important contributions to the industrial firms in Turkey. Since corporations have always been directly connected to economic development through the link with industrialization (Reed, 2002), this study is also expected to make contributions to the economic development of Turkey because industrial firms are in the centre of an economy. As a result, this thesis is initiated with the expectation of defining ways for generating competitive advantage for the Turkish industrial firms, which is also expected to serve as a mean to have a strong economy.

In order to achieve the objectives that are defined above, definition of the term corporate governance and terms related with this concept will be defined in chapter one. The theories that contribute to the corporate governance phenomenon

will first be examined and then compared with each other in chapter two. The main assumption and the variables of the stockholder and stakeholder governance models will be defined in chapter three. After defining the main assumption and the variables of stockholder and stakeholder governance models, the universal model of corporate governance will be presented in chapter four. Research methodology and the features of the sample will be explained in chapter five. Qualitative and quantitative research findings will be presented in chapter six. Finally, the conclusion and implications of the study will be given in the seventh chapter of the thesis. In sum, both literature review and empirical findings of the study are used in order to develop the universal model of corporate governance. As a result, corporate governance model is interwoven with the processes of induction and deduction.

CHAPTER II

LITERATURE REVIEW

The purpose of this chapter is to define the concept of corporate governance and its related terms (e.g. management, stakeholder, stockholder governance perspective, and stakeholder governance perspective). For example, the meanings of the terms management and corporate governance are generally confused to each other.

Therefore, these two terms will be compared after definition of corporate governance. Besides, corporate governance is based upon to opposing paradigms: stakeholder governance and stockholder governance. Therefore, these two terms will be first defined and then compared with each other. Finally, the theories which explain a different aspect of corporate governance phenomenon will be first explained and then compared with each other in this chapter. All these definitions and comparisons are also expected to help us in the constitution and explanation of corporate governance model in the following chapters.

Definition of Corporate Governance

Scholars have made different definitions about corporate governance. According to Freeman and Evan (1990), corporate governance is about how voluntary agreements

and promises are carried out. According to Tricker (2000), it is about the exercise of power over corporate entities via board of directors. MacMillan and Downing (1999) defined this concept as a system by which companies are directed and controlled to produce the right results, which is high financial performance. Donaldson (1990) defined this phenomenon as a structure whereby managers at the organizational apex are controlled through the board of directors, executive incentives, monitoring and bonding. According to Letza, Sun, and Kirkbride (2004), it is about institutional arrangements for relationships among various economic actors who may have direct or indirect interests in a corporation. According to Monks (2003), it is about providing the assurance that the market is honest. According to Arthur (1987), it is about meeting the needs of stakeholders.

As it can be seen in the definitions above, corporate governance has different meanings for different scholars. This result is simply related with the scholar's perception about corporate governance. In other words, relativism (Baum, 1977) and ethnocentrism (Hofstede, 1980; 1983; Simon 1993) will be effective in the perception of the scholars. Therefore, it is very normal to encounter different definitions for this concept. Corporate governance is an open system which is first initiated by corporate governors¹ via forming a belief system or a corporate credo by the help of vision, mission statements, strategies, and policies. This system is then operationalized by the direct and indirect interactions of stakeholders, which produce desired or undesired business results for the governors of the firm. In other words, corporate governance is a system that emerges as a result of the relationships among the variables of principles, processes and business results at the level organization,

¹ Corporate governors are directors, who initiate the corporate governance system by developing a belief system among stakeholders, and managers, who operationalize this system by forming relationships with the stakeholders. Sometimes the role of manager and director may be conducted by the same person as in the case of family firms.

which is shaped by factors such as culture and economy at the level of society. This open system is either dominated by the stockholder governance or stakeholder governance models. The premise of self-interest generally leads to the implementation stockholder governance model, and the premise of public-interest generally leads to the implementation of stakeholder governance model in the corporate governance system. Conducting a pure stockholder governance model and a pure stakeholder governance model is very difficult in our contemporary age. Therefore, these two corporate governance models converge and different corporate governance structures emerged as a result of this convergence and the impact of macro level factors. These corporate governance structures will be explained in details in the presentation and explanation of universal corporate governance model. The emergence of mutual-interests principle is closely related with the convergence of these two opposing corporate governance models.

Definition and Comparison of Some Terms Related with Corporate Governance

Comparisons and definitions of the terms related with corporate governance phenomenon will be made in this section of chapter two. First, the term management will be compared with the term corporate governance. Second, the term stakeholder, which is closely related with corporate governance, will be defined. Third, the terms stakeholder governance and stockholder governance will be first defined and then compared with each other in the following subsections of chapter two.

The Definition and Comparison of Management with Corporate Governance

Even if corporate governance and management can be performed by the same person in some cases, they are different activities. Management is about the administrative, supervisory, and facilitating tasks related with day to day organizational operations. Corporate governance is about the exercise of good authoritative judgment. In other words, corporate governance is about overseeing the activities of management system and judging authoritatively whether it operates in the best interests of the organization (Bird, 2001). Management is about setting and determining policy and running business. Corporate governance is about seeing whether business is run properly or not (Gay, 2002). Management is about setting and determining policy, implementing the corporate strategy, and performing effectively (Arthur, 1987) or dealing with the daily operations of the firm (Huse, 1998) or coordinating the efforts of stakeholders towards common goals (Hofstede, 1999). Corporate governance is the exercise of power over entities (Tricker, 2000). Based on these explanations, corporate governance is a system which also determines the managerial activities in an organization. Corporate governors are directors and/or managers who initiate the corporate governance system in the organization but they are not the ones who can control every aspect of this system. Therefore, every individual, group or an organization related with the firm participate to the governance system and influence each other intentionally or unintentionally. As a result, all these interactions among these individuals, groups, and organizations generate economical and behavioral results for these parties in the corporate governance system.

The Definition of the Term Stakeholder

The term stakeholder is first coined at Stanford Research Institute in 1963. It refers to those groups without whose support the organization would cease to exist.

Stockholders, customers, employees, suppliers, lenders, and society are originally included in the list of stakeholders. The first essential studies about the stakeholders of the firm are conducted at Stanford Research Institute, Harvard Business School and Wharton Applied Research Center during 1970s (Freeman and Reed, 1983).

William Dill (1975) is the first person who had broadened the stakeholder concept from labor-management relations to the people outside the firm. Corporate social responsibility was another reason that gives a boost to the stakeholder concept. The origins of term stakeholder can be found in the frontiers days of the United States where settlers were invited to stake their claims by marking out their land (Julius, 1997). According to Freeman (1984), the origins of the stakeholder approach goes back to Stanford Research Institute's definition about stakeholders in 1963.

According to Preston (1990), the origins of stakeholder approach goes back to post depression periods. During this period General Electric Company identified four major stakeholder groups: stockholders, customers, employees and general public. This trend is followed by Johnson & Johnson and Sears.

According to the Oxford dictionary, the meaning of the term stakeholding is to have something to gain or lose by the turn of events, to have an interest in, and to have a stake in the country because of holding landed property (Clarke, 1998a).

Actual or potential harms and benefits that are experienced or perceived as a result of the firm's actions or inactions identify stakeholders (Donaldson and Preston, 1995).

Stakeholders can be defined as any groups, individuals, institutions, organizations,

neighborhoods or natural environment who/what affect or are affected by the achievement of the organization's objectives (Freeman and Reed, 1983; O'Higgins, 2001) or as individuals and constituencies that contribute to the wealth creating capacity and activities of a firm voluntarily or involuntarily. Therefore, stakeholders are the potential beneficiaries and/or risk bearers (Post, Preston, and Sachs, 2002b) to whom the firm is responsible (Alkhafaji, 1989). Stakeholders are contractors or participants in exchange relationship with the firm (Cornell and Shapiro, 1987; Freeman and Evan, 1990; Hill and Jones, 1992). Therefore, stakeholders are defined as constituencies who have a legitimate claim, due their exchange relationships, on the firm (Hill and Jones, 1992; Pearce, 1982). Stakeholders are the individuals or constituencies that supply critical resources to the firm or place something of value at risk or have sufficient power to affect the performance of the firm (Kochan and Rubenstein, 2000). According to the definition of Stanford Research Institute (Freeman and Reed, 1983), stakeholders are groups without whose support the organization would cease to exist. Stakeholder is a term which refers to the individuals and/or groups who have a power to affect a firm's performance and who have a stake in a firm's performance (Freeman, 1984). Therefore, the term stakeholder refers to the management's duty to take into account the interest of anyone who has a significant stake in the firm (Rose and Mejer, 2003). A stakeholder is someone who has a real or psychological stake in an organization or significant dealings with the firm (Vinten, 2001) or it is an individual or group that has a stake in the firm and may affect the organization (Buchholz, 2005) or it is any individual or entity who can be affected by an organization or who may, in turn, bring influence to bear (Wheeler and Sillanpää, 1998). Stakeholders are persons or groups who have interests in a corporation and its past, present or future activities. Such interests are

the result of transactions with the corporation, which may be legal or moral, individual or collective (Clarkson, 1995). The term stakeholder is a literary device created to question the emphasis on stockholders (Freeman, 1999). The stakeholder concept refers to the other groups who have a stake in the actions of the corporation to whom the corporation is responsible in addition to the stockholders (Freeman and Reed, 1983). In sum, the term stakeholder emerged to emphasize the interests of non-stockholders. The term stakeholder is a turning point in the corporate governance literature because this concept helped scholars to present the premise of mutual-interests besides self-interest in the governance of corporations. In other words, the emergence of stakeholder concept in the business world showed that not only the stockholders but also non-stockholders such as customers, suppliers, employees, etc. may affect a firm's performance. The stakeholder theory emerged to show this reality in the business world.

The main objective in stakeholder research should be identifying who a firm's stakeholders are and determining what types of influences they exert on the firm (Rowley, 1997). Stanford Research Institute made two kinds of definitions about the term stakeholder. Stakeholders are individuals or groups who can affect or be affected by the achievement of a firm's objectives. This is the wide sense definition of the term stakeholder. Stakeholders related with the wide sense definition can be listed as employees, customers, stockholders, public interest groups, competitors, unions. Stakeholders are individuals or groups on which the firm is dependent for its continued survival. This is the narrow sense definition of the term stakeholder. Stakeholders related with the wide sense definition can be listed as employees, customers, suppliers, key government agencies, stockholders, certain financial institutions. The term stakeholder must be understood in the wide sense from

perspective of corporate strategy (Freeman and Reed, 1983). According to Frooman (1999), the one who can affect a firm is a strategic stakeholder and the one who is affected by the firm is the moral stakeholder. According to Clarkson (1995), stakeholders of a firm can be categorized as primary and secondary stakeholders. Primary stakeholders are the groups without whose continuing participation the firm cannot survive. Stockholders, investors, employees, customers and suppliers are the primary stakeholders of the firm. Corporations such as Dow Corning, Manville and AT&T ignored this fact about primary stakeholders and faced with major problems. Secondary stakeholders are the groups which do not engage in transactions with the corporation. Therefore, secondary stakeholders are essential for the survival of the corporation but these groups indirectly affect and are affected by the corporation. Media and special interest groups are the secondary stakeholders of the firm. Wheeler and Sillanpää (1998) categorized the stakeholders in four groups. Customers, employees, investors, suppliers, local communities, and other business partners are the primary social stakeholders. Civil society and various interest groups are defined as the secondary social stakeholders. The natural environment is defined as the primary non-social stakeholders. Stakeholders such as future generations and defenders in pressure groups are defined as the secondary non-social stakeholders. Hill and Jones (1992) did not make such a categorization. According to Hill and Jones, stockholders, creditors, employees, customers, suppliers, local communities, and society in general are the stakeholders of the firm. Some of the scholars also accepted managers as the stakeholders of the firm. According to Williamson (1985), managers are the most powerful and important stakeholders of the corporation. According to Williamson, it is more likely that managers would practice opportunistic and self-aggrandizing behaviors. Top managers are technically

stakeholders of the firm but they also have a mediator role because of contracting with the stakeholders, including themselves, on the behalf of the firm (Jones, 1995). According to Kochan and Rubenstein (2000), competitors should not be included to the list of stakeholders because they do not supply critical resources to the firm, which is the definition of stakeholders. Investors, customers and employees are the critical stakeholders of a firm (Berman et. al., 1999; Cummings and Doh, 2000). According to Buchholz (2005), the typical stakeholders of a firm are stockholders, consumers, suppliers, government, competitors, communities, employees. As it can be seen in these categorizations about the stakeholders of the firm, there is no generally accepted definition about the list of stakeholders. Since one of the purposes of this study is positive or descriptive, it is asked during the in-depth interviews to the corporate governors to define which stakeholders affect their firms or are affected by their firms economically or socially. The details about the relevant stakeholders of the industrial firms in Turkey will be presented in chapter six.

The Definition and Comparison of Stockholder Governance and Stakeholder Governance

Corporate governance is polarized in two extreme positions or opposing camps, namely stockholder governance and stakeholder governance (Friedman and Miles, 2002; Gamble and Kelly, 2001; Letza, Sun, and Kirkbride 2004; Prabhaker, 1998; Sternberg, 1997; Turnbull, 1997a; 2002; Vinten, 2001). Stakeholder governance perspective tends to be in tension with stockholder governance perspective because Anglo-American model, which is compatible with stockholder approach, emphasizes

that firm's primary fiduciary obligation is to its stockholders rather than to non-stockholders (Reed, 2002). According to the stockholder governance approach, only the interests of the stockholders should be considered when actions and decisions are taken (O'Higgins, 2001). Stockholder governance is based on individualism and private property. The rationale behind the stockholder governance is the private control of property. In other words, stockholder governance has its origins in the individual private ownership rights (Letza, Sun, and Kirkbride 2004). According to the view of private control of property, the directors are only obligated to maximize the shareholder value. Based on these explanations, the premise of self-interest is the underlying assumption for the stockholder governance.

As it can be seen in the explanations above, stockholder governance perspective emerges when the interests of the stockholders are overemphasized over the interests of non-stockholders in the governance of the corporations. There are different reasons that give support to the stockholder governance approach. It is believed that this view about firms will lead to efficient use of resources (Plender, 1998). According to Argenti (1997), it is clear what the stockholders expect from the firm, profit, but it is not clear what stakeholders expect. The massive participation of U.S. households in equity markets is one of the underlying reasons of stockholder governance in U.S. (Mills and Weinstein, 2000). One of the most important rationales for the stockholder governance perspective is that stockholders are the residual risk takers in the firm. It is argued that stockholders are the residual claimants who bear economic risk, and therefore the value of common stock should be maximized (Alchian and Demsetz, 1972; Fama and Jensen, 1983a). As a result, stockholder governance perspective is proposed as a valid model for the firms based on these types of explanations.

On the other hand, stakeholder governance perspective is based on communitarian notion of property and social institutional conception. According to this perspective, the interests of all stakeholders should be important for the firm (Letza, Sun, and Kirkbride 2004). According to the stakeholder governance approach, a firm is expected to ensure the rights of all the stakeholders and satisfy their needs equally (O'Higgins, 2001). Managing the complex extended enterprises with a stakeholder perspective is more valid for the twenty-first century (Post, Preston, and Sachs, 2002b). A firm, which is dominated by stakeholder governance model, recognizes not only its direct stakeholders such as stockholders, customers, employees but also indirect ones that are affected by a firm's activities because it is a sustainable way for companies to proceed (Vinten, 2001). The European models of corporate governance are much more oriented to stakeholders than the Anglo-Saxon model (Vinten and Lee, 1993). Wheeler and Sillanpää (1998) argued that stakeholder governance cannot be applied because of human greed. Since human greed is the underlying reason for the self-interest principle (Berle and Means, 1932; Handy, 1997a), the premise of mutual-interests and/or public-interest is required for the implementation stakeholder governance model in a firm.

As it can be seen in the explanations above, stakeholder governance perspective emerges when not only the interests of the stockholders but also the interests of non-stockholders are emphasized in the governance of the corporations. The proponents of stakeholder governance approach give different reasons for the implementation of this model in the corporate governance system. According to Clarke (1998a), only stockholders end up with value, profit, in their hands and this is a mystery of financial economics. According to Reed (2002), focusing on stockholder interests would not maximize societal utility because of imperfect

markets and asymmetric information. Thus, Reed stated that proponents of the utilitarian perspective may be logically forced to reject their stockholder governance approach and adopt some form of stakeholder governance approach. A similar counter argument is also made for the libertarians. According to Mitchell, Agle and Woods (1997), property rights are based on human rights. This argument related with the property rights also gives support to the stakeholder governance. Finally, perceiving stockholders as residual risk takers is also criticized by the proponents of stakeholder governance approach. According to Blair (1998), stockholders are not the only residual claimants or risk bearers because there are other stakeholders such as employees which make firm specific investments (i.e. asset specificity). According to Plender (1998), describing today's stockholders as the "residual risk takers" does not make sense in U.S. and U.K. because most of the company shares are owned by the financial institutions and these institutions diversify their risk. As a result, it is advocated that stakeholder governance is a valid model for the firms based on these types of explanations.

The Definition and Comparison of Theories that Constitutes

Corporate Governance Paradigm

There are twelve theories that contribute to the corporate governance paradigm. A paradigm is defined as the framing set of concepts, beliefs, and practices that guide the human action (Ehrenfeld, 1997). Different theories are developed to explain the different aspects of corporate governance paradigm. Thus, it is understood that there is a need to examine all the relevant theories about corporate governance. As a result

of the process of induction, it is found that agency theory, resource-dependence theory, transaction cost economics theory, stakeholder-agency theory, instrumental stakeholder theory, traditional stewardship theory, corporate social performance theory, corporate social responsibility theory, integrative social contract theory, modern stewardship theory, resource based theory and normative stakeholder theory contribute to the corporate governance phenomenon. All these theories will be explained and some of them will be compared with each other in this section of chapter two.

Agency Theory

Agency theory emerged as a result of separation of ownership and control. This separation led to conflicting interests between managers/agents and stockholders/principals (Eisenhardt, 1989). In other words, agency theory emerged as a result of opportunistic behaviors by managers (Williamson, 1975). The intellectual development of agency theory starts with the seminal papers of Ross (1973) and Jensen and Meckling (1976). Adam Smith is the first person who understood the agency cost problems between management and owners (Jensen, 1994). The roots of the agency theory can be found on the work of Coase (1937). Moreover, agency theory is the first theory that made fundamental contributions to the corporate governance phenomenon.

The fundamental issue in corporate governance is whether stockholder interests can be effectively protected or not. According to agency theory, stockholders/principals delegate the control of the firm to the managers/agents. This

fact generates a potential risk that managers/agents may serve their own interests at the expense of stockholders/principals. Agency theory is built to solve this issue (Jensen and Meckling, 1976).

The premise of agency theory is positive distrust on the corporate behavior (Swift, 2001). The assumption of agency theory is that humans are self-interested (Shankman, 1999) and they are prone to opportunism (Eisenhardt, 1989). Therefore, there will be conflicts of interests when people engage in cooperative endeavors (Jensen, 1994). Maximization of short-term wealth, emphasis on short-term perspective, and managerial motivation on preserving self-interest are the assumptions of agency theory (Caldwell and Karri, 2005). The roots of agency theory lies in the the field of organizational economics, which contrasts with more humanistic and ethically centered fields such as organizational theory and strategy (Barney, 1990). As a result, the main assumption in the agency theory, which is supported by some of the scholars above, is the premise of self-interest.

Transaction Cost Economics Theory

In the neoclassical perspective, the firm is seen as an automatic transformer of inputs into outputs or as a black box. In this regard, it is advocated by Ronald Coase (1937) that market transaction costs are the reason for the existence of the firm. It is argued by Coase that the reason for the emergence of the firms is the transaction costs involved in entering markets, negotiating for goods and services, and enforcing contracts. Oliver Williamson (1975; 1985) also supported this argument and became one of the most important proponents of transaction cost economics theory. Thus,

transaction cost economics theory is first proposed by Coase and then developed by Williamson.

In transaction cost economics theory, there are two main problems. One of these problems is related with asymmetric information and the other is related with resource dependence between the buyer and seller. For example, when suppliers and/or employees, has more information over a resource than the firm these stakeholders can misrepresent the value of the resource opportunistically (e.g. poor quality of a product or propensity to shirk). According to transaction cost economics theory, hold-up problem, which is related with asset specificity, is the second issue (Klein, Crawford, and Alchian, 1978). For example, when a firm is hold-up by a supplier or customer due to the specialized investment in the assets there is a threat of buyer's or supplier's renege on the pricing agreements, which would make the investment on specialized assets a sunk cost for the firm. Therefore, firms prefer to exchange hostages, negotiate, monitor and enforce over contracts in order to prevent these problem related with asymmetric information and resource in/dependence. These two problems may also be solved by the use of hierarchy, viz., merging with suppliers or customers. Both of these solutions also come up with governance costs (Williamson, 1975; 1985). Therefore, the premise of self-interest is also the underlying reason for the emergence of transaction cost economics theory.

Traditional Stewardship Theory

According to the traditional stewardship theory, managers are the stewards who will try to protect the interests of stockholders (Grossmann and Hart, 1980; Linn and

McConnell, 1983), because managers (stewards) perceive greater utility in substituting their self-interested behavior with cooperative behaviors, which is based on rational perspective (Davis, Schoorman, and Donaldson, 1997). Traditional stewardship theory is based on utilitarian ethics. In other words, maximizing stockholders' utility is expected to maximize the utility of stakeholders (Caldwell and Karri, 2005). Traditional stewardship theory is based on the assumption that the interests of managers and stockholders are expected to be reconciled because it is believed that this is the rational behavior. In other words, this myopic view is based on the assumption that managers will cooperate with the stockholders because their interests converge but it does not cover the interests of non-stockholders. Therefore, traditional stewardship theory does not tell the whole story about the corporate governance system. In other words, this theory illuminates only one aspect of the corporate governance paradigm.

Resource-Dependence Theory

Resource dependence theory focuses on how stakeholders within the business environment affect a focal firm and how the firm can respond to these stakeholders (Oliver, 1991; Rowley, 1997). Anything that is perceived as valuable by an actor can be defined as a resource. If one actor relies on the actions of another to achieve particular outcomes, this kind of relationship can be defined as dependence. When one actor supplies another with a resource, this kind of relationship can be defined as resource dependence. In other words, unequal dependence between the parties to an exchange relationship creates power differentials (Emerson, 1962). Power arises

from the dependencies of two parties. Suppose that there are two parties such as A and B. If party B is more dependent on party A relative to party A's dependence, party A has asymmetric power over party B. This is a typical example to the resource dependence theory. Specific examples can also be given to the resource-dependence theory. For example, management may enhance its asymmetric power over its suppliers via vertical integration or cooperative agreements among the different firms such as joint ventures, purchasing alliances, price leadership agreements and interlocking directorates. Management may also enhance its asymmetric power over customers via product and market diversification or horizontal mergers and acquisitions. Financial methods such as stock buybacks and new stock issues may also be used to increase the asymmetric power of management over stockholders. Finally, management may use bureaucratic mechanisms to increase its asymmetric power over employees (Pfeffer and Salancik, 2003). All these explanations about resource-dependence theory implicitly show the existence of the self-interest principle.

Stakeholder Theory

The philosophical background of stakeholder theory can be seen in the 19th century. In other words, stakeholder theory is emphasized via cooperative movements and mutuality almost 200 years ago but it has been marginalized and forgotten periodically (Clarke, 1984). It is not possible to determine the precise origins of the stakeholder theory (Sturdivant, 1979). Edith Penrose is shown as a pioneer of stakeholder theory because she is one of the first scholars who examined the internal

environment of the firm and included the firm's human resources and stakeholders to the theory of the firm (Pitelis and Wahl, 1998). Stakeholder theory became popular after the integration of stakeholder concepts in a coherent construct by Freeman (1984). Stakeholder construct is treated as a foundation for the theory of the firm and as a framework for the corporate social performance theory. Recently, it became a theory of its own right (Rowley, 1997). Some of the purposes of stakeholder theory are about integrating stockholder and organizational interests and treating people with equity and fairness (Caldwell and Karri, 2005) or identifying and evaluating the stakeholders' legitimate stakes in the corporation (Donaldson and Preston, 1995; Mitchell, Agle and Wood, 1997) or creating a better world and advancing the human condition (O'Higgins, 2001) or enabling managers to understand and strategically manage the stakeholders of the firm (Frooman, 1999) or determining the nature of the relationships between the firm and its constituents in terms of both processes and outcomes for the firm and its stakeholders (Jones and Wicks, 1999).

Running a firm not only in the interests of its stockholders but also in the interests of all its stakeholders (Aggarwal and Chandra, 1990; Arthur, 1987; Blair, 1998; Cornell and Shapiro, 1987; Jones and Wicks, 1999; Rose and Mejer, 2003; Werhane and Freeman, 1999) is the definition of stakeholder theory. According to stakeholder theory, the legitimate interests of all stakeholders should be given simultaneous attention in stakeholder management (Donaldson and Preston, 1995). In other words, the premise of mutual-interests is the main assumption in stakeholder theory. Running the companies in the interests of the society, which is the expectation in Germany and Japan, (Hendry, 2001) or meeting and/or exceeding the expectations of a society (Reisel and Sama, 2003) or serving the interests of a society by corporations (Berle and Means, 1932) or creating a better world and advancing

the human condition (O'Higgins, 2001) are also related with the stakeholder theory. In other words, the premise of public-interest is another main assumption in stakeholder theory. Therefore, stakeholder theory emerged as a result of the mutual-interests and public-interest that served as the main principles of this theory. The derivatives of stakeholder theory are instrumental stakeholder theory, stakeholder-agency theory, corporate social performance theory, integrative social contract theory, modern stewardship theory, resource-based theory, corporate social responsibility, and normative stakeholder theory. These theories will be defined in the following sections.

Instrumental Stakeholder Theory

The instrumental stakeholder theory establishes a framework for examining the connections between the practice of stakeholder management and corporate performance goals. In other words, the instrumental stakeholder theory treats the stakeholders of the corporation as a mean (Donaldson and Preston, 1995).

Instrumental stakeholder theory is also expected to explore how organizations can succeed in the current business environment (Freeman, 1984). The studies in USA show that adherence to stakeholder principles and practices help firms to achieve conventional corporate performance objectives (Aupperle, Carroll, and Hatfield, 1985; Cochran and Wood, 1984). If managers view the interests of stakeholders as having intrinsic value and pursue the interests of multiple stakeholders, their firms will achieve better financial performance than the firms which pursue the interests of a single stakeholder group (Donaldson, 1999). This is the proposition of instrumental

stakeholder theory. Thus, instrumental stakeholder theory posits an empirically testable link between the organizational behavior and its financial outcomes (Jones, 1995). In sum, instrumental stakeholder theory starts with the principle of mutual-interests and ends up with the premise of self-interest.

The purpose of instrumental stakeholder theory is to explain why certain altruistic behaviors, which are deemed as irrational, lead to economic success (Jones, 1995). The main thesis of instrumental stakeholder theory is that “if managers want to maximize the shareholder value over an uncertain period of time they have to pay attention to key stakeholder relationships” (Freeman, 1999). It is difficult to find a relationship between performance and stakeholder orientation (Post, Preston, and Sachs 2002b). For example, instrumental stakeholder theory is studied by several scholars, and empirical results of these studies were all disappointing (Griffin and Mahon, 1997; Ullmann, 1985). On the other hand, a firm cannot maximize its value by ignoring the interests of its stakeholders (Jensen, 2001). This rationale can be found in the definition of the stakeholder concept. Since stakeholders are groups without whose support the organization would cease to exist (Freeman and Reed, 1983), ignoring the interests of its stakeholders does not make sense.

Stakeholder-Agency Theory

Stakeholder-agency theory is proposed by Hill and Jones (1992). As it can be understood from the name of this theory, Hill and Jones tried to combine some aspects of the agency theory with the stakeholder theory. According to Hill and Jones, every stakeholder provides critical resources to the firm and, in return, they

have legitimate interests on the firm. Therefore, the most important job of a firm/management is to serve the mutual-interests of the stakeholders rather than only one stakeholder group (e.g. stockholders). This argument is parallel to the stakeholder theory. On the other hand, Hill and Jones also defined stakeholders as the principals and management as the agent. According to them, there is an asymmetric power in terms of information and resources between the stakeholders and management. Hence, institutional structures such as stock analyst services, labor unions, consumer unions, legislation emerged to reduce the asymmetric power between the management and stakeholders. In other words, the principle of positive distrust to management exists in their theory. This argument made by Hill and Jones is parallel to the agency theory. As a result, stakeholder-agency theory also starts with the principle of mutual-interests and ends up with the principle of self-interest.

Corporate Social Performance Theory

Corporate social performance theory is related with the stakeholder theory because both of them include interests of all corporate stakeholders (Jones and Wicks, 1999). Thus, corporate social performance theory and stakeholder theory are models which are developed for business and society (Jones, 1995). Stakeholder construct is treated as a foundation for the theory of the firm. This construct is also a framework for the corporate social performance theory, which became a theory of its own right recently (Rowley, 1997). Carroll (1979) is one of the major scholars who reconciled social and economic objectives in her corporate social performance model. Wartick and Cochran (1985) and Wood (1991) are some scholars who made important

contributions to the corporate social performance theory. When the level of analysis is the firm rather than society public interest does not make sense for the managers of the firm because they can best perceive the stakeholders of the firm as a mean rather than ends (Clarkson, 1995) in individualistic societies. Therefore, Clarkson proposed ‘corporate social performance’ (CSP) framework for analyzing the relationships between the firm and stakeholders based on 70 field studies of CSP conducted between 1983 and 1993. In sum, mutual-interests rather than public-interest is the relevant main assumption in the corporate social performance theory. Thus, corporate social performance theory especially makes sense in the Anglo-Saxon world where the public-interest is perceived as a dangerous concept (Friedman, 1962).

Integrative Social Contract Theory

Global managers operate in an increasingly complex and dynamic business environment. Thus, there is a need for reconciling global rules with local norms by forming integrative solutions that engender a degree of trust among allied corporations in order to improve the effectiveness of corporate governance worldwide (Sama and Shoaf, 2005). Integrative social contract theory is created by Donaldson and Dunfee (1994; 1995) to serve this need. According to Donaldson and Dunfee, there are moral minimums that govern all business-community relationships at the macro level but stakeholderism made what is acceptable about corporate social responsibility at the micro level. Integrative social contract theory defines a good corporate citizen with behaviors and activities that meet or exceed expectations of a

society (Reisel and Sama, 2003). There are two types of cultures in the world: rule-based cultures (e.g. U.S.) and norm-based cultures (e.g. Japan). Given these cultural differences, a norm-based society will resist to the imposition of rules for the purpose of corporate governance. On the other hand, a rule-based society will look at with skepticism to the principles or norms of corporate governance (Lovett, Simmons, and Kali, 1999). Thus, integrative social contract theory is created to reconcile these types of cultural differences.

Modern Stewardship Theory

The principles of modern stewardship theory based on covenantal approach are commitment to society, integration of shared interests, emphasis on long-term perspective, achievement of synergy, and creation of long-term economic wealth. In a modern stewardship theory, there is a dynamic balance among the interests of stakeholders who recognize that not every decision can benefit all parties equally that a long-term interdependent relationship exists among stakeholders. For example, long-term economic wealth, which is one of the principles of modern stewardship theory, is expected to ultimately serve not only to the interests of stockholders but also to the interests of stakeholders. Thus, the principle of long-term economic wealth is expected to maximize the long-term economic benefits of the society (Post, Preston, and Sachs, 2002b). Thus, modern stewardship theory tries to achieve a balance between self-interest and public-interest by developing a sense of community among the internal members of an organization (Caldwell and Karri, 2005). As a result, the premise of mutual-interests is related with the modern stewardship theory.

Resource Based Theory

The purpose of resource based theory is to create competitive advantage for the firms via immobile and unique organizational competencies. Empowering the organizational members (Westley and Mintzberg, 1989), letting social interactions among the organizational members (Weick, 1979), making firm-specific investments in the employees (Plender, 1998) due their unique knowledge and skills, forming on-going and close relationships with the employees (Penrose, 1959), trying to develop business outcomes (e.g. good reputation, product and service quality, and customer loyalty) in order to let stakeholders increase their supply of resources to the firm (March and Simon, 1958), forming active communications between the top management and employees with the help of human resources managers (Nonaka, 1988), creating an organizational system that inhibits employee turnover to induce firm-specific human capital (Jovanovic, 1979), reinforcing creativity, innovation, long-term orientation, cooperation, and trust (Schuler, 1986) are some of the features that refers to the resource based theory. The common point among these features is that competitive advantage can be created through the workforce (Pfeffer, 1994), which is also the purpose of resource based theory. The most important common point in the resource based theory is the principle of resource interdependence (Conner, 1991; Kogut and Zander, 1992) between the firm and its stakeholders. This principle is closely related with the premise of mutual-interests.

Corporate Social Responsibility Theory

Wartick and Cochran (1985) described a range of organizational stakeholder orientations which differentiate self-interested behavior from the public interested behavior. In corporate social responsibility organizational outcomes are consistent with the social expectations. Corporate social responsibility is underappreciated by the all Anglo-American business paradigm (Frank, 1992). Although the importance of corporate social responsibility has been acknowledged for fifty years, agency theory is still dominant mental model in corporate governance (Caldwell and Karri, 2005). Since CSR does not refer to the corporations that operate with Anglo-Saxon philosophy but to the firms that operate with a German-Japanese philosophy, the under appreciation of CSR is very normal. Altruism or concern for others, which refers to the public-interest principle and stands in the opposite pole of self interest, is the theme of corporate social responsibility (Jones, 1980; Walters, 1977). Thus, the premise of public-interest is the underlying assumption in the corporate social responsibility theory.

Normative Stakeholder Theory

The normative stakeholder theory treats the stakeholders of the corporation as an end. In other words, the interests of all stakeholders have intrinsic value for its own sake and not merely because of their ability to further the interests of stockholders. The correspondence between the theory and the observed facts of corporations is not a significant issue (Donaldson and Preston, 1995). “Who and what are the

stakeholders of the firm?” is a question related with the normative stakeholder theory. This theory aims to explain why managers should consider certain constituents as stakeholders (Mitchell, Agle and Wood, 1997). According to normative stakeholder theory, managers should pursue the interests of multiple stakeholders because these interests have an intrinsic value (Donaldson, 1999). Normative stakeholder theory is concerned with the moral value of the behavior of firms/managers (Jones, 1995). Proponents of normative stakeholder theory argue that firms should treat their stakeholders as ends or admit that the interests of their constituencies have an intrinsic value (Clarkson, 1995; Quinn and Jones, 1995). The main thesis of normative stakeholder theory is that “managers have to pay attention to key stakeholder relationships” (Freeman, 1999). The problem with normative stakeholder theory is that it is very difficult for firms, which operate in individualistic societies, to accept and implement the rules or principles of this theory because it refers to the public interests principle.

Comparison of Agency Theory, Transaction Cost Economics Theory
and Resource-Dependence Theory

Agency theory (AT) and transaction cost economics theory (TCE) are classified as organizational economics theories. These theories share the same assumption, self-interest principle (Donaldson, 1990; Gay, 2002). Asymmetric information is the common theme in both AT and TCE. The specific problems related with the asymmetric information in AT is moral hazard and adverse selection. Managers cannot pursue the interests of principals due to moral hazard and adverse selection

problems. Moral hazard exists when principals cannot sufficiently verify the efforts of agents. Adverse selection exists when agents do not behave in the manner accepted by the principals (Arrow, 1985; Eisenhardt, 1989). Some of the specific problems related with asymmetric information in TCE are the misrepresentation of the quality and shirking. TCE share many of the assumptions of AT but the main difference between these theories is that TCE focuses on the boundaries between the contracting parties and AT focuses on the contracts (Jones, 1995). According to agency, transaction cost economics, and resource dependence theories, asymmetric power plays an important role in the salience or attention managers give to stockholders (Mitchell, Agle and Wood, 1997). Resource dependence is the common theme in both transaction cost economics theory and resource dependence theory. Transaction cost economics theory looks at the asymmetric power problem based on resource dependence from the firm's perspective. Resource dependence theory looks at the asymmetric power problem from the perspectives of the firm and stakeholders.

Comparison of Agency Theory with Stakeholder Theory

In the neoclassical perspective of the firm, employees, and customers contribute to the firm with their inputs. The firm, the black box, transforms these inputs into outputs for the benefits of the investors. This interpretation of the theory of the firm is confined to the field of finance, which includes the agency theory. On the other hand, stakeholder theory argues that all stakeholders (e.g. individuals or groups) have legitimate interests in forming relationships with the firm. Stakeholders give inputs to the firm and expect to obtain benefits for their contribution to the firm. The

benefits of any stakeholder group do not have any priority over another (Donaldson and Preston, 1995). The assumption of agency theory is that managers are egoistic. The assumption of stakeholder theory is that managers are enlightened self-interested. It has been argued by Hill and Jones (1992) that agency theory is a subset of stakeholder theory but these two theories compete in different and opposing ideological frameworks (Shankman, 1999). This is because agency theory is based on the self-interest assumption of human behavior at level of individual and organization. On the other hand, stakeholder theory is based on the mutual-interest/public-interest assumption at the level organization and society.

Comparison of Agency Theory with Traditional Stewardship Theory

According to the traditional stewardship theory, managers will try to protect and enhance the interests of stockholders (Grossmann and Hart, 1980; Linn and McConnell, 1983). On the other hand, agency theory assumes that managers are motivated to entrench their employment and its associated perquisites. In other words, the premise of this theory is self-interest on the side of managers (DeAngelo and Rice, 1983). Agency theory is derived from Theory X and stewardship theory is derived from Theory Y. Agency theory assumes that managers will act in their own interests. Traditional stewardship theory assumes that the managers will act in the best interests of the owners. Therefore, traditional stewardship theory asserts that managers should be trusted by the owners (Davis, Schoorman, and Donaldson, 1997). These are the main differences between these two theories. But the common

assumption of these two theories is the same: self-interest (i.e. the interests of stockholders).

Comparison of Agency Theory with Stakeholder-Agency Theory

Jensen and Meckling (1976) viewed the firm as a nexus of contract between principals (i.e. stockholders) and agent (i.e. managers). Hill and Jones (1992) viewed the firm as a nexus of contracts between principals-all the stakeholders- and agents-managers. The main assumption of the agency theory is efficient markets (Fama, 1980; Fama and Jensen, 1983b), which means that principals and agents have the freedom of entry into and exit from contractual relationships. Hill and Jones do not believe that markets are efficient due to the prolonged speed of market adjustments related with friction. When markets are inefficient or when alternative contracting opportunities are limited, power differentials between principals and agents will emerge. The most important difference between these two theories refers to their main assumption. The premise of self-interest is the most important main assumption in agency theory. In other words, there is a positive distrust to the agents by the principals. According to stakeholder-agency theory, every stakeholder provides critical resources to the firm and, in return, they have legitimate interests on the firm. Therefore, stakeholder-agency theory starts with the principle of mutual-interests and ends up with the principle of self-interest.

Comparison of Corporate Social Performance Theory with

Corporate Social Responsibility Theory

The main difference between corporate social responsibility and corporate social performance theory is their underlying assumptions. The premise of public-interest is the main assumption in the corporate social responsibility theory (Jones, 1980; Walters, 1977). In other words, organizational outcomes should be consistent with the social expectations or public-interest for the process of CSR (Wartick and Cochran, 1985). When the level of analysis is the firm rather than society, public interest does not make sense for the managers of the firm because they can best perceive the stakeholders of the firm as a mean rather than ends (Clarkson, 1995) in individualistic societies. Therefore, Clarkson proposed corporate social performance framework for analyzing the relationships between the firm and stakeholders based on 70 field studies of CSP conducted between 1983 and 1993. His argument makes sense because CSP is related with the principle of mutual-interests rather than public-interest in the self-interest dominated cultures.

Comparison of Corporate Social Performance Theory with

Instrumental Stakeholder Theory

Carroll (1979) is one of the major scholars who reconciled social and economic objectives in her corporate social performance model. Wartick and Cochran (1985) and Wood (1991) are some scholars who made important contributions to the

corporate social performance theory. When the level of analysis is the firm rather than society public interest does not make sense for the managers of the firm because they can best perceive the stakeholders of the firm as a mean rather than ends (Clarkson, 1995) in individualistic societies. It is the financial performance (i.e. self-interest) in the short-term that makes sense for the managers in the individualistic societies. Therefore, Clarkson proposed 'corporate social performance' (CSP) framework for analyzing the relationships between the firm and stakeholders based on 70 field studies of CSP conducted between 1983 and 1993. A meta-analysis of thirty years also showed that there is a close relationship between financial performance and CSP (Orlitzky, Schmidt, and Rynes, 2003). The underlying principle of CSP is parallel to the principle of instrumental stakeholder theory. The instrumental stakeholder theory establishes a framework for examining the connections between the practice of stakeholder management and corporate performance goals. In other words, the instrumental stakeholder theory treats the stakeholders of the corporation as a mean (Donaldson and Preston, 1995). As a result, the principle of "stakeholders as a mean" is the underlying principle in both CSP and instrumental stakeholder theories. In other words, both of these theories start with the principle of mutual-interests and end up with the principle of self-interest.

Comparison of Normative Stakeholder Theory with Instrumental Stakeholder Theory

Normative stakeholder theory views stakeholders of the corporation as an end but instrumental stakeholder theory views stakeholders as a mean. Instrumental

stakeholder theory is interested in how stakeholders' value can be used to increase the profitability of the firm (Letza, Sun, and Kirkbride 2004). Normative stakeholder theory prescribes the question 'how the world should be'. Instrumental stakeholder theory perceives the stakeholders as a mean for achieving financial performance (Freeman, 1999). Normative stakeholder theory is concerned with the question 'what should happen'. Instrumental stakeholder theory is concerned with the question 'what happens if' (Jones, 1995). Thus, instrumental stakeholder theory starts with the premise of mutual-interests and ends with the self-interests. On the other hand, the principle of public-interest is the main assumption in the normative stakeholder theory. This is the main difference between these two theories.

CHAPTER III

THE MAKINGS OF A CORPORATE GOVERNANCE SYSTEM

There are three main factors that affect the constitution of corporate governance system. The underlying main assumptions in the corporate governance system are the first factor. The principles of self-interest, mutual-interests and public-interest are the underlying main assumptions of the corporate governance system. These three principles are important for the constitution of corporate governance system because all the variables in stockholder and stakeholder governance models are related with these principles. The underlying framework that shapes the stakeholder and stockholder governance models will be presented as the second factor. Principles, processes and results are the three concepts that form the underlying framework of stockholder and stakeholder governance models. Finally, the variables of stockholder and stakeholder governance models will be defined as the third factor. In sum, all these three factors are expected to be helpful in the explanation of corporate governance system, and they will be examined in detail in the following subsections of chapter three.

The Main Assumptions of Corporate Governance System

The underlying main assumption of corporate governance system is related with the principles of self-interest, mutual-interests and public-interest. These principles are important because they are closely related with all the variables that constitute the stockholder and stakeholder governance models. Besides, these three principles also affect the corporate governance system at the level of individuals and organization. As a result, the definitions and the effects of self-interest, mutual-interests and public-interest principles will be presented at the level of individual and organization in the following subsections of chapter three. On the other hand, it is important to understand the corporate governance systems in the light of each country's history, culture and political systems (Huse, 1998). Corporate decision making is affected not only by the board practices and structures but also by macro factors such as financial markets, the banking system, industrial policy, national culture etc. (Reed, 2002). Today, the business transactions take place between parties of different cultures, and therefore the business practices and management tools of the firms are culturally constrained (Chang and Ha, 2001). Thus, managers and stakeholders of a firm make their decisions based on their cultural background (Thomas and Ely, 1996). Therefore, cultural differences in terms of values, perceptions, social structure and decision making practices between countries are needed to be identified (Hofstede, 1980; 2001). For example, a comparative study about moral reasoning in U.S., Mexico and Spain (Husted et al., 1996) suggests the difficulties on governing people in different cultures. As a result, the definitions and the effects of self-interest,

mutual-interests and public-interest principles will also be presented at the level of society in the following subsections of chapter three.

Self-Interest Principle at the Level of Individuals and Organization

According to Berle and Means (1932), private cupidity of the stockholders is the underlying reason of their self-interest. Human beings always want more of either material goods or non-material goods (Jensen and Meckling, 1994). In other words, they are assumed to be greedy (Handy, 1997a). Greediness, at the level of organization, is related with the pressures of banks and financial institutions on the firms to maximize their returns on their capital in the short term (Wheeler and Sillanpää, 1998). The majors that are studied by students at the universities are also shown as the reason of self-interest at the level of individuals. For example, it has been found that economics majors are more likely to behave self-interestedly than the non-majors (Frank, Gilovich, and Regan, 1993).

Self-interest is one of the main assumptions in the thesis. Self-interest has three meanings in corporate governance. First, it is related with the egoism of a certain stakeholder. Second, it is related with the divergence of interests or conflicts among stakeholders. Third, it refers to the perception that people in the corporate governance system are self-interested. This belief does not require the holder of this belief to be a self-interested person but it is more likely that he/she will be a self-interested person as a result of this self-fulfilling prophecy.

The first definition of self-interest refers to the atomic individualism that refers to individuals who have separate wills and desires and who are isolatable units

(Buchholz, 2005). According to agency theory, individuals are egoistic (Shankman, 1999). Thus, stakeholder-firm relations are defined as optimal contracting among egoistic agents by stakeholder-agency theory (Hill and Jones, 1992) and by resource dependence theory (Pfeffer and Salancik, 2003). Resourceful, Evaluative Maximizing Model (REMM) is also based on the assumption that people are self-interested and they have wants, desires and demands (Jensen and Meckling, 1994). According to Jensen (1994), self-interest is identical to rationality and the ones who are not self-interested need psychological treatment. Therefore, human-beings are considered as self-interested and rational (Sen, 1992; Margolis, 1984). In other words, it is assumed that human-beings are not concerned with the well-being of others (Etzioni, 1988). For example, managers are assumed to be self-interested (Canella and Monroe, 1997; DeAngelo and Rice, 1983; Mitchell, Agle, and Wood, 1997). On the other hand, traditional stewardship theory advocates that managers will try to protect and enhance the interests of stockholders (Grossmann and Hart, 1980; Linn and McConnell, 1983). Even this thinking refers to the self-interest of stockholders.

The second definition of self-interest has been postulated by agency theory that people are self-interested and they will have conflicts of interests when they engage in cooperative endeavors (Jensen, 1994). For example, managers, as both agents and stakeholder, create a potential conflict by aggrandizing themselves (O'Higgins, 2001). The most important assumption of agency theory is that the interests of principals and agents diverge (Hill and Jones, 1992).

The third definition of self-interest is a natural result of the first and second definitions. Even if an individual is not a self-interested person, he/she may believe that most of the individuals are self-interested around him/her. Thus, this individual

may try to find or develop methods to protect himself/herself from the self-interested behaviors of other people. For example, agency theory or resource dependence theory are developed for this reason. According to agency theory, individuals act based on their own perceived self-interest (Shankman, 1999).

The self-interest problem first emerged by the separation of ownership from control (Berle and Means, 1932; Smith, 1776) at the level of organization. The interests of owners, employees and communities were closely bound together but this situation changed by the separation of ownership from control (Hendry, 2001). Hence, agency theory is developed to solve self-interest problem between the managers and stockholders (Jensen and Meckling, 1976) but later it is understood that it may also appear between managers and stakeholders (Alkhafaji, 1989; Hill and Jones, 1992) or among the members of a same stakeholder group (e.g. majority owners vs. minority owners) (Freeman and Reed, 1983; La Porta, Silanes, and Shleifer, 1999). Other theories such as resource dependence theory (Pfeffer and Salancik, 2003) or stakeholder-agency theory (Hill and Jones, 1992) are developed to solve the self-interest problem between the management and stakeholder groups. Since managers can also be considered as one of the stakeholders of the firm, conflicts of interests occur among the stakeholder groups. Thus, when there is a conflict of interest among the stakeholders (e.g. owners, managers, employees and consumers) of the firm, corporate governance issues emerge (Hart, 1995). Therefore, it is argued by Eisenhardt (1989) that the organizational life is based on self-interest. This argument may not be true in public-interest dominated cultures such as Japan or Germany.

Self-Interest Principle at the Level of Society

It is important to understand the corporate governance systems in the light of each country's history, culture and political systems (Huse, 1998). Macro level factors such as economy, politics, ideologies, legal systems and cultures may be based on the self-interest principle at the level of society. For example, an individualistic climate has prevailed in the Anglo-Saxon world (e.g. U.S. or U.K.) (Plender, 1998). It is difficult to achieve trust-based and cooperative behaviors in the individualistic cultures (Jones, 1995). According to the Chicago School of thought (Allen, 1992) and some scholars (Friedman, 1962, Hayek, 1979), public interest, which is in the opposite pole with the principle of self-interest, is a dangerous concept. As a result, self-interest dominated cultures are criticized for being too individualistic. The principle of self-interest, atomistic individualism, becomes a problem because this premise effects the perception of individuals about themselves and the larger universe (Buchholz, 2005). According to Amartya Sen (1992), who is a Nobel Prize winner in economics, accepting the principle self-interest at the level of society is absurd because this main assumption contradicts with the ethics.

There are different reasons for the domination of self-interest principle at the level of society. For example the percentage of equity ownership of financial institutions among Fortune 500 increased from %24 to %50 between 1977 and 1986 in U.S. (Hanson and Hill, 1991). This high stock ownership may be the reason of the individualistic culture in U.S. According to Jensen and Meckling (1994), attempting to help others who experience difficulty by investing in education and other efforts to improve the condition of these kinds of people will prevent them to take charge of their own choices and related consequences. This is given as the rationale behind the

individualistic culture in U.S. Greediness is the main reason for the principle of self-interest. For example, greediness is shown as the main reason for the speculative financial bubbles in the world (Galbraith, 1994). No matter what the reason is for the self-interest dominated cultures, it is obvious that macro level factors are all based on the principle of self-interest in U. S. culture. U.K. also shows the similar patterns in terms of emphasis on self-interest principle at the level of society (Plender, 1997; 1998).

Public-Interest Principle at the Level of Organization

The premise of public-interest is the second underlying main assumption in the thesis. Running the companies in the interests of the society, which is the expectation in Germany and Japan, (Hendry, 2001) or meeting and/or exceeding the expectations of a society, which is advocated by integrative social contract theory, (Reisel and Sama, 2003) or serving the interests of a society by corporations (Berle and Means, 1932) all refer to the public interest principle at the level of organization. The interests of a society can be defined as creating a better world and advancing the human condition, which is advocated by the stakeholder theory (O'Higgins, 2001). Qualified products or environmental issues, which are related by companies (Garcia-Marza, 2005), are some of the examples to the interests of a society in this regard. Economic and social development in developing countries (Reed, 2002) is another example to the interests of a society. Anything which is good for the society at large or local communities is also considered as good for the firms (e.g. Japanese or

Danish firms). This is the definition of public-interest principle at the level of organization.

Public-Interest Principle at the Level of Society

Corporate governance is shaped not only by economic logic but also by politics, ideologies, philosophies, legal systems and cultures. Thus, purely economic and financial analysis of corporate governance is too narrow (Letza, Sun, and Kirkbride 2004). In other words, macro factors such as economy, politics, ideologies, legal systems and cultures may be based on the public-interest principle at the level of society. For example, the importance of public interest can be seen in every institution of continental European countries. The principle of public-interest is emphasized in the labor laws, councils, courts, formal agreements with unions, special ties with regional and central governments (Mills and Weinstein, 2000). Eastern culture is also built upon the principle of public-interest (Chang and Ha, 2001; Millon, 1993) at the level of society. In sum, public-interest principle at the level of society can be observed in the constitution of the macro level factors such as economy, politics, ideologies, legal systems and cultures.

Mutual-Interests Principle at the Level of Individuals and Organization

The premise of mutual-interests is the third underlying main assumption in the thesis.

The principle of mutual-interests refers to the interests of direct and indirect

stakeholders of the firm. Mutual-interests can be established by balancing the interests of stakeholders (Freeman 1984; Shankman, 1999) or by forming shared interests among them (Freeman and Evan, 1990; Post, Preston, and Sachs, 2002b) or by giving simultaneous attention to the legitimate interests of constituencies (Donaldson and Preston, 1995) or by infusing the firm with shared values with the help of mission statement (Arthur, 1987) or by taking into account the interests of the stakeholders (Clarkson, 1995; Julius, 1997; O'Higgins, 2001; RSA, 1995) or by paying attention to the needs and preferences of stakeholder groups (Logsdon and Lewellyn, 2000) or by reconciling the conflicts of interests between stakeholders and organization (Caldwell and Karri, 2005) or by forming mutual obligations, specifically between the employee and employer in their relationships (Morrison and Robinson, 1997; Rousseau, 1995) or determining organizational goals that are articulated through the language of shared values and vision between the management and the employees (Wheeler and Sillanpää, 1998) or by forming general interests, which are common to all stakeholders involved and are minimum values, differentiated from individual's or group's own interest (Garcia-Marza, 2005) or by running a firm not only in the interests of its stockholders but also in the interests of all its stakeholders (Aggarwal and Chandra, 1990; Blair, 1998; Cornell and Shapiro, 1987; Jones and Wicks, 1999; Rose and Mejer, 2003; Werhane and Freeman, 1999), which is the definition of stakeholder theory (Vinten, 2001), or by letting the common goals and interests be developed between society and the individual (Bohm, 1980).

The principle of mutual-interests is a variable between the self-interest and public-interest principles. The reason for the emergence of this principle is to form a consensus between the egoistic desires of certain stakeholders (e.g. stockholder or

managers) of the firm and other stakeholders (e.g. society or environment). Thus, seeking a middle way based on the philosophies of Buddha, Confucius, and Socrates (Hofstede, 1999) refers to the consensus of self-interest and public-interest principles (i.e. mutual-interests principle). As corporations became larger in size, quantity and quality of the stakeholders of these companies increased also. Besides, corporate managers encountered with different kinds of stakeholders (e.g. future generations) in our contemporary age. Every stakeholder provides critical resources to the firms (Hill and Jones, 1992). Thus, these stakeholders have legitimate interests on the firms. Since a firm cannot exit without the support of its stakeholders, which is also definition of the term stakeholder (Donaldson and Preston, 1995), it would not be wrong to argue that mutual-interests of the stakeholders rather than only one stakeholder group (e.g. stockholders) should be considered in the corporate governance system. In sum, the premise of mutual-interests is an important principle for the organizations.

Mutual-Interests Principle at the Level of Society

Weimer and Pape (1999) argued that Anglo-Saxon countries move towards a stakeholder perspective and continental European countries move towards stockholder perspective. The convergence of stockholder and stakeholder perspectives in Continental Europe and Japan can be based on globalization. For example, corporate governance system in Denmark was based on the public-interest principle but due to integration to international capital markets, Danish firms are forced to adopt Anglo-Saxon corporate governance policies (Rose and Mejer, 2003).

The impact of globalization in Japanese business world (Plender, 1997) is similar to the experience of Denmark. The European or Japanese companies, which had a stakeholder or collective conceptions of corporate governance, are influenced from the Anglo-Saxon shareholder value based approaches and convergence is observed with the Anglo-Saxon perspective (Clarke, 1998a). Therefore, it would not be wrong to argue that mutual-interests principle emerged first at the level society and then at the level of organizations due the impact of globalization in Continental Europe or Japan. A similar argument does not make sense for the Anglo-Saxon world because they are the ones that exported their culture via financial institutions to the other countries. The reason for the convergence of the stakeholder and stockholder perspectives in the Anglo-Saxon world is most likely related with the internal demands from the society. Especially in the last decade, network relationships among the stakeholders enhanced the desire of the society for the enhancement of the quality of the life around them. These are some of the reasons for the convergence of stockholder and stakeholder perspectives or for the emergence of mutual-interests principle at the level of society. When these kinds of developments are considered, it became inevitable for the large size firms to serve to the interests of their stakeholders in order to enhance their profitability. The interests of the stakeholders are perceived as mutual-interests rather than public interests by the managers of these companies (Clarkson, 1995) because self-interest principle is still dominant in these types of cultures (e.g. U.S.A. or U.K). In sum, the premise of mutual-interests emerged at the level of society as a result of these developments in the world.

The Comparison of Self-Interest, Mutual-Interests and Public-Interest Principles

Serving to the interests of stockholders of the firm generally refers to the “self-interest” principle. Serving to the interests of all relevant stakeholders of the firm generally refers to the “mutual-interests” principle (Donaldson and Preston, 1995; Mills and Weinstein, 2000; O’Higgins, 2001). The terms ‘stockholder perspective’ and ‘stakeholder perspective’ are also related with this conception of self-interest and mutual-interests principles. On the other hand, self-interest principle does not refer to only stockholders but it may also refer to any stakeholder of the firm, which is especially true in self-interest dominated cultures. The emergence of theories such as resource dependence theory (Pfeffer and Salancik, 2003) or stakeholder-agency theory (Hill and Jones, 1992) is based on this fact. The proposition of agency theory is that rational self-interested people always have incentives to control the conflicts of interest and to share the gains (Jensen, 1994). Individuals are not only rational but also emotional. Principles such as integrity, fairness, mutual-trust and processes such as active communication, stakeholder participation, trust based relationships affect their decision-making processes in the corporate governance system. Therefore, even rational self-interest assumption does not hold for the organizations. Thus, other theories emerged to explain this phenomenon. The most important one among these theories is the stakeholder theory because it emphasizes the importance of mutual-interests principle besides self-interest as the main assumption of the firm. Theories such as instrumental stakeholder theory (Jones, 1995) or stakeholder-agency theory (Hill and Jones, 1992) tries to converge these two principles. These kinds of theories were more dynamic than the static agency theory because the convergence of self-interest and mutual-interests principles was more appealing to the reality of today’s

business world. On the other hand, theories such as normative stakeholder theory or corporate social responsibility does not appeal to self-interest dominated cultures because the main assumption of these theories is the public-interest. Public-interest may make sense in the eye of the society but it does not make sense in the eye of the corporate governors, managers and/or directors, in self-interest dominated cultures (Clarkson, 1995). As the expectations of the society from the firms increase, the importance of mutual-interest principle becomes more important in the governance process. If corporate governors ignore this fact (i.e. the importance of mutual-interests principle), they are expected to create permanently failing organizations (Meyer and Zucker, 1989) in our contemporary age. Giving importance to mutual-interest principle did not mean that the importance of self-interest principle is ignored by the corporate governors in the self-interest dominated cultures. In sum, self-interest/mutual-interests principles are considered by the corporate governors at the same time in self-interest dominated cultures. For example, the salience of the stakeholders (Mitchell, Agle and Wood, 1997) that some of the stakeholders have priority over the others in the firm is the result of this perception by managers. Since the salience of stockholders is still dominant in the eye of managers, especially in Anglo-Saxon cultures, interests of the stockholders have priority over other stakeholders. A similar finding is also found in our study that stockholders have priority over other stakeholders of the firm. Besides, only few managers considered the society as a relevant stakeholder of their firms. This finding shows the irrelevance of the public-interest principle in the eye of corporate governors due to the domination of macro culture over the industrial firms in Turkey. All of these findings will be explained in details in chapter six.

Although self-interest problem generally refers to the stockholders or managers, it is not so. Self-interest principle can be related with any stakeholder of the firm. If individuals or groups who participate to the corporate governance process believe in self-interest principle and interacts with each other regarding this principle, it would be very difficult to support the existence of the firm. For example, the premise of atomistic individualism does not let any possibility of developing a true organization or understanding the interests of stakeholders (Buchholz, 2005). Therefore, some form of mutual-interests among stakeholders must be developed so that the existence of the firm can be supported. Instrumental stakeholder theory (Jones, 1995), which gives support to the mutual-interest principle, is one of the most important theories in corporate governance. This theory simply states that giving importance to the interests of stakeholders is also expected to satisfy the interests of stockholders, viz., their financial benefits. Similar views are also supported by some scholars and institutions (Monks, 1998; 2003; RSA, 1995). The study of Kotter and Heskett (1992) is one of the studies that prove the argument about the importance of mutual-interest principle for the firms.

The welfare of all who are affected by the corporate decisions is endorsed by all stakeholder theorists but social welfare maximization is rejected by the advocates of Kantian capitalists (Jones and Wicks, 1999). This rejection by Kantian capitalists is very normal because 'social wealth maximization' refers to public interest principle and 'the welfare of all who are effected by the corporate decisions' refers to the mutual-interests principle. For example, U.S. is a country where self-interest dominates the business environment of firms. Therefore, public interest becomes an irrelevant principle in this country. But the same argument cannot be made for Japan or Germany because social wealth maximization is their objective (Plender, 1997).

Thus, the principle of public interest dominates the firms' corporate governance systems in these countries.

It is sometimes difficult to separate stakeholder issues, which are related with mutual-interests principle, from the social issues, which are related with public-interest principle. For example, occupational health and safety or employment equity or discrimination are not only social issues but also stakeholder issues in terms of employee-firm-government relationships. Similarly, product safety or truth in advertising is not only social issues but also stakeholder issues in terms of firm's responsibilities to both customers and government. Environmental pollution is not only a social issue but also a stakeholder issue in terms of employees and customers. There may be interfaces between mutual-interests and public-interests but there are issues that are related with only one principle but it is necessary to distinguish stakeholder issues and social issues because managers of the corporations manage relationships with their stakeholders but not with the society. When there is a legislation or regulation, an issue is a social issue. When there is no legislation or regulation, an issue may be a stakeholder issue (Clarkson, 1995).

It is impossible to separate the individual good from the common good in an increasingly interdependent society (Sethi, 1995) but there are certain words which help us to separate self-interest principle from public-interest principle. Words such as wants, desires or demands, which are related with individual preferences, refer to the self-interest principle but the words such as "needs", which are related with the society at large, refer to the public-interest principle (Jensen and Meckling, 1994). Communitarian belief, which is related with public-interest principle, is also shown as a principle opposite to the self-interest in some studies (Frank, Gilovich, and Regan, 1993).

The Underlying Framework for Stockholder and Stakeholder Governance Models

There are three concepts that shape the underlying framework of stockholder and stakeholder governance models. These concepts are principles, processes, and business results. For example, European Foundation for Quality Management (EFQM) adopts a stakeholder framework, and forms an index regarding the firms' strategies, processes and business results related with their stakeholders (Clarke, 1998a). The argument about the principles, processes and business results is also made between the deontologists and consequentialists. Kantians or deontologists believe that the morality of the actions or processes is the function of not only business results but also principles, which show the intent of an actor. On the other hand, consequentialists believe that whether an action or a process does not depend on the consequences generated by that action. Instrumental stakeholder theory tries to converge these two perspectives (Freeman, 1999). The company strategies and values, which refer to the concept of principles, determine the management processes. These management processes influence the key outcomes or business results that a company is looking for (Scholes and Clutterbuck, 1998). In other words, principles lead to processes which lead to the business results in the corporate governance system. According to Gerhard Schulmeyer, who was the chief executive officer in Siemens Nixdorf Corporation, it is not possible to change the processes or relationships in an organization without first changing the underlying values behind all the actions and the resulting behavior patterns (Kennedy, 1998). In other words, Schulmeyer argued that processes are affected from principles and business results. According to Akerlof (1983), the values of people change consciously or unconsciously as they go through experiences at the level of individual. Since values

are a function of experiences, it would not be wrong to argue that principles are also a function of processes at the level of organization. In sum, principles, processes and business results affect one another bilaterally or multilaterally. As a result, these three concepts form the underlying framework for stockholder and stakeholder governance models. The meanings of principles, processes and business results in this framework will be explained in the following subsections. This underlying framework, which is based on principles, processes, and business results, for stockholder and stakeholder governance models is illustrated in figure 3.1.

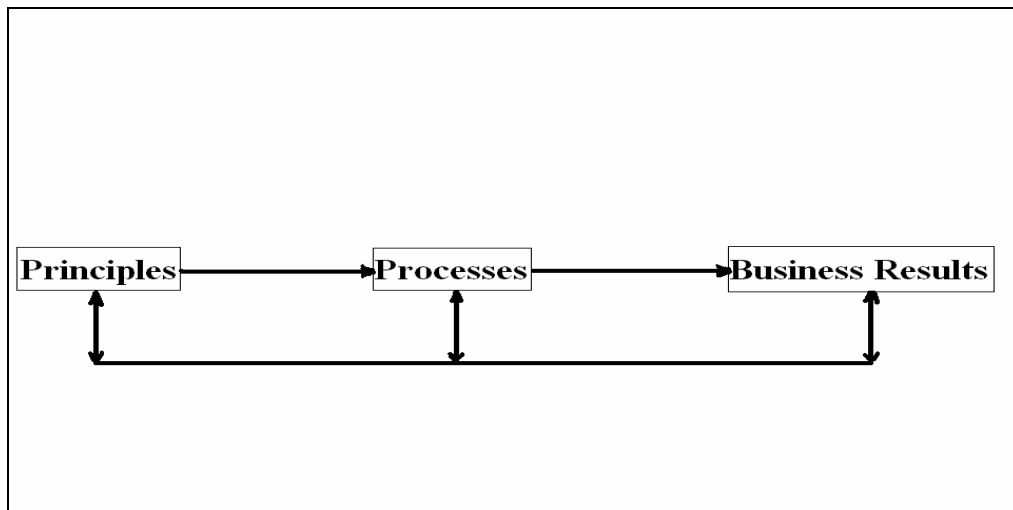


Figure 3.1 The framework for the stockholder and stakeholder governance models

The Definition of the Term Principle

Wood (1991) made the definition of principle clearly: “A *principle expresses something fundamental that people believe is true, or it is a basic value that motivates people to act.*” (p. 695). There is a belief system, which consists of two

kinds of beliefs: guiding beliefs and daily beliefs, at the heart of the corporate culture. Guiding beliefs, which are about the firm's identity, vision and ethos, are very important in terms of corporate governance. These guiding beliefs, which engender the set of principles that are necessary for corporate governance, are part of a firm's history and also give direction to the future of the firm (Arthur, 1987). In other words, organizational culture starts with a belief system. The belief system refers to the principles that stakeholders of an organization believe in a corporate governance system. The shared beliefs, attitudes, customs, and values of people within an organization constitute the corporate culture (Jensen and Meckling, 1994). These shared beliefs, attitudes, customs, and values are all based on the principles. The other feature of a principle is that it is also very difficult to change a principle that people believe is true, even though it is not true in reality. For example, when an individual discovers that his or her beliefs and principles are not consistent with his or her self-esteem, it creates serious anxiety. Thus, fear response of a brain severely limits him or her from perceiving the reality (Argyris, 1991). The unit of analysis is individuals and organizations in these explanations about the concept of principle.

The unit of analysis may also be the society in defining the term principle. According to the social model, individual behaviors are determined by the taboos, customs, mores and traditions of the society in which they were born and raised (Jensen and Meckling, 1994). Principles are implicit rather than explicit rules. When an organization or an individual is the member of a community he/she will have an access to critical principles in his/her community (Hofstede, 1980). In other words, when an organization operates in a specific social culture, it is inevitable that principles of a society based on taboos, customs, mores, traditions, and values will also affect the principles that are formed in the organization. As it is argued in the

explanations about the main assumptions of corporate governance system, there are three main principles that refer to the level of individuals, organization and society. These common principles are self-interest, mutual-interests and public-interest. The other principles that will be defined in the following sections of this chapter all refer to the level of individuals and organization because the level of analysis in this thesis is not society but organization.

The Definition of the Term Process

The term process simply refers to the relationships between the firm and its stakeholders. The relationships between the stakeholders and the firm are an important component in the organization theory literature (Frooman, 1999). According to Mark Goyder, who is the director of The Centre for Tomorrow's Company, concentrating on the ownership structure would not solve the problems of the complex organizations. Understanding and improving the relationships with the stakeholders that influence the firm's operations should be the real task of management (Scholes and Clutterbuck, 1998). A firm's relationships with the stakeholders have diversity and multiplicity. Thus, stakeholder relationships may be the most critical one at a particular point in time. Therefore, relationships with stakeholders are essential assets that must be understood and managed by the managers to generate organizational wealth (Post, Preston, and Sachs, 2002b). Besides, a firm's relationships with its stakeholders constitute the culture of an organization (Arthur, 1987). In sum, relationships (i.e. processes) refer to operational level in an organization. Therefore, relationships are also important in the

constitution of the framework for the stockholder and stakeholder governance models. In order to talk about a relationship between a firm and its stakeholders, mutual-interests between the stakeholders and the firm is needed (Donaldson and Preston, 1995). In other words, the principle of mutual-interests is required between the firm and its stakeholders. Thus, relationships (i.e. processes) do not make sense without the existence of mutual-interests, which is one of the main assumptions in the corporate governance system.

The Definition of the Term Business Results

Business results simply emerge as the outcomes of the principles and processes in the corporate governance system. In other words, principles (e.g. company strategies and values) determine the processes. Hence, principles and processes are expected to generate the desired the business outcomes (Scholes and Clutterbuck, 1998). If company strategies and values are based on principles that refer to the stockholder governance model, a firm may develop wrong relationships with its stakeholders. Thus, forming wrong relationships with the stakeholders may lead to the undesired business results in the corporate governance system. For example, the principle of short-term profit or shareholder value maximization may lead to the unethical organizational behaviors (e.g. opportunistic behaviors). Hence, these types of unethical organizational behaviors may lead to the bankruptcies as a business result as in the cases of Polly Peck, Mirror Group, and BCCI in U.K. (MacMillan and Downing, 1999). If company strategies and values are based on principles that refer to the stakeholder governance model, a firm may develop right relationships with its

stakeholders. Thus, forming right relationships with the stakeholders of the firm may lead to the desired business results in the corporate governance system. For example, believing that mutual-trust is an important principle in business life may lead to trust-based relationships via implicit contracts. Hence, competitive advantage in terms of organizational commitment can be derived from these implicit contracts (Plender, 1998). In other words, competitive advantage in terms of organizational commitment is a business result that may be initiated by the principle of mutual-trust and generated by the process of trust-based relationships. The term business results will be clearer with the explanation of variables in stockholder and stakeholder governance models. Thus, variables that are related with the business results of stockholder and stakeholder governance models will be presented in the following sections.

Definition of the Variables Related with the Stockholder and Stakeholder Governance Models

There are thirty-six variables, which are all extracted from the theories that are defined in chapter two, both in the stockholder and stakeholder governance models. Each variable in the stockholder governance model is complemented by an opposite variable in the stakeholder governance model. There are fourteen variables under the title of principles, nine variables under the title of processes, and thirteen variables under the title of results. All these thirty-six variables that constitute stockholder and stakeholder governance models, which are in opposite poles, will be explained in details in the following subsections. These thirty-six variables can be seen in the first

two figures in appendix 3. Since the principles self-interest, mutual-interests, and public-interest are explained in the previous sections of this chapter, these three principles that constitute one variable will not be redefined in this section. Therefore, thirty-five variables² that are related with the stockholder and stakeholder governance models will be explained in the following subsections.

“Short-term Profit/Shareholder Value Maximization” vs.

“Long-term Profit Maximization/Value-Added”

“Short-term profit/shareholder value maximization” is a principle, which is related with the stockholder perspective. “Long-term profit maximization/value-added” is a principle, which is related with the stakeholder perspective. These two principles are in the opposite dimensions of a scale and form one variable together in the corporate governance model. The principle of “short-term profit/shareholder value maximization” is created by looking to the definitions of different scholars. This principle simply means sole pursuit of profit (Argenti, 1997; Arthur, 1987; Chang and Ha, 2001) or profit maximization in the short-term (Clarke, 1998a; Freeman and Reed, 1983; Julius, 1997; O’Higgins, 2001) or maximization of shareholder value (Alchian and Demsetz, 1972; Freeman, 1999; MacMillan and Downing, 1999; Mills and Weinstein, 2000; Plender, 1998; Quinn and Jones, 1995; Rose and Mejer, 2003) or net present value (NPV) maximization of a firm (Shankman, 1999). In sum, all of

² All of these 35 variables under stockholder and stakeholder governance models will be shown within the quotation marks in the following sections of the thesis.

these terms refer to the principle of “short-term profit/shareholder value maximization”.

Different reasons are given for the importance of “short-term profit /shareholder value maximization”. First of all, it provides a clear goal for the firms and managers (Argenti, 1997). Second, intense competition among fund managers and greater ownership penetration by American and British players (Mills and Weinstein, 2000) has increased the importance of this principle. Third, firms’ need to access international capital markets (MacMillan and Downing, 1999) and international institutions’ pressures in terms of financial measures to the companies in non-Anglo-Saxon cultures (Clarke, 1998a) is another reason for the importance of this principle. Fourth, this principle is expected to serve to the interests of stockholders who are the residual claimants or economic risk bearers (Alchian and Demsetz, 1972). The most important reason for “short-term profit/shareholder value maximization” principle is the self-interest principle (e.g. the interests of stockholders or managers). “Short-term profit/shareholder value maximization” can be achieved by exceeding the growth rate of an economy in terms of earnings per share or by outperforming the return on government bonds in terms of earnings per share (Plender, 1998) or by maximizing the return on equity (ROE) ratio of the firm (Mills and Weinstein, 2000). On the other hand, there are scholars who advocated that the strategy of a firm should not be based only on this principle (Buchholz, 2005; Monks and Minnow, 2004) because pursuing “short-term profit/shareholder value maximization” is not consistent with the long-term perspective of the firm (Collins and Porras, 1997). Long-term organizational wealth or long-term value maximization is perceived by some to be in conflict with the short-term profit maximization (Jensen, 2001) Therefore, some scholars (Caldwell and Karri, 2005;

Clarkson, 1995; Kotter and Heskett, 1992; Post, Preston, and Sachs, 2002b) advocated the principle of “long-term profit maximization/ value-added”, which refers to the stakeholder governance model.

“Bundle of Assets” vs. “Bundle of Human Assets”

“Bundle of assets” is a principle, which is related with the stockholder governance model. “Bundle of human assets” is a principle, which is related with the stakeholder governance model. “Bundle of assets” principle simply means that the firm is the property of the stockholders (Allen, 1992; Blair, 1998; Letza, Sun, and Kirkbride 2004; Reed, 2002; Sternberg, 1997; Zingales, 2000) or physical assets constitutes the firm (Letza, Sun, and Kirkbride 2004; Post, Preston, and Sachs, 2002b) or the firm is an aggregation of capital (Arthur, 1987) or the firm is a commercial entity (Plender, 1998). As it can be understood from these definitions, this principle is closely related with the self-interest principle (i.e. interests of stockholders).

This idea that a firm is a “bundle of assets” is emphasized in new neoclassical economic theory because this view fits much more neatly into neoclassical economic theory than the stakeholder theory of the firm. According to this view that the firm is a “bundle of assets”, managers are the hired agents of stockholders who are the owners of the firm (Blair, 1998). Chicago School of thought is shown as one of the proponents of this idea (Allen, 1992). This principle is based on property rights (Letza, Sun, and Kirkbride 2004; Reed, 2002). The principle of “bundle of assets” is also based on intellectual property rights (Ertuna, 2005c), which can also be considered as the derivative of property rights.

Property rights, which supports the “bundle of assets” principle, is embedded in human rights. Thus, human rights also introduces the interests of non-stockholders into the picture (Donaldson and Preston, 1995). A similar argument can also be made for the intellectual property rights. Since human-beings develop their intellectual capital with the help of their societies (e.g. education), it is against the human rights to develop monopoly at the level of individual or organization via intellectual property rights (Ertuna, 2005c). The principle of “bundle of assets” could be useful during the industrial age due to the economics of scale and scope created by the use of intensive assets but it is not enough today due to the changing nature of the firm (Zingales, 2000). Today, physical assets of corporations are far less important than human resources, knowledge, and information (Letza, Sun, and Kirkbride 2004). Therefore, the idea that the organization is only the property of stockholders is out of date (Handy, 1997b). According to Charles Handy, the notion that the firm is the property of the stockholders is affront to the natural justice because this idea does not make clear where the power lies. The people who work in the corporation are its principal assets. Therefore, the principle of “bundle of human assets” emerged as a response to the needs of an organization in our contemporary age. “Bundle of human assets” principle refers to the human values and skills in an organization (Caldwell and Karri, 2005; Post, Preston, and Sachs, 2002b) or to the human resources and stakeholders of the firm (Pitelis and Wahl, 1998) or to the human rights and values (Garcia-Marza, 2005) or to the corporation as a social entity (Handy, 1997b; Letza, Sun, and Kirkbride 2004) or to the corporation as an association of persons (Arthur, 1987). As it can be understood from these definitions, this principle is closely related with the principle of mutual-interests (i.e. the interests of stakeholders).

“A Set of Legal and Economic Contracts” vs. “A Set of Social Contracts”

“A set of legal and economic contracts” is a principle, which is related with the stockholder perspective. “A set of social contracts” is a principle, which is related with the stakeholder perspective. These two principles are in the opposite dimensions of a scale and form one variable together in the corporate governance model. The principle of “a set of legal and economic contracts” is created by looking to the definitions of different scholars. Perceiving a corporation as a legal entity, which gives the firm legal property rights of a real person, (Hendry, 2001; Tricker, 2000) or viewing the firm as a nexus of economic and legal contracts between principals and agents (Jensen and Meckling, 1976) or viewing the firm as a nexus of contracts between the stakeholders and management (Hill and Jones, 1992) or perceiving the firm as a collection of contracts in transaction cost economics (Williamson, 1975) are some of the definitions for the principle of “a set of legal and economic contracts”. These definitions about the principle of “a set of legal and economic contracts” refer to the stockholder governance model because they are implicitly related with the principle of self-interest.

In many cases an organization interacts with its stakeholders through non-contractual relations. In other words, most of a firm’s interactions occur through informal contracts (Bird, 2001) rather than legal and economic contracts. Therefore, “a set of social contracts” principle emerged in order to explain these implicit contracts in the corporate governance system. Network of social contracts, based on normative principles of human conduct, between the firm and its stakeholders (Freeman and Evan, 1990) is the definition for the principle of “a set of social contracts”. Corporation as a social entity for the society (Sullivan and Conlon, 1997)

or corporation as a social institution (Arthur, 1987) or transactional and psychological contracts between employees and organization (Barnett and Schubert, 2002; Rousseau, 1995; Turnley and Feldman, 1999) are the other definitions for the principle of “a set of social contracts”. “A set of social contracts” is a principle in stakeholder governance model (Letza, Sun, and Kirkbride 2004) because it is implicitly related with the principles of mutual-interests and/or public-interest.

“Zero Sum Game” vs. “Positive-Sum Strategy”

“Zero sum game” is a principle, which is related with the stockholder perspective. “Positive-sum strategy” is a principle, which is related with the stakeholder perspective. “Zero sum game” principle is opposite to the “positive-sum strategy” principle. In other words, these two principles are in the opposite ends of a scale and form one variable in the corporate governance model. Achieving a gain by imposing an equivalent loss on another (Kahneman, Knetsch, and Thaler, 1986) is the definition of “zero sum game”. When this principle is examined at the level of individual, interesting findings are found. It is found that when the parties in the game experiments perceived their individual relationships with other parties as a “zero sum game” due to their self interest, each party lost the game (Frank, Gilovich, and Regan, 1993). “Zero sum game” can also be encountered at the level organization. For example, American and British firms did not prefer to include the representatives of the stakeholder groups in the board because it is believed that stakeholder representatives may begin to overemphasize the interests of the different stakeholders that may badly affect the stockholders’ interests (Bird, 2001). This

belief in American and British firms is closely related with the “zero sum game” principle. As it can be in this example, there is distrust to the stakeholder representatives in the Anglo-Saxon world. Since American and British companies operate in self-interest dominated macro cultures, this kind of skepticism (i.e. the distrust to the stakeholders) is very normal. In other words, trusting the people easily is abnormal in the self-interest dominated macro cultures. A specific example to the “zero sum game” principle at the level of organization is the belief that shareholder value can always be increased at the expense of the employees or employees’ wages can always be increased at the expense of the shareholder value (Blair, 1998). The belief that when employees gain something investors and customers would lose something (Post, Preston, and Sachs, 2002b) is another specific example about the “zero sum game” principle. Therefore, it would not be wrong to argue that “zero sum game” principle is implicitly related with the self-interest principle based on these explanations.

On the other hand, Fortune corporate reputation survey showed that the satisfaction of one stakeholder group does not have to come at the expense of another stakeholder group (Preston and Sapienza, 1990). Therefore, “positive-sum strategy” principle is proposed as an alternative to the “zero sum game” principle (Caldwell and Karri, 2005; Vinten, 2001). The belief that the value of the whole management team exceeds its separate parts (Pitelis and Wahl, 1998) is an example about the “positive-sum strategy” principle. Mutually beneficial product-service improvement for the customers (Post, Preston, and Sachs, 2002b) is another example to this principle. As it can be understood from these examples, “positive-sum strategy” principle is closely related with the mutual-interests principle and stakeholder governance model.

“Resource In/Dependence” vs. “Resource Interdependence” and

“Asymmetric Information” vs. “Symmetric Information”

Asymmetric power is a concept, which is related with the stockholder perspective. Symmetric power is a concept, which is related with the stakeholder perspective. Two principles constitute the asymmetric power concept: “resource in/dependence” and “asymmetric information”. There are also two principles, which constitute the symmetric power concept: “resource interdependence” and “symmetric information”. These two concepts (i.e. asymmetric power and symmetric power) and their related principles are in the opposite dimensions of a scale and form one variable together in our corporate governance model. For example, the principles of “resource in/dependence” and “resource interdependence” are in the opposite ends of a scale. Thus, these two principles constitute one variable together in the corporate governance model. Similarly, the principles of “asymmetric information” and “symmetric information” are in opposite ends of a scale. Thus, these two principles also constitute one variable together in the corporate governance model. Therefore, two variables will be explained in this section because these two variables are categorized under the concepts of asymmetric power and symmetric power. In order to explain these two concepts and their related principles, it is important to explain the meaning of power.

Power is an important concept in terms of explaining the corporate governance phenomenon. According to Tricker (2000), corporate governance is about the exercise of power over corporate entities via board of directors. Power is said to exist when one party has the mean to get its way even in the face of the

resistance by others (O'Higgins, 2001) or when there is a structurally determined potential for obtaining favored payoffs in relations where interests are opposed by the actors in the relation (Willer, Lovaglia, and Markovsky, 1997) or when a person is more dependent upon another person (Emerson, 1962). Power, which is vested in the board of directors and delegated to the management, can also be defined as the ability to mobilize people and resources to get things done in the organization (Arthur, 1987).

Unequal dependence between the parties (e.g. A and B) to an exchange relationship creates power differentials (Emerson, 1962). When party A depends on party B more than party B depends on party A in terms of the resources, there is a power differential in party B's favor (Pfeffer, 2003). This kind of power differentials is related with the "resource in/dependence" of the parties who participate to the relationship in the corporate governance system. This is one of the definitions of asymmetric power concept in the corporate governance model. In other words, the term power differentials refer to the asymmetric power concept in terms of "resource in/dependence". The literature review about asymmetric power can be found in details in the article of Mitchell, Agle, and Wood (1997). They argue that either a firm is dependent on some stakeholders (i.e. stakeholders have power vis-à-vis the firm) or some stakeholders are dependent on the firm (i.e. the firm has power vis-à-vis some stakeholders). Therefore, this argument explains rationale behind the salience of stockholders for the managers. In other words, this argument explains why asymmetric power is closely related with the stockholder perspective. It is also found in this study that stockholders have priority over other stakeholders in the governance of corporations in Turkey. In other words, the salience of stockholders in the eye of the corporate governors also supports the view that there is an asymmetric

power between the stockholders and other stakeholders in industrial firms that operate in Turkey. Asymmetric power can exist between the senior management and stockholders (Monks, 2003) but it can also exist between stakeholders and managers (Hill and Jones, 1992).

Sources of power signal the asymmetric power in terms of “resource in/dependence” among the parties in the governance of the corporations. According to Freeman and Reed (1983), there are three kinds of power bases for the stakeholders: formal, economic and political. All these three sources of power create “resource in/dependence” between a firm and stakeholders, which is also the definition of asymmetric power. For example, when employees make firm specific investments an asymmetric power emerges between the firm and employees (Blair, 1998) in terms of economic sources. In other words, these kinds of employees have resource dependence to the firm because it will be very difficult for these employees to find a job in another company when they are laid-off due to their asset specificity. Hence, the firm has an asymmetric power advantage over the employees because of their resource dependence or the firm’s resource independence. Another specific example to the asymmetric power between the firm and employees is related with the labor market. When labor supply exceeds the labor demand, the bargaining power of employees does not exist (Logsdon and Lewellyn, 2000). Thus, asymmetric power arises as a result of this situation in the labor market. When a firm or its stakeholders have alternative parties to make transactions, this situation also creates an asymmetric power (i.e. “resource in/dependence”) between the firm and its stakeholders. Specific examples are expected to clarify the meaning of asymmetric power. If a supplier does not have alternative buyers or customers for its products except a large company, this large size firm has an asymmetric power (i.e. resource

dependence) over its supplier (Hendry, 2001). If a firm has an advantage vis-à-vis its stakeholder (e.g. customer) of the exchange compared to this stakeholder's second-best alternative, this firm has an asymmetric power over this stakeholder (Kahneman, Knetsch, and Thaler, 1986). Globalization also creates alternatives, "resource in/dependence", both for the firms and their stakeholders. For example, corporations have the flexibility to consolidate their production in another country or to move to another country which has a better investment climate (Ertuna, 2005c; Reed, 2002). Besides, the power of employees and local communities are eroded and the power of customers and stockholders are enhanced due to globalization (Julius, 1997). All these examples that are given above explains the creation of asymmetric power in terms of "resource in/dependence" between the firm and its stakeholders. On the other hand, some of the scholars believe that there is a resource interdependency between the firm and its stakeholders. According to Freeman and Evan (1990), the stakeholders are interdependent in terms of their resources to the company. According to Hendry (2001), there is interdependence between a firm and local community. This concept that there is "resource interdependence" between the firm and its stakeholders refers to symmetric power principle. When parties' interests are mutually contingent upon each other in a relationship, interdependency exists (Swift, 2001). When a firm and a stakeholder group do have the ability simply to walk away from a relationship, they are mutually dependent in terms of their resources (Lawler and Bacharach, 1987; Williamson, 1975, 1985). These are some of the definitions for the symmetric power concept in terms of "resource interdependence".

The fourth source of power is information in our contemporary age. Information is the fourth power base due to the fast development of internet and other communication structures in the last decade. In the age of globalization, there is

a huge amount of information. Thus, individuals cannot reach all the information that they desire to learn. This constraint about the information searches makes individuals boundedly rational. The concept of bounded rationality can be applied to the concept of market efficiency. Since related parties of a business transaction do not have equal access to specific information, markets are imperfect in reality (Sama and Shoaf, 2005). The reality of imperfect markets, due to the existence of “asymmetric information”, makes asymmetric power valid in business realm. Since diffused members (i.e. individuals or entities) of stakeholder groups may not be able to finance the information gathering and the costs of analysis, there is “asymmetric information” between stakeholders and management. Besides, managers can filter or distort firm’s critical information that is released to their relevant stakeholders in order to serve their own interests. In return, stakeholders respond to this “asymmetric information” between them and management by establishing institutional structures such as labor unions or consumer unions or legislation (Hill and Jones, 1992). Therefore, an atmosphere of openness and transparency is required in the stakeholder management relations (Post, Preston, and Sachs, 2002b). This requirement in terms of transparency refers to “symmetric information”, which is related with the principle of symmetric power.

One of the most important characteristics of power is that it can be easily acquired as well as lost (Mitchell, Agle and Wood, 1997; O’Higgins, 2001). Hill and Jones (1992) also emphasize importance of change in the direction of asymmetric power for organizations. According to them, the only constant is the ongoing change, which creates persistent asymmetric power between stakeholders and managers. But due to the random nature of change, asymmetric power will not be unidirectional. In other words, while change at one point of time creates asymmetric power in the favor

of managers, change can also create asymmetric power in the favor of other stakeholder groups at another point of time. This characteristic of power implies that managers cannot have a constant power over stakeholder groups because of the nature of the ongoing change. If managers try to influence their stakeholders via strategies such as entry and exit barriers (Porter, 1990) due their belief to the principle of “asymmetric power”, their firm may gain some advantages over the stakeholders in the short and mid terms. Thus, managers/stockholders may maximize their benefits due to their belief in the principle of “asymmetric power”. But the direction of asymmetric power may shift in the favor of stakeholder groups due to the ongoing change in the long-term. In that case, it would be very difficult for these firms to retain their stakeholders due to their bad experiences with these firms. Therefore, the belief to the asymmetric power may result with an undesired business outcome: entropy.

Based on the explanations about asymmetric power and symmetric power concepts, the underlying assumption for the asymmetric power concept is self-interest principle. On the other hand, the underlying assumption for the symmetric power concept is mutual-interests principle. This is most likely the case in Anglo-Saxon cultures such as U.S.A. or U.K. The underlying assumption of symmetric power may also be the public-interest in non-Anglo-Saxon cultures such as Japan or Germany. Conflict of interests, which is the definition of self-interest principle, among the parties exists in the definition of power (Willer, Lovaglia, and Markovsky, 1997). There are also conflicts of interests between the management and stockholders (Adam Smith, 1776; Berle and Means, 1932; Jensen, 1994; Tricker, 2000) or between the stockholders and other stakeholders of the firm (Julius, 1997) or between the management and stakeholders (Hill and Jones, 1992) or between the

firm and non-stockholders (Reed, 2002). According to Hayek (1979), public-interest principle increases the asymmetric power of managers. Therefore, he proposed to ignore public-interest principle in order to increase the asymmetric power on the advantage of stockholders. It is argued that mutual-interests can lead to symmetric power in terms of efficient markets (Noreen, 1988). It is also argued that symmetric power can lead to mutual-interests (Frooman, 1999). Therefore, there is a bilateral relationship between the principles of mutual-interests and symmetric power.

“Accountability to Stockholders” vs. “Accountability to Stakeholders”

“Accountability to stockholders” is a principle, which is related with the stockholder perspective. “Accountability to stakeholders” is a principle, which is related with the stakeholder perspective. In order to explain these two principles, it is important to explain the meaning of accountability. The definition of accountability is that firms should justify or explain their actions by providing information to their stakeholders (Gray, et. al., 1997). There are two kinds of accountability: soft accountability and true accountability. The difference between these two forms of accountability is that soft accountability is voluntary but true accountability is obligatory (Swift, 2001). Most of the true accountability is related with the “accountability to stockholders” principle in Anglo-Saxon world. For example, after 1929 stock market crash Securities Exchange Commission (SEC) required companies to disclose prescribed financial information in common format to all stockholders (Logsdon and Lewellyn, 2000). Different reasons are given for the justification of the principle of “accountability to stockholders”. According to the Preliminary Report of the

Committee on Corporate Governance (1998), the managers cannot be accountable to any stakeholder group except stockholders because there is no clear yardstick for measuring the performance of management to the stakeholders. “Accountability to stockholders” should not be preferred to “accountability to stakeholders” because stakeholder perspective is not clear (Goyder, 1993). Stakeholder orientation dilutes “accountability to stockholders” (Vinten, 2001). Managers are agents of stakeholders but stakeholders except stockholders are not the principals of management because it is the stockholders who hire the managers (Hill and Jones, 1992). Due to these types of reasons “accountability to stockholders” is proposed as a valid principle for the corporate governance system.

Due to the significant changes in the environment of businesses in our contemporary age, the need for the “accountability to stakeholders” principle emerged. According to Thomas Clarke (1998a), focusing on the interests of the stockholders may be the key element for good corporate governance in U.S.A. and U.K. in recent past but today stakeholders can conduct effective monitoring over the firms, viz., there is no reason for the firms not to be accountable to their stakeholders. Since business has become so central to the human welfare, expanding “accountability to stakeholders” via voluntary action is an important issue for the firms (Logsdon and Lewellyn, 2000). Therefore, stakeholder approach argues that corporations should be responsible not only to stockholders but also to other stakeholders (Reed, 2002). Thus, it is argued that the new managerial framework must be closely attentive to the issue of socially accountable business (Chang and Ha, 2001). The problem with “accountability to stakeholders” is that an accounting system, which will permit a tight chain of accountability by management to all the stakeholder groups, has not been invented yet because the historic cost accounting

cannot describe the value in intangible relationships with the stakeholders (Plender, 1998). The reason for the emergence of international standards such as AA1000 or GRI or SA8000 refers to the need of solving this problem about the principle of “accountability to stakeholders”.

Based on these explanations made above, it would not be wrong to argue that “accountability to stockholders” is related with self-interest principle (i.e. the interests of stockholders). On the other hand, the principle of “accountability to stakeholders” is related with mutual-interests principle (i.e. the interests of stakeholders). In other words, self-interest principle is the underlying assumption of the “accountability to stockholders” principle. On the other hand, mutual-interests principle is the underlying assumption of the “accountability to stakeholders” principle. Thus, it is very clear that “accountability to stockholders” principle refers to the stockholder governance model. On the other hand, “accountability to stakeholders” principle refers to the stakeholder governance model. These two principles are in the opposite dimensions of a scale and form one variable together in the corporate governance model.

“Stakeholders as a Mean” vs. “Stakeholders as an End”

“Stakeholders as a mean” is a principle, which is related with the stockholder perspective. “Stakeholders as an end” is a principle, which is related with the stakeholder perspective. “Stakeholders as a mean” principle lies at the heart of the stockholder model. This is the case when the stakeholders of the firm are used as a mean to maximize returns to the stockholders (Ertuna, 2005c; O’Higgins, 2001).

This principle is closely related with the instrumental stakeholder theory. The main thesis of instrumental stakeholder theory can be defined as paying attention to key stakeholder relationships in order to maximize the shareholder value over an uncertain period of time (Freeman, 1999). Pursuing the interests of multiple stakeholders is expected to help firms to achieve better financial performance than the firms which pursue the interests of a single stakeholder group (Donaldson, 1999). Stakeholder interests should be recognized due to instrumental reasons because stakeholders serve to increase the wealth of the firm (Shankman, 1999). Profitability, competition and economic success of corporations may be improved by giving importance to stakeholder interests (Campbell, 1997; Freeman, 1984; Plender, 1997; Stoney and Winstanley, 2001). All these definitions based on instrumental stakeholder theory refer to the principle of “stakeholders as a mean”.

On the other hand, “stakeholders as an end” principle lies at the heart of the stakeholder model (O’Higgins, 2001). Perceiving the profits as a mean rather than as an end (Mintzberg, 1983) or perceiving the firm as an instrument to serve the interests of stakeholders (Freeman and Evan, 1990) is recommended by this principle. This principle is closely related with the normative stakeholder theory. The main thesis of normative stakeholder theory can be defined as paying attention to key stakeholder relationships by managers (Freeman, 1999) or treating stakeholders as ends (Shankman, 1999) or admitting that the interests of the constituencies have an intrinsic value (Clarkson, 1995; Donaldson, 1999; Gay, 2002; Quinn and Jones, 1995).

Normative stakeholder theory views stakeholders of the corporation as an end but instrumental stakeholder theory views “stakeholders as a mean”. Instrumental stakeholder theory is interested in how stakeholders’ value can be used to increase

the profitability of the firm (Letza, Sun, and Kirkbride 2004). An organization can adopt two kinds of attitudes towards the stakeholders: (1) stakeholders as a mean to an end where the organization takes account the stakeholders for the good of the firm; (2) “stakeholders as an end” in themselves where the organization takes into account the stakeholders as a matter of principle (Greenwood, 2001). The formal organizational attitude towards stakeholders refers to the instrumental stakeholder theory or to the principle of “stakeholders as a mean”. The latter organizational attitude refers to the normative stakeholder theory or to the principle of “stakeholders as an end”. The problem with normative stakeholder theory is that it is very difficult for firms, which operate in individualistic societies, to accept and implement the rules or principles of this theory. Normative stakeholder theory, as the corporate social responsibility theory, refers to the public interests rather than the mutual-interests. When the level of analysis is the firm rather than society, public interest does not make sense for the managers of the firm (Clarkson, 1995). Therefore, managers can perceive the stakeholders of the firm as a mean rather than ends in individualistic societies. In other words, instrumental stakeholder theory is more related with the Anglo-American corporate governance mentality (Gamble and Kelly, 2001). Thus, normative stakeholder theory is closely related with the public-interest principle. Instrumental stakeholder theory starts with mutual-interests principle (i.e. the interests of stakeholders) and ends up with the self-interest principle (i.e. the interests of stockholders). Normative stakeholder theory starts with the public-interest principle (i.e. the interests of society) and ends up with the mutual-interests principle (i.e. the interests of stakeholders). In other words, principle of “stakeholders as a mean” starts with mutual-interests principle and ends up with the self-interest principle. On the other hand, principle of “stakeholders as an end”

starts with mutual-interests and ends up with the public-interest principle as in the case of learning organizations (Senge, 1990) in the Anglo-Saxon world. Similarly, “stakeholders as an end” can also start with the public-interest principle and ends up with the self-interest principle as in the case of Japan or Germany.

“Unfairness” vs. “Fairness”

“Unfairness” is a principle, which is related with the stockholder governance model.

“Fairness” is a principle, which is related with the stakeholder governance model.

The belief that the burdens and benefits unequally distributed among the parties (Garcia-Marza, 2005) refers to the principle of “unfairness”. When the interests of the stockholders are overemphasized, an unequal distribution of benefits occurs. This unequal distribution of benefits also refers to the principle of “unfairness”. This unfair distribution of benefits among the stakeholders of the firm is related with the overemphasis on the stockholder interests. In other words, the underlying assumption for the principle of “unfairness” is the premise of self-interest. For example, the dissatisfaction of stockholders is shown as the underlying reason for the principle of “unfairness” (Ertuna, 2005c).

On the other hand, the wealth created by a company does not have to be distributed with the primacy of stockholders because there is no reason why other stakeholders should not be included in the distribution process (Ertuna, 2005c; Mills and Weinstein, 2000). Thus, it is advocated that there is a need for the principle of “fairness”. Since a principle makes sense in the eye of the beholder, “fairness” principle will be examined at the level of individuals, organization, and society. It

has been found in laboratory experiments that “fairness” is an important issue among players (Guth, Rolf, and Bernd, 1982), which refers to the level of individual. Social justice (Allen, 1992; Letza, Sun, and Kirkbride, 2004) or equal distribution of burdens and benefits (Garcia-Marza, 2005) or fair distributions of wealth or income (Donaldson and Preston, 1995) refer to the “fairness” principle at the level of organization. Public perception is also important in terms of “fairness” (Kahneman, Knetsch, and Thaler, 1986), which refers to the “fairness” principle at the level of society.

Each stakeholder group has different needs and expectations. Finding a fair solution for the needs of each stakeholder group becomes a more important issue (O’Higgins, 2001). Thus, managers should attempt to respond to the interests of the stakeholders within a mutually supportive framework because this is a moral requirement for the legitimacy of the management function. Based on these explanations, it would not be wrong to argue that mutual-interests principle is the underlying reason for the “fairness” principle. Therefore, the principle of self-interest is rejected in practice in the name of “fairness” (Kahneman, Knetsch, and Thaler, 1986). It is not only the mutual-interests principle that supports “fairness” principle. The principle of “fairness” also supports the mutual-interests principle. The notion of ‘fair contract’, a Rawlsian ‘veil of ignorance’, can be devised so that the interests of all stakeholders can be taken into consideration (Freeman and Evan, 1990). Managers should consider the interests of stakeholders because the claims of stakeholders have intrinsic justice on the firm (Jones, 1994). The theories of distributive justice, which is related with the principle of fairness, also support the view that the claims made by stakeholders must be recognized (Shankman, 1999). Based on these explanations, the principle of “fairness” also supports the principle of

mutual-interests. Thus, it would not be wrong to argue that there is a bilateral relationship between the principles of mutual-interests and “fairness”.

“Distrust” vs. “Mutual-Trust”

“Distrust” is a principle, which is related with the stockholder perspective. “Mutual-trust” is a principle, which is related with the stakeholder perspective. “Distrust” is the belief that the other party will pursue self-interest with guile (Swift, 2001). Stockholder perspective and instrumental stakeholder theory presupposes that managers are self-interested and cannot be trusted (Letza, Sun, and Kirkbride 2004). In other words, the principle of “distrust” is closely related with the self-interest principle. On the other hand, trust is glue that holds organizational culture together (Caldwell and Karri, 2005). Trust is important for firms in terms of product acceptance, a good working atmosphere, smooth relationships with the local government, investment criteria, etc. (Garcia-Marza, 2005). When an investor wants to purchase stocks of a company or an employee wants to join a company or a customer wants to buy a product, trust will be required (Hosmer, 1995). According to Kay and Silberston (1995), managers should be trustees in the eyes of their companies’ stakeholders. According to Goodpaster (1991), directors and managers must view themselves as trusted servants of the firm. Stakeholder theory also emphasizes the importance of trust for the firms (Shankman, 1999). Based on these explanations, it is clear that there is a need for believing to the principle of “mutual-trust” in the organizations. “Mutual-trust” is the confident expectation about the other party’s goodwill that one’s interests will be protected (Ring and Van De Ven,

1992). “Mutual-trust” is the belief in other party’s credibility and benevolence (Doney and Cannon, 1997). “Mutual-trust” is also defined as the confidence in the other party’s reliability and integrity (Morgan and Hunt, 1994). As it can be seen in these definitions, the premise of mutual-interests is the underlying principle in the formation of “mutual-trust” principle. Since “mutual-trust” includes the interests of the parties who engage in a relationship, it is difficult to create “mutual-trust” in an organization where self-interest dominates the macro culture. In other words, the rationale for the assertion of positive distrust in the individualistic cultures is the premise of self-interest. As a result, the principle of “mutual-trust” is closely related with the principles of mutual-interests and/or public-interests. On the other hand, the principle of “distrust” is closely related with the premise of self-interest.

“Dishonesty” vs. “Integrity/Honesty”

“Integrity/Honesty” is a principle, which is related with the stakeholder governance model. “Dishonesty” is a principle, which is related with the stockholder governance model. Coherence between what is said and what is done in an organization (Garcia-Marza, 2005) refers to the principle of “integrity/honesty”. If there is a significant disconnect in any of these areas such as leadership, management, mission and core principles of a firm, this will undermine its credibility and “integrity” in the eyes of the stakeholders (Wheeler and Sillanpää, 1998). Thus, telling different stories and showing inconsistent organizational behaviors, which refer to the principle of “dishonesty”, will not be tolerated by the stakeholders of a firm (Scholes and Clutterbuck, 1998). For example, narrow-minded stockholders may undermine the

“integrity” of the corporate system due to their drive for the financial performance (Monks, 1998). In other words, a firm is expected to show mutually consistent policies and practices (Post, Preston, and Sachs, 2002b). Based on these explanations, it is clear that the principle of “integrity/honesty” is related with the whole corporate governance system. A specific example may clarify the principle of “dishonesty”. For example the management of a firm may promise to share the rewards with the employees in order to attract more skilled employees in a booming market. When this management does not keep its promise in declining markets in order to reduce the workforce (Blair, 1998), this may be perceived as an inconsistent organizational behavior by the employees. Hence, this type of organizational behaviors may lead to the perception of “dishonesty” by the employees because what the management says about sharing the rewards during a booming economy and what it does in the recessions will be contradictory with its promises. In the short-term these kinds of firms may achieve good reputation and attract the skilled employees by making promises to share the rewards with them. But these kinds of organizational behaviors may lead to the belief of “dishonesty” about the management in the long-term. As a result, these types of inconsistent managerial behaviors will more likely produce bad reputation for these kinds of companies. Holding the employees to an ethical code of conduct that the management is not being held to (Arthur, 1987) is another specific example to the principle of “dishonesty”. These types of organizational behaviors may also lead to the perception of “dishonesty” by the employees because what the management says and what it does will be contradictory. If directors and/or managers may show consistent behaviors, the principle of “integrity/honesty” may emerge in the corporate governance system. If there is inconsistency in the behaviors of the directors and/or

managers, the principle of “dishonesty” may emerge in the corporate governance system. Based on these explanations, inconsistent organizational behaviors (i.e. “dishonesty”) are implicitly related with the premise of self-interest (i.e. stockholder governance model). On the other hand, consistent organizational behaviors (i.e. “honesty/integrity) are implicitly related with the principles of mutual-interests and/or public-interest (i.e. stakeholder governance model).

“Hierarchy/Market” vs. “Network”

“Network” is a principle, which is related with the stakeholder governance model. “Hierarchy/market” is a principle, which is related with the stockholder governance model. The decision of producing the goods within the firm or buying them from the market (Williamson, 1975) refers to the principle of “hierarchy/market”. In other words, managers choose either markets (i.e. buying or outsourcing) or hierarchy (i.e. making or vertical integration) (Poppo and Zenger, 1995). This is the typical case in Anglo-Saxon thinking. Hence, making the choice between alternative governance structures within firm and between firms and markets (Radner, 2000) or determining the role of the firm in society through marketplace (Buchholz, 2005; Friedman, 1962) or being less dependent on co-determination with other stakeholders of the firm (Rose and Mejer, 2003) defines the principle of “hierarchy/market”. Based on these explanations, free market exchange and vertically integrated bureaucracy (i.e. “hierarchy/market”), is one of the principles in stockholder governance models (Letza, Sun, and Kirkbride 2004).

On the other hand, the complex extended organization requires a new conception of the firm. This new conception is the principle of “network” rather than a “hierarchy” (Post, Preston, and Sachs, 2002b). Thus, a firm should not be viewed only as a part of marketplace but as a part of multiple stakeholder relations (Buchholz, 2005). As a result, the principle of “network” emerged in the corporate governance system. Conceptualizing the firm as a set of multilateral contracts among stakeholders (Freeman and Evan, 1990) or viewing the firm within a tightly connected and interrelated set of stakeholders that are connected with each other in a web of relationships (Donaldson and Preston, 1995; Schilling, 2000) or perceiving the organization as a nexus of organized interactions (Bird, 2001) or conceiving the firm as a community as in the case of Rhine model of Germany (Vinten, 2001) are some of the definitions for the principle of “network”.

Interconnectedness in the stakeholder environment of the firm also refers to the principle of “network”. High centrality and low centrality are the two concepts that refer to the principle of “network”. When the ratio of the number of relationships that exist in “network” of a firm’s relevant stakeholders compared to the total number of possible ties among the “network” of stakeholders is high, there is a high density in the stakeholder environment of the firm. When the ratio of the number of relationships that exist in “network” of a firm’s relevant stakeholders compared to the total number of possible ties among the “network” of stakeholders is low, there is a low density in the stakeholder environment of the firm (Rowley, 1997). When there is a high density, there is also a high interconnectedness in the stakeholder environment of the firm. This is probably the case in our sample which is consisted from large scale firms. These firms are expected to operate in a complex and high density “network” of stakeholders. Besides, the ease of communication via internet is

another factor that enhances the number of relationships that exist in “network” of a firm’s relevant stakeholders. Therefore, it may be not wrong to conclude that large scale firms operate in a high density business environment. In the case of large scale firms that operate in local areas it was found in our study that mouth to mouth communication among stakeholders in local areas also create a high density “network” to influence these types of local firms. For example, one CEO of a local large size firm in the main sample of this study said that “if it was heard by the local people that his firm do not pay the wages of the employees on time, it would be interpreted by the local community as a signal for the bankruptcy of the firm”. Another CEO said that “when a firm shows opportunistic behavior to another firm, this information is spread to other firms in the local area to prevent them being cheated by the same firm”. Hence, it is more likely that the industrial firms in Turkey operate in an environment of stakeholders where there is high interconnectedness. On the other hand, the senior managers or directors of the large size local firms may still perceive their environment and their position in this environment just in the opposite direction. In other words, the principle of “hierarchy/market” may still make sense for the governors of the firms in our sample.

Systems of corporate governance at the country level are classified as “market” oriented countries or “network” oriented countries. “Market” oriented system emerged in Anglo-Saxon countries and “network” oriented systems emerged in countries such as Japan (Gay, 2002). Japanese forms of organizations emerged as clan organizations (Ouchi, 1980). U.S. forms of organizations emerged as “hierarchy/market” (Williamson, 1975, 1993). Within the Anglo-American style of corporate governance, “network” forms of organizations have also attracted attention

in corporations since 1980s (Powell, 1990). Therefore, a manager may perceive the corporate governance system as a “network” and/or as a “hierarchy/market”.

“Short-term Perspective” vs. “Long-term Perspective”

“Short-term perspective” is a principle, which refers to the stockholder governance model. “Long-term perspective” is a principle which refers to the stakeholder governance model. The “short-term perspective” of institutional investors is explained by the concept of ‘market myopia’ (Blair, 1995). One of the assumptions of agency theory is the emphasis on “short-term perspective” (Caldwell and Karri, 2005). Maximum three years show “short-term perspective” for measuring the managerial performance (Plender, 1998). The principle of “short-term perspective” is related with the interests of stockholders. Therefore, the board may treat the stakeholders of their firm badly in the short-term in order to favor the interests of stockholders but this would harm the interests of the stockholders in the long-term (Gay, 2002). As a result, it would not be wrong to argue that the principle of “short-term perspective” is related with stockholder governance model.

On the other hand, stakeholder perspective requires a “long-term perspective”. For example, putting stakeholder perspective into place has taken ten years in Shell Corporation (Watts, 2000). Similarly, successive generations of managers in Cummins, Shell and Motorola accepted and used stakeholder-oriented policies (Post, Preston, and Sachs, 2002b). These are examples which show the importance of “long-term perspective” principle at the level of organization. These examples also show the relationship between the “long-term perspective” and

stakeholder governance model. Modern stewardship theory based on covenantal approach is also based on “long-term perspective” (Caldwell and Karri, 2005). There are also examples which also emphasize the importance of this principle at the level of individual. For example, the studies of Pruitt and Kimmel (1977) showed that human beings do not cooperate in the short-term due to self-interest but it is seen that they cooperate in the long-term. Similar arguments can also be made at the level of society. For example, German or Japanese corporate governance systems are based on the principle of “long-term perspective” (Plender, 1998). Danish corporate governance system is also based on this principle (Rose and Mejer, 2003). The importance of “long-term perspective” is also emphasized by Hofstede (1999). It is stated by Hofstede that “long-term perspective” and “short-term perspective” are values that are in opposite dimensions. There is a close relationship between the stockholder approach and “short-term perspective”. Thus, the premise of self-interest is the underlying reason for the principle of “short-term perspective”. There is also a close relationship between the stakeholder approach and “long-term perspective”. Thus, the principles of mutual-interests and/or public-interest are the underlying reasons for the principles of “long-term perspective”. The principles of “short-term perspective”, which refers to the stockholder governance model, and “long-term perspective”, which refers to the stakeholder governance model, are in the opposite ends of a scale. As a result, these two principles form one variable together in the corporate governance model.

“Passive Communication” vs. “Active Communication”

“Passive communication” is a process, which refers to the stockholder governance model. “Active communication” is a process, which refers to the stakeholder governance model. These two processes are in the opposite ends of a scale. Thus, these two processes form one variable together in the corporate governance model. The process of “passive communication” emerges when all the departments of a firm contribute separately to the internal and external communication of corporate brand and image (Scholes and Clutterbuck, 1998). When stakeholders of the firms will not be able to reach out to CEOs and board of directors in terms of their concerns (Nader, 1984), “passive communication” may emerge as a process in the organization. Similarly, when values are articulated top down (Wheeler and Sillanpää, 1998) or when the firm uses the ‘trust me’ mode for its stakeholders (Post, Preston, and Sachs, 2002b) or when firm’s communication activities with its stakeholders is limited to only reporting (Reed, 2002), the process of “passive communication” emerges in the governance of corporations. As it can be seen in most of the definitions about the process of “passive communication”, the common theme is the ignorance of stakeholder interests. The salience of stockholders in the corporate governance system may be the reason for ignoring the interests of stakeholders or preferring the process of “passive communication”. Thus, the principle of self-interest (e.g. stockholder interests) is the main assumption in the stockholder perspective. Therefore, the process of “passive communication” is closely related with the stockholder governance model.

Since organizations operate in very complex and uncertain environments, the only way for managers to reduce this complexity and uncertainty is to form “active communication” with the stakeholders of the firm (Wheeler and Sillanpää, 1998). There is a need for a lively, open, and reciprocal communication with the stakeholder groups (Bird, 2001). Thus, one of the key features of a successful company is the process of “active communication” (RSA, 1995). William Dill (1975) is one of the first scholars who emphasized the importance of “active communication” with stakeholders. According to Dill, strategic managers are communicators with stakeholders. Therefore, “active communication” with the stakeholders of the firm is important in terms of creating good corporate governance. Listening and informing your stakeholders and learning together with them (Scholes and Clutterbuck, 1998) or listening, responding, measuring and reporting on the issues of stakeholders or using “show me” mode for the stakeholders of the firm (Post, Preston, and Sachs, 2002b) or communicating with the relevant stakeholder groups and being judged by them in terms of performance indicators such as financial, social and ethical reports (Wheeler and Sillanpää, 1998) or integrating the messages to and from the stakeholders of the firm (Gay, 2002) or collecting information, preparing reports, and obtaining feedback from stakeholders (Logsdon and Lewellyn, 2000) or providing channels of communication in order to listen concerns and suggestions of the stakeholders (Reed, 2002) are some of the definitions for the process of “active communication”. As it can be seen in most of the definitions about the process of “active communication”, the common theme in these definitions is that the interests of stakeholders are considered or listened by the corporate governors. The interests of each individual (i.e. self-interest) can be converted to the principle of mutual-interests with the help of “active communication” (Buchholz, 2005). On the other

hand, the principle of mutual-interests can also lead to the process of “active communication” in the organization. For example, as the values between the firm and the stakeholders are aligned the “active communication” also becomes easier (Scholes and Clutterbuck, 1998). But Baum (1977) stated that “active communication” only takes place among the equals. In other words, there will not be any real communication between the management and stakeholders if the managers do not treat the stakeholders of the firm as equals. When the management gives importance to the interests of stakeholders (i.e. the principle of mutual-interests), it is expected to treat them as equals.

Different methods are proposed for the process of “active communication”. Using methods such as social and economic audits (Reed, 2002), formal audits, official communiqués, occasional presentations at the board by stakeholder representatives (Bird, 2001), focus groups, interviews, surveys, meetings, publication of corporate social reports (Swift, 2001), stakeholder reports and journals (Scholes and Clutterbuck, 1998), regular conversations, focus groups, opinion surveys (Wheeler and Sillanpää, 1998), stakeholder dialogue and reporting (Vinten, 2001) are expected to lead to the process of “active communication” between the firm and stakeholders. The employees are the most important sources of knowledge for the firm because they are the ones who can get information about stakeholders’ opinions (Wheeler and Sillanpää, 1998). Therefore, it would not be wrong to conclude that employees are one of the key strategic stakeholders of the firm because they are the ones who can initiate an active dialogue with the other stakeholders such as customers and suppliers. For example, Gerhard Schulmeyer, who was the CEO of Siemens Nixdorf Corporation, has spent six months meeting the employees of the firm. Schulmeyer used methods such as interactive workshops or Friday Forums,

where the problems and ideas relating to change program was discussed between staff and local managers. Flash reports, which refer to the reports that were produced in the Friday Forums in Siemens Nixdorf, are sent to 25,000 people via intranet and e-mail. Town Meetings, where problems of the workforce are discussed with the senior managers of Siemens Nixdorf, are also conducted as a method (Kennedy, 1998) that refers to the process of “active communication. These methods are not haphazard organizational behaviors. In other words, the strategic importance of the employees in the corporate governance system is known by Schulmeyer. On the other hand, “active communication” also takes place between the firm and consumers. Methods such as consumer arbitration panels, hotlines (Peters and Waterman, 1982), market research, focus groups, usage and attitude surveys, information hotlines, direct advertising, public relations, (Wheeler and Sillanpää, 1998) are specific examples that refer to the process of “active communication” with the consumers. Besides, information technologies (IT) also ease the process of “active communication” with customers and suppliers (Julius, 1997). On the other hand, management is the key strategic stakeholder for initiating an active dialogue with the investors, stockholders or financial institutions because management has a direct communication with these stakeholders. As it can be seen in these examples, there is a close relationship between the interests of stakeholders (i.e. mutual-interests) and the process of “active communication”. Thus, the principle of mutual-interests is the underlying reason for the process of “active communication”. Since the principle of mutual-interests refers to the stakeholder perspective, the process of “active communication” is closely related with the stakeholder governance model.

“Firm/Stakeholder Influence” vs. “Stakeholder Participation”

“Firm/stakeholder influence” is a process, which is related with the stockholder governance model. “Stakeholder participation” is a process, which is related with the stakeholder governance model. These two processes are in the opposite dimensions of a scale and form one variable together in the corporate governance model. The terms “stakeholder influence” and “stakeholder participation” are first explicitly used by William Dill (1975). In order to define the process of “firm/stakeholder influence”, some of the definitions about corporate governance will be examined. Exercising power over corporate entities by the board of directors (Tricker, 2000) or trying to direct and control the firms to produce the right results, which is high financial performance, (MacMillan and Downing, 1999) or forming a structure to control the managers at the organizational apex through the board of directors, executive incentives, monitoring and bonding (Donaldson, 1990) are some of the definitions for the construct of corporate governance. The common theme in these definitions is that board of directors tries to control or influence managers or the firm. Maybe corporate governance is a conundrum because it is impossible to control or influence another entity and achieve the desired results forever. Any entity can influence another entity because corporate governance system is a dynamic rather than a static phenomenon. For example, managers are in the center of corporate governance system. Thus, managers may look like powerful when compared with other stakeholders of the firm. Thus, managers may try to control or influence the stakeholders of the firm by supporting, limiting, channeling, and canceling the organizational interactions (Bird, 2001) or by forming entry and exit barriers (Porter, 1990) or by using incentives, monitoring and enforcement structures

(Hill and Jones, 1992) or by using methods such as acquisitions and takeovers (Clarke, 1998a). Besides, managers may try to control or influence specific stakeholder groups by using different methods. For example, managers may influence employees of a firm by monitoring and aligning incentives (Pitelis and Wahl, 1998) or by downsizing a firm and shutting down its units (Blair, 1998) or by using the threat of laying-off employees (Nader, 1984) or by using methods such as job design, clear division of responsibilities and tight policing of implementation, as advocated by Taylor, (Wheeler and Sillanpää, 1998). Managers may influence suppliers of a firm by developing alternative sources of supply via joint ventures, purchasing alliances and price leadership agreements. Managers may influence the customers of the firm by product and market diversification or horizontal mergers and acquisitions (Pfeffer and Salancik, 2003). Managers may influence the society by manipulating the information about the firm as in the case of Maxwell in U.K. (Gay, 2002). They may also influence the state by lobbying and overwhelming public agencies (Monks, 2003; Plender, 1997). Therefore, some of the scholars such as Michael Jensen (1994) state that stakeholders are the function of management influence.

The strategies used by managers to influence the stakeholders of the firm may work in the short-term but asymmetric power may shift on the advantage of some stakeholder groups in the long-term. Thus, some of these constituencies may respond to these kinds of influence strategies by developing their own influence strategies. In other words, stakeholders can also influence the management of the firm. For example, stakeholders may use monitoring and enforcement mechanisms via institutional structures (e.g. stock analyst services, labor unions, consumer unions, legislation) in order to influence the management (Hill and Jones, 1992). Besides,

specific stakeholder groups may try to influence managers by using different methods. For example, stockholders may influence managers via financial methods such as stock-option schemes and bonuses (Mills and Weinstein, 2000) or via measures such as disclosure to stockholders, appointment of independent outside directors and separation of the CEO and chairman of the board (Tricker, 2000) or via safeguards (i.e. governance structures) such as monitoring, bonding, and external market for corporate control (Demsetz, 1983; Eisenhardt, 1988, 1989; Fama, 1980; Fama and Jensen, 1983a; Gay, 2002; Jensen, 1994; Jensen and Meckling, 1976; Jones, 1995; Manne, 1965). Board of directors is a governance structure which is created to protect the rights of stockholders. In other words, the role of the board of directors is to monitor and oversee the practices of management on the behalf of stockholders. Unfortunately, management has a control over the board (Logsdon and Lewellyn, 2000; Monks, 1998; Plender, 1997). Therefore, other governance structures or safeguards that are explained above are also used by the stockholders.

Not only the stockholders but also other stakeholders try to influence or control the behaviors of the managers. For example, financial institutions may exert influence over management actions via threat to proxy fight, election of their own nominees to the board of directors, and threat to sell their shares of the firm. Employees try to influence managers via labor unions. Customers exert influence over management via consumer unions (Hill and Jones, 1992). Society may try to control or influence the behaviors of the managers by legislation and other social controls (Hill, 1990; Hosmer, 1995; Huse and Eide, 1996). These examples show us that it is not only the stockholders but also non-stockholder groups who may influence the managers. Therefore, some of the scholars such as Brenner and Cochran (1991) state that management is the function of stakeholder influence.

On the other hand, managers are not the only stakeholder group who may influence stakeholders or be influenced by them. According to the organic theory, the firm has a separate will which can only be carried out by individuals but these individuals act as the organs of the firm (Arthur, 1987). This theory makes sense especially in large size companies because it is impossible for the managers to control the behaviors of all individuals in the organization. In other words, a firm is a legal entity which can influence the stakeholders or be influenced by them. Therefore, the modern corporation is defined as an independent entity with direct control over its employees, suppliers and distribution system (Letza, Sun, and Kirkbride 2004). For example, a firm may try to control or influence the behaviors of its stakeholders by using rewards and punishment (Logsdon and Yuthas, 1997; O'Higgins, 2001) or by manipulating information flows across the network of stakeholders (Rowley, 1997) or by monitoring the relationships, using performance incentives or enforcing contracts (Arrow, 1985; Jones, 1995; Jones and Wicks, 1999; Plender, 1998). Besides, firms may try to influence specific stakeholder groups by using different methods. For example, firms may prefer to exchange hostages, negotiate, monitor and enforce over contracts (Williamson, 1975). Firms may use institutional structures (e.g. monopolies, cartels, and price fixings) to influence and control behaviors of its suppliers and employees (Noreen, 1988). Firms may try to decertify unions to influence and control the behaviors of employees (Jones, 1995). Firms, as a legal entity, may conduct traditional marketing campaigns to influence the consumers (Logsdon and Lewellyn, 2000). Firms can also make the state pass governmental regulations (e.g. cartels among milk producers, tariffs and quotas on goods) to influence the society (Jensen and Meckling, 1994).

On the other hand, stakeholders may also try to influence firms by developing their own influence strategies. Stakeholders may also develop power to influence the corporations (Reed, 2002). More specifically, stakeholders may also influence the firm's decision making and behaviors (Frooman, 1999). Stakeholders may terminate their relationships or change the terms of their relationships with the firm (MacMillan and Downing, 1999). Stakeholders may exert external pressures that come from the network of stakeholders (Rowley, 1997). Thus, stakeholders may use institutional structures such as semi independent audit team (Wheeler and Sillanpää, 1998) or safeguards such as negotiating, monitoring, enforcing (Poppo and Zenger, 1995), rewards, punishments (Donaldson, and Preston, 1995; Gray, Owen, and Mauders, 1988), and stakeholder resolutions (Davis and Thompson, 1994) in order to influence the behaviors of the firms. Besides, each stakeholder group may use specific influence strategies in order to control behaviors of the firms. The state may pass regulations such as environmental standards, consumer protection law, and employee consultation rights (Hill and Jones, 1992; Sama and Shoaf, 2005; Scholes and Clutterbuck, 1998). Employees hold their resources from the firm by strikes (Hirschman, 1970). Similarly, consumers hold their resources from the firm by boycotts (Garett, 1987; Kahneman, Knetsch, and Thaler, 1986; Paul and Lydenbeg, 1992). Financial institutions may make governments pass law, as in the case of Japan in 1993 (OECD, 1996), in order to influence the behaviors of the firms. All these specific examples show that stakeholders can also develop strategies to influence or to control the firms. Thus, Freeman and Reed (1983) recommend that firms formulate and implement their strategies by considering the external forces and pressures that comes from the stakeholders.

Based on the explanations made above, it would not be wrong to argue that both firms and stakeholders are capable of influencing each other (Hill and Jones, 1992; Oliver, 1991; Rowley, 1997). Besides, these influence strategies do not take place only between the managers and stakeholders or between the firms and stakeholders. These influence strategies may also emerge among different stakeholder groups. Since each constituency directly or indirectly affects each other in the corporate governance system, this is a very normal result. Thus, governance mechanisms such as contract law, negotiation, and monitoring exist in order to solve the conflicts among stakeholders in corporate governance system (Jensen, 1994; Logsdon and Lewellyn, 2000). There are specific influence strategies that stakeholder groups use for another stakeholder group. For example, a single tiered board and financial markets are disciplinary mechanisms created for stockholders in order control and influence the behaviors of other stakeholders (Reed, 2002). State, which is also a stakeholder of the firms, may exert influence over the stakeholders of the firm when markets fail due to asymmetric information (Williamson, 1975; 1993). The members of the same stakeholder group may also try to influence one another. For example, stockholders may try to influence one another via proxy fights (Freeman and Reed, 1983). Similarly, local stockholders of a firm may develop governance mechanisms in order to influence or control the foreign stockholders as in the case of Denmark (Rose and Mejer, 2003).

All of the arguments that are made above refer to the process of “firm/stakeholder influence”. On the other hand, there is another process named as “stakeholder participation”. This process can be admitted and implemented in the corporate governance system by the stakeholders of the firm. “Stakeholder participation” is a process that refers to the willing and desired activities of the firms

rather than regulation and enforcement. Scholars have given different reasons for the importance of this process. According to Donaldson and Preston (1995), each stakeholder group must participate to the corporate governance process because it has a stake due to its relationship with the firm. Stakeholders should participate in the corporate decision making because they have an asset specificity in the corporation. Thus, stakeholders are also economic risk bearers (Blair, 1995). Participation of the internal and external stakeholders to the strategy process is expected to lead to greater commitment of these stakeholders (O'Shannassy, 2001). An important study in U.K. showed that "stakeholder participation" is a key feature of a successful company (RSA, 1995). Thus, the process of "stakeholder participation" is proposed as an alternative to the process of "firm/stakeholder influence" in the governance of corporations.

Different definitions are made about the process of "stakeholder participation". Letting all the related stakeholders (e.g. employees, creditors, suppliers and customers) monitor the managers and engage permanently to the important parts of decision-making process (Blair, 1995; Clarke, 1998a), which is also advocated by the normative stakeholder theorists (Hendry, 2001), is a good example to the process of "stakeholder participation". Similarly, internal or external pressures, under equal participating conditions, (Garcia-Marza, 2005) or community representation on the board of the firms (Freeman and Evan, 1990) or delegation of responsibility (Pfeffer, 1994) or employee involvement in problem solving (Oakland and Porter, 1999; Wheeler and Sillanpää, 1998) at the board level or at the lower level in the organization (Reed, 2002) or negotiated settlements among stakeholders of the firm (Mills and Weinstein, 2000) or representation of different stakeholder groups in the board by each board member (Nader, 1984) or internal and external

participation to the strategy process (Liedtka, 1998a; 1998b; 2000) are other examples to the process of “stakeholder participation”.

“Stakeholder participation” at the level of the board is rejected in countries such as U.S.A. or U.K. The process of “stakeholder participation”, via stakeholder representatives, is not welcomed at the level of the board in American and British firms because it is feared that stakeholder representatives may begin to overemphasize the interests of the different stakeholders that may badly affect the stockholders’ interests. Therefore, these firms prefer independent outside directors at the board (Bird, 2001). This understanding in American and British firms shows us that there is distrust, which is closely related with the principle of self-interest, to the stakeholders. According to Thomas Clarke (1998a), focusing on the interests of the stockholders may be the key element in the governance of corporations in U.S.A. and U.K. in recent past but we are in an age of active participation by stakeholders such as customers, employees. The process of “stakeholder participation” is accepted in firms that operate in countries such as Germany, Denmark or Japan (Rose and Mejer, 2003). This understanding in these countries shows us that there is trust, which is closely related with the principles of mutual-interests and/or public-interest. These two principles (e.g. mutual-interests and/or public-interest) refer to the stakeholder perspective. As a result, the process of “stakeholder participation” is related with the stakeholder governance model. On the other hand, the process of “firm/stakeholder influence” is related with the stockholder governance model.

“Corporate Social Irresponsibility” vs. “Corporate Social Responsibility”

“Corporate social irresponsibility” is a process, which refers to the stockholder perspective. “Corporate social performance” is a process, which refers to the stakeholder perspective. “Corporate social irresponsibility” is categorized under the heading of unethical firm/stakeholder behaviors in the stockholder governance model. “Corporate social responsibility” is categorized under the heading of ethical firm/stakeholder behaviors in the stakeholder governance model. When a firm creates pollution, contaminates community water and air, and sells unsafe products (Arthur, 1987) due to the efficiency concern (Ertuna, 2005c), this type of firm is irresponsible to the society. When a firm does not give importance to the worker health and safety hazards (Nader, 1984), this type of firm is irresponsible to its employees. These types of unethical organizational behaviors are named as “corporate social irresponsibility”. The premise of self-interest, which is advocated by economics, in the marketplace is expected to bring efficiency. Thus, this efficiency concern leads to the “corporate social irresponsibilities” such as pollutions and unsafe work places (Buchholz, 2005). As a result, the premise of self-interest does not always produce the desired outcomes for the society as it is advocated by the utilitarians.

On the other hand, firms may prefer to perform socially responsible activities (i.e. “corporate social responsibility”). John Howard, who was the Australian prime minister in 1998, argued that a firm has obligations to make contributions to the development of a community that it operates because it derives its profit from this community (Greenwood, 2001). This argument refers to the process of “corporate

social responsibility”. In other words, there is an interrelatedness of the firm with the community that it operates (Buchholz, 2005; Hendry, 2001). The process of “corporate social responsibility” (CSR) gained acceptance in the business world because society began to become more concerned with ethical organizational behaviors such as natural environment (Scholes and Clutterbuck, 1998). Thus, firms are expected to contribute to the local and regional development, be co-responsible for the social order, and have a position in maintaining and improving the natural environment (Garcia-Marza, 2005). Besides, firms became environmentally more sensitive, which is related with the CSR, because of the pressures that come from the stakeholders. For example, when Royal Dutch/Shell Group used deep-sea disposal for an oil drilling platform, it was strongly and violently protested by environmental pressure groups. These protests forced Royal Dutch/Shell Group to re-examine and rewrite its code of business principles in order to behave responsibly to the natural environment (Julius, 1997). Motorola Corporation is another example which gave importance to the CSR activities in its process. Motorola updated its process by setting Motorola Ethics Renewal Process as a response for the concerns of the society. This initiative is followed by Global Corporate Responsibility Task Force to maintain the ethics advantage in Motorola (Moorthy et. al., 1998; Post, Preston, and Sachs, 2002b). As a result, two important concepts ‘natural capital’ and ‘social capital’ are developed (Elkington, 1998) in order to reflect the need for the firms’ concern for the society and natural environment (i.e. CSR) besides the classic bottom line (i.e. profit).

Although the importance of “corporate social responsibility” has been acknowledged for fifty years, agency theory is still dominant mental model in corporate governance system (Caldwell and Karri, 2005). This is especially true for

the Anglo-Saxon world due the domination of self-interest principle at the macro level. Therefore, CSR is underappreciated in the Anglo-Saxon business cultures (Frank, 1992). CSR is a process which is appreciated in Europe because the underlying principle is public-interest in this continent. For example, Commission of the European Communities (2001) defined CSR in its green paper as a process whereby firms integrate the social and environmental concerns in their relationships with their stakeholders. Altruism or concern for others, which refers to the public-interest principle and stands in the opposite pole of self interest, is the theme of “corporate social responsibility” (Jones, 1980; Walters, 1977). In other words, organizational outcomes should be consistent with the social expectations or public-interest for the process of CSR (Wartick and Cochran, 1985). When the level of analysis is the firm rather than society, public interest does not make sense for the managers of the firm because they can best perceive the stakeholders of the firm as a mean rather than ends (Clarkson, 1995) in individualistic societies. Therefore, Clarkson proposed ‘corporate social performance’ (CSP) framework for analyzing the relationships between the firm and stakeholders based on 70 field studies of CSP conducted between 1983 and 1993. His argument makes sense because CSP is related with the principle of mutual-interests rather than public-interest in the self-interest dominated cultures. The qualitative findings in this study also confirmed the argument of Clarkson. For example, only 4% of the corporate governors said that natural environment is their relevant stakeholder. Only 11% of the corporate governors said that society is their relevant stakeholder. These qualitative findings also show the irrelevance of public-interest principle in the eye of corporate governors in Turkey. These findings do not mean that corporate governors ignore the interests of other stakeholders. For example, most of the managers and directors

emphasized the importance of their firm's responsibility to their primary stakeholders which are stockholders, customers, employees and suppliers. Besides, most of them emphasized the importance of mutual-interests principle in the in-depth interviews. Since society or environment is not perceived as the relevant stakeholders by the corporate governors, CSP rather than CSR makes sense for the business world in Turkey as in the case of Anglo-Saxon world.

“Non-cooperative Behaviors” vs. “Cooperative Behaviors”

“Non-cooperative behaviors” is a process, which is related with the stockholder governance model. “Cooperative behaviors” is a process, which is related with the stakeholder governance model. These two processes are in the opposite dimensions of a scale and form one variable together in the corporate governance model. “Non-cooperative behaviors” is categorized under the heading of unethical firm/stakeholder behaviors in the stockholder governance model. “Cooperative behaviors” is categorized under the heading of ethical firm/stakeholder behaviors in the stakeholder governance model. When stakeholders withdraw their cooperation with the firm or show resistance (O'Higgins, 2001; Rowley, 1997) or when there is a friction between the firm and its stakeholders (Hill and Jones, 1992) or when agents are less dependent on co-determination with other stakeholders (Ertuna, 2005c; Rose and Mejer, 2003), the process of “non-cooperative behaviors” emerges in and around the firm. Terms such as friction, resistance, non-cooperation or conflicts between the firm and stakeholders or among the stakeholders are related with the process of “non-cooperative behaviors”. Dill (1975) is the first scholar who emphasized that there is a

potential for conflict between stakeholders and the firm. Frooman (1999) also supports this argument. He argues that potential for conflict makes stakeholder theory meaningful. According to Frooman, there would be no need for stakeholder theory if the firm and its stakeholders are in agreement. For example, there can be conflicts among the stockholders of the firms in terms of traditional proxy fights (Freeman and Reed, 1983). According to neoclassical economic theory, there will be always disputes between the parties about the transaction (Logsdon and Lewellyn, 2000). Stakeholder conflicts increased as the globalization gained strength. These conflicts among stakeholders made it more difficult for managers and boards to make decisions or develop strategies (Julius, 1997).

Conflict of interests between the firm and stakeholders or among the stakeholders is an indication of self-interest problem in the organization. When the interests of the company's inhabitants are ignored (Julius, 1997) or when there are divergent interests between the firm and its stakeholders (Buchholz, 2005), it is expected to cause conflicts among them (Frooman, 1999). MacMillan and Downing (1999) argue that there is a conflict between the interests of stakeholders and stockholders. For example, the size of the firm is related with the interests of managers (Amihud and Lev, 1981) When managers increase the size of the firms to serve their interests, which can be spent for the stakeholder claims, they also create a conflict in their relationships with the stakeholders (Hill and Jones, 1992). Based on these explanations, the premise of self-interest is the underlying reason for the process of "non-cooperative behaviors".

On the other hand, corporate governors may prefer the process of "cooperative behaviors" in the corporate governance system. When a firm moves with its stakeholders (Scholes and Clutterbuck, 1998) or when a firm forms

collaborative relationships with its stakeholders (MacMillan and Downing, 1999) or when employees contribute voluntarily to firm (Simon, 1991) or when there is a collective action between the managers and employees (Buchholz, 2005) or when there is an unity of action in the organization (Arthur, 1987) or when a firm honors its contracts, cooperates in joint efforts and delivers on time (Jones, 1995), the process of “cooperative behaviors” emerges in and around the firm. The process of “cooperative behaviors” can also be initiated at the level of individuals. For example, it has been found in the games that players tend to cooperate in repeated exchanges (Axelrod, 1990; Axelrod and Dion, 1984).

The premise of mutual-interests is the underlying principle for the process of “cooperative behaviors”. Thus, shared values may be the basis for the unity of action in the organization (Arthur, 1987). Collective action result from shared understandings (Buchholz, 2005). Forming mutual-interests may not be sufficient for the whole corporate governance system. For example, traditional stewardship theory is based on the assumption that the interests of managers and stockholders are expected to be reconciled because it is believed that this is the rational behavior (Davis, Schoorman, and Donaldson, 1997). In other words, this myopic view is based on the assumption that managers will cooperate with the stockholders because their interests converge but it does not cover the interests of non-stockholders. Therefore, traditional stewardship theory does not tell the whole story about the corporate governance system. Thus, the premise of mutual-interests is expected to be related with all the relevant stakeholders in order to initiate the process of “cooperative behaviors” in the corporate governance system. When only the interests of managers and stockholders are aligned but interests of other stakeholders are ignored, stockholder governance model will more likely prevail in the corporate governance

system. Thus, balancing the interests of all the stakeholders (Plender, 1998) is required for initiating the process of “cooperative behaviors”. As a result, the process of “cooperative behaviors” refers to the stakeholder governance model.

“Opportunistic Behaviors” vs. “Trust-Based Behaviors”

“Opportunistic behaviors” is a process, which is related with the stockholder governance model. “Trust-based behaviors” is a process, which is related with the stakeholder governance model. These two processes are in the opposite dimensions and form one variable together in the corporate governance model. “Opportunistic behaviors” is categorized under the heading of unethical firm/stakeholder behaviors in the stockholder governance model. “Trust-based behaviors” is categorized under the heading of ethical firm/stakeholder behaviors in the stakeholder governance model. The process of “opportunistic behaviors” first emerged as a result of managerial behaviors. Agency theory, which is first theory that tried to define the corporate governance system, emerged as a result of “opportunistic behaviors” by managers (Williamson, 1975; 1985). According to agency theory, managers divert funds for their own projects at the expense of the stockholders (Jensen and Meckling, 1976; Williamson, 1985). Agency theory claims that managers will take actions that are advantageous to themselves but detrimental to the stockholders (Tricker, 2000). Corporate scandals such as ImClone, Adelphia, Global Crossing in U.S. and Royal Ahold, Altran Technologies, Comroad, Elan in E.U. (Sama and Shoaf, 2005) are recent examples of “opportunistic behaviors” by managers. “Opportunistic behaviors” by managers is conducted against not only the stockholders but also non-

stockholders. For example, there is a potential for the “opportunistic behaviors” about the quality of products sold to customers by managers (Hill and Jones, 1992).

A firm, which is a legal entity, can also conduct opportunistic behavior *vis-à-vis* its stakeholders. A firm can conduct opportunistic behavior *vis-à-vis* the society by expropriating community’s asset specificity (Freeman and Evan, 1990; Jones, 1995) or *vis-à-vis* the consumers by charging high prices and diminishing the quality of a firm’s products (MacMillan and Downing, 1999) or *vis-à-vis* the suppliers by offering lower prices for the goods and services to these suppliers due to their asset specificity (Williamson, 1985). There are other “opportunistic behaviors” such as price fixing, insider trading, market manipulation, bribery, (Chang and Ha, 2001) corporate criminality, negligence, fraud (Nader, 1984) that are conducted by the firm *vis-à-vis* stakeholders. Other stakeholders also conduct “opportunistic behaviors” besides managers or firm. Therefore, the process of “opportunistic behaviors” is categorized under the heading of unethical firm/stakeholder behaviors. Agency theory and transaction cost economics theory are characterized by the threat of stakeholders’ “opportunistic behaviors” (Jones and Wicks, 1999). Free-riding, loafing, and moral hazard (Osterloh, Frey, and Frost, 2001) are examples to opportunistic behaviors by stakeholders. Misrepresenting quality of a product by supplier/s or being inclined to shirk by employee/s or holding-up on asset specificity by supplier/s or customer/s (Williamson, 1975) are examples to “opportunistic behaviors” by stakeholders. According to agency theory, humans are prone to “opportunistic behaviors” (Eisenhardt, 1989), which explains the reasons of these kind of behaviors by the stakeholders.

The definition of “opportunistic behaviors” is the self-interest seeking with guile (Williamson, 1975; 1985). The assumption of agency theory is that humans are

self-interested. Therefore, they are prone to opportunism (Eisenhardt, 1989). Based on the egoism assumption, it is believed that individuals can show “opportunistic behaviors” such as adverse selection, propensity to lie, cheat, steal and shirk (Shankman, 1999). Whenever self-interest dictates, people behave opportunistically (Frank, Gilovich, and Regan, 1993). Therefore, human greed and self-interest probably ensures these types of unethical organizational behaviors (Gay, 2002). For example, greater independence of boards from senior management arises to limit the opportunism and self-serving behaviors of the managers (Bird, 2001). As a result, the underlying assumption for the process of “opportunistic behaviors” is the premise of self-interest.

On the other hand, “trust-based behaviors” are believed to be antidote for the managerial “opportunistic behaviors” (Ring and Van De Ven, 1994). If a firm honors its contracts, cooperates in joint efforts, and delivers on time (Jones, 1995), “trust-based behaviors” are expected to emerge. According to Aristotle, trust can be seen in human relationships and society or community in general (Hosmer, 1995). The process of “trust-based behaviors” is important in the corporate governance system due to different reasons. According to Swift (2001), “trust-based behaviors” may transcend managerial opportunism. “Trust-based behaviors” are necessary to permit the stakeholders invest in relations that are firm specific. If employees cannot trust whether the resulting value they create will be rewarded or not, they will not invest in learning how to do job well. If there is a risk that the contracting firm may squeeze the profits of its supplier, this supplier cannot invest in specific new equipments (Plender, 1998). Besides, a firm’s competences such as long term collaborative relationships with key customers and suppliers cannot be built on “opportunistic behaviors” but rather it should be built on trust-based relationships (MacMillan and

Downing, 1999). Finally, “trust-based behaviors” is important for the firms because it creates competitive advantages such as organizational citizenship (Van Dyne, Graham, and Dienesch, 1994).

The underlying principle for the process of “trust-based behaviors” is mutual-interests. If mutual-interests cannot be formed between the firm and its stakeholders, it is probably impossible to develop trust-based relationships. For example, “opportunistic behaviors” can be controlled by shared norms (Jones and Wicks, 1999), which also refers to the principle of mutual-interests. On the other hand, the principle of public-interest can also be the underlying reason for the process of “trust-based behaviors”. There is a social control, which is related with the principle of public-interest, over clan organizations in Japan in order to reduce “opportunistic behaviors” (Ouchi and Jaeger, 1978). This type of social controls over the firms is not possible in self-interest dominated cultures such as Anglo-Saxon world. Besides, managers perceive the interests of the society as a mean rather than an end in self-interested cultures. In other words, mutual-interest is the relevant principle rather than public-interest principle in the Anglo-Saxon world (Clarkson, 1995). Since Anglo-Saxon business culture is exported to developing countries (Reed, 2002) such as Turkey, which is also confirmed by the results of our study, mutual-interests is also relevant principle for the Turkish business world. Therefore, it would not be wrong to argue that the premise of mutual-interests may also be the underlying reason for the process of “trust-based behaviors” in the industrial firms in Turkey.

“Unfair Behaviors” vs. “Fair Behaviors”

“Unfair behaviors” is a process, which is related with the stockholder perspective.

“Fair behaviors” is a process, which is related with the stakeholder perspective.

These two processes are in the opposite dimensions and form one variable together in the corporate governance model. “Unfair behaviors” is categorized under the heading of unethical firm/stakeholder behaviors in the stockholder governance model. “Fair behaviors” is categorized under the heading of ethical firm/stakeholder behaviors in the stakeholder governance model. Unequal distribution of burdens and benefits (Garcia-Marza, 2005) among the parties refers to the process of “unfair behaviors”. Making discrimination among the employees (Chang and Ha, 2001; Clarkson, 1995) or creating large wage discrepancies among the male and female employees, as in the case of Migros example in 1976, (Logsdon and Lewellyn, 2000) or creating wage gaps between new staff and tenured staff (Julius, 1997; Plender, 1997) or cutting wages during periods of high unemployment or raising the prices of goods due to excess demand (Kahneman, Knetsch, and Thaler, 1986) are some of the examples for the process of “unfair behaviors” (Akerlof, 1979; Solow, 1980) in the corporate governance system. When self-interest is dominant principle in the corporate governance system, the process of “unfair behaviors” emerges.

Creation and distribution of the firm’s wealth and value to all its primary stakeholder groups without favoring one group at the expense of others (Clarkson, 1995; Ertuna, 2005c) is the definition of “fair behaviors” of the firms to their stakeholders. For example, establishing personnel policies to take care of marginalized groups such as women, disabled etc (Reed, 2002) is an example to a

firm's "fair behaviors" regarding its employees. Sharing the wealth created with the employees (Blair, 1998) is another example to a firm's "fair behaviors" regarding its employees. The study of Kahneman, Knetsch, and Thaler (1986) showed that giving a lower wage to a replaced employee or decreasing the current wage of an employee in a new business is perceived as a fair behavior by the public. Besides, passing on the costs to the business partners is also perceived as a fair behavior in the study of Kahneman, Knetsch, and Thaler. When these examples are carefully examined, it will be seen that the principle of mutual-interests is closely related with the process of "fair behaviors". In other words, a firm needs to consider the interests of all the stakeholders in order to form fair relationships with its constituencies. Therefore, the process of "fair behaviors" refers to the stakeholder governance model.

"Unstable Relationships with Stakeholders" vs.

"Stable Relationships with Stakeholders"

"Unstable relationships with stakeholders" is a process, which is related with the stockholder governance model. "Stable relationships with stakeholders" is a process, which is related with the stakeholder governance model. These two processes are in the opposite dimensions of a scale and form one variable together in the corporate governance model. When a firm does not want to form stable relationships with its stakeholders due to different reasons, the process of "unstable relationships with stakeholders" emerges. The process of "unstable relationships with stakeholders" can be initiated by the firm. For example, when a firm modifies its contracts with the stakeholders (Bird, 2001) or lays-off its employees (Plender, 1998) or uses methods

such as takeovers, leverage buyouts, spinning-off, plant closings, downsizing, re-engineering, restructuring, asset-stripping, corporate reorganizations (Blair, 1998; Chang and Ha, 2001; Frank, 1988; Julius, 1997; Wheeler and Sillanpää, 1998) or keeps several suppliers on line competing for its business or changes its suppliers regularly or contracts out its work that is formerly done by its employees (Jones, 1995) or passes out its employees within the company in the favor of outside candidates for the job openings (Pfeffer, 1994) or concentrates on its core competencies and hives off its unrelated businesses (Reed, 2002), the process of “unstable relationships with stakeholders” is initiated by the firm in the corporate governance system.

Firms may prefer to form unstable relationships with their stakeholders when they have an efficiency or profit concern, which is parallel to the stockholder perspective. Short-run interests of the stockholders (i.e. shareholder value maximization) may be the underlying reason for the unstable relationships such as modifying contracts with stakeholders, laying-off workers, terminating product lines (Bird, 2001). Thus, the managers may give importance to the interests of the stockholders rather than the interests of all stakeholders because of the financial performance criteria in their stock option plans (Plender, 1998). Institutional investors or portfolio managers may also impose strong pressures over the managers to provide higher returns. This imposition by financial institutions may also lead to unstable relationships with the stakeholders (Blair, 1995). Similarly, firms may lay-off their employees (i.e. initiate unstable relationships with the employees) due to their concern for profitability (Ertuna, 2005c). The premise of self-interest is the underlying reason in all these examples. When the premise of self-interest exists, bonds cannot be rooted among individuals of an organization in an ongoing endeavor

(Buchholz, 2005). In other words, self-interest principle is closely related with the process of “unstable relationships with stakeholders”.

The process of “unstable relationships with stakeholders” is initiated not only by the firms but also by stakeholders of the firms. This instability may also occur as a result of stakeholders’ reaction to the firms. For example, high turnovers, low attendance (Bird, 2001) may occur when the employees are dissatisfied with the practices of the firm. Potential stakeholders may take their business elsewhere (Kahneman, Knetsch, and Thaler, 1986) in the case of firm’s unfair behaviors towards its current stakeholders. This instability may also occur as a result of market conditions. Job hoppings (Frank, 1988) may be very normal for the employees due to the market conditions, as in the case of Anglo-Saxon world. A similar argument is also true for the customers. When customers have a wide array of choice (Julius, 1997), they may shift from one firm to another due the market conditions. All these examples are also related with the process of “unstable relationships with stakeholders”, which is initiated by the stakeholders of the firm. Self-interest principle is also the underlying reason in these unstable relationships initiated by the stakeholders.

On the other hand, some of the firms or stakeholders may prefer to form stable relationships. Forming an ongoing relationship between stakeholders and the firm over stipulated periods of time (Bird, 2001) or developing strong relationships with the stakeholders over time (RSA, 1995) or permitting the stakeholders invest in relations that are firm specific (Conner, 1991; Kogut and Zander, 1992) or giving importance to a firm’s internal growth, which is a very slow process to take results, rather than acquisitions, which is a very fast process to take results, (Clarke, 1998a) or forming long-lasting relationships with the stakeholders (Aoki, 1990) or forming

bonds among individuals in an ongoing endeavor (Buchholz, 2005) or compensating and protecting employees from being laid-off at short notice, as in the case of Danish firms, (Rose and Mejer, 2003) are all related with the process of “stable relationships with stakeholders”. When a firm wants to form stable relationships with its employees, it may establish on-going and close relationships with them (Penrose, 1959) or it may make firm-specific investments in human capital (Plender, 1998) or it may invest in employee training (Collins and Porras, 2002) or it may hire at the entry level and promote within (Pfeffer, 1994). Hence, there will be low levels of labor turnover (Blair, 1998; Post, Preston, and Sachs, 2002b). According to the Financial Times/Pricewaterhouse Coopers global survey of CEOs, the most worrying issue that companies face today is the recruitment and retention of staff (O’Higgins, 2001). Greer and Ireland (1992) have found that there is a positive correlation between hiring employees in the economic downturns and long-term financial performance. James Collins and Jerry Porras (2002) examined 18 U.S. based companies, which invested extensively in stable relationships with their employees in terms of employee training and knowledge transfer. Collins and Porras found that these 18 companies outperformed the stock market 15 times. Besides, a firm is expected to incur additional costs in terms of efficiency when the employees with asset specificity leave the firm (Williamson, 1985). Based on these arguments and findings, it would not be wrong to argue that there is a need to form stable relationships with the employees.

A firm is expected to form stable relationships not only with its employees but also with other stakeholders because there is a dynamic balance among the interests of stakeholders in order to form long-term interdependent relationships with them (Caldwell and Karri, 2005). Long term relationships with a relatively small

number of suppliers or stable corporate ownership (Jones, 1995) are examples to the process of stable relationships with the other stakeholders. If stockholders believe to the premise of public-interest, as in the case of Japan (Clarke, 1998a) or Denmark (Rose and Mejer, 2003), rather than self-interest, as in the case of Anglo-Saxon world (Jensen, 1994), then forming stable relationships with the stakeholders may be easily achieved in the corporate governance system. According to Monks and Minnow (2004), long term stockholders may allow the interests of the stakeholders to be factored in. Repeated exchanges among the players in the games (Axelrod, 1990) also showed that mutual-interests can be developed among players, which also supports the premise of mutual-interests at the level of individual. Therefore, the process of “stable relationships with stakeholders” is also related with the mutual-interests principle.

“Haphazard Communication” vs. “Systematic Communication”

“Haphazard communication” is a process, which is related with the stockholder governance perspective. “Systematic communication” is a process, which is related with the stakeholder perspective. These two processes are in the opposite dimensions and form one variable together in the corporate governance model. Getting feedback from stakeholders consistently (Post, Preston, and Sachs, 2002b) or systematic disclosure of social information (Clarke, 1998a) are definitions for the process of “systematic communication”. A firm may give importance to the process of “active communication”. But if this “active communication” is not conducted systematically, firm’s relationships with its stakeholders (Wheeler and Sillanpää, 1998) may be

strained because the needs and expectations of stakeholders constantly change. If a firm gives importance to the stakeholder perspective, it is expected to form mutual-interests among them. Since the needs or expectations of the stakeholders constantly changes over time, a “systematic communication” with the stakeholders is expected to help a firm to learn these changes and respond to them. Thus, the process of active communication is not sufficient when it is conducted haphazardly with the stakeholders of the firm. If a firm gives importance to the stockholder perspective, it is expected to ignore the interests of the stakeholders, especially non-stockholders. Hence, it is more likely that it will conduct “haphazard communication” with its stakeholders. Therefore, the process of “haphazard communication” is related with the premise of self-interest. On the other hand, the process of “systematic communication” is related with the principle of mutual-interests.

“Dyadic Relationships/Hierarchy” vs. “Network Relationships”

“Dyadic relationships/hierarchy” is a process, which is related with the stockholder governance model. “Network relationships” is a process, which is related with the stakeholder governance model. These two processes are in the opposite dimensions of a scale and form one variable together in the corporate governance model. The bilateral relationships or contracts between the firm and its stakeholders refer to the process of “dyadic relationships/hierarchy” (Freeman, 1984; Hill and Jones, 1992). Multilateral relationships or contracts among the firm and stakeholders refer to the process of “network relationships” (Freeman and Evan, 1990). When corporate governors believe that stakeholders are discrete and unconnected, they may form

bilateral or dyadic relationships with them. The bilateral relationships give some advantages to the management of the firm. For example, betweenness centrality refers to the firm's ability to control the flow of information. A firm may prevent or bias communications across the network by forming dyadic relationships with its stakeholders (Rowley, 1997). Another example can be given for the relationship between the firm and its employees. The division of labor, first emphasized by Adam Smith, mechanization and top down control of organization, first practiced by Henry Ford (Wheeler and Sillanpää, 1998) all refer to the hierarchy between the managers and the employees. These are specialized forms of dyadic relationships between the firm and employees. As a result, bureaucratic mechanisms (Pfeffer and Salancik, 2003) between managers and employees refer to the process of "dyadic relationships/hierarchy". In sum, not letting horizontal, bottom-up and top-down information flows among the members of the same stakeholder group (e.g. among employees) is related with the process of "dyadic relationships/hierarchy".

If companies do something wrong, this information spreads very quickly to the society in today's business world. If people do not like the action of a company, it can find itself in public relations nightmare that can threaten its existence. Shell and Nike are good examples to this reality (O'Higgins, 2001). Since the cost of communication has dropped dramatically due to the vast use of internet (Julius, 1997; Sama and Shoaf, 2005), the ease of communication among stakeholders (Logsdon and Lewellyn, 2000; Wheeler and Sillanpää, 1998) makes companies more visible. Any bad or good news about the members of a stakeholder group quickly spreads to other stakeholder groups. Thus, these multiple and interdependent interactions among the network of stakeholders constitutes the firm (Bird, 2001; Caldwell and Karri, 2005; Frooman, 1999; Hendry, 2001; Mitchell, Agle and Wood,

1997; Rowley, 1997). This phenomenon is called as the “network relationships”. Thus, management scholars and managers recognize that there are complex interactions and network effects between the firm and its stakeholders (Post, Preston, and Sachs, 2002b). Managing stakeholders as if they are discrete and unconnected is not a viable strategy any longer (Gay, 2002). Therefore, finding ways or strategies to manage the communication across stakeholder groups is the most important issue (Scholes and Clutterbuck, 1998) in today’s business world.

Using the process of “network relationships” to manage the communication among the employees of the firm is relatively easy when compared with other stakeholders. For example, letting employees share their knowledge and ideas (Kay and Silberston, 1995; Kennedy, 1998) via top-down, bottom-up (Liedtka, 1998a) and horizontal information flows or letting employees form close and ongoing interactions (Penrose, 1959) or allowing the employees challenge rules and norms and invent new ways of working (Wheeler and Sillanpää, 1998) via decentralization in the organization (Pfeffer and Salancik, 2003) are related with the process of “network relationships” among employees. Since any information about a firm can easily be conveyed to world via the internet (O’Higgins, 2001), “network relationships” take place not only among employees but also among other stakeholders. For example, customers are more aware of the new possibilities and alternative products by the help of increased communication technologies such as internet, media, etc. (Scholes and Clutterbuck, 1998). Sometimes information flows among the stakeholders of a firm is initiated by an influencer (Freeman and Reed, 1983) or an NGO. These institutional structures (Hill and Jones, 1992) play the role of catalyst among the stakeholders of the firm. The initiation of information flows about the unethical behaviors of StarKist Company by Earth Institute Island

(Frooman, 1999) is a good example to the formation of “network relationships” among the consumers of a firm by the help of an NGO. When pressure groups (NGOs) protest the unethical behaviors of a firm (e.g. Royal Dutch/Shell Group’s using deep-sea disposal for an oil drilling platform) (Julius, 1997), they also initiate the flow of information about the relevant firm’s behaviors (i.e. “network relationships”). In sum, the process of “network relationships” emerged as a result of development in communication technologies and NGOs, which eased the information flows among the stakeholder groups.

A firm may prefer to use the process of “dyadic relationships/hierarchy” to manage information flows in a manner that its actions either go unnoticed or these actions are presented in a self-serving fashion. But stakeholders may initiate “network relationships” among themselves by producing shared behavioral expectations, forming unified force against the firm, and coordinating their efforts to monitor and punish the focal firm via their efficient communication structures (Rowley, 1997). Therefore, stakeholders are capable of forming an ally among themselves and withholding the flow of resources to the firm when there is a conflict of interests between the firm and its stakeholders (Frooman, 1999). On the other hand, a firm may form mutual-interests among its stakeholders to initiate the process of “network relationships” such as empowerment or decentralization (Buchholz, 2005). If management does not put interests of the firm’s stockholders first, it can create a business culture in which knowledge can be shared within the organization (Kay and Silberston, 1995). “Network relationships” among the stakeholders as in the case of clan organizations in Japan (Ouchi and Jaeger, 1978; Plender, 1998) or as in the case of internal channels formed in the German companies (OECD, 1996) is implicitly related with the principle of public-interest. Based on these explanations,

self-interest principle is the underlying reason for the process of “dyadic relationships/hierarchy”. On the other hand, principles of mutual-interest or public-interest are the underlying reason for the process of “network relationships”.

“Low Organizational Commitment” vs. “High Organizational Commitment”

“Low organizational commitment” is a business result, which is related with the stockholder governance model. “High organizational commitment” is a business result, which is related with the stakeholder governance model. These two business results are in the opposite dimensions of a scale and form one variable together in the corporate governance model. When firms acquire and/or spin off their subsidiaries or divisions they cannot expect commitment from their stakeholders (Jones, 1995).

“Low organizational commitment” leads to high turnovers and low attendance (Bird, 2001). Therefore, “low organizational commitment” is not a desired business result in the organizations.

One of the key outcomes of a firm is organizational commitment (Scholes and Clutterbuck, 1998). Loyalty of stakeholders (MacMillan and Downing, 1999) and stakeholders’ commitment to the mutual-welfare of the organization (Logsdon and Lewellyn, 2000) or to the goals of the firm (Arthur, 1987) refer to the “high organizational commitment”. Competitive advantage can be defined as a firm’s way of doing things that are difficult to copy by other firms (Hamel and Prahalad, 1996; Nahapiet and Ghoshal, 1998). Organizational commitment of stakeholders is the part of competitive advantage (Plender, 1998). Therefore, “high organizational commitment” is a desired business result in the organizations. “High organizational

commitment” can be achieved by letting internal and external stakeholders participate to the strategy process (O’Shannassy, 2001) or by not putting the interests of the stockholders first (Kay and Silberston, 1995) or by setting a clear long term vision for the stakeholders (Wheeler and Sillanpää, 1998).

“Cynicism” vs. “Goodwill”

“Cynicism” is a business result, which is related with the stockholder governance model. “Goodwill” is a business result, which is related with the stakeholder governance model. These two business results are in the opposite dimensions and form one variable together in the corporate governance model. “Cynicism” is the most harmful business result that sets in the organization. When employees believe that management does not mirror the corporate values that it proclaims, “cynicism” emerges (Arthur, 1987). It has been found that “cynicism”, which is related with self-interest, inhibits cooperation or induces opportunistic behaviors (Frank, Gilovich, and Regan, 1993). Cynics will not allow themselves to form relationships based on shared values (Van Dyne, Graham and Dienesch, 1994) or mutual-interests. In other words, the premise of self-interest is the underlying reason for the “cynicism”.

On the other hand, “goodwill” is a business result which is in the opposite dimension. The importance of “goodwill” for the organizations is emphasized by MacMillan and Downing (1999) in their article named as ‘Governance and Performance: Goodwill Hunting’. According to these scholars, the process of “trust-based relationships” is expected to make stakeholders feel that they are getting a good deal from the firm. As a result, these stakeholders will assist the firm and

acquiesce voluntarily to the firm wishes. These kinds of stakeholder feelings are expected to lead to “goodwill” about the firm. Kant believed that trust is based on “goodwill” (Friedrich, 1949). Therefore, he advocated that stakeholders should be treated as ends rather than means. Besides, giving importance to the notion of fairness will produce a good reputation for a firm in terms of “goodwill” among their customers and high morale among their employees (Akerlof, 1980; 1982). If board members promote the interests of stockholders exclusively, this can give harm to overall organizational assets such as “goodwill” with the stakeholders (Bird, 2001). In other words, promoting the interests of non-stockholders is also important to generate “goodwill” in the organization. Therefore, the premise of mutual-interests is the underlying reason for the “goodwill” as a business outcome.

“Low Organizational Citizenship” vs. “High Organizational Citizenship”

“Low organizational citizenship” is a business result, which is related with the stockholder governance model. “High organizational citizenship” is a business result, which is related with the stakeholder governance model. These two business results are in the opposite dimensions of a scale and form one variable together in the corporate governance model. If an employee identifies himself or herself with the firm, this phenomenon is named as organizational citizenship (Osterloh, Frey, and Frost, 2001). Allegiance to the company (Arthur, 1987) also refers to the organizational citizenship. According to Simon (1991), identification with the firm allows individuals to contribute voluntarily to the intangible goals of the firm. If stakeholders do not have allegiance to the firm, there is “low organizational

citizenship”. Since competitive advantage is defined as a firm’s way of doing things that is difficult to copy by other firms (Hamel and Prahalad, 1996; Nahapiet and Ghoshal, 1998), creating “high organizational citizenship” is expected to create competitive advantage for the firms because this business result is an intangible asset that is difficult copy by other firms. “High organizational citizenship” can be created by considering the interests of non-stockholders as in the case of giving voting rights to unions (Huse, 2003). If a firm desires to form “high organizational citizenship” with its stakeholders, it must give importance to the interests of its stakeholders as in the case of Shell Corporation (Mirvis, 2000). As a result, mutual-interests principle is the underlying reason for the “high organizational citizenship”. On the other hand, self-interest is underlying reason for the “low organizational citizenship”. Besides, public-interest principle can also be reason for the “high organizational citizenship”. For example, there is a close link between the CSR and corporate citizenship (Warhurst, 2001). Since the premise of public-interest is the underlying principle in the process of CSR, it would not be wrong to argue that “high organizational citizenship” is also related with the principle of public-interest.

“No Innovation Concern” vs. “Innovation Concern”

“No innovation concern” is a business result, which is related with the stockholder governance model. “Innovation concern” is a business result, which is related with the stakeholder governance model. These two business results are in the opposite dimensions of a scale and form one variable together in the corporate governance model. Achieving continuous improvements in product quality (Oakland and Porter,

1996) or finding new ways to innovate (Blair, 1998) are some of the definitions for the innovation. Rose and Mejer (2003) emphasized the importance of innovation in corporate governance system. Having a new product or a technology does mean that a firm has an “innovation concern”. Firms need to shift from product or technology centric view of innovation to a systematic or holistic view of innovation that considers the entire business model (Hamel, 1998). In other words, a firm may become a leader in its industry by introducing a new product or technology but if the same firm does not come up with new products or technologies constantly, it means that it has “no innovation concern”. Therefore, “innovation concern” is a business result that refers to dynamic view rather than a static one.

When a firm has an “innovation concern”, it is expected to use the processes in stakeholder governance model. For example, letting employees engage in firm-specific investments (Rose and Mejer, 2003) or forming trust-based relationships with the stakeholders (MacMillan and Downing, 1999) or sharing the wealth created with the employees and devoting resources to the employees’ ideas (Blair, 1998; Ertuna, 2005c) or empowering employees and using horizontal organizational structure among the suppliers, which refers to the process of network relationships among stakeholders as in the case of Toyota (Fane et. al., 2003) or Siemens Nixdorf corporation (Kennedy, 1998) are some of the processes in stakeholder governance model that refer to the “innovation concern” as a business result. In other words, forming processes such as active communication, stable relationships, stakeholder participation, network relationships, trust-based relationships, and fair behaviors with the stakeholders lead to the business outcome of “innovation concern”. In order to produce these processes, a firm needs to create a belief system that contains the principles (e.g. mutual-interests or mutual-trust or long-term perspective) of

stakeholder governance model. In sum, all the principles and processes in stakeholder governance model constantly creates innovation. There are constraints, as in the case of self-interest dominated cultures, for the firms to implement all the principles and processes of the stakeholder governance model. Therefore, it is not easy for the corporate governors to create corporate governance system that lets their firms generate innovation constantly. This is the most important challenge that awaits firms that operate in the self-interest dominated cultures on the edge of the twenty-first century.

“Bad Reputation” vs. “Good Reputation”

“Bad reputation” is a business result, which is related with the stockholder governance model. “Good reputation” is a business result, which is related with the stakeholder governance model. These two business results are in the opposite dimensions of a scale and form one variable together in the corporate governance model. When a firm exposes itself to a loss of credibility by its stakeholders (Scholes and Clutterbuck, 1998), “bad reputation” emerges as a business outcome in the corporate governance system. Principles, process, and results in stockholder governance model are expected to produce a “bad reputation”, which is also a competitive disadvantage for firms. For example, society expects firms to be transparent. If firms do not supply the required information to their stakeholders, they are expected to lose their corporate reputation (Logsdon and Lewellyn, 2000). In other words, “bad reputation” may emerge as a business result due the firms’ insistence on creating asymmetric information or asymmetric power *vis-à-vis* their

stakeholders. Firms may prefer to believe to the principle of asymmetric information, which is related with stockholder governance model, and hide information from their stakeholders but the truth will sooner or latter will be learned by them. When this happens “bad reputation” is expected to emerge as a business result. When firms form unstable relationships with their stakeholders via takeovers, spin-offs, corporate reorganizations, downsizing, and restructuring, they may have a “bad reputation” as in the case of U.S. firms (Blair, 1998). Haphazard communication, which is a process in the stockholder governance model, with the stakeholders can also strain the firm’s relationships with the stakeholders and de-stabilize its reputation (Wheeler and Sillanpää, 1998). Therefore, a systematic communication with the stakeholders contributes to the reputation of the firms because communication with the stakeholders is a continuous and dynamic process. Based on these explanations about the emergence of “bad reputation”, this business outcome emerges as a result of principles, processes and business results in the stockholder governance model. “Bad reputation” may emerge not only as a result of principles, processes, and other business results. “Bad reputation” may also be a reason for the emergence of principles, processes, and other business results in the stockholder governance model. For example, firms may lose their potential business partners, which define the unstable relationships in the stockholder governance model, due to their “bad reputation”. When a firm has a “bad reputation” for its unfair behaviors, it may induce potential stakeholders to take their business elsewhere due to their distrust (Kahneman, Knetsch, and Thaler, 1986). Distrust is closely related with the main assumption of stockholder governance model, viz. self-interest principle. In sum, “bad reputation” is closely related with the premise of self-interest and stockholder governance model.

On the other hand, firms may prefer to generate “good reputation” as a business result. The importance of generating a “good reputation” is emphasized by some scholars (Hill, 1990; Hosmer, 1995). When a firm wins broad public acceptance in a complex business environment (Plender, 1998), “good reputation” emerges as a business result. A “good reputation” is a business result that emerges as a result of principles, processes and other business results in the stakeholder governance model. When a firm forms trust-based behaviors with their stakeholders, it is expected to gain a “good reputation” (Frank, 1988; Hill, 1990; Hosmer, 1995). Similarly understanding the importance of transparency and forming active communication with the stakeholders (Logsdon and Lewellyn, 2000; Scholes and Clutterbuck, 1998) or giving importance to the notion of fairness (Akerlof, 1980; 1982) are some principles and processes that help firms to achieve “good reputation” in the eye of their stakeholders.

A “good reputation” may emerge not only as a result of principles, processes, and other business results. “Good reputation” may also be a reason for the emergence of principles, processes, and other business results in the stakeholder governance model. A “good reputation”, which emerges when stakeholders have a positive opinion about the firm, is very important for the firms because it can act as a buffer when things go wrong (Scholes and Clutterbuck, 1998). When the turbulent environment around the industrial firms in Turkey is considered, a “good reputation” makes more sense for these firms because they may immunize themselves to economic crises or shocks by having a “good reputation”. A “good reputation” may also aid to the customer loyalty and foster the feeling of trust between a firm and its stakeholders (Bird, 2001). In other words, “good reputation” may lead to organizational commitment as a business outcome and mutual-trust as a principle in

the stakeholder governance model. Not only the firm's "good reputation" but also stakeholders' "good reputation" also affects the corporate governance system. For example, if suppliers have a "good reputation" then there would be no need for a firm to engage in costly process of monitoring (Poppo and Zenger, 1995). A similar argument is also true for the firms. For example, when organizations build "good reputation" they also reduce the costs of social controls (Hill, 1990). In sum, a "good reputation" leads to efficiency as a business result in the stakeholder governance model.

Finally, a "good reputation" is based on the premise of mutual-interests because a firm which operates by considering the interests of its stakeholders has a better chance of winning broad public acceptance in a complex business environment (Plender, 1998). For example, Financial Times conducted interviews with the CEOs of the Europe's most respected companies. Most of these CEOs said that one of the marks of a good company was its ability to form mutual-interests among their stakeholders (e.g. customers, employees, stockholders, and the community). The MORI Captains of Industry Survey conducted in 1997 found similar results (Scholes and Clutterbuck, 1998). Therefore, mutual-interests principle is an underlying reason for the "good reputation" as a business result in the stakeholder governance model.

"Efficiency Concern" vs. "No Efficiency Concern"

"Efficiency concern" is a business result, which is related with the stockholder perspective. "No efficiency concern" is a business result, which is related with the stakeholder perspective. These two business results are in the opposite dimensions

and form one variable together in the corporate governance model. The common emphasis of agency theory and transaction cost economics theory is the efficiency concept. According to these theories, the main reason that the stakeholders form relationships with the managers is to achieve organizational tasks as efficiently as possible (Donaldson and Preston, 1995). Efficiency is the business result that is advocated by Adam Smith, Taylor and Henry Fayol (Wheeler and Sillanpää, 1998). Reducing the costs of social controls by an organization (Hill, 1990) or avoiding the costs related with their conflicts with their stakeholders (Post, Preston, and Sachs, 2002b) or having cost cutting concerns of the western thinking (MacMillan and Downing, 1999) are some of the definitions for the efficiency. Thus, “efficiency concern” as a business result is closely related with principles and processes of the stockholder governance model. When corporate governors want short-term profit maximization, they also have an “efficiency concern” (Ertuna, 2005c). When the firm is viewed as a bundle of assets due to private control of property, the directors are only obligated to maximize the stockholders’ returns. It is believed that this view about firms will lead to efficient use of resources (Plender, 1998). Therefore, “efficiency concern” is a business result that is closely related with the stockholder governance model. But upholding stockholder interests may run counter to the efficient functioning of the firm (Shankman, 1999).

Corporate governors may have an “efficiency concern” or desire this business result but they can encounter just the opposite business result in the stockholder governance model. For example, a firm is expected to incur additional costs or inefficiency when the employees with specialized skills leave the firm (Williamson, 1985). In other words, when employees have an asset specificity due their specialized skills, asymmetric power vis-à-vis managers emerge on the advantage of employees

because the firm needs their specialized skills in the firm. If these employees with asset specificity prefer to leave the firm or form unstable relationships, inefficiency in terms of additional costs will emerge. These kinds of results are more likely in the implementation of stockholder governance model in the firm. When the underlying principle is self-interest in the minds of corporate governors, it is more likely that firm will incur inefficiency as a business result. This relationship between self-interest and inefficiency refers to the concept of self-fulfilling prophecy (Senge, 1990) in the stockholder governance model. For example, believing to the premise of self-interest leads to inefficiency because of control mechanisms developed for the stakeholders (Pfeffer, 1994), as in the case of expensive control mechanisms developed by the principals to verify what the agents are doing (Eisenhardt, 1989). Similarly, forming unstable relationships with the stakeholders via plant closings, job hoppings, takeovers and leverage buyouts is expected to be inefficient because these kinds of relationships signal self-interest (Jones, 1995). Thus, believing to the distrust principle, which is in the stockholder governance model, about the agents may lead to the inefficiency in terms of allocation of resources because of monitoring costs (Shankman, 1999; Williamson, 1975). Based on these explanations, the premise of self-interest is the underlying reason for the “efficiency concern”. It is also found in the studies of Pruitt and Kimmel (1977) that self-interest in the short-term is the main reason for the inefficiency at the level of individuals.

On the other hand, corporate governors may prefer to implement most of the principles and processes in stakeholder governance model. Thus, corporate governors may prefer to have “no efficiency concern” because they will give importance to the interests of stakeholders rather than only stockholders. For example, proponents of resource-based theory argued that asset interdependency (i.e. resource

interdependence) is expected to lead to lower costs or efficiency within the firm (Conner, 1991; Kogut and Zander, 1992). The corporate governors have “no efficiency concern” when they believe to the resource interdependence with their stakeholders but this belief may lead to efficiency as advocated by resource-based theorists. For example, efficiency may be the result of altruistic behaviors such as cooperative or trust-based behaviors (Jones, 1995) because there will be no monitoring or transaction costs. But corporate governors have “no efficiency concern” when they initiate these kind of relationships with the stakeholders of the firm. In other words, believing to the principles, especially to the premise of mutual-interests, of stakeholder governance model is expected to initiate altruistic behaviors in the corporate governance system. Hence, efficiency may emerge as a business result in the corporate governance system. Besides, corporate governors are expected to have “no efficiency concern” if they have concern for their stakeholders (e.g. environment or customers). For example, the premise of atomistic individualism or self-interest, which is advocated by most of the scholars in economics, in the marketplace is expected to bring efficiency. But this “efficiency concern” leads to the corporate social irresponsibility such as pollution and unsafe work places (Buchholz, 2005). When the corporate governors believe to premise of self-interest, they may achieve efficiency by creating externalities in the environment. A similar argument is also made by some of the corporate governors in our study. They stated that a firm should have “no efficiency concern” in terms of not creating externalities to the environment or producing and selling unqualified products to the customers. Unfortunately, only a few corporate governors in our study state that a firm should have “no efficiency concern” for their employees. Thus, most of the corporate governors perceive their employees as a cost factor. This misperception is closely

related with the stockholder governance model. But employees are the most strategic stakeholders of firms because employees' intellectual capital is the key factor for the competitive advantages on the edge of the twenty-first century. Thus, corporate governors should start to change their belief systems related with the premise of self-interest. In other words, corporate governors should try to align their interests (i.e. mutual-interests) with their employees via sharing the wealth created by their firms fairly (Ertuna, 200c). Therefore, "no efficiency concern" is a business result that is closely related with the premise of mutual-interests and/or public-interest. Firms that operate in the Anglo-Saxon cultures or in the countries that import the Anglo-Saxon style corporate governance system may produce this business result by constituting their corporate governance system based on the mutual-interests principle. Firms that operate in Japan or Germany may produce this business result by constituting their corporate governance system based on the public-interest or mutual-interest principle.

"Stakeholder Dissatisfaction" vs. "Stakeholder Satisfaction"

"Stakeholder dissatisfaction" is a business result, which is related with the stockholder governance model. "Stakeholder satisfaction" is a business result, which is related with the stakeholder governance model. These two business results are in the opposite dimensions and form one variable together in the corporate governance model. "Stakeholder dissatisfaction" may occur when the managers of the firms give importance to the interests of the stockholders rather than the interests of the stakeholders because of the financial performance criteria in their stock option plans.

Managers are not given long term incentives for “stakeholder satisfaction” such as customer satisfaction, sound environmental standards or decent human resource management (Plender, 1998). Therefore, “stakeholder dissatisfaction” emerges as a business result because of overemphasizing the interests of stockholders over non-stockholders. In other words, the premise of self-interest, which is also main assumption in stockholder governance model, is the underlying reason for the “stakeholder dissatisfaction”.

The definition of corporate governance is about meeting the needs of stakeholders (Arthur, 1987), which refers to the “stakeholder satisfaction” as a business outcome. “Stakeholder satisfaction” can be defined as satisfying all the stakeholder interests (Garcia-Marza, 2005). There are specific examples to the “stakeholder satisfaction”. For example, high morale among the employees (Akerlof, 1980; 1982) is the definition of the employee satisfaction. Customer satisfaction or sound environmental standards are other examples to the specific forms of “stakeholder satisfaction”. “Stakeholder satisfaction” such as customer satisfaction and staff morale is shown as a major driver for a firm’s long-term economic value (Logsdon and Lewellyn, 2000; Vinten, 2001). Therefore, Clarkson (1995) proposed to survey representatives of primary stakeholder groups in order to form “stakeholder satisfaction” ratings. According to Clarkson, these “stakeholder satisfaction” ratings should be correlated with the long-term financial performance of corporations.

“Stakeholder satisfaction” can be achieved via different methods. For example, defining and solving the issues related with each relevant stakeholder group (Clarkson, 1995) or forming ethics codes, ethic committees, and ethics auditing (Garcia-Marza, 2005) are expected to satisfy the stakeholders of the firm. Corporate belief system and the way the corporation operates are also expected to satisfy the

needs of the stakeholders (Arthur, 1987). In other words, principles and processes in the corporate governance system is expected to bring “stakeholder satisfaction”. This is true when most of the principles and processes are based on the stakeholder governance model. For example, CSR is expected to create positive externalities such as employee satisfaction (Michael, 2003). Likewise, giving importance to the notion of fairness is expected to produce high morale among the employees of a firm (Akerlof, 1980; 1982). In sum, meeting the needs of the stakeholders is expected to bring “stakeholder satisfaction”. In other words, “stakeholder satisfaction” is a business result which is closely related with the premise of mutual-interests. Therefore, “stakeholder satisfaction” is a business result, which refers to the stakeholder governance model based on the premise of mutual-interests.

“No Experience” vs. “Experience”

“No Experience” is a business result, which is related with the stockholder governance model. “Experience” is a business result, which is related with the stakeholder governance model. These two business results are in the opposite dimensions of a scale and form one variable together in the corporate governance model. “Experience” is a business result that refers to the skill levels of the employees (Pfeffer, 1994) or accumulation of valuable firm-specific skills (Blair, 1998) or human capital (Rose and Mejer, 2003) or tacit resources held by the employees (Ertuna, 2005c; O’Higgins, 2001) or individual learning and development (Wheeler and Sillanpää, 1998) or generation of explicit and implicit knowledge in the organization (Osterloh and Frey, 2000). Since “experience” cannot be transferred

to someone else within or outside the firm due to being specific to the firm, it is the prerequisite of the competitive advantage despite the rival firms' efforts to copy a firm's success (Pitelis and Wahl, 1998). "Experience" is a very important business result because employees can blast the whole company with their ideas (Kennedy, 1998).

On the other hand, promoting only the interests of stockholders may give harm to overall organizational assets such as the skill levels of employees (Bird, 2001). When self-interest is the underlying assumption in the corporate governance system, "no experience" is expected to be generated in the organization. Therefore, the premise of mutual-interests is the underlying reason for the emergence of "experience" as a business result. "Experience" does not emerge only as a result of mutual-interests principle. For example, promoting employees within the firm, which is one of the definitions of the stable relationships with the stakeholders in the stakeholder governance process, is expected to encourage skill development (Pfeffer, 1994). Using the available human resources such as skill and "experience" is associated with employee participation (Heller, 2003), which refers the process of "stakeholder participation" in the stakeholder governance model. Hence, principles and processes in stakeholder governance model are the reasons for the emergence of "experience" as a business result. But only some of these principles and processes are given in order to explicate the emergence of "experience" as a business result.

“Entropy” vs. “Firm Existence”

“Entropy” is a business result, which is related with the stockholder governance perspective. “Firm existence” is a business result, which is related with the stakeholder perspective. These two business results are in the opposite dimensions and form one variable together in the corporate governance model. When a firm heads for fall (O’Higgins, 2001), there is an “entropy” as a business outcome. Corporate governance also gained public attention because of the failure of the firms (i.e. “entropy”) as in the case of U.K. companies such as Polly Peck, Mirror Group and BCCI (MacMillan and Downing, 1999). There are different reasons for the emergence of “entropy” as a business result. Variables related with the principles and processes in the stockholder governance model are expected to lead to “entropy”. For example, opportunistic behaviors (North, 1981) or society’s influence over the firms via holding its resources (Sama and Shoaf, 2005) or passive communication with the stakeholders (Post, Preston, and Sachs, 2002b) are some of the reasons for the emergence of “entropy” as a business result in the corporate governance system. The most important reason for the emergence of “entropy” is the premise of self-interest. For example, permanently failing organizations (i.e. “entropy”) are ones that the interests of a particular stakeholder group are overly favored over the other stakeholder groups (Meyer and Zucker, 1989). When the interests of the stakeholders are ignored (Garcia-Marza, 2005), it is more likely that “entropy” will emerge as a business outcome. “Short-term profit/shareholder value maximization”, which is a main principle and closely related with the premise of self-interest in the stockholder governance model, is another important reason for the emergence of “entropy” as a

business result. For example, “short term profit/shareholder value maximization” is ultimately self defeating for the firms (Clarke, 1998a). A study conducted in U.K. showed that 11 firms which are shown by the Management Today as the most profitable firms failed in the long term (Doyle, 1994). The responsibility of the directors was to increase the stockholder value during the 1980s in U.S. and U.K. But this profit orientation led to the bankruptcies (i.e. “entropy”) in the world (Tricker, 2000).

On the other hand, continued survival of the business is the desirable business result for a firm because it has to maintain its contracts with its stakeholders (Handy, 1993). In other words, “firm existence” is an important business result for the firms. Survival and success of an organization (Post, Preston, and Sachs, 2002b) or staying in business (Julius, 1997) refers to the “firm existence” as a business result.

Principles, processes, and results in the stakeholder governance model are expected to lead to the “firm existence” as a business result. For example, long-term profit maximization (Julius, 1997) or active communication with the stakeholder groups (Bird, 2001) or network relationships (Post, Preston, and Sachs, 2002b) or experience (Pitelis and Wahl, 1998) are given as the reasons for the “firm existence”. The premise of mutual-interests, which is the underlying assumption in the stakeholder governance model, is the most important reason for the “firm existence” as a business outcome. In other words, “firm existence” may be achieved by giving importance to the interests of stakeholders (Clarke, 1998a; Donaldson, 1999; Werhane and Freeman, 1999). For example, the meaning of “firm existence” is hidden in the meaning of the term stakeholder. Stanford Research Institute defined stakeholders as the groups without whose support the organization would cease to exist (Donaldson and Preston, 1995). This definition also supports the view that the

principle of mutual-interests is the underlying premise for the “firm existence” as a business result. It also supports the view that it is closely related with the stakeholder governance model.

“Extrinsic Motivation” vs. “Intrinsic Motivation”

“Extrinsic motivation” is a business result, which is related with the stockholder governance model. “Intrinsic motivation” is a business result, which is related with the stakeholder governance model. These two business results are in the opposite dimensions of a scale and form one variable together in the corporate governance model. Scholars such as Abraham Maslow, Frederick Herzberg and Douglas McGregor emphasized the importance of human needs and motivation in their studies (Crainer, 1998). These needs may be tangible rewards that refer to extrinsic motivation and intangible rewards that refer to the intrinsic motivation. “Extrinsic motivation” works through monetary compensation or pay for performance (Osterloh, Frey, and Frost, 2001). According to Jensen (1994), “extrinsic motivation” works for the rational self-interested human-beings. On the other hand, economic gains do not always create motivation for the human-beings (Simon, 1993).

“Intrinsic motivation” works through intangible rewards (Osterloh, Frey, and Frost, 2001). When a principal acknowledges his or her employees’ “intrinsic motivation” as part of a psychological contract, the “intrinsic motivation” is induced. Principal must convey this message to the employees (Rousseau, 1995). Variables related with the principles, processes and results in the stakeholder governance model are expected to create “intrinsic motivation” for the employees. For example,

loyalty to the organization (Simon, 1993) or stable and trust-based relationships (Blair, 1998) or active communication (Frey and Bohnet, 1995) or employee participation (Simon, 1991) is expected to generate “intrinsic motivation” for the employees. Thus, the principle of mutual-interests is implicitly leads to “intrinsic motivation” as a business result because all the examples that are given above are closely related with the premise of mutual-interests.

“Unbalanced Growth” vs. “Sustainable Growth”

“Unbalanced growth” is a business result, which is related with the stockholder governance model. “Sustainable growth” is a business result, which is related with the stakeholder governance model. These two business results are in the opposite dimensions of a scale and form one variable together in the corporate governance model. When a firm’s growth is not balanced, we talk about “unbalanced growth”. A firm is expected to have an “unbalanced growth” due to the stockholder governance model. A firm that uses stockholder governance structure may encounter “unbalanced growth” as the status of the firm (e.g. monopoly power) changes in the market (MacMillan and Downing, 1999). The premise of self-interest, which is the main principle in the stockholder governance model, is the underlying reason for the “unbalanced growth” as a business result.

On the other hand, “sustainable growth” of the firm is the concern of many scholars (Donaldson and Preston, 1995; Ertuna, 2005c; Penrose, 1959; Post, Preston, and Sachs, 2002b). Constituting an ongoing growth of the firm (Buchholz, 2005) is the definition for the “sustainable growth” as a business result. “Sustainable growth”

is the business result for the firms that will implement stakeholder governance model in their firm. A stakeholder inclusive firm is expected to achieve “sustainable growth” (Vinten, 2001). Stakeholder perspective posits that forming good relationships with critical stakeholders leads to “sustainable growth” over time (Post, Preston, and Sachs, 2002b). Firms are expected to achieve “sustainable growth” by engaging in trust-based or cooperative behaviors (Jones, 1995) or by forming systematic communication (Clarke, 1998a) or by establishing active communication (Logsdon and Lewellyn, 2000; RSA, 1995) or by creating and preserving the knowledge in terms of experience (Pitelis and Wahl, 1998). Thus, the principle of mutual-interests is the underlying reason for “sustainable growth” as a business outcome. If a firm can align the interests of its stakeholders, “sustainable growth” can be achieved (Buchholz, 2005). In sum, “sustainable growth” is a business result that belongs to the stakeholder governance model.

“Vulnerability to Crisis” vs. “Immunization to Crisis”

“Vulnerability to crisis” is a business result, which is related with the stockholder governance model. “Immunization to crisis” is a business result, which is related with the stakeholder governance model. These two business results are in the opposite dimensions of a scale and form one variable together in the corporate governance model. A firm may be vulnerable to the shocks or crises when the interests of a particular stakeholder group (e.g. stockholders) are overemphasized over others. For example, a focus on short-term financial performance is ultimately self defeating for the firms.

On the other hand, when a firm preserves its license to operate in changing circumstances (Post, Preston, and Sachs, 2002b) or when a firm is resilient to short-term shocks or crises (MacMillan and Downing, 1999), we talk about a firm's "immunization to crisis" as a business outcome. For example, a "good reputation" is very important for the firms because it can act as a buffer when things go wrong (Scholes and Clutterbuck, 1998). When the turbulent environment around the industrial firms in Turkey is considered, a good reputation makes more sense for these firms because they may immunize themselves to economic crises or shocks by having a "good reputation". Evident industrial strength of Japanese and German firms shows that stakeholder governance model creates a more durable business system (Clarke, 1998a). As a result, stakeholder governance model is also expected to create an "immunization to crisis" as a business outcome.

"Low Organizational Wealth" vs. "High Organizational Wealth"

"Low organizational wealth" is a business result that is related with the stockholder governance model. "High organizational wealth" is a business result that is related with the stakeholder governance model. These two business results are in the opposite dimensions and form one variable together. Increasing the value of an organization as a whole (Bird, 2001) or accepting the goal of long term wealth maximization (Monks and Minnow, 2004) are expected to lead to the "high organizational wealth". When a stockholder governance model is implemented in a firm, it is more likely that "low organizational wealth" will be created. "Low organization wealth", which is a business result, is expected to emerge especially in

the long term. The role of stakeholder relationships is important for the companies for creating “high organizational wealth” (Post, Preston, and Sachs, 2002b).

Principles, processes, and results in stakeholder governance model are expected to create organizational wealth for the firms. For example, mutual-interests (Blair, 1998; Monks and Minnow, 2004), “experience” of managers, “high organizational commitment” of employees, “organizational citizenship” of stakeholders (Bird, 2001), and “network relationships with stakeholders” (Post, Preston, and Sachs, 2002b) are some of the principles and processes that are expected to create “high organizational wealth” as a business result. The premise of mutual-interests is the underlying reason for the organizational wealth as a business outcome. As a result, high organizational wealth is a business result that refers to the stakeholder governance model.

CHAPTER IV

BRINGING THE PIECES TOGETHER: THE UNIVERSAL MODEL OF CORPORATE GOVERNANCE

As it is mentioned in the introduction, an inductionist method is first implemented in the thesis in order to define what corporate governance is. The twelve theories that are defined in chapter two are used for this purpose. As a result of this inductionist process, it is seen that corporate governance is an open system that is consisted from stockholder and stakeholder governance models at the micro level. Hence, thirty-six variables related with stakeholder and stockholder governance models are extracted from these twelve theories and defined in chapter three. Besides, it is also seen that factors at the macro level such as economic system, legislative framework, culture, etc. have an impact on the corporate governance system. The common point of these factors at the macro level is the main assumptions: self-interest, mutual-interests and public-interest. These main assumptions are the underlying principles not only at the macro level but also at the micro level. Hence, the definition of these three principles is also given in chapter three both at the micro and macro levels. As a result, chapter four has a purpose to gather all these factors and constitute the corporate governance paradigm. In order to follow the process of induction, the constitution of corporate governance paradigm will follow an order in the following subsections of chapter four. First, the contribution of the twelve theories to corporate governance paradigm

will be given and then they will be categorized. Second, the emergence of new corporate governance structures due to the interaction of the main assumptions at the macro level with the stockholder and stakeholder governance models at the micro level will be presented. Third, these corporate governance structures will further be categorized regarding their degrees of strength. Finally, universal corporate governance model will be presented.

The Contribution of Theories to the Corporate Governance Paradigm

A theory is a statement of relationships among concepts within a set of boundary assumptions and constraints. A theory must be falsifiable (i.e. it must be logically coherent, operationalizable, and useful). In other words, it must possess sufficient explanatory power in terms of its scope and comprehensiveness. Other criteria for a theory are clarity and parsimony. Values set the limits of a theory's applicability. In other words, explicitly stated values improve the credibility of a theory (Bacharach, 1989: 496). The usefulness of any theory depends on its ability to describe the real world (Jensen, 1994).

Today, there is a need for new governance systems to be devised that would let firm be governed in the interests of all the stakeholders (Blair, 1998). There is a quest for an optimal or superior theoretical model of corporate governance (Letza, Sun, and Kirkbride 2004) but no commonly accepted theory or paradigm has been developed about this phenomenon yet. There is no coherence about corporate governance that explains theoretically or empirically how the modern corporation is run (Pettigrew, 1992).

A new theory should be connective that bridges the gap between existing theories or transformational that cause existing theories to be seen in new ways. A new theory is expected to serve as ‘enlightenment’ by clearing away conventional notions to make room for artful and interesting insights (DiMaggio, 1995). The twelve theories (e.g. agency theory, resource dependence theory, instrumental stakeholder theory, normative stakeholder theory) that are all explicated in details in chapter two are gathered and integrated under one paradigm.

	Macro Level		
	Micro Level	Self-Interest/Mutual Interests	Public Interest/Mutual Interests
Stockholder Governance	Agency Theory	A	Σ
	Transaction Cost Economics Theory		
	Resource Dependence Theory		
	Traditional Stewardship Theory		
	Instrumental Stakeholder Theory		
	Stakeholder-Agency Theory		
Stakeholder Governance	Modern Stewardship Theory	Δ	Ω
	Integrative Social Contract Theory		
	Instrumental Stakeholder Theory		
	Stakeholder Agency Theory		
	Corporate Social Performance Theory		
	Resource-Based Theory		
Corporate Social Responsibility Theory			
Normative Stakeholder Theory			

Figure 4.2 The contribution of theories to the corporate governance paradigm

The contribution of these theories to the corporate governance paradigm can be seen in figure 4.2. Since conceptual importation and theoretical reciprocity (Weaver and Trevino, 1994) exist among these twelve theories that are used in our corporate

governance model, all of them are integrated based upon their underlying main assumptions: self-interest, mutual-interests and public interest. When the main assumptions of the theories are examined, it will be seen that all the theories that make contribution to the corporate governance paradigm are connected to each other. In order to explain these connections among the theories in terms of their main assumptions, figure 4.3 and figure 4.4 are expected to be helpful.

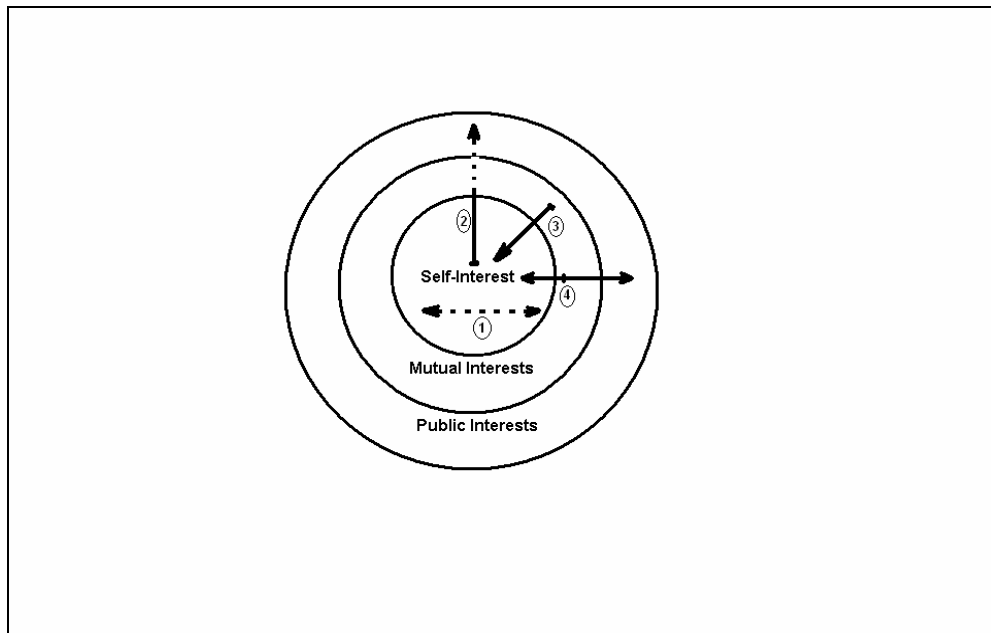


Figure 4.3 The dynamic view of main assumptions in the self-interest dominated cultures

There is a potential risk that managers/agents may serve their own interests at the expense of stockholders/principals. Agency theory emerged to solve this issue (Jensen and Meckling, 1976). The premise of self-interest is also the underlying reason for the emergence of transaction cost economics theory between the firm and its stakeholders. The same argument is also true for the resource dependence theory. The main difference between these two theories is that transaction cost economics

theory looks at the asymmetric power problem based on resource dependence from the firm's perspective. Resource dependence theory looks at the same problem from the perspectives of firm and stakeholders. The common point among agency theory, transaction cost economics theory and resource dependence theory is that the premise of self-interest is the underlying assumption. The dashed line accompanied with a circled number one tries to illustrate this common point in terms of self-interest premise in figure 4.3.

Traditional stewardship theory is based on utilitarian ethics. In other words, maximizing stockholders' utility is expected to maximize the utility of stakeholders (Caldwell and Karri, 2005). Utilitarian analysis argue that corporations should focus on stockholder interests because this would maximize societal utility also but it is argued by Reed (2002) that focusing on stockholder interests would not maximize societal utility due to the imperfect markets (Ertuna, 2005c) and "asymmetric information". Thus, traditional stewardship theory starts with the main assumption of self-interest and ends with the main assumptions of mutual-interests and public-interest but the existence of imperfect markets and "asymmetric information" is expected to prevent the proposition of utilitarian analysis that serving stockholder interests will maximize the utility of stakeholders and society. This dynamic assumption related with traditional stewardship theory is illustrated by the half dashed and half straight line accompanied with a circled number two in figure 4.3.

According to instrumental stakeholder theory, if managers pursue the interests of multiple stakeholders then their firms will achieve better financial performance than the firms which pursue the interests of a single stakeholder group (Donaldson, 1999). The main thesis of instrumental stakeholder theory is that "if managers want to maximize the shareholder value over an uncertain period of time

they have to pay attention to key stakeholder relationships” (Freeman, 1999). In other words, instrumental stakeholder theory starts with the premise of mutual-interests, viz. the interests of all stakeholders, and ends up with the self-interest, viz. the interests of stockholders. A similar theme can also be observed in stakeholder-agency theory. According to Hill and Jones (1992), the interests of stakeholders are important for the firm because they provide critical resources to the firm. On the other hand, Hill and Jones argue that there is an asymmetric power in terms of information and resources between the stakeholders and management. Thus, the emergence of institutional structures (e.g. stock analyst services, labor unions, consumer unions, and legislation) refers to this asymmetric power based on information and resources between the management and stakeholders. In other words, stakeholder-agency theory asserts that there is a positive “distrust” based on the premise of self-interest to the management. Therefore, stakeholder-agency theory also starts with the principle of mutual-interests and ends up with the principle of self-interest as in the case of instrumental stakeholder theory. This dynamic assumption related with these two theories is illustrated by the straight line accompanied with a circled number three in figure 4.3.

The common point among agency theory, transaction cost economics theory, resource dependence theory, traditional stewardship theory, instrumental stakeholder theory, and stakeholder-agency theory is the premise of self-interest. There are other common points among these six theories such as the principles of “bundle of assets” or “short-term profit/shareholder value maximization” or asymmetric power based on “resource in/dependence” and “asymmetric information”, which are all explained in details in the definition of the variables in chapter three and refer to the stockholder governance model. But it is the self-interest principle that is closely related with all

these principles. It is the self-interest principle that affects the governance of the corporations at the macro level reflected by economic system, legislation, and culture of a country. As a result, all of these six theories are grouped under the same category. These six theories define different aspects of stockholder governance model but use the same main assumption, viz. self-interest, both at the levels of organization and society. This categorization for these six theories can be seen in the upper leftmost cell, which is named as alpha and shown with the capital Greek letter A , in figure 4.2. The upper leftmost cell refers to principle of self-interests in the corporate governance system both at the micro and macro levels. Capital alpha, A , is used to name the upper leftmost quadrant in the matrix because Greek alphabet starts with this letter. Similarly, these six theories in the upper leftmost quadrant are the first theories in corporate governance system. For example, the arguments related with agency theory are first proposed by Adam Smith (1776). Instrumental stakeholder theory and stakeholder-agency theory are also transition theories because of their dynamic view related with the principles of self-interest and mutual-interests, which is depicted with the circled number three in figure 4.3. Therefore, these two theories also appear in the lower leftmost cell, which is named as delta and shown with the capital Greek letter Δ , in figure 4.2. The lower leftmost cell refers to premise of mutual-interests in the corporate governance system both at the level of organization and society. Since these two theories starts with the mutual-interests principle, they also appear in the cell named as delta. Besides, the word delta implies a change in the mathematics jargon. Since corporate governance system shifts from the premise of self-interest to the premise of mutual-interests at the micro and macro levels, it is found appropriate to name the lower leftmost cell as delta. At this point of the argument, it must be mentioned that mutual-interests also have an affect on the

upper leftmost cell named as A. Since the term stakeholder is defined as the groups without whose support the organization would cease to exist (Freeman and Reed, 1983), it would not be wrong to argue that mutual-interests are also accepted by the corporate governors partially in the upper leftmost quadrant or cell A. Therefore, the principles of self-interest/mutual-interests are depicted in figure 4.2 at the macro level in the corporate governance system. In other words, self-interest and mutual-interests principles co-exist in the upper leftmost cell (i.e. cell A) but self-interest principle dominates the mutual-interest principle at the macro level. Thus, corporate governors implement stockholder governance model in their firms at the micro level. As a result, most of the variables are determined by the premise of self-interest in the stockholder governance model. On the other hand, there may still be variables that belong to the stakeholder governance model in the cell A but most of them are expected to belong to the stockholder governance model. In sum, the domination of self-interest over mutual-interests at the macro level is reflected to the micro level as the domination of stockholder governance model over stakeholder governance model in cell A in figure 4.2.

Corporate governance is defined as an open system which implies the impact of macro level factors such economic system, legislative framework, culture, etc. on the micro level or organizations. The most important advocate of this view is Hofstede (1980). He advocated and proved this view with his preliminary study. Thus, this fact is also incorporated to corporate governance system. When there is a shift to the lower leftmost cell named as Δ , the other theories such as agency theory, transaction cost economics, and resource dependence theory lose their degree of strength but not their relevance in the corporate governance system. In other words, the role of the main assumptions shifts from self-interest/mutual-interests to mutual-

interests/self-interest at the macro level. When this change at the macro level in terms of main assumptions is perceived by corporate governors, they also shift to the stakeholder governance model at the micro level in order to respond to this shift. Thus, corporate governors implement stakeholder governance model in their firms at the micro level. As a result, most of the variables are determined by the premise of mutual-interests in the stakeholder governance model. On the other hand, there may still be variables that belong to the stockholder governance model in the cell Δ but most of them are expected to belong to the stakeholder governance model. In other words, the domination of mutual-interests over self-interest principle at the macro level is reflected to the micro level as the domination of stakeholder governance model over stockholder governance model. Since a paradigm is defined as the framing set of concepts, beliefs, and practices that guide the human action (Ehrenfeld, 1997), the domination of mutual-interests over self-interest principle at the macro level and implementation of stakeholder governance model as a response to this shift by corporate governors defines the new corporate governance paradigm in the cell Δ . As a result of this change at the macro level, corporate governors begin to complement instrumental stakeholder theory and stakeholder-agency theory, which are transition theories, with corporate social performance, integrative social contract and modern stewardship theories. These complementary theories are developed by the scholars to depict the new corporate governance paradigm due to change at the macro level in terms of the priority of mutual-interests over self-interest principle.

Corporate social performance theory gives importance to the stakeholder issues (Clarkson, 1995) and tries to reconcile the social and economic issues under one model (Carroll, 1979). The reconciliation of social and economic issues connects

corporate social performance theory to the transition theories, viz. instrumental stakeholder theory and stakeholder-agency theory. Corporate social performance theory gives importance to the interests of all stakeholders. The interest of stockholders, which is profit or shareholder value maximization, is combined with the interests of non-stockholders in this theory. In other words, corporate social performance theory tries to balance the interests of stakeholders. Integrative social contract theory and modern stewardship theory have the same purpose. This objective among these three theories (i.e. integrative social contract theory, modern stewardship theory, and corporate social performance theory) is depicted with the straight line accompanied with the circled number four in figure 4.3. The left hand side of this straight line refers to the instrumental stakeholder theory and stakeholder-agency theory and both left and right hand sides of this straight line refers to the corporate social performance, integrative social contract, and modern stewardship theories. All these five theories operate together and constitute the cell Δ in the corporate governance system, which is illustrated in figure 4.2. As it is mentioned in the previous paragraph, the theories such as agency theory, resource dependence theory or transaction cost economics theory in the cell A are still dominant in the corporate governance system but only their priority changes. When a firm shifts from cell A to cell Δ , theories in cell A are still effective but their degree of strength decreases at the micro level due to the shift between self-interest and mutual-interests principles at the macro level. In other words, the variables of stockholder governance model that are extracted from agency theory, resource dependence theory, traditional stewardship theory, and transaction cost economics theory that are positioned in cell A will still be effective in the governance of corporations in the cell Δ . But the variables of stakeholder governance model that are extracted from corporate social

performance, integrative social contract and modern stewardship theories are expected to dominate the corporate governance system at the micro level in the cell Δ . Since instrumental stakeholder theory and stakeholder-agency theory are transition theories, they operate in the both cell A and cell Δ . Thus, they complement the theories in these two cells and their emphasis change regarding the impact of macro level factors in the corporate governance system. In sum, there is convergence between stockholder and stakeholder governance models both in the cell A and Δ at the micro level. This will be explained in details in the following subsections of chapter four.

Managers make their decisions based on their cultural background (Hofstede, 1980; 1983; 1999; 2001). Different local cultures require alternative forms of corporate governance (Ronen and Shenkar, 1985). Thus, implications and consequences of business strategies will be different under different cultural paradigms (Chang and Ha, 2001). Unfortunately, the economic approach employed is generally culture-free, historically separated and contextually unrelated in the corporate governance analyses (Letza, Sun, and Kirkbride 2004). Therefore, there is a need to integrate the macro level factors to the corporate governance system. According to Hofstede (1980), one of the dimensions of national cultures is individualism vs. collectivism. This dimension at the macro level can also be rephrased as self-interest vs. public-interest. On the other hand, it is realized that there is also convergence among self-interest and public-interest principles at the macro level. Thus, mutual-interests principle emerged as a result of this convergence between self-interest and public-interest. Since the reasons of this convergence and emergence of mutual-interests principle at the level of society is explained in details in chapter three, similar explanations will not be repeated. There are three levels of

analysis: individual, organizational, and social. Managers manage stakeholder issues and relationships at the individual and organizational level. For an outside observer concepts such as training and development of employees or customer complaints are social issues but for a manager these concepts serve for employee productivity or customer satisfaction (Clarkson, 1995) in individualistic cultures. In other words, managers perceive these issues as a part of stakeholder interests or mutual-interests but for an outside observer these issues refer to the principle of public-interest. Since the corporate governance model that is constituted in this thesis looks at the corporate governance phenomenon from the perspectives of corporate governors, managers and/or directors, it is the principle of mutual-interests but not public-interest that makes sense for the corporate governors in the self-interest dominated cultures because corporate governors are part of a macro culture and affected from the principle of self-interest. Although an organization shifts from cell A to cell Δ , the principle of self-interest at macro level is still expected to be effective in the corporate governance system. But the strength of self-interest principle decreases in cell Δ due to the domination of mutual-interests principle. As it is mentioned above, principles of mutual-interests and self-interest operates together. The principle of self-interest dominates mutual-interests principle in cell A. The principle of mutual-interests dominates the self-interest principle in cell Δ . The left hand side of the matrix that is constituted by nine different theories in cells A and Δ refers to the individualistic cultures such as Anglo-Saxon world. In other words, all of these nine theories that are examined above try to explain different aspects of corporate governance system in the individualistic cultures. Thus, self-interest/mutual-interests duality at the macro level tries to explain the impact of society on the organizations by bridging these nine theories under one corporate governance system. As a result,

all of these nine theories in cell A and Δ can also be grouped under one dimension based on self-interest/mutual-interests duality that refers to the left hand side of the corporate governance matrix in figure 4.2.

The dimension at the right hand side of the matrix in figure 4.2 starts with the premise of public-interest at the macro level. Corporate social responsibility theory, which is based on this premise, is underappreciated by the all Anglo-American business paradigm (Frank, 1992) because this principle refers to the firms that operate with a German-Japanese philosophy. Although the shareholdings of Japanese and German companies are more concentrated than American companies, the expectation in Germany and Japan is that the companies will be run in the interests of society (Hendry, 2001). For example, the corporate governance system of German companies let all the related stakeholders such as employees, creditors, suppliers and customers monitor the managers and engage permanently to the important parts of decision-making process. If stakeholders are dissatisfied with the results, they can take action to correct management decisions through internal channels in German companies (OECD, 1996). Besides, the interests of the stakeholders of the small local firms in Europe and Japan were all converging before globalization. Therefore, it was easy for the owner-managers to make decisions (Julius, 1997). This shows the effectiveness of public-interest principle over organizations in these types of countries at the macro level. A similar argument can also be made for the normative stakeholder theory. Proponents of normative stakeholder theory argue that firms should treat their stakeholders as ends or admit that the interests of their constituencies have an intrinsic value (Clarkson, 1995; Quinn and Jones, 1995). The principle of “stakeholders as an end” is an important principle in the stakeholder governance model and closely related with the assumption of public-interest. Finally,

resource based theory is also based on the principle of public-interest as the other two theories (i.e. corporate social responsibility theory and normative stakeholder theory). Resource based theory's most important principle is the symmetric power in terms of resources or information. High degree of co-determination and mutual dependency in Japanese corporate governance system, which manifests itself with the Keiretsu that binds several different firms together, (Rose and Mejer, 2003) is a good example to symmetric power in terms of resources. On the other hand, European Union's response to the corporate scandals in Europe in terms of corporate governance disclosure and transparency (Sama and Shoaf, 2005) is a good example to the symmetric power in terms of information. As a result, it would not be wrong to argue that the corporate governance systems in Continental Europe and Japan are based on the public-interest principle at the level of society. Hence, the resource based theory is also closely related with the public-interest principle at the level of society. Although the starting point in these three theories is the assumption of public-interest at the macro level, it is also advocated by the corporate governors in these countries because it is thought that it will also logically serve the interests of other stakeholders in the corporation at the micro level. This dynamic view about the assumption of public-interest is depicted with the straight line accompanied with the circled number one in figure 4.4. As a result, all these three theories are grouped under the same category. These three theories (i.e. corporate social responsibility theory, normative stakeholder theory, and resource-based theory) define different aspects of stakeholder governance model but use the same main assumption, viz. public-interest, both at the levels of organization and society. This categorization for these three theories can be seen in the lower rightmost cell named as omega and shown with the capital Greek letter Ω , which can be seen in figure 4.2. Capital

omega, Ω , is used to name lower rightmost quadrant in the matrix because Greek alphabet ends with this letter. Similarly, these three theories are the final point in the corporate governance system. This is especially true for the normative stakeholder theory because it prescribes ‘how the world should be’ (Freeman, 1999) or it is concerned with the question of ‘what should happen’ (Jones, 1995). In other words, normative stakeholder theory prescribes the normative principles that belong to the stakeholder governance model. As a result, these three theories are the final point for the firms that operate in cultures that are dominated by the public-interest principle.

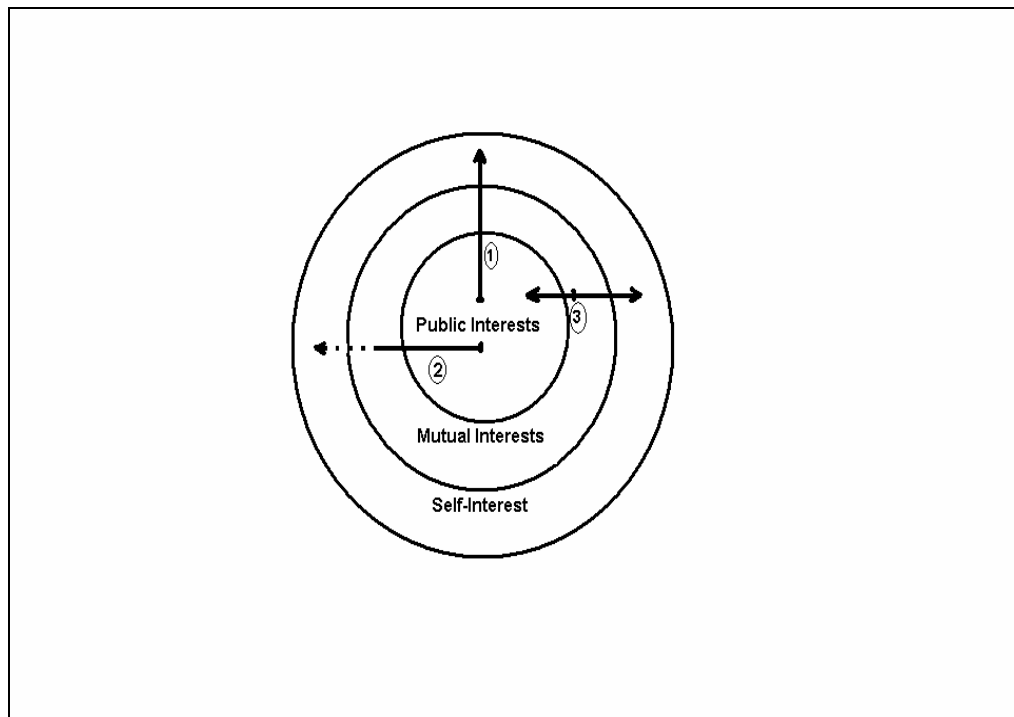


Figure 4.4: The dynamic view of main assumptions in the public-interest dominated cultures

There is also tendency in the public-interest dominated cultures such as Japan to consider the interests of stockholders, which are suppressed due to the domination of public-interest (Plender, 1997). This perception is illustrated with the dashed line

accompanied with the circled number two in figure 4.4. Thus, the stakeholder economies such as Germany and Japan move closer to the Anglo-Saxon thinking due to the pressures to increase the equity returns (Plender, 1998). The companies in Continental Europe and Japan are forced to converge with the stockholder perspective due to the development of equity markets and international institutions' pressures on financial measures (Clarke, 1998a). In other words, even German and Japanese companies shifted from a stakeholder governance model to a stockholder governance model due to the pressures of globalization and competition (Schilling, 2001; Stoney and Winstanley, 2001). For example, the Japanese company law was changed in 1993 in order to strengthen the powers of stockholders. This pressure for the improved financial performance came from the domestic and international financial institutions (OECD, 1996). These types of financial pressures at the macro level forced the firms to shift from stakeholder governance model to stockholder governance model at the micro level. There are two theories that are volunteers to respond to this shift in the corporate governance paradigm: modern stewardship theory and integrative social contract theory. These two theories are positioned in the upper rightmost cell, which is named as sigma and shown with the capital Greek letter Σ , of the corporate governance matrix in figure 4.2. Although Japan and Germany moved closer to the stockholder perspective as a result of the globalization, this convergence in these countries should not be exaggerated. For example, the cultural and regulatory constraints in Japan impose clear limits to the globalization (Plender, 1998). A similar imposition that limits the pressures of globalization can also be seen in the Danish corporate governance system at the macro level (Rose and Mejer, 2003). The firms, which operate in Continental Europe or Japan, move from stakeholder governance model to stockholder governance model at the micro level

because of the impact of macro level factors but this move should not be interpreted in a way that public-interest is ignored in these type of cultures. The firms that move to the cell Σ are still influenced by the premise of public-interest at the macro level but the degree of strength of this principle changed. Corporate governors try to achieve a balance between the public-interest and self-interest principles in the cell Σ of the corporate governance matrix. The balance among these principles is depicted by the straight line accompanied with the circled number three in figure 4.4.

Although an organization shifts from cell Ω to cell Σ , the principle of public-interest at macro level is still expected to be effective in the corporate governance system.

But the strength of public-interest principle decreases in cell Σ due to the domination of mutual-interests principle (i.e. a balance is tried to be achieved between the principles of self-interest and public-interest). The principle of public-interest dominates mutual-interests principle in cell Ω . The principle of mutual-interests dominates the principle of public-interest in cell Σ . The right hand side of the corporate governance matrix is constituted by five different theories in the cells Ω and Σ . These two cells (Ω and Σ) refer to the public-interest dominated cultures (e.g. Japan or Germany). In other words, all of these five theories that are examined above try to explain different aspects of corporate governance system in the public-interest dominated cultures. Thus, public-interest/mutual-interests duality at the macro level tries to explain the impact of society on the organizations by bridging these five theories under one corporate governance system. As a result, all of these five theories in the cell Ω and Σ can also be grouped under one dimension based on public-interest/mutual-interests duality that refers to the right hand side of the corporate governance matrix in figure 4.2.

Integrative social contract theory and modern stewardship theory are volunteers to achieve the balance between the principles of self-interest and public-interest by proposing the mutual-interests principle at the micro level as a response to the impact of macro level factors. These two theories are also used in cell Δ in figure 4.2. In other words, the other purpose of these two theories is to integrate some of the values in the corporate governance system in the international business environment. For example, global managers operate in an increasingly complex and dynamic business environment. Thus, there is a need for reconciling global rules with local norms. Integrative social contract theory is created by Donaldson and Dunfee (1994; 1995) to serve this need. There are transnational firms that operate in two different dimensions (i.e. right and left hand side of the corporate governance matrix in figure 4.2). When corporate governors of these firms perceive the corporate governance system with the principles of the modern stewardship theory and integrative social contract theory, it will be more likely that they will compromise among the mutual-values. This type of compromise is expected to ease the governance of corporations that operate in the international business environment.

The Emergence of Corporate Governance Structures by the

Interaction of Macro and Micro Level Factors

According to Jensen (1994), self-interest is identical to rationality and the ones who are not self-interested need psychological treatment. Thus, it is proposed that human-beings are expected to be self-interested and rational (Margolis, 1984), and they are not concerned with the well-being of others (Etzioni, 1988). On the other hand, self-

interest is shown as the reason for the opportunistic behaviors in the organizations (Akerlof, 1983; Eisenhardt, 1989; Frank, Gilovich, and Regan, 1993; Gay, 2002; Jensen and Meckling, 1994; Sama and Shoaf, 2005; Williamson, 1975; 1985). Hence, rational governance structures in terms of using rewards or punishments (Jensen, 1994; Logsdon and Yuthas, 1997) such as using stock option schemes (Plender, 1998) or using monitoring or bonding costs (Eisenhardt, 1988; Fligstein and Freeland, 1995; Hill and Jones, 1992; Jensen and Meckling, 1976; Letza, Sun, and Kirkbride 2004; Shankman, 1999) or preferring outside directors in the board of directors (Bird, 2001) or separation of the CEO and chairman of the board (Tricker, 2000) or admitting the market for corporate control and unitary board (Reed, 2002) are developed to prevent these opportunistic behaviors. Therefore, objective of agency theory, transaction cost economics theory, and resource dependence theory is to develop mechanisms or safeguards to prevent opportunism and its related costs. In sum, these three theories try to solve the self-interest problem in a 'rational' way. Therefore, corporate governance structure based on these three theories, which deal with self-interest problem, is named as 'rational' in the corporate governance model. Thus, rational stockholder governance structure emerged in the upper leftmost cell, which is shown with the capital Greek letter A, of the corporate governance matrix in figure 4.5.

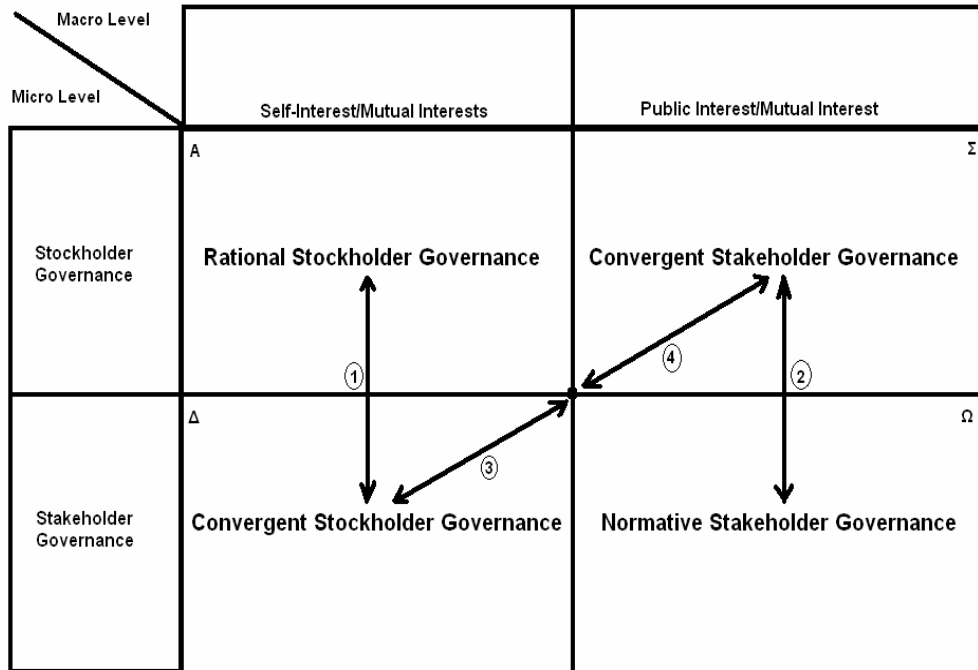


Figure 4.5: The emerging structures in corporate governance paradigm

Today, there is a desire in self-interest dominated cultures to move towards the principle of mutual-interests (e.g. enhancing the quality of life (Monks, 1998)) at the macro level beside the principle of self-interest (e.g. receiving good returns to the investments in the stock market or mutual funds). There is also tendency in the public-interest dominated cultures such as Japan to consider the interests of stockholders, which are suppressed due to the domination of public-interest principle (Plender, 1997). In other words, there is a convergence of public-interest and self-interest principles at the macro level in today's business world. Therefore, the cell positioned in the lower leftmost and the cell positioned in the upper rightmost of the corporate governance matrix in figure 4.5 start with the term 'convergent' in our corporate governance model. The cell that is positioned in the lower leftmost of the corporate governance matrix is shown with the capital Greek letter Δ . On the other

hand, the cell that is positioned in the upper rightmost of the corporate governance matrix is shown with the capital Greek letter Σ . The term ‘convergent’ also comes from convergent stakeholder theory (Jones and Wicks, 1999), which tries to converge ethical principles with good financial performance (Jones, 1995). At this point of argument an important question comes to mind. What is the difference between convergent stockholder governance (cell Δ) and convergent stakeholder governance (cell Σ) then, since both cells are named convergent? The companies that move to the convergent stakeholder governance (cell Σ) are dominated by the mutual-interests rather than public-interest principle because the firms are inclined to serve to the interests of other parties (i.e. stockholders), which were suppressed in the past, due to pressures of institutional investors. This does not mean that public-interest principle is irrelevant in the new corporate governance structure but only its degree of strength changed. Since public-interest dominated countries move to the principle of mutual-interests, which is closely related with the term stakeholder, at the macro level, firms respond to this change by moving and forming a new corporate governance structure at the micro level. Therefore, the term ‘stakeholder’ is used after the term ‘convergent’ in order to name this emerging new governance structure in cell Σ in figure 4.5. On the other hand, the convergent stockholder governance structure (cell Δ) refers to the domination of mutual-interests principle over self-interest principle at the macro level. The companies that move to the convergent stockholder governance (cell Δ) are dominated by the mutual-interests rather than self-interest principle because these firms are inclined to serve to the interests of non-stockholders due to pressures by NGOs or institutional structures about social issues. This does not mean that self-interest principle is irrelevant in this new corporate governance structure but only its degree of strength changed. Since

self-interest dominated countries are also defined with the term “equity culture” (Monks, 2003), the term ‘stockholder’ is used after the term ‘convergent’ in order to name this emerging governance structure at the micro level in the cell Δ in figure 4.5. Giving importance to stakeholder interests does not mean that continental European-Asian style corporate governance dominates the corporations in U.S. or U.K. It means stockholder governance model converges with stakeholder governance model. In other words, stockholder interests are still relevant in this new corporate governance structure (cell Δ). For example, balanced score card (Kaplan and Norton, 1996) or learning organizations (Senge, 1990) are proposed to reflect this convergence in the Anglo-Saxon world.

Finally, the credos and ethos of organizations in public-interest dominated macro cultures (e.g. Japan) are based on ethical principles such as mutual-trust, integrity, fairness, value added etc. because they are in line with the public-interest principle at the macro level. In other words, the principles of normative stakeholder theory (Freeman, 1999) refer to firms (e.g. Mitsubishi) that operate in public-interest dominated macro cultures. Since normative stakeholder theory refers to the public-interest principle, it is found appropriate to name the lower rightmost cell as ‘normative’. Besides, almost all the variables in the stakeholder governance model are implemented by the organizations. Therefore, the term ‘stakeholder’ is used after the term ‘normative’ in order to name this corporate governance structure that refers to the firms in public-interest dominated cultures (e.g. Continental Europe and Japan). Greek capital letter omega, Ω , is used to name lower rightmost quadrant in the matrix because Greek alphabet ends with this letter. Since most of the variables of stakeholder governance model are accepted and implemented by the firms in this corporate governance structure, normative stakeholder governance structure is the

final point in the corporate governance system. Hence, the letter Ω refers to this final point in the corporate governance matrix in figure 4.5. The interests of the stakeholders of the small local firms in Europe and Japan were all converging before globalization. Therefore, it was easy for the owner-managers to make decisions (Julius, 1997) before globalization (i.e. before 1980s). In other words, firms were operating easily in the normative stakeholder governance structure before globalization because the premise of public-interest at the macro level was also responding to stakeholder interests (i.e. mutual-interests) at the micro level.

All these four corporate governance structures in figure 4.5 emerged due to the changes at the macro level factors. These changes at the macro level are reflected to the corporate governance model as self-interest/mutual-interest and public-interest/mutual-interests dualities, which can be seen in the top of corporate governance matrix in figure 4.5. Thus, Anglo-Saxon countries move towards a stakeholder perspective. On the other hand, Continental European countries move towards stockholder perspective (Weimer and Pape, 1999). There has been a continuous shift of paradigms and mindsets from stockholder governance to stakeholder governance in Anglo-American setting. This shift is mostly observable in the late 20th century (Letza, Sun, and Kirkbride 2004). This phenomenon is also depicted with the arrows in figure 4.5. Companies in the self-interest dominated countries (e.g. Anglo-Saxon world) responded to the change at the macro level by shifting to a new corporate governance structure. This new governance structure is named as 'convergent stockholder governance'. The vertical double headed arrow accompanied with the circled number one depicts this shift at the micro or organizational level. Rational stockholder governance is a structure where the variables of the stockholder governance model dominate the variables of stakeholder

governance model. On the other hand, convergent stockholder governance is a new structure where the variables of the stakeholder governance model dominate the variables of stockholder governance model. In other words, companies in the Anglo-Saxon world move from rational stockholder governance structure to convergent stockholder governance structure in order to respond to the internal changes at the macro level. As a result, managers of U.S. and U.K. firms began to give importance to the interests of stakeholders besides the interests of stockholders (Hummels, 1998; Preston and Sapienza, 1990; Stoney and Winstanley, 2001; Vinten, 2001). In other words, western firms try to emulate the key features of stakeholder-based management paradigm (Putnam and Chan, 1998). The opposite of this shift may also occur. Thus, companies that operate in the convergent stockholder governance structure may move back to the rational stockholder governance structure. Therefore, the straight vertical line accompanied with the circled number one on the left hand side of the matrix is a double headed arrow in figure 4.5. This shift among two structures also reflects the dynamic view in the corporate governance model. A shift back to the rational stockholder governance structure is expected to make these firms permanently failing organizations (Meyer and Zucker, 1989) in our contemporary age because these types of firms are expected to ignore the internal changes related with the importance of stakeholder interests by the ease of network relationships among stakeholder groups and their pressures over firms. For example, Marks and Spencer prefer to move to stakeholder perspective (Plender, 1998) or convergent stockholder governance structure in Anglo-Saxon countries. Besides, there is also a revival of interest for the stakeholder approach in the Anglo-Saxon world due to the two main reasons. The first one is industrial strength of Japanese and German firms. The second one is the desire of the U.S. and U.K. firms for more durable business

systems (Clarke, 1998a). As a result, moving from convergent stockholder governance structure to the rational stockholder governance structure is expected to be not a rational move for the survival or existence of the firms in the future in the self-interest dominated cultures (e.g. Anglo-Saxon world).

On the other hand, the stakeholder economies such as Continental Europe and Japan move closer to the Anglo-Saxon thinking or stockholder governance due to the pressures to increase the equity returns (Clarke, 1998a; Plender, 1998; Schilling, 2001; Stoney and Winstanley, 2001). For example, a similar move is also observed in Denmark (Rose and Mejer, 2003). The reasons of the firms' inclination towards the stockholder governance in the public-interest dominated cultures (e.g. Continental Europe) are related with the liberalization of financial markets, privatizations, and demand for capital (Mills and Weinstein, 2000). The reasons of the firms' inclination towards the stockholder governance in the eastern countries are inefficient resource allocation, inefficient distributional channels in the economy, strong favoritism among insiders, entrenched management complacency, rigidity, and inertia (Chang and Ha, 2001). But moving closer to Anglo-Saxon thinking should not be interpreted as if self-interest dominates the corporate governance system at the macro or micro levels. Companies in the public-interest dominated countries (e.g. Continental Europe or Japan) responded to the change at the macro level by shifting to a new corporate governance structure at the micro level. This new governance structure is named as "convergent stakeholder governance". The vertical double headed arrow accompanied with the circled number two depicts this shift at the micro or organizational level in figure 4.5. Normative stakeholder governance is a structure where most of the variables in the stakeholder governance model are implemented at the micro level. On the other hand, convergent stakeholder

governance is a new structure where the some of variables in stockholder governance model dominates the variables of stakeholder governance model. In other words, the variables of stakeholder governance model still dominate the stockholder governance model but only some of the variables (e.g. the importance of shareholder value) are accepted by the corporate governors in the public-interest dominated cultures (e.g. Japan or Germany). Hence, it would not be wrong to argue that companies in the Continental Europe or Japan move from normative stakeholder governance structure to convergent stakeholder governance structure in order to respond to the external change at the macro level. The opposite of this shift may also occur. Thus, the companies that operate in the convergent stakeholder governance structure may move back to the normative stakeholder governance structure. A shift back to the normative stakeholder governance structure is also expected to make these firms 'permanently failing organizations' (Meyer and Zucker, 1989) in our contemporary age because these type of firms ignore the shift at the macro level (e.g. the pressures of financial institutions (Mills and Weinstein, 2000)). As it is mentioned before, public-interest is still dominant in these countries but its priority changed by the emergence of mutual-interests principle in the world. As the social issues, which refers to the public-interest principle, at the macro level are perceived by the corporate governors as mutual-interests principle in the Anglo-Saxon world (Clarkson, 1995), the interests of financial institutions, which refers to the self-interest principle, at the macro level are also perceived by the corporate governors as the mutual-interests principle in the Continental Europe or Japan. These convergence increases the similarities in these types of cultures in terms of their corporate governance structures. As these similarities increases between the public-interest dominated cultures and self-interest dominated cultures, corporate governance

structures are also expected to approach to each other. In other words, convergent stockholder governance and convergent stakeholder governance structures will also converge. This is especially true for the transnational corporations because global managers operate in an increasingly complex and dynamic business environment. Hence, there is a need for reconciling global rules with local norms. In order to compete more effectively in a globalized market, Anglo-Saxon and German-Japanese governance environments is expected to learn from each other by adopting the aspects of the other model (Letza, Sun, and Kirkbride 2004). Weimer and Pape (1999) also observed that some of the characteristics of market-oriented and network-oriented countries converge. Integrative social contract theory is created by Donaldson and Dunfee (1994; 1995) to serve this need. As a result, modern stewardship theory and integrative social contract theory try to define this convergence in the world. The diagonal double headed arrows accompanied with the circled numbers three and four also depict this phenomenon in figure 4.5.

The Universal Corporate Governance Model

It is explained how four kinds of corporate structures emerged by the interaction of micro and macro level factors, as it can be seen in figure 4.5, in the previous section. These four governance structures are further categorized to eight different structures regarding to their degrees of strength in figure 4.6. There is a need to make these further categorizations in the corporate governance system because this is expected to ease the illustration and measurement of the corporate governance phenomenon. Moreover, this categorization also lets us see where the principles of self-interest and

public-interest at macro level totally dominate the governance of corporations at the micro level. This categorization is the final phase in the constitution of corporate governance model because the research questions (i.e. what, how, where, when, who and why) about the constitution of corporate governance model are also expected to be answered.

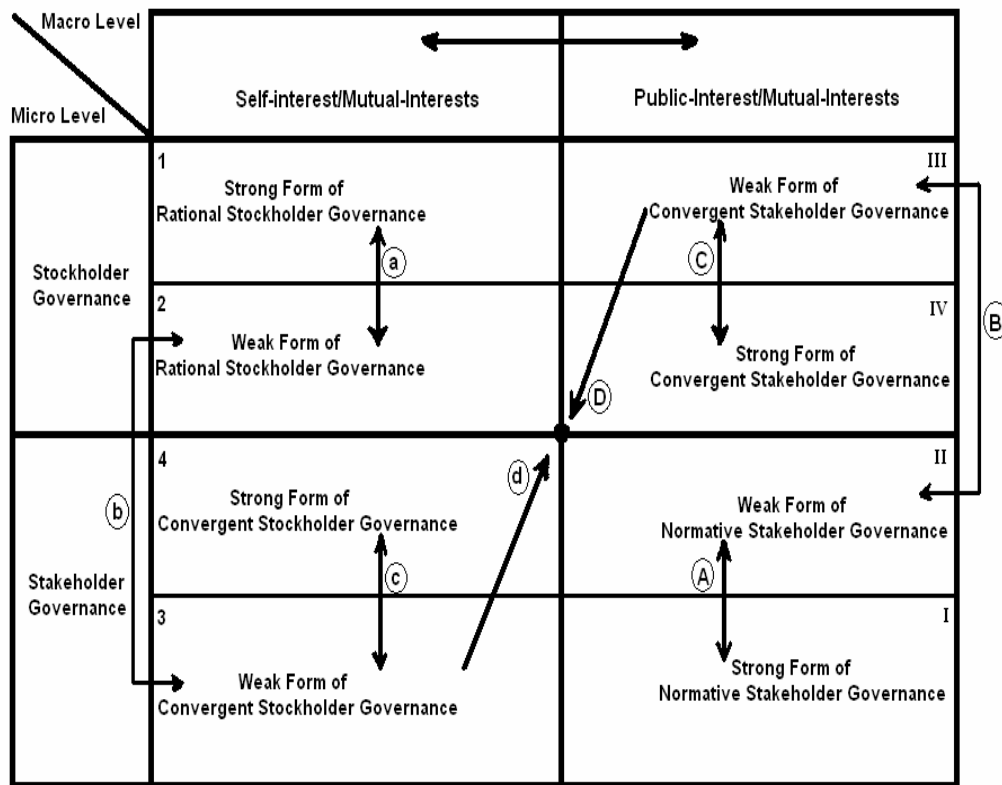


Figure 4.6 The universal model of corporate governance

The Explanation of Corporate Governance Structures Shaped by the Self-
Interest/Mutual-Interests Duality in the Corporate Governance System

When all the variables are shaped by the premise of self-interest at the micro and macro levels, strong form of rational stockholder governance structure emerges in the corporate governance system. In order to explain how a typical strong form of rational stockholder governance structure works, we should first start by explaining the dimensions or stages of corporate governance system. Corporate governance is an open system which has three dimensions or stages: principles, processes and outcomes. First of all, it is important to state that corporate governance system starts in the minds of the stakeholders in terms of corporate credos and ethos. These beliefs are then reflected to the relationships among these stakeholders. Thus, an organizational culture is formed. Finally, these relationships produce outcomes for the stakeholders and the firm. Thus, these outcomes support and strengthen these relationships and principles. In sum, self-fulfilling prophecy (Ghoshal and Moran, 1996; Hofstede, 1983; Senge, 1990) will be formed in the corporate governance system. This self-fulfilling prophecy is closely related with the holistic approach (Bohm, 1980). At this point, it is important to emphasize the strategic importance of board of directors in the corporate governance system. It is the board of directors that initiates the stockholder governance or stakeholder governance models in the corporate governance system via forming vision, mission and strategies, which are the bases for the corporate credo, ethos and organizational culture. If directors believe to the principles of stockholder governance model, they will form the vision, mission, and strategies based on this model. Even if some of the relevant

stakeholders of the firm do not believe to the principles of the stockholder governance model, they will begin to believe them sooner or latter because it is a self-fulfilling prophecy. In other words, stakeholders' belief system will change in the corporate governance process because of the relationships between the firm and stakeholder groups or among the members of the same stakeholder group. Finally, the outcomes of these relationships will change the belief system of stakeholders. If the underlying assumption or principle of this belief system is 'self-interest', the other principles, relationships, and outcomes will all be shaped around this principle in the corporate governance system. It is also important to state that systematic thinking is more appropriate than linear thinking (Senge, 1990) to understand the corporate governance phenomenon.

Stockholder governance principles may be dominant in the corporate governance system (i.e. the domination of stockholder governance model over stakeholder governance model). When control of the firms is expected to be in the hands of stockholders or board of directors due to their formal power, the principles in stockholder governance model dominates the principles in stakeholder governance model. In a society which is dominated by the self-interest principle it is normal or rational that the stockholders and the board believe to "self-interest"³ principle at the micro level. If board of directors believes to "self-interest" principle, they may perceive their firm as a "bundle of assets" or a "set of legal and economic contracts". When directors believe to the concept of asymmetric power (i.e. "asymmetric information" and/or "resource-in/dependence") between their firm vis-à-vis stakeholders, they may try to achieve "short-term profit or shareholder value

³ All the variables that are related with a perfect stockholder governance model or strong form of rational stockholder governance structure, which can be seen in appendix 3, are shown within the quotation marks in this section.

maximization” by exploiting their asymmetric power *vis-à-vis* these stakeholder groups. These types of principles will be carried to the organizational culture via vision, mission and strategies. As a result, the management may believe to the principle of “accountability to stockholders”. Besides, asymmetric power will more likely be an important concept for the management to serve the interests of stockholders. In order to create asymmetric power the management may try to distort or control the flow of information among stakeholders. But these kinds of efforts would not produce desired outcomes for the firm because the truth will be learned sooner or later by the stakeholders via “network relationships” (i.e. formal or informal communications will take place among the stakeholders). If management tries to learn the needs of stakeholders by forming “haphazard communication” with them, they will also not produce the desired business outcomes. As a result of these relationships, the number of “opportunistic behaviors” by stakeholders, including management, will increase every day in spite of legislative structures because it is impossible to prevent all the “opportunistic behaviors”, *ex-post*, via legislation (Jensen and Meckling, 1994; May, 1939; Williamson, 1975; 1993). Conflicts or “non-cooperative behaviors” will be usual between the firm and stakeholder groups or among the members of the same stakeholder group.

The management will try to form relationships with the stakeholders of the firm by exerting influence over them via contracting, monitoring and enforcing. In other words, the relationships between the firm and its stakeholders may be summarized as the “firm/stakeholder influence”. Legislation will be an important instrument of the firm because of the “opportunistic behaviors” between the firm and its stakeholders. As a result of these relationships, employees will more likely pursue their own “self-interest” rather than the mutual-interests (i.e. organizational

interests). Thus, unethical organizational behaviors such as expropriation will more likely be seen in the firm. Besides, the employees, who are key stakeholders, may not desire to make any contribution to the firm with their skills and human capital. In other words, no “intrinsic motivation” will be created among employees to make important contributions to the firm. Even if employees desire to make contribution to the firm, this chance will more likely not be given to them due to the belief to the principle of “distrust” by the management. Therefore, it is more likely that “unstable relationships with the stakeholders” (e.g. high turnover) will be observed because management may form short-term relationships with the stakeholders (e.g. employing part-time employees) to increase its asymmetric power. Thus, stakeholders are expected to exit from their relationships with the firm as soon as they find a better firm that will respond to their interests. The management will be reluctant to communicate with the stakeholders of the firm because real communication can only be formed among equals (Baum, 1977). As a result of these relationships among the stakeholders (i.e. management vis-à-vis stakeholders) of the firm, stakeholders would not be loyal to the firm because they would believe to the principle of “distrust” in the corporate governance system. The firm will more likely have a “bad reputation” among its stakeholders. Inefficiency in the long term will be an outcome of these relationships due to high agency costs (Hill and Jones, 1992), although the corporate governors have an “efficiency concern”. In sum, the firm will create “competitive disadvantage” because stakeholders will prefer to form relationships with better firms when they find a chance. As a result, this type of firm will be a permanently failing organization (Meyer and Zucker, 1989) depending on the economic and political environment in which it operates. It is more likely that this virtuous cycle (Senge, 1990) in and around the organization will continue until

the firm cease to exist (i.e. “entropy”) in the long term. The arguments that are made above are given to explain how a typical stockholder governance model works in the corporate governance system. They do not include all the variables in the stockholder governance model. A perfect stockholder governance model can be seen in appendix 3, which illustrates all the possible variables related with stockholder governance model. The model presented in appendix 3 is also named as ‘strong form of rational stockholder governance structure’ because all the variables are shaped by the premise of self-interest at the micro and macro levels in the corporate governance system. Strong form of rational stockholder governance is also depicted in the upper leftmost cell, which is shown with the Arabic numeral one, in figure 4.6.

Corporate governance system in the self-interest dominated cultures, which refers to the left hand side of the corporate governance matrix in figure 4.6, started with the strong form of rational stockholder governance structure. This governance structure was most likely seen until the last quarter of 20th century in the Anglo-Saxon world. Since self-interest was the only dominant principle at the macro level, this type of corporate governance structure was very normal for the large size firms in the Anglo-Saxon world. Thus, it was Adam Smith (1776) who presumed in his seminal work “The Wealth of Nations” that all individuals were totally selfish in the Anglo-Saxon world. Thus, it was very obvious that self-interest was the dominant principle at the macro level in the Anglo-Saxon world because the mutual-interests principle began to be accepted at least at the level of organization in the last quarter of 20th century. For example, the studies conducted about stakeholders of the U.S. firms by the institutions such as Stanford Research Institute, Harvard Business School and Wharton Applied Research Center during 1970s were some of the proofs for accepting the importance of mutual-interests principle at the micro level

(Freeman and Reed, 1983). Moreover, the use of internet, media, and telephones enhanced the communication and “network relationships” among the stakeholders of the firm in the last quarter of 20th century. These types of communication structures were another reason for the emergence of mutual-interests principle at the macro level. Finally, the size of the firms increased enormously due to the ease of trade in the world by the help of technological developments in communication and transportation, which occurred as a result of globalization. In other words, these types of developments also enhanced the competition among the firms in the Anglo-Saxon countries because these countries were based on the concept of market (Ertuna, 2005c). Thus, it was perceived by the corporate governors that the “firm existence” was related with not only stockholders but also non-stockholders (e.g. customers or employees or suppliers).

All these developments that are explained above clarify why the term corporate governance first appeared in the *Perspectives on Management* journal in 1983 (Tricker, 2000). Thus, large size firms most probably have conducted ‘weak form of rational stockholder governance structure’ until the last quarter of 20th century. Today, there is a self-interest/mutual-interests duality at the macro level in the business world. This duality is reflected to the governance of corporations in the individualistic cultures (e.g. Anglo-Saxon world). Thus, some of the variables of stockholder governance model are dominated by the variables of stakeholder governance model due to self-interest/mutual-interests duality at the macro level. Since the premise of self-interest is still perceived by some corporate governors as the dominant principle over mutual-interests principle at the macro level, the variables of stockholder governance model still dominates the variables of stakeholder governance model in the weak form of rational stockholder governance

structure. Firms are perceived as a “bundle of assets” by their stockholders, and this perception is based on the notion of property rights. Thus, the concept of property rights is one of the most important reasons for the domination of stockholder governance model over stakeholder governance model in the weak form of rational stockholder governance structure. This type of governance structure is illustrated with the cell on the upper left side of the corporate governance matrix, which is shown with the Arabic numeral two in figure 4.6. Besides, large size firms that operate in the weak form of rational stockholder governance structure may also shift back to the strong form of rational governance structure. When a firm gets into a virtuous cycle (Senge, 1990) and becomes a permanently failing organization (Meyer and Zucker, 1989), this shift is expected to occur at the micro level. This shift from weak form to the strong form of rational stockholder governance is depicted with the vertical double headed arrow accompanied with the circled small letter “a” on the left upper corner of the corporate governance matrix in figure 4.6.

The volume of trade among nations by the help of technological developments in communication and transportation has been increasing since 1990s. These kinds of developments also affected the stakeholders in terms of their quality and quantity. These kinds of developments also increased the sizes of the firms. Today, the power of employees and local communities are eroded and the power of customers and stockholders are enhanced due to globalization (Ertuna, 2005c; Julius, 1997). Bad or good information about a firm spreads to the whole world instantly via internet (O’Higgins, 2001). Besides, NGOs play the role of a catalyst to enhance the communication and to initiate “network relationships” among stakeholders of the firms (Frooman, 1999; Rowley, 1997). Finally, stakeholders desire firms to enhance the quality of the life around them. Therefore, these types of changes in the Anglo-

Saxon countries led to the emergence of mutual-interests principle at the macro level. On the other hand, there is also massive participation of U.S. households in equity markets (Mills and Weinstein, 2000). For example the percentage of equity ownership of financial institutions among Fortune 500 increased from %24 to %50 between 1977 and 1986 in U.S. (Hanson and Hill, 1991). Thus, Anglo-Saxon cultures are defined with the term “equity culture” (Monks, 2003). As a result, self-interest/mutual-interests duality emerged in these types of cultures. Corporate governors in the Anglo-Saxon countries responded to the self-interest/mutual-interests duality at the macro level via treating them as a mean. Instrumental theory (Jones, 1995) and stakeholder-agency theory (Hill and Jones, 1992) are developed to illustrate this transition to the new governance structure. Both of these theories start with the principle of mutual-interests and end up with the principle of self-interest. In other words, firms that operate in the Anglo-Saxon world responded to the self-interest/mutual-interest duality in this way. Likewise, firms gave importance to the needs of their stakeholders in order to increase their profitability. Corporate social performance theory is developed for this purpose (Clarkson, 1995). Firms tried to respond to these changes at the macro level via shifting to a new structure, which is named as ‘weak form of convergent stockholder governance’. Partiality between stockholder and stakeholder governance models is the most important characteristics of this new corporate governance structure. For example, a firm with a good reputation may behave its stakeholders ethically under certain economic circumstances but the same firm may not be trusted to behave ethically under uncertain economic circumstances (Swift, 2001). This argument also reflects the partiality of ethical organizational behaviors. The salience of stakeholders (Mitchell, Agle, and Wood, 1997) to the managers of the firm is closely related with the partial

stakeholder and firm behaviors. Thus, partiality between stockholder and stakeholder governance models is an important feature that is also reflected to the weak form of convergent stockholder governance structure at the micro level. A typical weak form of convergent stockholder governance that includes the partiality feature can be seen in appendix 3. This new governance structure is also illustrated with the cell on the left lowermost of the corporate governance matrix, which is shown with the Arabic numeral three in figure 4.6. The weak form of convergent stockholder governance structure can also be interpreted as a chaos for the firms that operate in this governance structure. When corporate governors do not encounter with the financial results in a short period of time, they may easily shift back to their previous governance structure at the micro level. This shift from weak form of convergent stockholder governance structure to the weak form of rational stockholder governance structure is depicted with the vertical double headed arrow accompanied with the circled small letter “b” on the very left of the corporate governance matrix in figure 4.6.

As it is mentioned in the paragraph above, partiality is one of the most important features for a large size firm that operates in the weak form of convergent stockholder governance. For example, government may try to force firms to behave in an ethical way via extensive legislative activities by requiring firms provide their employees things such as health insurance, life insurance, disability and pension coverage, worker safety standards, fairness to women, no job discrimination against handicapped employees. Government may also require firms provide information about the quality and safety of their products to their consumers (Logsdon and Lewellyn, 2000). Extensive legislative activities by the government may not be adequate to prevent firms produce externalities to their stakeholders when the costs

of not complying with the rules are less than its benefits (Monks, 1998). Therefore, it would not be wrong to argue that the legislative activities of government may also result with partial ethical organizational behaviors. On the other hand, corporations may maximize their profits in the short-term by hiding their externalities from their stakeholders but the suppressed truth will be learned sooner or later by the related stakeholder groups or by the society due the ease of “network relationships” among them. These “network relationships” among the stakeholder groups enhanced due to the technological developments (e.g. internet or media) in our contemporary world. When the truth is learned, it will be these kinds of firms that will lose in the long-term. Since the incentive schemes of managers in Anglo-Saxon countries are all set for the short-term, there will be no problem on the part of managers or directors because managers and directors are deemed as partners (Monks, 1998; Plender, 1997). But the real problem will be about other stakeholders (e.g. minority stockholders, employees, suppliers, local community, society at large), which also make firm-specific investments in their firms (i.e. these stakeholders are also economic risk bearers). Employees of these kinds of firms will lose their jobs. The major suppliers of these kinds of firms will go bankrupt. The employees of the suppliers will also lose their jobs. The taxes that are generated by these bankrupted firms will be lost which could be used for developing the quality of life. In other words, a substantial level of value-added created by these firms will all be lost both at the micro and macro levels due the failures of the large size firms. Therefore, mutual-interests among the stakeholders of the firm must be formed in order to achieve the survival of these firms in the long-term. In order to achieve this objective, there are four recommendations that complement each other in the governance process of these firms that operate in the self-interest dominated cultures

(e.g. Anglo-Saxon countries). First of all, long term contracts related with the interests of all the stakeholders can be formed (Plender, 1997). Second, firms can be made accountable to the trustees, of institutional investors such as pension funds, who will be accountable to their beneficiaries, who also represent most of the society, via electronic voting systems (Monks, 1998). Third, each director who will represent a stakeholder group in the board can be elected by the beneficiaries. Fourth, beneficiaries can be encouraged to form institutional structures to enhance the efficiency of their “network relationships” among themselves and with other stakeholder groups. This type of governance structure (i.e. “network relationships”) is expected to help beneficiaries because they are not only stockholders but also customers, employees, society at large. Thus, this type of governance structure is expected to help beneficiaries to decrease “asymmetric information” about the operations of the firm and to form “resource independence” (i.e. beneficiaries or stakeholders will form asymmetric power vis-à-vis these kinds of firms). Since managers of these firms have long-term contracts with the firm, they will prefer to work for the long-term benefits of their firms. Hence, mutual-interests among the stakeholders of the firm will be achieved (Monks, 1998). This type of governance structure, which refers to the ‘strong form of convergent stockholder governance structure’ in our corporate governance model, is the challenge of the large size firms that awaits them on the edge of the twenty-first century. In sum, learning organizations (Senge, 1990) and complex adaptive systems (Monks, 1998) may help firms that operate in the self-interest dominated cultures to form this type of governance structures (i.e. strong form of convergent stockholder governance). In other words, firms may prefer to shift from the weak form of convergent stockholder governance structure to the strong form of convergent stockholder governance

structure. But as it mentioned above, this shift requires some patience in terms of all stakeholders that participate to the corporate governance system. This patience (i.e. “long-term perspective”) can only be initiated by the corporate governors because they are the ones that can form a belief system via vision, mission, corporate credos based on the stakeholder governance model. This shift from weak form of convergent stockholder governance structure to the strong form of convergent stockholder governance structure is depicted with the vertical double headed arrow accompanied with the circled small letter “c” on the left lower corner of the corporate governance matrix in figure 4.6. The ones which would achieve this governance structure will most likely be the ones that will survive and prosper in the twenty-first century because these firms will most likely be the ones that would achieve competitive advantage and survive in the long term. Strong form of convergent stockholder governance structure is illustrated with the cell on the lower left side of the corporate governance matrix, which is shown with the Arabic numeral four in figure 4.6.

When a large size firm shift to the strong form of convergent stockholder governance, this move does not mean that this firm may stay in this new governance structure easily in self-interest dominated cultures. This will be explained by using some of the variables in stockholder and stakeholder governance models. For example, when corporate governors perceive their companies both as a “bundle of assets” and “bundle of human assets” they may create “high organizational commitment” and “high organizational citizenship”. The same cannot be said easily about “goodwill” because it requires trust based behaviors (Bird, 2001). If a company operates in self-interest dominated cultures, it is difficult to create trust based behaviors between the firm and its stakeholders. Even if corporate governors,

directors and/or managers, want to initiate trust based behaviors, stakeholders would not believe to the sincerity of the company due to their bounded rationality. Thus, stakeholders may show “non-cooperative behaviors” due to the self-interest principle. This kind of violations may again make corporate governors believe to the “distrust” principle and/or previous governance structures. Thus, such a company is more likely to return to the weak form of convergent stockholder governance structure. This shift from strong form to the weak form of convergent stockholder governance is depicted with the vertical double headed arrow accompanied with the circled small letter “c” on the left lower corner of the corporate governance matrix in figure 4.6. Hence, the challenge for the companies in self-interest dominated cultures is to create “mutual-trust” between their firms and stakeholder groups. This is a different task to achieve but it is not impossible. A firm may create “mutual-trust” among its stakeholders by letting “stakeholder participation”, “active communication”, “network relationships” that take place in and around the organization and by creating “stable relationships with its stakeholders”. These relationships would lead to the formation of shared and mutual interests among the stakeholders of the company in the long term. Therefore, it would not be wrong to conclude that the principle of “short-term profit/shareholder value maximization” contradicts with the principle of “mutual-trust”. The principle of “short-term profit/shareholder value maximization” may restrict corporate governors to be patient about the results of these relationships. The other critical principle in this strategy is the asymmetric power concept. If corporate governors can decrease their firm’s asymmetric power vis-à-vis their stakeholders, these types of relationships based on stakeholder governance model can be achieved. Otherwise, these types of relationships would be all artificial (i.e. “stakeholder as a mean”). Asymmetric power

can be diminished by treating the dependent stakeholders of a firm as equals, which can be achieved through “stakeholder participation” in the decision making process. Besides, asymmetric power is also expected to be diminished by being transparent, which can be achieved through “active communication”. A firm, which operates in a macro culture where self-interest principle dominates, most probably would not prefer to create “resource interdependence” (i.e. symmetric power) between the firm and its stakeholders because this principle is more related with the public-interest dominated cultures (e.g. Japan or Germany). As a result, creating a symmetric power in terms of resources and information between the firm vis-à-vis stakeholders is the challenge that awaits firms in self-interest dominated cultures on the edge of the twenty-first century. This challenge can only be overcome by believing to the principle of “stakeholders as an end”. If corporate governors can initiate and establish an organizational culture based on the principle of “mutual-trust”, the principle of “stakeholders as an end” will more likely emerge in the long-term.

It is mentioned in the paragraph above that “mutual-trust” is an important principle in order to move from the weak form of convergent stockholder governance to the strong form of convergent stockholder governance structure. Besides, partiality is one of the most important features that prevent this shift towards strong form of convergent stockholder governance. Standards such as AA1000 or GRI or SA8000 are developed to constitute “mutual-trust” between the firm and its stakeholders (Logsdon and Lewellyn, 2000). These types of standards may not be very helpful for a firm because of their partiality. For example, GRI standard shows the social and ethical behaviors of the suppliers, whether these suppliers treat their employees ethically or not, of a firm. Suppose that firm A has “resource independence”, asymmetric power, over its relevant and voluntary stakeholders. Suppose that firm A

requires firm B form ethical behaviors (e.g. “corporate social responsibility”, “cooperative behaviors”, “trust-based behaviors” and “fair behaviors”) with its employees in order to continue buying firm B’s products. Suppose that firm B is sure that its major supplier C has good ethical behaviors with its employees due to the results of GRI report. Is this GRI report about firm C sufficient for firm A? The answer is definitely no. Firm C may form ethical relationships with its employees, due to the importance that firm B gives to the GRI reports, but it may still form unethical relationships with other stakeholders (firm D and E) because of firm C’s resource independence over firm D and E. Thus, firm C may charge higher prices to its minor customers (firm D and E). The management of firm A may know the treatment of firm B to its minor customers (firm D and E). If firm A wants consistency among the behaviors of its relevant stakeholders it must track all of the relationships of firm B with its relevant and voluntary stakeholders. Firm B should be sure that firm C does the same tracking for its relevant stakeholders. In other words, it is not enough for firm A to form ethical relationships with its relevant and voluntary stakeholders. These stakeholders must have stakeholders that form ethical relationships with their own stakeholders. When there is partiality in this cycle the whole system is affected (i.e. the ‘chain of trust’ is broken). When the ‘chain of trust’ (i.e. “mutual-trust”) is broken among the relevant stakeholders of a firm, it indirectly affects the other ‘chain of trust’ between other firms and their relevant stakeholders. In turn, this chain reaction also affects the principles and processes of corporate governance system. Hence, the non-existence of the ‘chain of trust’ in the same or similar local industries makes it hardly possible achieve strong form of convergent stockholder governance structure. If firms in the same industry or clusters in certain local areas can develop mutual-interests and implement the principles and processes

of strong form of convergent stockholder governance multilaterally, it will be more likely that these firms will achieve competitive advantage at the macro level also. Firms that illustrate “opportunistic behaviors” and break this chain of belief systems that is developed by an industry in a certain local area should be kicked out of the game. In other words, the threat of this kind of social punishments will make it hardly possible for these firms and/or stakeholders exploit the weaknesses of the system. As a result, a virtual cycle based on the variables of strong form of convergent stockholder governance structure can be achieved at the macro level via “cooperative behaviors” among the firms in the same local industry. To achieve this kind of challenging governance structure, there should be “integrity” and “fairness” in every process and in every principle of each firm in the industry. This kind of governance structure at the industry level is crucial to form artificial trust in a self-interest dominated society in the early years of the governance system but as the time goes by corporate governors of the firms will get used to each other and “mutual-trust” will prevail in the long-term. Therefore, the governors of the firms should admit that creating competitive advantage requires long-term commitment. These kinds of strategic “network relationships” among the governors of the firms will make the asymmetric power of the whole industry more than each firm in the industry. This asymmetric power is expected to be a very deterrent mechanism for the stakeholders (e.g. directors, stockholders, managers, employees, suppliers, customers, consumers, and society at large) in this type of strategic “networks”. As a result, “integrity” will more likely prevail in each firm (i.e. at the micro level) that operates in these strategic “networks” in terms of applying all the variables of strong form of convergent stockholder governance structure. All of these variables that

belong to the strong form of convergent stockholder governance structure can be seen in appendix 3.

The Explanation of Corporate Governance Structures Shaped by the Public-Interest/
Mutual-Interests Duality in the Corporate Governance System

On the right side of the corporate governance matrix, which can be seen in figure 4.6, there are also four corporate governance structures. These four governance structures refer to the public-interest dominated cultures (e.g. Continental Europe and Japan). When all the variables are shaped by the premise of public-interest at the micro and macro levels, ‘strong form of normative stakeholder governance structure’ emerges in the corporate governance system. In order to explain how a typical strong form of normative stakeholder governance structure works, we should first start by reminding the dimensions or stages of corporate governance system. It is mentioned in the previous section that corporate governance is an open system which has three dimensions or stages: principles, processes, and outcomes. First of all, it is important to state that corporate governance system starts in the minds of the stakeholders in terms of corporate credos and ethos. In the second phase of corporate governance system, this belief system is reflected to the relationships between the firm and its stakeholders. This belief system is then accepted among the members of the same stakeholder group. Thus, an organizational culture is formed. These relationships between the firm and its stakeholders and among the members of the same stakeholder group produce business outcomes for the stakeholders and for the firm. Finally, these business outcomes support and strengthen these relationships and principles in the corporate governance system. In sum, self-fulfilling prophecy

(Ghoshal and Moran, 1996; Hofstede, 1983; Senge, 1990) will be formed in the corporate governance system. This self-fulfilling prophecy is closely related with the holistic approach (Bohm, 1980). At this point, it is important to emphasize the strategic importance of board of directors in the corporate governance system. It is this institutional structure (i.e. board of directors) that initiates the stockholder governance or stakeholder governance models in the corporate governance system via forming vision, mission statement and strategies, which are the bases for the corporate credo, ethos, and organizational culture. If directors believe to the principles of stakeholder governance model, they will form the vision, mission, and strategies, based on this model. Even if some of the relevant stakeholders of the firm do not believe to the principles of the stakeholder governance model, they will begin to believe them sooner or latter because it is a self-fulfilling prophecy. In other words, stakeholders' belief system will change in the corporate governance process because of the relationships between the firm and stakeholder groups or among the members of the same stakeholder group. Finally, the business outcomes of these relationships will also affect the belief system of these stakeholder groups. If the underlying assumption of this belief system is "public-interest"⁴, the other principles, relationships, and business outcomes will be all shaped around this principle. It is also important to state that systematic thinking rather than linear thinking (Senge, 1990) is more relevant to understand the corporate governance phenomenon.

All the variables in the stakeholder governance model are expected to dominate the governance of the firm because the whole corporate governance system will be shaped by the public-interest principle at the macro level. In a society, which

⁴ All the variables that are related with a perfect stakeholder governance model or strong form of normative stakeholder governance structure are shown within the quotation marks in this section.

is dominated by the public-interest principle, it is very normal that all the primary and secondary stakeholders believe to the “public-interest” principle. When the board of directors believe to “public-interest” principle, they will perceive their firm as a “bundle of human assets” or as a “set of social contracts”. Corporate social responsibility theory gives support to these principles. Besides, corporate governors will also perceive the “stakeholders as an end”. Normative stakeholder theory is closely related with this principle. Since directors are expected to believe to the concept of symmetric power, they may try to achieve “long-term profit maximization/value-added” via their symmetric power *vis-à-vis* stakeholder groups. The concept of symmetric power in terms of “resource-interdependence” is closely related with the resource-based theory. These types of principles will be carried to the organizational culture via vision, mission and strategies. As a result, the management may believe to the principle of “accountability to stakeholders”. Besides, symmetric power will more likely be an important concept for the management to serve the interests of stakeholders because stakeholders will be perceived as an end by the managers. In order to create symmetric power in terms of information (i.e. “symmetric information”), the management may not hide any information from their stakeholders. When the management tries to learn the needs of stakeholders and forms “systematic communication” with them, this firm will more likely achieve the desired outcomes such as “good reputation” or “goodwill”. As a result of these relationships, “trust-based relationships” will be developed between the firm and its stakeholders and among the primary and secondary stakeholders of the firm. Thus, “cooperative behaviors” will be usual between the firm and stakeholder groups or among the members of the same stakeholder group.

The management will let “stakeholder participation” in the decision making process at the level of the board or at lower levels as in the case of German or Japanese firms. Letting stakeholder participate to the decision making process will also make them believe to the principle of “mutual-trust” in the corporate governance system. As a result of these relationships, it will be more likely that employees identify themselves with their firm (i.e. “high organizational commitment” will emerge as a business result). Besides, the employees, who are key stakeholders, will desire to make contributions to the firm with their skills and human capital. Since corporate governors form stable or long-term relationships with their employees, the emergence of “experience” in terms of skills and human capital will be very normal in the organization. As a result, the corporate strategy in terms of creating asset specificity or “resource interdependence” with the employees will create a system that systematically come up with innovation. In other words, these kinds of firms will create an organizational culture based on “innovation concern”. Since there is “resource-interdependence” between the firm and its stakeholders, there will be an “active communication” between the management and stakeholders because only equals can form real communication. As a result of these relationships among the stakeholders of the firm, they would be very loyal (i.e. “high organizational citizenship”) to the firm because these stakeholders will develop “trust-based relationships” with their firm. Efficiency in the long- term will emerge as a result of “trust-based relationships” because of very low agency costs. Although the corporate governors of these kinds of firms have “no efficiency concern”, trust-based relationships will more likely produce efficient results. In sum, these kinds of firms will easily create competitive advantage. Besides, the stakeholders will prefer to continue their relationships with these kinds of firms when a minor or major

economic crisis occurs. In other words, “immunization to the crisis” will more likely be the business result for these kinds of firms. The arguments that are made up to this point are given to explain how a typical stakeholder governance model works in the corporate governance system. They do not include all the variables in the stakeholder governance model. A perfect stakeholder governance model can be seen in appendix 3, which illustrates all the possible variables related with stakeholder governance model. The model presented in appendix 3 is also named as strong form of normative stakeholder governance structure because all the variables are shaped by the premise of public-interest at the micro and macro levels in the corporate governance system. Strong form of normative stakeholder governance structure is also depicted in the lower rightmost cell, which is shown with the Roman numeral I., in figure 4.6.

Corporate governance system in the public-interest dominated cultures, which refers to the right hand side of the corporate governance matrix in figure 4.6, started with the strong form of normative stakeholder governance structure. This governance structure was also most likely seen until the last quarter of 20th century in the Continental Europe and Japan. For example, the use of social balance sheets as firms’ social responsibility in Continental Europe (Garcia-Marza, 2005) was a good example in terms of the importance of public-interest principle at the macro level. The same was also true for the Japanese corporations in terms of the importance of public-interest principle until the 1993 act, which included the interests of stockholders due to the pressures of international financial institutions (OECD, 1996). This major change in the Japanese corporate law was the result of globalization. Although globalization started before the last quarter of 20th century, it intensified after this quarter by the help of technological developments in terms of communication and transportation. Thus, especially supranational firms that

originated from Continental Europe and Japan were not operating in the strong form of normative stakeholder governance structure even before the last quarter of 20th century. Strong form of normative stakeholder governance structure refers to the perfect stakeholder governance model. In other words, it was the ideal corporate governance structure for the firms. Since supranational firms were also operating in the Anglo-Saxon countries before 1990s, it would not be logical to think that their governance structures are not affected from the cultures of these countries before the last quarter of 20th century. There could be the local and large size firms that achieved this corporate governance structure in Continental Europe and Japan before this period (i.e. 1990s) but even these local large size firms were affected from the winds of globalization. Thus, globalization also affected public-interest dominated cultures, especially in the last quarter of 20th century. Mitsubishi Company, which was founded in the mid-19th century, was probably operating in the strong form of normative stakeholder governance structure due its emphasis on corporate social responsibility (Monks, 1998).

Today, none of the supranational firms originated from the public-interests dominated cultures most probably operate in strong form normative stakeholder governance structure due to impact of the globalization. It is most the ‘weak form of normative stakeholder governance structure’ that exists among the firms in the public-interest dominated countries. In other words, firms shifted at least from the strong form to the weak form of normative stakeholder governance structure. This shift from strong form to the weak form of normative stakeholder governance structure is depicted with the vertical double headed arrow accompanied with the circled capital letter “A” on the right lower corner of the corporate governance matrix in figure 4.6. The weak form of normative stakeholder governance structure is

also depicted with the cell on the lower right hand side of the corporate governance matrix, which is shown with the Roman numeral II in figure 4.6.

Due to the pressures to increase the equity returns in Continental Europe and Japan (Clarke, 1998a; Plender, 1998; Schilling, 2001; Stoney and Winstanley, 2001), firms that operate in these countries move closer to the stockholder governance. The liberalization of financial markets, privatizations, demand for capital (Mills and Weinstein, 2000), inefficient resource allocation, inefficient distributional channels, strong favoritism among insiders, entrenched management complacency, rigidity, and inertia (Chang and Ha, 2001) are some of the examples to the pressures of globalization. These are some of the reasons for this move towards stockholder governance model. This move in these countries should not be interpreted as if the principle of public-interest is irrelevant in these types of cultures at the micro level. For example, the shareholdings of Japanese and German companies are more concentrated than American companies but the expectation in Germany and Japan is that the companies will be run in the interests of society (Hendry, 2001). However, there is also tendency in the public-interest dominated cultures such as Japan to consider the interests of stockholders. The interests of stockholders are suppressed due to the domination of public-interest principle (Plender, 1997). Companies in the public-interest dominated countries (e.g. Continental Europe or Japan) respond to these changes at the macro level by shifting to a new corporate governance structure at the micro level. This new governance structure is named as 'convergent stakeholder governance structure'. As a result, most of the firms in the public-interest dominated cultures are expected to shift from the weak form of normative stakeholder governance structure to the weak form of convergent stockholder governance structure because corporate governors in these type of cultures are not

used to govern their firms by emphasizing the interests of stockholders. This shift to the weak form of convergent stakeholder governance structure is resulted with the elimination of life time employment policies of these firms and emphasis on the efficiency in these countries. In other words, corporate governors in Continental Europe and Japan try to achieve a balance between the public-interest and self-interest at the micro level. The emergence of public-interest/mutual-interests duality at the macro level in the Continental Europe or Japan refers to the convergence of public-interest and self-interest principles and emergence of mutual-interests principle in these cultures. When corporate governors try to achieve this balance, they also face with chaos as their colleagues (i.e. corporate governors) in the Anglo-Saxon world because the society in the public-interest dominated cultures is not used to these types of behaviors in their companies. Thus, companies in the Continental Europe or Japan move from the weak form of normative stakeholder governance structure to the weak form of convergent stakeholder governance structure in order to respond to the external changes at the macro level. The opposite of this shift may also occur. Thus, the companies that operate in the weak form of convergent stakeholder governance structure may move back to the weak form of normative stakeholder governance structure. This two way shift between the weak form of normative stakeholder governance structure and the weak form of convergent stakeholder governance structure is depicted with the vertical double headed arrow accompanied with the circled capital letter “B” on the very right side of the corporate governance matrix in figure 4.6. The weak form of convergent stakeholder governance is also depicted with the cell on the upper rightmost side of the corporate governance matrix, which is shown with the Roman numeral III in figure 4.6. It is the strong form of convergent stakeholder governance structure that refers to the

firms that operate in the public-interest dominated cultures. In other words, the strong form of convergent stakeholder governance structure is expected to let these firms achieve a balance between the public-interest (i.e. the interests of society) and self-interest (i.e. the interests of stockholders). This balance between the main assumptions of public-interest and self-interest is also depicted in figure 4.4. Thus, it is the strong form of convergent stakeholder governance structure that achieves this balance between the interests of society and stockholders. Strong form of convergent stakeholder governance structure is illustrated in the upper right hand side of the corporate governance matrix, which is shown with the Roman numeral IV in figure 4.6. In other words, it is also much easier for these firms to move from the weak form of convergent stakeholder governance structure to the strong form of convergent stakeholder governance by not suppressing the needs of the stockholders provided that their interests should not be overemphasized over other stakeholder groups. In other words, there must be a balance among the interests of all stakeholders, viz. organizational equilibrium (Aoki, 1984). This shift from the weak form of convergent stakeholder governance structure to the strong form of convergent stakeholder governance structure is depicted with the vertical double headed arrow accompanied with the circled capital letter “C” on the right upper corner of the corporate governance matrix in figure 4.6.

The premise of public-interest is still dominant in these countries but its priority changed by the emergence of mutual-interests principle in the world. The social issues, which refer to the public-interest principle, at the macro level are perceived by the corporate governors as mutual-interests principle in the Anglo-Saxon world (Clarkson, 1995). On the other hand, the interests of financial institutions, which refer to the self-interest principle, at the macro level are perceived

by the corporate governors as the mutual-interests principle in the Continental Europe or Japan. These convergence increases the similarities in these types of cultures in terms of their corporate governance structures. As these similarities increases between the public-interest dominated cultures and self-interest dominated cultures, corporate governance structures also approach to each other. In other words, convergent stockholder governance and convergent stakeholder governance structures are expected converge. This is especially true for the transnational corporations because global managers operate in an increasingly complex and dynamic business environment. Hence, there is a need for reconciling global rules with local norms. In order to compete more effectively in a globalized market, Anglo-Saxon and German-Japanese governance environments is expected to learn from each other by adopting the aspects of the other model (Letza, Sun, and Kirkbride 2004). Weimer and Pape (1999) also observed that some of the characteristics of “market” oriented and “network” oriented countries converge. Integrative social contract theory is created by Donaldson and Dunfee (1994; 1995) to serve this need. As a result, modern stewardship theory and integrative social contract theory try to define this convergence in the world. What are the main corporate governance features that will differentiate the firms that operate in self-interest dominated cultures from the firms that operate in public-interest dominated cultures then? Since self-interest principle will still be relevant in the governance of the firms that operate in self-interest dominated cultures, two principles in our corporate governance model will show difference: one of them is concept of asymmetric power and the other is the principle of “stakeholders as a mean”. It is impossible to form a symmetric power in a self-interest dominated culture in the short and mid terms. If the corporate governors do not exploit their asymmetric

power over the entities, stakeholders will most likely comply with the principles and processes of strong form of convergent stockholder governance structure. It is hoped that this asymmetric power may turn to symmetric power in the long-term as the stakeholders do not exert their powers over each other. The second one is the principle of “stakeholders as a mean”. It is also impossible to perceive the stakeholders of the firm as an end in a culture that is still affected by the self-interest principle but it is possible to perceive the stakeholders both as a mean and as an end (Hosmer, 1995) in the middle and long terms. They are perceived as an end because the “firm existence” depends on them, and they are perceived as a mean because of the interests of the stockholders will dominate the governance process. It is also hoped that this principle may turn to the principle of “stakeholders as an end” in the long-term. If these differences fade away between the firms that operate in self-interest dominated culture and firms that operate in public-interest dominated cultures, point of integration and compromise (PIC) may well be achieved among these two types of corporate governance structures. This integration or compromise is expected at least at the firm level, which also refers to the optimum point. As a result, the firms that operate in the strong form of convergent stockholder governance structure, which is shown with the diagonal one headed arrow accompanied with the circled small letter “d” in figure 4.6, are expected to converge with the firms that operate in the strong form of convergent stakeholder governance structure, which is also shown with the diagonal one headed arrow accompanied with the circled capital letter “D” in figure 4.6, in the PIC in the twenty-first century. As it is mentioned by Hofstede (1999), *“If there is one moral principle that can be offered as a candidate for a universal value and as a must for organizations aspiring to be global, it is the principle of moderation: seeking MiddleWay”* (p. 43). Hofstede argued that this

principle (i.e. seeking middle way) is based on the teachings of Buddha, Confucius, and Socrates.

There is another possibility that affects the corporate governance structures in the world. The culture of a country may shift from public-interest principle to the self-interest principle. This type of shift at the level of society or macro level is the case for the developing countries. According to Reed (2002), there are four reasons which forced developing countries to move in the direction of an Anglo-Saxon model. First, some countries like India, Nigeria have strong historical ties with the Anglo-American model due to their company law rooted in British company law. Second, unsuccessful previous interventionist models, import-substitution industrialization (ISI) and export-led industrialization (ELI), are a justification for market-led industrialization model and liberalization (i.e. Anglo-American model). Third, previous interventionist models, ISI and ELI, breed uncompetitive firms but market-led industrialization model presents itself as an important tool for inducing more competitive domestic firms. Fourth, international financial organizations present structural adjustment programs to developing countries which induce them to move to the Anglo-American model. According to Stiglitz (2000), who has been given the Nobel Prize in economics, questions the rationale behind these structural programs in the aftermath of the East Asian economic crisis. Of course, globalization is the most important reason for the shift from the public-interest principle to the self-interest principle at the level of society. The opposite of this shift at the level of society is also observed in some of the countries such as Venezuela, Argentine or Brazil. This shift is depicted with the double headed arrow at the very top of the corporate governance matrix in figure 4.6.

There are eight corporate governance structures that emerged as a result of the interactions at the macro and micro levels in the corporate governance system. Four of these corporate governance structures are on the left hand side and the other four are on the right hand side of the corporate governance matrix. Thus, these eight corporate governance structures constitute the universal corporate governance matrix in figure 4.6. This categorization is the final phase in the constitution of corporate governance model because the research questions (i.e. what, how, where, when, who and why) about the constitution of corporate governance model are tried to be answered by the help of induction. Thus, corporate governance model will be deduced with the help of empirical findings based on qualitative and quantitative research methodologies in the next chapter. Therefore, the purpose of this thesis can be categorized under two main sections. First, the thesis is expected to show whether the industrial firms in Turkey are dominated by the premise of self-interest or public-interest at the macro level. Second, the thesis is also expected to come up with the answers to the research questions (i.e. what, how, where, when, who and why) in order to deduce the corporate governance model. Thus, the process of deduction is also categorized into two subsections. First, a qualitative research methodology will be implemented for this purpose. Second, corporate governance index (CGI) will be developed to quantify and compare the industrial firms' financial performances in Turkey. The most important reason for the constitution of this model is to position and compare the firms that are dominated with the stockholder governance model with the firms that are dominated with the stakeholder governance model in terms of their financial performances. The thirty-six variables of stockholder and stakeholder governance models, which can be seen in appendix 3, will be used to quantify the transcribed in-depth interviews of corporate governors related with the industrial

firms in the sample. As a result, the firms that are dominated by stockholder governance model will be compared with the firms that are dominated with the stakeholder governance model in terms of their financial performances. Besides, the means of these thirty-six variables of stockholder and stakeholder governance models that are in the opposite poles and embedded in the CGI will also be compared. A quantitative research methodology will be implemented for this purpose. Thus, qualitative and quantitative research methodologies will be used in chapter five in order to deduce the corporate governance model. As a result, the corporate governance model will be interwoven with the processes of induction and deduction.

CHAPTER V

RESEARCH METHODOLOGY

This thesis can be categorized into two main phases. The purpose for the constitution of the universal corporate governance model is to answer the research questions (i.e. what, how, where, when, who and why) about the constitution of corporate governance theory. In order to answer these research questions about corporate governance theory, inductionist rather than a deductionist method is first used, as indicated by Mintzberg (2005), by the help of literature review in the thesis. This is the first phase of the thesis. As a result of the process of induction, it is found that agency theory, resource-dependence theory, transaction cost economics theory, stakeholder-agency theory, instrumental stakeholder theory, traditional stewardship theory, corporate social performance theory, corporate social responsibility theory, integrative social contract theory, modern stewardship theory, resource-based theory, and normative stakeholder theory contribute to the different aspects of corporate governance construct. The thirty-six variables, which refer to the stakeholder and stockholder models, are extracted from these twelve theories. Since a good model needs to be interwoven with the processes of induction and deduction, the process of deduction is conducted in the second phase of the thesis after the induction of corporate governance model in the previous four chapters of the thesis. The second

phase of the thesis will be presented in chapter five and six. The design of the research, sample selection process, features of the firms and corporate governors in the sample will be first presented in this chapter and empirical findings of the study will be presented in chapter six.

The design of scenarios and research questions

The research methodology starts with the in-depth interviews. In order to conduct the in-depth interviews, two scenarios based on stockholder and stakeholder governance models are developed. Scenarios are developed for the purpose of asking indirect questions to corporate governors. It is thought that corporate governors may give wrong answers to the direct research questions during the in-depth interviews. Thus, two scenarios that are accompanied with the open ended questions are developed to overcome this bias problem in the research. These two scenarios, the variables that are used in these two scenarios, and open ended questions related with these scenarios can be seen in appendix 1. The first scenario is constituted by the help of the some variables in stockholder governance model. The second scenario is constituted by the help of the some variables in stakeholder governance model. These two scenarios are also coded with the variables of stockholder and stockholder governance models in order to show the logic under these two scenarios. The underlying variables that are used in coding these two scenarios are also illustrated in appendix 1. All the variables that are related with the stockholder and stakeholder governance models are illustrated in the first two figures in appendix 3. Narrower research questions make a research more coherent, legitimate and better (Pfeffer,

1993). Thus, narrower research questions are designed in order to make the research more coherent and legitimate. Seven research questions are developed for this purpose. Questions one and two are grouped under the first category, which is shown with the Roman numeral I. Questions three, four, five, are grouped under the second category, which is shown with the Roman numeral II. Questions six and seven are grouped under the third category, which is shown with the Roman numeral III. All these questions under these three categories can be found in appendix 1.

The main objective in a stakeholder research should be identifying who a firm's stakeholders are and determining what types of influences they exert on the firm (Rowley, 1997). Research questions one and two in appendix 1 are designed to learn the relevant stakeholders and their priority for the firms. These two questions are not based on the two scenarios. The purpose of these questions is to see the importance of the stockholders and non-stockholders for the industrial firms. A firm's relationships with its stakeholders are essential assets that must be understood and managed by the managers to generate organizational wealth (Post, Preston, and Sachs, 2002b). Besides, a firm's relationships with its stakeholders constitute the culture of it and define it as a social institution (Arthur, 1987). Thus, questions three, four, and five in the second category are designed to learn the relationships between the firms and their relevant stakeholders. The two scenarios are accompanied with these three questions, which can also be seen in appendix 1. These three questions in the second category constitute the main body of the research because these open ended questions let corporate governors speak freely in terms of the corporate governance system in their firms. Finally, questions six and seven in the third category are designed to learn how corporate governors perceive the present and the future business world in terms of stockholder and stakeholder governance models

that are presented with the two scenarios. Question six is designed to learn about the present situation in the business world, and it has a descriptive purpose. Question seven is designed to learn about the future situation in the business world and it has a normative purpose. The research questions one, two, six, and seven in the first and third categories are designed to learn whether the industrial firms in Turkey are dominated by the premise of self-interest or public-interest at the macro level in the corporate governance model. First and third categories are related with the qualitative research, and second category is related with the quantitative research. As a result, all of the questions in these three main categories are designed to shed some light on the corporate governance model.

The most important issue in the design of the research questions based on the two scenarios related with stockholder and stakeholder governance models is the search for the answers to the questions of “what, how, where, when, who and why” about the corporate governance system in Turkey. Thus, the seven questions grouped under three main categories are designed in order to answer the research questions of “what, how, where, when, who and why”. Questions one and two in the first category, which are grouped by using the Roman numeral I, are designed to answer the questions “who are the stakeholders of the firms?” and “what are stakeholders’ salience for the firms?” Questions three, four, and five in the second category, which are grouped by using the Roman numeral II, are designed to answer the questions “what kind of relationships are formed and how these relationships are formed between the firms and their stakeholders?” Finally, questions six and seven in the third category, which are grouped by using the Roman numeral III, are designed to answer the question “where are the industrial firms in Turkey positioned in the corporate governance matrix?” These two questions, six and seven, in the third

category are also designed to learn the corporate governance structures that refer to the past, present and future. In other words, the research question of “when” is expected to be answered by the help of these two questions in the third category. Questions three, four, and five in the second category will also help us to form corporate governance index (CGI) and determine the firms’ precise positions in the corporate governance matrix. Besides, CGI is also expected to help us to answer the question of “when” correctly via implementing quantitative research methodology. Questions one, two, six, and seven in the first and third categories refer to the qualitative research methods. Questions three, four, and five in the second category refer to the quantitative research methods. As a result, these seven questions (i.e. one, two, three, four, five, six, and seven) are designed for the purpose of in-depth interviews to come up with the answers to the research questions of “what, how, where, when, who and why” about the corporate governance paradigm. These seven questions can be found in appendix 1. In sum, the corporate governance model is expected to be interwoven with processes of induction and deduction by the help of qualitative and quantitative research methods.

The Process of Sample Selection

First of all, a pilot study is conducted with three corporate governors. The purpose of this pilot study is to learn how much time the in-depth interviews will take and whether there is a need to redesign the research questions for the in-depth interviews or not. After this pilot study is conducted, some of the research questions related with the two scenarios are extracted and some of them are redesigned. Thirty-nine

corporate governors, managers and/or directors, are interviewed after the pilot study. In other words, totally forty-two corporate governors are interviewed in the five cities of Turkey. The distribution of these forty-two manager and/or directors and the name of these five cities is illustrated in table 5.1. Besides, the distribution of these forty-two corporate governors in terms of their positions in the industrial firms is also depicted in table 5.2. Since three of the in-depth interviews are conducted for the purpose of the pilot study, the main sample consists of thirty-nine firms. In order to increase the heterogeneity of the sample to the population, corporations in different industries, regions, organizational sizes, ownership structures, and organizational age are selected randomly on the basis of accessibility and availability. In order to increase the resemblance of the managers in the sample to the population, female and male, junior and senior corporate governors (i.e. managers and/or directors) are also interviewed. The distribution of the thirty-nine industrial firms in the main sample in terms of their manufacturing industries can be seen in table 5.3. The percentage of all the industrial firms in the sample is very close to the percentage of the industrial firms in the population. For example, textile, apparel and leather manufacturing industry is the biggest one in Turkey. As it can be seen in table 5.3, there are fourteen firms related with the textile, apparel and leather manufacturing industry, which is the largest group in the main sample. In other words, these fourteen firms constitute approximately 36% of the main sample. The ratios of the large size firms that operate in the textile, apparel and leather manufacturing industry to the population in Turkey are close to this percentage (i.e. 36%). The list of the companies in the top one thousand industrial companies, which is declared by the Istanbul Chamber of Industry since 1997, is used in order to determine the whole population. Most of the firms in the main sample are privately

owned national industrial companies but there are some firms with public and foreign ownership structures. The distribution of the firms in terms of their ownership structures are illustrated in table 5.4. These ownership structures are based on the criteria that more than 50% of a firm's shares are owned by private or public or foreign owners. For example, there are five firms where foreign ownership exists but foreign investors own more than 50% in only three of these firms. Therefore, only three firms appear as having foreign ownership structure in table 5.4. Moreover, some of the firms in the sample had private ownership structure in the past but today they have foreign ownership structure. Similarly, some of the firms that were publicly owned are now privately owned firms. All these facts about ownership structure also reflect the heterogeneity of the sample. Thirty-nine corporations in the main sample are among the top one thousand industrial companies in Turkey, in terms of sales or assets that are declared every year by Istanbul Chamber of Industry. Although some of these industrial firms sometimes do not appear among the top one thousand for some years, it is seen that the number of the firms in the main sample is adequate for the normal distribution purposes between the years 2000-2004. Therefore, comparison of the firms that implement stockholder governance model with the firms that implement stakeholder governance model in terms of their financial performances is made between 2000 and 2004.

Table 5.1 The Name of the Cities and Distribution of the In-depth Interviews

Name of the City	Number of Interviews
Istanbul	14
Izmir	9
Denizli	9
Kayseri	8
Manisa	2
Total	42

Table 5.2: The Distribution of the Corporate Governors (Managers and/or Directors) in Terms of Their Positions in the Firms

Position of the Corporate Governors in the Firms	Number of Corporate Governors
Director in the Board of Directors	4
Director and/or Manager	6
Chief Executive Officer	11
Head of the Marketing Department	6
Head of Finance Department	6
Head of Manufacturing Department	8
Head of Human Resources Department	1
Total Number of Corporate Governors	42

Table 5.3: The Distribution of the Industrial Firms in Terms of Manufacturing Industries

Manufacturing Industries	Number of Firms
Textile, Apparel & Leather	14
Iron & Steel & Other Basic Metals	3
Paper, Paper Products, Printing & Publishing	3
Food, Beverages & Tobacco	4
Chemicals and Chemical, Petroleum, Coal, Rubber & Plastic Products	5
Other Manufacturing	2
Non-metallic Mineral Products	3
Metal Products, Machinery & Transportation Equipments	5
Wood & Wood Products	0
The Total Number of Firms	39

Table 5.4: The Distribution of Firms in Terms of Their Ownership Structures

Ownership Structures	Number of Firms
Private Ownership	36
Public Ownership	0
Foreign Ownership	3
The Total Number of Firms	39

“Whose perception or perspective will be relevant in the in-depth interviews?” is another issue in the research. It is well known that a perception makes sense in the eye of the beholder. There are two types of measures for determining the quality of firm-stakeholder relationships. One of them is norms and standards and the other is perceptions. Perception-based measures are the most important measures in order to measure the human relations. Therefore similar techniques as in the market research

about customers should be used to measure the perceived quality of a firm's relationships with its stakeholders (Wheeler and Sillanpää, 1998). Besides, emotions and social beliefs rather than factual reasons play an important role whether something has ethical intrinsic value or not (Stoney and Winstanley, 2001). Since it was difficult in our study to use generalized norms and standards for the companies from different industries, perception-based measures are used. After explaining the reasons for the importance of perception-based measures, determining whose perception will be relevant in the in-depth interviews is an important issue. The mutual-responsibilities and obligations inherent in employer-employee relationships often differ due to the perceptual differences of both sides (Rousseau, 1995). On the other hand, Clarkson (1995) has given importance to the perception of stakeholders rather than managers. Thus, it is proposed by Clarkson to survey representatives of primary stakeholder groups in order to form stakeholder satisfaction ratings and correlate these ratings with the long-term financial performance of corporations. According to Roger Hayes, who is the president of International Public Relations Association, power of public perception and the emotional dynamics that drive this perception override science, logic and reason (Scholes and Clutterbuck, 1998). In other words, the perception of the society is relevant. On the other hand, managers are the ones who enter into contractual relationships with all the stakeholders. Besides, managers have a direct control over the decision-making apparatus of the firm because they are the ones who make strategic decisions and allocate resources to the stakeholders of the firm (Donaldson and Preston, 1995; Hill and Jones, 1992; Jones and Wicks, 1999). Mace's study (1971) also showed that it is the managers who set objectives, strategies and ask discerning questions but not the board of directors. This study shows the important

role of managers in the corporate governance system. This is the situation in U.S., where the dispersed ownership is the norm in governance of corporations. Besides, institutional investors, who diversify their risks by investing in a portfolio of companies, are block holders in the U.S. companies. Thus, institutional investors do not give much attention to the governance of companies except their profitability. Due to these facts, this finding is normal for U.S. companies. Since family ownership is the norm in Turkey, boards have more power to perform their roles than the boards in U.S. corporations. According to MacMillan and Downing (1999), it is the board of directors that should be considered in a study about corporate governance. The corporate culture is not the personality of the firm but it is a sign of this personality. Distinctive will, which is the ability to generate a unity of action in achieving organizational goals, constitutes the aggregate personality of a firm via the board of directors in publicly held corporations because board of directors is the initiator of the corporate governance. It is the board of directors that creates organizational culture. It is the board of directors that determines the principles in the mission statement and makes them be implemented in the organization by management (Arthur, 1987). Today, boards need to generate trust and commitment in their firms' relationships with their stakeholders. Boards also need to help their firms to gain competitive advantage, which will be derived from their firms' relationships with the stakeholders. Boards should try to appoint senior managers, CEO and top executives, who will have leadership skills to generate long term stakeholder relationships (MacMillan and Downing, 1999), because senior managers have a strategic role in the corporate governance process. Based on these explanations about the importance of managers and directors in the corporate governance system, in-depth interviews are conducted with the top managers and directors. Besides, sometimes the role of

manager and director is conducted by the same person as in the case of industrial firms in Turkey. This fact also urged us to consider the perception of top managers and directors, who are named as corporate governors, in the study. Although the perception of corporate governors would not be the same with the perception of other stakeholders (e.g. employees), it is found appropriate to consider the perception of corporate governors because they are the ones that initiate the corporate governance system and exert power over the corporate entities. Since the perception of corporate governors, who are managers and/or directors, are important for the study, the in-depth interviews are conducted with them rather than with other stakeholders.

CHAPTER VI

EMPIRICAL FINDINGS OF THE STUDY

Chapter six consists from two subsections. The first subsection presents the qualitative research findings and their implication. The main purpose of this subsection is to show whether the industrial firms in Turkey are dominated by the premise of self-interest or public-interest at the macro level in the corporate governance model. The second subsection presents the quantitative research findings and their implication. This subsection is categorized into three parts. The first part of the quantitative research findings explains and constitutes the corporate governance index (CGI) by using the thirty-six variables in stockholder and stakeholder governance models. This first part in the quantitative research findings then presents and defines the positioning of the industrial firms regarding the CGI. The second part of the quantitative research findings compares the industrial firms in terms of their financial performances via CGI. Three main hypotheses are developed and tested in order to compare the industrial firms in terms of their financial performances via CGI. Finally, thirty-six hypotheses are developed and tested in the third part of the quantitative research findings in order to compare corporate governors' inclinations by using the thirty-six variables of stockholder and stakeholder governance models, which can be seen in the first two figures in appendix 3. Totally thirty-nine

hypotheses are developed and tested in the quantitative research findings. T-test and paired wise t-test statistics are used in order to test these thirty-nine hypotheses in the quantitative research findings. The most important reason for the constitution of corporate governance model is to position and compare the firms that are dominated with the stockholder governance model with the firms that are dominated with the stakeholder governance model in terms of their financial performances. Thus, qualitative and quantitative research findings in this chapter are also expected to serve this important research objective. As a result, corporate governance model is completed by the help of qualitative and quantitative research findings and their implications. In other words, the corporate governance model is interwoven with the processes of induction and deduction. The following two subsections (qualitative and quantitative reseach findings and their implications) refer to the process of deduction.

Qualitative Research Findings and Their Implication

There are seven research questions, which can be seen in appendix 1, that are designed to answer the questions of “what, how, where, when, who and why” about the corporate governance system in Turkey. The purpose of this subsection is to illustrate qualitative findings of the study, which will also help us to deduce the corporate governance model. The general findings of the research will be based on the answers to the questions one, two, six, and seven, which can be seen in appendix 1, because these questions refer to the qualitative part of the research. Questions three, four, and five, which can also be seen in appendix 1, refer to the quantitative

part of the study. The findings related with the questions one, two, six, and seven will be presented below.

Table 6.5 The Frequencies and Relative Percentages of Industrial Firms' Relevant Stakeholders in the Total Sample

Stakeholders	Frequency	Relative Percentages
Stockholders	42	100%
Customers	42	100%
Suppliers	35	83%
Employees	35	83%
Government	14	33%
Society	11	26%
Banks	10	24%
Consumers	11	26%
Influencers	9	21%
Environment	4	10%
Managers	3	7%
Foreign Governments	1	2%
Transporters	1	2%
Rivals	1	2%
Sample	42	100%

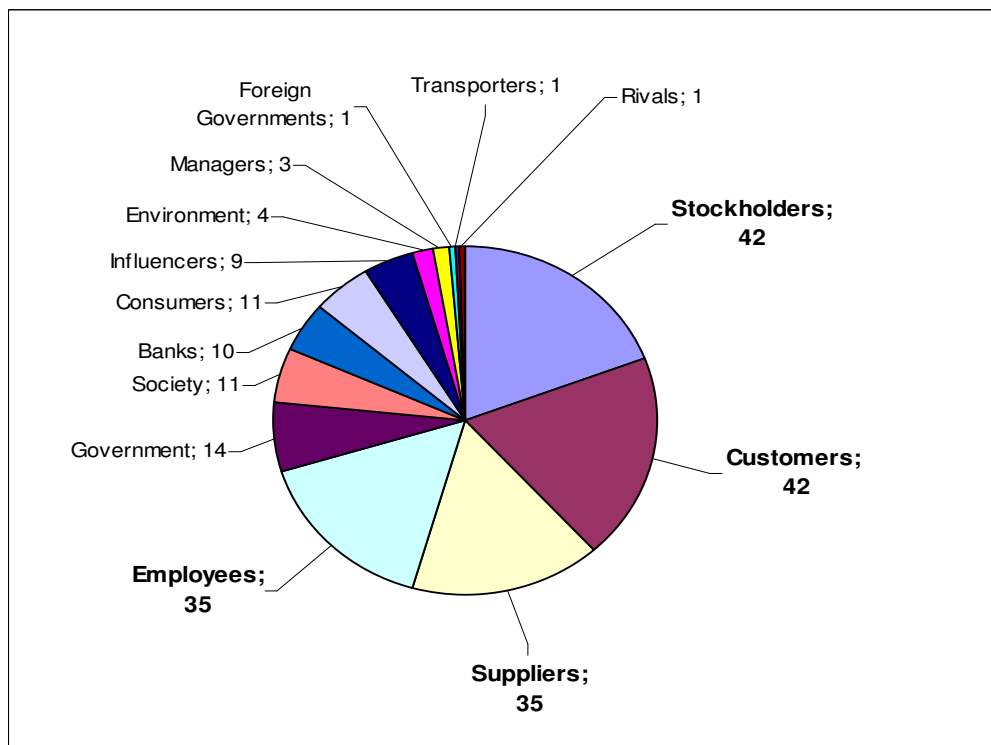


Figure 6.7 The frequencies of industrial firms' relevant stakeholders in the total sample

As it is mentioned in chapter five, questions one and two in the first category are designed to answer the research questions “who are the stakeholders of the firm?” and “what are their salience for the firm?” These two questions can also be seen in appendix 1. The general findings related with the research question “who are the stakeholders of the firm?” are summarized in table 6.5 and figure 6.7. Stockholders, customers, suppliers, and employees are shown as the primary stakeholders of the industrial firms by the corporate governors. There is also another important point that needs to be mentioned about these general findings. The relative percentages of society, 26%, and natural environment, 10%, reveal another an important finding of this study. These stakeholders (i.e. society and natural environment) refer to the principle of public-interest in the corporate governance model. Since they are not perceived as the important relevant stakeholders by the corporate governors in the sample, it would not be wrong to argue that the principle of public-interest is ignored by most of the corporate governors at the micro level. On the other hand, most of the corporate governors did not only show stockholders as their relevant stakeholders. In other words, it is found that non-stockholders such as customers, suppliers and employees are also relevant for most of the corporate governors. Since these non-stockholders are also perceived as the relevant stakeholders beside the stockholders by the corporate governors, it would not be wrong to argue that corporate governors give importance to the principle of mutual-interests at the micro level. As a result of these findings, the relevant stakeholders of the firm are learned. Besides, these findings answer some of the research questions about the main assumptions (i.e. self-interest, mutual-interest, and public-interest) of the corporate governance system. The second question, which can be seen in appendix 1, tries to learn the priority or the salience of the relevant stakeholders for the corporate governors. When the

corporate governors are asked to rank order the importance of their relevant stakeholders in question two, stockholders are shown as the first priority stakeholder group, 37%. Stockholders and customers are shown as the second priority stakeholder group, 28%. Finally, employees are shown as the third priority stakeholder, 30%, in these rankings. All these findings are summarized in figures 6.8, 6.9, and 6.10. Thus, the dominance of stockholders is found one more time in the corporate governance system at the micro level. According to agency, transaction cost economics, and resource dependence theories, asymmetric power plays an important role in the salience or attention managers give to stockholders (Mitchell, Agle and Wood, 1997). In other words, these research findings show the importance asymmetric power in the corporate governance system in Turkey. As it can be seen in figure 6.7, stockholders, customers, suppliers and employees are shown as the most important relevant stakeholders by the corporate governors of industrial firms in Turkey. These results are interpreted as showing the importance of mutual-interests principle for the corporate governance. When the findings related with question two are summarized in the figures 6.8, 6.9, and 6.10, it is seen that there is not a balance between the salience of stakeholders. Stockholders are the most important stakeholder among other stakeholders. It is also mentioned in the paragraph above that the principle of public-interest is ignored by the corporate governors at the micro level because stakeholders such as society and natural environment are not perceived as the important relevant stakeholders by the corporate governors in the sample. These findings, which are summarized in figures 6.8, 6.9, and 6.10, also confirm this ignorance by the corporate governors in Turkey. Society and natural environment do not appear among the first and second priority stakeholders in figures 6.8 and 6.9. Society is shown only by the few corporate

governors, 5%, as the third priority stakeholder, which can be seen in figure 6.10. Besides, natural environment does not appear among the first, second, and third priority stakeholders in figures 6.8, 6.9, and 6.10. As a result, the ignorance of the public-interest principle at the micro level is also confirmed by these qualitative findings related with the two research questions in appendix 1. In sum, it would not be wrong to argue that mutual-interests principle is important for most of the corporate governors but most of them also stated the importance of stockholders, which refers to the premise of self-interest, in the corporate governance system at the micro level. This finding can also be interpreted as the reflection of self-interest/mutual-interest duality at the macro level to the level of organization. Self-interest/mutual-interests duality at the macro level is illustrated in the corporate governance matrix in the figure 4.6, which is in the chapter four of the thesis.

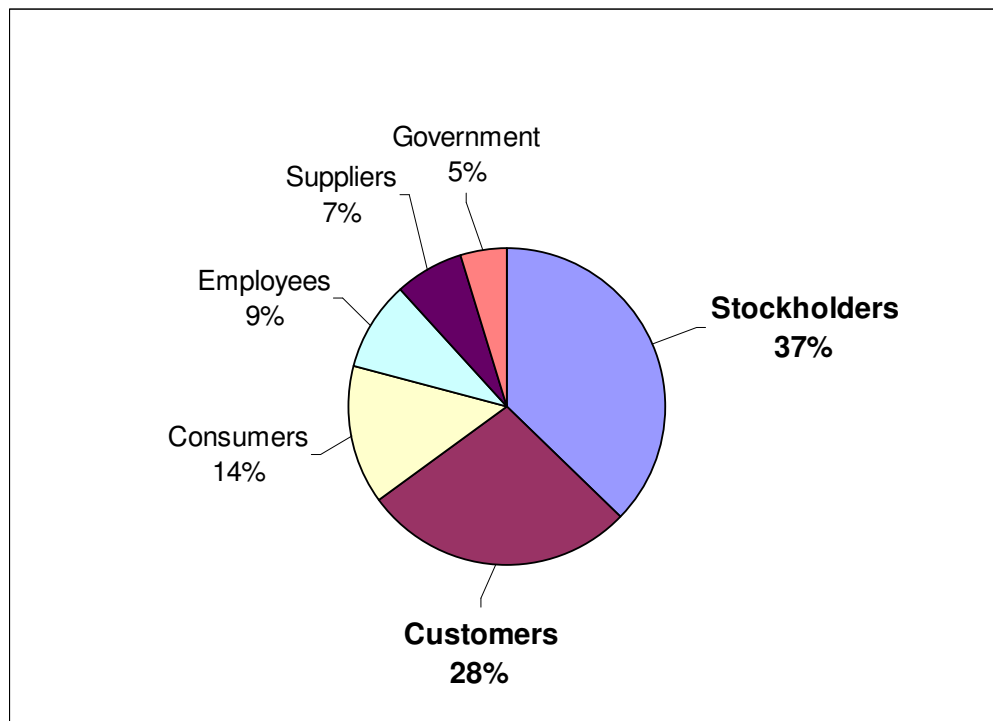


Figure 6.8 First priority stakeholders (relative percentages)

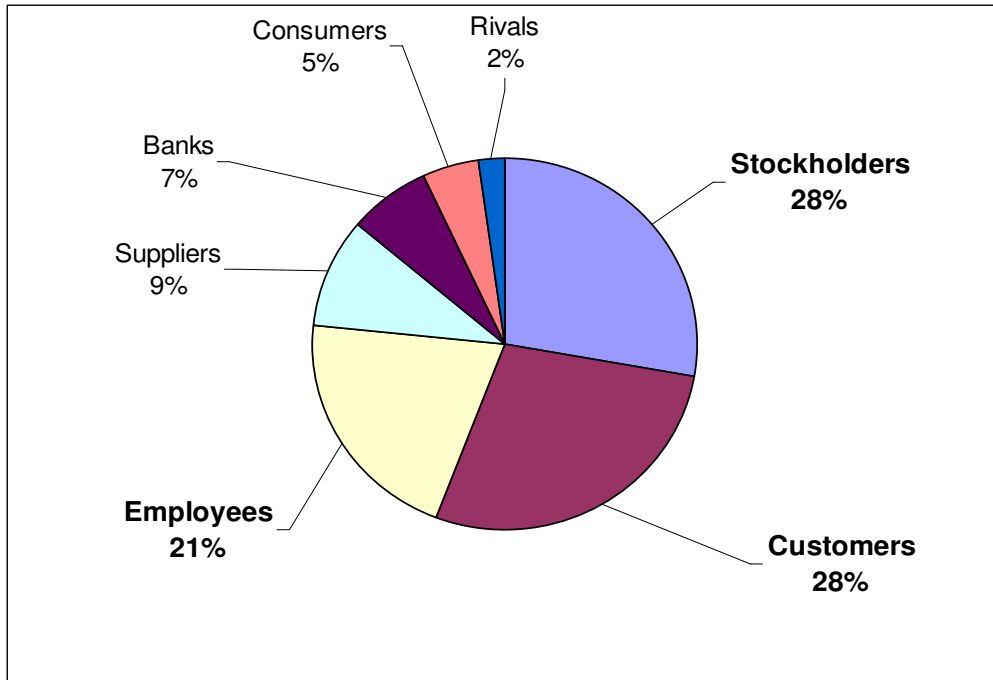


Figure 6.9 Second priority stakeholders (relative percentages)

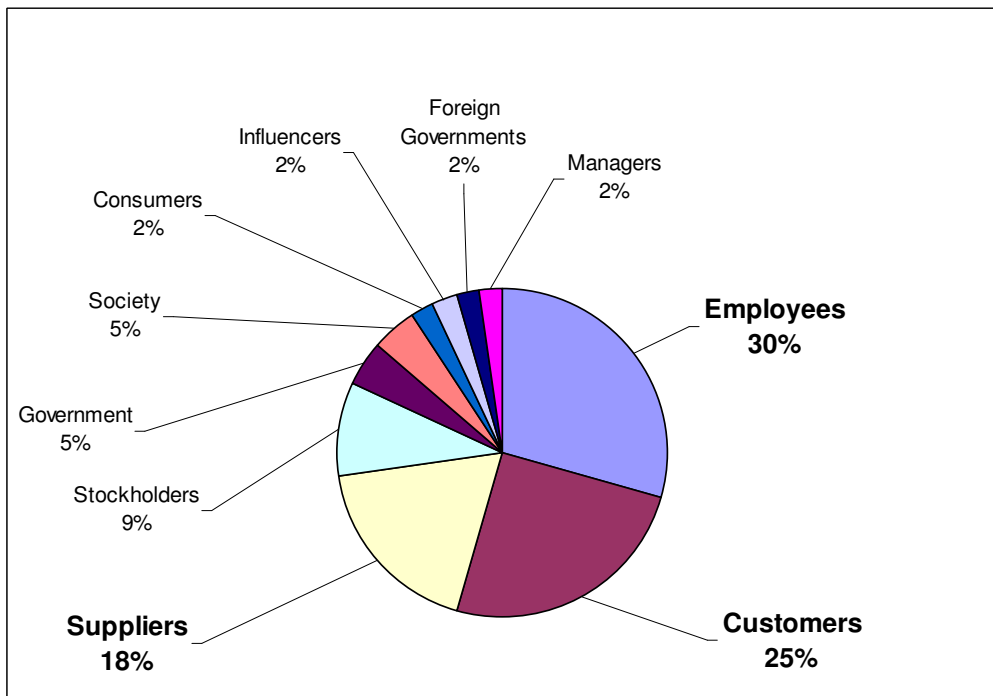


Figure 6.10 Third priority stakeholders (relative percentages)

As it is mentioned in chapter five, questions six and seven in appendix 1 are designed to answer the question “where are the industrial firms in Turkey positioned in the corporate governance matrix?” This is especially true for the answer to the question six. Besides, the research question of “when” is expected to be answered by the help of these two questions, six and seven, in the third category. Question six has two important components. The first component of question six asks about the corporate governors’ perceptions about the present Turkish business world related with the two the scenarios about Optimum and Çınar Corporations, which are based on stockholder and stakeholder governance models. These qualitative findings are summarized in figure 6.11. Twenty-eight corporate governors out of forty-two (i.e. 67% of the corporate governors) in the total sample stated that the philosophy of Optimum Corporation, which is based on some of the variables of stockholder governance model, reflects the present business world in Turkey. These qualitative findings related with question six answer the research question of “where are the industrial firms in Turkey positioned in the corporate governance matrix?” In other words, Turkish firms are positioned on the left hand side of the corporate governance matrix in figure 4.6 because the philosophy of Optimum Corporation is based on the variables of stockholder governance model, which is based on the premise of self-interest at the micro level.

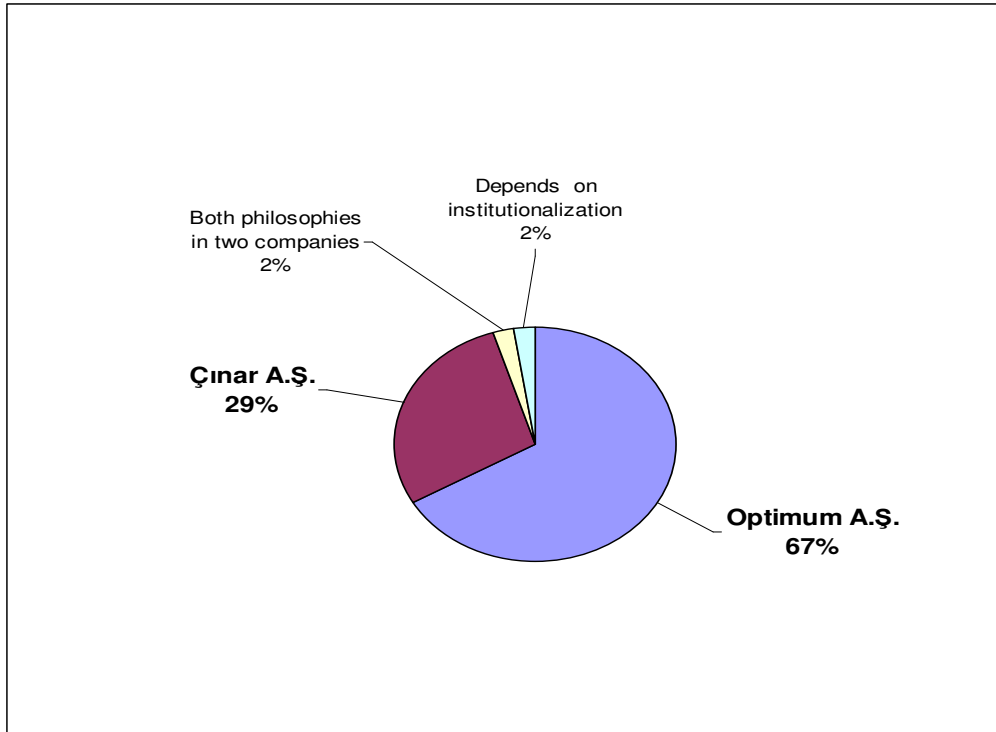


Figure 6.11: The company philosophy of today (relative percentages)

In order to be sure about the positioning of the industrial firms in Turkey, the second component of the question six is expected to be very helpful. The second component of question six tries to learn the reasons of this present situation in the Turkish business world by asking the research question of “why”, which can be seen in appendix 1. These findings have given us more insights about the reasons of the industrial firms’ positioning on the left hand side of the corporate governance matrix in figure 4.6. Economy, 54%, and culture, 43%, are shown as the most important reasons for the acceptance of Optimum’s stockholder governance philosophy in the Turkish business environment, which can be seen in table 6.5. Twenty-eight corporate governors out of forty-two (i.e. approximately 67% of the corporate governors) in the sample stated that Optimum Corporation based on stockholder governance model reflects today’s business world in Turkey. The relative percentages in table 6.5 are based on the total sample of twenty-eight rather than

fourty-two in order to present the reasons of today's business environment in Turkey. The details of these qualitative findings can be seen in appendix 2. These qualitative findings illustrate the impact of cultural factors at the macro level over the firms. In other words, these qualitative findings illustrate the importance of macro level factors beside micro level factors in the corporate governance system. Since corporate governance model is based on the macro and micro level factors, which can be seen in figures 4.5 and 4.6, this finding help us to deduce the importance of macro level factors in the corporate governance system. Since the importance of the macro level factors (e.g. country's history, culture, political systems, banking system, industrial policy and national culture) is mentioned by many scholars (Chang and Ha, 2001; Hofstede, 1980; 2001; Huse, 1998; Husted et al., 1996; Reed, 2002; Thomas and Ely, 1996), these findings also confirmed the importance of these factors at the level of society which is also embedded to the corporate governance model in figures 4.5 and 4.6. These qualitative findings about the importance of macro level factors have another important implication for our study. Since macro level factors (i.e. economy and culture) are shown as the most important reason for the use of Optimum's stockholder governance philosophy in the Turkish business environment, it would not be wrong to argue that industrial firms in Turkey are dominated by the self-interest principle at level of society. When this finding is compared with the international study of Hofstede (1980), it would be seen that there is a shift in Turkish business environment at the macro level. Hofstede found that Turkey has a collectivist, based on the principle of public-interest, macro culture before 1980s. In other words, Turkish business environment was dominated by the principle of public-interest at the macro level before 1980s. Today, these findings show us that there is a shift to a business environment that is dominated by the principle of self-

interest at the macro level. This shift from public-interest to the self-interest is also confirmed by the previous qualitative findings in this study. The shift from public-interest to the self-interest at the macro level refers to the horizontal double headed arrow on the top of the corporate governance matrix in figure 4.6, which can be seen in chapter four. The reasons of Turkish business environment's shift from a public-interest dominated culture to the self-interest dominated culture at the macro level are explained by the globalization and its impact over the developing countries. Since developing countries use debt financing for their industrialization and economic development, most of these countries face with the debt crises. These economic crises make them be influenced directly by international financial organizations such as World Bank and IMF. Hence, these financial organizations require these developing countries make structural changes in their economies in order to move to an Anglo-Saxon model (Reed, 2002) (i.e. to become a self-interest dominated culture). This strong argument by Reed shows the reasons of Turkey's business environment's shift from the domination of public-interest to the domination of self-interest at the macro level. The historical background of Turkish culture also supports this view in terms of the shift from the public-interest dominated culture to self-interest dominated culture at the macro level. For example, akhism as the dominant business philosophy that is based on the public-interest principle in the middle Anatolian cities of Ottoman Empire in the medieval period shows a contradiction with the today's Turkish business culture (Ertuna, 2005c; Ulger and Ulger, 2005). As a result, this important qualitative finding about the shift at the macro level also answers the research question of "where are the industrial firms in Turkey positioned in the corporate governance matrix?" It is especially this qualitative finding that shows us that industrial firms will be positioned on the left

hand side of the corporate governance matrix in figure 4.6. In other words, industrial firms in Turkey operate in a self-interest dominated culture like the firms in the Anglo-Saxon world.

Table 6.6: The Reasons for the Domination of Optimum’s Stockholder Governance Philosophy in Today’s Turkish Business World

Variables	Frequency	Relative Percentages
Economy	15	54%
Culture	12	43%
Profit	8	29%
Short-term perspective	6	21%
Laws, Regulations and Policies	6	21%
Zero-sum game	5	18%
Self-interest	3	11%
Entropy	3	11%
Opportunistic behavior	2	7%
Unethical organizational behavior	1	4%
Private Cupidity	1	4%
Total Sample	28	100%

Question seven is also consisted from two components. The first component of question seven, which can be seen in appendix 1, has a normative purpose because it tries to learn the tendencies of the corporate governors about the future business environment in Turkey. In other words, the first component of question seven tries to answer the research question of “how should be?” which is closely related with the normative stakeholder theory. When the scenario of Çınar Corporation is examined, it will be seen that this scenario is based on the variables of stakeholder governance model, which can also be seen in appendix 1. These research findings, which can be seen in figure 6.12, show us that most of the corporate governors in the sample, 77%, have tendencies towards the stakeholder governance model. When the qualitative findings related with question six, which are summarized in figure 6.11 and table 6.5, are compared with these findings in figure 6.12 about the corporate governors’

tendencies for the future, it will be seen that they complement each other. In other words, this inclination towards stakeholder governance model by the corporate governors may also be a reason for the convergence of stockholder and stakeholder governance models for the industrial firms in the main sample. Thus, it can be intuitively concluded that corporate governors of the these large size firms in the main sample will more likely implement either weak form of rational stockholder governance structure or weak form of convergent stockholder governance. Since stockholder and stakeholder governance models converge in these two governance structures in a self-interest dominated cultures, it is found appropriate to make this conclusion. For example, a strong form of rational stockholder governance structure is not expected to be found because all the industrial firms in the sample are large scale firms. The reasons for the non-existence of the strong form of rational stockholder governance structure for the large size firms are related with the economic, social, and technological developments in the world, which are explained in details in chapter four. Large size industrial firms are not expected to operate in the strong form of rational stockholder governance structure in the corporate governance system, which can be seen in figure 4.6 in chapter four, because their stakeholders are naturally expected to differentiate both quantitatively (e.g. their sizes and numbers) and qualitatively (e.g. “network relationships” among stakeholder groups). Thus, large size firms are expected to consider the interests of their relevant stakeholders in order to exist. In other words, corporate governors of the large size firms do not have the luxury of ignoring the interests of non-stockholders in order to survive. Since strong form rational stockholder governance structure is based on the premise of self-interest both at the micro and macro levels, large size firms that constitute our main sample are not expected operate in this governance structure. For

example, it is difficult to make the same argument for the small and medium size enterprises (SMEs) because most of the relevant stakeholders of the SMEs do not have stakeholders with quantitative and qualitative features as the large size firms yet. Since SMEs fight for survival, they cannot be expected to take into consideration all of their stakeholders when compared with the large size companies (Vinten, 2001). Thus, a strong form of rational stockholder governance structure is not expected to be conducted by any firm in the sample. Therefore, quantitative research findings in the following section are expected to show whether this expectation about the strong form of rational stockholder governance structure is true or not. On the other hand, it is not easy to achieve the strong form convergent stockholder governance structure in the self-interest dominated cultures. For example, asymmetric power is an important constraint for achieving the strong form of convergent stockholder governance, which is also explained in chapter four. Besides, it is also explained in the same chapter that strong form convergent stockholder governance is the challenge for the firms in self-interest dominated cultures in the twenty-first century. Since these qualitative findings, which are summarized in figures 6.8, 6.9, and 6.10, show the importance of asymmetric power in the corporate governance system in Turkey, strong form of convergent stockholder governance structure is not expected to be achieved by many firms in the sample. The quantitative research findings based on the questions three, four, and five, which can be seen in appendix 1, will show us whether these conclusions about the strong form of rational and convergent stockholder governance structures are true or not in the following subsection (quantitative research findings and their implications) of this chapter.

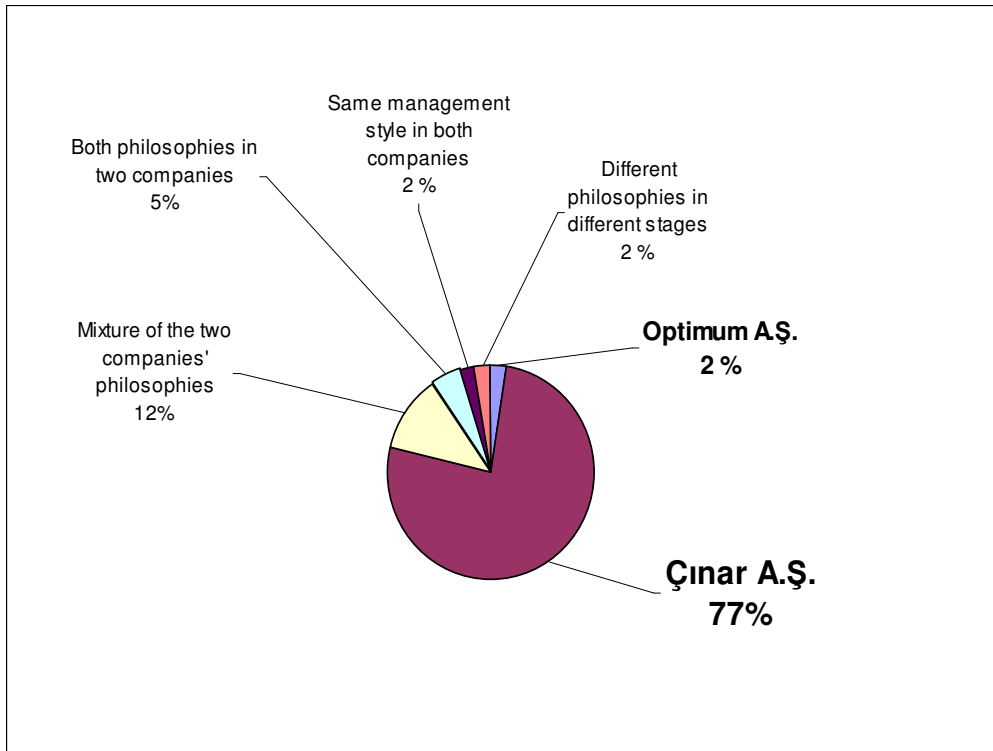


Figure 6.12 The company philosophy for future (relative percentages)

Finally, the second component of question seven, which can be seen in appendix 1, is asked to learn the reasons of the corporate governors' tendencies about the future business environment in Turkey. In other words, after answering the research question of "how should be?" by the first component of question seven, the reasons for these tendencies are also asked by the question of "why" as the second component of question seven in appendix 1. Since most of the corporate governors have tendencies towards the philosophy of Çınar Corporation, which is based on the stakeholder governance model, it is found appropriate to examine the reasons of these tendencies by corporate governors. All these reasons are summarized in table 6.7. As it can be seen in these qualitative findings in table 6.7, the reasons for the corporate governors' tendencies towards the Çınar Corporation scenario are all related with the micro factors of stakeholder governance model. In other words,

corporate governors did not mention macro factors as the reason for their tendencies. Thirty-two corporate governors out of forty-two (i.e. approximately 77% of the corporate governors) stated that Çınar Corporation based on stakeholder governance model reflects the corporate governance structure of the future. Thus, the relative percentages in table 6.7 are based on the total sample of thirty-two rather than forty-two in order to present the reasons of these tendencies by the corporate governors. As it can be seen in table 6.7, the most important variables are shown with the italic letters in order to shed some light to the reasons of corporate governors' tendencies towards the philosophy of Çınar Corporation. For example, corporate governors believe that the principle of “bundle of human assets” is the most important reason, 28%, that gives support to the stakeholder governance model. This finding shows us that corporate governors do not perceive their firm as a “bundle of assets” but as a “bundle of human assets”. This belief contradicts with the Anglo-Saxon thinking, which is based on property rights (i.e. “bundle of assets”). This finding is also parallel to the arguments of Reed (2002). According to Reed, developing countries adopted the Anglo-Saxon model (i.e. self-interest dominated model) not because of the property rights (i.e. libertarian view) but because of the goal of economic development. Corporate governors also believe that the principle of “long-term perspective” is another important reason, 25%, that gives support to the stakeholder governance model. As it is mentioned by Hofstede (1999), “long-term perspective” is another dimension that defines success of the cultures (e.g. Asian cultures). This finding is parallel to the Hofstede's fifth dimension (i.e. short-term vs. long-term) in terms of the impact of cultural differences. Although corporate governors believe to the importance of this principle, it is very difficult for them to operationalize this principle in their organizations due to the market myopia (Blair, 1995). Market

myopia refers to the “short-term perspective” and is closely related with a self-interest dominated cultures. Thus, it is obvious that there is a paradox between the today’ business world based on “short-term perspective” and future business world based on “long-term perspective”. Besides, the existence of “short-term perspective” in today’s business world is mentioned as the fourth important variable, 21%, among other variables in table 6.6. The details of the qualitative findings summarized in table 6.7 are shown in appendix 2.

Table 6.7: The Reasons for the Corporate Governors’ Tendencies for the Philosophy of Çınar Corporation (Stakeholder Governance Model)

Variables	Frequency	Relative Percentages
<i>Bundle of human assets</i>	9	28%
<i>Long-term perspective</i>	8	25%
Active communication	7	22%
Mutual-interests	7	22%
Public interests	6	19%
Good reputation	6	19%
Sustainable growth	5	16%
Value-added	4	13%
Ethical organizational behavior	3	9%
Network	3	9%
Firm existence	3	9%
Trust based relationships	3	9%
Mutual-trust	2	6%
Voluntary cooperation	2	6%
Transparency	2	6%
Long-term relationships	2	6%
Positive-sum strategy	1	3%
Accountability to stakeholders	1	3%
Motivation	1	3%
Stakeholder Participation	1	3%
Stable stakeholder relationships	1	3%
Total Sample	32	100%

Quantitative Research Findings and Their Implication

It is mentioned in chapter five that questions one, two, six, and seven, which can be seen in appendix 1, are designed to answer the research questions such as “who are the stakeholders of the firm?”, “what are their salience for the firm?”, “where are the industrial firms in Turkey positioned in the corporate governance matrix? (i.e. is it on the left hand side or right hand side of the corporate governance matrix?)”, “why are the industrial firms in Turkey positioned on the left or right hand side of the matrix?”, and “what is the tendency of the corporate governors for the future? (i.e. how should be?)” On the other hand, questions three, four, and five are designed to answer the questions “what kind of relationships are formed and how these relationships are formed between the firm and stakeholders?” Questions three, four, and five related with the two scenarios, which can be seen in appendix 1, are designed to learn the relationships between the firms and their relevant stakeholders. A firm’s relationships with its stakeholders are essential assets that must be understood and managed by the managers (Post, Preston, and Sachs, 2002b). Besides, a firm’s relationships with its stakeholders constitute the culture of it and define this firm as a social institution (Arthur, 1987). Thus, these three questions constitute the main body of the research because these open ended questions let corporate governors speak freely in terms of their firms’ relationships with their stakeholders. The purpose of this subsection is to summarize the most important quantitative findings of the study. CGI and stockholder and stakeholder governance models that are embedded in CGI will be used to summarize the quantitative findings. These quantitative findings will be presented in three parts. Therefore, how

and why CGI is constituted and exact positions of the firms in the corporate governance matrix will be given in the first part of this subsection. The second part of this subsection compares the industrial firms in terms of their financial performances via CGI. Three main hypotheses are developed and tested in order to compare the industrial firms in terms of their financial performances via CGI. Finally, thirty-six hypotheses are developed and tested in the third part of this subsection in order to compare corporate governors' tendencies by using the thirty-six variables related with stockholder and stakeholder governance models, which can be seen in appendix 3. A total of thirty-nine hypotheses are developed and tested in the second and third parts of this subsection. T-test and paired wise t-test statistics are used in order to test these thirty-nine hypotheses in the second and third parts of the quantitative research findings. As a result, these quantitative findings will also deduce the corporate governance model. Since CGI is an important factor for presenting the quantitative findings of the study, the explanations about the constitution of the CGI will be first given in the following section.

The Constitution of Corporate Governance Index and Positioning of

Firms in the Corporate Governance Matrix

As it is mentioned in chapter five, the most important reason for the constitution of corporate governance model is to position the industrial firms in Turkey. This would let us see the positions of the firms in terms of their corporate governance structures in the corporate governance matrix, which can be seen in figure 4.6 in chapter four, and deduce the corporate governance model. An exact positioning of firms in terms

of corporate governance structures can only be made via quantitative methods. Thus, the constitution of CGI is based on this fact. Since perfect stockholder and stakeholder governance models, which can be seen in appendix 3, are in the opposite poles, these two models may also be the part of a one scale. Thus, stakeholder and stockholder governance models accompanied with thirty-six variables are embedded to the CGI. After all the in-depth interviews are completed approximately in one year via recording the voices of corporate governors, these recorded materials are transcribed to soft and hard copies. The parts that are related with the answers to the questions three, four, and five, which refer to the relationships between the firm and its stakeholders and can be seen in appendix 1, in these transcribed in-depth interviews are then coded with the variables of stockholder and stakeholder governance models. The transcribed in-depth interviews are coded as one when they refer to the stakeholder model and as zero when they refer to the stockholder governance model. When there is partiality, transcribed materials are coded as 0.5. Thus, coding the transcribed materials not only as one and zero but also as 0.5 let us conduct the axiom of dialectics that allows things to be “both/and” rather than formal logic (Ford and Ford, 1994). In other words, this synthesis via coding the variables as 0.5 let the variables of stockholder and stakeholder models coexist in the constitution of CGI. These coded materials that are related with the Optimum Corporation scenario based on stockholder governance model are then added and a total stockholder mean is calculated. These coded materials that are related with the Çınar Corporation scenario based on stakeholder governance model are then added and a total stakeholder mean is calculated. Thus, CGI is calculated and constituted for each firm by taking the difference between these total stockholder and stakeholder mean scores. These coded materials as one or zero or 0.5 and the

stockholder and the stakeholder mean scores in the CGI are all summarized in appendix 4.

After CGI is formed, this index is used to position the industrial firms in the corporate governance matrix. It is found appropriate to observe the distribution of the industrial firms, which is illustrated in figure 6.13, based on the CGI. This observation about the distribution of the firms based on CGI is expected to let us position the firms in the corporate governance matrix, which is depicted in figure 4.6 in chapter four. Since there are thirty-six variables in the stockholder and stakeholder governance models that are embedded to CGI, the highest index point that refers to the stakeholder governance model can be positive thirty-six and lowest index point that refers to the stockholder governance model can be negative thirty-six. The qualitative findings in chapter five showed that the firms in the sample should be positioned on the left hand side of the corporate governance model, which can be seen in figure 4.6. Since there are four corporate governance structures on the left hand side in the corporate governance matrix, the area between positive thirty-six and negative thirty-six is divided into four categories. The index points between negative thirty-six and negative eighteen are expected to be related with the strong form of rational stockholder governance structure. The index points between negative eighteen and zero are expected to be related with the weak form of rational stockholder governance structure. The index points between zero and positive eighteen are expected to be related with the weak form convergent stockholder governance structure. The index points between positive eighteen and positive thirty-six are expected to be related with the strong form of convergent stockholder governance structure. When the firms' distributions based on CGI in figure 6.13 are observed, it can be seen that none of the firms in the sample have taken index points

between the negative thirty-six and negative eighteen and between positive eighteen and positive thirty-six. This finding shows the non-existence of strong form of rational and convergent stockholder governance structures in the corporate governance matrix. As it is mentioned in the qualitative research findings, this important finding is parallel to our expectations about these two corporate governance structures in the corporate governance model. The other important question that needs to be answered is how these firms will be positioned between the weak form of rational stockholder governance structure and the weak form of convergent stockholder governance structure via using the index points in the CGI. Since zero is in the middle of four corporate governance structures, it is selected as the cut-off point for separating the firms in the sample. As it can be seen in figure 6.13, there are ten firms with the index points which are very close to this cut-off point, zero. In other words, the index points of these ten firms do not give us the chance to categorize them in either of these two corporate governance structures. Therefore, these ten firms which are very close to the cut-off point are extracted from the sample. Hence, nine of the firms are categorized under the weak form of rational stockholder governance structure and twenty firms are categorized under the weak form convergent stockholder governance structure. As a result, the industrial firms' positions in the corporate governance matrix, which is achieved via CGI, are depicted in figure 6.14. Although ten firms are extracted from the sample in order to categorize the firms in terms of corporate governance structures, all the firms in the main sample will be used in the following sections. As it can be seen in figure 6.14, the firms in the weak form of rational stockholder governance structure are dominated by the stockholder governance model, and the firms in the weak form convergent stockholder governance structure are dominated by the stakeholder

governance model. The position of the industrial firms in the corporate governance matrix also gives us a chance to compare the firms dominated by the stockholder governance model with the firms dominated by stakeholder governance model in terms of their financial performances. These quantitative findings will be presented in following section.

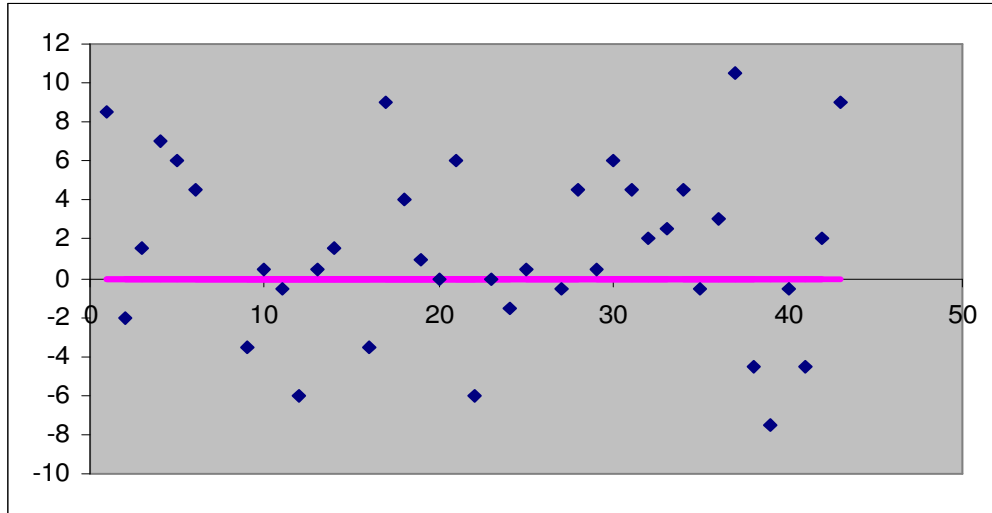


Figure 6.13 The distribution of the firms (corporate governance index)

Macro Level / Micro Level		Self-interest/Mutual-Interests	Public-Interest/Mutual-Interests
		1 Strong Form of Rational Stockholder Governance	III Weak Form of Convergent Stakeholder Governance
Stockholder Governance	2 Weak Form of Rational Stockholder Governance	IV Strong Form of Convergent Stakeholder Governance	
	4 Strong Form of Convergent Stockholder Governance	II Weak Form of Normative Stakeholder Governance	
Stakeholder Governance	3 Weak Form of Convergent Stockholder Governance	I Strong Form of Normative Stakeholder Governance	

Figure 6.14 Firms' positions in the corporate governance matrix

The Test of Hypotheses Related with Financial Performances of the Firms
by Using Corporate Governance Index

The main goal of this thesis is to test whether there is a difference between the firms that are dominated by the stakeholder governance model and the firms that are dominated by the stockholder governance model in terms of their financial ratios. Since the process of constituting the CGI is explained previous subsection of this chapter, the process for the constitution of CGI will not be redefined but there is a need to explicate the financial ratios that are used for testing the difference between the firms that are dominated by the stakeholder governance model and the firms that are dominated by the stockholder governance model. Six financial ratios are used for the purpose of comparing the firms in terms of their financial performances. Three of these ratios are related with the stockholder governance model and the other three are related with the stakeholder governance model. The ones that are related with the stockholder governance model are the net income to the total sales (i.e. profit margin on sales or PM), net income to the equity (i.e. return on equity or ROE), and the net income to the total assets (i.e. return on assets or ROA). The common point among these classic financial ratios is the net income or profit (i.e. bottom line), which is the most important variable in stockholder governance model. The other three financial ratios that refer to the stakeholder governance model are the value-added to the total sales (VA-SALES), the value-added to the total assets (VA-ASSET), and the deviation of the value-added (VADEV). Value-added is the common point in these three ratios because this term is closely related with the stakeholder governance model. Value-added is the sum of the wages, salaries, interests, rents, taxes, and

profit (Ertuna, 2005c) that can be extracted from the income statement. Thus, the three financial ratios based on value-added are different than the classic financial ratios based on profit. Since both stockholder and stakeholder governance models are embedded to the CGI, developing these three non-classic financial ratios is found appropriate for the purposes of our study.

Three main hypotheses are developed in order to compare the firms that are dominated by the stakeholder governance model with the firms that are dominated by the stockholder governance model in terms of the six financial ratios by using the CGI. The first main hypothesis, which can be seen below, is a general one. In other words, this hypothesis is developed to compare the firms that are dominated by the stakeholder governance model with the firms that are dominated by the stockholder governance model both in the long-term and short-term. As it can be seen in appendix 5, all the empirical findings based on the t-test results show that there are no differences between the firms that are dominated by the stakeholder governance model and the firms that are dominated by the stockholder governance model in terms of their financial performances. In other words, the null hypothesis could not be rejected due these empirical findings.

H₁: It can be determined that a firm is dominated by stakeholder governance or stockholder governance model by looking to its financial ratios.

The second main hypothesis, which can be seen below, is based on the fact that firms that are dominated by the stockholder governance model are expected to show a better financial performance in terms of their financial ratios in the short-term than the firms that are dominated by the stakeholder governance model. Since the

most important variable of the stockholder governance model is the “short-term profit/shareholder value maximization”, which is closely related with the premise of self-interest (i.e. the interests of stockholders), this second main hypothesis will let us learn whether the firms that are dominated by the stockholder governance model had achieved this objective or not in the short-term for the years 2000, 2001, 2002, 2003, and 2004. This result in terms of the short-term financial performance differences between the firms that are dominated with the stakeholder and the stockholder governance models is especially expected for the three classic financial ratios (PM, ROA, and ROE) because these financial ratios typically refer to the stockholder governance model, especially for the short-term. As it can be seen in appendix 5, all the empirical findings based on the t-test results show that there are no differences between the firms that are dominated by the stakeholder governance model and the firms that are dominated by the stockholder governance model in the short-term in terms of the six financial ratios. In sum, the null hypothesis could not be rejected due these empirical findings. Five financial ratios appear in appendix 5 for the year 2000 rather than six. This missing financial ratio is VADEV. This ratio is calculated by taking the difference between two preceding years and then dividing this amount with the starting year. Since the analysis is conducted for the years 2000 and 2004, VADEV could not be calculated for the year 2000.

H₂: Firms that are dominated by stockholder governance model will show better financial performance in the short term than the firms that are dominated by stakeholder governance model.

The third main hypothesis, which can be seen below, is based on the fact that firms that are dominated by the stakeholder governance model are expected to show a better financial performance in terms of their financial ratios in the long-term than the firms that are dominated by the stockholder governance model. Since the most important variable of the stakeholder governance model is the “long-term profit maximization /value-added”, which is closely related with the premise of mutual-interests (i.e. the interests of the stakeholders), this third main hypothesis will let us learn whether the firms that are dominated by the stakeholder governance model had achieved this objective or not in the long-term between the years 2000-2004. The averages of these six financial ratios are calculated for the years 2000-2004 in order to determine the long-term financial performances of the firms. This result in terms of the long-term financial performance differences between the firms that are dominated by the stakeholder and the stockholder governance models is especially expected for the newly developed three financial ratios (VA-SALES, VA-ASSET, and VADEV) because these financial ratios typically refer to the stakeholder governance model, especially for the long-term. As it can be seen in appendix 5, all the empirical findings based on the t-test results show that there are no differences between the firms that are dominated by the stakeholder governance model and the firms that are dominated by the stockholder governance model in the long-term in terms of the six financial ratios for the years 2000-2004. In sum, the null hypothesis could not be rejected due these empirical findings.

H₃: Firms that are dominated by stakeholder governance model will show better financial performance in the long term than the firms that are dominated by stockholder governance model.

None of the three null hypotheses above are rejected based on the t-test findings that can be seen in appendix 5. Therefore, it would not be wrong to argue that firms which are dominated by the stakeholder governance model do not carry additional financial burdens when compared with the firms which are dominated by the stockholder governance model. In other words, these empirical findings show that firms which accept and implement the variables of the stakeholder governance model will not have additional financial burdens. For example, this finding implies that the firms which perform “corporate social responsibility” (CSR) do not have additional financial burdens when compared with the firms which do not perform sufficient CSR for their stakeholders. This is a very important implication for the industrial firms in Turkey because some of the corporate governors may assume that CSR brings additional financial burdens for their firms. Therefore, corporate governors may prefer not to carry additional costs for their CSR activities. Firms which implements CSR activities are expected to be supported by their stakeholders in the long-term. Therefore, it would not be wrong to argue that this finding is very consistent with this rationale in the long-term.

The Test of Hypotheses Related with the Variables of the Stockholder and Stakeholder Governance Models

The other goal of our thesis is to test thirty-six hypotheses related with the thirty-six variables of stakeholder governance and stockholder governance models which are embedded to the CGI. As it is mentioned chapter five, two scenarios are given to the corporate governors of the industrial firms in the main sample. A perfect stockholder

governance model is presented via Optimum Corporation scenario, and a perfect stakeholder governance model is presented via Çınar Corporation scenario to the corporate governors. Questions three, four, and five, which can be seen in appendix 1, are open ended questions that are designed to learn from corporate governors about their firms' relationships with their relevant stakeholders. After the in-depth interviews are transcribed for the questions three, four, and five, these transcriptions are coded as zero or one or 0.5 in terms of the thirty-six variables in the stockholder and the stakeholder governance models that are embedded in CGI and summarized in appendix 4. The transcribed materials related with the Optimum Corporation scenario are coded under stockholder index because the purpose of this scenario is to stimulate the stockholder governance model variables. V1, V2 ...V36 are the variables in the stockholder index. Since Optimum Corporation scenario is expected to stimulate the variables of the stockholder governance models, the variables (i.e. V1, V2 ...V36) under the stockholder governance index are expected to refer to variables of the stockholder governance model. For example, V3 variable in the stockholder governance index in appendix 4 refers to the "bundle of assets" (BA) variable in the stockholder governance model in appendix 3.

The transcribed materials related with the Çınar Corporation scenario are coded under the stakeholder governance index because the purpose of this scenario is to stimulate the stakeholder governance model variables. S1, S2 ...S36 are the variables in the stakeholder governance index. Since Çınar Corporation scenario is expected to stimulate the variables of the stakeholder governance model, the variables (i.e. S1, S2 ...S36) under the stakeholder governance index are expected to refer to the variables of the stakeholder governance model. For example, S3 variable in the stakeholder governance index in appendix 4 refers to the "bundle of human

assets” (BHA) variable in the stakeholder governance model in appendix 3. As a result, the means of the variables (i.e. V1, V2...V36) in the stockholder governance index are significantly expected to be lower than the variables (i.e. S1, S2 ...S36) in stakeholder governance index. The means of these thirty-six variables that are coded for each firm under the stockholder and the stakeholder governance indices that are embedded in CGI can also be seen in appendix 4. Thus, thirty-six hypotheses related with the variables of stockholder and stakeholder governance models are formed in order to test whether there is a significant difference between the means of these thirty-six variables. In sum, the purpose of forming these hypotheses is to learn the tendencies of corporate governors in terms of these thirty-six variables based on the stockholder or the stakeholder governance models and to interpret these findings related with our corporate governance model. As a result, thirty-six hypotheses are formed and tested with the paired sample t-test but only four of the null hypotheses are rejected and the rest is accepted. Therefore, these four hypotheses and their implications are first presented and explained below. Finally, the rejected thirty-two hypotheses will be presented latter. These quantitative results also confirm the empirical findings related with the positioning of the firms in the corporate governance matrix, which can be seen in figure 6.14. In other words, these quantitative findings explain the reason for not achieving the strong form of convergent stockholder governance structure in the corporate governance matrix in figure 4.6 in chapter four. In sum, the findings about these thirty-six hypotheses reflects the paradox or chaos that corporate governors face in our contemporary age due to increasing the pressures of non-stockholder groups besides the stockholders in the business world in Turkey. The details of these findings will be concluded in details in the last section of the thesis, conclusion and limitations.

H₄: There is a significant difference between the mean of Bundle of Assets (BA) variable in stockholder governance index and the mean of Bundle of Human Assets (BHA) variable in stakeholder governance index.

When the paired samples t-test results are examined in appendix 6, it can be seen that the mean of V3 (i.e. “bundle of assets”) in the stockholder governance index is significantly different at 1% level than the mean of S3 (i.e. “bundle of human assets”) in the stakeholder governance index. In other words, the null hypothesis is rejected. The mean score of V3 is 53% in stockholder governance index. The mean score of S3 in the stakeholder governance index is 76%. This finding means that corporate governors of the industrial firms in our sample have a tendency to perceive their companies as a “bundle of human assets” rather than a “bundle of assets”. This quantitative finding about “bundle of human assets” is parallel to the qualitative finding, which can be seen in table 5.6. “Bundle of human assets” is shown as the most important reason for the corporate governors’ tendencies towards the stakeholder governance model embedded in Çınar Corporation Scenario. This finding in terms of “bundle of human assets” is parallel to Charles Handy’s beliefs about this variable. According to Charles Handy (1997b), the idea that the firm is the property of the stockholders is affront to the natural justice and this idea does not make clear where the power lies. The people who work in the corporation are its principal intangible assets (Ertuna, 2005c). Hence, the idea that the organization is only the property of stockholders is not supported by most of the corporate governors, 76%, in the main sample. On the other hand, the other qualitative research findings and quantitative reserach findings complement each other. The qualitative findings show that corporate governors defined the current

business environment as the self-interest dominated culture, which affects the firms at the micro level. This important qualitative finding can be seen in figure 6.11. It would not be wrong to argue that corporate governors have inclinations towards “bundle of human assets” variable in the stakeholder governance model but they cannot operationalize this principle in their firms due to the cultural constraints, which is based on the premise of self-interest, at the macro level.

H₅: There is a significant difference between the mean of Accountability to Stockholders (ACSTOCK) variable in stockholder governance index and the mean of Accountability to Stakeholders (ACSTAKE) variable in stakeholder governance index.

When the paired samples t-test results are examined in appendix 6, it can be seen that the mean of V8 (i.e. “accountability to stockholders”) in the stockholder governance index is significantly different at 10% level than the mean of S8 (i.e. “accountability to stakeholders”) in stakeholder governance index. In other words, the null hypothesis is rejected. The mean score of V8 in stockholder governance index is 15% and the mean score of S8 is 46%. This empirical finding means that corporate governors of the industrial firms in our sample have a tendency to be accountable to their stakeholders. On the other hand, the mean of V8 in the stockholder governance index and the mean of the S8 in the stakeholder governance index are still less than 50%. This quantitative finding is also parallel to the qualitative research findings. It is shown under the section of qualitative research findings that stockholders have a priority over non-stockholders. These qualitative findings can be seen in figures 6.8 and 6.9. Besides, the qualitative findings about the

domination of self-interest principle at the macro level also complement these quantitative research findings. The qualitative findings in terms of the domination of self-interest principle can be seen in figure 6.11. In sum, corporate governors in the sample have a tendency to be accountable to their stakeholders but they prefer to be accountable to the stockholders due to the self-interest dominated macro culture imposed on them.

H₆: There is a significant difference between the mean of Non-cooperative Behaviors (NCB) variable in stockholder governance index and the mean of Cooperative Behaviors (CB) variable in stakeholder governance index.

When the paired samples t-test results are examined in appendix 6, it can be seen that the mean of V18 (i.e. “non-cooperative behaviors”) in the stockholder governance index is significantly different at 10% level than the mean of S18 (i.e. “cooperative behaviors”) in the stakeholder governance index. Thus, this null hypothesis is also rejected. The mean score of V18 is 84% in the stockholder governance index, and the mean score of S18 is 91% in the stakeholder governance index. Since both of the mean scores are more than 50% for the variables V18 and S18 in the stockholder and the stakeholder governance indices, corporate governors not only have tendency for the “cooperative behaviors” but also operationalize this process in their organizations. The premise of mutual-interests is the underlying principle for the process of “cooperative behaviors”. Since most of the firms in the sample are family firms, “cooperative behaviors” may be achieved via the sense of community, which is a feature of these family firms. This empirical finding shows that mutual-interests principle is operationalized by the industrial firms by forming

“cooperative behaviors” with their relevant stakeholders. Besides, this empirical finding also implies that most of the industrial firms in the sample prefer cooperation rather competition among their stakeholders. As a result, the variable of “cooperative behaviors” is an important process that gives support to the stakeholder governance model. On the other hand, the thirty-six variables in the stakeholder governance model are part of the corporate governance system. In other words, wholeness (Bohm, 1980) is important for implementing all these thirty-six variables in the corporate governance system. Since most of the thirty-six variables that are tested with thirty-six hypotheses did not give significant results, the variable of CB is not enough to achieve the strong form of convergent stockholder governance structure in the corporate governance matrix in figure 4.6.

H₇: There is a significant difference between the mean of Unstable Relationships with Stakeholders (UNSTABLE) variable in stockholder governance index and the mean of Stable Relationships with Stakeholders (STABLE) variable in stakeholder governance index.

When the paired samples t-test results are examined in appendix 6, it can be seen that the mean of V21 (i.e. “unstable relationships with stakeholders”) in the stockholder governance index is significantly different at 5% level than the mean of S21 (i.e. “stable relationships with stakeholders”) in the stakeholder governance index. Thus, the null hypothesis is rejected. The mean score of V21 is 73% in the stockholder governance index. The mean score of S21 is 86% in the stakeholder index. Since both of the mean scores are more than 50% for the variables V21 and S21 in the stockholder and the stakeholder governance indices, corporate governors

not only have tendency for the process of “stable relationships with the stakeholders” of their firms but also operationalize this process in their organizations. Paired wise t-test results for the rejected four null hypotheses that are presented above are also summarized in table 6.8.

Table 6.8: Paired Wise T-Test Results for the Hypotheses Related with the Stockholder and Stakeholder Governance Indices in the CGI

	Stockholder Governance Index (Mean)	Stakeholder Governance Index (Mean)	t	Sig. (2-tailed)
BA vs. BHA	,53	,76	-3,051	,007
ACSTOCK vs. ACSTAKE	,15	,46	-2,236	,076
NCB vs. CB	,84	,91	-1,781	,083
UNSTABLE vs. STABLE	,73	,86	-2,539	,016

No significant findings are found between the following variables when the stockholder and the stakeholder governance indices are compared, which can also be seen in appendix 6. All the variables related with the null hypotheses that could not be rejected are presented below.

- a) Self-interest vs. Mutual-interests
- b) Short-term profit/shareholder value maximization vs.
Long-term profit maximization/value added
- c) A set of legal and economic contracts vs. A set of social contracts
- d) Zero sum game vs. Positive-sum strategy
- e) Resource in/dependence vs. Resource interdependence
- f) Asymmetric information vs. Symmetric information
- g) Stakeholders as mean vs. Stakeholders as an end
- h) Unfairness vs. Fairness/Legitimacy
- i) Distrust vs. Mutual-trust
- j) Dishonesty vs. Integrity/Honesty
- k) Hierarchy/Market vs. Network
- l) Short-term perspective vs. Long-term perspective
- m) Passive communication vs. Active communication
- n) Firm/stakeholder influence vs. Stakeholder participation
- o) Corporate social irresponsibility vs. Corporate social responsibility
- p) Opportunistic behaviors vs. Trust-based behaviors
- q) Unfair behaviors vs. Fair behaviors
- r) Haphazard communication vs. Systematic communication
- s) Dyadic relationships/Hierarchy vs. Network relationships
- t) Low organizational commitment vs. High organizational commitment
- u) Cynicism vs. Goodwill
- v) Low organizational citizenship vs. High organizational citizenship
- w) No innovation concern vs. Innovation concern
- x) Efficiency concern vs. No efficiency concern

- y) Bad reputation vs. Good reputation
- z) Stakeholder dissatisfaction vs. Stakeholder satisfaction
- aa) No experience vs. Experience
- bb) Entropy vs. Firm Existence
- cc) Extrinsic motivation vs. Intrinsic motivation
- dd) Unbalanced growth vs. Sustainable growth
- ee) Vulnerability to crisis vs. Immunization to crisis
- ff) Low organizational wealth vs. High organizational wealth

CHAPTER VII

CONCLUSION AND IMPLICATIONS

The main purpose of this thesis is to compare the firms based on the stockholder governance and the stakeholder governance models in terms of their financial performances. Since no comprehensive corporate governance model is found in the literature review, first universal model of corporate governance is constituted by the help of twelve theories. The purpose for the constitution of the universal corporate governance model is to answer the research questions (i.e. what, how, where, when, who and why) about the corporate governance theory. Inductionist rather than a deductionist method is first used by the help of literature review in the thesis in order to answer these research questions about corporate governance paradigm. As a result of the process of induction, it is found that agency theory, resource-dependence theory, transaction cost economics theory, stakeholder-agency theory, instrumental stakeholder theory, traditional stewardship theory, corporate social performance theory, corporate social responsibility theory, integrative social contract theory, modern stewardship theory, resource-based theory and normative stakeholder theory contribute to the corporate governance phenomenon. Thirty-six variables, which refer to the stakeholder and the stockholder governance models that are in opposite poles, are extracted from these twelve theories. This is the first phase of the thesis, which refers to the first four chapters of the thesis. Since a good model needs to be interwoven with the processes of induction and deduction, the process of deduction is conducted in the second phase of the thesis after the induction of corporate

governance model in chapters five and six. It is shown in chapter six that the industrial firms in Turkey are dominated by the premise of self-interest at the macro level in the corporate governance model, which is summarized in figure 6.11. Besides, a corporate governance index (CGI) is developed by coding the transcribed in-depth interviews with the corporate governors based on the thirty-six variables in the stockholder and the stakeholder governance models. Thus, the positioning of the industrial firms in Turkey regarding this CGI is shown in figure 6.14. It is found that most of the firms are positioned in the weak form of convergent stockholder governance structure. It is also found that none of the firms operate in the strong form of rational and convergent stockholder governance structures. Since large size industrial firms in the sample cannot exist without the support of their stakeholders, which are more powerful in our contemporary age, the non-existence of the strong form of rational stockholder governance structure in the corporate governance model is expected before these quantitative findings. Since industrial firms in the sample operate in a self-interest dominated culture, the difficulty of achieving strong form of convergent stockholder governance structure is also expected before these quantitative findings summarized in figure 6.14.

The main purpose of this thesis is to compare the firms based on the stockholder governance and the stakeholder governance models in terms of their financial performances. This purpose is operationalized by constituting CGI, which is based on the variables of the stockholder and the stakeholder governance models, for the firms in the main sample. Three main hypotheses are developed and tested in order to compare the industrial firms in terms of their financial performances via CGI. As a result, none of the three null hypotheses above are rejected based on the t-test findings, which can be seen in the tables in appendix 5. These empirical findings

are interpreted in such a way that firms which are dominated by the stakeholder governance model do not carry additional financial burdens when compared with the firms which are dominated by the stockholder governance model. In other words, these empirical findings show that firms which accept and implement the variables of the stakeholder governance model do not have additional financial burdens. For example, initiating the process of active communication with the relevant stakeholders does not have additional financial burdens for the industrial firms in Turkey. Active communication is an important process that helps managers to understand and solve the problems of their firms' stakeholders. Similarly, these empirical findings imply that the firms which give importance to "corporate social responsibility" (CSR) do not carry additional financial burdens when compared with the firms which do not operationalize CSR activities for their stakeholders. This is a very important implication for the industrial firms in Turkey because some of the corporate governors may assume that CSR activities bring additional financial burdens for their firms. Therefore, these kinds of corporate governors may prefer not to carry additional costs for their CSR activities. CSR activities do not only refer to the stakeholders such as employees, suppliers, and customers. These types of activities also make sense for the stakeholders such as natural environment and society at large. The qualitative findings showed that these kinds of stakeholders (i.e. environment and society) are perceived as irrelevant stakeholders. If firms conduct CSR activities related with the natural environment and society, these activities do not bring additional financial burdens for the industrial firms in Turkey. As a result, corporate governors should reconsider their responsibilities for these kinds of stakeholders (e.g. natural environment or society at large).

Finally, the other important purpose of thesis is to compare corporate governors' tendencies in terms of the thirty-six variables in the stockholder and the stakeholder governance models, which can be seen in the first two figures of appendix 3, that are embedded in CGI. A total of thirty-six hypotheses are developed and tested for this purpose. Paired wise t-test statistics are used in order to test these thirty-six hypotheses. Only four of these hypotheses are accepted and the remaining thirty-two hypotheses are rejected. As a result of these empirical findings, it can be concluded that corporate governors have tendencies for perceiving their firms as a "bundle of human assets", for being accountable to their stockholders, for cooperating with their stakeholders, and for forming "stable relationships with the stakeholders". Besides, most of the mean scores in stockholder and stakeholder indices in CGI in appendix 4 are above 50%. This finding also shows us that corporate governors try to implement some of the variables of the stakeholder governance model partially and some completely in the corporate governance system at the micro level due to the changes at the macro level (e.g. technological developments or "network relationships" among stakeholders). Since industrial firms operate in a self-interest dominated culture, corporate governors try to achieve a balance between the interests of stockholders and non-stockholders. Thus, the reason for finding insignificant results for most of the thirty-six hypotheses can be explained with these trials of corporate governors for achieving the balance between the interests of stockholders and non-stockholders. This thesis helped us to see that this balance between the interests of stockholders and non-stockholders could not be achieved by the corporate governors yet. For example, most of corporate governors emphasized the importance of CSR activities in their firms, which can be seen in the mean scores of V17 and S17 in appendix 4. On the other hand, corporate governors

ignore some of their stakeholders (i.e. society and natural environment), which can be seen in table 6.5, figures 6.7, 6.8, 6.9, and 6.10. These kinds of stakeholders are very important in the corporate governance system. Hence, it would not be wrong to conclude that industrial firms in Turkey try to respond to the changes at the macro level, which is closely related with the changes in the world. These empirical findings also suggest CSP rather than CSR makes sense for the corporate governors in Turkey due their ignorance of society and natural environment as relevant stakeholders for their firms. These findings are also parallel to our expectations in terms of the corporate governance model. Since industrial firms operate in an individualistic business environment in Turkey, CSP rather CSR make more sense for these firms.

The quantitative and qualitative research findings of the study also have many limitations. This study could not be conducted in different nations or in different time periods due to the limited time. The size and the features of the sample was another limitation for this study. All in-depth interviews are conducted with the top managers and directors of the large size firms. Since it is very difficult to reach these people, the sample consisted of only forty-two corporate governors. Although snow-balling sampling technique is also implemented in order to arrange interviews with new corporate governors, we could only reach to forty-two corporate governors during our study. As it is mentioned in the beginning of this chapter, the most important reason for the constitution of corporate governance model is to position and compare the firms that are dominated with the stockholder governance model with the firms that are dominated with the stakeholder governance model in terms of their financial performances. Since some of the firms in the main sample do not appear in the list of top one thousand industrial firms in Turkey that are declared every year by the

Istanbul Chamber of Industry, the three main hypotheses that are developed for this purpose are tested for only five years (i.e. 2000-2004). If we had a chance to test these hypotheses for a longer period of time, firms dominated by the stakeholder governance model are expected to produce better financial performances when compared with the firms dominated by the stockholder governance model. The other limitation was the distribution and the number of the firms that are positioned in the corporate governance model. In other words, the number of the firms in the weak form of rational stockholder governance structure and in the weak form of convergent stockholder governance structure was not evenly distributed and large to make comparisons among the firms in these two governance structures. Since we could not know which firm operates in the weak form rational stockholder governance structure and which firm operates in the weak form of convergent stockholder governance structure until the transcribed interviews are coded with the variables of stockholder and stakeholder governance model, firms' positioning could not be known in the corporate governance model. Thus, if the size of the sample could be larger, this issue in terms of the firms' positioning in the corporate governance model would not emerge. As it is mentioned above, a larger sample size could not be achieved due to the limited time and unpredictability of these research findings. Finally, the issue of missing variables in the stockholder and stakeholder governance indices that are embedded to the CGI was another limitation problem. As it mentioned in chapter five, open ended questions are asked to the corporate governors in order to let them speak freely about the corporate governance system in their firms. These open-ended research questions may let some of the corporate governors not mention the variables that are related with the stockholder and stakeholder governance models. Corporate governors may also forget to mention

these variables. Thus, some of the variables under the stockholder and stakeholder indices could not be coded due to these kinds of reasons. All of these missing variables in the CGI can also be seen in appendix 4. The most important implication of this limitation related with the missing variables is its effect on the quantitative and qualitative results.

Although these limitations prevented us to come up with more satisfactory empirical findings, this study let us answer the research questions (i.e. what, how, where, when, who and why) via literature review and quantitative and qualitative research findings and constitute a corporate governance model. In other words, the corporate governance model is interwoven with the processes of induction and deduction. Since there is no coherence about corporate governance that explains theoretically or empirically how the modern corporation is run (Pettigrew, 1992), this thesis is expected to help scholars to solve this conundrum (i.e. corporate governance) on the edge of the twenty-first century via their new contributions to this new corporate governance model. If scholars can overcome these kind of limitations related with sample size or research methods (e.g. questionnaire), they are expected to come up with better empirical findings that will solve these kind of problems. As a result, studies that would be conducted in the future are expected to increase the coherence of the corporate governance model.

All these empirical findings related with the thirty-nine hypotheses can also be interpreted with a different perspective. This different perspective is related with a mathematical simulation model. This simulation model named as Cellular Automata Model (CAM) is used by Chris Langton at Santa Fe Institute. According to CAM, there are four classes. Langton run simulations based on two kinds of imaginary firms. The first kinds of imaginary firms give importance only to their stockholders

(i.e. stockholder governance model). The second kinds of imaginary firms give importance to their stakeholders (i.e. stakeholder governance model). He found that the optimum cluster, which defines the predictable firm behaviors, did not follow class III but it is positioned between class II and class III. In other words, the optimum class IV (Complex Adaptive Systems) did not follow an order in the simulation model. Class II systems are constituted from the firms that are relatively frozen. Class III systems are constituted from the firms that act randomly and show no predictability (i.e. chaos). Class IV firms are constituted from the firms that show symmetry and predictability (Monks, 1998, pp. 124-126). These simulation findings that are found at the Santa Fe Institute are parallel to our corporate governance matrix and empirical findings in our study. As it can be seen in figure 6.14, all the firms in the main sample are distributed in either class II (i.e. weak form of rational stockholder governance structure) or class III (i.e. weak form of convergent stockholder governance structure). Since most of the firms are clustered in the weak form of convergent stockholder governance structure, which refer to the unpredictable class III systems, the empirical findings related with the thirty-nine hypotheses may be related with this feature of the firms (i.e. unpredictability or chaos). In other words, all of the empirical findings may show that there is no consistency in terms of corporate governors' tendencies towards stakeholder governance model. This inconsistency is also reflected to the CGI points in appendix 4. Thus, none of the firms in the main sample appeared in the strong form of convergent stockholder governance structure (i.e. class IV or Complex Adaptive System). As a result, it may be concluded that industrial firms in Turkey operate in such an environment that there is a chaos or paradox. This is a normal result because firms try to operate in a self-interest dominated culture. Thus, corporate governors

cannot implement the variables of the stakeholder governance model. In other words, corporate governors cannot achieve the desired business results related with the stakeholder governance model. On the other hand, the powers, pressures, and needs of stakeholders increase each day due to the technological developments in the world. Hence, corporate governors also try to respond to these changes in and around their firms. Unfortunately, the self-interest dominated culture restricts them to achieve a balance among the needs of stakeholders in Turkey. Therefore, industrial firms in Turkey operate in a chaotic environment (i.e. they face a paradox between stockholders' interests and stakeholders' interests). As a result, these empirical findings that show the unpredictability of the firm behaviors is parallel to these facts in and around the firms.

Industrial firms in Turkey can shift to the strong form of convergent stockholder governance structure, where there is true orderliness in the business environment. As it is explained in chapter four, firms in Turkey can achieve this challenging structure by cooperating with each other at the macro level for conducting the variables of the stakeholder governance model at the micro level. If corporate governors can constitute a 'chain of trust' in their industries in local areas, the principles of the stakeholder governance model can also be realized in the business world in Turkey. But this realization requires a long-term perspective (i.e. patience). Finally, constituting a 'chain of trust' requires corporate governors believe in the importance of human-beings for their firms. If they can invest in their employees (e.g. education) and suppliers (e.g. firm specific investments), these investments will more likely return to them as competitive advantages. It is seen in the empirical findings that corporate governors have tendencies to perceive their firms as a "bundle of human assets". They also have tendencies to form stable and

cooperative behaviors with their stakeholders. These empirical findings are parallel to the ownership structures of the firms in Turkey. Since the firms are owned by the families, they desire their firms to form cooperative and stable relationships with their stakeholders. If these large size industrial firms can cooperate with each other to achieve the strong form of convergent stockholder governance structure, this cooperation in terms of strategic networks will also allow them to prosper and achieve competitive advantages on the edge of the twenty-first century. In other words, believing in the principle of “positive-sum strategy” will produce the desired business results for the firms in these strategic networks in the long-term. It is observed during the in-depth interviews that these types of strategic networks are highly possible due to the humanistic nature of corporate governors. These types of strategic networks can be easily constituted in the local industrial areas (e.g. Bursa, Çorlu, Denizli, Gazi Antep, Kahraman Maraş, Kayseri, Kocaeli, and Konya) in Turkey. It seems that corporate governors in Turkey should start with the three core principles that are given in Çınar Corporation scenario: patience, agape, and mutual-trust.

Appendix 1 Optimum and Çınar Corporation Scenarios Scenarios Accompanied with Questions

I.

1. Who and what are the stakeholders (A person, a group or an organization that affects and is affected from the economic and social activities of a firm is called stakeholder) of your firm?

2. Could you please rank order three of these stakeholders in terms of their importance?

(I will now present two scenarios to you one by one, and there are two different managerial understanding in these scenarios. I would like learn that how these senior managers would behave in these scenarios)

Optimum Corporation Scenario⁵ (Stockholder Governance)

Optimum A.Ş. adında İstanbul Menkul Kıymetler Borsasında işlem gören bir sanayi şirketi var. Bu şirketin sahipleri her ne pahasına olursa olsun şirket karının maksimize edilmesini istiyor. Optimum A.Ş.'nin sahipleri bu şirketin bir kısmını blok hissedarlarından satın almışlar, bir kısmını da borsada işlem gören hisselerini satın alarak ele geçirmişler. Optimum A.Ş. yaşanan krizden çok etkilenmiş. Borsadaki hisse senetlerinin değeri çok ucuzlayınca şirketin yeni sahipleri bu büyük fırsatı kaçırmamaya karar vermişler. Optimum A.Ş.'nin çoğunluk hissesini satın alıp şirketi ele geçirmişler. Dolayısıyla, şirketlerine finansal yatırım gözüyle bakıyorlar. Bir finansal yatırımın alternatif yatırım araçlarından daha fazla getirebilmesi için karın maksimize edilmesi anlayışının son derece doğal olduğuna inanıyorlar. Amaçları Optimum A.Ş.'yi üst üste üç veya dört yıl süreyle yüksek kar elde ettirip satmak ve yapmış oldukları yatırımdan elde ettikleri karı realize etmek. Optimum A.Ş.'nin yeni sahiplerinin böyle bir anlayışa sahip olmalarının önemli nedenlerinden birisi geçmişte Türkiye ekonomisinin çizmiş olduğu riskli yapı.

Yeni şirket sahipleri Optimum A.Ş.'yi satın aldıklarında şirket finansal açıdan son derece kötü bir durumda. Örneğin, şirketin son iki yıllık dönem karı negatif ve son beş yıl içinde önemli miktarlarda yatırım yapılmadığı halde şirket nakit sıkıntısı çekiyor. Ayrıca Optimum A.Ş.'nin fiyat/kazanç oranı ve hisse başına düşen kar oranı sektör ve IMKB ortalamasının bir hayli altında. Optimum A.Ş.'nin yeni sahipleri şirketin bu kötü finansal durumunu kısa sürede düzeltip şirketi satmak ve yapmış oldukları yatırımdan iyi bir kazanç elde etmek istiyorlar. Optimum A.Ş.'nin yeni

⁵ Since Optimum Corporation scenario that is presented to corporate governors is in Turkish language and the language of the thesis is in English, this scenario is also translated to English language and given in the following page.

sahipleri, kaynakların sınırlı olmasından dolayı kısa sürede karın maksimize edilebilmesi için şirketin diğer paydaşlarına sunacağı hizmetlerde kısıntıya gidilmesi gerektiğine inanıyorlar.

Optimum A.Ş.'nin yeni sahiplerinden oluşan yönetim kurulu Recai TURNA'yı genel müdür olarak göreve getiriyor. Recai Bey'den istenilen tek şey şirketin bu olumsuz finansal durumunun hukuk kurallarına uymak koşuluyla (örneğin finansal tablolarda makyaj yapmadan) en kısa sürede düzeltilmesi ve mümkün olan maksimum şirket karlılığın her ne pahasına olursa olsun elde edilmesi. Recai Bey'in teşvik edilmesi amacıyla maaşına ek olarak şirket karından belli bir oranda pay verileceği belirtiliyor. Ancak Recai Turna şirketin finansal durumunu kısa sürede iyileştiremezse işine son verileceği de kendisine bildiriliyor. Kendisi ile bu şartlarda bir yıllık sözleşme yapılıyor. Bu bir yıl sonunda şirketin finansal açıdan göstereceği performansına bakılarak Recai Bey'le bir yıllık sözleşme yapılacak veya aksi durumda sözleşmesi fes edilecek. Sonuç olarak, Recai Bey kısa vadede şirketin karını ne kadar arttırabilirse kendi kazancı da o kadar çok artacak. Ancak şirketin finansal durumunu iyileştiremezse hem işini kaybedecek hem de bu büyük kazanç fırsatını kaçıracak. Ayrıca, Recai Bey eğer bu konuda başarılı olamazsa başka bir şirkette çalışmasının da zor olacağını farkında. Fakat bu konuda başarılı olursa daha büyük ve saygın bir şirketten transfer teklifi alabileceğini ve kariyerinde daha iyi bir yere gelebileceğini de biliyor. Dolayısıyla, Recai Bey Optimum A.Ş.'deki bu göreve gelerek son derece riskli bir işe girdiğini biliyor ancak söz konusu riskin son derece yüksek ve cazip kazanç fırsatları ile dengelenmesi Recai Bey'in genel müdürlük görevini kabul etmesini sağlıyor.

Optimum Corporation Scenario (Stockholder Governance)

There is a firm called Optimum Corporation, which has shares traded in the Istanbul Stock Exchange (ISE). The owners of this firm want profit maximization no matter what. In the past, the owners of Optimum took over the firm by buying some of the shares from the block shareholders and others from the stock exchange. Optimum Corporation is affected from the economic crisis deeply. When the price of the firm's shares overdropped, the new owners decided not to miss this opportunity. They took over the firm via buying the majority shares of the Optimum. Therefore, the owners see their firm as a financial investment. They believe that the notion of profit maximization is the natural result of the belief that the return of this financial investment must exceed the return of alternative financial instruments. Their purpose is to come up with high profitability for three or four consecutive years and realize their profit from this financial investment by selling the firm. The risky structure of Turkish economy in the past is one of the important reasons of this mentality of these new owners of Optimum Corporation.

When the new owners bought Optimum it was in a very poor financial position. For example, the firm had negative profits for the last two years and although there were no substantial investments, it had cash problems. Besides, price to earnings ratio and earnings per share ratio of Optimum were also too below industry and ISE averages. The new owners of Optimum want to improve this financial position in a short period of time and make a good profit from their investments by selling the company. The owners of Optimum believe that there must be a reduction in the services to the stakeholders of the firm in order to maximize the profit due to the limited resources.

The board of directors consisting of the new owners of Optimum employed Mr. Recai Turna as the chief executive officer. The only thing that is requested from Mr. Recai Turna is the improvement of the firm's poor financial position in a very short period of time by complying with the rules of law (i.e. without making any window dressing in the financial statements) and the possible profit maximization of the firm no matter what. It is stated that a certain amount of profit will also be given beside his salary in order to induce Mr Recai Turna. But if Mr Recai Turna cannot improve the financial conditions of the firm in a very short period of time, he will be dismissed from the firm. A contract is made with him based on these conditions. The financial performance of the firm at the end of this one year will be checked, and a new contract will be made with Mr. Recai Turna for another year, otherwise his contract will be cancelled. As a result, the more the profitability of the firm in a short period of time increases, the more his own income will increase. But if he cannot improve the financial condition of the firm, he will lose his job and miss this big income opportunity. Besides, Mr. Recai Turna is aware of the fact that if he cannot be successful in this issue, working in another firm would be difficult for him. But if he can be successful in this issue, he may take a job offer from a larger and reputable firm and move to a better position in his career. Therefore, Mr Recai Turna knows that he has been involved in a very risky task by accepting this job offer in Optimum but since this risk is balanced with a very high and attractive income opportunity, Mr. Recai Turna accepted the chief executive officer position.

Variables Used in Optimum Corporation Scenario

There is a firm called Optimum Corporation, which has shares traded in the Istanbul Stock Exchange (ISE). The owners of this firm want profit maximization no matter what (*short-term profit/shareholder maximization*). In the past, the owners of Optimum took over the firm by buying some of the shares from the block shareholders and others from the stock exchange. Optimum Corporation is affected from the economic crisis deeply. When the price of the firm's shares overdropped, the new owners decided not to miss this opportunity (*opportunistic behavior*). They took over the firm via buying the majority shares of the Optimum. Therefore, the owners see their firm as a financial investment (*bundle of assets*). They believe that the notion of profit maximization (*short-term profit/shareholder maximization*) is the natural result of the belief that the return of this financial investment (*bundle of assets*) must exceed the return of alternative financial instruments. Their purpose is to come up with high profitability for three or four consecutive years (*short-term profit/shareholder maximization*) and realize their profit (*short-term profit/shareholder maximization*) from this financial investment by selling the firm (*bundle of assets*). The risky structure of Turkish economy in the past is one of the important reasons of this mentality of these new owners of Optimum Corporation.

When the new owners bought Optimum it was in a very poor financial position. For example, the firm had negative profits for the last two years and although there were no substantial investments, it had cash problems. Besides, price to earnings ratio and earnings per share ratios of Optimum were also too below industry and ISE averages. The new owners of Optimum want to improve this financial position in a short period of time (*short-term perspective*) and make a good

profit from their investments (*short-term profit/shareholder maximization*) by selling the company. The owners of Optimum believe that there must be a reduction in the services to the stakeholders of the firm (*zero sum game and self-interest*) in order to maximize the profit due to the limited resources (*zero-sum game*).

The board of directors consisting of the new owners of Optimum employed Mr. Recai Turna as the chief executive officer. The only thing that is requested from Mr. Recai Turna is the improvement of the firm's poor financial position in a very short period of time (*short-term perspective*) by complying with the rules of law (i.e. without making any window dressing in the financial statements) and the possible profit maximization of the firm (*short-term profit/shareholder maximization*) no matter what (*unethical organizational behavior*). It is stated that a certain amount of profit will also be given beside his salary (*self-interest*) in order to induce Mr Recai Turna. But if Mr Recai Turna cannot improve the financial conditions of the firm in a very short period of time (*short-term perspective*), he will be dismissed from the firm. A contract is made with him based on these conditions. The financial performance of the firm at the end of this one year will be checked, and a new contract will be made with Mr. Recai Turna for another year, otherwise his contract will be cancelled (*a set economic and legal contracts*). As a result, the more the profitability of the firm in a short period of time increases (*short-term profit/shareholder maximization*), the more his own income will increase (*self-interest*). But if he cannot improve the financial condition of the firm, he will lose his job (*self-interest*) and miss this big income opportunity (*opportunistic behavior*). Besides, Mr. Recai Turna is aware of the fact that if he cannot be successful in this issue, working in another firm would be difficult for him. But if he can be successful in this issue, he may take a job offer from a larger and reputable firm and move to a

better position in his career (*self-interest*). Therefore, Mr Recai Turna knows that he has been involved in a very risky task by accepting this job offer in Optimum but since this risk is balanced with a very high and attractive income opportunity (*short-term profit/shareholder maximization*), Mr. Recai Turna accepted the chief executive officer position.

II.

Questions Related with the Optimum Corporation Scenario

(Please answer the questions based on the large size industrial firms but not on the industry)

3. What would Mr. Recai Turna, based on the fact that he would act as an average senior manager in this type of issue, do in order to behave in a way that is parallel to the philosophy of the new board of directors in Optimum?

4. What would you do if you were in the place of Mr. Recai Turna?

5. How would Mr. Recai Turna behave to the stakeholders that affect and are affected the activities of Optimum? In order ask this question in a specific way⁶:

a. What kind of relationships are expected to emerge between the firm and its customers?

a1. What would be the positive outcomes of these relationships between the firm and customers?

a2. What would be the negative outcomes of these relationships between the firm and customers?

⁶ All the questions that are designed in this section are based on the relevant stakeholders of the firm. For example, when corporate governors said that customers, employees, and suppliers are their relevant stakeholders the following questions are based on these parties. In other words, we did not ask these corporate governors to define their firm's relationships and positive or negative consequences of these relationships with the stakeholders such as banks or government that are not mentioned by these managers and/or directors.

- b. What kind of relationships are expected to emerge between the firm and its employees?
 - b1. What would be the positive outcomes of these relationships between the firm and employees?
 - b2. What would be the negative outcomes of these relationships between the firm and employees?

- c. What kind of relationships are expected to emerge between the firm and its suppliers?
 - c1. What would be the positive outcomes of these relationships between the firm and suppliers?
 - c2. What would be the negative outcomes of these relationships between the firm and suppliers?

Çınar Corporation Scenario⁷ (Stakeholder Governance)

Çınar A.Ş. adında İstanbul Menkul Kıymetler Borsası'nda işlem gören yeni kurulmuş bir sanayi şirketi var. Bu şirketin büyük ortakları topluma iyi hizmet veren bir şirketin bunun sonucu olarak sürekli büyüyen ve uzun vadede kar eden bir şirket olacağına inanıyor. Dolayısıyla, “biz topluma verelim ki toplum da bize versin” felsefesine inanıyorlar. Çınar'ın büyük ortakları İstanbul'un köklü ailelerinden ve şirketlerinin de bir çınar ağacı gibi güçlü ve kuşaklar boyunca yaşayacak bir şirket olmasını istiyorlar. Çınar'ın büyük ortakları bu şirketin köklerinin de toplum olduğuna inandıkları için bu felsefeye gönülden bağlanmışlar. İşte bu nedenden ötürü Çınar'ın büyük ortakları kendilerinin felsefesini de temsil eden Çınar isminin şirketleri için en uygun isim olduğunu düşünerek şirketlerine bu ismi vermeyi uygun bulmuşlar. Dev bir çınarın yetişmesi uzun bir süre aldığı için şirketin büyük ortakları sabır, sevgi ve güveni bu felsefenin üç ana temel ilkesi olarak benimsemişler. Çınar'ın büyük ortakları günümüz iş dünyasında iletişimin çok gelişmesinden dolayı işletmeler ile ilgili iyi ve kötü sosyal ve ekonomik faaliyetler ile bunların olumlu veya olumsuz sonuçlarının çok hızlı duyulduğu bir iş ortamında çalıştıklarının farkındalar. Özellikle borsada işlem gören bir şirket için bu durum daha çok geçerli. Bundan dolayı Çınar'ın büyük ortakları, paydaşlar arasındaki iletişimin çok arttığı bir iş ortamında, paydaşların hepsine önem veren bir yönetim anlayışının şirketleri açısından sinerji yaratacağına inanıyorlar. Ayrıca Avrupa ve Japonyadaki birçok şirketin paydaşları ile iyi ilişkiler kurmaları sayesinde uzun vadede çok güçlü ve dev şirketler haline gelmeleri ve faaliyette buldukları ülke ekonomilerinin güçlü

⁷ Since Çınar Corporation scenario that is presented to corporate governors is in Turkish language and the language of the thesis is in English, this scenario is also translated to English language and given in the following page.

olmasında da çok önemli bir paya sahip olmaları ailenin bu felsefeye olan inancını daha da kuvvetlendirmiş. Çınar'ın büyük ortakları bir ekonominin gücünü reel sektörden aldığını çok iyi biliyorlar. Bundan dolayı, Türkiye'de bizim anlayışımıza benzer ne kadar çok şirket (çınar) olursa ekonomide de o kadar az kriz (erozyon) olur diyorlar.

Yönetim kurulu Tayfur Bardakçı'yı genel müdür olarak göreve getiriyor. Tayfur Bardakçı etik açıdan geçmişinde en ufak pürüzü olmayan, daha önce çalıştığı şirketlerde son derece iyi gözle görülen ve toplumsal ihtiyaçlara karşı son derece duyarlı olan bir kişi olarak biliniyor. Tayfur Bey'e şirketin felsefesi anlatıldıktan sonra kendisinin sadece yönetim kuruluna karşı değil aynı zamanda Çınar'ın ekonomik ve sosyal faaliyetlerini etkileyen ve sözkonusu faaliyetlerden etkilenen tüm paydaşlarına karşı sorumlu olduğu belirtiliyor. Dolayısıyla, Çınar'ın faaliyet dönemi boyunca ortaya çıkan tüm faaliyetleri ile ilgili olarak yıl sonunda paydaşlarına da hesap vereceği kendisine bildiriliyor. Yönetim kurulunun Tayfur Bey'den diğer önemli beklentisi de Çınar A.Ş. ile paydaşları arasında karşılıklı güvene dayalı ilişkilerin geliştirilmesidir. Yönetim kurulu, Çınar'ın paydaşlarının şirkete yönelik memnuniyeti konusunda sıklıkla anketler yaptıracağını ve paydaşların haklarını savunmak amacıyla kurulmuş sivil toplum örgütlerinden Çınar hakkında bilgi isteyeceklerini de Tayfur Bey'e bildiriyor. Tayfur Bey'le tüm bu konuları kapsayan uzun vadeli bir sözleşme imzalanıyor.

Çınar Corporation Scenario (Stakeholder Governance)

There is a newly established industrial firm called Çınar Corporation, which has shares traded in the Istanbul Stock Exchange (ISE). The block holders of this firm believe that a firm that serves well to the society will also achieve sustainable growth and profitability in the long run. As a result, they believe in the philosophy that “we should give to the society so that it will give back to us”. The block holders of Çınar are one of the long-established families in Istanbul and they want their firm to be a platanus which is strong and lives for generations. Since the block holders of Çınar believe that the root of this company is society, they are emotionally attached to their philosophy. Therefore, the block holders of Çınar thought that the most appropriate name for their company would be Çınar⁸ that also resembled their philosophy, and they decided to give this name to their firm. Since it takes a long period of time for the growth of a giant platanus, the block holders adopted patience, agape and trust as the three core principles of this philosophy. The block holders of Çınar are aware that they work in a business environment in which information on social and economic activities of firms and the negative and positive consequences of these activities spreads very quickly due to the developments in communication in today’s business world. This is especially true for a firm which has shares that are traded in the stock market. Therefore, the block holders of Çınar believe that a management approach that gives importance to all the stakeholders will create a synergy for their firm in a business environment where the communication among the stakeholders has enhanced so much. Besides, the fact that many firms in Continental Europe and Japan became strong giant firms in the long run as a result of forming good

⁸ Çınar means platanus in Turkish language.

relationships with their stakeholders, and made important contributions for the strength of the economies of their countries reinforced the family's belief in this philosophy. The block holders of Çınar know very well that the strength of an economy is based on the non-financial sector. Therefore, they state that as the number of firms which adopt a similar philosophy (platanus) increases, there will be fewer economic crises (erosion) in Turkey.

The board of directors appointed Mr. Tayfur Bardakçı as the chief executive officer. Mr. Tayfur Bardakçı had no ethical problems in his past and is known to be deeply concerned with the needs of the society and a good person in the firms that he previously worked for. After the philosophy of the firm is explained to Mr. Tayfur Bardakçı, he is informed that he will be responsible not only to the board of directors, but also to the stakeholders who affect and are affected from the social and economic activities of Çınar. Therefore, he will also be accountable to the stakeholders at the end of the year about the activities of the Çınar during the operating term. Another expectation of the board of directors from Mr. Tayfur Bardakçı is the development of relationships based on mutual-trust between Çınar Corporation and its stakeholders. Board of directors also informs Mr. Tayfur Bardakçı that questionnaires will often be used about the satisfaction of stakeholders and information about the Çınar will be requested from the non-governmental organizations, which are established to advocate the rights of stakeholders. A long-term contract is signed with Mr. Tayfur Bardakçı covering all these issues.

Variables Used in Çınar Corporation Scenario

There is a newly established industrial firm called Çınar Corporation, which has shares traded in the Istanbul Stock Exchange (ISE). The block holders of this firm believe that a firm that serves well to the society (*corporate social responsibility*) will also achieve sustainable growth (*sustainable growth*) and profitability in the long run (*long-term profit maximization/value-added*). As a result, they believe in the philosophy that “we should give to the society so that it will give back to us” (positive-sum strategy). The block holders of Çınar are one of the long-established families in Istanbul and they want their firm to be a platanus which is strong and lives for generations (*firm existence*). Since the block holders of Çınar believe that the root of this company is society (*mutual-interests*), they are emotionally attached to their philosophy. Therefore, the block holders of Çınar thought that the most appropriate name for their company would be Çınar that also resembled their philosophy, and they decided to give this name to their firm. Since it takes a long period of time (*long-term perspective*) for the growth of a giant platanus, the block holders adopted patience (*long-term perspective*), agape (*bundle of human assets*) and trust (*mutual-trust*) as the three core principles of this philosophy. The block holders of Çınar are aware that they work in a business environment in which information on social and economic activities of firms and the negative and positive consequences of these activities spreads very quickly due to the developments in communication (*network relationships and reputation*) in today’s business world. This is especially true for a firm which has shares that are traded in the stock market. Therefore, the block holders of Çınar believe that a management approach that gives importance to all the stakeholders (*mutual-interests*) will create a synergy (*positive-*

sum strategy) for their firm in a business environment where the communication among the stakeholders has enhanced so much (*network relationships*). Besides, the fact that many firms in Continental Europe and Japan became strong giant firms in the long run (*long-term perspective*) as a result of forming good relationships with their stakeholders (*stable stakeholder relationships*), and made important contributions for the strength of the economies of their countries (*public interests and value-added*) reinforced the family's belief in this philosophy. The block holders of Çınar know very well that the strength of an economy is based on the non-financial sector. Therefore, they state that as the number of firms which adopt a similar philosophy (platanus) increases, there will be fewer economic crises (erosion) in Turkey (*mutual-interests and positive-sum strategy*).

The board of directors appointed Mr. Tayfur Bardakçı as the chief executive officer. Mr. Tayfur Bardakçı had no ethical problems in his past (*ethical firm/stakeholder behaviors*) and is known to be deeply concerned with the needs of the society (*public interests*) and a good person in the firms that he previously worked for. After the philosophy of the firm is explained to Mr. Tayfur Bardakçı, he is informed that he will be responsible not only to the board of directors, but also to the stakeholders (*accountability to stakeholders*) who affect and are affected from the social and economic activities of Çınar. Therefore, he will also be accountable to the stakeholders (*accountability to stakeholders*) at the end of the year about the activities of the Çınar during the operating term. Another expectation of the board of directors from Mr. Tayfur Bardakçı is the development of relationships based on mutual-trust (*trust-based relationships*) between Çınar Corporation and its stakeholders. Board of directors also informs Mr. Tayfur Bardakçı that questionnaires will often be used about the satisfaction of stakeholders (*active*

communication) and information will be requested about Çınar from the non-governmental organizations, which are established to advocate the rights of stakeholders (stakeholder participation and active communication). A long-term contract is signed (stable stakeholder relationships) with Mr. Tayfur Bardakçı covering all these issues.

II.

Questions Related with the Çınar Corporation Scenario

(Please answer the questions based on the large size industrial firms but not on the industry)

3. What would Mr. Tayfur Bardakçı, based on the fact that he would act as an average senior manager in this type of issue, do in order to behave in a way that is parallel to the philosophy of the new board of directors in Optimum?
4. What would you do if you were in the place of Mr. Tayfur Bardakçı?
5. How would Mr. Tayfur Bardakçı behave to the stakeholders that affect and are affected the activities of Optimum? In order ask this question in a specific way⁹:
 - a. What kind of relationships are expected to emerge between the firm and its customers?
 - a1. What would be the positive outcomes of these relationships between the firm and customers?
 - a2. What would be the negative outcomes of these relationships between the firm and customers?

⁹ A similar logic is also implemented in terms of the design of questions. In other words, all the questions that are designed in this section are based on the relevant stakeholders of the firm. For example, when corporate governors said that customers, employees, and suppliers are their relevant stakeholders the following questions are based on these parties. In other words, we did not ask these corporate governors to define their firm's relationships and positive or negative consequences of these relationships with the stakeholders such as banks or government that are not mentioned by these managers and/or directors.

- b. What kind of relationships are expected to emerge between the firm and its employees?
 - b1. What would be the positive outcomes of these relationships between the firm and employees?
 - b2. What would be the negative outcomes of these relationships between the firm and employees?

- c. What kind of relationships are expected to emerge between the firm and its suppliers?
 - c1. What would be the positive outcomes of these relationships between the firm and suppliers?
 - c2. What would be the negative outcomes of these relationships between the firm and suppliers?

III.

6. According to you, is the philosophy that is accepted by the board of directors in Optimum Corporation or the philosophy that is accepted by the board of directors in Çınar Corporation suitable in our contemporary age? Why?

7. Which philosophy that is accepted by the board of directors in these two firms is more common in Turkey? Why?

Appendix 2 The Reasons for the Corporate Governors' Tendencies for the Philosophies of Çınar and Optimum Corporations in Today and in the Future

Why Optimum Corporation Reflects the Corporate Governance Philosophy of Today in Turkey? (Frequencies)

1. Reasons Related With Stockholder Governance Model Variables

Profit (8)

-Because the goal of Optimum is to make profit. (2)

-There is no institutionalization in companies. Everyone thinks his or her profit.

Human health or hapiness is not important.

-The companies are profit oriented. (2)

-The businessmen try to maximize their profit with minimum investment and minimum capital. In other words, the businessmen make business as traders. This mentality causes fragility in Turkish economy.

-Managers are expected to make high profits in the short-term.

-One of the cultural characteristics of Turkish people is to maximize their profit in the short-term. That is why the firms in Turkey do not live for a long period of time and change hands all the time.

Unethical organizational behavior

-There is no institutionalization in companies. Everyone thinks his or her profit.

Human health or hapiness is not important.

Opportunistic behavior (2)

-Since families have a flaw in trusting to someone who is not from their family, the CEOs of the companies are generally someone from family.

-There is no trust in family firms.

Private Cupidity (Greediness)

-There is greediness for money.

Self-interest (3)

-Self-interest of owners.

-The family firms give importance to their benefits.

-Short-term benefits of our people come in the first place. The entrepreneurs who want results as soon as possible are more widespread.

Short-term perspective (6)

-The companies think in short-term perspective.

-Managers are expected to make high profits in the short-term.

-The time pass very fast in our contemporary age. Therefore, the results of the jobs should be taken immediately.

-The distrust to the economy is inevitable. This creates short-term perspective.

-One of the cultural characteristics of Turkish people is to maximize their profit in the short-term. That is why the firms in Turkey do not live for a long period of time and change hands all the time.

-Short-term benefits of our people come in the first place. The entrepreneurs who want results as soon as possible are more widespread.

Entropy (3)

- There are no companies which lived more than 50 years in Kayseri.
- One of the cultural characteristics of Turkish people is to maximize their profit in the short-term. That is why the firms in Turkey do not live for a long period of time and change hands all the time.
- Because companies try to survive.

Zero-sum game (5)

- Because of capital inadequacy. (3)
- Companies make their investments with bank loans rather than their equity.
- The firms in Turkey are owned by families, and therefore their structure is not based on institutionalization. This structure is the result of capital inadequacy.

2. Reasons Related With Economy (15)

- Turkey is a country of crisis. (2)
- The crises in the world affect the economy of Turkey and also the companies.
- There is too much competition.
- Because of limited market, information and technology.
- The competition conditions is not equal.
- The distrust to the economy is inevitable. This creates short-term perspective.
- There is no foreign direct investment and even our own capital runs abroad.
- Due to the surplus of labor supply, companies do not look at to their qualified labor losses.
- The structure of economy is based on short-term perspective. For example, the average maturity of government bonds is short-term.

-The 500 major industrial enterprises of Turkey that Istanbul Chamber of Commerce declares every year do not generate their profits from their operations but from interest revenues. (2)

-Because of high and continuous inflation policies.

-High inflation destroys ethical values.

-Our country's culture is based on self-interest. When the belief to this principle changes, our culture will also change. In order to see this change happens we need stability in politics and economy.

3. Reasons Related with Laws, Regulations and Policies (6)

-The unhealthy infrastructure of the state affects firms negatively, and therefore they cannot make right decisions.

-The rules are changed very frequently.

-The rules and laws are not implemented adequately.

-The companies' relationships with their stakeholders are not followed by the government.

-Our country's culture is based on self-interest. When the belief to this principle changes, our culture will also change. In order to see this change happens, we need stability in politics and economy.

-Because of education system.

4. Reasons Related with Culture (12)

-One of the cultural characteristics of Turkish people is to maximize their profit in the short-term. That is why the firms in Turkey do not live for a long period of time and change hands all the time.

- Our country's culture is based on self-interest. When the belief on this principle changes our culture will also change. In order to see this change happens we need stability in politics and economy.
- The society thinks in short-term perspective.
- The society is not eligible in terms of ethics. It is a materialistic culture.
- We are a society that began to learn business and industrialism recently.
- Our culture gives importance to personal wealth rather than sharing.
- The ethical values vanished in our society.
- There is no confidence about future.
- The expectations of society are an inflationary environment and high real interest rates.
- The idea of partnership is not accepted in our culture.
- Both society and public do not monitor these kinds of companies (optimum).
- The culture of Optimum is not admired but accepted as successful by society.

Why Çınar Corporation Reflects the Corporate Governance Philosophy of Today in Turkey? (Frequencies)

Mutual-trust (2)

- There are more trustworthy and rooted companies as Çınar Corporation in Turkey.
- There are less opportunistic companies like Optimum Corporation in Turkey.

Firm existence (2)

- Since companies belong to families, these companies are desired to exist for generations. A tie is formed between the companies and families.
- People wish their companies to exist forever.

Good reputation (2)

- Companies desire to have good reputation and supply good service. (2)

Long-term perspective (4)

- Thinking in short-term perspective would not work out for large scale companies. These kinds of companies, which think in short-term perspective, cannot remain as large companies in the long term. (4)

Bundle of human assets and relationships

- The culture of companies in Turkey is friendly. Optimum's culture is cruel.

Self-interest

-The owners of companies want to have power and to print themselves on the memories of people.

Reasons Related With Culture (3)

-Acquiring and selling a company is not the goal of our culture.

-There is patience and love in Anatolia.

-Technology, media, consciousness and cultural level improved.

Reasons Related With Finance

-Capital accumulation is formed in Turkey recently.

Why the Mix of Çınar Corporation and Optimum Corporation Reflects the Corporate Governance Philosophy of Today in Turkey?

Profit and short-term perspective

-Companies should give importance to profit in the short-term. On the other hand, most of the firms in Turkey are family firms in terms of their ownership structure.

Why Çınar Corporation Has The Company Philosophy of Future? (Frequencies)

Positive-sum strategy

-Optimum Corporation has a very narrow vision. On the other hand, Çınar's vision is based on win-win concept.

Ethical organizational behavior (3)

-Çınar Corporation is a good example in terms of ethics. (2)
-Increase in the consciousness of environmental protection.

Network (3)

-If there is a problem in one of a stakeholder the system would not work.
-Communication has developed extremely. (2)

Active communication (7)

-Çınar Corporation wants to produce qualified and desired products for the society.
Çınar Corporation is a customer oriented company. (4)
-Çınar Corporation gives importance to active communication. (2)
-Cooperation and interaction of Çınar Corporation with its stakeholders is strong.
This would help Çınar Corporation to survive in bad times.

Mutual-interests (7)

-Çınar Corporation philosophy is not based on self-interest. (3)
-Çınar Corporation operates responsibly to its stakeholders. (3)
-Trying to make only stockholders happy is not suitable (Optimum).

Long-term perspective (8)

- The payback period of an investment requires a long term (8-10 years).
- The period of short-term profit orientation is no longer valid.
- The owners of the firms should think in long-term time horizon because there are no longer high profit margins. (6)

Value-added (4)

- Only profit maximization is not suitable. (2)
- The period of short-term profit orientation is no longer valid.
- Optimum Corporation sees everything as profit.

Mutual-trust (2)

- Optimum Corporation has an opportunistic approach.

Accountability to stakeholders

- Çınar Corporation shows accountability to its stakeholders.

Voluntary cooperation(2)

- Employees will work as if Çınar Corporation is their own company.
 - Cooperation and interaction of Çınar Corporation with its stakeholders is strong.
- This would help Çınar Corporation to survive in bad times.

Transparency (2)

- Çınar Corporation is a transparent company.

Motivation

-Çınar's philosophy will increase the motivation among its employees.

Stakeholder participation

-Çınar Corporation gives chance for participation.

Bundle of human assets and relationships (9)

-Çınar Corporation is a human oriented company. (6)

-Çınar shows respect to its employees.

-Çınar Inc's philosophy is based on love.

-Optimum Inc' philosophy is based on terror.

Public interests (6)

-This kind of institutionalized firms will have a positive contribution to the country and economy. (4)

-Companies can only survive with the help of the society they are in.

-Çınar Corporation gives importance to corporate social responsibility.

Stable stakeholder relationships

If you treat your stakeholders not properly you can maximize your profit in the short-term but you loss more than that in the long-term.

Good reputation (6)

-Having good relationships with stakeholders will bring good reputation to Çınar Corporation and it will also support sales and profits positively.

-This company would have a good reputation in society. (2)

-Çınar Corporation is a rooted and a succesful company. Its future gives confidence to everyone.(2)

-This kind of companies would be good examples to other companies.

Sustainable growth (5)

-Çınar Corporation gives importance to sustainable growth. (5)

Long-term relationships (2)

-Creating a brand name requires long-term relationships.

- If you treat your stakeholders not properly you can maximize your profit in the short-term but you loss more than that in the long-term.

Firm existence (3)

-Cooperation and interaction of Çınar Corporation with its stakeholders is strong.

This would help Çınar Corporation to survive in bad times. (2)

-Companies can only survive with the help of the society they are in.

Trust based relationships (3)

-Çınar Corporation's philosophy is based on trust and patience. (3)

The Other Ideas That Could not be Categorized Under Any Variable (7)

-The philosophy of Çınar Corporation is to become a world wide company. (2)

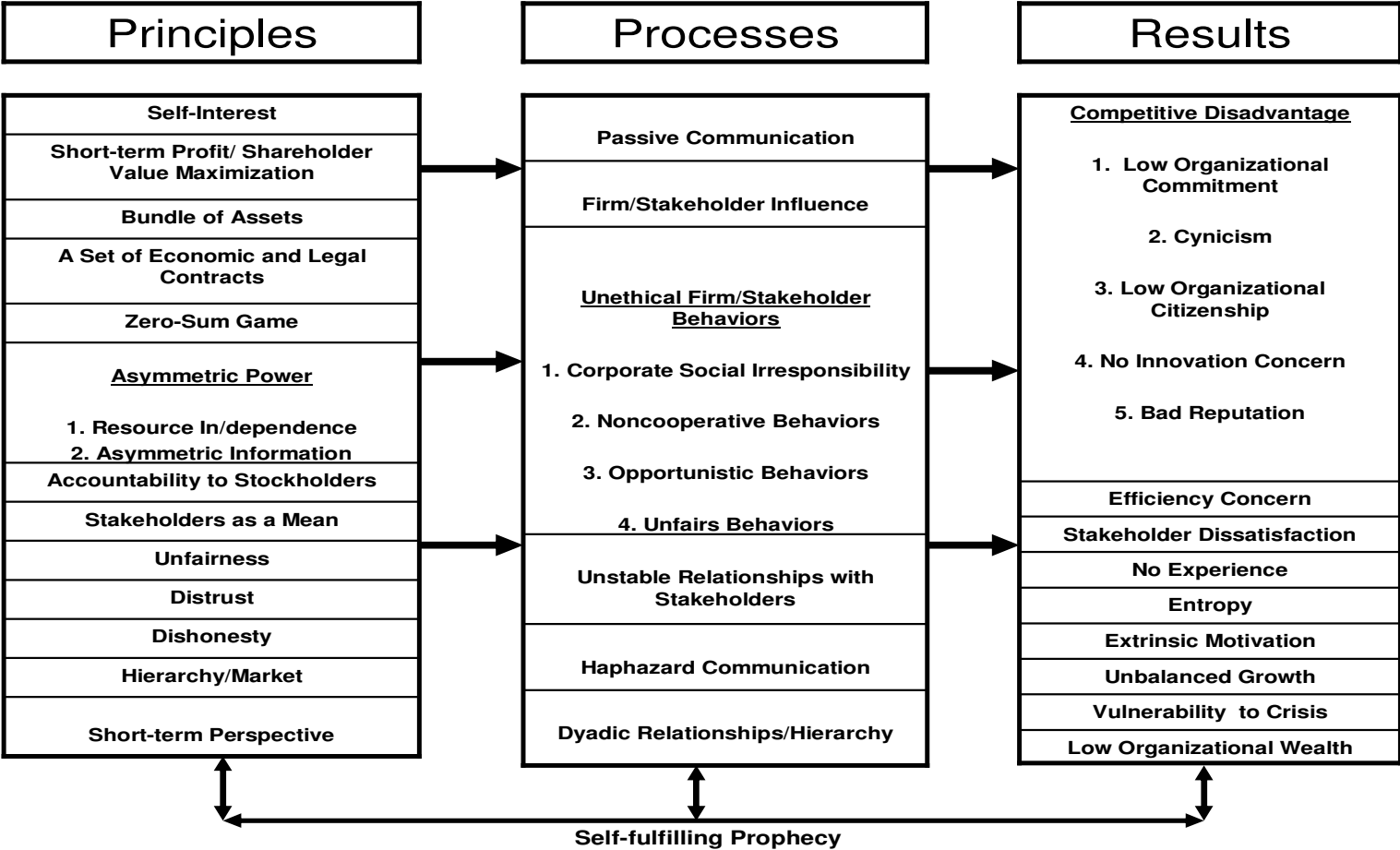
-Çınar Corporation's philosophy describes how an ideal company should be.

-There is an increase in the consciousness of individual rights.

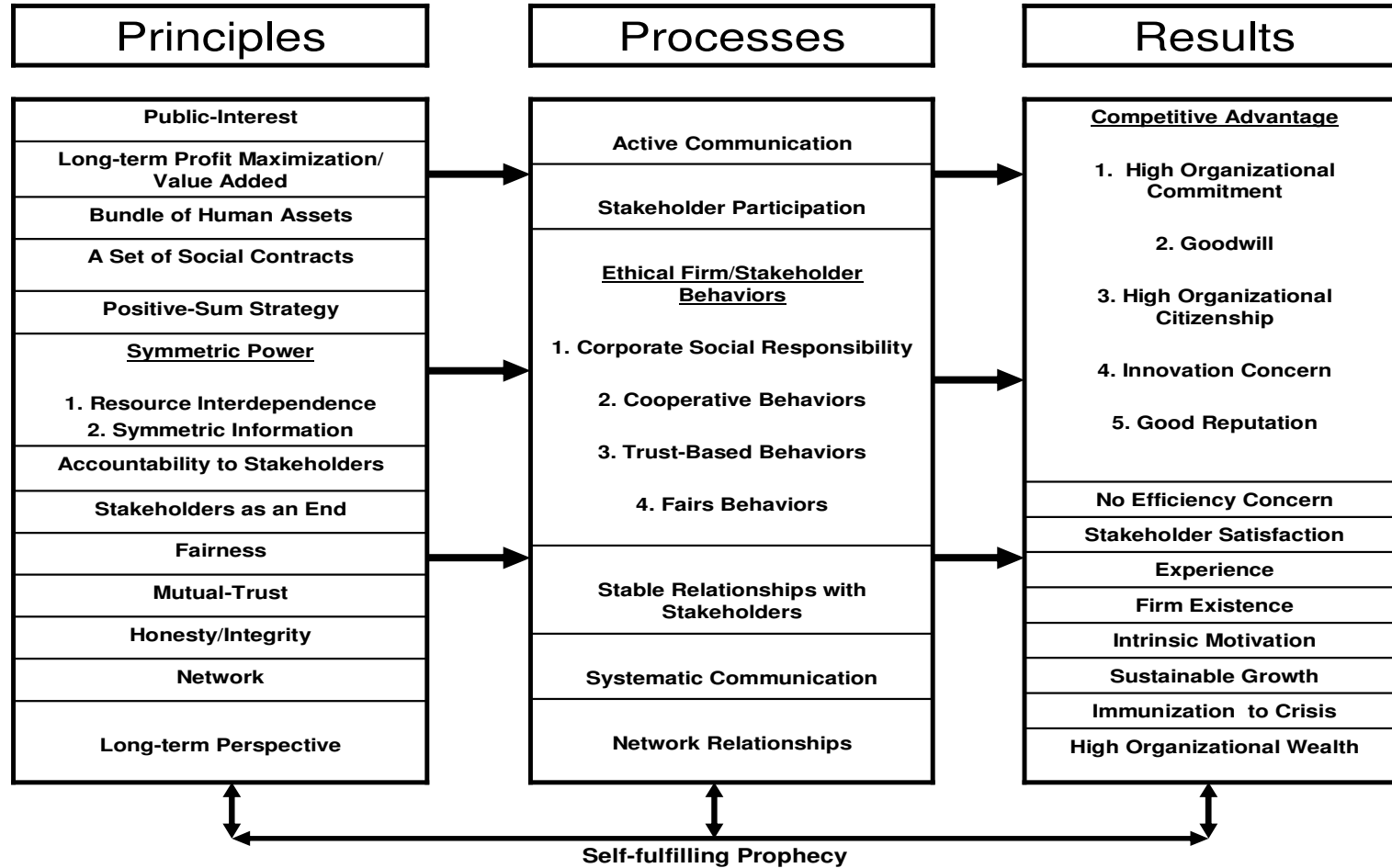
-Çınar Corporation has a very professional and institutionalized structure. (2)

-Çınar Corporation's philosophy is more near to lean management.

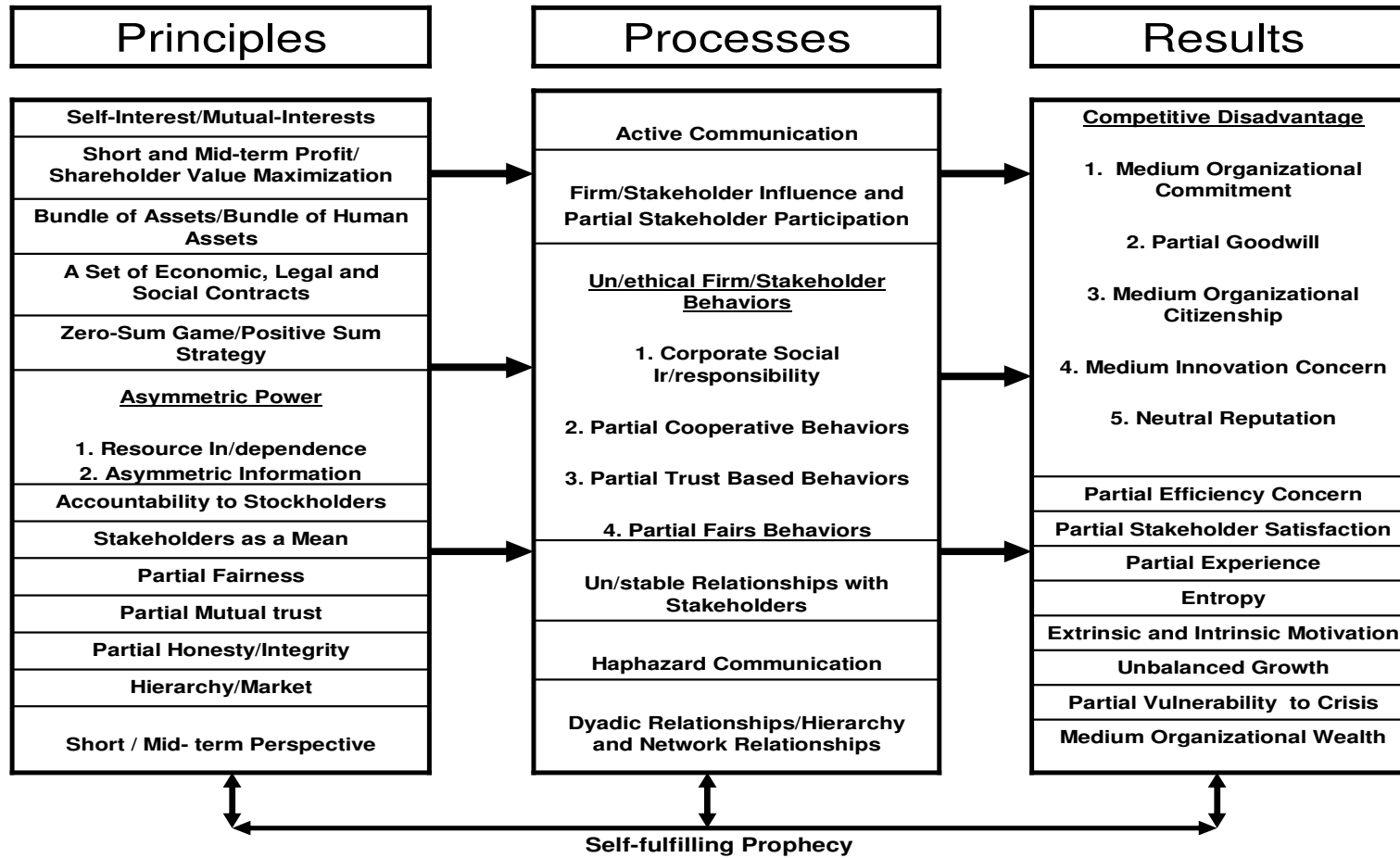
Stockholder Governance Model (Strong Form of Rational Stockholder Governance)



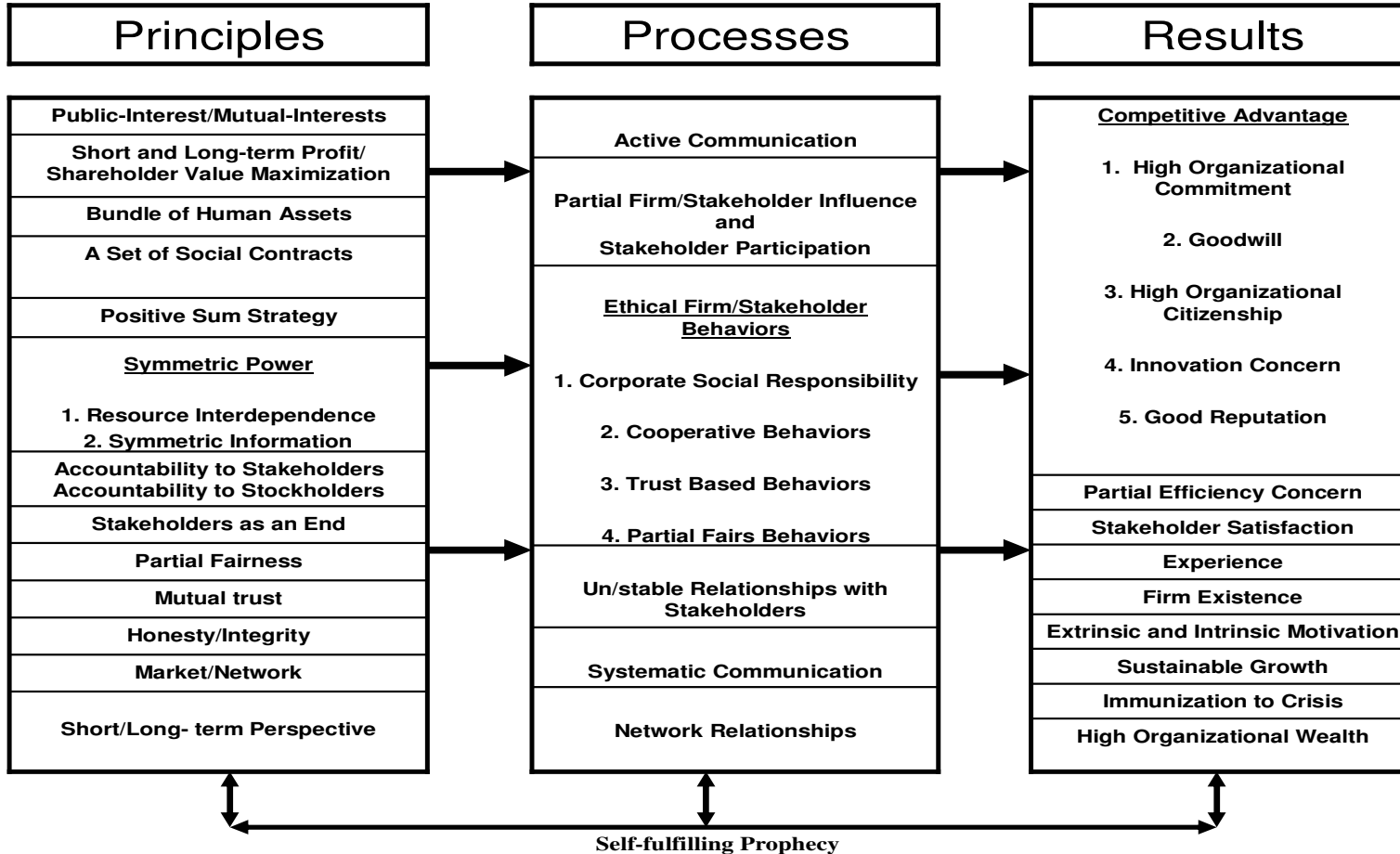
Stakeholder Governance Model (Strong Form of Normative Stakeholder Governance)



Weak Form of Convergent Stockholder Governance



Weak Form of Convergent Stakeholder Governance



A1. The Coding Results for Stockholder Governance Index

Firm #	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12	V13	V14	V15	V16	V17	V18	V19	V20	V21	V22	V23	V24	V25	V26	V27	V28	V29	V30	V31	V32	V33	V34	V35	V36	Stock	
23	1	1	0,5	0	1	0	1	0	0		1	1	1	1	1	0	1	0,5	1		1						1	0,5	1	1		1	1			1	19,5	
5	0,5	1	0,5		0	0	1		0,5		0,5		0,5	1		0,5	1	0,5	1	0,5	1						1	0,5	1	1	1	1	0	1			17,5	
4	1	1		1	1	0,5			0,5	0,5	1			1	1	0		0,5	1	0,5	1		1				1				1		0,5	1			16	
3	1	1	1		1	0			0,5		1			1	1	0,5	1	1	1	1			1					1	1	1			1	1		1	19	
1	1	1									1		1	1	1	0		1	1	1	0,5		0					1		1			1				13,5	
16	1	0,5	1	0,5	1	0,5			0		0,5	1	0	0	1	0	1	1	1	1	1	0,5	0	1				0,5	1			0,5		1			16	
14	1	0	0	0		0					0,5	1	0		0,5	0		0,5		0,5	0		0	0,5		1		0		1		0,5				8		
13		0	0,5		1	0			0				1	1	1	0	1	1	1	0	0,5							0	1	1		1	0,5	1			12,5	
12	1	1	1	0	1	0,5		1	0		0,5	1	0,5	1	1	0,5		1	1	1	0,5			1				0,5	1	1	1		1	1		1	21	
11	1	0,5	0		1	0,5	1		0		1	1	0	1	1	0,5	1	0,5	1	1	0,5		0	1	1		1	0,5	1	1	1	1	1	1		1	21	
9	1	1			0	1					1	1	1	1		0	1	1	1	1	1		1				1	1	1			1		1		17		
20	1	1	0,5	0	1	0,5			0		1		0,5	1	1	0,5	1	1	0,5	1	1			1	1		1	1	1	1	1	1	1	1	1		22,5	
19	1	1	0,5		1			1	0		1		1	1		1		1	1	1	0,5		1				1	0,5	1	1		1	1	1		1	18,5	
18	1	1							0				0,5	1	1	0	1	1	1	1	1							0				1	1	1			11,5	
17	1	1				0			0		1		1	1		1		1	1	1	1				1		0		1		1		1		1		14	
24	1		0	1	1	0			0		0	1	0,5	1	1	0,5	1	1	1	1	0,5		0,5	1		1	1	0	1	1	1	1	1	1	1	1	21	
6	1	1	1		0	0	1				0,5		0,5	1	1	0,5	0,5		0,5	0	0,5		1	1	0		1	1	1		1	1	0,5		1		16	
22	1	1	0	1	1	0,5	1	0	0,5		0,5	1	0,5	1	1	0,5	1	1	1	1	1	1		1					1	1	1	1	1	1	1		22,5	
21	1	0	0		1	0			0		1	1	0,5			0		1	0	0,5	0,5		0	1			1	0,5	1	1	1	1	0	1		1	14	
27	1	1		1		0,5			0		1	1	0,5	1	1	0,5	1	1	1	1	0,5		0,5	1		1	1	0,5	1	1	1	1	0,5	1			22,5	
28	1			0	1	0,5	1	0	0,5		1	1	0,5	1	1	0	1	0,5		1	1		1					0	1	1	1	1	1	0,5	1		18,5	
25	1	1	1		1	0			1		1	1	1	1	1	0,5	1	1	1	1	1	1		1				1		1		1		1	1		20,5	
33	0,5	1	1	0,5	0,5	0		0	0	1	0,5	1	1	1	1	0,5	1	1	0,5	1	0,5		1	1		1	1	0,5	1	1	1	1	0,5	1	1	1	25,5	
32	1		0		1	1			0		1			0,5	1	0	1	0,5	1	1	0,5		1	0,5			1	0,5	1	0,5		1		1		1	16	
31		0				0		0	0		1	1		0		0		1	1	1	0,5	0					1	0			1		0,5	1			9	
30	0,5		0,5	1		0,5	0	0	0		1	1	0,5		1	0,5	1	0,5		0,5	1		0			1		0	1	1		1		1		14,5		
29	1	1		0	1	0	0,5				1	1	1	1	1	0,5		0,5	1	1		1	0	1		1		0		1		1	1			17,5		
38	1	1	1		1	0	0	0	0	1	1	0,5	1	1	1	0	1	1		1	1			1			1	0,5	1	1		1	0,5				19,5	
37	0	0	0	0	1	0		0	0	1	0	1	0,5	0	0	0		0,5	0	0,5	0		0,5				1	0	1	0,5	1		0,5	0,5		9,5		
36	1	0	0	0		0	1	0	0		1	1	0,5	1	1	0,5	1	1		0,5	0							0,5	1				1			13		
35	1	0,5	0,5		1	0	1	0	0,5		0,5	1		1	1	0	1	0,5	0,5	1	1	1		1		1		1		1	1	1	0,5			19,5		
34	1	1	0		1	0,5	1		0,5		1	1	0,5			0	1	0,5	1	0,5	1		0	1	1	1		0,5	1	1		1	0,5	1		19,5		
42	1	1	1			0,5	0		0				0		1	0,5	1	1	1	1	1			1	1			0,5	1	1		1	0,5	1			17	
41	0,5	0,5	0,5	1	1	0	1	0	0	1	1	1	1	1	1	0,5	1	1		1	0,5		0	1			1	0	1	1		1		1		1	21,5	
40	1	0,5	0,5			0,5			0,5		1	1	1	1		0	1	1	1	1	1		1	1	1			0	1	1		1		1		19		
39	1		1	1		0	1		0		1	1	1	1	1	0,5	1	1	1		1		1	1				0	1	1	1	1	0,5	1		1	21	
10	1	1	1						1		1		0	1	1	0,5	1	1		1	1		1			1	1	1	0,5	1	1	1	1	1	1		1	23
2	1	1	1	1		0,5			0	1		1	0	1	0,5	0,5	1	1	1	1	1							1	1	1	1	1	1	1			19,5	
43	1	0	0,5		1				0,5	1			1					1		1	0							1		1		1	0	1			12	
Mean	0,92	0,71	0,53	0,50	0,90	0,22	0,78	0,15	0,19	0,93	0,82	0,98	0,62	0,89	0,93	0,30	0,98	0,84	0,88	0,84	0,73	0,75	0,54	0,95	0,78	1,00	1,00	0,43	1,00	0,97	1,00	0,98	0,62	0,98	1,00	1,00	17,4	

A2. The Coding Results for Stakeholder Governance Index and Corporate Governance Index as the Difference between the Stakeholder and Stockholder Governance Indices

Firm #	S1	S2	S3	S4	S5	S6	S7	S8	S9	S10	S11	S12	S13	S14	S15	S16	S17	S18	S19	S20	S21	S22	S23	S24	S25	S26	S27	S28	S29	S30	S31	S32	S33	S34	S35	S36	Stake	CGI (STAKE-STOCK)				
23	1	1	0,5	0	1	0	1	0	0		1	1	1	1	1	0	1	0,5	1		1						1	0,5	1	1		1	1				1	19,5	0			
5	1	0	1	1	1	0	1		0	1	1	1	1	1		0	1	1	0,5		1			0,5	1	1		1	0,5	1	1	1	1	1	1				23,5	6		
4	1	1				0,5	1	0	0,5	1	1	1		1	1	1	1	1	0,5		1	1	1		1	1		1		1	1	1		0,5	1				23	7		
3	1	1	1				0		0,5		0,5	0		1	0,5	0,5	1	1		1	1		1	1			1	0,5	1	1	1	1	1	1	1	1		1	20,5	1,5		
1	1		1			1			0,5		1	1	1	1	1	1	1	1	1		1			0,5	1			1	1	1	1	1	1		1				22	8,5		
16	0,5	0		0,5					0		0,5	1	0		0,5	0	1	1		1	1	0,5				1		0	1	1		1	0	1					12,5	-3,5		
14	0,5		1	0		0,5		0					0		1	0,5	1	1			0							0	1	1			1	1					9,5	1,5		
13	1				1	0					0,5	1	1			0,5	1	0,5	0,5	1	0,5						1	0	1	1			0,5	1					13	0,5		
12	1	1				0,5		1	0,5		1	1	1	0		0	1	1	1	1	1	1					1		0	1	1						1			15	-6	
11	1	1				0,5	1		0,5		1	1	0	1	1	0,5	1	1	1	1	1	1			1	1		1	0	1	1			1		1				20,5	-0,5	
9	1	1			1						1			1		0	1	1	1	1			0,5						1	1	1	1	1	1		1				13,5	-3,5	
20	1	1	0,5	0	1	0,5			0	1		0,5	1	1	0,5	1	1	0,5	1	1	1	1			1	1		1	1	1	1	1	1	1	1	1				22,5	0	
19		1			1	1	1		0		1	1	1	1	1	0,5		1	1	1	1	1						1	1	1	1	1	1	1	1	1				19,5	1	
18	1	0,5	0		1	0,5	1	0	0,5						1	0	1	1		1	1	1			1	1	1		0	1				1	1	1				15,5	4	
17	1	1	1	0	1	0	1		0		1	1		1	1	0,5	1	1	1	1	1	1			1			1	0,5	1	1			1	1	1	1	1			23	9
24	1	1	0			0,5	1		0,5			1	1	1	1	0	1	1	0	1	1	1		1	1	0		1	0,5	1	1		0	1	1	0				19,5	-1,5	
6	1	1	1		1	0,5			0,5		0,5		1		1	1	1	0,5	0,5		1				1	0		1	1	1	1	0	1	1	1	1	1	1		20,5	4,5	
22	1	1		0	1	0,5	0,5		0		0,5	1	0			0	1	1	0,5	1	1	1	0,5			1	1	1	0	1	1		1	1	1				16,5	-6		
21	1	1	1		1	0			0		1	1	1	1	1		1	1	0	1	1	1			1	1	1	1	1	1	1	1	0	0	1		1		20	6		
27	1	1	0	1	1	1			0,5		1	1	1	1	1		1	1	1	1	1	1			1		1	1	0,5	1	1	1		1						22	-0,5	
28	0,5	1	1	0,5	1	0	1	1	0,5		0,5		0,5	1	1	0,5	1	1	1	0,5	0,5			1	1		1		1	1	0,5	1	1	0,5	1				23	4,5		
25	1	1	1	0	1	0	1	0	0,5		1	0,5	1	1	1		0	1	1	0	1	1			1			0	1		1	1	1	1	1	1	1	1		21	0,5	
33	1	1	1	1		0			0,5		1	1	1	1	1	1	1	1	1	1	1	1		1		1	1	1	1	1	1	1	1	1	0,5	1	1	1	1	28	2,5	
32	1			1	1				0	1			1		1	0	1	1		1	1	1			1	1		1	1	1	1					1	1	1		18	2	
31	1		0		1	0			0		0,5		1		1	0,5	1	0,5	1		1			1			1	1		1	1			1						13,5	4,5	
30	1		1	0,5	1	0	1	0	1		0,5	1				1	0,5	1	1	1	1	1			0	1	1	1		1	1	1	1	1		1				20,5	6	
29	1		0,5				1	0,5	0		0,5	1	1	1	1	0,5	1	0,5	1	1	1	1		0	1		1		1		0,5		1	0,5	0,5					18	0,5	
38	1		1	1		0			0		1	1	1			1	1	1	1	1	1	1							0,5	1			0,5		1					15	-4,5	
37	1	1	1	0,5			1	0,5	1	1	1	1	1	1	1	0,5	1	1	0,5	1	0,5	1	0,5		0	1			0	1	0,5		1		1				20	10,5		
36	1					0,5	1				1	1	0,5		1	0,5	1	0,5		1	0,5			1		1			0,5	1	1				1	1		1		16	3	
35	1		1	1	1	0		1	0,5		0,5	1	1		1	0,5	1	0,5	1	1	0,5	1	0,5		0,5				1	1	1		1	0	1					19	-0,5	
34	1	1	1		1	0		1	0,5		1	1	1	1	1	1	1	1	1	1	1	1			1	1	1	1	1	1			0,5	1	1		1			24	4,5	
42	1		1	1		1			0						1	1	1	1	1	1	1	1		1	1		1		1	1		1	1	1		1				19	2	
41	1	1			1	0,5			0,5			1	0,5		1	0,5	1	1	1	1	1	1		0		1		0	1	1		1		1		1				17	-4,5	
40	1	1			1	0	1		0		1		0	1		0	1	1	1	1	0,5	0,5		1	1		1		0	1	1		1	0,5	1	1	0			18,5	-0,5	
39	1					0			0		1	1			1		1	1		1		1			1	1			0	1	1		1	0,5	1					13,5	-7,5	
10	1	1	1		1		1	1	0,5		1	1		1	1		1	1	1	1	1	1			1	1	1	1		0	1	1		1		1	1	1		23,5	0,5	
2	1	1			1	0,5			0	0,5	1	0,5	1		1		0	1	1	1	1	1							1	1	1		1		1		1			17,5	-2	
43	1	1	0,5	1	1					1	1	1	0	1	1	0,5	1	1	1	1	1	0,5			1				0,5	1	1		1	0,5	1					21	9	
Mean	0,96	0,91	0,76	0,56	1,00	0,30	0,91	0,46	0,29	1,00	0,82	0,97	0,72	0,96	0,97	0,43	1,00	0,91	0,79	0,96	0,86	1,00	0,58	1,00	0,82	1,00	1,00	0,50	1,00	0,96	1,00	0,88	0,89	0,99	0,88	0,90	18,9	1,5				

Independent Samples Test (2000)

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
VA_SALES00	Equal variances assumed	,237	,629	-,357	31	,723	-,01545	,04325	-,10365	,07274
	Equal variances not assumed			-,393	25,781	,698	-,01545	,03936	-,09640	,06549
roe00	Equal variances assumed	,279	,601	,181	31	,857	,01273	,07018	-,13041	,15587
	Equal variances not assumed			,198	25,290	,845	,01273	,06437	-,11976	,14522
roa00	Equal variances assumed	4,798	,036	-,930	31	,359	-,02955	,03177	-,09433	,03524
	Equal variances not assumed			-,1228	28,586	,229	-,02955	,02406	-,07878	,01969
va_asset00	Equal variances assumed	,603	,443	-1,010	31	,320	-,06364	,06300	-,19213	,06486
	Equal variances not assumed			-1,160	28,527	,256	-,06364	,05484	-,17589	,04861
profitmargin00	Equal variances assumed	3,213	,083	-,486	31	,630	-,00909	,01869	-,04721	,02902
	Equal variances not assumed			-,627	30,071	,536	-,00909	,01451	-,03871	,02053

Independent Samples Test (2001)

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
VA_SALES01	Equal variances assumed	,383	,540	-,673	33	,506	-,03620	,05382	-,14569	,07330
	Equal variances not assumed			-,671	22,267	,509	-,03620	,05395	-,14801	,07562
roe01	Equal variances assumed	,567	,457	-,629	32	,534	-,12573	,19998	-,53307	,28161
	Equal variances not assumed			-,566	15,536	,579	-,12573	,22195	-,59740	,34594
roa01	Equal variances assumed	2,217	,146	-1,056	33	,299	-,05667	,05367	-,16587	,05253
	Equal variances not assumed			-1,194	30,693	,242	-,05667	,04745	-,15348	,04014
vadev0_1	Equal variances assumed	1,124	,297	,734	31	,468	,20591	,28041	-,36598	,77780
	Equal variances not assumed			,624	13,769	,543	,20591	,32976	-,50246	,91428
va_asset01	Equal variances assumed	,967	,332	-,897	33	,376	-,18210	,20300	-,59510	,23090
	Equal variances not assumed			-1,150	30,879	,259	-,18210	,15837	-,50516	,14095
profitmargin01	Equal variances assumed	,870	,358	-,666	33	,510	-,02268	,03405	-,09196	,04660
	Equal variances not assumed			-,742	29,699	,464	-,02268	,03059	-,08517	,03981

Independent Samples Test (2002)

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
VA_SALES02	Equal variances assumed	4,049	,052	-1,527	34	,136	-,07057	,04622	-,16451	,02337
	Equal variances not assumed			-1,732	33,568	,092	-,07057	,04074	-,15341	,01227
roe02	Equal variances assumed	5,095	,031	-1,164	33	,253	-,29428	,25273	-,80845	,21990
	Equal variances not assumed			-,844	11,287	,416	-,29428	,34857	-1,05910	,47055
roa02	Equal variances assumed	,261	,612	-1,073	34	,291	-,03829	,03568	-,11080	,03421
	Equal variances not assumed			-1,070	24,777	,295	-,03829	,03580	-,11206	,03548
vadev1_2	Equal variances assumed	15,140	,000	1,673	33	,104	,41736	,24939	-,09004	,92475
	Equal variances not assumed			1,231	11,529	,243	,41736	,33912	-,32489	1,15960
va_asset02	Equal variances assumed	4,777	,036	-1,504	34	,142	-,13154	,08745	-,30925	,04617
	Equal variances not assumed			-1,804	33,342	,080	-,13154	,07293	-,27986	,01679
profitmargin02	Equal variances assumed	,001	,975	-1,192	34	,241	-,03321	,02786	-,08982	,02340
	Equal variances not assumed			-1,104	19,940	,283	-,03321	,03009	-,09599	,02957

Independent Samples Test (2003)

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
VA_SALES03	Equal variances assumed	3,325	,077	-,870	35	,390	-,04567	,05252	-,15230	,06095
	Equal variances not assumed			-1,020	34,905	,315	-,04567	,04476	-,13654	,04520
roe03	Equal variances assumed	1,272	,267	1,591	35	,121	,20641	,12976	-,05701	,46983
	Equal variances not assumed			1,267	14,095	,226	,20641	,16287	-,14270	,55552
roa03	Equal variances assumed	9,040	,005	-,471	35	,640	-,01497	,03176	-,07944	,04950
	Equal variances not assumed			-,570	34,769	,572	-,01497	,02626	-,06829	,03836
vadev2_3	Equal variances assumed	,218	,643	-1,011	35	,319	-,09497	,09391	-,28562	,09569
	Equal variances not assumed			-1,046	27,207	,305	-,09497	,09081	-,28123	,09130
va_asset03	Equal variances assumed	8,012	,008	-1,114	35	,273	-,08712	,07820	-,24587	,07164
	Equal variances not assumed			-1,351	34,694	,186	-,08712	,06449	-,21809	,04386
profitmargin03	Equal variances assumed	7,544	,009	-,603	35	,550	-,01798	,02980	-,07849	,04252
	Equal variances not assumed			-,779	30,154	,442	-,01798	,02309	-,06513	,02917

Independent Samples Test (2004)

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
VA_SALES04	Equal variances assumed	2,965	,094	-1,216	33	,232	-,04880	,04012	-,13043	,03282
	Equal variances not assumed			-1,416	32,155	,166	-,04880	,03446	-,11898	,02137
roe04	Equal variances assumed	,044	,834	1,230	33	,227	,12438	,10110	-,08131	,33007
	Equal variances not assumed			1,386	30,425	,176	,12438	,08977	-,05885	,30762
roa04	Equal variances assumed	,021	,886	,232	33	,818	,00699	,03016	-,05436	,06835
	Equal variances not assumed			,236	23,618	,815	,00699	,02960	-,05414	,06813
vadev3_4	Equal variances assumed	1,514	,227	,784	33	,439	,32764	,41817	-,52312	1,17841
	Equal variances not assumed			1,080	23,339	,291	,32764	,30327	-,29921	,95450
va_asset04	Equal variances assumed	2,102	,157	-,599	33	,554	-,04507	,07531	-,19829	,10814
	Equal variances not assumed			-,745	32,507	,462	-,04507	,06051	-,16826	,07811
profitmargin04	Equal variances assumed	4,164	,049	-,265	33	,793	-,00554	,02090	-,04807	,03699
	Equal variances not assumed			-,311	32,422	,758	-,00554	,01783	-,04184	,03075

Independent Samples Test (2000-2004)

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
VA_SALES	Equal variances assumed	2,862	,101	-1,210	29	,236	-,05210	,04305	-,14015	,03596
	Equal variances not assumed			-1,423	26,592	,166	-,05210	,03661	-,12727	,02308
roe	Equal variances assumed	,342	,563	,100	28	,921	,00778	,07768	-,15135	,16690
	Equal variances not assumed			,100	15,104	,922	,00778	,07792	-,15822	,17377
roa	Equal variances assumed	9,186	,005	-,474	29	,639	-,01495	,03152	-,07943	,04952
	Equal variances not assumed			-,605	28,993	,550	-,01495	,02470	-,06547	,03556
vadev	Equal variances assumed	,022	,883	1,507	29	,143	,17629	,11695	-,06291	,41548
	Equal variances not assumed			1,681	23,581	,106	,17629	,10486	-,04033	,39290
va_asset	Equal variances assumed	3,838	,060	-1,132	29	,267	-,10848	,09585	-,30451	,08756
	Equal variances not assumed			-1,506	27,914	,143	-,10848	,07205	-,25608	,03913
pm	Equal variances assumed	8,558	,007	-,393	29	,697	-,00867	,02206	-,05379	,03646
	Equal variances not assumed			-,506	28,920	,617	-,00867	,01714	-,04372	,02639

		Paired Differences				t	df	Sig. (2-tailed)	
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	SI - MI	-,043	,281	,048	-,139	,054	-,902	34	,373
Pair 2	STPSVM - LTPMVA	-,104	,466	,095	-,301	,093	-1,096	23	,285
Pair 3	BA - BHA	-,3056	,4249	,1002	-,5169	-,0942	-3,051	17	,007
Pair 4	ASLEC - ASSC	,000	,471	,149	-,337	,337	,000	9	1,000
Pair 5	ZSG - PSS	-,133	,352	,091	-,328	,062	-1,468	14	,164
Pair 6	REINDEP - REINTER	-,033	,320	,058	-,153	,086	-,571	29	,573
Pair 7	ASYMMETRIC - SYMMETRIC	-,125	,443	,157	-,496	,246	-,798	7	,451
Pair 8	ACSTOCK - ACSTAKE	-,500	,548	,224	-1,075	,075	-2,236	5	,076
Pair 9	SAM - SAE	-,091	,363	,063	-,220	,038	-1,437	32	,160
Pair 10	UNFAIR - FAIR	-,1250	,2500	,1250	-,5228	,2728	-1,000	3	,391
Pair 11	DT - MT	,017	,334	,061	-,108	,142	,273	29	,787
Pair 12	DH - IH	-,025	,112	,025	-,077	,027	-1,000	19	,330
Pair 13	HM - NW	-,020	,420	,084	-,193	,153	-,238	24	,814
Pair 14	STP - LTP	,000	,316	,069	-,144	,144	,000	20	1,000
Pair 15	PC - ACOM	-,021	,275	,056	-,137	,095	-,371	23	,714
Pair 16	FSI - SPAR	-,132	,482	,083	-,300	,036	-1,602	33	,119
Pair 17	CSI - CSR	-,018	,094	,018	-,054	,019	-1,000	27	,326
Pair 18	NCB - CB	-,0789	,2733	,0443	-,1688	,0109	-1,781	37	,083
Pair 19	OPBEH - TBB	,100	,382	,076	-,058	,258	1,309	24	,203
Pair 20	UFB - FB	-,0962	,3168	,0621	-,2241	,0318	-1,547	25	,134
Pair 21	UNSTABLE - STABLE	-,147	,338	,058	-,265	-,029	-2,539	33	,016
Pair 23	DRH - NWR	,0313	,2869	,0717	-,1216	,1841	,436	15	,669
Pair 24	LOC - HOC	-,031	,125	,031	-,098	,035	-1,000	15	,333
Pair 28	EFFICON - NOEFFICON	-,1061	,4286	,0746	-,2580	,0459	-1,421	32	,165
Pair 30	DISSATISFACT - SATISFACT	,017	,160	,029	-,043	,076	,571	29	,573
Pair 32	ENTROPY - EXISTENCE	,115	,355	,070	-,028	,259	1,656	25	,110
Pair 33	EXTRINSIC - INTRINSIC	-,105	,357	,082	-,277	,067	-1,287	18	,215
Pair 34	UNBALANCED - SUSTAIN	-,016	,090	,016	-,049	,017	-1,000	30	,325
Pair 35	VULNERABLE - IMMUNIZED	,333	,577	,333	-1,101	1,768	1,000	2	,423

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