

# A development Perspective for CSR; case of Turkey [1]

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## Conceptual Framework

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Under a variety of headings, acronyms and contexts, a vivid debate is taking place across the world questioning the role of business in society. Corporate Social Responsibility (CSR) and Corporate Governance (CG) are two salient domains of research which *partially* overlap in trying to answer questions of how and what the corporations do and should do.

Stakeholder theory suggests that the primary objective of the company activity should be to create and maximise value for all the stakeholders (Freeman, 1984). Some scholars accept the legitimacy of stakeholders but argue that the “stakeholder theory” lacks scientific basis. For example, Henderson (2004), in his powerful argument against widely accepted norms of CSR, warns about the possible negative consequences of “contamination” of profits by the pursuit of other objectives which may, in his view, reduce the total welfare due to the possible distortion of signalling effect of profits. Jensen (2001) proposes *long term value maximization* as the firm’s objective. He argues that long-term value maximization provides the criterion for making the requisite tradeoffs amongst firms’ stakeholders and therefore solves the problems arising from multiple objectives.

Whether stakeholder theory has scientific basis or whether it simply represents a doctrine, the fact remains that the behaviour of businesses and the role of business in society are expanding areas of research.

We value positive and descriptive research on CSR as a potential contributor to better conceptualization of stakeholder theory and to other schemes with a less ambiguous theoretical framework. With this motive, we take a snapshot of manifestations of CSR and its drivers in Turkey. First we present a short review of CSR perspectives and their diversity. We then describe the economic and political context in which the Turkish businesses operate. We continue with exploring how cultural characteristics of the Turkish society may have an impact on corporate behaviour. We argue that the cultural characteristics combined with the economic fundamentals do not encourage CSR in Turkey. We further explain that the EU accession process and macroeconomic stability opens Turkey to an intensified interaction with global institutions perpetuating

international values, standards and practices. We conclude that the drivers for CSR in Turkey will be exogenous and institutional rather than endogenous and cultural.

We conclude by offering some recommendations for further research which may contribute to the understanding and shaping of corporate behaviour.

### ***CSR Perspectives***

There are two perspectives of CSR; one is about the corporate behaviour based on “normative and ethical” considerations, the other is about managing corporate risks and protecting corporate reputation. This dichotomy can be simplified as ethically driven behaviour based on moral obligations and values on one hand and organisational benefit on the other. The later is correlated to the role society plays by rewarding or punishing corporate social performance. It will be in the interest of the profit maximizing firm to signal commitment to principles and values which are not associated with economic benefits directly, only if the signalling costs are small and ethical appearance is perceived to have a positive financial effect (Harrington 1989, Baron 2006).

In Carroll’s construct (1991) the driving force for CSR is the society’s expectations. His famous pyramid of responsibilities rises on economic and legal responsibilities at the foundation; they are “required” by the society. Corporations have discretion in their commitment to meet the requirements; they can choose to, or fail to, meet their responsibilities. Although CSR is frequently defined as voluntary behavior beyond what is required by law; a commitment to comply with law is a matter of choice when the enforcement is weak.

Society’s expectations from business vary considerably between countries depending on the level of economic and social development. Company law within a country implicitly or explicitly describes the expectation of the society with respect to whom the organisation is there to serve and how the purposes and priorities of the organisation should be decided. The legal framework is driven not only by value maximization and self-interest but also by *culture* and politics (Bebchuk, L.A. and Roe, M.J.1999). Theories on cultural differences provide an explicative framework for understanding both the law and expectations of society from business. Licht *et al.*’s (2001) research notes a correlation between La Porta *et al.*’s indices of shareholders’ rights and creditors’ rights, and cultural dimensions.

Gomez and Korine (2005) present a fresh perspective building on Tocqueville’s (2000 [1830]) hypothesis that democratic forms - i.e. stakeholder model- should become the model of governance for the corporations and one should expect convergence of governance forms towards a stakeholder model alongside with the democratization process.

Porter (2007) suggests that the prevailing approaches to CSR are disconnected from business as they represent a response to pressure from nongovernmental organisations’ (NGO) activism. NGO interests are not fully aligned with the interests of the society due

to agency problems. According to Porter, a sustainable social agenda can only emerge if social responsibility is incorporated in corporate strategy.

We believe that despite the lack of a generally accepted theoretical framework, CSR emerges as a widely used notion in search for solutions to deep global issues arisen from market and government failures.

### **Political and Economic environment of Turkish business**

After the establishment of Turkish republic in 1923, a strong emphasis has been placed on the role of the state in economic development. Turkey has been typified by some scholars as an example of state dependent business system (Whitley 1994). Until 1945, the state was the major economic player and subsidised the development of the private sector. The private sector gradually came of age. After 1980, the development of market economy institutions gained momentum due to liberalisation and pro-market policies (Ararat, Ugur 2003).

Perhaps because of the special circumstances behind the development of the private sector in Turkey, entrepreneurs have always been almost apologetic about their wealth and felt unconfident about the legitimacy of their ventures (Bugra, A., 1995). This psychology materialized in a strong *discourse* of social purpose and value of private enterprise. As one of the strongest business institutions in Europe, Turkish Businessmen and Industrialists Association (TUSIAD), follows suit with a mission not to protect the interests of its member companies but to establish the social role of Turkish private enterprise.

According to Ararat and Ugur (2003), the state's heavy involvement in the economy has fostered a political culture in which the legitimacy of the state is a function of the 'rents' that the government could distribute rather than its ability to provide 'public goods'. Following decades of chronic inflation and economic crises characterized with opacity and corruption, Turkey has taken serious steps in 2001 to achieve macroeconomic stability. Despite the initial scepticism due to its Islamic roots, the ruling political party that came to power in 2002 has established its legitimacy based on both the economic recovery and EU anchored reform process. These developments fueled a record inbound FDI flow of USD 15 billion in 2005, a drastic improvement backed up by substantial reforms in corporate governance framework including introduction of international accounting and financial reporting standards, audit practices and disclosure regulations. Ugur and Ararat (2006) provide a detailed explanation of the relationship between political and macroeconomic stability and improvements in corporate governance regime from 2001 to date.

The state's (including the military's) dominant role in economic and political scene is being gradually balanced with that of the private sector and civil society, a process exacerbated by the desire to join the European Union and willingness to align societal

values and norms with that of European Union member countries. Democratization and economic development go hand in hand in Turkey.

### **Society, Culture and Leadership Behaviour**

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Society's expectations from business are influenced by many factors including societal culture. Business response to society's expectations is also influenced by societal culture through the mental programming of decision makers (Hofstede, 1980). On the other hand organizations with their own values and culture also represent collectives leading to behavioural patterns. Against these drivers, globalisation perpetuates universalism of leadership behaviour and lead to standardization of management practices (House, Wright, Aditya, 1997). Therefore a study of drivers of corporate behaviour requires an understanding of the affect of societal culture, organizational culture, and the degree of influence of globalization in inducing universal values in addition to the legal framework in which the corporations operate.

In his renowned attempt to cluster the countries, Hofstede (1983) identified 5 value oriented dimensions that distinguishes societal cultures; (1) Social inequality including the relationship with authority ( power distance), (2) The relationship between the individual and the group (individualism versus collectivism), (3) Performance orientation (masculinity versus femininity) and (4) Ways of dealing with uncertainty (uncertainty avoidance). He later added a fifth dimension; (5) Long term orientation versus short term orientation in life.

Turkey's societal culture is defined by large power distance, strong collectivism (low individualism), strong uncertainty avoidance and moderate femininity (Hofstede, 1991). According to Hofstede (1991), the high power distance ranking is indicative of a high level of inequality of power and wealth within the society. Low UAI translates into a collectivist society and is manifested in a close long-term commitment to the member 'group', that being a family, extended family, or extended relationships. Loyalty in a collectivist culture is paramount, and over-rides most other societal rules.

Katz, Swanson and Nelson (1999) present a framework to analyze how Hofstede's cultural dimensions influence the society's "CSR agenda". They conclude that activism of stakeholders can be grouped around five social spheres: i) consumerism, ii) environment, iii) treatment of employees, iv) government involvement in society, v) role of business in community.

The propositions driven from their analysis are as follows:

1. Consumer activism is more likely to occur in cultures exhibiting lower levels of power distance, lower levels of uncertainty avoidance, higher levels of individualism and lower levels of masculinity.

2. Environmental activism is more likely to occur in cultures exhibiting lower levels of power distance, higher levels of uncertainty avoidance, lower levels of individualism and lower levels of masculinity
3. Employee activism will be more likely to occur in cultures exhibiting lower levels of power distance, higher levels of uncertainty avoidance, lower levels of individualism and lower levels of masculinity
4. Governmental activism will be more likely to occur in cultures exhibiting lower levels of power distance, lower levels of individualism and lower levels of masculinity
5. Community activism will be more likely to occur in cultures exhibiting lower levels of power distance, lower levels of uncertainty avoidance, lower levels of individualism and lower levels of masculinity.

Table 1 presents the analytical framework of the propositions. An analysis of Turkey's culture construct suggests that consumer activism, environmental activism, employee activism, governmental activism and community activism are not likely to be observed in Turkey. Consistent with this analysis, a global study conducted in 2001 by Environics International ([www.environics.com](http://www.environics.com)), reports that Turkish society predominantly expects economic performance (jobs) from the companies.

Kabasakal and Dalmachian explain the low score in future orientation with the concept of "fate" in Islam. Although the Turkish society is not future oriented, leaders are expected to be "visionaries" and demonstrate future orientation according to Kabasakal and Bodur (1998) who found Turkish organizations to be significantly more future-oriented than the Turkish society. They argue that this may be due to the necessities of the task and higher education levels.

### ***Affect of Culture on Leadership***

Rodrigues (1990) describes four leadership styles; directive, supportive, achievement and participative. He concludes that participative leadership style can work everywhere except in those societies with a combination of high power distance, strong collectivism and high uncertainty avoidance a combination that applies to Turkey. Pasa, Kabasakal and Bodur (2001) found that leaders in Turkey use participation to induce feelings of belonging to the group rather than to get consensus or improve the quality of the decisions.

Paternalism is considered to be a distinctively common attribute of leadership in developing countries by many scholars. Fikret-Pasa, Kabasakal and Bodur (2001) conclude that a leader in the Turkish context emerges as a parent who takes care of the followers' feelings of belonging to the family and that culture specific behaviours are more dominant in leadership behaviours of Turkish organizations relative to the universally influenced behaviours of rationalizing and legitimizing.

### ***CSR in practice***

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An overview of strong CSR oriented countries' cultural characteristics (UK, Germany, Holland) reveals that they are positioned in the opposite quadrants in dimensional analysis (Hofstede 1991). Low future orientation, low societal collectivism, short term orientation and low humane orientation combined with the authoritarian orientation of the leaders are unlikely to positively influence CSR. Among all, we particularly note the possible negative correlation between power distance and individual responsibility. These dimensions enforce each other. Individual responsibility requires intellectual and emotional independence from authority and self consciousness of individual's ability to respond to a situation as an actor, not as an observer.

Ascigil (2003)'s research supports this argument. In her unpublished survey conducted for TESEV Ascigil explored management attitudes towards CSR in Turkey. Using Carroll's (1979) and Aupperle's (1994) contextualized questionnaires; she found that 75% of the managers included in the survey give priority to economic criteria when making decisions. 19.11% percent of managers give priority to ethical criteria and only 6% considers legal criteria as the most important. Ascigil also notes that Turkish managers do not differentiate between legal and ethical responsibilities as evidenced by the structural analysis of the responses. Customers are considered be the most important stakeholders by 75.8% of the managers, employees being the second by 50.8%. Society is considered as an important stakeholder only by 24.3% of the managers. According to the same survey, 53.5% of the managers would not consider ethics if it would negatively impact economic performance. She concludes that CSR is not manifested in corporate behaviour in Turkey and remains as a public relations matter.

Although it is not surprising that "society" is mentioned in only 22.1% of the statements in Ascigil's study, it is interesting that "profitability" is even less popular and mentioned only in 3.3% of the statements. This may be because generally controlling shareholders do not delegate decision making authority to professional managers. Performance is the responsibility of owner/managers rather than professional managers. The key expectation from professional managers is loyalty to the controlling shareholder

Another survey conducted by Turkish Ethical Values Centre (TEDMER) Ascigil's findings; 35% of the sample group observe unethical behaviour at work. This is probably an optimistic figure; most respondents consider fraud, tax avoidance, bribing and discriminations as important ethical issues, but disclosure quality, protecting environment, valuing diverse opinions and keeping legal records and reports are considered to be less important. 57 % of the respondents think that organizations would face unfair competition if they behave ethically. 92.6 % of the respondents believe that a reconstruction of state and government would be necessary for ethics to be settled. This is comparable to 92.3% who believe economic development would be the necessary precondition for ethical business conduct (obeying law). 67.9% of the respondents consider the increased existence of international firms as a very important factor in improving the ethics in Turkey ([www.tedmer.org](http://www.tedmer.org)).

Supporting the argument about the importance of economic development McKinsey's Productivity Survey for Turkey (2003) finds that economy functions in two separate

tracks in most industries. On the modern track, businesses have adopted global best practices and new technologies, boosting productivity to 62 percent of best practice levels. On the other track, however, small-scale, traditional businesses operate at productivity rates that are 24 percent of average best practice and well less than one-half the rates achieved by small business counterparts in other countries. The main reason for this discrepancy is that traditional businesses have little or no incentive to improve. They often circumvent tax or labour laws to save money and can thus manage to sustain their business without productivity improvements.

### ***Civil Society***

After experiencing 3 military coup d'états in 20 years (1960, 1970 and 1980), Turkey has been deprived of strong civil society initiatives. Most of the civil society organizations (CSO) have been distanced from their purpose and served as social clubs. According the Ministry of Interior statistics, it appears that there are 173748 associations registered, however only 81928 are active. STGP (Civil Society Development Programme) has an online database of 7146 active CSOs. Chart 2 provides an analysis of the activity areas of the active CSOs (see [www.stgp.org](http://www.stgp.org)).

*Insert Chart1 here*

Interest groups and clubs (Rotarians, Lions, and Masons), mutual-aid associations, and community centres represent nearly 33% of the active NGOs demonstrating that many of the existing CSOs are still serving as social clubs rather than fulfilling their roles as development agents of the society. Birkmen, (2003) states that Turkey's biggest CSOs have a portfolio of 50 or more private sector companies that serve as a donation source. Most of the surviving organizations in Istanbul depend on funding by businesses whereas the CSOs operating in remote locations face serious funding issues. Considering this imbalance, Civil Society Development Program funded by EC ([www.stgp.org](http://www.stgp.org)) aims to support CSOs located outside Istanbul.

The Associations Act, which was a serious obstacle to freedom of organisation, has been amended in March 2005 in the process of meeting Copenhagen criteria. With this act, limitations on the rights to join associations for civil servants have been removed and student associations are given equal standing. European Commission allocated 3.3 million Euros to strengthening the capacity building of Department of Associations, which was initially controlled by the Department Of Security and is now organised as a separate department within the Ministry of Interior under the new act. All these developments continue to increase the civic involvement and help the articulation of society's expectations from business. Against this background, civil society is becoming more active and vocal alongside with the democratization process under the influences of EU accession process.

### **Key Actors of CSR**

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Multinational corporations are amongst the main actors demonstrating and promoting CSR. Multinationals are aware that their higher social standards would be a profit maximizing differentiator only if the society prefers socially responsible companies over their lower cost rivals. Therefore improvements in legally or ethically imposed standards would create a level playing field for the multinationals. At the same time, monitored by global NGOs, global companies pressurize the multinationals to request higher standards from their suppliers. Examples of influence of multinational companies' and global NGOs' influence are abundant.

- Anecdotal evidence suggests that BP's CSR policies had a profound effect on Botas, the state owned petroleum Pipeline Company, who contracted BP for the Baku-Ceyhun Pipeline project. Botas initially opposed to social impact analysis on the basis of cost and time considerations, however adopted a similar approach later for its own projects.
- BLF has organized a series of CSR events which included seminars, talks, workshops – as well as a conference that aimed at improving labour standards in the ready-made clothing sector supply chain sponsored by Marks and Spencer (<http://www.iblf.org/csr>)
- Green Peace activists campaigned against hazardous waste and toxic discharges from industrial plants and vessels together with their local branches which resulted in improved practices ([www.greenpeace.org](http://www.greenpeace.org)).
- Global Response ([www.globalresponse.org](http://www.globalresponse.org)) and the Friends of the Earth ([www.foe.co.uk](http://www.foe.co.uk)) led the campaign against Eurogold, a mining company extracting gold using toxic cyanide in Bergama stimulating the local community to take the case to courts.
- Development agencies also play a significant role in promoting improved social and environmental standards. GTZ, the German development agency, has been funding a round table program for the textile sector bringing together the trade unions and employers' associations to improve the social standards at the work place. Clean Clothes campaigners are also involved in improving the social standards in the ready made clothing sector..

Local perceptions of this new concept of CSR are somewhat different. The top ten “CSR” projects recognised by a jury composed of business representatives, experts, academicians and press in 2005 gives an idea about what type of initiatives the society associates with the notions of CSR:

1. Istanbul Art and Culture Foundation, financed primarily by Eczacibasi Group pioneered establishment of a “Modern Art Museum” in Istanbul, the very first in Turkey



2. Kagider (Women Entrepreneurs Association), set up a fund to finance small enterprises and civil society organisations initiated by Anatolian (Asian part of Turkey) women
3. Show TV, a privately owned TV channel , has sponsored a project to build schools in rural areas and provide scholarships to students
4. TOBB(Turkish Chambers of Industry and Commerce), set up a foundation which established a modern university in Ankara
5. Yapi Kredi Pension Fund, sponsored a project to protect genetic sources and promote commercial cultivation of Turkish saffron plant
6. Mercedes-Benz Turk, initiated and sponsored a project to financially support girls' vocational education in less developed regions of Turkey
7. Garanti Bank, in cooperation with the World Wildlife Foundation, sponsored a project to protect the wild life in Kure Mountains
8. Procter & Gamble sponsored a project to help children with puberty problems
9. Turkish Banking Association financed procurement of medical equipment by health centres that are used in health care of premature babies
10. Pfizer sponsored a project called "Social Teams" to support civil society initiatives.

As can be seen from the list, none of the projects which were recognised by the jury are related with the core business of the corporations nor do they indicate a strategic commitment of companies to stakeholders.

### ***Philanthropy***

Although society does not play an active role to hold the business accountable and demand social performance, Turkey has a rich and significant philanthropic history. In the Ottoman era, the "waqf" (a charitable trust, a foundation) was the premier institutional mechanism for philanthropic provision of public services [2].

Most family owned conglomerates in Turkey has an associated foundation. Member companies allocate a percentage of their profits to the foundation, for re-distribution to social projects. Educational institutions, hospitals and arts/ cultural centers are among the most popular objectives. Despite the rich tradition of foundations, legal and fiscal frameworks which support corporate philanthropy are relatively weak which indicates that the foundations are set up with altruistic motives. Maximum 5% of a company's annual income can be allocated to donations to charities as opposed to European average of 10%. Furthermore, tax exemption can only be granted for donations made to organizations certified as working for the "public good". Such status is granted by the cabinet to charities focused only on four areas: education, health, scientific research, and arts and culture. Only about 200 out of approximately 3,500 private foundations have been classified as serving "public good". Minimum endowment required for establishing a foundation is quite high; approximately 200,000 USD [3].

The upsurge of so called "foundation universities" deserves a closer look. The model is based on a partnership between government and privately funded foundations whereby the government allocates the land, oversees the quality of operations and provides accreditation, and the foundation channels funds from business to the university. Most

family owned conglomerates use foundations to channelling their donations to social causes. These foundations are usually set up by the founding families and named after the first generation entrepreneur of the family. Given the popularity of universities, setting up a university seems to be perceived as the ultimate good business or wealthy individuals can do for social development by the Turkish society. Foundation universities charge substantial tuition fees whereby state education is free; however although they are called private, all universities are non-profit institutions by law. As such, the motives behind setting up private universities are altruistic or egoistic (personal satisfaction) in most cases. Family foundations accept donations only from family controlled businesses and individual members of the family.

This topic deserves more attention to understand the relationship between values, motives and the decision of making a long term commitment to support higher education, however there is no doubt that the upsurge of public-private partnership in providing higher education in Turkey created an environment for an intensified interaction between business and academia on the role of business in society.

One example is Sabanci University founded by Sabanci family foundation VAKSA. The purpose of the university project is reflected in Sabanci University's mission statement; "developing competent and confident individuals, enriched with the ability to reflect critically and independently, infused with a strong sense of social responsibility; and to contribute to the development of science and technology, as well as disseminating knowledge created for the benefit of the community".

### ***Legal and Regulatory Instruments***

A credible government attempt to promote CSR was undertaken by the Capital Markets Board of Turkey (CMBT) by recognising stakeholders as legitimate parties in the governance of companies as stipulated in its Corporate Governance Guidelines (2003). A stakeholder is defined as "any person, entity or party who have an interest in the operations of the company and achievement of its targets" in the guidelines. The guidelines list "employees, creditors, customers, suppliers, trade unions, various non-governmental organizations and potential investors" as examples of stakeholders. The CMBT initiative is an example of the role governments can play in promoting CSR.

Listed companies in ISE are mandated to implement the principles listed in the guidelines or explain in their annual reports why they have not complied and what measures they have taken to improve their compliance. The guidelines suggest companies to recognize that "cooperation with the stakeholders will be advantageous for the companies in the long term". CMB's recommendations are stipulated as follows:

1. *Protecting the interests of the stakeholders and respecting their legal rights*  
The corporate governance practices of the company must protect and guarantee the rights of the stakeholders, whether they are safeguarded by legislation or not.
2. *Participation of stakeholders in company management*

- Mechanisms and models that are supportive of the participation of stakeholders, mainly of the company employees, in the company management, must be encouraged
3. *Protection of company assets*
  4. *Human Resources Policy*  
Measures must be taken to prevent discrimination among the employees, to respect the human rights and to protect the employees against physical, spiritual and emotional mistreatments. Furthermore in order to ensure a participative working environment, informative meetings must be organized with the employees on the subjects like the company's financial opportunities, wage, career, training, health where opinions can be exchanged.
  5. *Customers and suppliers*  
All measures must be taken to ensure customer satisfaction in marketing and sales of goods and services
  6. *Code of ethics*  
Operations of the company must be executed within the framework of ethical rules, which are developed by the board of directors, announced and approved in the general shareholders meeting and disclosed to the public. Practices regarding how these rules are implemented must also be publicly disclosed.
  7. *Social responsibility*  
The company must be sensitive towards its social responsibilities; comply with the regulations and ethical rules regarding the environment, consumer protection and public health and disclose its policies to public.

The obligation to report on compliance with the Principles was effective as of 2004. We have conducted a survey on 30 companies that are the constituencies of Istanbul Stock Exchange's ISE 30 Index (2004) to understand the following;

1. Which groups are perceived to be legitimate stakeholders by Turkish companies?
2. What business practices and activities are considered to be a manifestation of corporate social responsibility by the companies?
3. What percentage of companies has a code of ethics or a statement of commitment to ethical business conduct?

The results are presented in Chart 1.

*Insert Chart 1 here*

The results show that employees are recognized as the most important stakeholder group by Turkish companies whereas trade unions are hardly mentioned. This dilemma may be explained by the paternal characteristics of the leaders on one hand and lack of democratic traditions on the other whereby the two are probably associated. The responses of banks in our sample (Akbank, Garantibank, Finansbank, Yapi Kredi and Isbank) were similar to each other as summarised in chart 4 supporting Dawkins and Lewis (2003) who suggest that stakeholder recognition may be influenced by the nature of the markets the companies operate.

*Insert Chart 2 here*

Only one company, Isbank, refers to shareholders as a legitimate stakeholder among the 30 companies surveyed. This may be due to the fact that Isbank is the only company among the ISE 30 constituencies without a controlling shareholder. Controlling shareholders are considered to be the “owner” of the companies. The concept of shareholder is usually only associated with minority shareholders or investors in the Turkish context. The fact that none of the companies mentions minority shareholders as a stakeholder indicates the insignificance of the role minority shareholders and institutional investors play in the market.

Overall, 68% of the companies did not recognise any of the stakeholders explicitly mentioned by the CMB. We cross checked this position with the disclosed method of stakeholder involvement. 6 companies declare that no methods or instruments are used for stakeholder involvement. 5 companies refer to “obeying law” as the framework for stakeholder involvement, and 3 companies mention departmental meetings as a means to encourage stakeholder participation. These findings suggest that recognition of a “stakeholder” in external communications does not necessarily imply acceptance of stakeholder’s involvement in company affairs and the concept of stakeholder is still new even for the market leaders. Fortis board, after acquiring Disbank of Turkey, reports similar observations about Turkish businesses’ attitude towards stakeholders in their 2005 Sustainability Report published on their Web site. Similarly, while 77% of the companies surveyed had a Code of Ethics, only five of them disclosed their Code to the public; Akbank, Dogan Yayin Holding, Huriyet, Turkcell, Vestel.

*Insert Chart 3 here*

Ethical Codes disclosed by the companies are very similar. Most of them focus on simple rules for the employees. The codes do not reflect commitments to fair play or market integrity nor do they address boards or management.

We also surveyed the Corporate Governance Compliance Reports to understand which areas were preferred for CSR initiatives by the companies. The results are summarised in Chart 4, and the data is presented in the Appendix. Supporting the findings of Ascigil (2004), we find that companies do not differentiate between ethics and law. Many companies in Turkey refer to “law” as an instrument for CSR. If laws and regulations are enforced neither by the state nor by social pressure, compliance with law can be reduced to a matter of choice based on cost and benefit analysis.

### **Real and Perceived Drivers for CSR**

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Establishment of “Rule of Law” is a precondition for efficient labour markets, financial markets and competition. Moral credibility of the rule makers is necessary for raising ethics. Although Turkey’s legal framework and judicial system have been improved

considerably in the process of accession to the EU; enforcement is still an issue. EU has served and is continuing to serve as an anchor without which the change would be much slower and inconsistent. Accession process is clearly a driver for CSR in Turkey.

One challenge for improving corporate social performance may be related with the structure of financial industry. Despite the growing size of funds managed under Socially Responsible Investments schemes and campaigns launched by international institutions to improve governance of companies in emerging markets, institutional investments are largely based on financial models. In the absence of adequate information and of standard reporting on social and environmental performance, these parameters are unlikely to be included in value analysis. Therefore contrary to what one may expect, attracting foreign portfolio investors is not a driver for CSR. Consistent with our analysis, four largest institutional investors we interviewed in June 2006 agreed that they would have taken social performance into consideration when selecting Turkish companies to invest in, if CSR would be rewarded by the society, or ignorance of CSR would expose the company to risks. They had the opinion that it was not the case in Turkey. They agreed that a proactive position would indicate a forward looking leadership but would have no effect on their investment levels.

Probably, one of the most important but least acknowledged drivers for CSR is competition. Competitive markets are drivers for CSR opening up space for those companies who can differentiate themselves based on their CSR policies. A strong consumer movement associated with competitive product markets and an efficient labour market will encourage the companies to be more responsive to social needs. As Turkish business environment becomes more competitive, we will observe a wider adaptation of CSR policies and practises.

### **Suggested Framework and Strategies for CSR**

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In an earlier version of this paper (Ararat 2003) “by reviewing the research regarding cultural characteristics of Turkey and the limited number of surveys and research on ethical values and corruption in Turkey, we concluded that the weak corporate social performance may be partially attributed to cultural characteristics”. Given the weaknesses in institutional framework, the cultural characteristics of business organizations and leadership behaviour in Turkey, we further argued that the drivers for CSR would be exogenous (CSR practices of multinational companies and their joint ventures, laws and regulations imposed upon Turkey by international agreements, activist work of international NGOs, rational choices driven by the desire to join EU, academic research and management education etc).

The recent upsurge of CSR in the Turkish society reflects how changes in political, economic environment with an external anchor can affect corporate behaviour. We observe that macroeconomic stability induces ethical behavior; it establishes the moral authority of the governments and improves their law enforcement capability. On the other hand, economic development accompanied by opening up to international competition

accelerates the convergence of business cultures and facilitates learning. These developments may partially neutralize the effect of societal culture that may be unsupportive of “CSR”.

Despite the recent progress, it will take some time before the societies will play a significant role in driving CSR in Turkey. This change will involve a shift in values towards universal values, a process which will continue to be driven by democratization and globalization. If the society, and the private actors, are not in the driver seat, who would be? We suggest that there is more room for a regulatory approach to CSR in an emerging market context. The challenge would be to balance market based approaches with regulatory schemes as markets become more competitive and efficient. Another driver would be ethics and values which implies a strong role for secondary education as well as business schools.

For the future research on CSR, we suggest a framework of analysis should be developed by taking into consideration the following socioeconomic dimensions

1. Level of openness of the economy
2. The Rule of Law
3. Civil Liberties
4. Level of transparency
5. External anchors

The first four perspectives can be analysed against organizational behaviour and practices they encourage, to identify the public policy choices that are available to the policy makers and help focus on the drivers. The last perspective would be an indicator of speed of change one might expect.

#### **Notes:**

[1] This article is based on an earlier version written with Ceyhun Gocenoglu

[2] Although Islamic traditions such as *charity*, *zekat*, *tsedaka* can be considered as instruments of philanthropy, we do not share this view. Philanthropy, by definition, is driven by humanistic motives and it aims at improving the social welfare *by eliminating the causes* of human suffering. Charity, *zekat* and *tsedaka* assume and accept the presence of the poor as a normal condition. This attitude is also reflected in high power distance scores in Islamic societies. Surveys show that Muslims do not give *zekat* or *tsedaka* to non-Muslims; a behavior which can also be explained by the strong group collectivism observed in the arab cluster. Indeed, it is argued that the rich tradition of philanthropy in Turkey is rooted in Ottoman Jewish and Rum communities’ philanthropic traditions and has no religious context.

[3] Some scholars argue that family foundations can also be viewed as instruments of developing brand value at reduced costs or improving the social status and prestige of the controlling shareholders using corporate assets at the expense of minority shareholders, but this topic is beyond the scope of our paper.

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Table 1: Cultural Factor Index, Turkey's position is indicated in bold

Social issue	CFI scores	PDI	UAI	IDV	MAS
Consumerism	<b>High</b>	<b>Opinions of friends and relatives</b>	<b>Less tolerance for consumer activism</b>	More consumer activism	More emphasis on money
	<b>Low</b>	Reliance on outside sources	Tolerate consumer activism	<b>Less consumer activism</b>	<b>More emphasis on people</b>
Environment	<b>High</b>	<b>Less concern for environment</b>	<b>More environmental legislation</b>	More focus on profit seeking and concern for broad social welfare	Economic growth takes precedence
	<b>Low</b>	More concern for environment	Less environmental legislation	<b>More focus on local and family welfare</b>	<b>Conservation important</b>
Employees	<b>High</b>	<b>More emphasis on rigid hierarchy and unequal standing</b>	<b>More value on employee loyalty</b>	Employee personal life important	Greater emphasis on salary and recognition
	<b>Low</b>	Equality and legitimacy of power	More conflict involved, higher turnover	<b>Employee involvement more important</b>	<b>Focus on cooperation, more overtime</b>
Government	<b>High</b>	<b>Greater centralization of power that favors the wealthy and powerful</b>	<b>Greater adherence to formal structures, written rules</b>	Balance of power between business and government	Less public welfare funding
	<b>Low</b>	Decentralized power, redistribution of wealth	More emphasis on negotiation and settlement	<b>Greater relative power of government</b>	<b>More welfare public funding</b>
Business	<b>High</b>	<b>Greater protection of elites</b>	<b>Business tends to obey authorities</b>	Profit oriented with more disclosure to public	More profit oriented
	<b>Low</b>	More concern for interacting with public	Business is more concerned about the expectations of the society	<b>Less disclosure, more collectivism</b>	<b>More service oriented</b>

Source: adapted from Katz, Swanson and Nelson (1999), p.34

*Table 2) Registered CSOs' Area of Activity, source Civil Society Development Program's*

<b>Activity Area</b>	<b>Number of CSOs</b>
Clubs	952
Rights and Freedom	162
Human Rights	138
Special interest and solidarity	21618
Turkish Aeronautical Association	575
Sports	9372
Environment	1355
Religious Support	14364
Agriculture	761
Human Rights	138

Source: Web site ([www.stgp.org](http://www.stgp.org))

*Chart 1: Stakeholder groups*

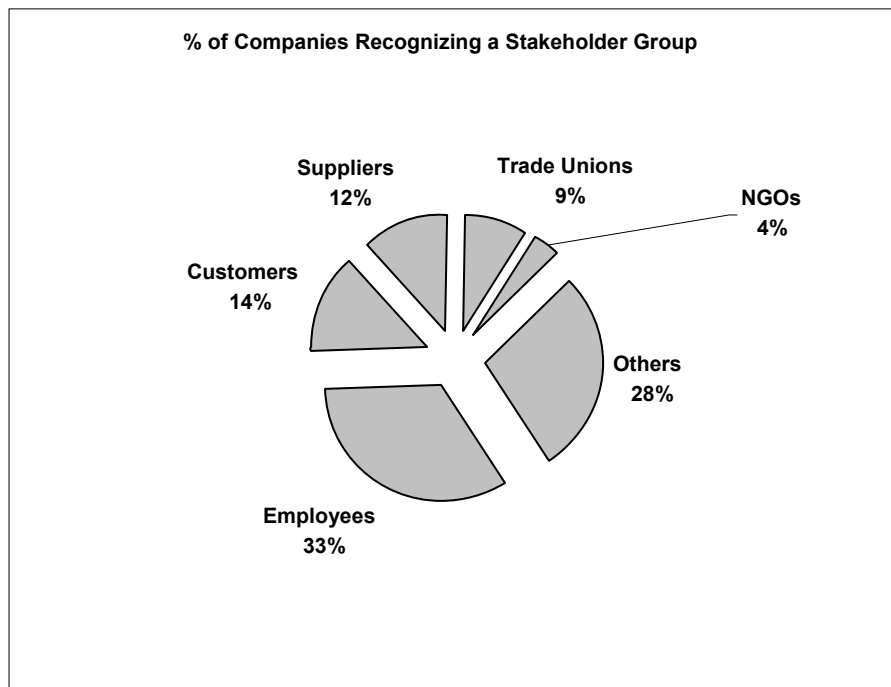
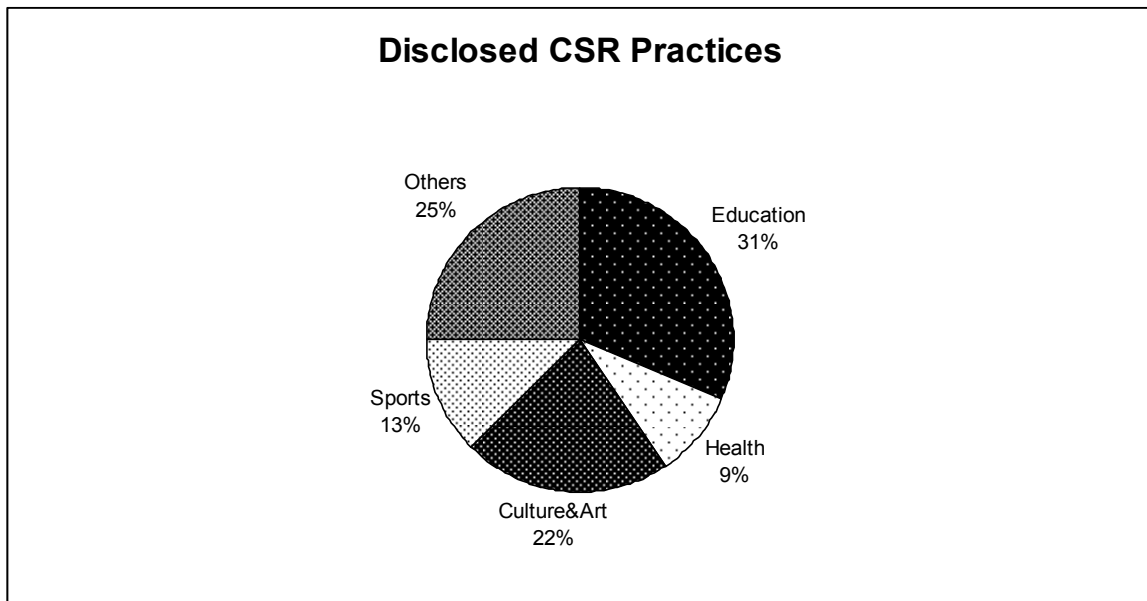


Chart 2: Stakeholders recognized by the banks

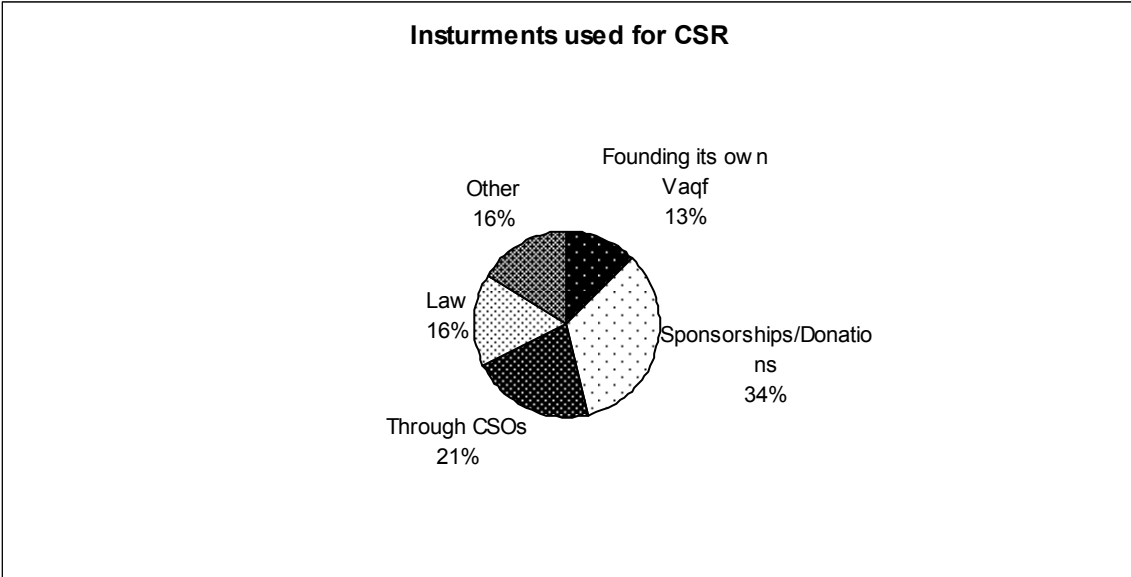
Company Name	Employees	Customers	Suppliers	Trade Unions	NGOs	Others
Akbank	✓	✓	X	✓	X	International Investors
Finansbank	X	X	X	X	X	X
Garantibank	X	X	X	X	X	X
İşbank	✓	✓	X	X	X	Shareholders
Yapı Kredi	✓	X	X	X	X	X

✓ : Mentioned  
X : Not mentioned

Chart 3) ISE 30 companies' perceived CSR practice areas and the instrument used

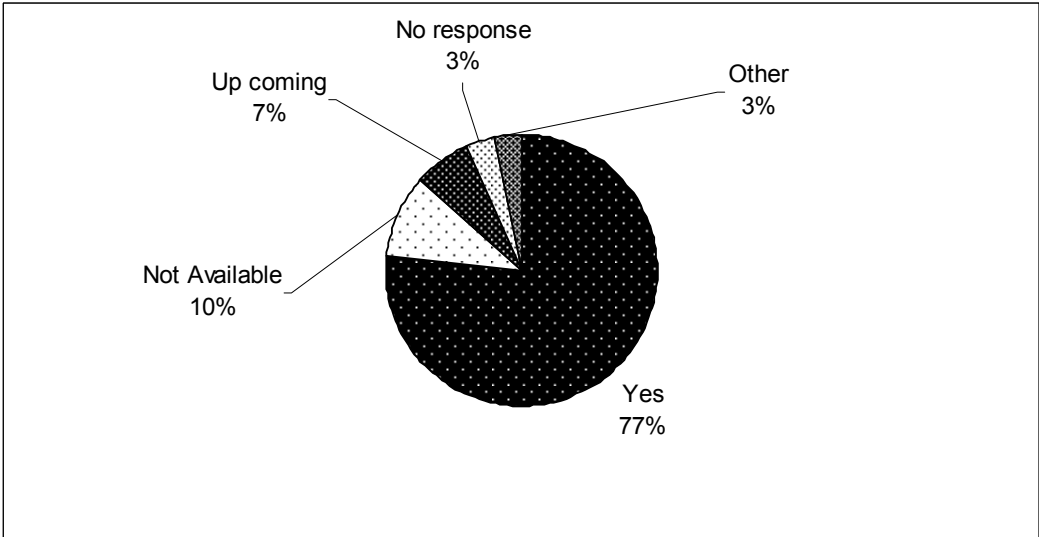


Source: Corporate Governance Compliance Reports, 2005



Source: Corporate Governance Compliance Reports (2005)

Chart 4: Do the ISE 30 companies have a code of Ethics?



## Appendix:

### Data for Chart 3: CSR Areas disclosed by companies and Methods/Instruments used

Company Name	CSR practice areas disclosed by companies					Methods/Instruments				
	Education	Health	Culture & Art	Sports	Other	Founding its Foundation	Sponsorships/Donations	NGOs	Obeying Law	Other
Ak Enerji	N.A.	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.	N.A.
Akbank	✓	✓	✓	✓	Supporting archeological excavations	✓	✓	X	✓	Implementing surveys and total quality management
Aksa Akrilik	✓	✓	X	X	"Paying tax"	X	✓	✓	X	
Aksigorta	✓	X	✓	X	Setting up Training Centers for natural disasters and emergency		X	X	X	
Alarko	✓	X	✓	X		✓	✓	X	X	
Anadolu Efes	✓	✓	X	✓	"Projects to reduce resource utilization (energy, water, chemical etc)"	✓	✓	✓	✓	By applying for certification, implementing UN Declaration of Human Rights
Arçelik	✓	X	X	X	"Supporting Human Rights"	X	✓	X	X	"Cooperation with government"
Beko	N.A.	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.	
Doğan Yayın Holding	✓	X	✓	X	Media campaigns to raise awareness on social issues	✓	✓	✓	X	
Doğan Holding	✓	X	✓	X	Investment in organic agriculture	✓	✓	✓	✓	
Enka İnşaat	N.A.	N.A.	N.A.	X		N.A.	N.A.	N.A.	N.A.	
Erdemir	X	X	X	X		X	X	X	X	

Finansbank	✓	X	X	X	Considering environmental performance of companies for credit allocation	X	✓	✓	X	
Ford Sa	✓	X	X	X			✓	✓	✓	Certifications
Garantibank	✓	X	✓	X	Disseminate information on investment opportunities in foreign markets	X	✓	✓	X	
Hürriyet	✓	X	X	X	Media Campaigns to raise awareness on social issues	X	X	X	X	
İhlas Holding	✓	✓	X	X	Implementing anti-discrimination employment policies	X	X	X		
İşbank	✓	X	✓	X	"By providing jobs"	X	✓	X	✓	
Kardemir	X	X	X	X		X	✓	X	X	
Koç Holding	✓	✓	✓	X		✓	✓	✓	✓	
Migros	✓	X	✓	✓	Facilities in shopping centers for the disabled	X	✓	✓	X	
Sabancı	✓	X	✓	X		✓	X	X	X	
Şişecam	X	X	X	X		X	X	✓	✓	Supporting workers participation
Tansaş	X	X	X	✓	"Consumer Rights Programme"	X	✓	X	X	
Tofaş	X	X	✓	✓	Campaigns for careful driving	X	✓	X	X	Supporting Museums
Turkcell	✓	X	✓	✓	"Youth and Technology" (Note: possibly referring to donations)	X	✓	✓	✓	
Tüpraş	✓	✓	X	X		X	✓	X	✓	Supporting Trade Unions
Ülker	✓	X	✓	✓		X	✓	✓	X	Founding a sports club

Vestel	X	X	X	X	Supporting Public and Local Community	X	X	X	✓
Yapı Kredi	X	X	✓	✓		X	X	X	X

Source: Corporate Governance Compliance Reports published on company Web sites

### Stakeholders recognised by companies and disclosed method of stakeholder involvement

Company Name	Employees	Customers	Suppliers	Trade Unions	NGOs	Others	Methods and Instruments
Ak Enerji						No CG Report at <a href="http://www.akenerji.com.tr">http://www.akenerji.com.tr</a>	Information not available
Akbank	✓	✓	X	✓	X	Int. Investors	Meetings
Aksa Akriilik	✓	✓	✓	X	N.A.	Shareholders, Government	Consultation
Aksigorta	✓	X	X	X	X	Retailers	Periodic meetings, Evaluation meetings
Alarko	✓	X	X	X	X		Law
Anadolu Efes	✓	✓	✓	✓	X	Consumers	Surveys
Arçelik	✓	X	X	✓	X	Retailers	Questionnaires, Trade Unions, Meetings
Beko						N.A.	Information not available
Doğan Yayın Holding	✓	✓	X	X	✓	Advertisers	Participating in CSOs
Doğan Holding	✓	X	X	X	X	Investors	Communication
Enka İnşaat						No CG Report at <a href="http://www.enka.com/">http://www.enka.com/</a>	Information not available
Erdemir	✓	✓	✓	X	X		Questionnaires, Meetings
Finansbank	X	X	X	X	X		No instrument or method currently used
Ford	✓	X	✓	✓	X	Retailers	Trade Unions, Meetings
Garantibank	X	X	X	X	X		Law
Hürriyet	X	X	X	X	✓	Investors	Executive Board Meetings
İhlas Holding	✓	X	X	X	X	Retailers	Meetings, e-mails,
İşbank	✓	✓	X	X	X	Shareholders	Law
Kardemir	X	X	X	X	X		Law
Koç Holding	X	X	X	X	X		Not available
Migros	✓	X	✓	X	X	Other companies, society	Employees communicate with management
Sabancı	✓	X	X	X	X		Periodic meetings, Evaluation meetings
Şişecam	X	X	X	✓	X		No method or instrument used
Tansaş	✓	✓	✓	X	X	Government, Investors	Organized

Tofaş	✓	✓	✓	X	X	Retailers	Meetings
Türkcell	✓	X	X	X	X	Business Partners	No methods or instruments used
Tüpraş	X	X	X	X	X		No method or instrument used
Ülker	X	X	X	X	X		Law
Vestel	✓	X	X	X	X	Investors	No methods or instruments currently used
Yapı Kredi	✓	X	X	X	X		Departments are in charge

Source: Corporate Governance Compliance Reports published on company Web sites

#### Data for Chart 4: Does the company have a Code of Ethics? Is it disclosed on the company Web site or not?

Company Name	Does the company have a code of ethics?	Disclosed or not?
Ak Enerji	No	N/A
Akbank	Yes	Yes
Aksa Akrilik	Yes	No
Aksigorta	Yes	No
Alarko	Yes	"Fundamentals of Alarko's Philosophy"
Anadolu Efes	Up Coming	No
Arçelik	Yes	No
Beko	No	N/A
Doğan Yayın Holding	Yes	Yes
Doğan Holding	Yes	No
Enka İnşaat	Compliance report not on the Web site	N/A
Erdemir	Yes	"Values"
Finansbank	"Shaped by Banking Law"	"Values"
Ford	Yes	"Working Principles"
Garantibank	Yes	"Values"
Hürriyet	Yes	Yes
İhlas Holding	Yes	No
İşbank	Yes	No
Kardemir	Compliance report not on the Web site	N/A
Koç Holding	Not reported	"Values" are disclosed
Migros	Yes	Disclosed only in the Annual Report
Sabancı	Up Coming	No
Şişecam	Yes	No



Tansaş	Yes	No
Tofaş	Yes	"Values"
Turkcell	Yes	Yes
Tüpraş	Yes	No
Ülker	Yes	No
Vestel	Yes	Yes
Yapı Kredi	Yes	No

Note: We surveyed Company Websites for Annual Reports which should include Corporate Governance Compliance Report. The mandatory report's standard template requires disclosure of whether or not the company has a code of ethics. We have then searched the Web sites to see if a Code of Ethics or any other document of similar nature is disclosed. Entries within quotation marks indicates the wording used by the company