

Drivers for Sustainable Corporate Responsibility, Case of Turkey

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Introduction and Conceptual Framework

The social impact of business is felt on an ever-increasing scale in today's global economy. Everyday, new concepts are introduced into the debate on the role of business in society. Corporate Social Responsibility 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. Corporate Social Responsibility (CSR) largely utilizes stakeholder theory which broadens the beneficiaries of the corporation to include groups and individuals who can affect or be affected by the achievement of organisation's objectives (Freeman, 1984) and suggests that the primary objective of the company activity should be to create and maximise value for all the stakeholders.

Some scholars accept the legitimacy of stakeholders but argue that the "stakeholder theory" lacks scientific basis. The opponents warn about the possible negative consequences of "contamination" of profits by the pursuit of other objectives which may indeed reduce the total welfare due to the possible distortion of signalling effect of profits, the most reliable indicator of corporate performance (Henderson, 2004). Whether stakeholder theory has scientific basis or is a sophisticated ideology of control (Antonacopoulou E.P., Meric, J., 2005), or whether it simply represents a utopia, the fact remains that the behaviour of businesses and the role of business in society are at the top of social agenda. This popularity of CSR as a concept may be related to the fact that although the economy succeeded so well in creating wealth on a global scale in the past few decades, the distributive mechanisms ignored equality and provoked social unrest and hostility towards business. We take the view that it is the role of governments not businesses to deal with the distribution mechanisms, but value CSR as an instrument of sustainability with the potential to promote a stable economic, social, environmental and political environment for business to operate.

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 on one hand and organisational benefit on the other. We subscribe to the view that behaviour driven by organisational benefit which is frequently phrased as “enlightened self-interest” should be the subject of business strategy rather than CSR, although CSR policies are usually driven by both perspectives. For the purpose of this paper, we define CSR as *institutionalised corporate practices and behaviour driven by the acceptance of “moral obligation” and “accountability” by the management for the consequences of corporate activity for all of the stakeholders and society at large.*

CSR is rationalised by some scholars in terms of “social investing”, in order to build up “social capital”, which help to improve the economic performance of the corporation (Waddock, 2001 and Habish, Meister & Schmedpeter 2001). With the view that CSR makes the communities better places to live and work, in turn making them better places to conduct business (Texas Instruments, 2002), many firms have undertaken CSR initiatives, most of which tend not to be systematic and not integrated with the company’s decision making process. If CSR is formally recognised within the company, a credible and clear frame of reference which sets the rules of commitment to consider and meet the legitimate expectations of stakeholders must be incorporated into the company’s governance system. Only such formal recognition can be instrumental in receiving a reciprocal commitment from the stakeholders, thus positioning them as a party to a social contract. This mutual commitment, in return, can contribute to the sustainability of corporations and may unlock the potential of CSR to increase productivity and profitability; a hypothesis yet to be tested.

Gomez and Korine (2005) present a fresh perspective on the role of stakeholders, building on Tocqueville’s (2000 [1830]) hypothesis that democracy would become the model form of governance for all spheres of organised activity; “should Tocqueville’s hypothesis hold true, we ought to be able to observe, over time, the incorporation of democratic procedures (enfranchisement, separation of powers and representation) as points of reference for evaluating the fairness of corporate governance forms”. They note that “mass ownership” combined with well organised institutional shareholders and stakeholder activism implies a diversity of expectations (legitimacy driven from moral, political and professional sources) from the companies and those that govern need to gain and maintain consent of the governed. They further argue that the procedures of democracy can be said to constitute the deep structure of modern corporate governance. This approach may be utilised to explain the convergence of governance forms among countries alongside with democratization although further research is needed.

Legal framework of corporate governance within a country implicitly or explicitly describes “whom the organisation is there to serve and how the purposes and priorities of the organisation should be decided” (John and Scholes, 2002:195). We subscribe to the view that the law is an institutionalising or codification of “what is right and what is wrong” in a society and is driven not only by value maximization and self-interest but

also by culture and ideology (Bebchuk, L.A. and Roe, M.J.1999). We further argue that it may be possible to draw a framework of analysis which could be applicable for countries with similar cultural characteristics and economic fundamentals as an instrument for explaining corporate behaviour and developing public policies to promote desired and desirable corporate behaviour. It can also be argued that geographic variables such as language, climate, religion, and ethnicity have an impact on cultural dimensions and hence regional programs may be effective in cross-disseminating and sharing knowledge and experience. In support of our argument, Licht *et al.*'s (2001) research notes a correlation between La Porta *et al.*'s indices of voting rights and creditors rights and cultural dimensions .

Corporate behaviour is eventually based on decisions made by management (leadership) whose judgments are influenced by societal culture. Cross cultural researchers describe culture as the collective mental programming of the people (Hofstede, 1980). On the other hand organizations with their own values and beliefs 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 his renowned attempt to cluster the countries, Hofstede (1983) identified 4 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) Concepts of masculinity and femininity (masculinity versus femininity) and (4) Ways of dealing with uncertainty. He later added a fifth dimension; long term orientation versus short term orientation in life. Additional value dimensions such as paternalism, abstractive versus associative thinking are proposed by various scholars and furthermore developed and developing countries are differentiated (Adler & Boyacigiller).

In the rest of this paper we summarize the roles of economy, state and the society in Turkey with respect to the society's attitude toward business and attempt to explore how cultural characteristics of the society may have an impact on corporate behaviour. We argue that the cultural characteristics combined with the economic fundamentals of Turkey did not encourage socially responsible behaviour of corporations demonstrated by opacity and corrupt practices. We further explain that the EU accession process and macroeconomic stability achieved under IMF conditionality opened up Turkey to an intensified interaction with global institutions perpetuating international values and practices. We conclude that the drivers for Corporate Social Responsibility in Turkey and in countries with similar cultural characteristics and economic fundamentals will be exogenous and institutional rather than endogenous and cultural.

Political and Economic background of Turkey

Turkey is frequently described as a country of conflicts or a country of dualities. Economic and historical factors combined with its unique geography cause duality and

diversity in economic, social and cultural dimensions. This duality manifests itself in business with the existence of two segments with different behavioral patterns as we will explain later in this paper.

After the establishment of Turkish republic in 1923, especially from early 1930s onwards, a strong emphasis has been placed on the role of the state in economic development. Until 1945, the state was the major economic player and subsidised the development of the private sector. Although state involvement in the economy continued throughout the history of Turkey, the fledgling private sector eventually came of age and market economy institutions acquired a new dynamism due to a new wave of pro-market policies in the 1980s – which started with the liberalisation reforms (Ararat, Ugur 2003).

Turkey's historical and remarkable underperformance in receiving capital flows since mid 1990s was closely related to investor and analyst *perceptions* of Turkey's governance framework as well as its wider political environment. The most important legal and judicial constraints related to insufficient clarity and respect for the rule of law. Part of the explanation for this underperformance can be seen in a report by PricewaterhouseCoopers (2001), which ranked Turkey as the fourth least transparent country in the world. Their estimate of the impact of opacity in terms of lost FDI was \$1.8 billion per year. Again, a research on 188 companies from South Korea, Malaysia, Taiwan, India, and Mexico placed Turkey at the bottom of the ranking with respect to board oversight and transparency and second from the bottom after Mexico with respect to shareholder rights (McKinsey 2002). *Perception* issues of similar nature were reflected in Transparency International's Corruption Perception Index (TI 2001, 2002, 2003, 2004). Turkey ranked 54th among 91 countries in 2001 (with a score of 3.6 out of 10) and a worse 64th among 102 countries in 2002 (with a score of 3.2 out of 10) in transparency. Its position did not improve in 2004 and Turkey ranked 65th worse than Jordan, UAE, Chile, Malaysia, and Poland and better than Morocco, Syria, Lebanon and Egypt. Whether the perceptions reflect the comparative reality or not, opacity and corruption are related to the role of the state in the economy and the way it interacts with business. Turkey has been typified by some scholars as an example of state dependent business system (Whitley 1994).

Turkey's declared foreign policy focus since mid-1980s has been the achievement of full EU membership. In its long march for integration with Europe, following decades of chronic inflation and economic crises, Turkey made substantial improvements during the past 5 years to achieve macroeconomic stability by restructuring and monitoring the financial industry, establishing independence of the Central Bank, implementing a tight fiscal policy, dramatically reducing its inflation, deregulating the monopolized sectors and generally reducing the role of the state in the economy. Despite the improvements, Turkey needs accelerated entry of foreign capital to reach its potential growth rate of 7-8% to close the gap with EU in income levels in the next 30 years. Milken Institute (2005) ranks Turkey 60th among 121 countries surveyed in its Capital Access Index which evaluate the ability of new and existing businesses to access capital, better than Egypt, Syria, Iran, similar to Morocco and worse than UAE, Jordan and Lebanon. The reforms helped Turkey to improve its position from 66th in 2004 and further improvements are

expected in view of the EU membership. Morgan Stanley (www.morganstanley.com) estimates that EU membership prospects may enable Turkey to attract annual FDI flows of over US 10 billion by 2015 based on a conservative estimate of FDI flows of 2.2% of GDP. This prediction proved to be valid at least in 2005 with an inbound FDI flow of USD 15 billion. This improvement has been backed up by substantial reforms in accounting and financial reporting standards, audit practices and disclosure regulations.

The Role of State in Turkey's History

According to Ararat and Ugur (2003), “the state’s heavy involvement in the economy has led to two undesirable consequences. On the one hand, it 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’ such as stable macroeconomic environment, a transparent regulatory system, and social conflict resolution mechanisms, etc. On the other hand, the state’s heavy involvement increased ‘private risks’. Therefore, it induced private economic agents to pressure the government of the day to compensate at least part of their risks – irrespective of whether or not such risks have been due to government action or the private actors’ own actions. This second tendency combined with the first led to persistent favouritism, corruption practices, opacity, etc. – all of which have their own path dependencies”. (See Ugur, 1999: chapter 3). In 2003 the Ankara Chamber of Commerce and Industry estimated that bribery adds 15% to contract prices in Turkey. Similarly World Bank estimated that lack of transparency in public procurement costs 16% of GDP to Turkey. Resistance to let go of the private benefits driven from this opacity slowed the deregulation/privatization process which only in 2004 gained acceleration. Corrupt practices exacerbated the difficulties in tax collection, slowed down the fight against bribery to circumvent regulations, and nurtured the informal sector which is estimated to be 30% of the total economy. One of the multipliers of this problem is considered to be the existence of a powerful and highly monopolized media with strong political and commercial affiliations.

The Role of Business

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 materializes in a strong discourse of social purpose and value of private enterprise. Hence shareholder value is a relatively new concept for Turkey and it is weakly pronounced except by business schools. Highly concentrated family ownership does not help to mitigate the timidity about shareholder value. As one of the strongest business organizations 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. Consequentially corporate philanthropy is strong in Turkey; most companies that are organized in business groups (diversified conglomerates) have provisions in their articles of association to donate a percentage of their net profits to foundations set up by their founding families. The drivers behind this phenomenon can be related to the need for

gaining legitimacy and social acceptance for relatively new wealth in a country where duality in income levels is disturbing.

The Trend

Turkey is going through a major transformation. Despite the initial skepticism due to its Islamic roots, the ruling party that came to power in 2002 has established its legitimacy based on both the economic recovery Turkey is enjoying as the outcome of IMF backed restructuring program and EU anchored reform process with a strong emphasis on participative democracy, anti-corruption, human rights, the importance of civil society etc. Recently, the process of accession to the EU fuelled the development and importance of civil society organizations. Funding from EU created a platform for the capacity building of CSOs. CSO Training and Research Centre of Istanbul Bilgi University and Civil Society Development Programme are examples of this process.

In a nut shell, 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 acceptance to align societal values and norms with that of European Union member countries.

Society, Culture and Leadership Behaviour

Society's expectations from business are influenced by many factors. In a global study conducted in 2001 by Environics International (www.environics.com), it is found that Turkish consumers valued business ethics, labour practices, and environmental impacts and demonstrated social responsibility much less than brand quality when forming an impression of a company. The same study found that in low to mid income level countries companies are considered socially responsible based on reasons which are not CSR related. The society predominantly expects economic performance (jobs) from the business in those countries and, consistent with the findings, in Turkey.

Society's expectations from business can be articulated by CSOs and CSO activism may be a good indicator of the society's monitoring capacity. During the recent past, limitations imposed upon the civil society organizations in Turkey coupled with a highly monopolized and censored media, and the tradition of opacity had exacerbated the information asymmetry between society on one hand and the state and the private sector on the other; a picture that is changing rapidly, however the cultural characteristics do not change fast.

Turkey's societal culture is defined by large power distance, strong collectivism (low individualism), strong uncertainty avoidance and femininity (Hofstede, 1991). As per the values underpinning these dimensions, Schwartz (1994) noted that Turkey ranked above average in values of conservatism, hierarchy and harmony supporting Hofstede's findings. A more recent study on the Turkish culture was conducted as a part of GLOBE

study which revealed in-group collectivism and power distance as two predominant characteristics of Turkey among 62 cultures surveyed (Kabasakal and Bodur, 1998). Turkey ranks below average on gender egalitarianism (56th), uncertainty avoidance (49th), performance orientation (45th), societal collectivism (42nd), humane orientation (37th), and future orientation (36th), whereas it ranks higher in terms of in-group collectivism (4th), power distance (10th) and assertiveness (12th).

Kabasakal and Dastmalchian (2001) based on their study of Middle Eastern countries for Project GLOBE, note the similarities in positioning of Turkey to that of Iran, Kuwait and Qatar and draw attention to the role of Turkish state's secular construction to possibly account for the differences.

Future orientation which is tested as a cultural variable in the study is related to having long-term perspectives in society and hence can be considered as a proxy of the commitment of the society to sustainability. All 4 countries scored below the world average in future orientation. Kabasakal and Dalmachian explain this low score with the concept of "fate" in Islam and argue that it is a factor negatively influencing future orientation of societies and demonstrating itself as acceptance of all conduct as within God's preordaining. Although Koran explains the importance of a human being's responsibility and choice, believing in fate is a basic principle of faith in "God". Furthermore, Kabasakal and Bodur (1998) also found Turkish organizations to be significantly more future-oriented than the Turkish society at large. Although the Turkish society is not future oriented, leaders are expected to be "visionaries" and demonstrate future orientation according to Kabasakal and Bodur. They argued that this may be due to the necessities of the task and higher education levels.

The debate on whether effective leadership processes reflect the culture in which they are found continues. Rodrigues (1990) describes for 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 and its neighbours. Among the studies of culture-specific leader attributes, "consultation" and "participation" require further attention as they are related to the concept of stakeholder involvement. 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, whereas Ozen (1998) noted a case where consultation emerges as a dominant leadership attribute in a Turkish business organisation which is known to adopt Islamic values. Abdalla and Al-Hamoud (2001) note the importance of consultation in the Islamic tribal societies as recommended by the Koran but also argue that in the Arab world the purpose of consultation is to satisfy the egos of the parties involved rather than to improve the quality of decision.

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. One manifestation of this is the

“regionalism” fed by local businesses in Turkey. Local businesses seek competitive advantage and legitimacy by involving in and financing community activities (e.g. funding the local soccer team). Fikret-Pasa further reports that culture specific behaviours are more dominant in leadership behaviours of Turkish organizations relative to the universally influenced behaviours of rationalizing and legitimizing.

Hofstede’s work reveals similarities between cultural dimensions of Middle Eastern countries. In his studies of 53 countries, Turkey, Arab countries (Egypt, Lebanon, Libya, Kuwait, Iraq, Saudi Arabia and UAE) and Iran scores comparable whereas Israel deviates in two dimensions from the others. Hofstede formulates the value dimensions in three matrices: (1) Power distance versus individualism, (2) Power distance versus uncertainty avoidance, (3) Uncertainty avoidance versus masculinity. Turkey, Iran and Arab countries positioned in the same quadrant in all three matrices with high PDI, low IDV, low MAS and high UAI values compared to other countries.

Insert Chart 1 here

CSR in practice

What is the effect of all these on CSR? CSR may be correlated to cultural attributes such as strong long term orientation, strong societal collectivism; strong femininity, low power distance and low uncertainty avoidance. An overview of strong CSR oriented countries’ cultural characteristics (UK, Germany, Holland) reveals that they are positioned in the opposite quadrants in dimensional analysis. 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. 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. One becomes responsible not because it is mandated by rules or laws, but because there is a social system that encourages certain behaviour and punishes those who violate the shared social norms. Turkey’s scores indicate the possibility of a negative influence by culture with the exception of her feminine character which may explain the strong paternal and benevolent character of organizational leaders.

Ascigil(2003), in her unpublished survey conducted for TESEV explored management attitudes towards CSR in Turkey. Using Carroll’s (1979) and Aupperle’s (1994) contextualized questionnaires, Ascigil found that 75% of the managers included in the survey give priority to economic criteria when making decisions whereas 19.11% gives priority to ethical criteria and only 6% to legal criteria. Ascigil notes that Turkish managers do not differentiate between legal and ethical responsibilities as evidenced by the structural analysis of the responses. Furthermore, the study shows that customers are considered to be the most important stakeholders by 75.8% of the managers, employees being the second by 50.8% and the society at large by only 24.3%. According to the same survey, 53.5% of the managers would not give priority to ethical considerations if these would negatively impact economic performance. “Quality” and “Customers” are the most

frequently used concepts in companies' mission statements by 61.5%. "Society" is mentioned in only 22.1% of the statements whereas "Profitability" is mentioned only in 3.3%. This may be related to the timidity about wealth and concerns about legitimacy of business. Ascigil notes that the mere existence of a mission statement positively affects the management attitudes towards CSR and that awareness on CSR in companies increases with the post graduate education and with the increased share of foreign capital. She further notes that 49.7% of the managers consider themselves as reactive with respect to CSR issues, 13.6% totally ignore the concept and 33.5% believe that they handle CSR as a strategic matter. She concludes that CSR in Turkey has not moved beyond a public relations matter in Turkish companies.

The limitation of cultural drivers is reflected in low ethical / legal social responsibility performance of the corporations in Turkey. In fact, a survey conducted by Turkish Ethical Values Centre (TEDMER) reveals that 35% of the sample group observed unethical behaviour at work. Most respondents considered fraud, tax avoidance, bribing and discriminations as important ethical issues whereas disclosure quality in informing the public, protecting environment, valuing diverse opinions and keeping legal records and reports as less important. 57 % of the respondent thought that organizations face unfair competition because of being ethical. 92.6 % of the respondents believed 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. 67.9% of the respondents considered the increased existence of international firms as a very important factor in improving the ethics in Turkey (www.tedmer.org).

In the absence of collective social act of rewarding or punishing, material incentives become dominant drivers for decision makers rather than moral judgement. Where enforcement of law is not effective, compliance with rules is a matter of voluntary choice. Since compliance is associated with costs, ignorance of laws creates illegitimate sources of margins for traditional companies. In fact 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. This had a negative effect on the development of civic involvement 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 active¹ out of which more than 13000 is registered in Istanbul and 400 has been granted the status of “benevolent association” by the government.² The process of applying for public benefit status is quite restrictive and non-transparent. STGP (Civil Society Development Programme)³ also has an online database of 7146 active CSOs. Chart 2 provides an analysis of the activity areas of the active CSOs.

Insert Chart 2 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. It is important to note the differences between civil society organizations headquartered in Istanbul and those in Anatolia with respect to sources of funding, size and focus. Bikmen, (2003)⁴ 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 and this dependency reduces the effectiveness of CSOs in monitoring corporate behaviour. Considering this imbalance, Civil Society Development Program funded by EC (www.stgp.org) aims to support CSOs located outside Istanbul.

Against this background, the development pace of Turkish civil society has been increased with the influences of EU accession process. The Associations Act has been amended in March 2005 increasing the freedom of organisation substantially. Limitations on the rights to join associations for civil servants have been removed and student associations are given equal standing with others. 3.3 million Euros are allocated to strengthening the capacity building of Department of Associations, which is organised as a separate department within the Ministry of Interior under the new act instead of being controlled by the Department Of Police. All these developments will increase the civic involvement and help the articulation of society’s expectations from business.

Key Actors of CSR

Considering the fact that most of the institutional driving forces for CSR including the legal framework and market mechanisms are not sufficiently developed and variables for non-market institutions such as CSO activity and academic research and teaching are not yet mature enough, one may conclude that the role of international drivers are important. Improvements in laws and regulations and their enforcement in an attempt to

¹ Source: www.dernekler.gov.tr, the official web site of the governmental agency responsible for civil society organizations.

² EU Accession and the Roles of NGOs, December 12-13 2003, Conference Report,

³ www.stgp.org

⁴ Bikmen Filiz, 2003, Corporate Philanthropy in Turkey: Building on Tradition, Adapting to Change, SEAL - Social Economy and Law Project Journal Autumn 2003, p.2

harmonize with the international developments, introduction of better practices, if not best, by global companies, pressures from global CSOs and multilateral organizations and initiatives driven by rational choices are currently driving CSR in Turkey. Excluding the philanthropic activities, the very first manifestations of CSR were observed in the business conduct of multinational/global companies in Turkey.

Multinational corporations, due to the obligations to comply with the standards of their home country, tend to obey the laws and set example for local companies. They are indeed main actors to promote CSR in Turkey to minimise the cost consequences of CSR policies and create a level playing field for competition. Notable among these are BP's social and environmental impact analysis regarding their major Bakus-Ceyhan pipeline installation projects and International Business Leaders Forum's (IBLF) various activities in cooperation with Turkish Economic and Social Studies Foundation (TESEV), UNDP, British Council and British companies operating in Turkey. 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. IBLF has organized a series of CSR events in co-operation with TESEV which included seminars, talks, workshops – as well as a conference that aimed at improving labor standards in the ready-made clothing sector supply chain sponsored by Marks and Spencer (<http://www.iblf.org/csr>). Green Peace activists demonstrated against hazardous waste and toxic discharges from industrial plants and vessels which resulted in improved practices in most cases (www.greenpeace.org). Global Response (www.globalresponse.org) and the Friend of the Earth (www.foe.co.uk) led the campaign against Eurogold, a mining company extracting gold using toxic cyanide in Bergama.

The CSR awards given by a business magazine explains the focus and nature of CSR initiatives in Turkey. The top ten CSR projects which are recognised by a jury composed of business representatives, experts, academicians and press in 2005 were as follows:

1. Eczacibasi Group pioneered establishment of a “Modern Art Museum” in Istanbul, the very first in Turkey
2. Kagider (Women Entrepreneurs Association), has set up a fund to finance small enterprises and civil society organisations initiated by Anatolian 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 of and 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 actual business of the corporations. They can all be categorised as philanthropy or corporate giving at best and they fall in the public relations activities regardless of the decision makers’ motives. The fact that supporting education seem to be the preferred choice of the corporations, one may conclude that the Turkish society expects the corporations to support education and these projects contribute more to the brand value.

Philanthropy

Turkey has a rich and significant philanthropic history. In the Ottoman era, the “waqf”(foundation) was the premier institutional mechanism for philanthropic provision of public services. Waqfs are common form of philanthropy in the Islamic tradition. Most family owned conglomerates in Turkey has an associated Waqf. Subsidiaries of parent holdings allocate a percentage of their profits to the foundation, for re-distribution to social causes. Educational institutions, hospitals and arts/ cultural centers are among the most popular objectives. Despite the longstanding culture of giving, legal and fiscal frameworks which support corporate philanthropy in Turkey are relatively weak. Maximum 5% (10% for designated foundations in underdeveloped regions) of a company’s annual income can be allocated to donations whereas the average in Europe is around 10%. Furthermore tax exemption can be granted only for donations made to organizations which are given the “public good” status. Organizations can be granted such status by the Cabinet only if they focus on one of the four areas: education, health, scientific research, and arts and culture. About 200 foundations out of approximately 3,500 private foundations have been classified as serving “public good” in those four areas.. Donations made to non-exempt CSOs are not tax-deductible. An additional obstacle to corporate philanthropy is the minimum endowment required for establishing a foundation (approximately 200,000 USD). Furthermore the registration process is complicated and approval takes a long time. These factors serve to deter smaller companies from setting up foundations (Birkmen 2003).

One credible demonstration of CSR is offered by Sabanci University which was founded by Sabanci family foundation VAKSA, alongside with many mushrooming private universities financed by family foundations. Sabanci University’s mission statement internalize social responsibility by stating that “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” is the mission of the University. To achieve this objective, Sabanci University offers mandatory Civic Involvement courses during which the students participate in real life projects which would make a difference in other peoples’ lives. Sabanci University was the first university to include business ethics courses in the MBA core curriculum in Turkey. One of the external drivers for CSR is academic research and teaching which influence rational decision making by corporate management. Upsurge of private universities in Turkey created a better environment for the interaction and

cooperation of business and universities and led to increased recognition of CSR by business.

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 section 3 of the guidelines. The guidelines list “employees, creditors, customers, suppliers, trade unions, various non-governmental organizations and potential investors” as examples of stakeholders. This list is comprehensive but excludes some stakeholders groups such as governments (Wartick & Wood, 1998), local communities, environment, future generations and non-human species (Wheeler & Sillanpaa, 1997).

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” and include a “Stakeholders” section with recommendations under seven headings:

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 race, religion, language, and sex 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 surveyed the corporate governance compliance reports of 30 companies⁵ 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?

ISE National-30 is composed of national market companies except investments trust and will also be used for trading in the derivatives market. The constituent 30 companies are selected on the basis of pre-determined criteria directed for the companies to be included in the indices as well as in consideration of their ability to represent relevant sectors. Therefore, they represent a valid and a reliable data to measure Turkish enterprises that are operating at the ISE.

Referring previous definition of a “stakeholder” in the guidelines, we surveyed the stakeholders mentioned by the companies. The results are presented in Chart 3.

Insert Chart 3 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. Dawkins and Lewis (2003) suggest that stakeholder recognition may be influenced by the nature of the markets the companies operate in. The responses of banks in our sample⁶ were similar to each other as summarised in chart 4 supporting their argument.

Insert Chart 4 here

⁵ These companies are as follows: İşbank, Akbank, Garanti, Turkcell, Ereğli Demir Çelik, Koç Holding, Yapı Kredi, Sabancı Holding, Tüpraş, Doğan Holding, Arçelik, Vestel, T. Şişe Cam, Ford Otosan, Migros, Doğan Yayın Holding, Hürriyet Gazetecilik, ENKA İnşaat San., TOFAŞ OTO FAB. Ülker, Aksigorta, Finansbank, İhlas Holding, Kardemir, Tansaş, Alarko Holding, Aksa Akriilik, Ak Enerji, Dogan Holding, Beko and Anadolu Efes.

⁶ Garantibank, Finansbank, Yapı Kredi and İşbank

The other dilemma is that our survey demonstrates that the companies predominantly consider employees as their stakeholder without mentioning the customers whereas research conducted by Ascigil (2004) points out the strong recognition of customers in relation to CSR concept. The fact that customers are hardly mentioned in the compliance reports suggest that the concept of stakeholder is not well understood by the listed companies and the report standard supplied by the CMB with more specific recommendations on recognition of employees may be the source of this bias.

In summary, 68% of the companies did not recognise any of the stakeholders explicitly mentioned by the CMB. These findings can be cross checked by the companies' disclosed method of stakeholder involvement. 6 companies declare that no methods or instruments are used for stakeholder involvement. 5 companies refers to "law" as providing 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" does not necessarily imply acceptance of stakeholder's involvement in company affairs supporting our argument that the concept of stakeholder is not well understood by Turkish companies.

It is worth noting that only 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. The high level of ownership concentration in Turkey positions controlling shareholders as the "owner" of the companies. The concept of shareholder is usually associated with minority shareholders. The fact that none of the other companies mentions shareholders as a stakeholder demonstrates the insignificance of the role minority shareholders and institutional investors play in the market.

We also surveyed the compliance reports to understand the areas of CSR practices disclosed by ISE 30 companies. The results are summarised in Chart 5 and the data is presented in the Appendix.

Insert Chart 5 here

We would like to note the reference to "law" as an instrument for CSR practices by Turkish companies. What constitutes CSR is context dependent. Where laws and regulations are not enforced neither by the state nor by social pressure, compliance with law can be reduced to a matter of cost and benefit analysis. Hence, prudent governance which is based on respect for law and regulations is the first step in responsible business conduct. Defining CSR as "voluntary behaviour beyond the requirements of law" would be too simplistic in the context of developing economies.

Market Drivers for CSR

We argue that one challenge for triggering or improving corporate accountability/social responsibility may be related with the structure of financial industry. Persuading

mainstream investors of the long-term business case for responsible behaviour is difficult. This is one of the findings in the report “Values by Value” published in January 2003 by the World Economic Forum and the International Business Leaders Forum. Based on surveys of top executives, the Report reveals that investors rarely ask companies about their social and environmental policies. These issues never come up unless there is a direct and explicit financial risk or short-term exposure. Despite the growing size of funds managed under Socially Responsible Investments schemes and their arguably better performance over long periods, big investors do not take the social responsibility seriously. When this is combined with speculative and short term nature of most equity investments in developing countries the situation gets even worse as per the impact of investors’ expectations from companies in emerging markets. Institutional investments are largely based on financial models; hence 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. The efforts of Global Reporting Initiative and also some of the cutting edge regulations requesting investors to consider the social responsibility of the companies they invest in and encourage long term investments would be effective only if CSR can be incorporated in financial modelling.

Probably, one of the most important but least acknowledged obstacles for CSR is the lack of competition. Competitive markets are drivers for CSR opening up space for those companies who can differentiate themselves based on their CSR policies. Efficient markets may be the most effective driver for CSR. A strong consumer movement associated with competitive product markets and an efficient labour market will encourage the companies to use CSR as a differentiation. Strong professional organisations can encourage voluntary compliance with social and environmental standards.

One important obstacle is mistrust in the legal system. Establishment of “Rule of Law” is a necessary precondition for efficient labour markets, financial markets and moral credibility of the regulators and the government. Turkey’s legal framework and judicial system have been improved considerably in the process of accession to the EU; however enforcement is still an issue. EU has served as an anchor without which the process will be much slower and may be subject to more populist choices or pressures from interest groups.

.Suggested Framework and Strategies for CSR

The results of our survey suggest that 77% of the companies surveyed had a Code of Ethics, whereas only 5 of them disclosed their Code to the public. Disclosed codes showed similarities and mainly target the employees without any provisions indicating that the code applies to the board or senior management equally. This behaviour can partially be explained by the economic situation. The decision to commit to an ethical code or rules of business conduct can be understood as an irreversible investment decision under uncertainty in which the firm chooses to give up on certain future options. For a profit maximizing firm, these costs must be offset against benefits and costs

committed in case of non-compliance (Thomsen S., 2001). 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). We argue that achieving economic and political stability may activate the drivers for CSR and induce ethical behaviour. Indeed, with the lowest inflation for more than three decades and a government apparently committed to macro economic stability, companies are becoming more confident about the future as evidenced by the recent press releases about adaptation of Code of Ethics by Turkish companies. The current restructuring program, recent improvements in the financial audit and accounting standards, government's promise to focus on eliminating unregistered economy, establishment of banking regulatory agency which improved monitoring capacity substantially and any potential improvements in enforcement mechanisms including technical infrastructure to monitor and detect fraud will be the real drivers for change.

In an earlier version of this paper written two years ago, "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 (had) concluded that the observed poverty of CSR in Turkey may be partially attributed to cultural characteristics". Given also the weaknesses in institutional framework, the cultural characteristics of business organizations and leadership behaviour in Turkey, we argued that the drivers for CSR may 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). We noted that the quality culture in Turkish organizations may be exploited as a driver for CSR. The upsurge of CSR in the Turkish society reflects how changes in political, economic and social environment with an external anchor may affect corporate behaviour and influence the societal values and norms. Turkish markets have become more competitive, civil rights are better respected, legal system has been improved, judicial system is under improvement, and the intensified political and economic interaction with Europe affected the social values. Most important of all, macroeconomic stability achieved by the government and the moral authority it led to, paved the way for a long term perspective in business. Competition is a strong driver in promoting CSR. Turkish textile industry has chosen to use CSR as a competitive advantage against the threat of Chinese textiles and engaged voluntarily in projects with European civil society organisations such as Clean Clothes Campaign to improve the social standards in Turkey's textile industry.

We conclude that macroeconomic stability induces ethical behaviour and economic development accompanied by opening up to international competition accelerates the convergence of business culture and may partially neutralise the societal cultural characteristics that may be unsupportive of CSR.

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 the cultural dimensions and organizational 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.

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Appendix:

Chart 1) Comparative Scores of PDI, IDV, MAS and UAI (out of 100) and rank (out of 53), constructed from Hofstede (1991), LTOI rank out of 62 from Kabasakal and Bodur (1998)

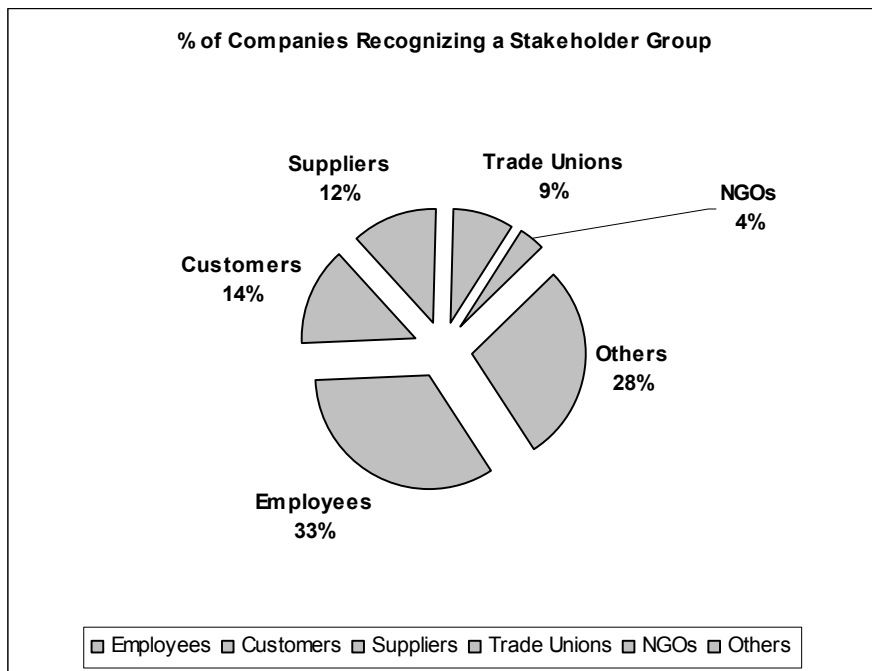
Country	Power Distance Index(PDI)	Individualism Index(IDV)	Masculinity Index(MAS)	Uncertainty Avoidance Index(UAI)	Long Term Orientation Index(LTOI)
Arab Countries	80 (7)	38 (26)	53 (23)	68 (27)	
Turkey	66 (18)	37 (28)	45 (32)	85 (16)	(36)
Iran	58 (29)	41 (24)	43 (35)	59 (31)	
Israel	13 (52)	54 (19)	47 (29)	81 (19)	

Chart 2) Registered CSOs' Area of Activity, source Civil Society Development Program's Web site (www.stgp.org)

Activity Area	Number of CSOs
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

Chart 3: Stakeholder groups



Stakeholder Group	Mentioned
Employees	19
Customers	8
Suppliers	7
Trade Unions	5
CSOs	2

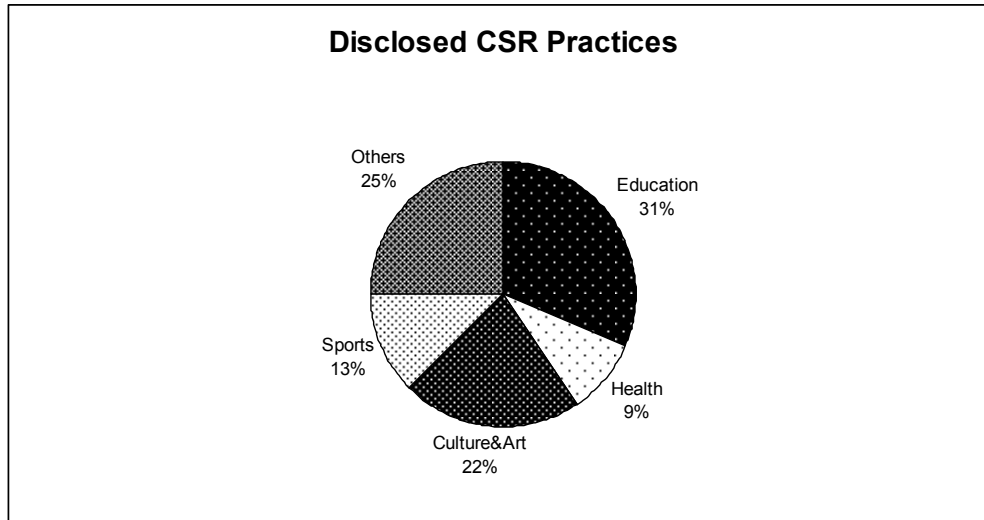
Others	16
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Chart 4: Stakeholders recognized by the banks

Company Name	Employees	Customers	Suppliers	Trade Unions	NGOs	Others
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 5: ISE 30 companies' perceived CSR practice areas and the instrument used



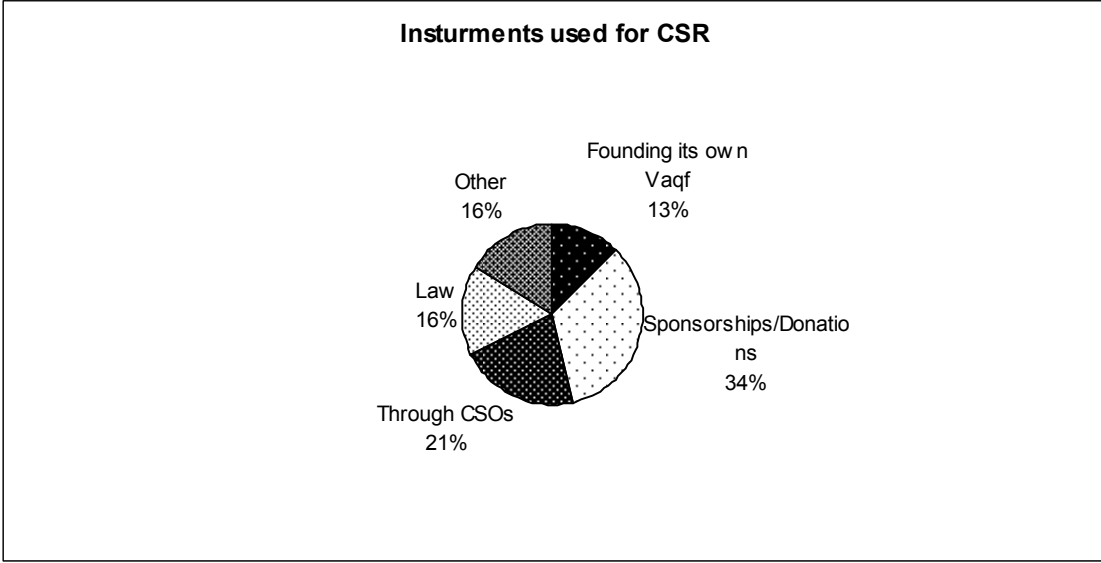


Chart 6: Do the ISE 30 companies have a code of Ethics?

