Handbook of Research on

Global Issues in Financial Communication and Investment Decision Making

Hasan Dinçer and Serhat Yüksel

Handbook of Research on Global Issues in Financial Communication and Investment Decision Making

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Aracı, Emrecan / *İstanbul Medipol University, Turkey* 74
Aşçı, Mehmet Saim / *İstanbul Medipol University, Turkey* 417
Baykal, Elif / *İstanbul Medipol University, Turkey* 110
Celik, Hilal / *Beykent University, Turkey* 50
Ceylan, Nildag Basak / *Ankara Yildirim Beyazit University, Turkey* 236, 340
Dinçer, Hasan / *Istanbul Medipol University, Turkey* 1, 74
Eken, Ihsan / *İstanbul Medipol University, Turkey* 276
Ersin, Irfan / *İstanbul Medipol Universty, Turkey* 148
Ertuğrul, Melik / *Istinye University, Turkey* 192, 367
Eti, Serkan / *Istanbul Medipol University, Turkey* 256
Gezmen, Basak / *Istanbul Medipol University, Turkey* 276
Güler, Murat / *Republic of Turkey Ministry of Transport, Maritime, and Communications, Turkey* 50
Kalkavan, Hakan / *İstanbul Medipol Universty, Turkey* 148
Kapusuzoglu, Ayhan / *Ankara Yildirim Beyazit University, Turkey* 236, 340
Karatas, Hakki / *Ministry of Treasury and Finance, Turkey* 340
Kartal, Mustafa Tevfik / *Borsa İstanbul, Turkey* 127
Kavak, Pınar Tuğçe / *İstanbul Medipol University, Turkey* 168
Kurtar, Hasan / *The Scientific and Technological Research Council of Turkey, Turkey* 236
Meral, Yurdagül / *İstanbul Medipol University, Turkey* 28, 395
Öztürk, Ipek Tamara Cetiner / *Istanbul Medipol University, Turkey* 95
Pınarbaşı, Fatih / *Istanbul Medipol University, Turkey* 1
Uzunkaya, Seçil Şenel / *Istanbul Medipol University, Turkey* 215
Yazici, Merve / *Istanbul Medipol University, Turkey* 1
Yüksel, Serhat / *Istanbul Medipol University, Turkey* 1, 168
Zengin, Sinemis / *TEB, Turkey* 316

Table of Contents

Foreword xviii

Preface xix

Acknowledgment xxii

Section 1

Chapter 1
Assessing Corporate Social Responsibilities in the Banking Sector: As a Tool of Strategic Communication During the Global Financial Crisis 1
Hasan Dinçer, Istanbul Medipol University, Turkey
Serhat Yüksel, Istanbul Medipol University, Turkey
Merve Yazici, Istanbul Medipol University, Turkey
Fatih Pınarbaşı, Istanbul Medipol University, Turkey

Chapter 2
Strategic Management to Prevent Money Laundering: The Role of Effective Communication 28
Yurdagül Meral, İstanbul Medipol University, Turkey

Chapter 3
The Importance of Customer Loyalty With Corporate Governance in the Telecommunication Sector: A Case of the Telecommunication Sector 50
Hilal Celik, Beykent University, Turkey
Murat Güler, Republic of Turkey Ministry of Transport, Maritime, and Communications, Turkey

Chapter 4
The Role of Effective Communication on Economic Development: The Effects of Political and Economic Crisis on the Performance of Turkish Economy 74
Hasan Dinçer, Istanbul Medipol University, Turkey
Emrecan Aracı, İstanbul Medipol University, Turkey

Chapter 5
The Role of Financial Communication Under the Chaos Environment: A Case of TEMSA Company 95
Ipek Tamara Cetiner Öztürk, Istanbul Medipol University, Turkey

Section 2

Chapter 6
Transparency in Financial Communication: Effect of Authentic Leadership........ 110
Elif Baykal, İstanbul Medipol University, Turkey

Chapter 7
The Role and Importance of Independent Audit and Annual Integrated Reports as Corporate Tools in Communication With Stakeholders From the Investor Relations Perspectives: An Examination Upon Turkish Banks 127
Mustafa Tevfik Kartal, Borsa İstanbul, Turkey

Chapter 8
Determination of Factors Affecting the South East Asian Crisis of 1997 Probit-Logit Panel Regression: The South East Asian Crisis 148
Hakan Kalkavan, İstanbul Medipol Universty, Turkey
Irfan Ersin, İstanbul Medipol Universty, Turkey

Chapter 9
Do Financial Investment Decisions Affect Economic Development? An Analysis on Mortgage Loans in Turkey 168
Serhat Yüksel, İstanbul Medipol University, Turkey
Pınar Tuğçe Kavak, İstanbul Medipol University, Turkey

Chapter 10
Interpretation of the Value Relevance Indicator With(out) Dummies: Demeaning 192
Melik Ertuğrul, Istinye University, Turkey

Section 3

Chapter 11
The Role of IMF-Turkey Relationship on Strategic Investment Decision 215
Seçil Şenel Uzunkaya, Istanbul Medipol University, Turkey

Chapter 12
Investment Decision Process in Oil Economy for Major Oil Exporting and Importing Countries 236
Hasan Kurtar, The Scientific and Technological Research Council of Turkey, Turkey
Ayhan Kapusuzoglu, Ankara Yildirim Beyazit University, Turkey
Nildag Basak Ceylan, Ankara Yildirim Beyazit University, Turkey

Chapter 13
The Use of Quantitative Methods in Investment Decisions: A Literature Review 256
Serkan Eti, Istanbul Medipol University, Turkey

Chapter 14
The Periods of Crisis in the Ownership of the Media of Large Enterprises in Turkey 276
Basak Gezmen, Istanbul Medipol University, Turkey
Ihsan Eken, İstanbul Medipol University, Turkey

Chapter 15
Corporate Scandals and Systemic Risk.. 316
Sinemis Zengin, TEB, Turkey

Section 4

Chapter 16
A Comparative Analysis of Drivers of Secondary Market Liquidity in Financial Markets for Investment Analysis: Evidence From Turkey 340
Hakki Karatas, Ministry of Treasury and Finance, Turkey
Nildag Basak Ceylan, Ankara Yildirim Beyazit University, Turkey
Ayhan Kapusuzoglu, Ankara Yildirim Beyazit University, Turkey

Chapter 17
A Review of the Literature on IFRS Adoption From the Perspective of the Value Relevance 367
Melik Ertuğrul, Istinye University, Turkey

Chapter 18
Strategic Management of Finance and Role of Documentary Credit 395
Yurdagül Meral, İstanbul Medipol University, Turkey

Chapter 19
Quality in Labor Market and Labor Relations as a Strategical Administration Aim.......................... 417
Mehmet Saim Aşçı, İstanbul Medipol University, Turkey

Chapter 20
Corporate Scandals Involving Social Media: Cases From Turkey 442
Ayşen Akyüz, Istanbul Medipol University, Turkey

Compilation of References 457

About the Contributors 534

Index.. 538

Detailed Table of Contents

Foreword xviii

Preface xix

Acknowledgment xxii

Section 1

Chapter 1
Assessing Corporate Social Responsibilities in the Banking Sector: As a Tool of Strategic Communication During the Global Financial Crisis 1
Hasan Dinçer, Istanbul Medipol University, Turkey
Serhat Yüksel, Istanbul Medipol University, Turkey
Merve Yazici, Istanbul Medipol University, Turkey
Fatih Pınarbaşı, Istanbul Medipol University, Turkey

The aim of the chapter is to evaluate the corporate social responsibilities in the banking sector during global financial crisis period. For this purpose, alternatives of corporate social responsibilities for Turkish deposit banks are taken into the consideration. Within this framework, a set of criteria and dimensions are defined by analyzing similar studies in the literature. Also, fuzzy DEMATEL approach is used to weight these dimensions and criteria. On the other side, some alternatives for the corporate social responsibilities is identified by supported literature. Moreover, fuzzy MOORA method is applied to rank these alternatives. The findings show that the transparency is the most important factor in the criterion set as. Another important conclusion is that environment has the best degree in the alternative set. Thus, it is recommended that banks should be very transparent and mainly focus on environmental issues especially in the crisis period to increase the image on the eyes of the consumers. Therefore, it can be possible to increase the sales in this way.

Chapter 2
Strategic Management to Prevent Money Laundering: The Role of Effective Communication 28
Yurdagül Meral, İstanbul Medipol University, Turkey

In this chapter, the SWIFT, which is the financial communication system used by all financial institutions, will be explained. Today, most of the countries and financial institutions take precautions to avoid money-laundering and financial crimes. The SWIFT system will be examined in relation with financial communication, compliance, money laundering, know your customer, and sanctions. Public became

aware of the sanctions when HSBC has agreed to pay $1.92 billion dollars to state authorities in 2012 for transfering dollars illegally into US. Banks apply “Know Your Customer” procedures to avoid such risks. In relation with sanctions, precautions of SWIFT system will be defined. SWIFT has started a new application namely KYC Registry which enables to have necessary information about the customers in international trade, through cross borders. The reasons why this applicatiıon must be used, how risk will be mitigated, by sharing information with maximum transparency and SWIFT’s new KYC application will be defined.

Chapter 3
The Importance of Customer Loyalty With Corporate Governance in the Telecommunication Sector: A Case of the Telecommunication Sector 50
Hilal Celik, Beykent University, Turkey
Murat Güler, Republic of Turkey Ministry of Transport, Maritime, and Communications, Turkey

The telecommunication sector is a sector which is open for development. It is important to analyze the strengths and weaknesses of organizations by using different strategic management techniques. The purpose of this chapter is to emphasize the importance of customer loyalty and to bring forth the key factors to create customer loyalty in communication sector and to understand the corporate actions of organizations apply when creating loyalty. At the same time to test the factors that create loyalty from the customers’ perspective, investigation of the strategies applied for loyalty and the effects of customer loyalty programs. Therefore, the questionnaire study was made with 200 participants. T-test, anova, correlation, and regression analyses were applied to the data. This survey has the purpose of determining and investigating the dynamics and the factors that create customer loyalty in corporate governance. The results show that customer protection is crucial for companies. The most important factor of customer protection, which is loyalty, is shown to be linked with corporate actions.

Chapter 4
The Role of Effective Communication on Economic Development: The Effects of Political and Economic Crisis on the Performance of Turkish Economy 74
Hasan Dinçer, Istanbul Medipol University, Turkey
Emrecan Aracı, İstanbul Medipol University, Turkey

The process of financial liberalization draws attention as a process that took place after the 1980s and led by the strong countries, in order to overcome the narrowing in the economies of the world countries which have become polarized because of the Second World War and the Cold War period immediately following the Second World War. In this chapter, firstly, the definition of the financial liberalization period and the effects according to the countries are examined, while the risk and crisis issues are also evaluated. Economic and political crises that have occurred in Turkey after the financial liberalization process in ongoing part of the study also were assessed by considering the effects on the economy. In this context, the economic and political crisis in Turkey are analyzed as to their effects on the country’s economic performance. Accordingly, every 10 years, an economic and political crisis in Turkey took place. The country’s economy is affected negatively in the macro-frame.

Chapter 5
The Role of Financial Communication Under the Chaos Environment: A Case of TEMSA Company 95
Ipek Tamara Cetiner Öztürk, Istanbul Medipol University, Turkey

As globalization becomes a necessity for organizations to continue their sustainability and existence in the world, naturally their interdependencies to other economies also emerge. After the 2008 economic crisis, TEMSA, a Turkish family-owned company operating in the transportation industry, decided to expand its products and manufacturing plants to different regions. Egypt, for the time being, was geographically a well strategic location for TEMSA's long-term manufacturing plans. In 2011, when the Arab Spring broke out, TEMSA found itself in the middle of chaos, challenged by external political and economic decisions. This chapter focuses on the case study of TEMSA Global as they entered the Egyptian market with a foreign direct investment and managing chaos between the years 2011-2012. An interview was conducted with the management team on duty at the time to collect data. As a result, it was observed that TEMSA potentially had a chance to continue its operations in the Egyptian market if the Arabian Spring had not happened. Chaos is a potential enemy for FDIs as they seek stability.

Section 2

Chapter 6
Transparency in Financial Communication: Effect of Authentic Leadership.................................... 110
Elif Baykal, İstanbul Medipol University, Turkey

Authentic leadership is considered a foundation of other positive leadership styles. In this leadership, the leader is known for his openness and clarity. Authentic leaders are not hesitant in sharing information, and they are accurate and clear in their communication manners. Moreover, they tend to give importance to others' ideas, and when necessary, they do not avoid revealing their own values, emotions, and thoughts. They build integrity with their followers by creating an atmosphere congruent for open communication that results in a realistic relational climate nourished by followers' increased level of personal and social identification. In this chapter, it is suggested that authenticity and tranperency of authentic leadership will be important catalyzers for financial communication transperency. In this context, financial communication refers to all kinds of financial messages conveyed from the organization to its stakeholders. And financial communication transperency refers to the extent financial communication of an organization is open, accurate, clear, satisfying, and relevant.

Chapter 7
The Role and Importance of Independent Audit and Annual Integrated Reports as Corporate Tools in Communication With Stakeholders From the Investor Relations Perspectives: An Examination Upon Turkish Banks 127
Mustafa Tevfik Kartal, Borsa İstanbul, Turkey

Although there are globalization and digitalization trends affecting all companies, some things can never be changed. Similarly, when speaking about investor relations, although there are new tools, annual reports are the main communication tools with the stakeholders. One of the most important issues with them is independent assurance and timely sharing with stakeholders. Also, there is a new trend named as integrated report regarding annual reports. So, in this study, it is aimed at evaluating the role and importance of independent audit and annual integrated reports as corporate communication tools from the point of view of investor relations. It is concluded that annual reports are still main corporate communication tools with the stakeholders for companies although there are other instruments like web site, social media and investor presentations. Integrated report trend is intensifying this role. Therefore, independent audit has a substantially important role in providing assurance to stakeholders regarding integrity of information in annual (integrated) reports.

Chapter 8
Determination of Factors Affecting the South East Asian Crisis of 1997 Probit-Logit Panel Regression: The South East Asian Crisis 148
Hakan Kalkavan, İstanbul Medipol Universty, Turkey
Irfan Ersin, İstanbul Medipol Universty, Turkey

The economic crisis is an important event that hurts societies. Communication between the market and the authorities is an important factor in economic crisis situations. Because if the communication is established in a healthy way, economic crises in the future may not be repeated. In this context, the chapter deals with the economic crisis of 1997 in the Asian region as part of crisis communication. In the study conducted with Logit method, data belonging to the period 1975-2006 were used. In addition, the variables used frequently in the literature were considered as data set indicators. The results indicate that economic growth, financial credit, and money supply are important indicators affecting the crisis. Indeed, the emergence of the crisis with these variables reveals that there was a communication problem in the Asian region. Considering this experience, it has been suggested that Asia and other countries should care about the communication tools.

Chapter 9
Do Financial Investment Decisions Affect Economic Development? An Analysis on Mortgage Loans in Turkey 168
Serhat Yüksel, İstanbul Medipol University, Turkey
Pınar Tuğçe Kavak, İstanbul Medipol University, Turkey

The purpose of this chapter is to determine whether mortgage loans have an influence on economic growth in Turkey. In this context, as the variable of the mortgage, the ratio of the mortgage loans to the total loans is taken into consideration. Also, the increase ratio in GDP is used as an economic growth variable. In addition to this situation, quarterly data of these variables for the periods between 2005:1 and 2017:3 is examined. On the other hand, Engle-Granger cointegration analysis is considered in this study in order to reach this objective. In the analysis process, firstly, the variables are subjected to the ADF unit root test, and it is understood that both variables become stationary by taking first order differences. It is identified that there is a long-term relationship between mortgage loans and economic growth in Turkey. By considering these results, it is recommended to encourage mortgage loans in order to increase economic growth.

Chapter 10
Interpretation of the Value Relevance Indicator With(out) Dummies: Demeaning 192
Melik Ertuğrul, Istinye University, Turkey

In the value relevance (VR) literature, the R2 figure of a regression is considered the VR indicator. Furthermore, a financial reporting item is considered value relevant if its regression coefficient is statistically significant. The variation across the variables of interest is named unobservable heterogeneity (UH) which leads to biased estimators and generates incorrect inferences. The common approach of eliminating UH is adding dummies into a regression. However, this method adds the explanatory power of dummies to that of accounting items, and it eventually results in inflated R2 figures. Hence, R2 figures become misleading with dummies since R2 figures do not purely explain the VR of accounting items. This chapter suggests demeaning as an alternative methodology to deal with UH. Although demeaning and adding dummies are the same methodology of mitigating UH, this chapter documents that adding dummies inflates R2 figures while demeaning does not.

Section 3

Chapter 11
The Role of IMF-Turkey Relationship on Strategic Investment Decision 215
Seçil Şenel Uzunkaya, Istanbul Medipol University, Turkey

The International Money Fund was established as an intermediary to overcome the 1929 World Economic Depression and economic destruction of World War II, balance payment problems, imbalance of international monetary system, and shrinking international trade. However, the role of the IMF has changed with the new developments in the world economy, and after 1980 with its applications called "structural adjustment program," IMF has increased its effectiveness, and it has become an important authority on the crisis occurred with the globalization. In this chapter, the historical development of IMF and Turkey's relationship and its effects on the Turkish economy is discussed. The economic conditions led Turkey to apply to the IMF and all of the agreements made between IMF and Turkey, and as a result of those, the macroeconomic parameters of the Turkish economy are evaluated. The effects of the IMF stability program on the Turkish economy, applied by Turkey as a result of the agreements made with IMF, are analyzed with VAR econometrical model. The effects of IMF loans on balance of payments, current account deficits, economic growth, and inflation rates are analyzed. The macroeconomic parameters are compared with t test to find out if there is any meaningful difference on those parameters between the periods with agreements made with IMF and the periods without any agreements.

Chapter 12
Investment Decision Process in Oil Economy for Major Oil Exporting and Importing Countries 236
Hasan Kurtar, The Scientific and Technological Research Council of Turkey, Turkey
Ayhan Kapusuzoglu, Ankara Yildirim Beyazit University, Turkey
Nildag Basak Ceylan, Ankara Yildirim Beyazit University, Turkey

This chapter examines the economies of four major countries, which are Canada, Japan, Russia, and the U.S., in which two of them are oil importers, Japan and Canada, and two of them are oil exporters, Russia and the U.S. The effect of oil price changes differ owing to the country being an oil exporter or

importer. Moreover, it should also be considered that the effect on economies of each country is different as each of the countries has different economic and demographic characters specific to itself. Moreover, it should also be considered in the process of investment analysis.

Chapter 13
The Use of Quantitative Methods in Investment Decisions: A Literature Review 256
Serkan Eti, Istanbul Medipol University, Turkey

Quantitative methods are mainly preferred in the literature. The main purpose of this chapter is to evaluate the usage of quantitative methods in the subject of the investment decision. Within this framework, the studies related to the investment decision in which quantitative methods are taken into consideration. As for the quantitative methods, probit, logit, decision tree algorithms, artificial neural networks methods, Monte Carlo simulation, and MARS approaches are taken into consideration. The findings show that MARS methodology provides a more accurate results in comparison with other techniques. In addition to this situation, it is also concluded that probit and logit methodologies were less preferred in comparison with decision tree algorithms, artificial neural networks methods, and Monte Carlo simulation analysis, especially in the last studies. Therefore, it is recommended that a new evaluation for investment analysis can be performed with MARS method because it is understood that this approach provides better results.

Chapter 14
The Periods of Crisis in the Ownership of the Media of Large Enterprises in Turkey 276
Basak Gezmen, Istanbul Medipol University, Turkey
Ihsan Eken, İstanbul Medipol University, Turkey

Like every giant holding, large enterprises in the media may also face crisis in certain periods. This chapter will evaluate Dogan-Group and its publications in the context of the media industry in Turkey and will analyze the tax crisis the group in question experienced in 2009. In order to ensure an objective perspective in the research, the authors chose to examine the publications of newspapers which are thought to represent three different ideologies in Turkey. In this context, to ensure the objective approach in this study the 42 news reports published between February 2009 and September 2009, newspapers that are thought to have different viewpoints in Turkey, such as Sabah, Cumhuriyet, YeniSafak, and the so-called “flagship” of the group, Hurriyet Newspapers, have been investigated using content analysis. The time interval was chosen in accordance with the tax penalty. Content analysis method will be used in this study, and in this context, how much space the newspapers allocated to the crisis, their ways of handling the crisis, and the language they used when handling the crisis will be examined.

Chapter 15
Corporate Scandals and Systemic Risk.. 316
Sinemis Zengin, TEB, Turkey

Corporate scandals are unpredictable misbehaviors of person/people that have engagement within corporate ended by bankruptcy of corporate. In the global world, companies are related with each other, and one bankruptcy triggers another company; moreover, it may cause a systemic risk depends on size of company as occurred in 2008 economic crisis. Corporate scandals are unpredictable; however, experience from history may guide regulators to avoid in the future by effective regulations. In this chapter, corporate scandals will be studied carefully to classify subjects of scandals and their impact.

Section 4

Chapter 16
A Comparative Analysis of Drivers of Secondary Market Liquidity in Financial Markets for Investment Analysis: Evidence From Turkey 340
Hakki Karatas, Ministry of Treasury and Finance, Turkey
Nildag Basak Ceylan, Ankara Yildirim Beyazit University, Turkey
Ayhan Kapusuzoglu, Ankara Yildirim Beyazit University, Turkey

The purpose of this chapter is to examine the drivers of secondary bond market and stock market liquidity for investment analysis after global financial crisis in Turkey. The literature in Turkey mainly focuses only on the volatility of return for driving liquidity in both bond and stock markets. However, it is argued that other types of volatilities including domestic and international volatilities have also a deteriorating impact on secondary market liquidity in Turkey. In this context, it is empirically tested whether the volatility and/or uncertainty that stem from the FED and ECB policies within the last 10 years had a negative impact on liquidity both in government bond and stock markets. Moreover, the impact of non-residents in bond and stock markets on secondary market liquidity is examined by including their holdings in stock and bond market.

Chapter 17
A Review of the Literature on IFRS Adoption From the Perspective of the Value Relevance 367
Melik Ertuğrul, Istinye University, Turkey

International Financial Reporting Standards (IFRS)-based financial reporting has become widespread all around the world especially after its mandatory adoption in the European Union in 2005. There are several objectives of IFRS-based financial reporting, all of which depends on the idea of a single set of high-quality standards as frequently highlighted by promoters of IFRS. This literature review depicts a comprehensive picture of the archival research on the impact of IFRS-based reporting on capital markets from the perspective of the value relevance (VR) concept. First, the VR concept, as well as models employed to measure the VR, are described. Afterwards, selected studies of the archival research are grouped, summarized, and discussed. Finally, archival research is methodologically analyzed by considering different dimensions. All in all, this literature review provides information on IFRS adoption from the perspective of the VR.

Chapter 18
Strategic Management of Finance and Role of Documentary Credit 395
Yurdagül Meral, İstanbul Medipol University, Turkey

Financing is one of the most important aspects of trade. International trade, although seemingly not different from local trade, differs from local trade because shipment/delivery takes longer, and different documentation and legislation is due to different countries involved in international trade. Financing also differs compared to local trade, and there are some specific methods used in international trade like documentary credit, although there is no limitation for documentary credits to be used in local trade. Documentary credit is a well-known method generally used in international trade. This chapter aims to define the role of documentary credits in international trade finance. In this chapter along with other finance methods, documentary credits, types, process will be explained. It is aimed to help importers and exporters how to mitigate the potential risks by using documentary credit. Furthermore, which type of documentary credit is to be used depending on the situation is clarified.

Chapter 19
Quality in Labor Market and Labor Relations as a Strategical Administration Aim.......................... 417
Mehmet Saim Aşçı, İstanbul Medipol University, Turkey

Nowadays, quality has become a concept not only used to evaluate the economic life but is also used to assess social and corporate life. The need to adapt to qualitative changes in product and service markets affects workforce market as much as quantitative changes. Workforce market is under quantitative effect of workforce cost reduction pressure, which trivializes workforce in respect to funds, and qualitative effect of the pressure to increase workforce quality, which increases related to creating innovations and innovative thinking. In this context, it is known that the flexibility in payment and hour of work to increase participation in workforce market and workforce productivity causes problems like wages inequality and discrimination. Demands for increasing product and production process quality causes changes both in the area of individual and collective work relations, and role of the government. It is observed all the applications toward increasing quality of product and production process do not affect work-life quality similarly so that it is vital to have a strategic management.

Chapter 20
Corporate Scandals Involving Social Media: Cases From Turkey 442
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The importance of public relations and crisis communication is undeniable for companies. In a corporate scandal or crisis situation, the right messages have to be conveyed to the relevant audiences including shareholders at the right time and in the right way. Today, social media is one of the most popular tools of crisis communication. Including Turkey, the number of social media users all over the world is quite high and continues to increase every day. In recent years, we observe that companies use social media as an effective communication tool during their crisis periods. The aim of this chapter is to make an in-depth review of the literature on crisis management and the use of social media and to reveal the position of social media in communication efforts carried out during the company crises through various cases that took place in Turkey.

Compilation of References 457

About the Contributors 534

Index 538

Foreword

I have been making researches related to finance and macroeconomics for many different years. In this process, I get an opportunity to evaluate many different studies in these topics. Most of these studies had a focus on financial and macroeconomic issues by considering many different aspects. In this context, financial crises, financial performance management, cost minimization and financial analysis. This situation gives an information that there is need for a new study which evaluates financial issues with a different aspect.

This book certainly satisfies this need of the literature due to many different reasons. First of all, it focuses on financial subjects by considering different topics, such as communication, corporate social responsibilities and corporate scandals. Therefore, it is obvious that this book can provide different perspectives to the field of finance. Another important advantage of this book is that many different qualified researchers have contributed to this book. These people have lots of different studies in their subjects. Hence, this situation has a contributing effect on the quality of this book.

While considering the aspects emphasized above, it is believed that this book has a significant contribution to the literature. In other words, many different academicians in various subjects can find an important point which improve their studies. On the other hand, the results and recommendations of this book can also provide significant perspectives to the top managers in this area. With the help of these issues, they can develop many different strategies in order to improve their companies.

I would like to firstly congratulate the editors Prof. Hasan Dinçer and Prof. Serhat Yüksel for creating a book of this quality. In addition, I would also like to congratulate all chapter authors who contributed to the formation of the book. I hope that the readers of this book both enjoy and benefit from this book.

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Preface

Especially after the globalization, there was an increase in the risks for the financial market. This situation has many different negative effects on the performance of the companies. In addition to this situation, globalization also caused to high competition which caused bankruptcy for lots of different companies. Therefore, it is understood that companies should take necessary actions and develop appropriate strategies in order to survive in such a competitive environment.

Providing effective communication with different shareholders is a significant way for this purpose. Financial communication refers to the news, reports and information which the companies aim to share with their shareholders. In some circumstance, the companies have to share this information with the public according to the laws and regulations. In addition to this aspect, in some conditions, the companies prefer to share these items although they do not have to. The main reason behind this situation is that while sharing these items with the shareholders, the companies can increase their transparency. Owing to this issue, investors can trust these companies and opt for making investment.

Financial communication is so significant concept that there is a department in most of the companies for this purpose which can be named as "public relations" or "investor relations". The personnel in these departments aim to retain close relationship with the existing investors. In addition to this condition, working up a connection with the potential customers in the market is also an important purpose of these people. While providing transparency, they target to increase the image of the companies in a positive manner on the eyes of the public. Because of this issue, it can be possible to attract the attention of the customers and the investors.

The main purpose of this book is to define the significance of financial communication in competitive environment. While making analysis for different concepts related to the financial communication, such as investor relationship, audit, effective financial reporting, it can be possible to make qualified recommendations for the companies to increase their competitive power. Therefore, it can be said that this project makes a significant contribution to the literature by focusing on an important topic for the companies.

Target Audience and potential users of this book are defined below.

- Researchers
- Academicians
- Policy Makers
- Government Officials
- Upright Students in the concerned fields

- Members of Chambers of Commerce and Industry
- Top managers of the companies

This book consists of four different sections. In Section 1, there are four different chapters. In Chapter 1, it is aimed to evaluate the corporate social responsibilities in the banking sector during global financial crisis period. In this context, Turkish banking sector is taken into consideration. Additionally, fuzzy DEMATEL and fuzzy MOORA approaches are used so as to reach this objective. Chapter 2 explains SWIFT which is a financial communication system is used by all financial institutions. In this framework, the reasons why this application must be used, how risk will be mitigated, by sharing information with maximum transparency and SWIFT's new KYC application will be defined.

Chapter 3 examines the importance of customer loyalty with corporate governance in telecommunication sector. Therefore, the questionnaire study was made with 200 participants. Also, t- test, ANOVA, correlation and regression analyses applied to the data. On the other side, Chapter 4 focused on the role of effective communication on economic development. In this framework, Turkish economy is taken into consideration. In this study, the definition of the financial liberalization period and the effects according to the countries are examined, while the risk and crisis issues are also evaluated. Similarly, Chapter 5 evaluates the role of financial communication under the chaos environment. In order to achieve this objective, an analysis is made for TEMSA company.

In addition to these chapters, Section 2 also includes five different chapters. Within this framework, Chapter 6 underlines the importance of transparency in financial communication. In this study, it is suggested that authenticity and transparency of authentic leadership will be important catalyzers for financial communication transparency. Moreover, Chapter 7 evaluates the role and importance of independent audit and annual integrated reports as corporate tools in communication with stakeholders from IR perspectives. It is aimed at evaluating the role and importance of independent audit and annual integrated reports as corporate communication tools from the point of view of investor relations.

Chapter 8 examines the role of communication during financial crisis. In this context, South East Asian Crisis of 1997 is taken into consideration. In the analysis process, panel logit method is used for annual data between 1975 and 2006. Chapter 9 aims to understand the effects of financial investment decisions on the economic development. In order to reach this purpose, Engle-Granger cointegration analysis is considered. Additionally, Chapter 10 suggests demeaning as an alternative methodology to deal with unobservable heterogeneity in financial reporting system.

Parallel to the previous sections, there are also five different chapters in Section 3. Chapter 11 examines the role of IMF-Turkey relationship on strategic investment decision. In this study, the historical development of IMF and Turkey relationship and its effects on Turkish economy is discussed. Chapter 12 aims to examine the economies of four major countries which are Canada, Japan, Russia and the U.S. in which two of them are oil importer, Japan and Canada and two of them are oil exporter, Russia and the U.S.

Chapter 13 makes a literature review for the use of quantitative methods in investment decisions. In this framework, different methodologies are taken into consideration, such as probit, logit, MARS. Chapter 14 explains the periods of crisis in the ownership of the media of large enterprises in Turkey. Dogan-Group and its publications in the context of the media industry in Turkey is analyzed in this study. Chapter 15 concentrates on the corporate scandals and systemic risk. Within this scope, corporate scandals are studied carefully to classify subjects of scandals and their impact.

Section 4 also has five different chapter in this subject. Chapter 16 makes a comparative analysis of drivers of secondary market liquidity in financial markets for investment analysis. Within this context, the purpose of this study is to examine the drivers of secondary bond market and stock market liquidity for investment analysis after global financial crisis in Turkey. Chapter 17 includes a review of the literature on IFRS adoption from the perspective of the value relevance.

Furthermore, Chapter 18 aims to define the role of documentary credits in international trade finance. In this paper along with other finance methods, documentary credits, types, process will be explained. Chapter 19 evaluates the quality in labor market and labor relations. Finally, Chapter 20 aims to make an in-depth review of the literature on crisis management and the use of social media and to reveal the position of social media in communication efforts carried out during the company crises through various cases that took place in Turkey.

Some of the books related to the financial communication show that financial communication is a very popular topic in the literature so that it attracted the attention of many different researchers and publishers. Despite this situation, while analyzing the details of these books, it can be seen that all of these studies mainly focus on the concept of investor relation regarding financial communication. However, it is obvious that effective financial management can be provided by increasing the quality in audit, internal control, corporate governance, transparency as well. The main difference of this book is to consider these aspects in addition to the investor relations. Therefore, it is believed that this book makes an important contribution to the literature and attracts the attentions of industry experts.

Acknowledgment

The editors would like to acknowledge the help of all the people involved in this project and, more specifically, to the authors and reviewers that took part in the review process. Without their support, this book would not have become a reality.

First, the editors would like to thank each one of the authors for their contributions. Our sincere gratitude goes to the chapter's authors who contributed their time and expertise to this book.

Second, the editors wish to acknowledge the valuable contributions of the reviewers regarding the improvement of quality, coherence, and content presentation of chapters. Most of the authors also served as referees; we highly appreciate their double task.

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Section 1

Chapter 1
Assessing Corporate Social Responsibilities in the Banking Sector:
As a Tool of Strategic Communication During the Global Financial Crisis

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ABSTRACT

The aim of the chapter is to evaluate the corporate social responsibilities in the banking sector during global financial crisis period. For this purpose, alternatives of corporate social responsibilities for Turkish deposit banks are taken into the consideration. Within this framework, a set of criteria and dimensions are defined by analyzing similar studies in the literature. Also, fuzzy DEMATEL approach is used to weight these dimensions and criteria. On the other side, some alternatives for the corporate social responsibilities is identified by supported literature. Moreover, fuzzy MOORA method is applied to rank these alternatives. The findings show that the transparency is the most important factor in the criterion set as. Another important conclusion is that environment has the best degree in the alternative set. Thus, it is recommended that banks should be very transparent and mainly focus on environmental issues especially in the crisis period to increase the image on the eyes of the consumers. Therefore, it can be possible to increase the sales in this way.

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INTRODUCTION

Volatility in the market increased very much especially after the globalization. Because globalization eliminates the barriers with respect to the financial issues between the countries, most of the countries make international trade regarding American dollar. Therefore, any increase in this currency has a negative effect on the economies. In other words, countries are subject to the currency risk due to the globalization (Zengin & Yüksel, 2016a,b). Additionally, sudden increase or decrease in interest rates can also affect the economies negatively. If these risks cannot be managed effectively, it may cause financial crisis (Yüksel & Zengin, 2016a,b,c; Dinçer, Hacıoğlu & Yüksel, 2018a,b).

Financial crisis has a very destructive effect for many different parties (Yüksel, 2016a,b,c). A lot of companies went bankrupt and millions of people became unemployed (Yüksel and Adalı, 2017). In the last years, many different financial crises were occurred (Oktar & Yüksel, 2015a,b). Some of these crises occurred only in one country. In spite of this situation, it was also seen that some crises also affected other countries as well (Yüksel, Zengin & Kartal, 2016a,b). In this circumstance, 1994 Turkey crisis had negative effects on this country whereas 1998 South Asian crisis had a negative influence on 5 different countries (Dinçer, Yüksel, Pınarbaşı & Çetiner, 2019). In addition to them, there are also some global crises which affected a lot of different countries at the same time, such as 1929 Great Depression and 2008 Global Mortgage Crisis (Dinçer, Yüksel & Şenel, 2018; Tunay et al., 2019).

Banks are one of the most significant institutions during financial crises due to some different aspects (Dinçer & Yüksel, 2018a; Yüksel & Özsarı, 2016; Yüksel et al., 2018). The main reason behind this situation is that banks have a very significant role for the economies (Yüksel, Dinçer & Hacioglu, 2015). If banks have problems, this issue has a very destructive effects to the economies of the countries because banks provide financial funds for the investment of the companies (Dinçer, Yüksel & Martínez, 2019). In other words, when financial crises affect the performance of the banks negatively, it can also affect macroeconomic conditions of the countries in a very negative manner (Dinçer, Yüksel, Adalı & Aydın, 2019; Oktar & Yüksel, 2016).

In the crisis period, banks have to take some actions in order to minimize the negative effects of the financial crises. Within this framework, it is understood that focusing of corporate social responsibilities and using effective communication channels are very significant in order to minimize the harmful effects of the crisis (Yüksel, 2017a,b,c; Yüksel, Eroğlu & Özsarı, 2016). While making these kinds of activities, it can be possible to increase the trust of the people and countries for the banks (Yüksel, Mukhtarov & Mammadov, 2016; Yüksel and Zengin, 2017). Hence, this situation can be very helpful for the banks in the financial crisis period (Dinçer, Yüksel, Eti & Tula, 2019; Yüksel, Canöz & Özsarı, 2017). Thus, it can also be an opportunity to prevent negative issues of the financial crises for the economies of the countries.

In this study, it is aimed to evaluate the corporate social responsibilities in the banking sector during global financial crisis period. In this circumstance, alternatives of corporate social responsibilities for Turkish deposit banks are examined. In this scope, a set of criteria are selected with the help of similar studies in the literature. Fuzzy DEMATEL approach is taken into consideration to measure the significance of these criteria. In addition, fuzzy MOORA method is applied to rank the alternatives regarding corporate social responsibilities. According to the analysis results, it can be possible to give some recommendations for banking sector about the strategic communication priorities with the best tools of corporate social responsibilities in the crisis period. Therefore, it is believed that this study makes an important contribution to the literature by analyzing a significant subject with an original methodology.

LITERATURE REVIEW

Communication for Financial Crisis has several contexts in previous studies. It is useful to examine different contexts for this subject to improve understanding of conceptual knowledge. Thus, selected studies included in Table 1 with subject, scope, methodology and conclusion information.

Table 1 contains different studies /contexts related to communication and crisis including; new technologies and their affects, new formats for reporting (XBLR), investor relationships, central bank communications, advertising campaigns and the effect of financial crisis. First theme about crisis literature refers to technological advancements and their affects to communication concept. As the advancements affect companies' micro and macro scales, companies have new problems regarding to communication concept. What strategy companies must follow? Which media channels must they use to catch digital media trends? How the message must be changed regarding to new media? These are some of questions rising from technological advancements. Degl'Innocenti, Grant, Šević and Tzeremes (2018), Ozili (2018), Diaz-Rainey, Ibikunle and Mention (2015).

Second theme includes the technical aspect of technological advancements. XBLR technology is subject of many studies including; Felo, Kim and Lim (2018), Seele (2016), Alles and Debreceny (2012). Third theme related to crisis literature investor relationships. As the technology and communication strategies change, investor-company relationships are no longer same. So new questions rise regarding to this bilaterial relation. Which channels can be added to this relationship? Must frequency or communication format be changed regarding to new age/conditions? Do new investors need transparency or opacity? These are questions rising from third theme. Chen and Lo (2018), Racca, Casarin, Dondio and Squazzoni (2018), Shahzad, Pouw, Rubbaniy and El-Temtamy (2018), Merton and Thakor (2018), Chiu, Chung, Ho and Wu (2018).

Fourth theme related to crisis communication refers to macro dimension of communication for financial context. This macro state refers to central banks for financial context. Central banks, major players of financial markets are important research area for this subject. Horváth, and Jonášová (2015), Neuenkirch (2013), Blinder, Ehrmann, Fratzscher, De Haan and Jansen (2008). Last theme related to this concept refers to advertising and public relation function of companies as the consumers and their demands change. Which message must they transfer to consumers? Which coping strategy or public relation approach must be followed by company? What must be the communication tones for new media? These are last questions regarding to this theme. Enwereuzor (2017), Ioannou, Boukas and Skoufari (2014), Martín-Oliver and Salas-Fumás (2008).

METHODOLOGY

Fuzzy DEMATEL

The first letters of "The Decision Making Trial and Evaluation Laboratory" give information about DEMATEL (Dinçer & Yüksel, 2018b,c). Mainly, this approach aims to make decision when environment is complex (Dinçer, Yüksel & Çetiner, 2019). In this approach, different criteria can be weighted based on their importance (Dinçer, Yüksel & Pınarbaşı, 2019). On the other side, interdependencies between these factors can be calculated by using DEMATEL method (Yüksel, Dinçer & Emir, 2017; Dinçer et al., 2019). In the first step of the analysis process, the purpose is identified. Secondly, the fuzzy linguistic

Table 1. Selected studies for brand communication

Author	Subject	Scope	Methodology	Conclusion
Karsak et al. (2018)	Digital Channels in Strategic Communication	Turkey	In-depth Interview	It is found that Digital channels are used for public relations in strategic communication. But using digital channels is not primarily preferred as the tendency to use it depends on target audience and strategy of brand.
Özdemir (2018)	Strategic Communication and Advertisements of İş Bankası (1928-1932)	“Penny Bank” Advertising Campaign of Türkiye İş Bankası	Qualitative Text Analysis	The advertising campaign about penny bank is examined in this study. The study approved transferring of saving message through penny bank advertising campaign.
Jin et al. (2018)	Corporate Crisis Communication	Financial Corporates	Interview	Financial crisis history is examined in this study with effects on corporate crisis communication. Following interviews with thirty-eight CCOs financial crisis attribute is suggested and, clarity and accessibility are found top priorities for both internal and external stakeholders communication.
Gertler and Horvath (2018)	Central Bank Communication	European Central Bank	Regression	The study inspects the effect of European Central Bank’s Governing Council intermeeting communication on financial market with employing high frequency data from 2008 to 2014. Public statements related to interest rates and stock market have little effect or no impact on exchange rates.
Sepehrdoust (2018)	ICT and Financial Development	OPEC	Panel Generalized Method of Moment	The effect of communication technology and financial development on developing economies of OPEC. The study uses panel-GMM type of growth model with data range from 2002 to 2015 and concludes that one percent increment in financial development and ICT variables causes increasing of economic growth by .048 and 0.50 percent.
Blankespoor (2018)	Communication Process and Investor Response	Social Media	Conceptual	Communication process and investor response are examined in this conceptual study with social media concept.
Marchesi (2018)	Bank- Fund Performance	Countries related to IMF and World Bank	OLS	Author examines bank-fund performance and willingness to communicate concepts together in this study, while bank-fund simultaneous loan and recipient country’s growth variables are employed. Empirical foundation to encourage more information sharing between institutions is provided.
Strauß and Vliegenthart (2017)	German Banking Crisis and Communication	Two German Banks	Frame Analysis and Time Series Analysis	Different frames related to two German banks’ press releases are identified and negative correlations for specific frames’ presence on media and press releases are found. Therefore, the study argues that two German banks failed to communicate frames to German financial media for period the study examined.
Doan and McKie (2017)	Investor Relations	Previous Literature	Literature Review	This study aims to research development of investor relations with studies in literature. It is concluded that investor relations and public relations have limited interactions with each other.
Besstremyannaya (2017)	Costs of Japanese Banks	Japanese Banking Industry	Quantile Regression	The effect of global financial crisis and Great East Japan earthquake on cost of Japanese banks is focus of the study. Study concludes that impacts of profitability, non-performing loans and non-traditional activities related to two crisis are different for high-cost and low-cost banks.
Coombs and Laufer (2017)	Global Crisis Management	Previous Literature	Literature Review	Global crisis management topic is examined with literature review methodology in terms of three stages of crisis management; pre-crisis, the crisis and post-crisis. Future research areas are also suggested.
Roshan et al. (2016)	Crisis Communication	17 Large Australian Organizations	Content Analysis	Authors examine 15650 Facebook and Twitter messages and conclude that Australian organizations do not know potential of social media for crisis communication, when they respond crisis with social media. This study also suggests six crisis response positions regarding to usage of social media for crisis communication.
Kahveci and Odabaş (2016)	Monetary Police Statements of Central Banks	FED, ECB and CBRT	Content Analysis	Tone in monetary police statements are focus of this study which examines tones in terms of certainty, optimism and reality. It is concluded that optimistic tone of FED decreased, while certainty tone increased in period study examined.
Aslan and Güz (2015)	Brand 2.0 Strategies	Previous Literature	Conceptual Paper	This conceptual study emphasizes on Brand 2.0 concept regarding to Web 2.0 concept. Changes in brand strategies related to social media are included in this study.
Bargenda (2015)	Banking Advertising	Advertising Campaigns	Semio-narrative Analysis	Visual methapors in banking advertising is examined in this study with cognitive, affective and persuasive roles of them. Conclusions regarding to identity construct and collective sense-making are included.

continued on following page

Table 1. Continued

Author	Subject	Scope	Methodology	Conclusion
Kara and Hacıhasanoğlu (2015)	Mobile Marketing	Mobile Consumers	Survey	This study examines consumers attitude towards mobile marketing and mobile advertising with 400 participant survey. Negative attitude towards mobile advertising and differences regarding to demographic attributes are found.
Özen and Kılınç (2015)	Public Relations and Financial Performance	Corporate Managers	SEM and ANOVA	The role of public relations on financial performance and public relations perception of companies are subject of this study. Popularity of business is affected positively by attaching importance to PR and financial performance is affected positively by PR.
Tomuleasa (2015)	Central Bank Communication	Four Central Banks	Comporative Analysis and Financial Modelling	The effect of communication policy on financial stability is examined in this study which includes four central banks; BOJ, ECB, FED and NBR. Changes related to communication policies are concluded.
Hayo and Neuenkirch (2015)	Central Bank Communication	Financial Market Participants	Survey	They survey 550 financial market participants and study perception of central bank communication and evaluation of central bank's credibility, unorthodox measures and independence. Perception of central bank communication is found positively related to central bank credibility evaluation, satisfaction with unorthodox measures and perceive level of central bank independence.
Masiukiewicz and Howzan (2015)	Crisis Marketing	Customers	Survey	They study crisis marketing with survey repeated in 2008, 2010 and 2013. They suggest banks to have marketing strategies for crisis situations.
Nell et al. (2015)	Client Communication	Helpdesk Calls	Audio Corpus Categorization	77 helpdesk calls including 104 client questions are examined in this study in context of financial communication. Authors conclude that helpdesk calls are not used for financial advice, they are used for direct inquiries and problems.
Cohen et al. (2014)	Communication and Integrition of Audit Reports	Audit Reports	Review	Communication and security challenges, relevant research issues regarding to independent assurance of financial statements in XBRL format is discussed.
Austin et al. (2014)	Crisis Recovery	Crisis Communicators	Interview	Definition of organizational crisis recovery is examined in this study with interviews. Conclusions about effective recovery communication are included.
Koçyiğit and Salur (2014)	Financial Public Relations	Websites of Companies listed in BIST	Content Analysis	Information included in websites of companies listed in BIST are studied with content analysis methodology which employs eleven topics. Study concludes that the importance of financial public relations is not understood completely by companies.
Özmen and Villi (2014)	Social Media and Financial Performance	Companies in BIST	Mann-Whitney U Test	Financial performance of companies in BIST are compared regarding to having social media activity or not. Some performance indicators are found significantly different. Authors comment that company size can be factor for social media usage.
Gökgöz (2013)	Financial Communication	Previous Studies	Review	This study examines financial communication as a new communication field and conceptual background is discussed with several sources.
Esendemir (2012)	Financial Reporting System – XBLR Format	Previous Studies	Conceptual Paper	The effect of new communication and technological changes on financial reporting systems is examined in this study with XBLR format context.
Babür Tosun (2012)	Financial Public Relations	Previous Studies	Review	This study emphasizes changes in finance word and studies financial public relations concept. Communication plans for different target groups are suggested in this study.
Karademirlidağ and Yılmaz (2010)	Financial PR	Websites of Companies	Content Analysis	Study examines two concepts; public relations and financial public relations. Study finds that only 2% of companies have distinction of two concepts in their websites.
Temizel and Coşkun (2010)	Investor Relationships	Conceptual	Review	The importance of investor relationships is emphasized in this study, as it has a connector role between companies and financial markets. Study also emphasizes the role of financial communication for investor relationships.
Temizel et al. (2010)	Investor Relationships	Websites	Content Analysis	Websites of companies listed in İMKB are examined in this study with content analysis methodology, regarding to investor relationships elements. Methodology includes 49 items for five categories and each item is considered as 1 point. It was found that most of companies are weak in terms of elements.
Bulunmaz (2010)	Advertising Incomes and 2001 Crisis	Media Corporations	Descriptive	Author examines media industry with advertising incomes in terms of 2001 crisis in Turkey. Decrease of advertising income is detected and normalization took four years.
Meral (2008)	Corporate Advertising	Advertisements of Two Banks	Review	Advertisements of two banks are examined in this study regarding to corporate advertising concept. Corporate advertising is emphasized for service industry as the industry has intangible nature.

scale is defined based on five different evaluations (no, low, medium, high, very high. The third step includes the evaluation of decision makes. In this framework, fuzzy matrix is created with the help of the equations (1) and (2).

$$\breve{Z} = \frac{\breve{Z}^1 \oplus \breve{Z}^2 \oplus \ldots \oplus \breve{Z}^p}{p} \tag{1}$$

$$\breve{Z} = \begin{bmatrix} 0 & \cdots & \breve{Z}_{1n} \\ \vdots & \ddots & \vdots \\ \breve{Z}_{n1} & \cdots & 0 \end{bmatrix} \tag{2}$$

Additionally, this fuzzy matrix is normalized in the fourth step by considering the equations (3)-(5).

$$\bar{X} = \begin{bmatrix} \bar{X}_{11} & \cdots & \bar{X}_{1n} \\ \vdots & \ddots & \vdots \\ \bar{X}_{n1} & \cdots & \bar{X}_{nn} \end{bmatrix} \tag{3}$$

$$\bar{X}_{ij} = \frac{\breve{Z}_{ij}}{r}\left(\frac{l_{ij}}{r}, \frac{m_{ij}}{r}, \frac{u_{ij}}{r}\right) \tag{4}$$

$$r = \max_{1 \le i \le n}\left(\sum_{j=i}^{n} u_{ij}\right) \tag{5}$$

The fifth step includes the calculation of the total relation fuzzy matrix as in the equations (6)-(11).

$$\breve{T} = \begin{bmatrix} \breve{t}_{11} & \cdots & \breve{t}_{1n} \\ \vdots & \ddots & \vdots \\ \breve{t}_{n1} & \cdots & \breve{t}_{nn} \end{bmatrix} \tag{6}$$

$$\breve{t}_{ij} = \left(l''_{ij}, m''_{ij}, u''_{ij}\right) \tag{7}$$

$$l''_{ij} = X_l \times \left(1 - X_l\right)^{-1} \tag{8}$$

$$m''_{ij} = X_m \times \left(1 - X_m\right)^{-1} \tag{9}$$

$$u''_{ij} = X_u \times \left(1 - X_u\right)^{-1} \tag{10}$$

$$X_l = \begin{bmatrix} 0 & \cdots & l'_{1n} \\ \vdots & \ddots & \vdots \\ l'_{n1} & \cdots & 0 \end{bmatrix}; X_m = \begin{bmatrix} 0 & \cdots & m'_{1n} \\ \vdots & \ddots & \vdots \\ m'_{n1} & \cdots & 0 \end{bmatrix}; X_u = \begin{bmatrix} 0 & \cdots & u'_{1n} \\ \vdots & \ddots & \vdots \\ u'_{n1} & \cdots & 0 \end{bmatrix} \tag{11}$$

In the last step, the values of $\left(\breve{D}_i + \breve{R}_i\right)^{def}$ and $\left(\breve{D}_i - \breve{R}_i\right)^{def}$ are calculated. Within this scope, equation (12) is obtained.

$$\breve{T}^{def} = \begin{bmatrix} \breve{t}_{11}^{def} & \cdots & \breve{t}_{1n}^{def} \\ \vdots & \ddots & \vdots \\ \breve{t}_{n1}^{def} & \cdots & \breve{t}_{nn}^{def} \end{bmatrix} \tag{12}$$

Fuzzy MOORA

The term "Multi-Objective Optimization on the basis of Ratio Analysis" identifies MOORA (Dinçer, Hacıoğlu & Yüksel, 2017a,b). It is a popular type of multicriteria decision-making model which aims to rank different alternatives (Dinçer, Hacıoğlu & Yüksel, 2016a,b,c; Dinçer & Hacioglu, 2013). The main benefit of MOORA approach in comparison with similar methods, such as TOPSIS and VIKOR is that it also considers negative factors (Yüksel, Dinçer & Meral, 2019; Dinçer, Yüksel & Bozaykut-Buk, 2018). In the first phase of this method, fuzzy decision matrix is constructed as in the equation (13) (Dinçer & Görener, 2011; Dinçer, 2015a,b).

$$X_{ij} = \begin{bmatrix} (X_{11}{}^{l}, X_{11}{}^{m}, X_{11}{}^{n}) & \cdots & (X_{1n}{}^{l}, X_{1n}{}^{m}, X_{1n}{}^{n}) \\ \vdots & \ddots & \vdots \\ (X_{m1}{}^{l}, X_{m1}{}^{m}, X_{m1}{}^{n}) & \cdots & (X_{mn}{}^{l}, X_{mn}{}^{m}, X_{mn}{}^{n}) \end{bmatrix} \tag{13}$$

Additionally, the second step includes the normalization of this matrix. In this process, equations (14)-(16) are considered.

$$r_{ij}^{l} = \frac{X_{ij}{}^{l}}{\sqrt{\sum_{j=1}^{m} (X_{ij}{}^{l})^2 + (X_{ij}{}^{m})^2 + (X_{ij}{}^{n})^2}} \tag{14}$$

$$r_{ij}^{m} = \frac{X_{ij}{}^{m}}{\sqrt{\sum_{j=1}^{m} (X_{ij}{}^{l})^2 + (X_{ij}{}^{m})^2 + (X_{ij}{}^{n})^2}} \tag{15}$$

$$r_{ij}^{n} = \frac{X_{ij}^{\ n}}{\sqrt{\sum_{j=1}^{m} (X_{ij}^{\ l})^2 + (X_{ij}^{\ m})^2 + (X_{ij}^{\ n})^2}} \tag{16}$$

In the third step, alternatives are weighted based on the equations (17)-(19).

$$v_{ij}^{l} = W_j r_{ij}^{\ l} \tag{17}$$

$$v_{ij}^{m} = W_j r_{ij}^{\ m} \tag{18}$$

$$v_{ij}^{n} = W_j r_{ij}^{\ n} \tag{19}$$

After that, the ratings of beneficial and non-beneficial factors are identified with the help of equations (20)-(25).

$$S_i^{+l} = \sum_{j=1}^{n} v_{ij}^{\ l} \tag{20}$$

$$S_i^{+m} = \sum_{j=1}^{n} v_{ij}^{\ m} \tag{21}$$

$$S_i^{+n} = \sum_{j=1}^{n} v_{ij}^{\ n} \tag{22}$$

$$S_i^{-l} = \sum_{j=1}^{n} v_{ij}^{\ l} \tag{23}$$

$$S_i^{-m} = \sum_{j=1}^{n} v_{ij}^{\ m} \tag{24}$$

$$S_i^{-n} = \sum_{j=1}^{n} v_{ij}^{\ n} \tag{25}$$

The fifth step is related to the calculation of the overall performance index (Si) as in the equation (26).

$$S_i\left(S_i^+,S_i^-\right)=\sqrt{\frac{1}{3}\left[\left(S_i^{+l}-S_i^{-l}\right)^2+\left(S_i^{+m}-S_i^{-m}\right)^2+\left(S_i^{+n}-S_i^{-n}\right)^2\right]} \quad (26)$$

In the final step, alternatives are ranked according to the weighted results.

AN APPLICATION ON TURKISH BANKING SECTOR

Criteria and Alternatives

In the analysis process, first of all, criteria are defined in order to evaluate the corporate social responsibilities of the banks. For this purpose, similar studies in the literature are analyzed and the four different criteria are selected. Table 2 gives information about the details of these criteria.

In addition to these criteria, four different alternatives are also defined for this purpose. The details of these alternatives are demonstrated on Table 3.

Table 2. List of criteria

Proposed Criteria	References
Transparency	Waddock (2017); Schrempf-Stirling et al. (2016); Singh and Kaur (2016); Strauss (2017); Joseph et al. (2016); Watts (2015); Dinçer, Yüksel and Adalı (2018); Özbay et al. (2011)
Speed	Ruggie (2017); Vallaster (2017); Deng and Xu (2017); Yang et al. (2018); Grayson and Hodges (2017); Cha et al. (2016); Yüksel and Özsarı (2017a,b,c); Emir et al. (2012); Dinçer et al. (2011)
Face-to-face Communication	Brunton et al. (2017); Spence et al. (2018); McQueen et al. (2017); Hung-Baesecke et al. (2016); Grigore et al. (2018); Arato et al. (2016); Tunay and Yüksel (2017)
Appropriateness to the Purpose	Brejning (2016); Grayson and Hodges (2017); Husted (2015); Wu et al. (2015); Shamir (2017); Ait Sidhoum and Serra (2018); Emir et al. (2016); Dinçer et al. (2016)

Table 3. List of alternatives

Proposed Alternatives	References
Education	Arlikatti et al. (2019); Setó-Pamies and Papaoikonomou (2016); Asrar-ul-Haq et al. (2017); Branco and Delgado (2016); Chan et al. (2018); Elobeid et al. (2016); Jamali and Karam (2018); Dinçer (2018)
Health	Peloza and Montford (2015); Font et al. (2016); Droppert and Bennett (2015); Herrick (2016); Moussu and Ohana (2016); Dias et al. (2016); Grayson and Hodges (2017); Sen et al. (2016)
Environment	Searcy et al. (2016); Kolk, A. (2016); Ni, A., & Van Wart, M. (2015); Bai, X., & Chang, J. (2015); Wei et al. (2017); Xie et al. (2017); Boesso et al. (2015); Huda et al. (2018); Dinçer and Hacıoğlu (2014)
Art	Xia et al. (2018); Lund-Thomsen et al. (2016); McWilliams (2015); Tomaselli et. al. (2018); Lins et al. (2017); Shamir (2017); Strand et al. (2015); Schipani et al. (2018)

Calculating the Weights of Criteria With Fuzzy DEMATEL

Initially, linguistic evaluations from the decision makers are provided as seen in Table 4. According to the results, transparency has the linguistic scale entitled "Very High" only while the criterion of appropriateness the purpose has the most linguistic value of "Medium" in the evaluation set of decision makers.

In the following process, the linguistic evaluations have been converted into the triangular fuzzy numbers to build the initial direct-relation matrix. Table 5 presents the fuzzy numbers of each criterion and their impacts into the fuzzy set.

To provide the direct-relation matrix, the averaged values of the decision makers have been considered and the results are defined in Table 6.

Table 4. Linguistic evaluations of decision makers for the criteria

Criterion/ Decision Makers	C1			C2			C3			C4		
	DM1	DM2	DM3	DM1	DM2	DM3	DM1	DM2	DM3	DM1	DM2	DM3
Transparency (C1)	-	-	-	VH	VH	H	VH	VH	VH	VH	H	VH
Speed (C2)	M	M	M	-	-	-	H	H	H	H	H	H
Face-to-face Communication (C3)	M	M	M	H	M	M	-	-	-	H	M	H
Appropriateness to the Purpose (C4)	M	M	M	H	M	H	M	M	M	-	-	-

Table 5. Converted values into the fuzzy numbers for the criteria

	C1			C2			C3			C4		
Decision Maker 1												
C1	0	0	0	0.75	1	1	0.75	1	1	0.75	1	1
C2	0.25	0.5	0.75	0	0	0	0.5	0.75	1	0.5	0.75	1
C3	0.25	0.5	0.75	0.5	0.75	1	0	0	0	0.5	0.75	1
C4	0.25	0.5	0.75	0.5	0.75	1	0.25	0.5	0.75	0	0	0
Decision Maker 2												
C1	0	0	0	0.75	1	1	0.75	1	1	0.5	0.75	1
C2	0.25	0.5	0.75	0	0	0	0.5	0.75	1	0.5	0.75	1
C3	0.25	0.5	0.75	0.25	0.5	0.75	0	0	0	0.25	0.5	0.75
C4	0.25	0.5	0.75	0.25	0.5	0.75	0.25	0.5	0.75	0	0	0
Decision Maker 3												
C1	0	0	0	0.5	0.75	1	0.75	1	1	0.75	1	1
C2	0.25	0.5	0.75	0	0	0	0.5	0.75	1	0.5	0.75	1
C3	0.25	0.5	0.75	0.25	0.5	0.75	0	0	0	0.5	0.75	1
C4	0.25	0.5	0.75	0.5	0.75	1	0.25	0.5	0.75	0	0	0

The next step of the fuzzy DEMATEL method is to normalize the direct relation matrix. The normalization procedure has been applied and the results are seen in Table 7.

Total relation matrix has been constructed to initiate the defuzzification process of direct relation matrix. Table 8 shows the total relation matrix results of the criteria.

Defuzzification procedure has been applied to provide the values of $\tilde{D}_i^{def}$ and $\tilde{R}_i^{def}$ defining the impact and relation map of criteria. The defuzzified relation matrix has been given in Table 9.

Table 10 shows the impact-relation degrees of each criterion and their weights.

Table 6. Averaged values for the direct relation matrix

Criterion	C1			C2			C3			C4		
C1	0.000	0.000	0.000	0.667	0.917	1.000	0.750	1.000	1.000	0.667	0.917	1.000
C2	0.250	0.500	0.750	0.000	0.000	0.000	0.500	0.750	1.000	0.500	0.750	1.000
C3	0.250	0.500	0.750	0.333	0.583	0.833	0.000	0.000	0.000	0.417	0.667	0.917
C4	0.250	0.500	0.750	0.417	0.667	0.917	0.250	0.500	0.750	0.000	0.000	0.000

Table 7. Normalized values for the direct relation matrix

Criterion	C1			C2			C3			C4		
C1	0.000	0.000	0.000	0.222	0.306	0.333	0.250	0.333	0.333	0.222	0.306	0.333
C2	0.083	0.167	0.250	0.000	0.000	0.000	0.167	0.250	0.333	0.167	0.250	0.333
C3	0.083	0.167	0.250	0.111	0.194	0.278	0.000	0.000	0.000	0.139	0.222	0.306
C4	0.083	0.167	0.250	0.139	0.222	0.306	0.083	0.167	0.250	0.000	0.000	0.000

Table 8. Total relation matrix

Criterion	C1			C2			C3			C4		
C1	0.086	0.385	1.680	0.329	0.749	2.210	0.355	0.780	2.206	0.345	0.784	2.304
C2	0.131	0.430	1.763	0.089	0.381	1.822	0.234	0.590	2.068	0.243	0.608	2.160
C3	0.121	0.402	1.656	0.175	0.508	1.915	0.077	0.353	1.694	0.206	0.550	2.013
C4	0.119	0.393	1.623	0.193	0.516	1.894	0.152	0.486	1.857	0.080	0.357	1.740

Table 9. Defuzzified values of the matrix

	C1	C2	C3	C4
C1	0.602	0.958	0.981	0.996
C2	0.650	0.621	0.817	0.843
C3	0.608	0.727	0.576	0.772
C4	0.594	0.726	0.696	0.583

Table 10. Impact-relation degrees of the criteria

	$\tilde{D}_i^{def}$	$\tilde{R}_i^{def}$	$\tilde{D}_i^{def}+\tilde{R}_i^{def}$	$\tilde{D}_i^{def}-\tilde{R}_i^{def}$	Weights
C1	3.537	2.454	5.991	1.083	0.255
C2	2.930	3.031	5.961	-0.102	0.254
C3	2.683	3.069	5.751	-0.386	0.245
C4	2.599	3.194	5.792	-0.595	0.247

According to the results, C1 (transparency) is the most important factor in the criterion set as C3 (face to face communication) has the weakest importance among the criteria. C1 is also the most influencing factor between the criteria while C4 (appropriateness to the purpose) is the most influenced criterion.

Ranking the Alternatives With Fuzzy MOORA

The fuzzy MOORA method has been used for ranking the alternatives. Accordingly, the linguistic evaluations have been provided from the decision makers and the evaluations are seen in Table 11. The alternative of Environment (alternative 3) has the most value of "Best". However, Art (alternative 4) has the most value of "Fair" into the linguistic evaluation set.

The converted values of the linguistic evaluations into the fuzzy numbers are presented in Table 12.

The fuzzy numbers obtained from 3 decision makers have been averaged to construct the final decision matrix and to apply the fuzzy MOORA method.

Similar to the fuzzy DEMATEL method, the normalization procedure has been applied and the results are presented in Table 14.

The weighting results from the fuzzy DEMATEL method are used and multiplied with the values of normalized decision matrix to understand the weighted effects of each criterion. Table 15 presents the weighted normalized decision matrix.

At the final stage of the integrated decision-making model, the values of Si have been computed to rank the alternatives. Table 16 illustrates the results of Si and ranking the alternatives.

The values of Si are ranked in the decreasing order. According to the results, Alternative 3 (environment) has the best degree in the alternative set. However, Alternative 4 (art) is ranked in the worst degree among the alternatives.

Table 11. Linguistic evaluations of decision makers for the alternatives

Criterion/ Alternatives	C1			C2			C3			C4		
	DM1	DM2	DM3	DM1	DM2	DM3	DM1	DM2	DM3	DM1	DM2	DM3
Education (A1)	G	F	G	G	F	G	G	G	F	B	B	B
Health (A2)	G	G	G	G	F	G	B	B	G	B	B	B
Environment (A3)	B	B	B	B	B	B	B	B	B	G	G	G
Art (A4)	G	F	G	F	F	F	F	F	F	G	G	F

Table 12. Converted values into the fuzzy numbers for the alternatives

	C1			C2			C3			C4		
Decision Maker 1												
A1	0.5	0.75	1	0.5	0.75	1	0.5	0.75	1	0.75	1	1
A2	0.5	0.75	1	0.5	0.75	1	0.75	1	1	0.75	1	1
A3	0.75	1	1	0.75	1	1	0.75	1	1	0.5	0.75	1
A4	0.5	0.75	1	0.25	0.5	0.75	0.25	0.5	0.75	0.5	0.75	1
Decision Maker 2												
A1	0.25	0.5	0.75	0.25	0.5	0.75	0.5	0.75	1	0.75	1	1
A2	0.5	0.75	1	0.25	0.5	0.75	0.75	1	1	0.75	1	1
A3	0.75	1	1	0.75	1	1	0.75	1	1	0.5	0.75	1
A4	0.25	0.5	0.75	0.25	0.5	0.75	0.25	0.5	0.75	0.5	0.75	1
Decision Maker 3												
A1	0.5	0.75	1	0.5	0.75	1	0.25	0.5	0.75	0.75	1	1
A2	0.5	0.75	1	0.5	0.75	1	0.5	0.75	1	0.75	1	1
A3	0.75	1	1	0.75	1	1	0.75	1	1	0.5	0.75	1
A4	0.5	0.75	1	0.25	0.5	0.75	0.25	0.5	0.75	0.25	0.5	0.75

Table 13. Averaged values for the decision matrix

Criteria/ Alternatives	C1			C2			C3			C4		
A1	0.417	0.667	0.917	0.417	0.667	0.917	0.417	0.667	0.917	0.750	1.000	1.000
A2	0.500	0.750	1.000	0.417	0.667	0.917	0.667	0.917	1.000	0.750	1.000	1.000
A3	0.750	1.000	1.000	0.750	1.000	1.000	0.750	1.000	1.000	0.500	0.750	1.000
A4	0.417	0.667	0.917	0.250	0.500	0.750	0.250	0.500	0.750	0.417	0.667	0.917

Table 14. Normalized values for the decision matrix

Criteria/ Alternatives	C1			C2			C3			C4		
A1	0.154	0.247	0.339	0.165	0.264	0.364	0.155	0.249	0.342	0.259	0.345	0.345
A2	0.185	0.278	0.370	0.165	0.264	0.364	0.249	0.342	0.373	0.259	0.345	0.345
A3	0.278	0.370	0.370	0.298	0.397	0.397	0.280	0.373	0.373	0.173	0.259	0.345
A4	0.154	0.247	0.339	0.099	0.198	0.298	0.093	0.187	0.280	0.144	0.230	0.316

Table 15. Weighted normalized values for the decision matrix

Criteria/ Alternatives	C1			C2			C3			C4		
A1	0.039	0.063	0.087	0.042	0.067	0.092	0.038	0.061	0.084	0.064	0.085	0.085
A2	0.047	0.071	0.094	0.042	0.067	0.092	0.061	0.084	0.091	0.064	0.085	0.085
A3	0.071	0.094	0.094	0.075	0.101	0.101	0.069	0.091	0.091	0.043	0.064	0.085
A4	0.039	0.063	0.087	0.025	0.050	0.075	0.023	0.046	0.069	0.035	0.057	0.078

Table 16. The ranking of alternatives

Alternatives	The Values of Si	Ranking
A1	0.277	3
A2	0.301	2
A3	0.330	1
A4	0.229	4

SOLUTIONS AND RECOMMENDATIONS

The findings show that the transparency is the most important factor in the criterion set as. Another important conclusion is that environment has the best degree in the alternative set. By looking at these issues, it is strongly recommended that banks should be very transparent especially in the crisis period. This situation has positive effects on the minds of the consumers. Therefore, it can be possible to increase the sales in this way. Another important point is that banks should mainly focus on environmental issues while making corporate social responsibility activities.

FUTURE RESEARCH DIRECTIONS

This study examines the corporate social responsibilities in the banking sector in the global financial crisis period. In the analysis process, fuzzy DEMATEL and fuzzy MOORA methods are considered. Therefore, by focusing on an essential topic by using original methodology, it is believed that it contributes to the literature. On the other hand, in the future studies, different approaches can be used in the analysis process, such as interval type-2 fuzzy logic.

CONCLUSION

In this study, it is aimed to evaluate the corporate social responsibilities in the banking sector during global financial crisis period. Within this framework, four different criteria are selected based on literature review which are transparency, speed, face-to-face communication and appropriateness to the purpose. In addition to them, four different alternatives are also defined for this purpose as well that are education, health, environment and art. Fuzzy DEMATEL approach is taken into consideration in order to weight the criteria. On the other side, so as to rank four different alternatives, fuzzy MOORA method is used.

According to the results of fuzzy DEMATEL method, it is determined that the transparency is the most important factor in the criterion set as. Furthermore, it is also concluded that the speed has the second highest important in the criteria set. On the other hand, it is also found that face to face communication has the weakest importance among the criteria. In addition to them, transparency is also the most influencing factor between the criteria whereas the most influenced criterion is the appropriateness to the purpose.

Moreover, regarding the analysis results of fuzzy MOORA approach, environment has the best degree in the alternative set. In addition to this situation, the findings also show that health is the alternative that has a second place in this set. Furthermore, education has the third highest significance. On the other side, it is also identified that art is ranked in the worst degree among the alternatives while comparing with other different alternatives.

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KEY TERMS AND DEFINITIONS

DEMATEL: The decision-making trial and evaluation laboratory.
MOORA: The multi-objective optimization on the basis of ratio analysis.
TOPSIS: Technique for order preference by similarity to ideal solution.
VIKOR: VIseKriterijumska Optimizacija I Kompromisno Resenje.

Chapter 2
Strategic Management to Prevent Money Laundering:
The Role of Effective Communication

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ABSTRACT

In this chapter, the SWIFT, which is the financial communication system used by all financial institutions, will be explained. Today, most of the countries and financial institutions take precautions to avoid money-laundering and financial crimes. The SWIFT system will be examined in relation with financial communication, compliance, money laundering, know your customer, and sanctions. Public became aware of the sanctions when HSBC has agreed to pay $1.92 billion dollars to state authorities in 2012 for transfering dollars illegally into US. Banks apply "Know Your Customer" procedures to avoid such risks. In relation with sanctions, precautions of SWIFT system will be defined. SWIFT has started a new application namely KYC Registry which enables to have necessary information about the customers in international trade, through cross borders. The reasons why this applicatiion must be used, how risk will be mitigated, by sharing information with maximum transparency and SWIFT's new KYC application will be defined.

INTRODUCTION

Globalization has increased integration and interaction between countries and companies located in different countries. Through integration the flow of goods has increased between different countries. In other words, international trade has increased as well. As trade increased, international trade finance, payment of goods, services between countries has increased, which required different currencies of payments to be transfered all over the world. Financial communication has increased as well. Along with the advantages, international trade risks and financial communication volume has also increased. Globalization has triggered money laundering activities through financial systems as well. This led international

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institutions, state officials and financial officials to take precautions to avoid money laundering, which can be defined as anti-money laundering process.

This paper aims to investigate the financial communication system, which is named as SWIFT system and the anti-money laundering procedure to avoid money laundering risks.

BACKGROUND

Society for Worldwide Interbank Financial Telecommunications (SWIFT)

The main system which is used by all financial institutions is called Society for Worldwide Interbank Financial Telecommunications (SWIFT). SWIFT is a non-state organization in the form of a cooperative serving financial sector for forty years, which enables a safe and secure system, where financial institutions can communicate with each other, transmitting payment orders and issuing letter of guarantees, letter of credits etc. via standardized SWIFT message types. SWIFT is a network, which is accepted as the most secure and trusted network system all over the world used not only by banks, securities institutions and by corporate customers as well (Scott, Zachariadis, 2017). Today SWIFT is an integral part of financial system infrastructure. SWIFT has been established in 1973 to replace the telex system. The telex/telegram system was not automated and was not standardized. It required a lot of manuel work, considering the ten thousand telex messages per day (Kuk, 2016) which is an average of 29.3 million FIN messages per day as of August 2018 and with total of 7.1 billion messages in 2017 (Swift.com, 2018). SWIFT had a large effect on profibitability and performance of banks (Scott, Van Reenen, & Zachariadis, 2017).

SWIFT has been established in 1973. In 1973 international trade volume increased to a total of 1 173 billion dollars. With total export volume 579 billion dollars and total import volume of 594 billion dollars as per World Trade Organisation statistics (World Trade Organisation, 2017). International trade volume was only 321 billion dollars in 1963. With total export volume 157 billion dollars and total import volume 164 billion dollars. Total international trade volume is 31 263 billion dollars covering 15 464 billion dollars of export and 15 799 billion dollars of import as of 2016.

With the increase in international trade, financial communication between financial institutions has increased accordingly. Along with the standardization of international trade rules set by international organisations like ICC, like Incoterms, payment terms etc to facilitate international trade with standard rules and to avoid risks like documentary risk in international trade (Meral, 2018). Globalization affected international trade positively. With the increase in international volume, an automated, secure system network which is in compliance with the international trade standard rules was a necessity for financial institutions. SWIFT was an innovative solution to all. It is a nongovernmental institution, can be defined as a cooperative of financial institutions, replaced the telex system which was previously used. Establishment of SWIFT emerged from the increase in international trade, which forced the system to replace it with a modern, innovated, automated, safe and secure system infrastructure. SWIFT has a co-operative status, located in Belgium, working with membership of financial institutions, provides a secure service system to financial institutions.

SWIFT, in complaince with the international trade rules has set standards for SWIFT messages as well. SWIFT has categorized all message types used in financial communication by financial institutions into 10 main categories as follows (Swift.com, 2018):

Category 1: Customer Payments and Cheques
Category 2: Financial Institution Transfers
Category 3: Treasury Markets - Foreign Exchange, Money Markets and Derivatives
Category 4: Collections and Cash Letters
Category 5: Securities Markets
Category 6: Reference Data
Category 6: Treasury Markets - Commodities
Category 7: Documentary Credits and Guarantees/Standby Letters of Credit
Category 8: Travellers Cheques
Category 9: Cash Management and Customer Status
Category n: Common Group Messages

The categorized messages, for instance category 1 messages starting with 1, cover only customer payments and related cheques messages, whereelse category 2 messages starting with 2 are used only in bank to bank payments, in other words financial institution payments among each other. For example, category 4 messages starting with 4 are about collections and cash letters only and messages created under this category are automatically subject to ICC Uniform Rules for Collections, latest version, currenctly ICC Publication No. 522E, 1995 Edition. Hence category 7 messages, starting with 7 messages cover letter of credit (documentary credits), guarantees and standby letters of credit. They are automatically subject to the latest version of ICC Uniform Customs and Practice for Documentary Credits, currently UCP 600 ICC Publication No. 600E, 2006 Edition. SWIFT cooperates with International Chamber of Commerce and other international organisations for applying new standard rules of international trade.

ANTI-MONEY LAUNDERING (AML)

Money Laundering

Money laundering can be defined as enabling illegal money to enter financial system by covering up the illegal source. Although the term has been started to be recently used frequently, it is not a new process. Chinese merchants have concealed their wealth from the emporers. Along with concealing they also moved their wealth out of the country by investing in far cities or in other countries to avoid confiscation (Seagrave, 1995).

According to US Senate, US$ 500 billion to US$ 1 trillion criminal income are laundered via banks annually of which half of the amount is through American Banks (US Senate, Nov. 1999) and (US Senate, 2001). Financial crime is increasing in UK financial institutions (Logic CMG Report, 2003). For example, it is claimed that in Russia, 400 banks and 47 exchange bureau are controlled by criminal groups. Russians worked with The Financial Action Task Force to apply effective international standard regulations to prevent money laundering (Agarwal, 2004). The Financial Action Task Force has declared that Mexican bank drafts, peso exchange market and electronic transfers were used as a technique to out bound currency smuggling to launder dirty money (FATF, 1988).

The word laundry comes from the ‘Dry Era’, the period of ‘Prohibition of Alcohol’ in United States between the years of 1929-1933. During the ‘Dry Era’ period, labor union of laundry services was controlled by bootleggers (Michigan History, 2016). For example, Detroit, a city with a border to Canada, which has started the prohibition earlier than the other states, has learnt bootlegging earlier than the other states. Al Capone, who claimed earning 100 million dollars annually from casinos and speakies claimed himself as a ‘businessman’ was sentenced for tax evasion after killing Chicago rival mafia members and died in prison (The Guardian, 2012). Al Capone owned a laundry services chain company which worked with cash only. Dirty money from bootlegging and mafia were added to legal income from laundry services. Illegal money was legalised through laundry services. This prohibition of alcohol period, namely ‘Dry Era’ caused corruption with the illegal money from bootlegging (Lerner, 2018). Bootlegging created so much money that gangsters along with bootlegging, had other criminal activities like narchotics, morphine, cocaine, heroine, gambling and organized crime of racket (Haller, 1990) and (Russo, 2001).

Mafia had so much income from illegal activities of organized crime, that it had a political and economic destructive effect on social and corporate life. Money laundering can be defined as the entry of the illegal, dirty money into the financial system as if it is earned legally. The amount of money laundered differs in the literature. For example, Agarwal has estimated that one trillion US Dollar is laundered annually (Agarwal, 2004), Stamp and Walker has estimated as 4.5 billion US dollars for Australia only and estimated that money laundering total might be US$ 3 trillion per annum since 2000 (Stamp, Walker, 2007). Unger estimated money laundered in Netherlands from 18 billion Euro to 25 billion Euro for 2004 and 2005 (Unger et al., 2006). Schneider’s estimate for 2016 is that organized crime value turnover is US$ 790 billion (Schneider, 2008). However, Reuter has disagreed with estimates available due to vagueness of such estimates although accepting laundery of hundred billions dollars per annum (Reuter, 2007). Baker has estimated illegal amount from US$ 1 trillion to 1.6 trillion per annum (Baker, 2007).

Such large amounts earned via illegal, criminal activities, including from terrorism, affects all countries, not only economically, security vise as well. It threatens the world. Criminal underworld activities are found in all countries. Money laundering involves all the countries. Money laundering is defined as transferring the illegal, criminal money into the legal financial system via money laundering by conceiling the source which might be drugs, smuggling, gambling, racket, kidnapping, robbery, procurement of women and children.

Money laundering can be defined as the entry of the illegal income usually cash namely black money, dirty money, illicit money earned from illegal transactions into the financial system by concealing the source of the income. Dirty money is different than grey-economy where there is tax evasion only. However with money laundering, dirty money, black money, illicit money from illegal activities is legalised. The criminal, i.e. money launderer conceals, hides the illegal crime income from the authorities and tries to legalise the dirty money by trying to show the origin different. With the money laundering, the dirty money enters into the financial system. Once the entry to the financial system is succeeded then the dirty money is legalised. The main reason of money laundering is to be able to use the illegal money from criminal activities within the economic system.

Money Laundering Methods

Money laundering methods can be summarized as smurfing method, structuring method, Shell banks, off shore centers, fake or shell corporations, dummy companies (companies which use cash), loan back (auto finance) system, exchange bureaus, casinos, false invoice/fictitious export and to move cash physically out of the country (Şekerbank, 2010).

Smurfing

In smurfing the dirty money is divided into small pieces, the aim is to lower the amount under the compulsory declaration amount in countries where applicable. The divided small amounts are distributed to a lot of people (smurf). People who received the small amounts after division deposit the cash into different branches of different banks. The distribution of money and spread into different parts are included into the financial system by losing its trace.

Structuring

Structuring method resembles smurfing method. It may not be possible to find too many people after dividing the large amount of money into smaller pieces. Then transactions numbers are increased. The large sum is divided into pieces and deposited into different branches of different banks with many transactions of small amounts.

Shell Banks

Shell banks are used for money laundering as well. Shell banks are banks without any service office in a country. They are only web based banks with a web site. They are not subject to supervision of any official authority or subject to official permission for registry for their banking transactions. Transactions via these shell banks make it difficult to follow the trace like shell companies.

Off Shores

Off shores is another method of money laundering. Off shore banks are subject to the laws of the countries where they are located. Other countries can not follow the partnership structure, organisation and transactions of off shore banks. Therefore money laundering investigation can not go further than reaching these countries. The off shore, tax havens provide confidentiality, politic stabilization, no taxation or very low taxation, freedom in capital movement, essential infrastructure for telecommunication, transportation and accomodation), specialized personnel or institution (consultant, lawyer etc).

Shell Companies

Shell companies are used to legalize dirty money by showing as if profit was made and by paying tax of the fictitious income the dirty money could be laundered. Shell companies might by valuable or invaluable estate or paper and might show higher revaluation with deliberate speculation. The shell companies, do not run any trade, production transactions. They are usually established off shore. They are not real companies, companies only on paper. During layering process, the money transfers are made through the shell companies. They are different than fictitious companies because the fictitious companies are also established for money laundering purposes but although the main aim is to money launder, there is a legal activity and a premise where it is located. However shell companies are only on paper. In other words although there is no commercial activity, they are shown as if they drive profit and dirty money from crime is injected into profit. After payment of income tax, the dirty money is transferred into the financial system. Only a few hundred dollars is sufficient to establish an off shore center.

Fictitious Companies

Fictitious companies are preferred to be in sectors where there is intense cash flow is like hamburger shop, gas station etc. Although a couple of legal transactions are done per week or per month, the dirty money is deposited into the company's cash account. With this methor the legal fund is mixed with the illegal dirty money and dirty money is concealed. It is not important for the launderers to earn money from these fictitious companies, in contrary it is prefer not to earn because as the companies legal earnings increase the laundered amount of money percent will decrease. As it is difficult to detect to find out how much sale was affected and accounting control is difficult in these sectors, it is possible to transfer dirty money via mixing with legal money.

Loan-back (Auto Finance) Method

Loan-back is another method of money laundering, also named as auto finance. In this method, dirty money which is already transferred to an off shore bank is used as collatarel. In other words, after having transferred the dirty money to off shore banks, they apply to a bank for a loan by requesting the off shore bank to guarantee repayment of the loan, by using dirty money as collatarel. After having received the loan, does not repay the loan and the bank requests payment of collatarel from off shore bank. With this way the dirty money layered and transferred to off shore bank is returned back to the country's financial system being laundered.

Foreign Exchange Office

Foreign exchange offices are also used for money laundering. Exchange offices can separate partially the dirty money from its original source. Small amounts of cash can be converted into big amounts of cash or other currencies. Some cash instruments like travellers cheques or personel cheques can be obtained through these offices. In some countries, foreign exchange offices can transfer funds. By changing the currency of the dirty money to another currency, the dirty money is moved away from the illegal origin.

It is easier to entegrate it to the financial system with changed bank notes. Against cash, other money instruments can be used. It is easier for exchange offices to transfer money. Exchange offices are not subject to strict supervision, therefore they are preferred for money laundering.

Casinos

Casinos are authorized to disburse loans, to extend maturity dates, to provide safe deposit boxes and endorse cheques etc. Money launders can place the dirty money into casinos and might request not to declare. After this stage the dirty money can be withdrawn anytime through casion cheques or might be transferred. The launderer buys tokens with dirty money. After gambling for a while, then returns tokens and receives bank cheque from casino, with this method the source of the dirty money can be shown as casinos.

Associations

Associations are another method of money laundering. Although they transfer large amounts of money, because they collect money for donation, they are not questioned. It is difficult to find out the origin/source of the fund. Donation transfers are not closely investigated as other transfers. Therefore it is easier for them to conceal the source of the illegal money via associations established for donations.

Fake Invoice/Fictitious Export

To use this method of payment, the launderer must be able to control a few companies in different countries. One of the launderer's company will buy product or service with exaggerated price from another company of the launderer. With this transaction, the exaggerative price will be laundered. Overpriced payment of transfers are used to conceal or to launder dirty money.

Funds Physically Transferred Out of the Country

The dirty money is physically transferred to other countries where there is not strict control. Money is usually carried by special couriers with suitcases. Although it is subject to either declaration or limited amount of cash is allowed to carry, illegally cash is carried with suitcases which are allowed in cabin are used for carrying cash outside the country physically to launder dirty money.

Banks and Financial Institutions

Banks and financial institutions are used for money laundering. Although banks have precautions to avoid money laundering, they are still used for money laundering. With the globalization and movement of goods and services, money transfer, movement of money between countries has increased too. With the technologic innovation, via swift system, it is much more easier to transfer money. In seventeen seconds via swift system, the transfer message is sent to the bank in the other country. Therefore banks are used for money laundering.

In summary, with the above methods, dirty money laundery can be classified under three main phases with an example of washing the dirty clothes with the washing machine example. First phase is placement method (placing the dirty clothes into the washing machine). The dirty money is transferred by placement, that is where money is inserted into the financial system, by all means like transfers, wire, depozits etc. Second phase is layering (dirty clothes are washed in the washing machine). In other words separating, or layering is where dirty money is concealed from its criminal source via many transactions. Last phase of the laundering method is integration phase (the washed and cleaned clothes are taken out of the washing machine to be used), where people find a reasonable explanation for dirty money to be transferred into the financial system via investment/acquisition of goods or assets.

Effects of Money Laundering

Money laundering is harmful for all countries. Money laundering effect economy and society negatively.

Economic Effects

Money laundering is harmful for economies of countries. First of all money laundering creates inconsistincy of money demand in the country. Growth rate –especially in developing countries- is inconsistent. Due to illegal, dirty money income, income distribution is not effected fairly. Income tax decreases and creates other problems.

Effects on Banking Sector

Banks have liabilities to be in compliance with anti-money laundering regulations. Along with the legal risks banks have reputation risks as well. Therefore money laundering has an important effect on banking sector. For example money laundering has an effect on deposit accounts, banks must forbit opening accounts without identifications which might result in decrease of deposit accounts. Also off shore accounts, known as anonymous accounts are also used for money laundering (Doğan, Er, 2016). For these reasons banks must avoid such transactions to avoid money laundering.

Increase in Inflation

Money laundering increases inflation in countries. Budget deficits triggers inflation. As money laundering transactions increase, it will also create budget deficits. As budget deficits increase, it will create inflation rate increase. Money laundering increases inflation because it increases grey economy as well. Furthermore for economic consistency and low inflation an effecient economic politics is required. If money laundering is low an efficient money politics and management is possible however if money laundering is high it is not possible to have an effective economic politics management. Therefore in countries where money laundering is low it will be easier to manage economic politics effectly which will lead to low inflation. However in countries where money laundering is high it will not be possible to manage effective economic politics, therefore it will cause high inflation, along with inconsistency (Us, 2004).

Social Effects

Money laundering affects social structure negatively and lastly the financial institutions activities are not effective or paused because of money laundering. As control on capital movements decrease, it will make money laundering easier. Money laundering will have social effects as well. Large amounts of dirty money from illegal activities will at the same cause corruption culture in the society. The society will be used to illegal activities with dirty money. The interaction between corruption and money laundering caused European Union, United Nations, World Bank etc to cooperate and to take necessary precautions to prevent money laundering. The relationship between corruption in the society and the unfair large income of dirty money from illegal activities have increased such organisations to increase their efforts to avoid money laundering all over the world (Miynat and Duramaz, 2012).

Financing Terrorism

Corruption will increase and with corruption terrorism finance and drugs traffic will increase. The most important effect of money laundering is that financing terrorism. Money laundering is used for terrorism financing as well. The precautions for money laundering was not sufficient to stop money laundering (Miynat and Duramaz, 2012). Only after September 11 terrorist attack, anti-money laundering efforts have increased. After the interaction between illegal, dirty money created from illegal activities and terrorism finance was realised. The sanctions, standard rules to avoid money laundering have been set.

International organisations like world bank, united nations, european union and all other related organisations along with countries must try their best to avoid money laundering and must cooperative with other countries for anti-money laundering processes.

Anti-Money Laundering

Following September 11, 2001 terrorist attack, anti-money laundering precautions have increased against money laundering. The dirty money which is earned via illegal activities is laundered by different methods as mentioned above. Money laundering is helping criminals to conceal their illegal source of income knowing that the good or income is created by a criminal, illegal method (The Financial Action Task Force, 2018). The dirty money is used in terrorist financing as well.

Anti-money laundering is very important for all countries. If money laundering can not be prevented, then it will threaten the country. Anti-money laundering is very important in preventing drug smuggling and crimes as well. The anti-money laundering preacautions can be grouped under four basic groups.1- Know your customer 2- List of suspects 3-To identify the customer 4- Other obligations (banks, private finance institutions, financing companies, leasing companies, joint ventures etc). Money laundering has become a global problem related with terrorism and drugs smuggling. Therefore anti-money laundering to combat with terorrism finance and illegal income from smuggling drugs etc has to be processed in cooperation with all the countries.

Tax income is another important factor for countries welfare. With money laundering countries lose their income tax as well. This is another reason for anti-money laundering. As money laundering increases, income tax decreases. Income tax is collected from legal income. Illegal income from smuggling means decrease of income taxes, decrease of customs duties and import taxes as well. Anti-money laundering success depends on cooperation between countries all over the world. International cooperation will increase success of anti-money laundering.

Anti-money laundering includes official regulations in financial system covering all parties involved including banks, financial institutions, securities dealers and all businesses which include money services. Not in compliance with anti-money laundering legal requirements might end up with sanction and punishments. The financial system had to pay large amounts of charges because they did not take the necessary actions to prevent anti-money laundering. According to Association of Certified Anti-Money Laundering Specialists (ACAMS), the charges has increased from $26.6 million dollars as of 2011 to $3.5 billion as of 2012. Some of the charges paid for not in compliance of money laundering regulations by the financial institutions are; MoneyGram Intl, $100 million in 2012, First Bank of Delaware, $15 million for violating AML laws in 2012. TD Bank NA was charged for $37.5 million in 2013, JP Morgan Chase Bank, was charged for $461 million for violations and deficiencies of AML compliance programs in 2014. Coutts & Company had to pay charges totaling £8.75 million between 2007 and 2010 (Bankers Online, 2010). ING bank paid $619 million for violating U.S. sanctions in 2012 (Reuters, 2012).

HSBC Case

The London based HSBC declared in their annual report of 2018 that they might have to pay an amount of exceeding $1.5 billion penalty again for Swiss private banking helping their customers to avoid taxes. The bank has already paid French authorities $370 million dollars for charges of tax evasion, following $ 100 million payment of charges to American Justice Department for currency transactions (Bloomberg, 2018). The bank has paid $1.92 billion punishment in U.S. for money laundering of drug money in 2012 (Reuters, 2012). Having paid all these charges, HSBC declared that they have taken the necessary precautions by implementing global standards and with financial controls to protect the bank, they have invested $1 billion in their IT infrastructure with the new systems to find out financial crime (Monroe, 2018).

MITIGATING ANTI-MONEY LAUNDERING RISK

De-Risking

De-risk is defined by Cambridge dictionary as ‘making something safer by reducing the possibility that something bad will happen and that money will be lost (Cambridge Dictionary, 2018). The World Bank defines ‘de-risking’ is termination of business relationships with small local banks and money service businesses by global financial institutions. For example, HSBC, having paid $1.9 billion for not in compliance of money laundering in 2012 has started de-risking program, and closed MSBs (money service businesses) with 30 days prior notice.

Barclays Bank Plc, having paid $298 million in 2010 for violations of Iran, North Korea, Myanmar or the sanctioned areas of Sudan (The Telegraph, 2010) and $2.5 million in 2016 for violations of Zimbabwe sanctions (European Sanctions, 2016), has terminated relationships with money service businesses in May 2013. The de-risking practise included Dahabshiil in Somalia as well. Somalia’s banking industry, due to the civil war, was not functioning. Therefore annual transfer of $1 billion to $2 billion was effected via transfer kiosks. Dahabshiil had a long term 15 year account relationship with Barclays. They exited for AML compliance from money transfer companies as de-risking practice (International Complaince Training, 2014). However, Dahabshiil Transfer Services, stopped termination by an interim injunction from High Court against Barclays. Dahabshiil's request for a transation period to find an alternative arrangement before ending the relationship with Barclays was accepted (Dahabshiil, 2013).

De-risking practices can be summarized as mass customer exit programs, global banks terminating relationships or certain businesses to avoid money laundering. De-risking practices force local banks and money service businesses out of the financial system. This practice might end up cutting off them from access to financial services in some areas. For example Caribbean was one of the most severely affected regions with 69 percent of decline in Correspondent Banking Relationship terminations (World Bank, 2015). The underlying reason of de-risking is avoiding risk and to comply with anti-money laundering rules however it might result as forcing transactions of small banks and money service businesses from regulated channels to unregulated channels (World Bank, 2016).

The Financial Action Task Force forty recommendations published in October 2016 cited supervisory penalties, changes in banks' financial risk appetites and anti-money laundering (AML) compliance costs as key drivers of de-risking (The Financial Action Task Force, 2016). After having paid large amounts of money fornon compliance with The Financial Action Task Force rules, global banks like HSBC, Barclays have terminated their correspondent banking contracts with small countries. However these small local banks of small countries do not have another option other then the legal system. The correspondent banking relationship for them is very important to enable them to effect international payments.

Following the de-risking practices, the World Bank Group and Association of Certified Anti-Money Laundering (ACAMS) published a report with the recommendations summarized as: greater clarity and consistency about regulations, greater transparency on regulators dealing with noncompliance and standard regulations for global compliance. Furthermore, they have proposed to have a direct communication between compliance departments of banks and that global banks should be transparent about their reasons of terminating their correspondent banking relationships with local small banks and money service businesses (World Bank, 2016).

However global banks had their own reasons to apply de-risking practices. The Financial Action Task Force's guidance published in October 2016 about Correspondent Banking Services, had severe penalties for banks in anti-money laundering (AML) and compliance costs triggered de-risking practices (The Financial Action Task Force, 2016). After publication of The Financial Action Task Force guidance in October, the Basel Committee, revised a consultative document note, proposing revision on 'Management of Risks Related to Money Laundering and Financing of Terrorism', where they warned that a decline in correspondent banking with de-risking practices might affect international payments, which might result by payments to be effected via underground (Basel Committee on Banking Supervision, 2016).

As a result, as per the World Bank and Basel Committee on Banking Supervision suggestions, it can be said that mass de-risking practises, like customer exit programs for anti-money laundering are not solving the problem. By termination of the correspondent banking or relationship the risk does not disappear, only moves into alternative methods. So global banks must take into consideration of World Bank and Basel Committee on Banking Supervision advices about de-risking practices and instead look for alternative solutions like Risk-Based Approach and Know Your Customer.

International Sanctions and Complaince

The Financial Action Task Force (FATF)

The Financial Action Task Force (FATF), has been established in 1989 within OECD organisation by G-7 countries that is United States, Japan, Germany, France, United Kingdom, Italy and Canada, to prevent money laundering globally. Following September 11, 2001 terrorist attack it has included to their mission to combat against terrorism as well. The Financial Action Task Force is an international intergovermental institution which sets international anti-money laundering standards and counter-terrorist financing measures. The Financial Action Task Force has 32 member countries as follows; Australia, Australia, Austria, Belgium, Brazil, China, Denmark, Finland, France, Germany, Greece, Ireland, Netherlands, Spain, Sweden, Switzerland, Italy, Iceland, Japan, Canada, Luxembourg, Switzerland, Mexico, Norway, Portugal, Russia, Singapore, Turkey, New Zealand, Greece, the European Commission, the Gulf Cooperation Council. The Financial Action Task Force periodically audits and evaluates member countries for their moneylaundering and terrorism finance precautions systems. The Financial Action Task Force (FATF) has set standard rules in financial crimes. The standards are known as the FATF Forty Recommendations. The standard forty recommendation are accepted by all member countries.

The FATF Forty Recommendations: International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation - The FATF Recommendations

The Financial Action Task Force has developed international standards to prevent money laundering and finance terrorism publication, "International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation - the FATF Recommendations". The Financial Action Task Force publication "The FATF Forty Recommendations" was first published in 1990 and revised from time to time to update as per the progress, latest version is published in 2012 (The Financial Action Task Force, 2012). The first version was wublished in 1990 to cobat against drug money laundering. The revision in 1996 covered international money laundering standards accepted more than 130 countries. The last version covered counter-terrorist financing standard rules. Terrorism financing and money laundering combat requires systems to be monitered regularly and evaluated as per the international standard rules set by The Financial Action Task Force.

The 'Forty Recommendations' standards set by The Financial Action Task Force are universal, standard rules which are recommended to be applied all over the world. The Financial Action Task Force periodically evaluates member countries' systems for precautions of money laundering and terrorist financing. The evaluation process generally covers; whether the member country's system of combating money laundering and terrorism financing are in compliance with the Forty Recommendation and AML (anti-money laundering) and CTF (counter-terrorist financing) standard rules. Following The Financial Action Task Force's regular site visit of the member country is followed up regularly. If any non-compliance issues with the The Financial Action Task Force Forty Recommendation standard rules are found during the regular visit and if the said country does not make the necessary amendments to comply with the FATF Forty Recommendations compliance issues, the membership might be suspended or even ended by FATF (Financial Action Task Force, 2018).

The Financial Action Task Force Forty Recommendations, Standard Rules are accepted globally, have been recognized by IMF (International Monetary Fund) and the World Bank as well. The international standards to combat money laundering and terrorism financing can be classified under four main groups. 1. First group covers rules of Legal Systems; The Scope of Laundering Crime, Temporary measures and confiscation. 2. Second group, coveres measures to be taken by financial institutions and non-financial occupations; Customer Recognition and Storage of Records, Suspicious Transaction Notice and Compliance, Laundering and Other Measures to Prevent Terrorism Financing, Measures to be taken towards The Financial Action Task Force Recommendations (not enough), Regulation and Control. 3. The third group, covering Corporate and Other Measures for Combating Money Laundering and Terrorism Financing; Competent Authorities, Duties and Resources, Transparency of legal entities and arrangements in this respect. 4. The last group of standard rules cover International Cooperation; Mutual Legal Assistance and Return of Criminals, and other forms of cooperation. The revised version covers the additional eight special recommendation about terrorist financing along with Forty Recommendations of money laundering. The Forty Recommendations set standards for all countries, covering all members to measure their criminal and regulations systems, to take the necessary actions to prevent money laundering and terrorist financing. These precautions are to be taken by financial institutions, other related businesses and international co-operation.

The Office of Foreign Assets Control (OFAC)

The Office of Foreign Assets Control (OFAC) has been established in 1950 in US Treasury. Previously named as Office of Foreign Funds Control (FFC) was established just prior to WWII in 1940 for preventing Nazis to use occupied countries' belongings. The Office of Foreign Assets Control is established to implement and manage economic sanctions against countries or groups identified as being in the traffic of terrorist or narcotic activities. These sanctions may vary from such as the blocking of economic assets of these persons or countries and the application of restrictions on their trade. Many countries and international organizations need to take various measures, in particular to control money laundering and terrorist resources. They have also been in close cooperation in this field and have made serious contributions.

Although The Office of Foreign Assets Control is US based, it must be considered it is based on the framework of United Nations sanctions applications. Many countries that support these practices are also monitoring the work that can be done with those who are included in this list. Traders will be able to see what kind of applications are done if it is in the list of objectionable countries, persons or institutions, by clicking on the sanctions section under the resource-center (The Financial Action Task Force Treasury, 2018).

The Office of Foreign Assets Control (OFAC) Sanctions Lists

The Office of Foreign Assets Control (OFAC) publishes an updated list of Specially Designated Nationals and Blocked Persons List (SDN) on the web page. The list consists of not only companies individuals as well who are acting on behalf of targeted countries. The list covers not only the countries, terrorists and narcotics smugglers as well. If detected, their assets are blocked. As per the TWEA (Trade with the Enemy Act) Law, U.S. citizens are prohibited dealing with them. The sanctions list are mainly based on United Nations and created with multinationally with allied governments.

SWIFT and Sanctions Screening

Financial communication among financial institutions has increased so much that it is nearly impossible to control millions of transactions per day manually. The SWIFT system has an online sanctions screening service for all types of incoming and outgoing messages, cross checking with sanctions lists including OFAC and European Union as well. Financial Conduct Authority has recommended companies to have procedures to customer due diligence and monitoring as well (Financial Conduct Authority, 2018) and has advised the following factors to keep into consideration for anti-money laundering precautions. First of all jurisdiction, The Financial Action Task Force (FATF) lists of jurisdictions with weak money laundering controls and lists of territories where no national laws on combating money laundering. These countries/territories are known as non-cooperative territories/regions. Second factor is the political status, also is a potential high risk customer because they are potentially involve in corruption, covers their families and their colleagues as well. Also institutions frequently in media are also potentially in higher risk for financial institutions. Third factor is the industry type, FATF forty recommendations the industries of dealers in precious metals and stones, trust and company service providers, embassies, money service businesses, casinos and internet-based payment services as potential money laundering sectors. They must be considered as high risk customer by the banks. The forth and the last factor is the product type, that is some products are also in high risk group and these clients dealing with these products must be closely watched. The products with high risk are foreign correspondent banking, remote deposit capture, prepaid cards, electronic funds transfer and private banking. Swift offers online sanctions screening (Society for Worldwide Interbank Financial Telecommunication, 2018) for incoming and outgoing swift messages. Online sanctions screening covers 30 sanctions list, including OFAC, United Nations, Europe etc.

Know Your Customer Regulation

Financial Service Authority (FSA) in their paper 'Banks' Management of High Money-Laundering Risk Situations in June, 2011 (Financial Service Authority, 2011) stated the three main points as follows: First, some banks did not want to exit profitable business relationships, some banks were willing to accept money laundering risks. Second, half of the banks visited by Financial Service Authority (FSA) could not provide identify/record information about customer, one third of them and some of the banks did not have sufficient anti-money laundering risk assesments neither. As per Financial Service Authority Report, financial institutions must know their customer to control money laundering. Financial Service Authority advised the banks that the best way to control money laundering was that to know their customer, by obtaining customer information and second advice was to assess products and services of their customers' to identify money laundering activities (Financial Service Authority, 2003).

Especially after September 11, terrorist attack, The Financial Action Task Force's priority was to prevent international money laundering and counter-terrorist financing. Banks were alarmed with the reports and tried to prevent money laundering by using The Financial Action Task Force standard rules. Financial institutions use SWIFT service for wire transfer messages, therefore The Financial Action Task Force's standard rules are important for transferring funds all over the world via SWIFT system as well. Due to legal requirements of banking legislation like data protection acts etc it is not easy to have access to information. Therefore access to communications always created a tension between telecoms companies and intelligence communities (Diffie and Landau, 2010).

SWIFT is an international cooperation establishment reflecting at the same time avoidance of dependence on US power (Sinclair, 2012). With globalization, it is discussed that world organisations rule our world and being and international organization SWIFT is also used as 'the glue for capitalism and the stick for sanctions enforcement' (Weiss, 2013) and (Willke, 2007).

Following September 11, The Financial Action Task Force authorities wanted to cooperate with SWIFT about money laundering of illegal money to find out illegal activities via financial communication through SWIFT messages. US officials requested to investigate track of funds transferred via SWIFT under the Terrorist Finance Tracking Program (US Treasury, 2018) and (European Commission Home Affairs, 2018), however although SWIFT had refused that they were not allowed to share bank data to third parties, they had to share it when the data was requested with subpoenas from court. SWIFT news sharing data was published on newspapers (New York Times, 2006), (Wall Street Journal, 2006), (Los Angeles Times, 2006), and (Washington Post, 2006) dated 23 June 2006. Following this, SWIFT tried hard and in 2007 succeeded with Safe Harbor status which was agreed between the US Department of Commerce and the EU, for US organizations to comply with the EU Privacy Directive (US Department of Commerce, 2018).

Furthermore, SWIFT by developing SWIFT's global messaging infrastructure in 2007, for customer contract transparency. Agreed the messaging infrastructure is to be divided into two different data zones, enabeling messages for Euro zone only, for European swift centers, and the second one for US and Europe operationg center. With this method, messages within Europe never entered US Jurisdiction area (Society for Worldwide Interbank Financial Telecommunication, 2007). By 2010, dual-zone messaging implementation was completed as agreed in 2007 (Society for Worldwide Interbank Financial Telecommunication, 2010). At the end of November, 2010, the European Council of Ministers agreed an interim arrangement to allow continuing transfer of European data to the US (Taylor, 2010) and (EU Council, 2009). However it was not accepted in European Parliament in February 2010 (European Parliament, 2010) and (The New York Times, 2010).

EU and US agreed on a revised EU-US Terrorist Finance Tracking Program (TFTP) Agreement, in July 2010 (Society for Worldwide Interbank Financial Telecommunication, 2010). The revised agreement which came into force as of 1 August 2010 (US Treasury, 2010) allowed Europol to review and control the transfer of data, an EU representative in the US to monitor data processing, a prohibition on data mining or the like, a right of redress for European citizens, and rules about data retention and deletion (European Parliament, 2010).

SWIFT and Know Your Customer (KYC)

Dirty money is mainly laundered via banks. Anti-money laundering process must cover all financial institutions and especially banks. Basel Committee on Banking Supervision (BCBS,) has advised all banks the KYC standards and implementation in their report of 2001 (Basel Committee on Banking Supervision, 2001). Banks must make the necessary arrangements for anti-money laundering. The must important method as advised by Basel Committee on Banking Supervision is Know Your Customer (KYC) standards and implementation of a systematic control in Banking System. Along with Basel Committee on Banking Supervision, the Financial Conduct Authority, has also defined that 'Know Your Customer (KYC) procedures and ongoing monitoring application is the most effective way for Anti-Money Laundering (Financial Conduct Authority, 2016).

SWIFT has implemented a new application which enables banks to be able to use the system. The SWIFT has implemented a Know Your Customer (KYC) Registry system. The system is run by SWIFT. Anti-money laundering can be avoided by strict precautions in the financial system. Banks can upload a standardized set of documents for due diligence. Due diligence is defined as "The detailed examination of a company and its financial records, done before becoming involved in a business agreement with it." (Cambridge Dictionary, 2018). The information after being checked and validated by SWIFT the information is shared with approved users. Currently the SWIFT KYC Registry system is used by the majority of the banks, that is who create 70 percent of swift message. The system is sait to be mitigating financial crimes list with an affordable cost and work load (Bank of America, 2018). The SWIFT KYC Registry system might be of assistance for correspondent banking relationships as well as after September, 11 terrorist attack global banks had to terminate their correspondent banking contracts in certain regions. However, this precaution might cause other problems like the conversion of the transfers to other methods of which there is no control.

Solutions and Recommendations

Combating Money Laundering and the Financing of Terrorism and Proliferation is a not only the member countries' problem, there are more than two hundred countries and only 32 of them are members of The Financial Task Force (FATF) member. All the countries must accept the FATF-forty Recommendations to succeed in combating money laundering and terrorism finance. The necessary precautions including the technical infrastructure investment and using SWIFT's financial crime complaince applications will help to reduce money laundering and terrorism finance.

FUTURE RESEARCH DIRECTIONS

Financial communication has increased with the international trade volume increase all over the world. As technology faciliated movement of goods, services and money money laundering has also increased. The amount of money laundered varies in the literature. With the precautions, compliance standard rules and sanctions it is expected that the amount of money laundered will decrease. Future researches about the effect of the precautions might help. Further research about the reasons of not applying international standard rules of complaince in some reasons and countries will also help future researches.

CONCLUSION

Financial communication system used by financial institution is called SWIFT. As international organisations set standard rules to facilitate international trade to increase international trade volume, financial communication has also increased withing the financial system. At the same time, international organisations are trying hard to set standard rules for combating illegal, dirty money earned from illegal activities, to enter the financial system, that is money laundering and terrorist financing. To take necessary actions for precautions and to comply with the international rules and to avoid sanctions is very important for financial institutions. To avoid sanctions and high penalties of millions of dollars, global banks cancelled correspondent bank relationship contracts by mass exiting from certain areas, to de-risk. However to cancel the correspondent banking contracts for anti-money laundering purposes has a further risk of the fund transfers to be effected which is not controlled at all. Therefore the Basel Committee, experts recommend all banks to apply international standart rules and precaution methods like online sanctions screens, Know Your Customer Regulation to avoid anti money laundering and terrorist finance. Therefore it is recommended that non member countries should also apply FATF Forty Recommendations and financial institutions, especially banks and all other institutions dealing with money transfers, goverments must invest for technologic infrastructure, including SWIFT sanctions screening and to apply for Know Your Customer utility, to comply with sanctions and to be successful in combating Anti-Money Laundering and Terrorist Financing. Furthermore international organisations like World Bank financing such infrastructure, technical investments might help the countries which are still not using these international standards.

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KEY TERMS AND DEFINITIONS

AML: Anti-money laundering are the precautions to avoid money laundering.

De-Risk: Global banks practices of mass exit or termination of correspondent banking services for anti-money laundering purposes.

KYC: Know your customer regulation is the most important precaution method of anti-money laundering, banks must know their customer very well, to justify the income and otherthings to avoid money laundering.

OFAC: Office of Foreign Assets Control.

Sanctions: FATF lists countries with weak anti-money laundering regimes and identifies jurisdictions to combat moneylaundering and terrorist financing.

SWIFT: Society for Worldwide Interbank Financial Telecommunication, financial communication system used by financial system, all the banks, has a cooperative status, based in Belgium, sets international swift message rules with related parties involved.

Chapter 3
The Importance of Customer Loyalty With Corporate Governance in the Telecommunication Sector:
A Case of the Telecommunication Sector

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ABSTRACT

The telecommunication sector is a sector which is open for development. It is important to analyze the strengths and weaknesses of organizations by using different strategic management techniques. The purpose of this chapter is to emphasize the importance of customer loyalty and to bring forth the key factors to create customer loyalty in communication sector and to understand the corporate actions of organizations apply when creating loyalty. At the same time to test the factors that create loyalty from the customers' perspective, investigation of the strategies applied for loyalty and the effects of customer loyalty programs. Therefore, the questionnaire study was made with 200 participants. T-test, anova, correlation, and regression analyses were applied to the data. This survey has the purpose of determining and investigating the dynamics and the factors that create customer loyalty in corporate governance. The results show that customer protection is crucial for companies. The most important factor of customer protection, which is loyalty, is shown to be linked with corporate actions.

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INTRODUCTION

The company determines the goals that wish to achieve, sets some goals, determines the extent to which they want to reach them, when they want to achieve them, and identifies the tools they need to use to achieve it. Especially the telecommunication sector has developed rapidly.

According to Collier (2005) corporate governance is defined as ‘The system which companies are directed and controlled. Corporate governance have to develop new strategies in order to be able to survive and compete with other companies. Due to this fast-growing and rapidly changing sector, the fastest adaption will bring success.

There are many factors that effects customer loyalty. Companies in telecommunication sector need to be able to make a difference regarding their competitors with successful strategies. Customer relationship management is an important factor in both allowing the firms to hold within the telecommunications market and lead their direction of the strategies they are in.

Before defining what customer loyalty is one must first define what the customer is and how important it is to a company. The customer can be defined as a person who buys the goods or services of the companies, make up the revenues, allows the companies to remain in the market (Demirbag, 2004). For companies, especially for Telecommunication companies, customers are the most important stakeholders. Many theories have been developed to influence customers because customer relationships are the most important part of a company’s marketing system. In the competitive business environment, companies need to be able to manage an advanced level of customer relationship management that can establish and manage long-term relationships to achieve maximum performance (Demirbag, 2004).

Corporate actions like customer satisfaction plays an important role for companies in order to achieve goals such as sales and profitability.

For this reason, CRM has emerged and became very important for companies (Ovali, 2014).

CRM is not a new concept, but lately it was successfully implemented with different strategies. CRM systems also bring many advantages. Organizations through these systems can;

- They can determine the best customers and their best options and protect good customers for years to come
- They can create the best model for customer needs
- They can create profitable customers by specifying their properties
- They can predict exactly when and what customers will receive
- They can predict the products for the future.

Corporate companies controls two important factors for the company as a result of the right CRM application; customer centric sustainability and change costs. Customer-centered companies attach importance to customer ideas; they obtain the clearest, transparent information from the customers and use the obtained data to shape their needs. It is safe to say that any company that is customer-centered and who listens to the voice of its customers would definitely turn profitable (Odabaşı, 2004). Keeping existing customers is a more profitable process than trying to find new customers. The main purpose of CRM is to establish long-term relationships with customers. The key outcome of CRM is to improve performance through profitability and customer loyalty and satisfaction (Demir & Kırdar, 2000).

Conversion Cost; The conclusion of relationship between a business and a client has negative consequences for both parties. One of the most important ways to avoid negative results is to prevent the customer from switching to a competitor firm. Conversion cost is the economic and psychological costs due the transition from one option to another (Özer & Aydın, 2010). Conversion cost can be explained as follows; if a customer has a contract with a business and said person can not respond positively to the offers from competitors, the company is said to avoiding the cost of the exchange. The conversion cost can be analyzed in two ways; i) theoretical, ii) practical. From a theoretical point of view, the conversion cost is a very important opportunity for customer preservation prediction. From a practical point of view, one of the most important strategic factors that mature the strategy of preservation among customer loyalty programs is the conversion cost (Aydın, Ozer, & Arasil, 2005).

This study was derived from Murat Guler's post graduate thesis which is accepted in 2015 in consultancy of Asst. Prof. Hilal Çelik at The Social Sciences Institute of Beykent University.

CUSTOMER LOYALTY

Definition of Customer Loyalty

In todays competitive economy CRM became the most important tool to result in customer loyalty. The ease of access to information and fast dispersion of imitation products due to advancement in technology has made it hard to present a unique sales recommendation. Since many properties that are the reason for choosing a product also exist at the competitors, companies are looking for different ways of attracting customers. It is of utmost importance to attract customers while keeping customers at hand (Demir & Kırdar, 2000, pp. 293-308).

Customer Loyalty is the commitment to a company firm not to a sale nor a special offer. Customer Loyalty can be conceptualised as a positive tendency of a customer to a product.(Gülçubuk, 2008). Customer satisfaction is one of the concepts that guarantee loyalty in the competitve and hard business world. In general, there are three types of customers in terms of customer loyalty. The first category includes non-loyal customers. The second category is for customers who are forced to be loyal due to some reasons. The third category is those who do not consider changing the firm in any circumstance, who have positive feelings and thoughts towards the company and who have voluntarily selected the company and positively advertises the company to others (Durukan & Bozacı, 2011).

Firms can not maintain success in the business world and in long-term relationships without keeping the existing clients at hand. For this CRM has the highest level of importance for creating customer loyalty. The main purpose of CRM is not just to attract new customers but to keep them at hand and turn them into loyal customers (Onaran, Bulut, &Özmen, 2013).

Customer Retention and Concept of Loyalty

It requires more resources for a company to obtain new customers rather then keeping the ones they have at hand. It is from 20% to 40% more costly to attract new customers, compared to low price focused existing customers. At the same time price change is a less effective concept on loyal customers(Aksoy, 2012, s. 79-90). Another study that supports Aksoy's work has found out that a 1% increase in customer preservation increases the companies value by 5% (Erk, 2009).

Firms reduce the costs of acquiring new customers with relational marketing methods. These methods allow both the client to stay connected with the company and stay in long-term relationships with them.. As a general perspective, customer preservation is the stepping stone of customer loyalty. It prevents customer loss and creates the most important property for loyalty: therefore these two concepts are rather linked (Abdolhossemi, Miremadi, & Aminilari, 2012).

Importance of Customer Loyalty In Organizations

The old business model is the traditional stocking model based on budgeting that focused on handling the current operation on a daily basis and reducing costs, aiming profitability and resource management. In todays world this model left its place to a model based on customer and demand, that seeks not just profit but long term relationships. After creating a value from the customers perspective, both the customer and the seller can benefit from long-term relationships (Christopher, Payne, & Ballantyne, 2002, pp. 4-16). From the client's value, loyalty and profitability are two strongly linked concepts and these can be calculated by the cash flow chart. For example, faithfulness depends on creation of value, so it affects both cause and effect. Consequently, loyalty leads to some economic consequences that are closely linked to business systems (Reichheld, 2001).These are as follows;

- Because the best customers are directly involved with the business plans of the firms, they must be more selective with their new customer obtaining and must be motivated for continuous improvement. Thats why, loyalty is influential in market share and resource growth
- Organizations can keep their best employees at hand through continuous growth. Also, businesses can increase employee loyalty by using rewards and satisfaction events, which can affect customers by showing value at a higher level.
- It is useful for a long-term employee because long-term employees know how to keep customers in the world for a long time, reduce costs the most and improve quality with superior productivity.

Even though the profitability is important this model is not based on profitability. It is a motivation for the employees and investors to stay loyal. Therefore it is inevitable to create values for customers to generate cash flow and increase profitability (Reichheld, 2001). Moreover customer loyalty is useful concept in competitive advantage, increasing operating performance and reducing risks to a minimum. Customer loyalty also affects profitability since loyal customers buy more often. The fact that these customers are more collaborative in comparison with other customers gives mutual benefit to both the customers and the businesses and increases the competitiveness and minimizes the transaction costs and risks (Başok, 2003).

Customer loyalty contributes assets to companies such as price elasticity, low relationship costs, profitability with time, new customers through old customer recommendations, low sales and promotions. On the other hand, not only companies but also customers benefit from loyalty, because loyalty saves customers the trouble of conducting research in terms of promotions or financials (Durukan & Bozacı, 2011).

While developing customer loyalty the first step is to differentiate customers with respect to their profitability. By making this differentiation more valuable customer should receive more resources. For example generally customers can be placed in these groups:

- Golden Customer (Most valuable,Loyal customers),
- Golden Candidate Customers (En fazla büyüyebilen sürekli müşteriler),
- Customers,
- Potential Customers.

The first two groups are the ones that can increase profitability the highest. Highest portion of marketing budget should be spent towards them. Especially, crossselling applications and loyalty promising services should be offered intensely to the gold candidate customers group. In the obtainment of customer loyalty, it is necessary to examine the customers after purchase behavior and to understand the reasons for their satisfaction. (Odabası, 2004)

Corporate Governance With Customer Loyalty

There are some strategies that are crucial for companies to preserve, satisfy, prevent change, and provide customer loyalty. Strategies and factors that are effective in creating customer loyalty in this sector; relational marketing, implementing customer obtaining programs, giving importance to service quality, trust and corporate image (Aydın, Özer, & Arasil, 2005).

Structure of marketing depends on physical distance, competition, time and markets change and these factors cause fundamental changes in marketing practice. Since the past, businesses have generally used commodity marketing called 4P (product, price, place and promotion) (Erdoğan, Tiltay, & Kimzan, 2011). In this marketing method, which is called Traditional Marketing, the concept of selling the product is the main focus rather than customer loyalty and satisfaction. But in the last 20 years, this has changed with the way companies turn their directions into relationships. As a result of this restructuring, companies has left traditional marketings place to relational marketing. Relational marketing, supported by modern enterprises, can be defined as a concept that enables long-term relationships with customers and companies to make long-term plans (Erk, 2009).

Organizations trying to establish, develop and maintain relationships with customers achieve success through relationalmarketingbecause it is long-term focused. The objective of relational marketing, which promises long-term relationships and offers quality to its customers, is long-term satisfaction. For this reason, relational marketing is a key factor in improving customer service quality and data aggregation by making a commitment to buy a product again and then increasing communication to prevent customers from changing their minds. (Kulabaş & Sezgin, 2010)

LITERATURE REVIEW

It can be said that there are a lot of studies about customers loyalty and GSM sector.

Barutcu in his "Customer Loyalty in the GSM Industry (2007)" study, he noted that communication quality, communication cost, cost of switching and service diversity are important influences on the loyalty to GSM operators. (Barutcu S., 2007)

Dulgeroglu and Kurtuldu researches Telecommunication Sector in Turkey with Mobile Number Portability in 2017. This research states that customer satisfaction is one of the important factors that affect the formation of customer loyalty. They have stressed that businesses and brands must endeavor to increase customer loyalty through marketing activities that enhance customer satisfaction. (Dulgeroglu & Kurtuldu, 2017)

Another researcher Uzunkaya studied, Brand Loyalty's Re-Intention Impact and work on the GSM Sector in 2016. This study revealed that the brand loyalty has a positive effect on the intention to re-purchase. It would be beneficial for companies to make their customers loyal by meeting their expectations and wishes. (Uzunkaya, 2016)

Another researcher Sahin studied "Role of Brand-Customer Relationship Quality in Brand Value: In the Mobile Communication Sector study in 2014, the researcher mentioned that GSM operator brands can realize brand values and brand-customer relationship qualities by increasing perceived value and quality. (Sahin, 2014)

Tayyar and Isık, According to the results of "Structural Equation Model Analysis of the Relationship Between Service Quality and Other Variables in GSM Sector" in 2013, state that it was seen that customer satisfaction is the most effective tool on customer loyalty, it is followed by service quality, perceived value, image and price. The highest impact on the perceived value is the price, followed by service quality and image. According to these findings, GSM operators have to improve their service quality and prices in order to have loyal customers. (Tayyar & Isık, 2013)

When the literature is searched, it has been determined that similar research results have been obtained about the formation of customer loyalty in the GSM sector. The results of the research on the mobile communication shows similarity to those in the literature. According to the analysis of the main purpose of the research, customer satisfaction is directly related to satisfaction. There is a meaningful and direct positive relationship between satisfaction and Satisfactory factors and brand loyalty. Service Quality Corporate Image, Customer Value Perception, Price are determined as the main factors according to the research results.

Organizational Strategy With Complaint Evaluation

Customer complaints can be explained as psychological movements and behaviors that cover factors such as cause, motivation and direction of behavior. Companies that want to maintain long-term relationships and customers at hand should feel valued for their customers. But no company can satisfy customers 100% because there is always a reason for dissatisfaction (Zhang & Zheng, 2009).Long-term relationships with customers influence their perception, and these customers tend to change their view of service quality and complaints behavior. It may also be the case that the campaigns or the customer that triggers the change process want to switch to a new product (Uzunoğlu, 2007). But one of the key triggers to switch from one operator to another is a high price. A research by Zhang and Zheng in 2009 showed that direct complaints increased by 1%, loyalty increased by 0.312%. However, if the direct complaint is reduced by 1%, the loyalty is reduced by 0.490%.This research shows how important it is for customers to complain to customers. As a result, direct complaints and customer satisfaction are interdependent in terms of positive and communication firms must encourage customers to express their complaints in order to improve the situation resulting in dissatisfaction because it is to create loyal customers by avoiding the objective dissatisfaction of complaints management (Uzunoğlu, 2007).

Information Technologies and Data Base Marketing

CRM is a mixture of people, technology and processes, and is a customer-focused concept. In literature changes linked to information technology (IT) and organization have been frequently examined. Mass marketing concept has changed into customer preservation-based approach due to the competition.

Data based marketing is a knowledge-based customer and future oriented marketing application. With the advancement and increasing usage of computers that create the basis of this marketing model, it is now possible to record and use personal data of millions. Data based marketing is firstly a process to obtain enough information about customers at hand and usage of this information to encourage repetitive sales and create a sustainable relationship (Rob & Poul, 1995).

Data Based Marketing has become an important application in todays market. Data based marketing can be examined as a 5 step process (Hepkul &Kagnıcıoğlu,1992).

1. **Identification of Customer Candidates:** During the first stage of the database marketing process, customers and prospective customers are identified. The business can collect customer names from its internal resources such as guarantee documents, registration cards, accounting records Advertisements in the media, such as magazines, newspapers, and the internet, can lead customers to receive additional information via coupon, answer card, telephone, fax or e-mail.
2. **Creating Customer Databases:** After identifying customers and candidates at this stage, the name, address and other information must be uploaded to a database.
3. **Analysis of the Data:** At this stage we focus more on Customers and identify customer groups with similar needs for different products. In this phase, the use of Data-Based Marketing makes more precise segmentation and more specific targeting. It also allows customers to have full access to the company's contact information at any time (Stone, 1995). The database used at this stage can provide significant benefits. For examplethe database can be used to identify the market target, segmentation and target market selection.
4. **Coordinated Customer Communication**: The way this phase works is as follows: The campaign starts with planning. By defining the market interval with the help of the database, the needs of the potential customers in the target market, the ways to communicate with them and the reactions of the customers are investigated. The target market is divided into sub-divisions and the approach suited to them is determined. These types of communication are suitable for telephone, fax, mail, face-to-face communication, internet, catalogs or their customer groups.
5. **Integrated Marketing Approach:** At this last stage, customer database is used in harmony with marketing and other lower departments. All units are automatically provided with information flow in a closed loop and benefit from the data base. Each functional sub-system automatically receives the necessary information from the other sub-systems, so that it is not possible for all functions to take the necessary information directly.

Innovation technology companies that provide internet and ease of use of these services supports service delivery and value creation for customers. This way it benefits companies, employees and customers. Companies that use simple technologies maintain customer loyalty by providing a continuous quality, thus increasing customer loyalty. Customer loyalty and sustainable profitability can be achieved as a result of using knowledge effectively. Knowledge can be transformed into a useful technology as a result of successful implementations (Ekinci, 2004).

Information gathered from existing or potential customer data base forms the projects and marketing plans of the company. For marketing plans to compete and create loyalty, companies should receive information about their customers (Bozkurt, 2004).

Database marketing and technology is now being used in many industries and banking in Turkey is being implemented in many sectors such as retail or telecommunications.

For this reason, this concept is one of the most useful tools that can be used to improve quality and long-term customer relationship for companies using IT-based marketing applications (Aydın, Özer, & Arasil, 2005).

Customer Satisfaction

Customer satisfaction in the literature; the purchasing stance and customer loyalty. Customer's purchase preference is a habit and satisfies that habit affects positively. Satisfaction can be conceptualized as a general customer feeling felt by a service provider in the communications industry. Customers with a high purchase rate are considered satisfied by the services. Customer satisfaction is an important factor affecting customer loyalty. In addition, satisfaction is directly linked to commitment. It creates loyalty to the brand and then emotions of trust emerge (Kurt & Hacıoğlu, 2008). According to Erdogan & Tiltay & Kimzan (2011), satisfaction and commitment relation is weaker than satisfaction and trust relation, whereas Ballester and Aleman's (2001) claim is opposite; researchers argue that the satisfaction and commitment relationship in this market is stronger. Besides, while there is a strong relationship between perceived satisfaction in the communication sector and effective commitment and continuous commitment, complaint affects satisfaction negatively. The high degree of commitment to the brand creates a recapture attitude, followed by brand loyalty (Boohene & Agyapong, 2010). In addition, trust increases positive thinking towards the brand, and then loyalty begins to emerge (Ballester & Aleman, 2001).In this context, telecommunication companies; confidence, commitment and customer loyalty because customer satisfaction is one of the most important factors of customer loyalty (Aydın, Özer, & Arasil, 2005)

MANAGEMENT STRATEGY WITH CUSTOMER OBTAINING PROGRAMS

Loyalty Programs

Customer obtaining programs are another factor that needs to be applied succesfully for companies who aims to create loyal customers and gives importance to the relationship between them and the customers.

The main objective of loyalty programs is to increase sales and profitability through loyal customers. The strategy of long-lasting relationship and encouraging customers to take the product again is the basis of increasing day-to-day marketing. The award-winning marketing strategy is not new, but it is becoming a common idea as a marketing approach in the business world. This approach focuses on preservering existing customers and producing more specific products for them (Cabuk, Orel, & Güler, 2006). Companies long-term relationships reflect the difference between loyalty promotions and sales promotions.

If the sales promotions are over, the customer's attitude can be changed to the previous one; thus maintaining the targeted customers of the loyalty programs and at the same time providing loyalty programs to create loyal customers to the firm (Erk, 2009). As a result, anti-change barriers make companies stronger in a competitive environment. Customer loyalty can be considered as a tool that increases brand loyalty, reduces price sensitivity, prevents company change, grows customer base and increases sales and prevents customer loss as a result of service failures (Çabuk, Orel, & Güler, 2006).

The goal of businesses using loyalty cards is to preserve existing customers rather than acquiring new customers. The most important increasing use of loyalty cards for businesses is to learn about customer behavior in order to have a better analytic advantage. The customer information provided with these cards also forms the basis for a healthy customer relationship (Erk, 2009). Thanks to the data obtained from the cards, they have the opportunity to get to know the customers better and provide them with customized prizes and incentives (Kulabaş & Sezgin, 2010).

Customer Loyalty Clubs

The loyalty clubs are one of the most common programs. In U.S., about 90% of customers are involved in a loyalty program and each customer has a membership of nearly 4 loyalty programs. Loyalty clubs can be described as communities that are developed to communicate directly with customers and offer high value packages to them and to help them build strong relationships. The goal of loyalty clubs is to create an emotional connection to make customers more active and increase their loyalty to the firm (Erk, 2009). In summary, loyalty cards and clubs, which offer a number of benefits to members, are a step forward from their competitors by keeping their customers faithful.

Frequency Programs

As mentioned before it is cheaper maintaining the customers at hand then to acquiring new customers; therefore companies develop various strategies to keep the customers at hand. Frequency programs are customer satisfaction tools designed for existing customers. This program has become increasingly used day by day as a means of advancing relations with customers and providing loyalty afterwards like other strategic tools (Varinli & Acar, 2011).

The effectiveness of the frequency programs are linked with the points earned by the customers while they are shopping and with the prizes that are given by the company. Customers do not want to get another company's product because they tend to lose their chance to win awards.From this point of view, frequency programs are also an obstacle-changing tool (Varinli & Acar, 2011).

Prizing

Rewarding is the strategy created to ensure that customers are kept within the company (Koçel, 2007). Since new customers are difficult and expensive to acquire, keeping customers is a very important factor. But it is necessary to do some work to keep these customers. For example, individuals tend to repeat positive acts or motions they reward. For this reason, rewards and incentives have been raised by businesses to influence customer behaviors. Such factors allow people to be directly connected to the business. The awards should reflect the company's thanks to the company. Small gifts, concerts or theater invitations, flowers, calls on special occasions or cards are some of the examples that will be awarded.

Telecommunication Firms Service Quality

Especially when customers are making decisions service quality is an important factor. Because after a while the customers will not be satisfied and the change will occur even if the low quality service is cheap. Service quality; call quality, voice clarity, value-added services, network coverage and customer support. Customer support also depends on the speed and skill of the support staff, the support system, online support and the complaint process (Hotamli & Eleren, 2012).

The concept of loyalty has been the subject of many researchers. In the majority of these studies, the concept of loyalty and the relationship between service quality model, image and satisfaction factors are examined. This model is intended to reveal the difference between the quality expectations of the intended customers and the quality of the service (Boohene & Agyapong, 2010).

Trust

Firms are trying to establish long term relationships based on mutual trust in order to positively effect their customers attitudes. If these customers trust to the firm they become loyal (Şahin, 2003).

The trust and commitment has been widely examined in literature. Trust is a way of perceiving brand integrity, confidentiality and high ethical values. The mutual commitment provides the basis for long-term relationships. Building high-level mutual commitment between the client and the business increases the likelihood of long-term relationships as it connects the two parties (Odabaşı, 2004).

Management Strategy With Corporate Image

Another factor that creates customer loyalty is the corporate image. The corporate image can be conceptualized as the organizational perception that occurs in the mind of the client. Corporate image affects the operating perception of the company. At the same time, corporate image, which is a striking effect, also increases company values. Service quality, customer satisfaction and evaluation of value are also influenced by corporate image. The customer wants to make a purchase from the brands that he / she actually thinks are remaining and quality, and thus the corporate image that makes an impact in the purchasing process affects the process of creating customer loyalty directly and indirectly (Peltekoğlu, 2012). While Boohene and Agyapong (2011) argue that corporate image is one of the most important factors to enhance loyalty among customers, Yurdakul (2007) suggests that behavioral theorizing constitutes the foundation of institutional image in service applications that increase memory value and positive effect will certainly bring positive image. Aydın and Özer (2005) argue that the quality of service represented by customer experiences is a powerful influence on the corporate image. For example; if the firm has left a positive impression on the customers, it reveals the satisfaction of the customer and as a result the brand is perceived as a good quality for the customer.

Importance of Customer Loyalty in Telecommunication Companies

It is not as easy to obtain new customers as it was due to the changes in business environment and technology. In today's competitive market, institutions are investing heavily to survive and fight worldwide. Because of he challenge of obtaining new customers, preservering the existing customers has become a must for marketing. Thus, transforming the strategy from customer acquisition to customer protection has become especially important in the competitive telecommunication sector (Erk, 2009). With a new customer-based approach, organizations aim to create more quality, inexpensive and valuable products and a long-term customer relationship. For this reason, customer loyalty created by long-term relationship has become the most important tool to improve performance and survive in the market (Karachuha, Ozer, & Arasil, 2004).Customer satisfaction, change barriers and their relation to customer loyalty will be examined in the next sections. Turkey also has quite rapid developments in this sector. Although there is much more to the high level of indirect taxes and the purchasing power of developed countries, Turkey has reached market maturity period. Decision-making process, services provided and comparisons and are especially shaped by factors such as wages in this market, and customer loyalty is influenced in parallel with the image of the provider in Turkey (Aydin, Ozer & Arasil, 2005). The database marketing mentioned above shows the importance of data acquired from customer loyalty programs. A better statistical analysis can only be performed as a result of consistent information from customers. Database marketing is also a useful tool that creates change barriers as a result of the effective use of this information. At this point, developing new methods to prevent change has become necessary in the telecommunications sector.One of the most used and most important is the analysis in Turkey Churn Analysis (Gursoy & Oman, 2010). Churn analysis; can be described as a means used to identify customers who tend to change their operator. This type of analysis provides the enterprise with the necessary corporate privatization to preservere such customers. If a customer replaces an existing service provider with another provider or terminates his membership, he is called a lost churn (Gürsoy & Oman, 2010). Churn analysis is one of those methods that prevent customer losses and satisfy needs. For example; a customer can easily change their mind and switch from one operator to another. The reduction in calls may be a sign that you are not satisfied with the service provided by the customer's operator. Churn analysis is crucial for identifying customers that may be lost at this point and for creating loss prevention strategies (Abdolhossemi, Miremadi, & Aminilari, 2012). Access to customer data is the first step of a churn analysis. Subsequently, the customer is classified as a change-pushing effect.

There are a number of factors that directly or indirectly change the customer. As seen in FIG. service use, service fee, customer situation; dissatisfaction and customer linked changes. Once these factors are identified, then customized marketing strategies are applied to the customers with the most tendency to change (Gürsoy & Oman, 2010; Keramati & Ardabili, 2011). Turkish communications companies also use data mining. Turkcell develop new campaigns and customer loyalty in order to create new tariffs while getting information to reveal Vodafone Turkey especially in marketing, finance, and uses data mining for use in attractions such as future forecasts (Turhan, Kocak, 2009). According to some information obtained from Turk Telecommunication Sector, 48% of the customers have switched to another operator for cheaper price while 19.4% have changed the operator due to wider service area. Only 9.5% of the customers are due to low service quality has left its service provider and switched to other providers

(Gürsoy & Oman, 2010). The concept of customer loss and the lack of customer loyalty are interlinked. If the churn method is successfully applied with statistical analysis, it will undoubtedly be a very useful method for companies with high customer loyalty targets.

History of the Turkish Telecommunication Sector

Telecommunication is information sharing from long distances. It acts as a bridge not just between humans but also between economies, cultures and countries. It has been corporate with everyones life all over the world. In 2008 service revenue has reached 2 trillion $ and in 5 years this number is expected to reach 3 Trillion $. Also telecommunication revenues creates the 3% of Gross Domestic Product (Akram, Faheem, Dost, & Abdullah, 2012). After supporting the liberalization and privatization of the telecom sector is growing government sector in Turkey as well with quite an accelerating pace. In addition, the interest in Turkey's technological service to customers is another factor that encourages telecom services market in Turkey (Aydin, Ozer & Arasil, 2005).

A study made four years ago (ReportLinker.com, 2011) states: In 2010, the potential prevalence of the Turkish mobile market was around 85%. But the development of 3G technology will soon provide important changes in this sector. According to the research; With the increasing competition between competitors such as Turkcell, Avea and Vodafone, this sector is expected to grow by 8% until 2014 and reach 108% of users by the end of 2014. Another study (Deloitte Turkey, 2014); The stable economic development and GDP in Turkey, Information and Communication Technology (ICT), the correlation between the data shows that there is a promising future of the IT industry. While a growth of 9.6% was expected in the Middle East and Africa between 2012-2017, Turkish IT sector was predicted to grow by 7.4%. Microsoft, Intel, Hewlett-Packard have chosen Turkey as the geographic and demographic reasons as a central base. Earnings in the mobile market in 2012 increased by 10.5%. The sector is growing day by day with investments from abroad, both internal and external.

RESEARCH

Sample And Space Of The Study

The space of the study is formed by the customers of GSM dealers in Küçükçekmece County. 200 Customers have been selected randomly from this sample space with respect to equal number of operator usage.

Data Gathering Tools

Aim of the questionnaire are customers. The survey consists of 7 questions reflecting the client's point of view. The first 4 questions reflect the demographic information of the participants while the remaining questions examine the dimensions of customer preferences and loyalty. In the final question, the basis for the analysis of correlations is prepared using the subscale of 16 likert scale. As the sample grows, so does the consistency of the research. For this reason, the survey study was applied to 200 participants. This figure will be useful in terms of transmitting the perspective of the customers about the Turkish communication sector in sufficient detail.

Data Analyses Techniques

Data from the study has been analyzed with IBM SPSS statistics2.0 package program. Reliability analysis was applied to the data in the SPSS program. Demographic statistics, t test, ANOVA test, correlation and regression analysis were performed respectively. The results of the analysis are shown on the tables and the results are explained and interpreted.

Analyses of the Data And Interpretation

Aim of the study is to determine the importance of customer loyalty and to determine the factors that create customer loyalty in Turkish telecommunication sector. For this reason the hypothesizes are as follows:

H1: Customer acquisition programs are influential on loyalty.
H2: Relational marketing has a positive effect on customer loyalty.
H3: Improved service quality is influential on customer loyalty.
H4: The company builds trust on its customers and makes them loyal customers.
H5: A strong corporate image creates high customer loyalty.

Demographical Statistics

In the research process, the questionnaire was answered by 200 participants. 4 participants participated in the interview process. While the demographic information of participants in the survey is shown in Table 2 in detail, some important points are:

There are 200 participants in the survey. 52.5% of these participants were male and 47.5% were females. While 39% is Turkcell users, this figure is followed by Vodafone users with 34%. 27% of the participants are Avea users. The largest group with 52% is between 26 and 30 years of age. While 51% of the participants are university graduates, 22.5% of them have graduate degrees. While the lowest-rated participant group is secondary school graduates with 3.5%, 48.5% of the respondents work in a company.

According to the results, 77% of the participants see themselves as loyal to their companies and 9% said they were impartial with respect to loyalty, while 14% said they were not loyal to their operators.

In addition to this, participants were asked whether they would recommend the operator to others, 65% of the participants stated that they would recommend it, 24.5% were undecided and 10.5% would not recommend it.

One of the most important parts of the questionnaire is the comparison of the service quality with the price asked by the customer. 72.5% of the users who participated in the survey stated that the price is an important factor in choosing that operator. In another question, when participants were asked to choose between service quality and price, 88.5% of participants said service quality was more important than price, while only 4% indicated that price was more important than service quality.

In terms of Turkey the market price is always an important factor. Cheaper tariffs always attract customers' interest, but the price alone can not be the reason for a preference. As can be seen in the above figures, the quality of the service offered by the operators as well as the price is very much influencing

Table 1. Survey participant demographic information

		Participant	%
Gender	Male	105	52,5
	Female	95	47,5
	Total	200	100
Age	18-25	14	7
	26-30	104	52
	31-35	25	12,5
	36-40	24	12
	41-50	19	9,5
	51-60	14	7
	Total	200	100
Education	Middle school	7	3,5
	High school	34	17
	University	102	51
	Master	45	22,5
	Phd	12	6
	Total	200	100
Occupation	I dont have job	3	1,5
	I'm employer	43	21,5
	I'm employee	97	48,5
	I'm student	44	22
	I'm retired	13	6,5
	Total	200	100
Operator	Turkcell	78	39
	Avea	54	27
	Vodafone	68	34
	Total	200	100

Table 2. Participants' loyalty level

Loyalty	Participant	%
My loyalty level is very strong	73	36,5
My loyalty level is advanced	81	40,5
I'm neither loyal nor not	18	9
I'm almostly not loyal	18	9
I'm not loyal	10	5
Total	200	100

Table 3. Service quality vs. price

	Price		Service Quality vs. Price	
	Participant	%	Participant	%
Absolutely I agree	51	25,5	90	45
I agree	94	47	87	43,5
Neither agree nor not	35	17,5	15	7,5
I dont agree	18	9	6	3
Absolutely I dont agree	2	1	2	1
Total	200	100	200	100

the preference factor of the users. It is seen that 77% of the participants are loyal to their companies; Due to this reason communication companies' efforts on customer loyalty and their implementations could be classified as succesful.

Correlation Analysis

Correlation, indicates the direction and power of a linear relationship between two random variables in probability theory and statistics. It is between -1 and +1. The closer you get to -1 and +1, the greater the power of your relationship. When you close to zero, the power of the relationship weakens. If it is positive, it has a positive effect. If it is negative it affects the direction negatively. If it is neutral (zero) it means that the variables have no effect on each other.

In Table 4, the correlation coefficient between loyalty and its factors is 0.695. Since this value is in the range of $0.5<r<0.8$, there is a positive correlation between these two variables. As a result, customer loyalty programs implemented in Turkey creates loyalty by providing value to customers. H1 hypothesis is accepted. Customer acquisition programs have an impact on loyalty.

According to Table 5, Cronbach's Alpha value is quite high with 0.825. T-test results are also meaningful (see Appendix 3). When we look at the correlation value between two variables, we see that $r = 0.703$. Thus, we can conclude that the evaluation of the complaint has an effect on loyalty.

The findings of the survey on customers indicate that the link between information technology and loyalty is weak. Firstly, Cronbach's Alpha value indicates that this data set is of low reliability. Also, the correlation value between variables is quite low, $r = 0,285$ (See Table 10). It can not be said that information technology has an effect on loyalty through considering these results. Accordingly, we can conclude that Turkish GSM companies can not use information technologies effectively.

Table 4. Relationship between loyalty and acquisition programs

	Loyalty	Win.Prog.
Loyalty	1,000	,695
Win.Prog	,695	1,000

Table 5. Relationship between complaints assessment and loyalty

	Loyalty	Grievance
Loyalty	1,000	,703
Grievance	,703	1,000

Table 6. Relationship between information technology and loyalty

	Loyalty	İnfoTech
Loyalty	1,000	,285
İnfoTech	,285	1,000

Table 7. Relationship between content and satisfaction

	Loyalty	Satisfaction
Loyalty	1,000	,735
Satisfaction	,735	1,000

Table 8. Relationship between relationship marketing and loyalty

	Loyalty	Reational Mar.
Loyalty	1,000	,826
Relational Mar.	,826	1,000

Table 9. Relationship between service quality and loyalty

	Loyalty	ServQual
Loyalty	1,000	,904
ServQual	,904	1,000

Table 10. Relationship between confidence and loyalty

	Loyalty	Trust
Loyalty	1,000	,847
Trust	,847	1,000

The reliability test between these two variables indicates that this result is reliable, a = 0.843. In addition, T-test results are significant and correlation between two variables is high, r = 0,735 In this context, it can be said that higher level customer satisfaction brings higher level customer loyalty.

Survey results show that relational marketing is very effective on loyalty. 70% of respondents answered positively about the question "Increasing loyalty by building good relationships with customers". The following data show the correlation between relational marketing and loyalty.

According to table 8, Cronbach's Alpha value is 0.898 and this value is regarded as very reliable. The T-test results are meaningful. The correlation value between loyalty and relational marketing is 0.826. The bond between these two variables is quite strong. According to this; Turkish Gsm companies have achieved a successful marketing model and have been able to reach customers with instant solutions and individual attention. In the light of this conclusion and managerial interpretation, H2 assumption is accepted according to the survey results; relational marketing has a positive effect on customer loyalty.

Cronbach's Alpha value and T-Test results in figure 10 demonstrate that this test is reliable, a = 0.949. The correlation value shows us how much these two variables are connected to each other. r = 0.904 proves that service quality is very effective on loyalty. Accordingly, the good service quality that meets the needs is the result of providing loyalty and H3: The hypothesis of quality of service is effective on customer loyalty is accepted. One of the things that craetes loyalty is the trust of customers to the company. While 77% of respondents said that trust is effective in creating customer loyalty, only 11.5% did not agree.

The test in table 10, has a fairly high Cronbach's Alpha value of 0.914. The T-test results are significant (see Appendix 3). According to the survey done to the customers, trust is quite effective on loyalty, r = 0,847. In this case it could be claimed that it is not possible to be loyal to the untrusted company. And the 4th assumption H4:the company builds trust makes its customers loyal. It is accepted.

Cronbach's Alpha value (r = 0.932) and T-test in Table 12 show that this test is reliable. The correlation between the two variables is quite high. Brand value has a positive effect on loyalty.

According to table 12, Cronbach's Alpha value test is quite reliable. r = 0.870 is a very strong correlation. Accordingly, customers are influenced by the image of the companies they think are strong, and they become faithful because of the trust factor. As a result, the H5 hypothesis is accepted. A strong corporate image creates high customer loyalty.

Table 11. Relationship between brand equity and loyalty

	Loyalty	**BrVal**
Loyalty	1,000	,874
BrVal	,874	1,000

Table 12. Relationship between corporate image and loyalty

	Loyalty	**Corpİmg**
Loyalty	1,000	,870
CorpImg	,870	1,000

Regression Analysis

We perform a reliability test before performing a regression test between the benefit programs and the sub-factors. Cronbach's Alpha value is 0.901, these values are highly reliable. In case of deleting one of the variables, if this value increases, we need to remove that variable from the test according to the conformity conditions and make a more reliable test. In the second test in table 11, when we look at "Cronbach's Alpha if Item Deleted" part, the value does not exceed 0.901 when we remove a variable. Regression test is suitable.

In Table 14, the acquisition programs are the dependent variable, the loyalty programs, the frequency programs, and the reward is the independent variable. As a result, the most effective factor in customer acquisition programs appears to be rewarding. According to this table, the following equation can be established;

Gain Programs = Constant + β1. Loyalty Programs + β2. Frequency Programs + β3. rewarding

According to the significance test, the R value was 0.866, which is quite significant. In addition, the F value found in the ANOVA test was significant in relation to the results. Finally, it is looked at the significance of the coefficients from the test called "Factors", which must be $p < 0.05$ for the values to be meaningful. The β values refer to the standardized coefficients in Table 12. According to these coefficients, the effect of loyalty programs (β1) is 0,358. The effect of frequency programs (β2) is 0.276. The effect of awarding is (β3) 0.359, and the equation can be formulated as follows.

Table 13. Reliability analysis between benefits programs and factors

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
AcqProg	6,33	6,954	,866	,751	,842
LoyProg	6,09	7,063	,743	,591	,887
SiklikProg	6,29	7,212	,774	,606	,875
Reward	6,26	7,399	,742	,593	,886

Table 14. Regression analysis between benefits programs and factors

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Coeff)	-,023	,090		-,260	,795
	LoyProg	,330	,046	,358	7,226	,000
	SiklikProg	,270	,052	,276	5,180	,000
	Reward	,355	,049	,359	7,231	,000

a Dependent Variable: KazProg

Benefits Programs = 0,358 x Loyalty Programs + 0,276 x Frequency Programs + 0,359 x Rewarding

Another factor that has an impact on loyalty is relational marketing. Relational marketing has a number of factors. One of these is a complaint evaluation. 62% of the respondents respond positively to the question "Positive responds to my complaints strengthens my link with the brand ".

SOLUTIONS AND RECOMMENDATIONS

As a result of this study recommendations have been developed for companies in the Turkish telecommunication sector to create customer loyalty, to develop strategies and factors that create and destroy loyalty. While creating loyalty, the strategies that companies need to follow, and the tools they use, ultimately trigger five fundamental emotions that create loyalty. These are customer satisfaction, service quality, customer perception, brand image and complaint evaluation. Particularly, in this competitive marketplace, communication companies must carefully examine these five ethnic groups. While complaint evaluation, customer satisfaction and brand image are the factors that create loyalty in the communication sector, the quality of service and the perceived value of the customer should be evaluated as the most important items that companies operating in this market must be paid attention to.

FUTURE RESEARCH DIRECTIONS

By focusing on important topic for the telecommunication sector, it is believed that this study makes a contribution to the literature. Undoubtedly, this study also contains some constraints. A total of 200 people have been sampled in the Turkish GSM sector, which has about 70 million subscribers. Secondly, the factors affecting customer loyalty have been tried to be explained, cost of replacement, staff-customer relationship, and so on. For this reason, it may be possible to make a meaningful contribution to the literature by examining other variables considered to affect Customer Loyalty in the following researches or testing it in different sectors for the generalization of the variable findings used in the study. In addition to this situation, another study that covers other variables can also give appropriate results, also another study that covers other countries give appropriate results.

CONCLUSION

In the present day where there is globalization, preserving the customer has become the most important factor in achieving maximum performance, profit, minimum risk and sustainable profitability for corporate governance of organizations. To achieve these goals, corporate governance must have advanced customer relationship management practices. With a CRM system, companies know who their customers are, apply the best model for them and create customer satisfaction afterwards. Especially with new innovations and new strategies, the customers are passionate about what they want. As a result, this attitude creates loyalty that leads to profitability and sustainability and gives advantage in competitive markets.

The type of corporate governance varies from country to country based on their legal & ownership structures In the recent years the importance of corporate governance has become a key feature in every organisation than in the past years.

This definition covers almost all the principles of the Corporate Governance. However the question stands as to whether all these principles are followed by the companies and how effective they are in managing the companies and how effective corporate governance changes the performance of those companies.

The results show that customer protection is crucial for corporate governance who are seeking to get customers who are targeting competitive advantage and who want sustainable profitability through good relationships with clients. In addition, the most important factor of customer protection which is loyalty, is shown to be linked with management strategies.

Customer loyalty is very important to create value for both sides. According to the survey results of this research a number of strategies are very effective in creating customer loyalty. Rewarding is the most effective strategy for product diversity, high quality service delivery, trust building and most important customer-centered loyalty. These attitudes improve the relationship between the company and the customer and create trust and satisfaction for the customer while creating brand image for the business and obstructing the Churn. To preserve customers and prevent change, companies should attach importance to satisfaction through commitment, trust and high quality. Successful complaint evaluation, high brand image and customer perceived value are also influential in creating customer loyalty. The analysis findings from the survey results reveal information in the same way as the above information. According to findings; confidence and corporate image coefficients were very high and it was observed that these two factors were very important for the customers. Satisfaction, grievance assessment and corporate image factors have a strong connection with customer loyalty. These factors create customer loyalty and communications sector in Turkey are factors that should be shown the same amount of attention as others.

A number of tools can be used to build good relationships with customers during customer loyalty. For example, loyalty programs, frequency schedules or information technology reduce price sensitivity and prevent change.

Research results beside the price, the quality factor of the service given by operators is shown to be a decision factor.77% of the participants are shown to be loyal to firms . Therefore we can say that the effects and applications on customer loyalty are working in Turkey.

Relational marketing and customer loyalty is one of the variables that we use in our research. The bond between these two variables is quite strong. According to this; Turkish GSM companies are following a successful marketing strategy, offering instant solutions to their customers, determining innovative strategies, increasing their loyalty to their companies by showing individual interest. Relational marketing has a positive effect on customer loyalty. One of the most important factors that generate loyalty according to the research is the service quality. 77% of the participants agreed in this question.

When the hypotheses are examined, it seems that the corporate strategy applied for the image of the company works. Because findings show a strong correlation between corporate image and loyalty according to which customers are influenced by the image of the firms that they see strong and are loyal to this trust factor. A strong corporate image creates high customer loyalty.

The results of the research reveal that relational marketing constitutes the basis of customer satisfaction and trust. At the same time, there are also points of view on the frequency and loyalty programs of the customers.

While creating loyalty, the strategies that corporate governance need to follow, and the tools they use, ultimately trigger five fundamental emotions that create loyalty.

These are customer satisfaction, service quality, customer perception, brand image and complaint evaluation. In particular, Turkish communication companies should carefully examine these five ethnic groups in this competitive marketplace. While complaint evaluation, customer satisfaction and brand image are the factors that create loyalty in the Turkish communication sector, the quality of service and the perceived value of the customer should be the most important items that companies operating in this market should pay attention to.

According to the results of the research, the recommendations that can be given to the companies in the telecommunication industry are;

Strategies should be copied to increase brand credibility, because trust is an important issue for users in this market.

1. 1.Strategies targeted at customers, which are important strategies, needs to be increased.
2. Inovation with new techniques, to produce products that meet customer needs, enhance the loyalty of users in Turkey.
3. Strategies linked to relational marketing and loyalty programs are very important tools.
4. Preserve programs such as frequency programs, loyalty programs and rewards are among the factors affecting loyalty inside marketing strategies. Innovative and creative ideas make these programs more visible and increase the loyalty of existing customers.
5. In the globalization, new innovations, high brand value and brand image help companies achieve their goals.
6. Most importantly, the improved service quality increases the loyalty of the operator as it increases the satisfaction of the customers.
7. Determination of the correct management plan is important for the firm.

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KEY TERMS AND DEFINITIONS

CRM: Customer relationship management is a technology to manage your company's relationships with customers and potential customers.

GSM: Global system for mobile communication is a digital mobile telephone system in the world.

ICT: Information and communication technology refers to technologies that provide access to information through telecommunications.

IT: Information technology, the study or use of systems (especially computers and telecommunications) for storing, retrieving, and sending information.

Chapter 4
The Role of Effective Communication on Economic Development:
The Effects of Political and Economic Crisis on the Performance of Turkish Economy

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ABSTRACT

The process of financial liberalization draws attention as a process that took place after the 1980s and led by the strong countries, in order to overcome the narrowing in the economies of the world countries which have become polarized because of the Second World War and the Cold War period immediately following the Second World War. In this chapter, firstly, the definition of the financial liberalization period and the effects according to the countries are examined, while the risk and crisis issues are also evaluated. Economic and political crises that have occurred in Turkey after the financial liberalization process in ongoing part of the study also were assessed by considering the effects on the economy. In this context, the economic and political crisis in Turkey are analyzed as to their effects on the country's economic performance. Accordingly, every 10 years, an economic and political crisis in Turkey took place. The country's economy is affected negatively in the macro-frame.

INTRODUCTION

Financial liberalization is defined as the elimination of the necessary restrictions to ensure the flow of global financial activities of developing countries to their own countries (Yüksel et al., 2016). Due to World War II and 1929 economic crisis, public economic policies failed to respond to the need. In 1980,

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fiscal policies became insufficient because of the desire for liberalization and growth in the world so that liberalization is seen as an alternative (Şenel, 2018). Since then, the reform movements required for the limitations of the interventionist state policies have begun to spread to South American countries and developing countries (Dinçer et al., 2018a).

The system that was mentioned as Bretton Woods system and went to the blockage was opened up and the operation and control of the market was left to the private sector and the financial world was liberalized. In this sense, international organizations such as IMF and World Bank have supported these studies. During the period of 1980-1990, countries have made some reforms in their economies. In this context, interest rates were released and the ceiling in loans was abolished. At the same time, the deposit and reserve requirements of banks have to be kept in central banks as legal obligation (Dinçer et al., 2018b).

The financial liberalization process has responded differently in developed countries and developing countries. In this study, in order to examine the effects of the process on economies; US, UK, Germany and Japan economies are under the spotlight. Additionally, in order to examine emerging economies, Russia, India, South Africa, Brazil and Turkey have been focused on the economy. Turkey's economy in developing countries applied import substitution policies in the 1970s. However, the expected yield from this application could not be obtained. Due to the oil crisis in 1977, the economy of the country worsened from its current situation. In this sense, stabilization programs were implemented to alleviate interest pressure and to finance the deficit in the balance of payments.

Financial liberalization process was occurred in Turkey on the same date that the world was carried out in 1980. 24 January decisions have been made and a radical change has taken place in the economy. Price and resource determinants for the first time in the economy have been left to the private sector. At the same time, it has been turned outward in the introverted strategies used for development. The decisions of 24 January were realized with three main objectives: banking system, capital market and economic growth. At the same time, interest rate was released in Turkey with respect to the free market economy.

After these developments, the concept of systematic risk has been added along with non-systematic risks. Non-systematic risks are always in the usual position due to the risks involved. On the other side, the systematic risk covers the whole economy. The risks arising from the concepts such as inflation, interest rate, exchange rate, political and market, which have gained importance after financial liberalization, are also among the systematic risks (Meral, 2018).

In the ongoing part of the study, global crises are examined in detail and the aim is to show the economic destruction caused by globalization and financial liberalization. In these periods, Turkish economy was not only affected by the economic crisis. At the same time, by examining the impact of the instability and economic crisis occurring in Turkey, it is aimed to specify the implications for the economy. In order to examine the effects of this chaos in the political environment on the economy; Turkey's economy is considered in the macro scale.

In the first part of the study, the definition of financial liberalization is made. At the same time, attention is drawn to globalization and its differences. International institutions and organizations that contribute to financial liberalization are examined. After that, developed countries and developing countries are evaluated in order to look at the adventure of financial liberalization in the world. Finally, the journey in Turkey is examined. In the second part, the relationship between global risks and crises is evaluated. In this context, financial crisis and risk types are mentioned. Then, the relationship between globalization and crisis is discussed. Financial liberalization and risk management are evaluated, and financial crisis and risk management are examined in developed and developing countries.

In the third chapter, there are three different literature tables. First, there is a literature study on financial liberalization. Then, a literature study on economic and political crises is made. At the same time, the literature review of economic crises is up to date. In the fourth title, globalization has made an overview of the pre-crisis period in Turkey. At the same time, international economic crises are examined. Later, the impacts and political crises are evaluated. In this context, the leading indicator of Turkey's economy, simultaneously effective indicators and aftershocks indicators are taken into evaluation.

THE RELATIONSHIP BETWEEN FINANCIAL LIBERALIZATION AND ECONOMIC DEVELOPMENT

This part of the study consists of four chapters. In the first chapter, the process of financial liberalization is explained. The first part deals with the functioning and elements of the financial liberalization process. In this context, basic concepts of financial markets and the functioning of financial markets are given. In the second chapter of the chapter, the effects of the financial liberalization process on economic growth are included. In this respect, information is given about the institutions and organizations that show their economic impacts and which have sanction applications and the duties and responsibilities of these institutions and organizations are mentioned. In the third chapter, the concepts of financial liberalization and globalization, which are always confused, are evaluated with differences. In the fourth chapter of the chapter, the process of financial liberalization in developed and developing countries is discussed. In this context, the economies carrying the process between developed countries and developing countries are determined and evaluated.

Financial Liberalization

Transferring the right of the state to the private sector by removing the right of absolute intervention to the economy is defined as briefly liberalization. Financial liberalization is defined as the abolition of the necessary restrictions in order to ensure the flow of global financial activities to developing countries. Globalization gained importance as a result of the restructuring in the world economy in 1980. Financial liberalization is one of the important branches of this new structuring (Dinçer et al., 2019a). It is also expressed as the inclusion of capital in any part of the world without any restriction on investment opportunities. After all these are related to the process of financial liberalization, it is necessary to mention the basic facts that occur throughout the process. The release of interest, the abolition of the borders in the domestic market and the abolition of restrictions in the system of banking activities are the main factors. Reducing the audit and shifting from fixed exchange rate to floating exchange rate system and increasing the role of financial instruments in the market stand out (Das & Das, 2019).

The term financial liberalization rejects any government intervention and considers it appropriate to maximize the necessity of liberal policies (Chen et al., 2011; Yüksel, 2017a). Countries that have financial liberalization react differently according to their development status. The response of the developed countries is to support the liberal policies implemented in order to increase the efficiency of the markets against the transformations and changes taking place in the international arena. The reaction of the developing countries is also concerned with development-related strategies, and they have reacted by making hard changes despite all of the economy, such as financial markets and development strategies (Yüksel, 2017b; Berry et al., 2017).

Every economic system has requirements in terms of applicability. Similarly, financial liberalization has two requirements, both in Turkey and abroad. In addition to domestic financial liberalization, internal financial liberalization, removal of barriers to capital inflows to the domestic market and activation of financial varieties are required to remove barriers to credit ceilings and loans (Brissimis et al., 2014). There are a number of requirements for financial liberalization to take place. In this context, the resident should be able to transfer capital and be able to borrow from overseas markets, without being subject to limitation abroad. Local residents should be able to perform transactions with foreign exchange (Dinçer et al., 2018c).

Finally, the resident of the domestic market should be able to borrow from abroad without any restriction and the foreigner should be able to make investments in the domestic market without restrictions. In case the mentioned requirements are applied, financial liberalization is realized abroad. Developing countries have opposed foreign financial liberalization. However, after the 1980s, both the ceiling practices above the interest rates and the capitalization of the capital have been dominated by internal and external financial liberalization (Cubillas & González, 2014).

General Concepts Regarding Financial Market

In the countries, there are some parties that have savings. On the other side, some parties in these countries also need money due to various reasons, such as satisfying the operational needs and making new investments. These two groups of activities are economically connected. The second groups make their investment by using the savings of the first group. In this situation, the important point is that there is a need for an institution that can bring these two groups together. At the same time, they perform this action either by an intermediary or directly (Duffie & Stein, 2015; Yüksel et al., 2018).

When analyzed, it is observed that financial markets were created by the state, company and international institutions to reduce the costs of investments and also to lower the liabilities of the capital. The internationalization of financial markets is due to the efforts of the developed countries to overcome the barriers and limitations and to reach the highest profit (Martin & Roychowdhury, 2015; Yüksel et al., 2017). According to the lending period of the funds, financial markets can be defined as two different groups which are money market and capital market. The funds, which do not cover a one-year period and are short term, are traded in the money markets. Money market instruments include short-term loans and commercial bills. Capital markets are also used in long-term markets. Equity, bond, investment and housing loans cover the medium and long-term capital market instruments (Yüksel & Özsarı, 2017; Segal et al., 2015).

When financial markets are analyzed according to their degree of organization, they are divided into organized and unorganized financial markets. Organized financial markets are defined as markets that physically compare buyers and sellers within certain rules. In this context, as an example for organized financial markets; banks in the money markets and securities exchanges in the capital markets. Unorganized financial markets are the opposite of organized financial markets (Cashin et al., 2017; Dinçer, 2018). It covers the markets created without any physical encounter and without applying specific laws. Since there is no control of the unorganized financial markets, it constitutes a major part of the economy in developing countries.

When the financial markets are evaluated according to their transactions, they are divided into first and secondary markets. In the first financial market, those who need funds for the first time are able to apply for the first time in order to meet their fund needs. Secondary financial markets include the circulation of financial instruments that are offered to the market by those who previously demanded funds. Another remarkable issue in financial markets is the derivative markets (Dinçer & Yüksel, 2018a). These markets serve as a compromise for future delivery or cash. The components of derivative markets include forward, swap, futures and option contracts and transactions (Oktar & Yüksel, 2016).

The Process of Financial Liberalization

In this part of the study, the historical starting points of the financial liberalization and the stages in which the development is made are evaluated. In the following chapters, the necessity and contribution of international institutions and organizations created by the process are discussed. In terms of giving a macro image, first of all, it is seen that the financial liberalization process in the world is seen in 1929, the world economic crisis. It is observed that public economic policies in World War II have been insufficient. Especially in the 1980s, globalization and growth in the world as a result of the inadequate financial policies despite the emergence of liberalization emerged as a way out. In the world economy, there was a period of rapid growth and prosperity at the process from World War II to the 1960s. This period of the world economy is called the Golden Age Period (Arestis, 2016).

As the requirements of financial liberalization, there is the abolition of the limitations and controls of the institutions and organizations that play an active role in the direction of the economy in domestic and foreign markets. The most important factor for these institutions and organizations is state intervention. In order to realize the liberalization in the financial field, the state should not interfere with the economy at all (Elkhuizen et al., 2018). Considering theoretically, there are cases where financial liberalization takes place and the state intervenes in the economy and is left to the functioning of the market (Zengin & Yüksel, 2016). In these cases, the removal of the credit ceilings by releasing the interest rates, reducing the reserve requirement ratios of the banks at the central bank and the transition from the fixed exchange rate system to the floating exchange rate system (Şenel, 2014; O'Connell, 2015).

In this sense, it is necessary to look at the markets in two different ways. In the domestic market, non-resident foreign borrowers and non-residents in the domestic market are the requirements of financial liberalization. In this way, financial liberalization is fully realized. If the requirements of financial liberalization are recovered, such issues as the elimination of control and pressure on interest rates, and the reduction of reserve ratios required in the central bank. It is defined as the privatization of state banks and the failure to interfere with the competition of banks by ending the state's dominance over the banking sector (Lombardi & Malkin, 2017).

Financial liberalization, which has widespread application among countries, contributes to economic growth and importance has been given to meet the need for growth to continue with increasing acceleration (Dinçer et al., 2019b). In order for economic growth to take place, the saving supply should go upwards. It is stated that financial liberalization will equalize the supply and demand of savings with the high rate of interest rates. It is considered that financial outreach policies will benefit most countries, especially the developing countries. The reason for this is that the countries that are in shortage of resources will solve the source problem by providing foreign capital input. Another reason is that it will strengthen the markets of developing countries by creating an information carrying effect with foreign capital (Yiping et al., 2014).

There are two theoretical approaches to the effects of financial liberalization on growth and economic performance. These are structuralist approaches and neo-classical based McKinnon-Shaw approach. According to the McKinnon-Shaw approach, the main problem that has a negative impact on the development strategy is the financial pressure policies implemented by developing countries (Odhiambo, 2016). These pressure policies disrupt interest rate and exchange rate balance. The deteriorating equilibrium cumbers upon the real size of the economy and the increase in growth as it encounters other non-financial instruments.

Financial liberalization affects economic growth directly and indirectly in two ways (Law & Singh, 2014). Issues such as increasing domestic savings, contributing to the development of the financial sector, reducing the cost of capital and technology transfer are directly within the sphere of interaction. It has indirectly interacted with the fact that it contributes to specialization in the country by spreading the risks in the economy from the national economy to the international arena, disciplining the financial policies and giving confidence to the markets by reducing uncertainties related to the future risks.

The financial liberalization process did not provide an expected growth rate for economic growth. Especially in developing countries, economic crises and crises experienced in Turkey between 1994-2001 exemplifies this situation (Oktar & Yüksel, 2015a). After financial liberalization, foreign funds entering the country financed economic growth. However, it has caused a high increase in consumption due to the fact that it is the source of consumption expenditures. In return, consumption expenditures were financed by loans. Financial liberalization has been the reason for this consumption boom, which has led to an increase in the indebtedness of households.

The concepts of financial liberalization and globalization are noteworthy. However, it is observed that globalization and financial liberalization are different concepts. When looking at its historical processes, it is seen that globalization occurred before financial liberalization. One of the most discussed and discussed topics in today's world is the concept of globalization. It has started to put more weight on the area in the last period, especially when the technological developments have increased the effectiveness of the developments (Gehringer, 2015).

The main dynamics of globalization are the developments in technology, developments in the economy and the increase of multinational companies. On the basis of these dynamics, commercial and financial liberalization consists of two dimensions. While looking at the definitions and explanations made, the aim of globalization is; the cost of the product without affecting the cost of all citizens of the country to reach the highest quality and cheap. In order to ensure an international free market environment that is required by the globalization of the countries and to realize full economic freedom, the international global organizations (IMF, WB, WTO) act in accordance with the rules defined by the liberal economic order (Celik & Citak, 2016).

As mentioned before, financial liberalization is not limited to the limitations and constraints of capital in the international arena. In other words, the conceptual global investments and the realization of the trade are understood as the elimination of the statist economy. When considering the globalization part, it is seen that other factors are not just monetary. After the liberalization of capital, the cultural, technological, political and social bond they established together as a result of the integration of countries with each other emerged as globalization (Lee & Lin, 2016).

One of the nuances that distinguishes globalization and financial liberalization is that financial liberalization includes only financial issues. The financial activities that will occur shall mean the removal of the bans on the front of the institutions or organizations. When globalization is evaluated, it means that all commodities produced in the world travel without any restrictions and restrictions in the international arena. In this way, the area of trade will increase, the development of technology will accelerate, and with the increase of trade costs will decrease. As a result of these developments, globalization will be realized (Orji et al., 2015).

Developing countries have seen financial liberalization as a condition for economic development, because financial liberalization is directly linked to economic development. Developing countries have difficulties in realizing their external payments and have thus achieved liberalization in the domestic market due to the recovery of the financial market, economic growth, the need for future saving from abroad and development. Globalization states that all the world's cultural, political or economic understanding has changed and developed. The process that causes globalization is technology. The reason for the realization of financial liberalization is the state and protectionist economic understanding. This is one of the reasons for the difference between the two concepts (Bang et al., 2015).

Financial Liberalization Process in the World

When the process of financial liberalization is considered as a country, the first country to attract attention is the USA. The US economy has changed after the economic crisis in 1929 compared to the course of the process in the world. In 1979 and 1990 there were two major changes in the US economy. The fact that the payments made to stockbrokers in 1970 is not dependent on the regulations to be made is one of the important changes. In 1990, the abolishment of the restrictions of commercial banks and investment banks (Dinçer et al., 2018a; Dinçer & Yüksel, 2018b).

As it is known, England was the first country to realize industrialization. The reason for this is that economists have discussed a lot in the time period. The important reasons that draw attention here are the high level of welfare of the people, the tendency to trade and the desire of the state to be withdrawn from the market. The impact of the high rate of migration from rural to urban areas is an undeniable reality as it encourages the search for new things (Gibson & Tsakalotos, 2016).

The German economy is one of the most attractive countries in the world economy. Before the World War I, although the German economy was functioning properly, this situation was reversed after the war. The process, which started with the transformation of inflation into hyperinflation, continued in the year 1931, when Prime Minister Hoovert announced that they would not be able to pay for war reparations. With the arrival of Hitler in 1933, the country's economy became more autocratic. In the 1980s and 1990s, Germany achieved a growth rate above the EU's average growth rate. Due to high taxes, high share of SSI, and lack of flexibility of the labor market, they have been one of the factors that made the solution of the unemployment problem more difficult during the recession period than other EU countries (Barrell et al., 2017).

With the development of industry and technology policies, significant developments in production and growth are observed in Japan-based Asia. When looking at the free trade activities in Japan, it takes us to the old age until 1862. At that time the movements of reform and westernization started in Japan, and this situation has traveled until 1912. The main export products of Japan are silk, tea, copper, ceramics and the major import products of Japan are cotton and textile products. During this period, Japan's foreign trade share in the UK and colonies is 70% to 80%. It is observed that the main factor in this kind of acceleration of Japan is the development of the corporation techniques applied for the development of foreign trade, the inter-country agreements and the freedom. These observations also indicate that globalization and liberalization were carried out in Japan in the 1862s (Jomo, 2016).

LITERATURE REVIEW

In this part of the study, there is a literature search for financial liberalization and a literature review for the crisis. Liberalization process is examined in the literature search for financial liberalization. The second chapter is drawn to developments occurring in Turkey while reviewing the literature for crisis care. Bozoklu and Yılancı (2013) discuss the financial development of the economies of developing countries by using the Granger causality test. It was emphasized that it would be appropriate to carry out financial liberalization for the realization of financial growth.

Savrul et al. (2014) using the theoretical observation techniques are talking about financial liberalization process in Turkey. In this context, commercial liberalization policies started to be implemented with the financial liberalization in 1980 and financial openness was realized. Starting on January 24 policy decisions by Law No. 32 for foreigners in Turkey were also carried out with the locals until deserves recognition. Kolsuz and Yeldan (2014) used the neo-classical growth model and concluded that Turkey have pointed to growth after the financial liberalization adventure. The growth after financial liberalization is mainly based on the services sector and the construction sector.

Adıgüzel (2013) mentions the three stages that must occur for the realization of financial liberalization by using theoretical observation technique. Foreign trade, foreign direct investment as these stages are separated and capital markets, was held in Turkey in 1980. Bektaş and Tekin (2013) discuss the importance of the banking sector's contribution to the development of the financial system and its growth rate by using the correlation analysis technique. Yetiz (2016) draws attention to the banking sector which is one of the important pillars of financial liberalization by using theoretical observation technique. According to the findings, share in the total assets of the banking sector in Turkey sees 90%. At the same time, the strong presence of the banking sector is expected to have a positive impact on economic growth.

Mangır and Acet (2014) use the theoretical observation technique to make contact with the right of free movement of goods which are of great importance after the financial liberalization and which are made in the best way in Europe. According to the findings obtained in this study, Turkey's European Union membership process is well underway, especially without neglecting its responsibilities on the

Customs Union agreement arises due to the application. Aydın et al. (2013), using the regression technique in the 1970s, concluded that Latin American countries began to follow the policies towards financial liberalization is a turning point in terms of economic history.

Cengiz and Karacan (2015) stated that developing countries should continue their investments in order to continue their growth by using theoretical observation technique. Ak et al. (2016) indicated that development of the financial sector contributes to the economic growth in Turkey with the help of co-integration and Granger causality analysis techniques. In this manner, it consists of new institutions and organizations in Turkey. Therefore, it is necessary to determine the policies that will contribute to the development of the real sector. Yanar and Şahbaz (2013) state that by using the technique of cross-sectional analysis, globalization in developing countries reduces poverty by decreasing income inequality. Helhel (2016) uses the regression technique to take over the E7 countries. Accordingly, it is observed that investment in R & D and innovation increases when financial development increases in these countries.

Aslan and Yılmaz (2015) focused on the relationship between financial development and financial growth technique using the Solow model for Turkey. According to the results, it is concluded that the financial variables in Turkey indicate that there is interaction between the national product. At the same time, he emphasizes that there is also link between financial development and financial growth. Kanbaroğlu and Arvas (2014) discuss the effects of financial development on economic development by using ARDL technique. Turkey also realized in the analysis of financial development on the basis of the income distribution in Turkey indicate that positively contribute 1%.

Şanlı and Aksöz (2014) use the Granger causality model and Johansen-Juselius co-integration technique to indicate the effects of domestic savings on external borrowing. The resulting work is carried out in Turkey's economy. Turkey has been observed in previous crises that go to external borrowing. Öztürk and Ülger (2016) discuss the role of countries called tax havens in the occurrence of financial crises by using theoretical observation technique. Particularly, the right rebellion of the people who have increased the tax burden after the financial crisis is noteworthy. The studies carried out by the OECD with rising tax rates are also mentioned.

Şahin (2013) uses the theoretical observation technique and discusses the effects of the banking sector on the global financial crisis. The study is based on the effects of the crisis in the G-20 countries. The new legislative arrangements aim to reduce costs by reducing the effects of the crisis. Balmumcu (2013) discusses the effects of the global crises that occur after the financial liberalization movements on the monetary policies by using the theoretical observation model. The long-term effects of the crises and the failure of the central banks to implement policies lead to criticism of monetary policy.

Oktar and Yüksel (2015b) discuss the banking crisis in Russia in 1998 using the Probit model technique. For the developing countries to consider the idea, the Russian economy is examined. The fact that the current account deficit is higher than GDP is one of the most important reasons for the banking crisis in Russia. In addition, the low profitability of the banks in Russia is also noteworthy. Avcı and Altay (2013) evaluate the predictability of economic crises by using regression model technique. According to the study, it is covered by the period of 1990-2001 and 2009-2007. Accordingly, macro variables must be considered to predict economic crises. Considering the situation of macro tools in the economy, the foresight can be predicted about the crisis.

Durmaz and Dilber (2015) discuss the monetary policies applied when global crises occur by using theoretical observation technique. In this context, the 2008 global crisis is examined. Monetary policy in any crisis environment is expected to be implemented and is carried out continuously. Karaca (2014) provides an overview of global crises by using theoretical observation technique. In the 1997 Asian crisis, the situation is different. International institutions and organizations help to take a global measure of asset. The recent global crisis of 2008 is regarded as the biggest crisis after the 1929 crisis.

Karakurt and Akdemir (2016) examine the effects of global financial crisis on government debt by using theoretical observation technique. In this context, the debt crises of developed and developing countries are examined based on the 2008 global pollution. In this study, it is observed that the developed countries eliminated the crisis more easily than the developing countries. Erarslan and Timurtaş (2015) refer to the debt crisis in Europe after the 2008 global economic crisis by using theoretical observation technique. In this context, the economies of Greece, Portugal, Ireland, Italy and Spain are included in the evaluation. The cause of the European debt crisis stems from national problems.

Tekin (2016) examines the nature of credit rating agencies against the crises and bankruptcies that occur continuously using the theoretical observation technique. Lately, credit rating agencies have not predicted crises and bankruptcies. For this reason, the investors incur losses. In this respect, confidence in credit rating agencies is undermined. Gündoğdu (2015) uses the theoretical observation technique and then talks about the application of inflation targeting by countries after the crisis. The implementation of inflation targeting is not preferred because it pushes central banks to take risks.

Seyidoglu (2003) examines the concept of global crisis by using theoretical observation technique. The effects of the globalization process that started after 1990s are manifested as financial crises. The biggest factor is the policies implemented by the IMF against the crises. The IMF's policies have led developing countries into more difficult situations. Yeldan (2009) discusses the 2008 global crisis by using theoretical observation technique. The US-based mortgage crisis has had global implications. The turbulence in credit markets has a global impact.

A CASE OF TURKISH ECONOMY AFTER FINANCIAL LIBERALIZATION

After financial liberalization, many developments have occurred in the world and Turkey. In this part of the study, the changing international economic system after the crisis and Turkey's economy is considered. Many political and social developments in Turkey in the period after 1980 are formed. In this context, the first crisis of globalization occurring in Turkey are taken prior to the evaluation. Then, in the global crisis, the economies of USA, UK and France are evaluated. At the same time, financial liberalization in the post European, the Latin American, the Russian, Brazilian and Turkish crises are considered. For this reason, with respect to the political crisis in Turkey, which started with the 27 May 1960 Revolution, was followed by developments such as the coup of 22 February 1962, March 12, 1971 Memorandum, 12 September 1980 Military Intervention, 28 February 1997 Process, 27 April 2007 E-memorandum, 15 July 2016 Military Coup Intervention. section. Thus, the effects of these developments on the economy are analyzed on a macro scale.

Financial Crises in Turkey Before the Globalization Period

Crises that occurred before globalization took place in Turkey are considered in this section. The first crisis in this context is the 1929 Economic Crisis. The occurrence of the crisis with Turkey has met the global nature of the crisis for the first time. In the US, production and work could not be predicted due to the continuation of full capacity, and economists could not give a common opinion as the cause of the crisis. The impact on Turkey's economy is drawing attention as balance of payments deficits. It also causes the value of money to lose value. The financial sector was not affected by the crisis in Turkey. Because this period there is no stock market in Turkey. For this reason, the state policies in Europe are being changed due to the rising fascism. The open economies in the period before the crisis with import and export oriented growth targets in Turkey are to stay away from the target in this regard (Şenel, 2018).

In 1946, another economic crisis was faced during the Hasan Saka government. In 1939, Turkey's external debt denominated in foreign currency is calculated at $ 236 M band. When the year comes to 1940, a concession of 164 M $ from the UK and France is realized. In 1942, 100 million marks were borrowed from Germany. When the process by the end of 1945 showed the date and total external debt of Turkey has been increased to M $ 439 band. Economic growth is adversely affected by the high appreciation of TL. After this development, devaluation was realized in 1946. After the devaluation, the external debt increased by 707 million Turkish Liras due to the effect of the exchange rate. The cause and effect of the 1946 crisis has been realized in this way (Duman, 1992).

In the period between 1954 and 1958, while the economic crisis occurred, Adnan Menderes was on the government. The economic crises in this period are due to foreign trade deficits and foreign exchange deficits. In order to get rid of the coming crisis in 1947, Turkey became a member of the IMF stabilization policies. Another economic crisis is the 1969 economic crisis. However, this period should be evaluated as 1970 and 1980 period. In this period, two major oil crises have occurred, and devaluations have occurred and the disruptions in the balance of payments have caused the solution of the external debt problem. As a result of the decrease in domestic savings and export rates, a devaluation was carried out on August 10, 1970, and the ten-year process we mentioned started in this way. The second oil crisis occurred in 1978. The second oil crisis that has taken place affects our direct revenues. Most of the export revenues realized are in oil imports. At the same time, the decline in our exports is observed due to the embargo imposed by the USA on the Cyprus Peace Operation (Değerli, 2012).

Political Crises in Turkey Before the Globalization Period

May 27, 1960 Revolution, which has attracted attention as the first blow occurred after the establishment of the Republic of Turkey. This date is also considered a historic meeting with Turkey's coup. While examining Adnan Menderes period, firstly economic problems and political problems are evaluated. Then the first coup took place in Turkey is taken into evaluation. In this period, it is possible to talk about the high cost between the years 1950-1953. With the possible effects of the Korean War, prices in agriculture are increasing. This situation also provided significant foreign exchange input to the country. However, foreign capital inflows have not been realized at the expected rate and the current deficit is closed with short term plans. In this case, economic problems are increasing (Gülener, 2007).

During the ongoing process, Prime Minister Adnan Menderes requested assistance from countries such as the USA and Japan, but the demand was rejected. This means that the money devalues 322%. 359 million dollars of aid was received, and the maturity of debts of $ 700 million was shifted. Inflation rate increased by 20% in this period. Adnan Menderes was unable to persuade the people and the opposition in the face of these economic problems. On the morning of May 27, 1960, the Turkish Armed Forces seized power of the government. May 27, 1960 coup was the first coup in Turkey, as stated before. In this sense, it is the first door to the coup and political crises that will last for 20 years (Özsağır, 2013).

The 1971 memorandum draws attention as another political crisis which is an ultimatum given to Turkish politics by the Turkish Armed Forces. Starting from 1969 the world population is affected by movements in Turkey. As the whole world has started student riots in Turkey. The biggest reason for the demand for change is that the 1961 Constitution was not developed in the institutional sense. The constitution narrowed the activities of the executive and created limitations. The constitution of 1961 was also not accepted by the public due to the construction adventure. The majority, which was not among the representatives in constitution of the Constitution, continued to increase its criticism until 1971 and then the demands of change caused student uprisings. Although at that time the whole world has shifted from authoritarianism to democracy, March 12, 1971 memorandum was read on the radio (Akinci, 2014).

Another blow to democracy in Turkey is 12 September 1980 military intervention. The effect is considered as a political crisis that has taken years. The economic data are not very good in the period. The main reason is that previous military interventions had a negative impact on the national economy. In these years, inflation increased radically. In addition, the export amount does not meet the import rates (Sunay, 2010).

Financial Crises in Turkey After the Globalization Period

All crises examined before had various effects on Turkey's economy. However, no crisis that occurred during the period 2000-2001 has not made a deep impact on Turkey's economy. The financial crisis that occurred in this period deeply affected the real part of the economy and had great consequences both politically and socially. In this context, the political part of the crisis is noteworthy. In this period, there are structural and macro-economic problems, especially problems in the banking system. Due to the effects of fixed exchange rate, various shocks resulting from financial liberalization and corresponding foreign capital inflows are also noteworthy as the politically unstable image and external shocks. For these reasons, it is also noteworthy that all the necessary conditions for an in-depth financial crisis have occurred (Yüksel & Zengin, 2017).

The influence of the political tension between the Prime Minister and the President had an adverse effect on the economy. Besides, the transition of the Central Bank from the fixed exchange rate to the floating exchange rate system has negative effects on the economy. After the political crisis between the Prime Minister and the President, which took place on 16 February 2001, there was a heavy increase in the overnight interest rates from 50% to 6200%, the excessive decline in the stock exchange and the increase in foreign exchange reserves, as well as the heavy cost of the money against the dollar (Macovei, 2009).

In addition to the 2001 financial crisis, the global mortgage crisis occurred in 2018 also negatively affected the Turkish economy. Another name of the crisis that occurred in 2007-2008 period and gained a global impact as a result of financial fluctuations is the mortgage crisis. In the US, real estate is mainly due to the reasons for the payment of more than the power of individuals who have limited ability to pay more by opening the loan was opened later on the failure to come back. There are also common and different aspects of the crises examined before. The policies followed in the crisis process, the structure of the market and the shortcomings in the audit caused a deepening of the crisis. At the same time, high levels of financial prices led to the deterioration in the balance sheets of financial firms as a result of insufficiency in the management of financial innovations. At the same time, these examples cover the destructive effects of the crisis and draw attention as commonalities with other crises (Ersin and Eti, 2017). When looking at the impact of the global crisis in Turkey is observed to be a devastating effect as in Europe and the United States. Turkey has less impact than in other countries because the country experienced this situation. Overseas capital problems occurred even in the central bank did not occur in Turkey branch (Yüksel & Zengin, 2016).

Political Crises in Turkey After the Globalization Period

The political crisis that took place on 28 February 1997 is also defined as the post modern coup. Different points from other impacts were targeted only to a certain segment and were performed to weaken the power of that sector. At the same time, the prohibitions and restrictions are only aimed at the points where this section is sensitive. On 28 February 1997, the National Security Council held the longest meeting in history (Ersin & Yıldırım, 2016). The meeting, which lasted 8 hours and 45 minutes, aimed to protect secularism and to review the laws if necessary. On the other hand, firstly sanctions were imposed on the sects. Furthermore, the introduction of Islamic limitation to all actions and activities in Turkey in the direction of a 18-item study was conducted (Doğan, 2006).

27 April 2007 E-Memorandum Process draws attention as another political crisis. But it has occurred significantly different from the others. First, the memorandum was not read from radios and televisions such as memorandum and blows. It is published on the website of the Turkish Armed Forces and is therefore called e-memorandum. Another important difference is that the political power of the period reacted negatively to this issue. The AK Party government has taken the decision of early elections after the memorandum. After this decision, the Turkish Nation, which showed a great response to the memorandum, voted again to the AK Party, which was 34% in the previous vote, with 46.5% of the vote. The stability in the country has continued due to the realization of the election. On the other hand, the political crisis was avoided without any economic impact (Cansever & Kiriş, 2015).

The July 15 coup attempt is another failed attempt, such as the e-memorandum in the previous chapter. This coup attempt occurred in the time of the AK Party government. It is called a military engagement or coup attempt because it is formed by a certain part of military personnel, not just all of them. This coup was carried out by only one group of soldiers in the army. The majority of the Turkish Armed Forces opposed this coup, but the balance sheet was still heavy. On the other hand, Turkey's economic and investment within the meaning of ongoing developments is intended to be prevented. The coup attempted to assassinate the President. The Bosphorus Bridge, which was mentioned as the first bridge in Istanbul, was closed by tanks. But this attempt failed when the people came out on the streets (Karagöl, 2016).

SOLUTIONS AND RECOMMENDATIONS

In order to continue the development, Turkey's economy must undergo the manufacturing economy. Turkey, which is far behind the world's countries must make the necessary investments in production technology in this sense. In order for the country to have access to foreign financing, it is necessary to allocate confidence. Policy-makers need to avoid movements that create tension and concern. Turkey must also capture 4.0 industry and innovation should make moves that are necessary for it. It is necessary to strengthen bilateral relations with other states in the region of Turkey. Politicians were under too much influence politics in Turkey's economy needs to be much more sensitive on this issue.

FUTURE RESEARCH DIRECTIONS

While the study was carried out, there were constraints such as inadequacy of data for the pre-1980 period, and the lack of reliable data on economic indicators other than the macro scale between 2000 and 2010. In a study that examines the effects of financial and political crises on the economy in the future, regression analysis can be conducted which takes into account other countries. At the same time, it is possible to observe the distribution of the effects of political and financial crises by region.

CONCLUSION

Due to financial crises, international and local financial institutions have gone bankrupt. Financial crises increase the debt obligations of countries and cause long-term borrowing to international financial institutions such as the IMF. Due to the financial crises, which caused the public debt to increase significantly, harsh political practices were implemented. Financial crises cause a decrease in foreign loans. The biggest negative impact of the global crisis is that the financial crisis has affected countries very quickly.

Political crises have serious losses on the macro scale. There are factors such as reaching double digit figures in inflation rates, being well above the limit in interest rates. Political crises also cause negative effects on the exchange rate, causing the depreciation of the national currency. Political crises have more negative effects than financial crises. It is not predictable when political crises will end. Some of them last for many years, some of them never come to an end.

The study of the economic and political crisis, which occurred after financial liberalization was carried out to determine the impact on Turkey's economy. The economic crises cover the period between 1980-2018. Political crises cover the period between 1960 and 2018 for better understanding. In a specified period comes to a political challenge in Turkey in a financial crisis every ten years.

There are many negative effects of the financial crisis on Turkey's economy. It causes the central bank to lose its influence on interest rates. The balance between the income distribution and the expenses has also been disrupted. At the same time, financial crises caused deterioration of credibility in financial markets. Turkey's economy is the financial crisis triggers another financial crisis. There is a decrease in the foreign demand of the economy. Financial crises bring an artificial growth process between the exchange rate and interest rates. Turkey's economy has lost its growth trend due to the financial crisis.

Political crisis in Turkey has a great impact on the economy at the macro scale. Firstly, inflation rates should be mentioned. Inflation rates in the country's economy are rising to double digits due to the impacts of the country and even they are seeing hyperinflation. Due to the political crisis, Turkey's external balance of payments deteriorates. Particularly due to the geography where it is located, the open space for the crisis in the political sense significantly affects the national economy in the fluctuations in the exchange rate. Due to the uncertainty environment, it was not possible to obtain indirect financing. In this case, investments are limited. Unemployment figures are rising due to the political crises that have an impact on the real sector.

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KEY TERMS AND DEFINITIONS

E-7: The biggest seven developing economies.
G-20: The biggest 20 developed economies.
IMF: International Monetary Fund.
OECD: The Organization for Economic Cooperation and Development.
UK: United Kingdom.
US: United States.
WB: World Bank.
WTO: World Trade Organization.

Chapter 5
The Role of Financial Communication Under the Chaos Environment:
A Case of TEMSA Company

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ABSTRACT

As globalization becomes a necessity for organizations to continue their sustainability and existence in the world, naturally their interdependencies to other economies also emerge. After the 2008 economic crisis, TEMSA, a Turkish family-owned company operating in the transportation industry, decided to expand its products and manufacturing plants to different regions. Egypt, for the time being, was geographically a well strategic location for TEMSA's long-term manufacturing plans. In 2011, when the Arab Spring broke out, TEMSA found itself in the middle of chaos, challenged by external political and economic decisions. This chapter focuses on the case study of TEMSA Global as they entered the Egyptian market with a foreign direct investment and managing chaos between the years 2011-2012. An interview was conducted with the management team on duty at the time to collect data. As a result, it was observed that TEMSA potentially had a chance to continue its operations in the Egyptian market if the Arabian Spring had not happened. Chaos is a potential enemy for FDIs as they seek stability.

INTRODUCTION

As technology develops and transforms people, companies, and even governments want to aim higher and expand limits (Dinçer, Yüksel, Adalı & Aydın, 2019; Yüksel, 2017). It is much easier to communicate with the world as technology and innovations create great opportunities (Dinçer, Yüksel & Martínez, 2019; Dinçer, Yüksel & Çetiner, 2019). In the last decade, technology and mainly the Internet has visited everyone's home, creating more demands from a customer's perspective. Just like any other change in

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history, organizations have to adapt to the fast speed of wants and needs of their customers (Dinçer & Yüksel, 2018a).

The world has diverse needs and therefore companies try to keep up to date with the ongoing change. Companies, which operate in limited economies eventually, seek for international markets to expand (Ciravegna, 2018; Dinçer & Yüksel, 2018b). Some take on the risk depending on their resources and hopefully strategically plan their globalization journey (Dinçer, Yüksel & Pınarbaşı, 2019). When companies decide to enter the international markets, some critical steps are required be taken in order to guarantee strategic positioning (Dinçer, Hacıoğlu & Yüksel, 2017). The initial stage is to analyze the external environment of the host country (Kucuksuleymanoglu, 2008; Dinçer, Yüksel & Adalı, 2019). Depending on the vision of the company, and the macro/micro factors, organizations can shape how and when they will enter the international market. Although sometimes it is not possible to foresee situations, especially political events, companies still take the potential calculated risk by directly investing in a foreign developing country (Tunay et al., 2019).

Foreign direct investments (FDI) along with different alternatives to enter international markets seems to be the most effective approach (Calabrese & Manello, 2018; Adalı & Yüksel, 2017). After World War II, countries tend to be very skeptical in regards to FDI (Dinçer, Hacıoğlu &Yüksel, 2018). It was viewed as a trap to colonialism, especially in developing countries (Tandircioglu, 2003; Zengin et al., 2018). Therefore, it could be said that countries were reluctant to the idea of outside investments (Yüksel et al., 2017). However, technology developments and the need to catch-up with globalization changed perspectives in both developed and developing economies (Jain, et.al., 2018; Uzunkaya et al., 2019; Dinçer et al., 2019). Eventually, governments needed to compete to strenghten their economies to sit on the powerful platform. According to Cinko, there are different motivations of FDI (See Appendix 1 Table 1).

When TEMSA, a Turkish family-owned company, decided to go global, foreign direct investment was an effective choice in the emerging markets such as, Africa and the Middle East. High profitability and low expenses were very appealing in Egypt along with custom contracts between Turkey and Egypt. Also, geographically Egypt was strategically beneficial as they planned to manufacture in Egypt and distribute to North African and the Middle Eastern countries. With their headquarters in Istanbul and manufacturing plant in Adana they had been operating in the Turkish market for over 40 years when they decided to enter the African market. Their know-how, technology, and resources were sufficient to compete in the global market and create employment in the region. Just like any given organization TEMSA used various models such as Porters 5 Force Model and the TOWS to analyze and strategically position themselves in the market.

FOREIGN DIRECT INVESTMENTS AND TEMSA GLOBAL

In 1980, when Mitsubishi entered the Turkish market they licenced their products only for the speficic market thru TEMSA. During the recession in 2001, TEMSA also got affected with internal sales and needed to find different markets to expand. According to Calabrese and Manello (2018), it is appealing to become a global company to both compete in their given industry and have an input in the economic growth. The Turkish market would not be sufficient for the long-term objectives the company had, and therefore needed to globalize the organization to sustain existence. Due to the licensing restrictions, TEMSA was not permitted to operate elsewhere under the Mitsubishi brand. Also, one other restriction was that the technical procedures of Mitsibushi were not aligned with the European regulations and therefore TEMSA could not globalize in Europe using Mitsibushi products. That said, TEMSA was ready to manufacture and process their services and goods to the World, impacting economies and societies. Underwood claims that according to the International Monetary Fund (IMF), globalization is defined as 'the process through which an increasingly free flow of ideas, people, goods, services, and capital leads to the integration of economies and societies' (2012). That said, it could be observed that TEMSA was on the right track to finally globalize its services. Its technical know-how and increasing investment in technology allowed TEMSA to globalize.

TEMSA's license dependency was turned into an opportunity. Based on the interview with the expat management team from TEMSA, during the 20-year time TEMSA has represented Mitsubishi, they have developed a tremendous know-how and a transferred technology. Knowing globalization was not always a linear road, TEMSA took the risk by searching for new markets to financially and culturally transfer what they have learnt. When TEMSA announced their vision and mission to go global they focused on a karma strategy depending on the region entered. It may be analyzed that TEMSA, before seeking for profit may have looked for demand and the size of the markets (Cinko, 2009).

Europe was a sensitive region with different regulations but with similar needs and designs of the Turkish market. Therefore, strategically it was more suitable to keep the production hub in Turkey as is was cost efficient. The company decided to open sales offices in the main European countries such as England, France, Spain, Germany, and Belgium. On the other hand, Czech Republic served as a ware house for spare parts, as the R&D plant was built in Istanbul serving both the EU and Turkish markets.

In the parallel, the United States was another market TEMSA aimed for. The American region was very challenging, and the ultimate goal was to eventually build a production plant. However, initially pilot testing began in certain states. TEMSA foresaw this market would be costly and therefore, moving forward on a slower pace would be to their advantage in the long run. Also, the investment attempts in different regions were increasing expenses.

Africa was a unique market for TEMSA and it had a huge technological gap that could be an opportunity for many organizations. At the time of the crisis, while most markets were economically declining, there was a economic growth in Africa. Therefore, not only for TEMSA but also for other companies this region was becoming very attractive. China had seen many opportunities in the region and began to invest as well. Many countries in Africa aim to attract FDI's to close the technological gap by reducing taxes and providing other benefits (Malikane & Chitambara, 2017) Given the circumstances, Egypt was open to foreign direct investors to increase their employment rates and needed to take advantage of transferred technology. Calabrese & Manello (2018) claim that, although takeovers could be an alternative when entering a domestic market, foreign direct investment is the most popular and accepted approach. When the cost of exporting a good is higher than building a production plant, with straight logic FDI's become the best option to grow globally. Foreign direct investments, because of its nature require real time production. Additionally, FDI's are viewed as cause and effect of globalization (Pekarskiene & Susniene, 2015).

On the other hand, Egypt seemed to be a good choice for TEMSA, as it was located in a very strategic location. The ultimate goal of TEMSA was to build a manufacturing hub in Egypt to create a supply chain in Northern Africa and the Middle East. According to Carr and Chen (2001), companies who want to globalize their products and services choose markets where labor is cost efficient for organizations and Egypt was a very attractive market for organizations who seek for low labor costs. Egypt held a large, trained and competitively priced labor force. Compare to the labor costs in Europe and Turkey, Egypt offered better prices. On the other hand, developing economies such as Egypt provide motivational incentives such as tax and expense reductions (water &energy) to create an appealing region for companies (Jain, et.al., 2018). The Egyptian government had three different customs contract that allowed organizations to export to thirty different countries. The GAFTA, COMESA and AGADIR (See Appendix 2, Table 2) contracts allowed organizations to eliminate custom expenses and these contracts were good reasons to choose Egypt as a manufacturing hub for the Middle East and Northern Africa. Also, Egypt had a contract with Europe, modifying the custom expenses within five years time. Therefore, the strategic and custom reasons allowed TEMSA to move forward with their FDI in the Egyptian market. Additionally, the penetration and localization was easier in Egypt compared to other markets.

Although Egypt was creating opportunities for organizations to bring in investments, the contracts were a win/win strategy. In other words, the Egyptian government also had some demands in return of these investment encouragements. Firstly, the government required the products to become 50% localized, meaning that when manufacturing and producing, local suppliers were to be used. However, during the market analysis TEMSA realized some of the parts needed during the assembly of the buses were not available in Egypt. This was another opportunity both for the Turkish suppliers and Egyptian government for other FDI options. TEMSA encouraged some Turkish companies to invest in the market and to continue their partnership globally as well. FDI is seen as a benefit for both parties; investing company & host country. Transferred technology being on the main benefits, restructuring of the competition, increasing educational level for the demand of high skilled employment and ‘reduced prices’ could be listed as indirect benefits of FDI in the long run (Malikane & Chitambara, 2017).

According to the management team who has been on duty for the TEMSA global list the top ten reasons why they invested in Egypt. Firstly, the macroeconomic stability and robust growth made Egypt a very attractive and high potential market. At the time being it had a 32% GDP in the transportation industry and 54% in services. On the other hand, the consumer market was increasing as the demands of the market were equally increasing. According to the management team, the African region was in incline of 5% in market share while rest of the World was in crisis. Therefore, the need of the consumers and the touristic industry was increasing which made their economy pretty diverse. Most importantly, FDI’s like stability within the market they plan to enter. Political, social and economic consistency reduces the risks for the investing company per say (Tandircioglu, 2003). Egypt was politically stable and personal security before 2011 was unquestionable. Before TEMSA decided to enter the Egyptian market, it was necessary to analyze the environment as the company was taking a big step on investing internationally for the first time. Using Porter’s Five Force Model was used to analyze the environment. It is highly suggested to research the case from Porter’s Diamond model in the future as well.

THE ENTERING STRATEGY: PORTER’S FIVE FORCE

When organizations enter new markets of course strategy is always the golden key on how they will go on without performing the competition. Strategy explains how an organization, faced with competition, will achieve superior performance. Porter tells that one of the reasons so many companies fail to develop good strategies is that the people running them operate fundamental misconceptions about what competition is and how it works (Grundy, 2006). This is critical because if there were no competition, there would be no need for strategy, no need to come up with a way to “win”, to outperform rivals.

When TEMSA entered the Egyptian market there were strong local production competition and they have been around for many years. Additionally, they were part of the most powerful Egyptian families. Both of the two main competitions were from the same family and manufactured in different segmentation and product lines in Egypt. GB Auto manufactured both Hyundai in the automobile and Mitsubishi in the truck line. Also, under their own brand focused on coach buses. MCV on the other hand, manufactured coach buses with the Mercedes licensing and also was the distributor of the Mercedes trucks in the region. Additionally, they were preparing for a manufacturing production in India and coach sales in England in cooperation with Mercedes. According to the TEMSA, both of the competition was close to the government authorities and had influence on the private and state sectors.

It would be fair to say that TEMSA was challenged with competitors when entering the Egyptian market. Unfortunately, they had yet to create brand awareness and did not a service network. Also, TEMSA did not have the adaptability and agility just yet. For example, when TEMSA announced their entrance product to the market, MCV manufactured a similar product within the six months period. The high-volume luggage capacity and esthetic look of the coach bus was a long time demanded product in the market. MCV's adaptability allowed the competition to compete one step ahead. On the other hand, TEMSA aimed to create brand awareness based on quality products. Having Mercedes as a licensing partner in the couch bus product line, challenged TEMSA in many ways. Mercedes and its subsidiaries were already the World leaders in the specific line. On the other hand, GB auto and MCV were also industry leaders in the mini and midi bus product lines.

THREAT OF ENTRANCE

The economy of the African region was inclining while other economies were declining and therefore, the Chinese government encouraged its organizations to invest in the area. Regardless of the risks FDI had, it was still cost and quality efficient to produce and manufacture goods. The Chinese government was motivated to invest in Egypt because the quality of the products manufactured in China was poor. Also, once the customer's contracts were completed between Europe and Egypt, China could take advantage of this and start the selling process in Egypt. They owned both the know-how and the technology to manufacture mini, midi and coach buses. However, their manufacturing regulations were not in parallel with the Europe and therefore, they still had the means and resources to invest with different alternatives such as acquisitions and mergers.

THREAT OF SUBSTITUTE

Egypt was a cost-efficient market for most of the foreign investors. Given the socioeconomic conditions of the country, employment rates were fairly low and firms who were after globalization took advantage by creating a win/win approach through their investments. In the Egyptian culture, unfortunately the buying behaviors of consumers were solely based on functionality rather than high quality. This buying behavior was an advantage for the Chinese manufacturers since their approach was mainly based on cost efficiency. In other words, while TEMSA manufactured high quality products, the expenses of newly investing for globalization did not allow the company to become at advantage in terms of their pricing. Unfortunately, not having the brand awareness and price advantage, TEMSA did in fact have some substitutes. In irrelevance of this paper, further research on how they could have overcome the substitution will deepen this case study.

BARGAINING POWER OF SUPPLIERS

Independently from TEMSA, when an organization enters a new market as a general rule, they will most likely have low bargaining powers. In order to have the upper hand during the bargaining process there must be some several factors involved. For example, brand awareness and demand obviously go hand and hand. In the case of TEMSA, unfortunately TEMSA did not have any brand awareness and the demand was just beginning. Potentially it becomes more and more challenging when an organization is contracted to localize their products. The Egyptian government adds a rule of localizing supply during the contracting period. Meaning, any organization that enters the Egyptian market is required to work with local suppliers. On one hand TEMSA was trying to supply their parts for the required rule, while on the other hand working on trying to convince Turkish suppliers to enter the market. In underdeveloped industrializations, unfortunately there are limited resources of supply and therefore in this case TEMSA did not have the upper hand in the matter. They had to purchase their supply at high cost, as there was only one supplier in the market that will address their technological parts. It could easily be said that, TEMSA would not have the bargaining power until brand awareness was increased and the number local suppliers were opened.

BARGAINING POWER OF BUYERS

According to the expat management team in TEMSA, the organization was already in the darker side of the market as they were lacking brand awareness both from the supplier and the buyer perspective. Being a Turkish company who has just entered the market created some question marks within the customers and the consumers. The main component of manufacturing parts was unfortunately supplied by the competitors, which caused a discomfort at purchase. This leads to taking risks when looked from a customer perspective and therefore increases the buying power of the customer. Most customers work based on their fleet and do not want to include a foreign brand in. In other words, they are not sure of the after-sale support and the quality of the product, as they have never heard of TEMSA before. At some minor exceptions, when customers did agree to buy one or two products for their fleet the discount amount requested exceeded the expense of the product itself. Therefore, it was almost impossible for TEMSA to match prices as they were in the process of investment. On the other hand, the competition is highly skilled at after sale support and technical support that TEMSA was not able to keep up with the competition. Therefore, as an overall perspective, TEMSA did not have the upper hand in the matter and sold only 12 buses within 16 months of operation.

TOWS ANALYSIS

When TEMSA was entering the Egyptian market the management team used the TOWS Matrix to determine the external and internal measurements.

External Elements

- **Opportunities:** As TEMSA was in the leader position in Turkey in the tourism industry, they had a dramatic know-how in the touristic segment. This was an opportunity for the company as the Egyptian region did in fact attract a lot of tourists around the World. On the other hand, as mentioned above, Egypt was strategically at a very good location and therefore it had the potential to do business in the Middle East as well as Africa. This was an opportunity for the management in TEMSA as they aimed to geographically place themselves in the middle of the Middle East and Africa for future exporting deals. On the other hand, the GAFTA, COMESA, and AGHADIR were attractive custom contracts between Egypt and other countries. It provided a lot of incentives and expense cuts that any company could directly invest in the government. The market wanted to import new technology and therefore needed to attract big companies.
- **Threats:** When TEMSA entered the Egyptian market, there were already very big companies in the same industry, doing the same job. MCV was a very big competitor and had already established the market with its buses. On the other hand, it was very challenging to compete with the Chinese due to their cheaper prices. Chinese even though did not manufacture as quality products has a price advantage over TEMSA. Also, the potential of having a negative Word of mouth because of the 'high' prices were potential threats to the market and organization. Unfortunately, due to poverty the market was very price sensitive and needed to provide transportation within the means of their people.

Internal Elements

- **Strengths:** Being the industry leader in the Turkish market, TEMSA had company resources and some support when entering the Egyptian market. Their investment approach was aggressive, and they were the one and only company in Turkey to enter a global market with directly investing. Also, they were very well qualified with the European Standards, which put their products at high quality. On the other hand, although they lacked brand awareness when entering a newer market, they had many quality and global awards due to their high technological manufacturing factories and their comfortable and innovative products.
- **Weaknesses:** Compared to its competition, TEMSA had no brand awareness in the Egyptian market. Unfortunately, it had the set the tone for the other investors and therefore had to take the lead on the challenging road. Also, rich Egyptian families who were very close to the government officials have around for a very long time, owned the competition. One disadvantage TEMSA had was the lack of after sale support. Due to the newer development of the factory and the sales force, the organization had just begun its operation in the Egyptian market and therefore was in the process of the after sales support.

THE ARABIAN SPRING AND CHAOS

When Mohamed Bouazizi, a Tunisian fruit seller was not able to get an appointment with the mayor for a confrontation in regard to his seized goods, he showed his reaction by burning himself in front of the civic center in 2010; not realizing the consequences of his actions (Campente & Chor, 2012). The unpredictable reaction caused the Middle East to realign their political, economic, social, and cultural approaches.

From the 1980s up until when the Arabian Spring happened in 2011, the same families ruled Egypt and most of the Middle Eastern countries. Poor living, unfair economic and political situations and most importantly corruption were all significant causes of why Egypt was not developing to its potential (Abdelbaki, 2013).

(See Table 1 for poverty indicators).

The obvious perspective, the fruit seller was after his freedom and human dignity. Some groups in Egypt were looking at potential opportunities to raise voices against poverty and therefore seeking for a change. Although the intensions and demands of these groups seem to be revolutionary 'accepted' it has affected over 200 million people in the Middle East (Obolensky, 2014). For most corrupted and unfair states, from time to time it could be common to see minor rebels against authority, trying to have impact on fundamental changes. The extreme action of the Tunisian fruit seller in fact was very tragic and yet enough to start a revolution and deep economic and political change within the Middle East. According to Edward Lorenz, 'even in complex and chaotic systems, which are unpredictable in the long run, have an underlying pattern.' (Obolensky, 2014). Therefore, although the patterns in chaotic systems requires further and deeper research, given the circumstances the butterfly effect that has cause the Arabian Spring may be a collective whole outburst of the parts over the year.

In the meantime, TEMSA Global had already entered the Egyptian market, built a manufacturing plant with the latest technology. Ten days after their launch of their newly assembled bus, there was newer and more chaotic challenge they needed to face; the Arabian Spring. According to Obolensky, in situations of chaos leaders need to just act. Under the circumstance, regardless of the initial objective, in an uncontrolled and unknown situation companies need to make the most effective decision. This is the exact strategy TEMSA followed in the time of the Arabian Spring. The expat management team at the time needed to make critical decisions focusing on the safety of their teams. Therefore, all of the presale orders were cancelled, and the teams were sent back to their home countries until the environment was settled.

Table 1. Some indicators of poverty in Egypt

Year	Poverty Rate	Gini
1981/1982	17.2	NA
1990/1991	24.3	32.00
1995/1996	19.4	30.13
1999/2000	16.7	NA
2004/2005	19.6	NA
2008	21.6	36.1

Source: Abdelbaki, 2013

When TEMSA Global decided to invest in Egypt, their ultimate long-term objective was to make Egypt a manufacturing hub in the Northern African region, distributing to the Middle East as well. Tunisia, Libya, Sudan, Iraq, and Egypt were all target markets for TEMSA and therefore needed to reposition its self-according to the economic and political settlements. Also, at this point the company would have to decide whether or not to continue with their investment as the tourism industry, the direct line of business has inclined dramatically (Abdelbaki, 2013). Between February 2011 and July 2012 Egypt and other target countries went through a political, economic, social, and cultural changes for their freedom and democracy. In 2011, when TEMSA launched its first product in Egypt, a little over ten days later the Arabian Spring outbroke, leaving many foreign invested companies in the middle of chaos. According to C-level management in TEMSA foreign direct investments require economic stability and therefore Egypt was no longer going to serve their purpose.

EXITING STRATEGY

Without hesitation, the expat management team stopped all pre-orders and naturally did the first thing that came to mind during chaotic events. All the expat teams were gathered and sent back to their home countries for personnel safety. After some time, TEMSA returned to the market for damage control and begin further decision-making processes. However, it was obvious that the country was exhausted and would never become as stable as it once was. As mentioned above, FDI seeks for stability, legal infrastructures and developing economies. The external environment politically and economically was too instable and inconsistent. It was almost impossible for TEMSA to sell any products to Turkey and/or Europe in such circumstances.

All these chaotic events were big obstacles for TEMSA to produce and grow. Although the organization had the means and resources to continue, TEMSA did not want to take the risks of the unpredictable and unstable political and economic bumps. At the time TEMSA was the first and only Turkish company to directly invest in the automotive industry in a foreign country in terms of production. Countries in the Middle East that were potential markets for TEMSA were politically, economically, and socially tired and damaged from the Arabian Spring. Therefore, it was complex, chaotic and too risky for TEMSA to continue operations in Egypt.

When looked from a scientific perspective, chaos may seem to be simple (Obolensky, 2014). The human brain considers everything to be chaotic when it cannot find reasoning behind events. However, in most chaotic systems, such as the Arabian Spring, there were also orders within the system. The decision TEMSA has made was only an expected move as future reasoning and consequences were unable to be seen.

SOLUTIONS AND RECOMMENDATIONS

The Arabian Spring has changed and transformed economies. Direct foreign investments are directly effected by political and economical challenges in the home country. Therefore, organizations take upon important roles in analyzing financial outcomes and other aspects when entering ta new market. One recommendation for the past act would be to analyze the political history in the given region for potential future outbreaks both economically and politically. On the other hand, more in depth market analysis could have been used, such as Porter's Diamond model as it focuses mainly on how to enter a new economy from diverse perspectives. Fortunately and unfortunately, the chaotic Arabian Spring has changed the way the world financially functions. All crisis countries face eventually play a role on financial decisions in the other countries.

For future references, TEMSA is an eye opening case for companies who directly seek to financially invest in new markets. Developing countries undergo deeper changes in their economies. Therefore, it would have been recommended to analyze political histories and potential future acts, as it directly influences the decision-making process in FDI's. As the World finds its political balances, most economies will be in turmoil and will eventually settle down. At this point, it would be the responsibility of organizations to deeply analyze political and economical approaches, as they will always consider growth in the global arena.

FUTURE RESEARCH DIRECTIONS

During the process, an interview was conducted with expat management who were directly involved in the FDI in Egypt. While the interview serves the purpose of this paper, further research on the Egyptian perspective might deepen the case and include a different financial dimension. The case study contributes to the literature by including chaos and foreign direct investment from a real world overview.

CONCLUSION

Overall, when looked at a broader perspective it could be said that TEMSA was unfortunate with its investment in Egypt. Although the perks were appealing at first the chaotic situation during the Arabian Spring cause the investment not to return. As a general rule of thumb, organizations usually will not be able to predict political chaos. However, after many incidents in the World such as terrorism, Arabian Spring and many others, companies and governments are more cautious with foreign direct investments. On the other hand, the strategic moves and planning is almost impossible in the technological era as things change at a very fast pace. Therefore, it is only fair to give credit to TEMSA for trying to create a global company where manufacturing plants are placed strategically. If TEMSA were to succeed in their FDI, they would most likely create brand awareness in the region and spread their products through the Middle East as they represented the quality of the industry. The challenging markets around the World are becoming more demanding as the customers; suppliers and consumers are becoming tougher. It is very much likely that TEMSA did not want to create unnecessary attention and began their journey at a smaller pace. On the other hand, it is very much possible that they might have missed the big slice of the pie by not entering the market very aggressively. Regardless of these scenarios, TEMSA would have not been able to foresee what was potentially coming in Egypt when the Arabian Spring began.

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KEY TERMS AND DEFINITIONS

EU: European Union.
FDI: Foreign direct investment.
R&D: Research and development.

APPENDIX

Table 2. Reasons why FDI is appealing both for companies and countries

Appealing Reasons to Invest (for Companies)	Environment	Appealing Reasons for Countries
High Profitability Increased Volume of the Market End Product Market Motivations for exportation Low Expenses	Political Consistency Economical Consistency Low Price Low priced raw material plenitude	Increased Employment Technology Transfer Economical Prestige Need for Currency
Currency exchange	Special Rights	Gaps in the National Savings
Pollution reduction	Personal Safety	

Source: Cinko (2009)

Table 3. Customs contracts with Middle East

GAFI	GAFI is an affiliate of the Ministry of Investment of Egypt and the principal government body regulating and facilitating investment in Egypt. According to GAFI web site, GAFI try to help foreign direct investors to decide to invest in Egypt to support Egypt's domestic economy and the its competitive advantages as an export hub for Europe, the Arab world and Africa. Egypt's policy was to position Egypt as a production and re-export hub to create jobs for their citizens. Therefore, Egypt government signed several custom union agreements to support this idea. Regional custom union agreements which Egypt signed were Agadir Agreement, COMESA Agreement, European Union-Egypt Association Agreement, GAFTA, Egypt-Turkey Free Trade Agreement, and numerous free and preferential trade agreements with individual Arab countries.
AGADIR Agreement	Agadir Agreement was signed on February 25th, 2004 between Egypt, Jordan, Morocco and Tunisia.
The COMESA Agreement	The Common Market for Eastern and Southern Africa (COMESA) agreement was signed in 1994; there are 19 active member states. Egypt became a COMESA member in 1998.
The Egypt-EU Partnership	Egypt and the EU signed a treaty called the Association Agreement in 2001 that came into force in 2004, also referred to as the Partnership Agreement, which establishes a free trade area over a 12-year transitional period by 2016
The GAFTA Agreement	Egypt entered the Greater Arab Free Trade Area (GAFTA) trading bloc in 1998. As of 2005, all 18 GAFTA countries exempted all customs duties and charges between the Arab countries.
Egypt-Turkey Free Trade Agreement	Egypt–Turkey Free Trade Agreement was signed on 27/12/2005. The ratified FTA came into effect on 1/3/2007 in a context governed by the Euro-Med process.

Source: https://www.gafi.gov.eg/English/AboutUs/Pages/default.aspx

Section 2

Chapter 6
Transparency in Financial Communication:
Effect of Authentic Leadership

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ABSTRACT

Authentic leadership is considered a foundation of other positive leadership styles. In this leadership, the leader is known for his openness and clarity. Authentic leaders are not hesitant in sharing information, and they are accurate and clear in their communication manners. Moreover, they tend to give importance to others' ideas, and when necessary, they do not avoid revealing their own values, emotions, and thoughts. They build integrity with their followers by creating an atmosphere congruent for open communication that results in a realistic relational climate nourished by followers' increased level of personal and social identification. In this chapter, it is suggested that authenticity and tranperency of authentic leadership will be important catalyzers for financial communication transperency. In this context, financial communication refers to all kinds of financial messages conveyed from the organization to its stakeholders. And financial communication transperency refers to the extent financial communication of an organization is open, accurate, clear, satisfying, and relevant.

INTRODUCTION

Recent changes in the business world have created new necessities. Fierce competition among players, greater societal demands for 'corporate citizenship', political pressures and demands of stakeholders compell companies to be more open to communication (Cornelissen, 2008). In this demanding and challenging atmosphere, financial communication has become a kind of intangible asset for organizational development. Withoutdoubt, achieving this development necessitates the revision of rules of conducting financial messages in compatible with proper financial principles of truthfulness, clarity, transparency. In contemporary business world, successful companies are the ones that can successfully integrate corporate governance and performance optimisation (Salvioni, 2002). And globalized markets and short

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term assessment processes in these markets make it more important for companies to communicate effectively with their external and internal environments. And in this ever-changing time period relationships among companies are affected mostly by the information flows among them (Salvioni, 2002). That is why, many firms requires to manage their stakeholders successfully in order to avoid problems that can be potentially damaging to the reputation of the companies (Cornelissen, 2008).

In this point understanding the term *stakeholder* is important. The most widely known definition of stakeholder is the one described by Freeman (1984). According to Freeman (1984) *a stakeholder is a specific group or personl that can affect or be affected by the actions of a certain organization*. Any group that is affected by a company's acts and decisions is regarded as its shareholder. For example; employees working for the company, shareholders having some part of the ownership, customers that the company serves or potential customers that the compay tries to serve, etc. Stakeholder approach is the result of the novel perspective that was first came about in the 1980s and 1990s claiming that, each company is dependent upon various stake-holding groups rather than just a select group of financial investors or customers (Cornelissen, 2008). The stakeholder approach created a shift from *neo-classical economic theory* of the firm to a *socio-economic theory*, wherin the stakeholder approach is embedded (Cornelissen, 2008). According to neo-classical economic theory the purpose of firms is making profits with accountability to themselves and their shareholders. The notion of accountability is very important in this theory and give importance to outside shareholders for the sustainibility of the firm and the welfare of society (Cornelissen, 2008). In this point of view, firms should contribute to wealth for itself and for the society as well. This model considers there are mutual dependencies between organizations and various *stake-holding* groups in these organizations (Cornelissen, 2008). This approach is different from the classic input–output model of strategic management. In this novel approach, a greater number of people and groups with legitimate interests are recognized and accounted for by the company with the aim of bolstering its financial performance. According to stakeholder approach legitimacy of an organization in the eyes of both 'market' and 'non-market' stake-holding groups, can be achieved only it it is socially and financially accountable to these stakeholder groups (Cornelissen, 2008). In this point, legitimacy refers to the fact that organizations should relate to their their stakeholders not only for *instrumental* reasons, including increasing market shares, revenues or reducing risks but also for *normative* reasons such as compliying with rules and behaving in congruent with obligations, behaving ethically, etc.

Recent economic, political, and technical developments increased the demands of these stakeholders regarding more transparent leaders, who are aware of their own values, and guide their organizations ethically, but at the same time contributing to more powerful positions regarding competitive advantage. New business climate needs leaders that creates values reflecting of all kinds of stakeholders and creating a long- term vision for the organization. Leadership researchers reacted to these needs by theorizing authentic leadership. Being affected by positive psychology and created an uncontested area in leadership studies, this leadership style has been identified as a root construct for all the other positive leadership styles such as servant leadership and spiritual leadership styles (Walumbwa et al., 2008). In fact, it is accepted as a "higher-order, multidimensional construct, encompassing the four main dimensions: self-awareness, balanced processing, relational transparency, and internalized moral/ethical approach (Walumbwa et al., 2008). Authentic leaders are mostly conceived as self aware, open and transparent leaders. They are careful about the various factors both inside and outside their organizations. They have a better understanding of organizational goals and challenges.

In this paper, with the suggestion that authentic leadership will be a proper kind of managerial tool in making the organization more authentic and more transparent, it is assumed that this leadership style will make corporations more open to corporate communication and will redound communication quality, especially the quality of financial communication. With this aim in the first part of the paper, the concept of financial communication will be handled in details. Later the concept of authentic leadership, the concepts of transparency and the relationship between authentic leadership and financial communication will be explained. And the conceptual background regarding the assumptions that authentic leadership is a provider of high level and high quality financial communication will be given.

FINANCIAL COMMUNICATION

In 21st century, competitive social and financial spheres created converging diverse converging interests. In many corporations, corporate communication processes and methods have the goal of preserving and creating of long lasting efficacy. The messages with financial content often have the central role to ensure the necessary conditions for wealth preservation and production. That is why, financial communication is a significant component of communication processes in modern organizations. In this context, financial communication can be described as firms's all actions to inform shareholders and potential investors of a company about the securities they hold and about the financial realities of the company (Daniel, Marioara, & Isabela, 2017). It has primary relevance for internal behavioral trends, and helps to create external consensus in order to obtain proper resources (Salvionani, 2002). New trend towards corporate efficacy emphasizes the need for proper information sources and effective interaction models that aims to combine tangible and intangible elements constructively in order to reach efficacy (Salvioni, 2002). The company's ability to achieve necessary resources necessitates correct forms of communication and proper selection of content, timing and mode of transmission of messages (Salvioni, 2002). And it ensures visibility of financial informaiton within the organization to allow all stakeholders to congruently modify or correct their behaviors (Kaptein, 2008).

According to Van Riel (1995) communication is the most flexible medium and that can be used tactically, through shaping of external perceptions. Pfeffer also claims that management in organizations haa some symbolic roles. They should provide explanations, rationalisations, and legitimation for the organisational activities (Pfeffer, 1981). They should create an image that the firm's activities are legitimate. Through communication, social legitimacy is ensured with the help of symbols, values and messages (Hooghiemstra, 2000). Companies with good reputations earn the advantage of having premium prices, enhancing access to capital markets, attracting new investors more easily, and usually have better credit ratings. That is why, reputation can be considered as a source of competitive advantage for corporations. This reputation can be affected mostly by the quality of management, leadership style adopted in the firm, firm's financial soundness and its position about social concerns (Hooghiemstra, 2000). In fact, during financial communication, all externally transmitted information contributes to an increase in the positive image and reputation of the corporation and create the occasion to acquire or lose consensus with all stakeholders and and their appreciation (Salvioni, 2002). That is why, efficacy of financial communication is viewed as closely related to a receptive and consensus-oriented attitude by the various external stakeholders (Salvioni, 2002).

The significance and meaning of financial communication for the various stakeholders is constrained by the socio-cultural factors in the environment, congruency of disclosed information with expectations, and the trust-based relationships among stakeholders (Salvioni, 2002). According to extant literature, excellence in financial communication necessitates an integrated approach wherein trust based relationships are built with actors of the financial market including investors and financial analysts (Whitehouse, 2017). This is quiet significant for having good relationships with firms' own employees and customers. In other words, It is an extremely significant tool for allowing the organization manage its external relations with the help of financial information. It contributes to more succesful organizations in creating interconnection with the external environment by providing the information requested by both internal and external stakeholders (Daniel, Marioara, & Isabela, 2017). In fact, it provides the necessary information for the external parts about organizations' global image, reputation, long-term vision, accounting information, financial calendar, shareholding structure and corporate governance (Daniel, Marioara, & Isabela, 2017). As other stakeholdes, investors also acquire information about the financial activity of a company from various sources such as media, stock exchange, financial statements, or financial reports etc.

According to Daniel, Marioara, and Isabela (2017) during financial communication, accuracy of the messages conveyed is particularly significant in transmitting and receiving messages with little or no alteration of the original intent. Comprehensibility of the content of the communication is possible with the help of simplicity, clarity, accuracy and reliability of the messages. High quality financial communication can gain the trust of all stakeholders including general public, investors and regulatory and supervisory authorities (Daniel, Marioara, & Isabela, 2017). Regarding financial communication quality, Pop and Man (2017) on applied a study on Romanian managers. They were asked to rank some specific constraints regarding financial communication quality. In fact, financial communication research is mostly dominated by researchers in accounting and finance. And they mainly focus on the extratextual aspects of financial disclosures (Palmierri, Perrin & Whitehouse, 2018). The order of factors from the most impactful to the leaset is; 1. Transparency, 2. Imperfections of the regulatory framework, 3.Limited demand for financial information on the market, 4.Non-correlation of the basic financial principles, 5. The subject of financial information producers, 6. Cost of disseminating financial information. Daniel, Marioara, and Isabela (2017) also recommends some strategic rules for an effective financial communication. These are having specializes personnel responsible for financial communication, having limited numbers of spokesman that are responsible of conveying financial messages, establishing firm control over the financial messages conveyed, conveying unitary, coherent and consistent financial messages Daniel, Marioara, and Isabela (2017). As mentioned before, research on financial communication emphasizes the need for high quality, accurate, relevant and reliable communication (Pop & Man, 2017). And compliance with the qualitative characteristics has great significance for financial communication (Pop & Man, 2017).

In fact, financial communication is among the most regulated areas in the strategic communication field (Laskin, 2014). Corporations and regulators do not just care about the quantity and limits of the information disclosed, but they also give importance to the form wherein it is revealed (Hirsleifer et al., 2003). Although almost every corporation tend to show a considerable concern for communicating the financial information useful for their stakeholders, in each of these organizations financial communication is achieved through different ways. Withoutdoubt, one of the the most relevant and credible tool for financial communication are the annual financial statements. These are synthetic documents which are used to ensure information on the financial situation and performance of companies (Daniel, Marioara & Isabela, 2017). And they are important tools in substantiating and communicating the financial strategies of firms and guide their existing and upcoming activities. Annual financial statements can be regarded as important financial communication tools only if they meet certain requirements. First of all, they should reflect the reality of the assets and liabilities existing at the disposal of the companies. In order to ensure this, it is important that economic operations are fully, timely and correctly recorded. The quality of annual financial statements can be evaluated by their clarity. Namely, the number of indicators presented that are meaningful and orderly based on scientific criteria. Completeness can be considered as an other noteworthy requirement. In order to ensure completeness companies should prepare all the required forms perfectly with accurate information. And compliance with the methodology should be taken into consideration (Daniel, Marioara & Isabela, 2017). No matter what method of financial communication is established, There should be clarity and transparency on the basis of the communication. In the next part of the study, the issue of transparency will be discussed in detail.

TRANSPARENCY

Financial communication strategies are often dictated by the need to fictitiously uphold growth in company value and this blurs their transparency. Madhavan et al. (2005) described transparency as the quantity of financial data disclosed by financial institutions. It is seen critical for knowledge sharing such that increased transparency creates high levels of awareness, coherence, and comprehensibility to information shared between interrelated parties (Pagano & Roell, 1996). In fact, transparency, namely, the evaluation of the quality of information can be used in determining trustworthiness of the organizations (Schnackenberg & Tomlinson, 2014). That is to say, it is an antecedent of trustworthiness rather than a dimension. Regarding transparency most conceptualizations involve intentionally shared information (Schnackenberg & Tomlinson, 2014). In the extant literature, there are various explanations intrinsically supporting each other. For instance, Transperency is viewed as disclosure (Akkermans, Bogerd, & van Doremalen, 2004; Granados, Gupta & Kauffman, 2010; Walumbwa, Luthans, Avey, & Oke, 2011) as openness (Akkermans, Bogerd, & van Doremalen, 2004; Eijffinger & Geraats, 2006; Walumbwa, Luthans, Avey, & Oke, 2011), as clarity (Kaptein, 2008; Walumbwa, Luthans, Avey, & Oke, 2011), accuracy (Nicolaou & McKnight, 2006; Bernstein, 2012), reliability (Akkermans, Bogerd, & van Doremalen, 2004; Nicolaou & McKnight, 2006).

This transperency ensures visibility within a certain company that let people to congruently modify or correct their behaviors according to the rules and regulations (Kaptein (2008). In fact, transparency should be viewed as a perception of received information, despite the fact that some organizations can affect that perception via their information-sharing methods (Schnackenberg and Tomlinson, 2014). And this perceptions can change in relation to the perceived quality of the information disclosed by the companies. Extant literature supports this view. For instance, Rawlins (2008) explained transparency as something measured by the perceived quality of information disclosed to employees. On the other hand, Awad and Krishnan (2006) considered perceived quality of information as the quality of data about its customers and stakeholders. Bushman et al. (2004) also focused on the concept of transparency and they explained it as the perceived quality of information that are shared with the company's stakeholders. Without doubt, voluntary disclosure of financial information brings about a willingness to carry the burden of the risk that it creates. Disclosure of information entails the risk that in an other occasion, the information willingly disclosed by the organization can be used against it (Schnackenberg & Tomlinson, 2014). So the organization should be aware of this risk and should be aware of the possibility of being hit by his own weapon.

Granados et al. (2010) claims that transparency strategy can make it clear to understand the methods used by firms to manage transparency. This strategies can be defined as organizations' attempts to disclose, conceal, bias, or otherwise distort information shared with their all kinds of stakeholders. For example, companies can prefer publishing routine reports for related shareholders, they may hold routine meetings on financial issues withe their shareholders and they may disclose accurate and meaningdul financial information on mass media when necessary. In fact, regarding financial communication, general principles such as truthfulness, clarity, precision, accuracy, prudence and meaningfulness are widely accepted but often disregarded due to the limited spread of transparency values (Salvioni, 2002). However, the search for more transparent conduct and the requirement to revitalize the capital markets started to change over recent years, the characteristics of mandatory financial disclosures. As the quantitiy of information disclosed to the third parties increased and the time intervals between disclosures got shorter, the nature of financial communication changed.In this context, disclosure can be defined as the kind of perception which is is received in a timely manner (Schnackenberg & Tomlinson, 2014). Disclosure necessitates being open in sharing information. But it is more than openly transferring all of the existing information. Namely, only the relevant information should be disclosed.

Clarity is an other important point in ensuring transperency. It is important that the information tranfer is lucid and comprehensible (Schnackenberg & Tomlinson, 2014). Clarity is quiet important in disclosing information beacıuse despite involving industry jargon (Nicolaou & McKnight, 2006) and complicated mathematical algorithms (Granados et al., 2010) an information disclosure cannot be viewed as transparent despite the fact that it is highly and clearly disclosed. The term clarity is different from the term disclosure in the point that it is more about the seamless convey of meaning from sender to receiver. It is not about the amount or relevance of information disclosed (Schnackenberg & Tomlinson, 2014). Organizations can affect clarity by using strategic frames that bring harmony and openness to different stakeholders or by stimulating tactical complexity and uncertainity (Druckman, 2001). In order to to increase clarity, organizations can also compose "outsider" frames which is helpful in reflecting the interests of specific stakeholders. In this point, being capable of understanding the needs of different stakeholders is important in building frames that can unambiguously transfer information (Schnackenberg & Tomlinson, 2014). And accuracy is an other important point that contributes to transperency. It can be defined as the perception about the correctness of the information. Shared information cannot be viewed as transparent unless it is unbiasedly and foundedly shared (Walumbwa et al., 2011). In this context messages should reflect exact qualifications about their expected validity. Namely, accuracy is about information reliability in comparison to its completeness or understandability (Schnackenberg & Tomlinson, 2014). Unfortunately, firms may lower the level of accuracy by faking and decoupling information. But thanks to high quality interactions with stakeholders they can also increase accuracy of the messages that they convey during financial communication (Schnackenberg & Tomlinson, 2014).

And according to Barth and Schipper (2008) transparency in financial reporting can be conceived as the extent to which financial reports disclose an organization's underlying fiscal picture in a manner that is readily understandable by the people using these financial reports. Generally, financial statements have the goal of legitimizing results aimed at ensuring the lowest possible fiscal drain which sometimes give rise to a low level of transparency (Salvioni, 2002). And, sometimes despite the absence of manipulative conduct, external financial communication can be influenced by indiscriminate confidentiality. And during this type of situations, the excessive grouping of asset classes and the strict compliance with minimal regulatory needs give way to limited transparency of messages (Salvioni, 2002).

An important sign of transparency especially in financial contexts is accountability. According to this point of view the ability to discern an activity can be regarded as the antecedent of assigning responsibility for ensuring transparency. And it allows all parts affected by financial and administrative decisions and business transactions to know the necessary financial details with accuracy, visibility, predictability, and understandability (Barth & Schipper, 2008). In order to be transparent, financial communication should involve enough information about an organization's underlying financial picture and should be clear enough and understandable to all targets. That is why, these information should include enough details for making economic decisions, but at the same time should not include unnecessary details that it are difficult to understand. Namely, the information should be communicated in a comprehensible way (Barth & Schipper, 2008). Of course a financial message that is transparent and clear to a finance expert with substantial experience and expertise can be completely opaque to people lacking this know-how. But, even so, financial communication should use in order to decrease information asymmetry by making financial information more understandable (Barth & Schipper, 2008). And the manner wherein the financial messages are conveyed compases an important component of corporate communication strategy (Kohut and Segars, 2011).

Extant literature shows that financial reporting transparency can give way to lower cost of capital, incase transparency lowers the level of information risk. Namely, if information that reflects a firm's underlying financial situation is alreadily. Under these conditions information asymmetry among various stakeholders decreases and the average accuracy of investors' evaluations of the company's future cash flows increases (Barth & Schipper, 2008). In fact reducing information assymetry is useful for both the company's itself and its stakeholders. Easley and O'Hara (2004) claim that, reduced information asymmetry between investors and the company may result in lower costs of capital. Lambert, Leuz, and Verrecchia (2007) also insists that the quality information that the investors have, as captured by the average certainity of their evaluation of firms' future cash **flows,** directly affects the cost of equity. Financial reporting transparency affects the precision-of-assessments construct since information which is readily understandable would be helpful in increasing the certainity of investors' evaluations regarding cash flows. Extant literature also shows that financial transparency can contribute to macroeconomic benefits. As an example, in their study LaPorta et al., (1998) claimed that there is a positive relationship between understandibility of financial statement disclosure in a certain country and its gross national product. According to Nervaj et al. (2006), financial communication involves a process of dialogue with different segments of society. This dialogue imposes itself as a prerequisite for sustainable economic growth and stability.

Without doubt, for corporations, designing the right guidelines for financial communication necessitates creation of a culture targeting constant quality improvements in disclosures, characterized by transparency (Salvioni, 2002). And financial communication should constantly satisfy knowledge and assessment expectations of stakeholders and should give importance to ethics (Salvioni, 2002).

Transparency is an essential need for ensuring the convergence between managerial issues and the content of the information disclosed, and the clarity of the financial messages transmitted to the other parts (Salvioni, 2002).Transparency culture can also be considered as an ethical guideline for all of the parts in responsible for legitimizing the content of financial communication, that is why, transparency culture directly influences selection of related with completeness and neutrality (Salvioni, 2002).

In this paper authentic leadership is conceived as the basic antecedent dor creating a transparency culture in organizations. In the next part this special leadership style, having its roots in positive psychology that emphasizes focusing on strenths and positivities in life, will be explained in details.

AUTHENTIC LEADERSHIP

Recently, a more formal requirement and interest in transparency has occured in organizational research owing to witnessing various corporate scandals like Enron and Lehman Brothers. In the wake of this noteworthy corporate scandals, transparency can be considered as a solution for the problems that accompany stressful relationships between organizations and their stakeholders through its capability to recreate stakeholder trust in the organizations (Walumbwa et al., 2008). In parallel to these developments authentic leadership style occured as a heal for the need of morality and transperency in businesslife. Confidence, hopefulness, morality, resilience, transparency, morality, future-based orientation, and human focused properties of authentic leaders make them proper kinds of leaders that meet the requirements of contemporary business life (Luthans, 2011). In fact, authentic leaders are the kind of leaders that are true both to themselves and their followers and they are proactive in constructing the leadership relationship in the organization.

In the context of authentic leadership, authenticity ca be conceived as a state of mind that fosters positive affective states. Authenticity is is a complex state of mind that can be enacted in different contexts for example; among peers, followers, or within different hierarchical structures, that is why, being authentic cannot be simply related to knowing oneself and acting accordingly. Authenticity encompasses high levels of self-awareness and being in congruent with one’s true self. Namely, expressing what one genuinely feels and believes (Luthans & Avolio, 2003). Authentic leadership theory assumes that authentic leaders can effectively lead with expressing themselves freely and authentically (Gardner et al., 2011). Other parts and their reactions are also important in behaving authentically (Ngunjiri & Hernandez, 2017). In authenticity, the self acts as a social power in its own right which actively take part in social construction of reality, in contrast to merely reflecting this reality (Avolio & Gardner, 2005). Positive emotions of authentic leaders and their authenticity spread through their organizations by the help of social contagion effects that contributes to the emotional and cognitive development of followers (Kernis, 2003). The basic attributes of an authentic leader include self confidence, high levels of hope, resilience, transparency and morality, focus on future, and empowerment (Luthans, 2011).

In fact, authentic leadership is regarded as a root construct that constitutes the basis of other forms of positive leadership styles. That is why in most of the new leadership theories of positive leadership such as transformational leadership, Servant leadership and spiritual leadership, properties of authentic leadership like vision, empowerment, morality, trusthworthiness are valid (Avolio and Gardner, 2005). They are the kind of leaders leaders that hold their values consistent and true not because they are socially or politically acceptable, but because they believe them to be true owing to their own experience and beliefs (Shamir and Eilam, 2005). According to Whitehead (2009) authentic leader is the kind of leader who is quietself-aware and humble and continiously search for improvement. He fosters high degrees of trust through an ethical and moral framework; and he has authentic social values. He uses his natural abilities, but he also recognizes his weaknesses, and try hard to overcome them. He puts challenginh targets. He builds enduring relationships with all stakeholders of his organization. He has an integrated manner. He is consistent and self-disciplined. He gives importance to developing himself since he knows that becoming a leader takes a very long time (George, 2003: 12). Avolio, Luthans, and Walumbwa (2004) describes authentic leadership as the kind of leadership wherein leaders are quiet aware of their own realities and they are conceived by other people as individuals that are highly aware of their own and others' values, beliefs, knowledge, and strengths. They are aware of the context wherein they operate as a leader. This definition reflects the four main dimensions of authentic leadership, namely, balanced processing, internalized moral perspective, relational transparency, and self- awareness that are generally confirmed by empirical studies (Walumbwa et al., 2008). In their proposed framework, Avolio et al. (2004) suggested that identification with the leader and the organization, trust based relationships among organizational members, and positive emotions constitutes the ways authentic leaders exert their power on their followers.

Authentic leaders build trust based relationships and healthier climates with the help of the above mentioned four basic mechanisms: self-awareness, balanced processing of information, internalized ethical approach and relational transparency (Walumbwa et al. 2008). Authentic leaders use balanced processing in order to gather sufficient information and different viewpoints from different people. They are open minded namely they have relational transparency, providing them with the opportunity to reach new ideas. Their morality is authentic and integrated, that is to say they have internalised moral perspective. And they have high levels of self-awareness regarding their inner realities. Authentic leaders do not behave like leaders just because they hold the leadership position. In fact, performing the leadership function is a self-expression for authentic leaders. It is part of a part of their true self . Namely, when enacting the leadership role, authentic leaders do not conform to others, they are being their true selves. Moreover, they do not give importance to status, honor or other personal rewards. Their conviction is value- based. They engage in leadership with th eiam of promoting their cause or mission (Shamir & Eilam, 2005). And, they show concern for their followers. They have moral integrity, and high levels of credibility. They are open minded and often willing to give and receive feedback.

Avolio et al. (2004) suggest that authentic leaders are inclined to behave with high moral standards, fairness, honesty, and integrity. Thus, these leaders can create norms and values shared among their followers through transparency, positive wprk climate, and high moral standards. That is why people working with authentic leaders are also motivated to behave positively and they have a sense of self-worth and and they feel obliged to behave authenticly. Moreover, authentic leaders have lower levels of cognitive biases. Namely, they are often inclined to see and understand multiple sides of issues. They have multiple perspectives in their assesments and they have a balanced manner compared to others. Authentic leadersrelational transparency is more descriptive rather than relational. They have an open and transparent manner and do not avoid sharing information (Avolio & Gardner, 2005).

Furthermore, the significance of leadership credibility has been comprehensively discussed in authentic leadership literature. Authentic leaders demonstrates high levels of integrity. Namely, they behave in congruent with their true self. They have a deep sense of purpose. They show their followers meaningful goals and inpire them towards that goals. Authentic leaders are mostly committed to their own core values. Thus they can create trustworthy relations with their surroundings which contributes to positive outcomes and they can contribute to sustainable work climates that satisfy various stakeholders (Hassan and Ahmed, 2011). They are genuine, trustworthy, credible, and veritable leaders whose trustworthiness is an intrinsic property of them (Hassan & Ahmed, 2011). Agote, Aramburu and Lines (2016) proposed that authentic leaders have the capacity to influence followers' trust and emotions especially during organizational changes. In order to test their hypotheses, Agote, Aramburu and Lines (2016) applied their study on 102 Spanish human resource managers and they found that authentic leadership effective on creating follower trust and positive emotions in the organization. Moreover, they found mediating effect of trust in the relationship between authentic leadership perceptions and the experience of negative emotions.

AUTHENTIC LEADERSHIP AND TRANSPARENCY

Authentic leadership is defined as 'a pattern of transparent and ethical leadership attitude that triggers openness in information disclosure inclinations whereas accepting inputs willingly from those who follow him (Avolio et al., 2009). Walumbwa et al. (2008) describe this leadership style as the kind of leadership promoting both positive psychological capitals and ethical atmosphres with the aim of fostering higher levels of self-awareness, internalized moral perspective, balanced processing of information, and relational transparency both for the leaders and followers thus fosters self-development of all parts. Openness, clarity and authenticity of this leadership style both impress and affects daily working habits and manners utilized by emplyees while carrying on their own tasks. Under authentic leadership, followers themselves become authentic leaders themselves and they start to conduct their own responsibilities with high levels of transparency.

As mentioned before, current conceptions of authentic leadership has its roots in positive psychology school and adopt a more perspective regarding task and human orientations of the leader (Luthans & Avolio, 2003). Even though, authentic leadership literature is relatively new, most studies on authentic leadership supports the existence of relational transparency, authenticity, balanced processing of information, and self-awareness of the leader as the main elements of authentic leadership style and these elements are conceived as the predictors of trust in the authentic leader (Hughes, 2005;Walumbwa et al. 2008; Avolio et al., 2009). Authentic leaders are transparent and congruent in their beliefs, words, and actions; they are honest and they tend to show concern for their followers; they have high ethical standards, interior integrity, and credibility; and they are often willing to give and receive feedback. In fact, all these positive characteristics help authentic leaders build followers' trust in them (Agote, Aramburu and Lines, 2016). Authentic leaders are the kind of leaders that are self-aware, who give importance to morality, and act on their true values, have share information willingly and express their true ideas and feelings to followers (Avolio & Wernsing, 2008). These leaders are mostly transparent and show integrity in their beliefs, ideas, talks, and actions. They are authentic and honest. As mentioned before the term authenticity, which is the central charachteristics of authentic leadership, refers to the case one owns his own personal experiences, thoughts, ideas, emotions and preferences. That is to say he/she knows his/herself. Oneself and acts according to his/her true self (Harter, 2002, p. 382) thus they emphasizes transparency in their daily routines.

In fact, transperency and authentic leadership is quiet related to each other since leaders with an internal ethical attitude are more likely to be concieved as honest and trustworthy. Despite strong external pressures, integrally moral leaders tend to be incongruent with their morality. When external pressures are too strong, they behave in an authentic manner and they prefer explaining the reasons of their behavior a consistent (Agote, Aramburu & Lines, 2016). Walumbwa et al. (2011) also defines transparency as a perception related to leadership that reveals leader' true self. Walumbwa et al. (2011) express disclosure of information and knowledge as a conduit for assessing leader behaviors.

Transparency is one of the main characteristics of authentic leadership style. In fact, it is considered as an antecedent for building trust. It is proposed that in authentic leadership style, relational transparency can be built through followers' trust in the leader (Norman, Avolio, & Luthans, 2010; Wong, Laschinger, & Cummings, 2010). Generally, trust is a psychological state that involves the intention to accept vulnerability based upon positive expectations of the intentions or behaviors of another person (Dirks & Ferrin, 2002). And collective trust is shared perception by followers that the leader acts in congruent with stated beliefs about goals and strategies (Jarvenpaa & Leidner, 1999). In this positively focused leadership theory, it is believed that if followers believe that their leaders are being true to themselves and acts in congruent with their deeply held convinctions, they are inclined to trust their leaders easily and they tend to dedicate themselves to their leaders (Clapp-Smith, Vogelgesang, & Avey, 2009) and the better their relationship will be with the other stakeholders. Extant literature shows that there can be differences between how perceivers weigh information when making judgments about leader morality versus ability. Namely, regarding morality, stakeholders can weigh negative behaviors of the leader more heavily compared to positive behaviors. Despite demonstrating high integrity, even one failure or unauthentic or suspicious behavior may cause followers perceive the leader as immoral. That is to say, the leader should act with integrity consistently in order to be viewed as an authentic leader (Cooper, Scandura & Schriesheim, 2005).

SOLUTIONS AND RECOMMENDATIONS

Authenticity of authentic leadership is important in creating a positive organizational culture that nourishes tranparency and openness in modern corporations. The need for more trusthworthy leaders and psychologically more secure work atmospheres created the demand for authentic leadership that is famous with its noteworthy authenticity. Objectivity of authentic leaders in handling stuations delicately despite the existence of various stakeholders, openness in their communication styles, and moral integrity in their managerial manners make them proper fits for ethical and tranparent organizations that give importance to clarity, truthfulness and openness in their communicaitons styles especially during financial communication processes. Especially in relation to financial communication, during preparation of financial reports or verbal disclosure of financial information on the necessary media, it is of great importance that the authentic leadership dominates and guides the processes in deciding the quality and quantity of information to be shared in content creation.

FUTURE RESEARCH DIRECTIONS

In fact, in the related literature, there is a scarcity of empirical studies confirming the relationship between tranparency and authentic leadership behaviors. For example we can come across Kumar's (2014) study that confirmed that the relational transparency and self-awareness of authentic leaders has positively effects on belongingness and self-efficacy perceptions of Indian employees. In order to fill this void, in future studies, research designs aiming to understand financial communication transparency and authentic leadership relationship will be helpful in explaining effects of this positive leadership model in financial cummunications quality and transparency. Or a research design comparing different leadership styles, may be more task oriented or authoritarian ones and more human oriented and positive ones can be compared in relations to their positive affects in financial communication transparency.

CONCLUSION

Recent economic, political, and technical progresses created the need for leaders that are more transparent and mindful. And they are expected to have high levels of moral and ethical perspective meeting the demands for transparency (Clapp-Smith, Vogelgesang, & Avey, 2009). Thus, the need for transparent leadership as mentioned above has increased, since in contemporary business life an increasing emphasis is put on financial communication, owing to a climate dominated by mistrust, suspicion and uncertainty, as the main pillar that contribuse to transparency and credibility among stakeholders (Daniel, Marioara & Isabela, 2017).

Moreover, according to leadership literature, tranperency is considered as leadership behavior that attempts to promote trust through disclosures which openly share information and express leader's true self and thoughts (Walumbwa, Luthans, Avey, & Oke, 2011). In this point, authentic leadership can be considered as a process by which leaders are deeply aware of how they think and behave of the context wherein they lead. And they are mostly perceived by their followers and their other stakeholders as individuals that are highly aware of their own and others' values/moral attitudes, feelings, and strengths (Avolio et al., 2004). According to authentic leadership theory, authentic leaders are aware of how their actions affect their surroundings and they tend to be more open and transparent about the mechanisms and factors inside and outside of their organizations (Clapp-Smith, Vogelgesang, & Avey, 2009) thus we expect them to prefer a more open and transparent strategy regarding financial information disclosures and financial communication strategies of the company. Under authentic leadership, if stakeholders believe that authentic leaders are authentic, they will have higher tendency to build trust based relatonships with the leader (Clapp-Smith, Vogelgesang, & Avey, 2009) and will in return encourage adobting more open and transparent policy building processes.

On the other hand, financial communication is an intangible asset with a noteworthy significance for corporations. Achieving successful levels of financial communication necessitates the recreation of rules and norms of giving messages in congruent with financial corporate principles regarding accuracy, clarity, and transparency (Daniel, Marioara, & Isabela, 2017). *In fact, the main goal of financial communication is* supporting and strengthening the corporation's stock market value and its credibility in the eyes of its shareholders and investors. That is why, it can be considered as a competitive field, wherein the corporation convinces its investors to buy its shares. Namely, the financial communication encompasses presentation and explanation of the financial situation of the corporation (Daniel, Marioara, and Isabela, 2017). Finance and accounting researchers focused on transparency in the context of financial markets, financial information disclosures, and financial decision making (Bushman et al., 2004; Madhavan, Porter, & Weaver, 2005).

Without doubt, financial communication is a process that extends from the economic sphere to the cultural area, which simultaneously contacts the global cycle of money and the most ordinary everyday practices, and the actors who have different objective positions in the social field regarding financial matters (Gökgöz, 2013). In fact, the methods of financial disclosure and financial communication, both mandatory and voluntary, reflects the dominant organizational cultures of companies. And organizational cultures of companies are relevant to the leadership styles in these companies. In this point, authentic leadership can be considered as a genuine leadership style wherein leaders remain true to their personal values and convictions, display consistency between their words and deeds, and that is why followers perceive their leaders as trustworthy and credible (Avolio & Gardner, 2005) and creates a proper atmosphere for high levels of transparency that is needed for a healthy financial communication.

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KEY TERMS AND DEFINITIONS

Authentic Leadership: Authentic leadership is a leadership approach emphasizing the construction of leader's legitimacy through moral relationships with followers which value their input and are built on a decent and transparent foundation.

Authenticity: In this context, the kind of leadership behavior encompassing behaving in accordance with one's true self, emotions, and ideas.

Financial Communication: Financial communication is all about providing financial data pertaining to the company's performance to the investor community at large.

Financial Disclosure: It is the act of the act of making a company's financial information available to investors, banks, etc.

Positive Psychology: Positive psychology is the scientific study of human strengths and virtues that enable individuals and communities to thrive.

Chapter 7
The Role and Importance of Independent Audit and Annual Integrated Reports as Corporate Tools in Communication With Stakeholders From the Investor Relations Perspectives:
An Examination Upon Turkish Banks

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ABSTRACT

Although there are globalization and digitalization trends affecting all companies, some things can never be changed. Similarly, when speaking about investor relations, although there are new tools, annual reports are the main communication tools with the stakeholders. One of the most important issues with them is independent assurance and timely sharing with stakeholders. Also, there is a new trend named as integrated report regarding annual reports. So, in this study, it is aimed at evaluating the role and importance of independent audit and annual integrated reports as corporate communication tools from the point of view of investor relations. It is concluded that annual reports are still main corporate communication tools with the stakeholders for companies although there are other instruments like web site, social media and investor presentations. Integrated report trend is intensifying this role. Therefore, independent audit has a substantially important role in providing assurance to stakeholders regarding integrity of information in annual (integrated) reports.

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INTRODUCTION

In business life, it is known by everybody that the world is becoming much more globalized than it has ever been. So, it is inevitable that business environment would be more complex and competitive for all operating actors in the market. Depending on this condition, structure of sectors has been changing, so some of new entries and exits to the sectors have been seen. This shows us that responding to environmental changes completely is important.

While business environment changes, countries try to respond quickly in order to sustain their economic growth and financial stability. However, the same speediness may not be valid for companies. In such a case, companies began to lose their competitive power and market share. Unfortunately, if the companies did not start transformation process and renew themselves, this would result in failure and bankruptcy. Starting the process immediately and sharing information with all related stakeholders has key role in responding environmental changes.

With the globalization of the world, investments and flow of funds have also become global. This means that there are not only national investors and issues but there are also international investors, criteria and requirements. Although national investors demand a little information about companies, however, international investors requires as much as information possible about companies' strategic plans, business plans, and investment plans, capital budgeting, capital management, human resource plans, corporate governance practices, structure of the board of directors (the board) and committees of the board, sustainability and things like those. For this reason, if it is a company which demands investments from international investors, it is compulsory to meet demands requested by international investors. Some of these demands require special efforts and works while the others could be met by following usual practices such as corporate governance reporting, IR functions and etc.

Although there are so many things demanded by investors, this is not the only important subject. It is known commonly that there are so many crucial points, areas and subjects to be taken into consideration in communication by companies like investment analysis, financial announcement, public disclosure and usage of Public Disclosure Platform (PDP), become a publicly traded company, corporate actions, corporate scandals, speculation and manipulation, corporate governance and transparency. However, it is possible to say that one of the important of them is IR due to its key function in communicating with external stakeholders. Besides, financial reporting, annual reports and audit are the main components and tools to enable good corporate communication with stakeholders in IR and its management.

IR has been gaining much more importance in terms of corporate communication with the stakeholders recently. Even in some important and critical sectors and companies like publicly traded companies, regulatory authorities like Capital Market Board (CMB) requires establishing an IR department directly reporting to a C level executive who is a member of Corporate Governance Committee member (CMB, 2014). This condition is valid also for publicly traded companies in Turkey. So, it can be seen that there are IR functions in companies in Turkey.

In practices, IR departments could use many different tools in communicating with stakeholders, mainly shareholders. The most known tool is annual general meetings. In these, information is shared with shareholders in the broadest framework. However, there are also other stakeholders like employees, creditors, rating agencies, regulatory agencies, non-governmental organizations etc. Some of these could not be participated to annual general meetings and they also need and wonder information about companies. In this context, IR departments have been using annual reports for information sharing with these stakeholders. Another important point in this context is independent audit. That is why annual reports are prepared by management of companies and approved by the board of companies As a result of this cycle, Stakeholders, especially shareholders, need and demand independent audit of annual reports. In Turkey practice, independent audit of annual reports is also a regulatory requirement. Therefore, independent audit is important point in annual reports for information sharing with stakeholders.

There is an increasing trend in corporate reports for companies. When examining current situation in Turkey, it can be seen that there are many reports companies named as Annual Report, Corporate Governance Report, Corporate Social Responsibility Report, Independent Audit Report, Sustainability Report and Integrated Report (Cavlak & Cebeci, 2018. Taking into consideration that there is a variety of reports related with companies, collecting and combining true and relevant information about companies has become much harder for every stakeholders. In this context, to provide true and relevant information to the stakeholders, IR play important role in companies. Annual reports are still main corporate communication tools for IR departments, and independent audit is main assurance providers in communication with stakeholders and minority shareholders.

This paper is prepared to make an evaluation about the role and importance of independent audit and annual integrated reports as corporate tools in communication with stakeholders from the IR perspectives in Turkey. Because of the fact that Turkey has a bank-based financial system, the examination is applied upon Turkish banks (Dinçer et al., 2016; Depren et al., 2018). In this study, it is intended to deal with annual reports as a corporate communication tool and evaluate annual reports' and independent audits' role from IR perspectives. In this context, analyzing the position of annual reports is a must in order to be able to make an evaluation about whether they play role and have positive effects and contribution in communication with stakeholders or not.

The study consists of five parts. After the introduction part, general information about corporate reports including annual reports, integrated reports, independent audit reports and financial reports is discussed under conceptual background approach in the second part. Also, current regulatory framework in Turkey is examined in the second part. The third part examines the literature related with the subject which is researched in the context of the literature review. In the fourth part, importance and functions of independent audit and annual integrated reports in corporate communication with stakeholders from the IR perspectives are examined in Turkish banks. Finally, an overall conceptual evaluation is made in the sixth part after defining solutions, making recommendations and sharing future research directions.

CONCEPTUAL BACKGROUND

Companies perform many activities within their daily routine operating cycles. These activities can be classified as operating activities, financing activities and investment activities (Karadeniz et al., 2018). While companies sustain these activities on one side, they need to evaluate their operations on the other side. In order for this, companies need reporting and a variety of reports.

A report is described as "an article in any work, examination of a subject, writing the results, thoughts or findings" (TDK, 2018). Similarly, reporting is defined as "creating reports or creating process of reports" (Cavlak & Cebeci, 2018). These definitions tell us that there may be a lot of and a variety of reports depending on the requirements and the needs of companies.

Reports help companies in summarizing their operating results. By preparing reports such as statement of financial position, statement of profit or loss, companies are able to see how they operate throughout the fiscal year and what the financial outcomes are. Also, companies make a comprehensive evaluation about their operating results by using these reports. In addition, companies are required to make some notifications/reporting to regulatory bodies for taxation, social security system payments etc. So, companies could benefit from reports for many ways.

Besides internal evaluation of yearly performance and regulatory reporting functions, reports have vital role in communication with stakeholders. In recent time, there have been new tools to be used such as financial announcements, PDP, web sites, software applications, interactive platforms and questions forms. However, the most common and known tool is annual reports. Annuals reports have been used by companies to connect their stakeholders and shareholders. While annual reports are a classical report, its importance is much bigger when taking into consideration that flow of funds have become global and countries and companies have been dependent to each other. So, if companies want to expand their markets, which they provide products and services to; provide better communication with present stakeholders, and attract investment from potential investors, who think to make an investment as international investors or corporate investors, the main tool to be used for these intentions is annual reports due to fact that they include almost all necessary information regarding companies.

In addition to key role of annual reports in communication with stakeholders, especially current and potential shareholders, an important issue in this concept is independent audit. Although managements of companies share a variety of information in annual reports, stakeholders have a doubt whether this information is correct or not. So, this approach requires that annual reports should be audited by independent party namely independent audit.

Independent audit is to examine annual reports and financial reports of companies and stating an opinion to provide assurance about whether information in the reports is fairly stated and is compliant with laws and regulations or not. By this way, independent audit enhance credibility and accountability of information presented in the reports. Also, independent audit is sensitive to fraud in the reports published by the companies and audited by themselves (Ishak & Nor, 2018).

Stakeholders of companies use annual reports and independent audit reports to make decision. In other words, they make decisions based on using information in these reports (Çalışkan & Güler, 2013). Presented information in these reports is used for the aim of decision-making support (Aydın, 2015). In addition, annual reports and independent audit reports are used as a main component of corporate communication with stakeholders in investor relation management.

In this part of the study, types of corporate reports are examined firstly. Secondly, current regulatory framework in Turkey is reviewed.

Types of Corporate Reports

Depending on developments in business life and the needs of companies, there are so many corporate reports. These reports can be classified as either business inside reports or business outside reports depending on the aim and need of reporting (Cavlak & Cebeci, 2018). Inside reports can be also named as managerial reporting and they are used for internal needs of companies (Yalkın & Demir, 2015). On the other hand, companies are required to prepare outside reports for a variety of aims such as taxation. While preparing outside reports is compulsory, managerial reporting is not compulsory for companies (Çalış & Altınsoy, 2014).

As mentioned above shortly, there are a variety of corporate reports. However, in the context of the study, there are annual reports, integrated reports, independent audit reports and financial reports as corporate reports (Cavlak & Cebeci, 2018).

According to Turkish Commercial Law (TCC), annual reports are described as "The annual activity report of the Board reflects the financial situation of the Company in all its aspects through the flow of the activities of that year, in a correct, complete, straightforward, truthful and honest manner. In this report, the financial position is evaluated according to the financial statements. The report also makes clear the development of the company and the risks that may arise. The evaluation of the board on these issues is also included in the report" (TCC, 2011).

Besides TCC, also there is a charter named as Regulation on the Determination of the Minimum Content of the Annual Report of the Companies published by Ministry of Trade. In this charter, annual reports are described as "A report of the company, which is regulated by the governing body according to the law and related regulations, with the flow of the activities of the company related to the relevant year, in a correct, complete, straightforward, truthful and honest manner in every aspect" (Ministry of Trade, 2012).

Integrated reports are described as "a single report including financial and non-financial information about companies" (Cömert & Kurt, 2014). Integrated reports can be evaluated as an extended version of annual reports by including information about sustainability, strategies and business model of companies. Integrated reports also provide the function of bringing financial, intellectual, social and environmental capital into a common platform (Katsikas et al., 2017).

Independent audit reports are another type of reports to be issued by companies. They are defined as "A document in which the auditors express the content of the works and the opinion that they have reached about the financial statements" (Bozkurt, 2012). Companies, which are subject to prepare independent audit reports compulsorily, issue the reports while other companies do not have to issue independent audit reports.

Independent audit makes audit works according to Turkish Audit Standards which are compliant with the International Auditing Standards (Akbulut, 2013). Also, it is possible to say that there additional regulations in Turkey about independent auditing. According to Public Oversight Accounting and Auditing Standards Authority (POAASA), independent audit can state their opinion as qualified opinion, unqualified opinion, adverse opinion, disclaimer of opinion as a result of audit works (POAASA, 2017).

Financial reports are the reports consisting of companies financial statements. Actually, they are included in independent audit reports and annual reports. They summarize to readers/users how companies operate through the year and what financial outcomes are.

Regulatory Framework Regarding the Reports in Turkey

In the previous part of study, types of corporate reports are examined. In this part, regulatory framework regarding the reports is examined.

The main regulation regarding the reports is made in TCC. Articles taking place in TCC are as follows (TCC, 2011):

- **Article 514:** Annual report should be prepared within the first 3 months and submitted to the annual general meeting.
- **Article 516:** Evaluation of the board regarding the development and possible risks of the company is included in the report. Also, these issues are covered in the annual reports: events of special importance to the company after the end of the activity year; research and development (R&D) activities of the company; financial benefits such as fees, premiums, bonuses, appropriations,

travel, accommodation and representation expenses, in kind and in cash, insurance and similar guarantees paid to members of the board and senior executives.
- **Article 524:** The board shall announce and put them on company's web sites the followings within six months from date of statement of financial position; financial statements, annual report, decision of annual general meeting on profit distribution, auditor's opinion and decision of annual general meeting regarding this.

Another important regulation regarding the reports is made in the charter issued by Ministry of Trade. Articles taking place in the charter are as follows (Ministry of Trade, 2012):

- **Article 4:** General characteristics of the company's financial performance and financial status and the fundamental risks faced by the company are evaluated in annual report. These assessments on the company's financial position are based on the financial statements. Non-financial risks are also included in the annual report. Also, disclosure on effectiveness, adequacy and compliance of internal controls to ensure the integrity, consistency, reliability, timeliness and security of information provided from accounting and financial reporting system is provided in annual report.
- **Article 5:** Development of company and risks that may arise is assessed in evaluation of managing body. In the annual report, it is obligatory to include the reasons and statistical information on which these are based, when information is given or forecasted for the future.
- **Article 7:** Annual reports consist of following subparts; general information; financial rights provided to the members of the governing body and senior executives; R&D activities of the company; significant developments regarding the company's activities and activities; financial position; risks and evaluation of the governing body; other considerations.
- **Article 8:** Annual reports include general information such as fiscal period for which the report relates; trade name of companies, trade registry number, contact details etc.
- **Article 9:** Annual reports include information about member of governing body and financial benefits provided to senior managers.
- **Article 10:** Annual reports include information about company's R&D activities and their results.
- **Article 11:** Annual reports include information about activities of company and important development regarding activities such as investments made by company; company's internal control system and internal audit activities and management body's opinion; direct or indirect affiliates and share ratios of company etc.
- **Article 12:** Annual reports include information about financial position of companies such as analysis and evaluation of management body regarding the financial situation and activity results, the degree of realization of the planned activities etc.
- **Article 13**: Annual reports include information about risks and evaluation of governing body regarding risks.
- **Article 14:** Annual reports include information about other issues.
- **Article 15:** Annual reports include information about reports of main companies in a group
- **Article 16:** It includes presentation of annual reports.

Besides these main regulations, there are also other legislations issued for a special are and/or special companies/sectors. In capital market law (CML), issuers of capital market instruments are required to disclose financial tables and statements to the public in accordance with the regulations (CML, 2012, article 14). In addition, CMB made some regulations for under supervision of itself in Communiqué on Principles Regarding Financial Reporting in Capital Markets. Articles taking place in the Communiqué as follows (CMB, 2013a):

- **Article 6:** Preparation liability of annual report and financial reports for the overall year is detailed.
- **Article 7:** Preparation liability of interim annual report and interim financial reports is detailed.
- **Article 8:** It is regulated that annual reports and interim reports should be prepared in line with the regulation made by Ministry of Trade.
- **Article 9:** Statements of responsibility in annual report and financial reports are regulated.
- **Article 10:** Times in issuing annual report and financial reports is detailed.
- **Article 11:** Times in issuing interim annual report and interim financial reports is detailed.
- **Article 12:** Public disclosure of annual report and financial reports is detailed. Also, process of notification of annual report and financial reports is stated.
- **Article 13:** Additional time in disclosing of annual report and financial reports is defined.
- **Article 14:** Disclosing of annual report and financial reports in web site is defined.
- **Article 15:** It is stated that annual financial reports and independent audit report should be open to review of shareholders.
- **Article 16:** Disclosing of summary information derived from financial reports is defined.
- **Article 17:** Financial tables prepared in accordance with other regulations are defined.
- **Article 18:** Disclosing of financial tables, which are prepared noncompliant with the Communiqué, is defined.
- **Article 19**: Capital market accounting ledger is regulated.

CMB issued Corporate Governance Communique. This Communiqué also includes some articles regarding reports of companies which are under supervision of CMB. Articles taking place in the Communiqué as follows (CMB, 2014):

- **Article 8:** Information, about whether corporate governance principles are applied or not, and causes and conflict of interest conditions if the principles are not applied are shared in annual report. If any important development occurred in the year, then the condition is shared in interim report.
- **Principle 2.1:** Annual report and financial reports for the last five years are published on web site.
- **Principle 2.2:** Annual reports are prepared in detail by the board so that public can be informed completely and accurately about companies' activities. Also, information about board committees, independency statements, meeting number of the board, important regulation changes, important lawsuits are shared in annual reports.
- **Principle 4.2:** Information about task distribution among member of the board, mission and authority of the board members is disclosed in annual reports. Also, the board shares information about efficiency of internal control, risk management and internal audit systems.
- **Principle 4.5:** Information about advisory services taken by the board committees is disclosed in annual reports. Also, activities and meeting results of audit committee are shares in annual report.
- **Principle 4.6:** Evaluation, about whether operational and financial performance targets shared with the public are achieved or not and causes of this if targets were not achieved are disclosed in

annual report. Also, wages and financial benefits given to the board members and executives are shared in annual report. Making this reporting on person base is required.

In addition to capital market regulations, there are also other legislations for banking sector. In banking law (BL), banks are required to prepare annual reports including financial tables and independent audit reports (BL, 2005). Besides, Banking Regulation and Supervision Agency (BRSA) made some regulations for banks in Charter on the Principles and Principles regarding the Preparation of Annual Report. Articles taking place in the Charter as follows (BRSA, 2006a):

- **Article 5:** Banks are required to present activities accurately related to relevant fiscal year in annual reports.
- **Article 6:** Annual reports consist of parts of general information; information about management and corporate governance; information about financials and evaluation of risk management.
- **Article 7:** Banks are required to add independent audit reports into annual reports.
- **Article 8:** Approval of annual reports by the Board and necessary signatures are determined.
- **Article 9:** Auditing of annual reports is defined.
- **Article 10:** Requirement of publication of annual reports by end of next May is defined.

In addition to CMB and BRSA, POAASA also made regulation regarding independent auditing. In the charter, issues regarding independent auditing, independent auditors and independent auditing firms in Turkey are defined (POAASA, 2012). In regulation made BRSA regarding independent auditing, it is seen that the regulation is dependent to and compliant with the regulation made by POAASA (BRSA, 2015). CMB also followed similar approach to BRSA, so CMB renewed their regulation regarding independent auditing in capital markets in order to be compliant with POAASA regulations (CMB, 2013b).

When appraising regulatory framework in Turkey, it can be concluded that there are comprehensive regulations regarding annual reports annual reports and independent audit reports. Even, in some sectors or for some companies, there are additional regulations made by regulatory authorities like CMB, BRSA and POAASA. This regulatory framework shows that regulatory authorities give much more importance to annual reports and independent audit reports for many perspectives like clear informing stakeholders and communication with the shareholders and stakeholders.

LITERATURE REVIEW

There are various studies about annual reports, integrated reports, independent audit reports and financial reports. In the context of literature review, selected studies are included in Table 1.

As it can be seen from Table 1, some studies handle annual reports, including integrated reports. These studies examine them from audit, benefit and practice perspectives. In studies prepared from audit perspective, it can be summarized that independent audit increases reliability and credibility of annual and integrated reports. In studies prepared from benefit perspective, it can be concluded that annual and integrated reports are beneficial for related parties like investors in decision making process. In studies prepared from practice perspective, it can be defined that integrated reports could be applied by small and medium sized companies; South Africa has pioneer role in integrated reporting; integrated reports would replace annual reports, financial reports and sustainability reports.

Table 1. Some selected studies about annual reports (including integrated reports) and independent audit reports (including financial reports)

Author	Year	Report Type	Focus Point	Results
Francis et al.	2003	Financial	Benefit	One of the important element in financial reporting is audit due of fact that it has potential to enhance accountability and credibility of financial information presented in financial reports.
Albrecht et al.	2008	Independent	Practice	Auditors are required to provide reasonable assurance not to include material misstatement in financial statements due to error or fraud.
Hodge et al.	2009	Integrated	Benefit	Integrated reports will be beneficial when they provide reliable and relevant information.
Xu et al.	2010	Independent	Practice	In hard times like global crisis, there is an increase trend in issuing of modified audit opinion.
Coram et al.	2011	Financial	Benefit	Audit reports increase value and credibility of financial statements. Also, interpretation of financial statements and financial reporting differ according to how far investors understand the technical terms in reports.
Adams	2013	Integrated	Benefit	The important benefits of integrated reports are to provide efficient risk management in decision making process for companies, society and environment.
Habib	2013	Independent	Practice	Audit reports are a communication tool to be used commonly for informing users of financial reports about audit works of independent audits.
James	2013	Integrated	Benefit	Integrated reports may contribute to companies focusing on strategies, management and activities by providing to increase market cap and to be became successful.
Karğın et al.	2013	Integrated	Practice	There is compulsory practice in South Africa which is the pioneer country in integrated reporting. Also, it is recommended to start integrated reporting practice in Turkey.
Ilaboya & Ohiokha	2014	Independent	Benefit	Compulsory rotation of independent audit affects audit quality negatively.
Lodhia	2015	Integrated	Benefit	Integrated report framework is developed to present financial and nonfinancial side of business practices and solve dual reporting problems in traditional reporting.
Serafeim	2015	Integrated	Benefit	Integrated reports enable companies to understand stakeholders' expectations by increasing participation of stakeholders.
Simnett & Huggins	2015	Integrated	Benefit	Integrated reports provide much more comprehensive and concise viewpoint to stakeholders about factors contributing to create value.
Aracı & Yüksel	2016	Integrated	Practice	Although there are some difficulties, it is possible to be applied integrated reporting by small and medium sized companies.
Çelik	2016	Integrated	Benefit	With integrated reports, companies become much more transparent and hence they can explain themselves to shareholders, employees and all stakeholders by a single report.
Ishak	2016	Financial	Practice	Investors, lenders, management, authorities and the public are main users of financial reports.
Ercan & Kestane	2017	Integrated	Practice	Integrated reporting in Turkey is still in development stage and a regulation through standardization of integrated reporting should be made.
Karkacıer & Ertaş	2017	Independent	Practice	Institutional investors take into consideration independent audit reports and their results in investment decisions.
Miller et al.	2017	Integrated	Audit & Practice	Financial sector is at the forefront in having independent assurance on integrated reports.
Öztürk	2017	Annual	Benefit	There is a correlation between market cap of companies in the forthcoming year and performance orders calculated based on balance sheet and profit-loss statements.
Reimsbach et al.	2017	Integrated	Audit & Practice	Integrated reports, which are assured by independent audit, are one of the most important tools in increasing quality and persuasiveness of publicly disclosed information.
Briem & Wald	2018	Integrated	Audit & Practice	Only parts, which include financial information, are audited, perceived reliability of disclosed financial statements will be impaired due to fact that integrated reports have a significant amount of nonfinancial information.
Cavlak & Cebeci	2018	Integrated	Practice	Although there are a variety of reports, integrated reports is one of the corporate reports to be produced by companies.
Kılıç	2018	Integrated	Audit & Practice	Although there is an increase in number of integrated reports from 2011 to 2016, the share of independently audited integrated reports in total integrated reports is not changed for the same period which is 40.9% in 2011 and 40.4% in 2016.

Source: Authors

There are also some studies about independent audit reports including financial reports in the literature. These studies examine them from benefit and practice perspectives. In studies prepared from benefit perspective, it can be concluded that independent audit increases value, accountability and credibility of financial information presented in financial reports. In studies prepared from practice perspective, it can be defined that main users of financial reports are investors, lenders, management, authorities and the public; investors consider results of independent audit reports in investment decisions; audit reports are a communication tool to be used for informing users of financial reports.

When appraising studies regarding annual reports, integrated reports, independence audit reports and financial reports in the literature, it can be concluded that annual reports and integrated reports have an important role and function for companies, shareholders and stakeholders. Also, independent audit and independent audit reports have a substantial role for providing assurance in reports to stakeholders from integrity and reliability perspectives.

AN CONCEPTUAL EXAMINATION UPON TURKISH BANKS REGARDING THE ROLE AND IMPORTANCE OF INDEPENDENT AUDIT AND ANNUAL INTEGRATED REPORTS AS CORPORATE TOOLS IN COMMUNICATION WITH STAKEHOLDERS FROM THE IR PERSPECTIVES

After reviewing types of corporate reports, regulatory framework regarding annual reports and independent auditing reports in Turkey and examining related literature, a conceptual discussion upon Turkish banks toward the role and importance of independent audit and annual integrated reports as corporate tools in communication with stakeholders from the IR perspectives is made in this part. Hence, it is possible to determine the role, importance, effects, and benefits of annual reports and independent audit reports to Turkish banks from IR perspectives.

In this part of the study, firstly, specific regulations for annual reports, independent auditing reports and financial reports are examined. Secondly, the role and importance of annual reports and independent audit reports as corporate tools in communication with stakeholders from IR perspectives is examined. Thirdly, benefits of annual reports and independent audit reports in IR management are examined.

Specific Regulations for Annual Reports, Independent Auditing, Financial Reports, Footnotes, and Disclosures of Financial Reports

Because of the fact that this paper examines the subject as related with banks only, firstly, it is evaluated as compulsory determining regulatory framework for the reports of banks in Turkey.

Banks are also required to be compliant with the general regulatory framework. Taken into consideration that general regulatory framework regarding the reports is examined in the second part of the study, this subunit examines only regulations made by BRSA regarding annual reports, independent auditing, financial reports, footnotes and disclosures of financial reports. There are four different legislations made by BRSA regarding annual reports, independent auditing, financial reports, footnotes and disclosures of financial reports.

First regulation made by BRSA is about preparation of annual reports of banks. With the Charter Regarding Preparation of Annual Report of Banks, BRSA made regulation through how and according to which rules banks prepare annual reports. In this charter, BRSA aims at informing of shareholders of banks, depositors and other related people by banks via annual reports including financial statements, summary reports of the board and independent audit reports (BRSA, 2006a). The charter enables banks to issue annual reports in foreign languages (BRSA, 2006a). Banks are required to present their activities accurate, complete and truly for relevant fiscal year in annual reports (BRSA, 2006a). Annual reports of banks consist of mainly three parts which are general information; information about management and corporate governance; information about financials and evaluation of risk management (BRSA, 2006a). In addition, it is compulsory for banks, which are required to prepare consolidated financial statements, to add consolidated financial reports, financial information produced from these tables, information regarding consolidated subsidiaries and consolidated independent audit reports into annual reports of banks (BRSA, 2006a). Annual reports of banks are signed by the chair of the board, members of audit committee, general manager, chief financial officer, and related manager. Annual reports are presented to be reviewed to shareholders with opinion of independent auditor at least fifteen days before annual general meeting (BRSA, 2006a). Information taking place in annual reports are audited by independent auditors; in order to inform the board, audit committee of banks are informed by independent auditors if there are deficiencies; independent auditor states dispute opinion by explaining causes if necessary changes to complete deficiencies are not approved by the board and BRSA is informed about this condition within seven days (BRSA, 2006a). Banks are required to publish annual reports by adding necessary information and approvals after annual general meeting both electronically in their web site and in printed version until end of May in next year. If the board is not released in annual general meeting, this condition with the causes is added to presentation part taking place in general information of annual reports. An example of printed of annual reports is send to BRSA within seven day after publication date (BRSA, 2006a).

Second regulation made by BRSA is about preparation of consolidated financial statements of banks. With the Charter Regarding Preparation of Consolidated Financial Statements of Banks, BRSA made regulation through how and according to which rules banks prepare consolidated financial statements. In this charter, BRSA aims at requiring banks to prepare consolidated financial statements and regulating rules to be informed about results of banks' activities as a whole (BRSA, 2006b). The charter requires banks to prepare consolidated financial statements on quarterly basis and at the end of year taking into consideration only their subsidiaries having financial and credit associations. Banks, which are required to prepare consolidated financial statements, are also required to prepare nonconsolidated financial statements. If there is a limitation for subsidiaries, which are operating in abroad, to be taken, these subsidiaries is not consolidated only if this condition is documented officially. Banks also are required to prepare consolidated financial statements with all their subsidiaries (BRSA, 2006b).

Third regulation made by BRSA is about financial statements of banks to be published to public and their footnotes and disclosures. With the Charter Regarding Consolidated Financial Statements, Footnotes and Disclosures, BRSA made regulation through how and according to which contents banks prepare consolidated and nonconsolidated financial statements. In this charter, BRSA aims at regulating format, contents, footnotes and disclosures of financial statements (BRSA, 2012). Banks are required to prepare the financial statements which are statement of financial position (including off-balance sheet items), statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in shareholders' equity, statement of cash flows, statement of dividend distribution by using templates included in the charter. Banks are also required to include necessary footnotes and disclosures (BRSA, 2012). The charter requires banks to prepare and publish financial statements in a clear way in accordance with the charter and Turkish accounting standards published by POAASA (BRSA, 2012).

Banks should tell accounting policies, shareholders' equity and capital adequacy ratios on consolidated and nonconsolidated bases, items of consolidated shareholders' equity. Banks also give information about financial instruments to be added to calculation of shareholders' equity, credit risk, market risk, foreign currency risk, interest rate risk, stock risk resulting from banking accounts, liquidity risk management, leverage ratio, financial assets and liabilities, other transactions made on behalf of others, disclosures regarding asset items, footnotes and disclosures regarding liability items, off-balance sheet items, statement of profit or loss, statement of changes in shareholders' equity, statement of cash flows, risk group in which banks are included, disclosures regarding branches and subsidiaries of banks both in domestic and abroad including offshores (BRSA, 2012). Banks are required also disclosure independent audit report which are prepared in complained with the charter (BRSA, 2012). The charter requires banks to prepare financial statements on quarterly bases and banks could make additional explanations if they would like to do (BRSA, 2012).

Fourth regulation made by BRSA is about independent auditing of banks. With the Charter Regarding Independent Auditing of Banks, BRSA made regulation through how and according to which rules banks are audited by independent auditors (BRSA, 2015). Banks are audited on quarterly basis, audit reports of banks include necessary details stated in the charter and consolidated and nonconsolidated audit reports are sent to BRSA and The Central Bank of the Republic of Turkey (BRSA, 2015). Independent auditors examine effects of information technology audits practiced in the banks they audit, and they are authorized to examine all documents if they are confidential (BRSA, 2015). The board and audit committee of banks and BRSA are informed if it is determined by independent auditors that internal control and risk management systems of banks are not sufficient in order to determine and correct material errors and misstatements. Also, BRSA is informed within seven days by independent auditors if necessary precautions are not taken by banks. If independent auditors have doubt about material error or fraud risk in financial tables, the board and audit committee are informed to make necessary investigations, if banks do not do these, BRSA are informed immediately. If there is a risk regarding existence of banks or incompliance with laws and regulations, BRSA and legal authorities should be informed. BRSA could demand additional independent audit from banks. Annual reports of banks should be audited by independent auditors and independent auditors are required to be compliant with protection of bank secrets (BRSA, 2015).

As a summary, the regulations mentioned above require banks to prepare annual reports, they may be in the form of integrated report or not depending on desire of banks, and independent audit reports including financial statements. Details of how banks prepare these reports are stated in the regulations made by BRSA.

The Role and Importance of Annual Reports and Independent Audit Reports as Corporate Tools in Communication With Stakeholders From the IR Perspectives

As stated in the earlier part of the study, annual reports are the reports which include a variety of information about banks. In other words, banks have the opportunity to tell their activities and corporate information to shareholders and stakeholders in annual reports by Turkish or any other foreign language. This information, which are included and told in annual reports, can be categorized as general information; information about management and corporate governance; information about financials and evaluation of risk management (BRSA, 2006a). Also, there is additional explanation which details should be taken place under these main categories in Charter Regarding Preparation of Annual Report of Banks. These may be summarized as follows (BRSA, 2006a);

- General information;
    - Summary financial information related to the results of the fiscal period,
    - Historical development of the bank and the changes in the articles of association, if any, within the fiscal period and its reasons,
    - Changes in the shareholding structure, capital and shareholding structure of the bank during the fiscal period, information on the titles and shares of natural or legal persons with qualified shares,
    - Explanations on the chairman and members of the board, general manager and assistant general, if any, shares they hold,
    - Evaluations and expectations of the chairman of the board and the general manager for the activity period,
    - Explanation of the number of personnel and branches, type of service and activities of the bank and evaluation of the position of the bank in the sector,
    - Information on research and development practices related to new services and activities
- Information about management and corporate governance;
    - Detailed information about the chairman and members of the board, members of the audit committee, general manager and assistant general managers, and managers of the units covered by the internal systems,
    - Term and professional experience of the auditors,
    - Information on the activities of the committees affiliated to the board or established to assist the Board in accordance with the Credit Committee and Internal Systems of Banks, within the framework of the risk management systems,
    - Information on the attendance of the members of the committees mentioned in the above of the Board and the audit committee,
    - A summary board report submitted to the General Meeting,
    - Information on human resources practices,
    - Information on the banks' transactions with the risk group in which they are included,
    - Information on the subjects of activity in which the support service is received.
- Information about financials and evaluation of risk management;
    - Report prepared by auditors,
    - Audit committee's assessment of the functioning of internal control, internal audit and risk management systems and its activities within fiscal period,
    - Independent audit report,
    - Financial statements and information about the financial structure,
    - Assessment of financial situation, profitability and solvency,
    - Information on risk management policies and risk management disclosures,
    - Information on the ratings and the content of the ratings,
    - Summary financial information for the five-year period, including the reporting period.

In addition, information taking place in annual reports are audited by independent auditors (BRSA, 2006a). Banks are required to publish annual reports by adding necessary information and approvals after annual general meeting both electronically in their web site and in printed version until end of May in next year (BRSA, 2006a).

This structure regarding annual reports, which includes three main categories and 23 subcategories, shows that banks can have possibility to share all required information in annual reports. Besides, banks have opportunity to share additional information if they would like to present via annual reports. Hence, it can be understood that annual reports of banks are the reports which have the most comprehensive information about banks. For this reason and with these functions, annual reports have become main corporate tool in connecting and communicating with stakeholders. It other words, annual reports are main corporate communication tool for banks.

On the other hand, when analyzing independent audit reports, the picture is not different from annual reports. according to Charter Regarding Independent Auditing of Banks, banks are audited on quarterly basis by independent auditors; consolidated and nonconsolidated audit reports are sent to BRSA and The Central Bank of the Republic of Turkey (BRSA, 2015). The board and audit committee of banks and BRSA are informed if it is determined by independent auditors that internal control and risk management systems of banks are not sufficient in order to determine and correct material errors and misstatements. Also, BRSA is informed by independent auditors if necessary precautions are not taken by banks. If independent auditors have doubt about material error or fraud risk in financial tables, the board and audit committee are informed to make necessary investigations, if banks do not do these, BRSA are informed immediately. If there is a risk regarding existence of banks or incompliance with laws and regulations, BRSA and legal authorities should be informed. Annual reports of banks should be audited by independent auditors (BRSA, 2015).

This structure regarding independent audit reports shows that banks are required to give importance to independent audit function and banks' annual reports and financial statements should be audited by independent auditors. As a result of their audit works, independent auditors are required to issue an overall opinion regarding reliability of financial statements of banks. By this way, independent audit reports have a crucial role in providing reliability to shareholders and stakeholders over annual reports and financial statements of banks. Without an assurance of independent auditors, it is impossible to assume that current and potential investors of banks could rely on information presented in annual reports and financial statements. Hence, it can be understood that independent audit reports of banks are the other reports which have the most comprehensive assurance about banks. For this reason and with these functions, independent audit reports have become main corporate tool in providing assurance to stakeholders. It other words, independent audit reports are main assurance providing tool for banks in corporate communication with stakeholders from IR perspectives.

As a summary, the functions mentioned above provided by annual reports and independent audit reports play a key role as corporate tools for banks in communication with all related parties, especially with current and potential stakeholders. Hence, it can be said that both annual reports and independent audit reports are main tools in providing information and assurance to stakeholders from IR perspectives. In other words, it is impossible to construct healthy relations with stakeholders without using annual reports and independent audit reports efficiently. No other any tools arising recently play this main role.

Benefits of Annual Reports and Independent Audit Reports in IR Management

Sharing information with stakeholders, especially with shareholders, on time and with necessary content is so important for banks in IR management at the macro and micro level.

In the view of macro sight, investments and flow of funds become much more global and banks have to work in a global marketplace. Because of the fact that rapid of change is increasing exponentially, banks should also deal with rapidly changing environment from many perspectives including investor relations in order to be able to sustain their activities in a healthy way. So, annual reports and independent audit reports take the crucial role in IR management regarding how banks can share information required and they would like to share to their stakeholders. In the past, the reports were used only to disclosure information. However, the picture is different today. Although the reports are used to share information regarding the past of the banks, they can also be used as a strategic tools for sharing information regarding future of the banks. Also, instead of providing only information that regulations require, the reports can be enriched by including some additional information such as business model, futures plans, value adding models in annual reports, and extended assurance base and context for banks and their subsidiaries in independent audit reports.

In the view of micro sight, in other words at the level of any individual banks, the reports enable banks to disclose the information to shareholders at which level banks would like to share except for regulations require. In a globalizing and complexing world, it is impossible to go to get anywhere if banks are not voluntary to disclosure information at which stakeholders and potential shareholders have been expecting. At this point, annual reports are seen as main tool for banks to go to get the point that they would like. Besides, independent audit reports are main tool for banks to provide assurance of whom stakeholders demand from banks. Good reports enable banks to steer renewal activities in the banks in order to disclose information about banks to the related stakeholders. It is known commonly that individual or institutional current or potential investors would like to have as much as information about banks when possible. The basic way and tool of these are provided by annual reports and independent audit reports.

The most important benefits of annual reports and independent audit reports are to align activities in banks among the head office departments. Otherwise, without alignment, it is impossible to publish annual reports and independent audit reports on time which is very important for banks in terms of reputation. This is also important when banks are publicly traded. That is why there are certain regulations including timing for banks in issuing annual reports and independent audit reports. In this context, the most important ingredients of the reports are alignment and communication in the banks. In practice, it may be seen that although a lot of efforts are provided and a variety of head office departments take role, banks may have some difficulties in preparing reports on time. So, senior managers in banks should give necessary importance to the reports and preparation works of them.

In addition to improvement in alignment and coordination, the reports make contribution to innovation in banks because of the fact that they require lots of works to be done by a variety of head office departments. With doing so, banks would start transformation much of the processes. This may result in creating an organizational culture based on innovation that provides opportunity to banks to have innovative solutions. Hence, banks could benefit from providing developments in preparation and presentation processes of the reports. Hence, innovation environment is another benefit of the reports to banks.

By developing organization structure of head office and innovation culture, banks could also get ahead in the competition by having much more investors and providing funds by this way. The reports also enable banks to improve investor satisfactions.

With the developments in management, organizational structure, culture and competition, banks expect to reach good IR management and stakeholders satisfactions. The reports are important options and tools that can be used by banks. Without the proper usage of the reports, it is quite hard for banks to reach better communication with stakeholders from IR perspectives.

SOLUTIONS AND RECOMMENDATIONS

It is identified that annual reports and independent audit reports are most important corporate tools to be used for the communication with stakeholders. They have substantially important benefits on companies. First, annual reports are main tools for sharing information of banks with shareholders and stakeholders. Second, independent audit reports are main tools for providing assurance to shareholders and stakeholders. Third, annual reports and independent audit reports make contributions to the sharing information with shareholders and stakeholders. Fourth, annual reports and independent audit reports are useful in disclosing business model, value creation model, future plan and projects of banks. Fifth, annual reports and independent audit reports are used as corporate communication tools in banks. Sixth, annual reports and independent audit reports trigger good organizational structure and innovation culture because of requiring better coordination in head office in banks. Seventh and last, by preparing and presenting annual reports and independent audit reports better, it is inevitable to reach good communication with stakeholders and good IR management.

Taking into consideration all these benefits of the annual reports and independent audit reports, it is recommended for banks to give necessary importance to preparation and presentation process of the reports. Establishing or determining a head office department as responsible for the reports could be helpful to banks.

FUTURE RESEARCH DIRECTIONS

This paper aims to make an evaluation about the role and importance of independent audit and annual integrated reports as corporate tools in communication with stakeholders from the IR perspectives in Turkey. In the study, it is intended to deal with the annual reports and independent audit reports as corporate tools and to evaluate role, importance and benefits in banks' communication with their stakeholders form the IR perspectives. For this purpose, a conceptual examination is carried out in a broad perspective.

By emphasizing on important points in preparation and presentation of annual reports and independent audit reports, it is believed that this study makes a significant contribution to the literature. On the other hand, it is also evaluated that new studies focusing on empirical examination regarding the role and importance of annual reports and independent audit reports, by which survey can be applied in banks, will also be beneficial.

CONCLUSION

While the world has become much more globalized, all economic actors including banks are suffered from this phenomenon. So, it may be expressed that the world has never become so much complex. This structure in the world cause increase in complexity and competition. It is obvious that flow of funds and investments have become also globalized. So, in this context, meeting current and potential investors' and stakeholders' expectations is quite important.

An important question for banks is that how banks should meet current and potential investors' and stakeholders' expectations in order to provide good communication. Banks always search for answers to this question and may find the answers in corporate communication tools. There are different corporate tools to make communication with their stakeholders. Similarly, banks also have different classical and modern tools like annual reports, web sites, software applications etc. However, as main tools, annual reports and independent audit reports can provide a variety of benefits to banks. Even, they can have substantial role in communication with stakeholders.

In this study, after the introduction part, general information about corporate reports is examined respectively. Later, literature is researched. In the examination part of the study, a conceptual discussion is made upon the role importance and benefits of annual reports and independent audit reports in in communication with stakeholders from the IR perspectives.

It is concluded that annual reports are main tools for sharing information of banks with shareholders and stakeholders; independent audit reports are main tools for providing assurance to shareholders and stakeholders; annual reports and independent audit reports make contributions to the sharing information with shareholders and stakeholders; annual reports and independent audit reports are useful in disclosing business model, value creation model, future plan and projects of banks; annual reports and independent audit reports are used as corporate communication tools in banks; annual reports and independent audit reports trigger good organizational structure and innovation culture because of requiring better coordination in head office in banks; by preparing and presenting annual reports and independent audit reports better, it is inevitable to reach good communication with stakeholders and good IR management,

Taking into consideration the role, importance and benefits of annual reports and independent audit reports, it is recommended for banks to give necessary importance to preparation and presentation process of the reports. Establishing or determining a head office department as responsible for the reports could be helpful to banks.

When evaluating issues regarding annual reports and independent audit reports, it should not be forgotten that annual reports and independent audit reports are main tools for banks as corporate communication tools with stakeholders from IR perspectives. So, they will have the influence in shaping banks' communication with stakeholders in today and future.

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Chapter 8
Determination of Factors Affecting the South East Asian Crisis of 1997 Probit–Logit Panel Regression:
The South East Asian Crisis

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ABSTRACT

The economic crisis is an important event that hurts societies. Communication between the market and the authorities is an important factor in economic crisis situations. Because if the communication is established in a healthy way, economic crises in the future may not be repeated. In this context, the chapter deals with the economic crisis of 1997 in the Asian region as part of crisis communication. In the study conducted with Logit method, data belonging to the period 1975-2006 were used. In addition, the variables used frequently in the literature were considered as data set indicators. The results indicate that economic growth, financial credit, and money supply are important indicators affecting the crisis. Indeed, the emergence of the crisis with these variables reveals that there was a communication problem in the Asian region. Considering this experience, it has been suggested that Asia and other countries should care about the communication tools.

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INTRODUCTION

The classic definition of financial crises for decades is; economies are caused by excessive increases (often monetary) that lead to economic boom and inevitable pressures (Taylor, 2009).

Financial crisis is related to economic crisis, but the financial crises are caused by the shortcomings and failures in the financial markets and the economic crises as a result of sudden and unpredictable situations in the overall economy. Especially in the post-1980 period, the process of financial liberalization of the countries and the formation of international financial markets due to globalization in the 1990s, the realization of international capital movements brought the concept of "financial crisis" into the agenda. The financial crisis can be defined as the disruption in financial markets, the negative impact of the performance of financial institutions or intermediary institutions in financial markets, and this negative effect spreads to the whole economy and causes the resources not to be distributed effectively. Financial crises can be in four different forms: "money crisis", "banking crisis", "systematic financial crisis" and "external debt crisis" (Bostan & Bölükbaş, 2011; Radelet, Sachs, Cooper, & Bosworth, 1998; Gültekin & Ersin, 2018)

The speculative attack on the exchange value of a currency is called the currency crisis if it causes a decrease in money reserves or an increase in the astronomical levels in interest rates in order to prevent the depreciation of money or the loss of money. The banking crisis is the case if the actual or potential bank failures prevent banks from fulfilling their obligations or if the government is forced to intervene to prevent this failure. Systemic financial crises are defined as financial deteriorations with significant negative effects on the real economy by preventing the financial markets from operating effectively. The external debt crisis arises in the event that a country cannot repay its foreign debt, whether it is the state or the private sector. As a result, the common feature of all financial crisis types is that they have unsustainable economic imbalances and significant fluctuations in financial asset prices (or exchange rate). In the studies on the financial crisis; factors such as insufficiencies in the banking system, excessive budget deficits and unsustainability of current account deficit, and excessive liquidity problem in the market were considered as the main reasons for the crises (Işık, Duman & Korkmaz, 2004).

The economic crisis in the world is not only a financial sector crisis. There is a natural disease of capitalism. Despite the increase in the production capacity, it is the main reason for the crisis not to create sufficient effective demand. The pushing of ethical values from the financial sector aside, increasing the risk of not behaving ethically (moral hazard), as well as the fact that the financial sector has moved away from supporting the real sector and becoming a speculative structure has been the trigger of the crisis (Akgüç, 2009).

In the globalized world after 1980s financial crises have created important economic problems for both developed and developing countries. There have been many financial crises in the last 25 years such as Mexico Financial Crisis 1994-95, South East Asian Financial Crisis 1997-1998, Russian Financial Crisis 1998, Argentine Economic Crisis 1999–2002, Turkish Financial Crisis 2001, South American Economic Crisis 2002, Global Financial Crisis 2007-2009 and Turkish Currency and Debt Crisis 2018.

In most of the financial crises and especially in the South East Asian crisis, the crisis situation had worsened the problem of asymmetric information and this led to deterioration in the balance sheets, especially in the financial sector. The crisis situation, which causes worsening of asymmetric information problems and causing financial crises, begins with financial liberalization, which results in an explosion of lending to capital inflows. After all the problem was the rapid increase in lending (over-borrowing) resulted in huge losses on loans onwards (Mishkin, 2000). As Corsetti, Pesenti & Roubini (1998) explored that the rates of providing credit in Asian crisis countries increased at a much higher rate than in GDP.

During the crisis, a communication problem has a negative effect on the uncertainty and this situation increases the crisis. It should be noticed that communication channels should be open during crisis period. Also, financial crisis control arrangement should be prepared which includes measures to be taken against the crisis threats that need to be communicated. Trust is a necessity for economic relations which closes the gap between missing information and full information. Therefore, the communication should be so good that people believe the measures would result. Otherwise, the threat of crisis can turn into a real crisis. This belief is based on trust in the parties responsible for the measures. The concept of

Table 1. Studies on the South East Asian crisis

Author (s)	Content	Method	Period	Variables	Finding
(Majid & Yusoff, 2004)	Malaysia, Thailand, Indonesia, Philippines	Panel Regression	1987-1997	M2/ Reserve, Domestic Inflation, Trade Balance, Real Exchange Rate, Domestic Credit	There is a relationship between the exchange rate and the economic factors. M2/Reserve insufficiency negatively affected trade balance.
(Calvo, Izquierdo, & Mejia, 2004)	32 Countries (Including Asian Countries)	Panel Regression	1990-2001	Real Exchange Rate Change, Change in Capital Flows	The pending exchange rate policies in capital movements trigger crisis.
(Chinn & Kletzer, 2000)	Asian Countries	Panel Time Series	1975-1999	Loan and Borrowing Ratio, GDP, Change in Capital Flows, Change in Bank Reserves	The indebtedness of high capital inflows and the increase in indebtedness have affected capital outflows and the crisis has deepened.
(Stone & Weeks, 2001)	49 Countries (Including Asian Countries)	Panel Regression	1977-1999	Current Equilibrium / GDP, Import / GDP, Change in Capital Mobility, Crisis Indicators	The corporate balance sheet indicators of firms confirm the lack of foreign exchange.
(Radelet & Sachs, 1998)	20 Countries (Including Asian Countries)	Data Analysis	1990-1998	Exchange Rate, Capital Flow Change, Short Term Debt, GDP, Current Account Deficit, Net Bank Debt Stock	Capital mobility indebtedness affected production and current account balance negatively.
(Sarno & Taylor, 1999)	Asian Countries	Time Series Analysis	1988-1997	Capital Mobility, Stock Price, Foreign Direct Investment, Bank Loan, Fund Flows	The moral hazard problem had a speculative effect on capital mobility and the crisis occurred.
(Cerra & Saxena, 2005)	Asian Countries	Time Series Analysis	1981-2001	GDP, Investment Expenditures and Consumer Price Index	In all of the countries studied, there is a permanent loss in output levels, while growth has recovered quite rapidly after the crisis.
(S.-J. Kim & Stone, 1999)	20 Countries (Including Asian Countries)	Panel Regression	1990-1999	Investment Expenditures, Capital Stock, Borrowing, GDP and Inflation Rate	With the onset of the crisis outflow capital mobility occurred and enterprises experienced resource problems.
(Yang, Kolari, & Min, 2003)	USA, Japan, Asian Countries	Panel Time Series Analysis	1995-2001	Stock Index	In the stock market, the Asian countries were affected by the US during and after the crisis period.
(S.j. & Roy, 2014)	Asian Countries	Panel Time Series Analysis and Panel Regression	1995-2009	GDP per capita, Transportation Costs / Imports, Transportation Costs / Export	Among emerging economies in Asia, China and the Philippines have expanded trade potential with India on the global crisis.
(Qin, 2001)	S. Korea	Regression Analysis	1980-1998	S. Korea Interest Rate, S. Korea Wholesale Price Index, USA Wholesale Price Index, S. Korea M2 / Total Loans, S. Korea Total Loans	The serious rise in S. Korea's foreign debt led to a currency imbalance and the collapse of the S. Korean currency.

continued on following page

Table 1. Continued

Author (s)	Content	Method	Period	Variables	Finding
(Driffield & Pal, 2001)	Indonesia, S. Korea, Malaysia, Thailand	Panel Regression Analysis	1989-1997	Unallocated profits, Firm leverage rates, Long-term Debt Rate of Companies, Cash Flow, Firm Real Estate Total Value, LIBOR Interest Rates	All countries' debt / equity ratios remained high. High corporate leverage and LIBOR interest rates were triggered by the Asian crisis.
(Kwack, 2000a)	Indonesia, S. Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand	Panel Regression	1996-1997	Short-term external debts, Operating profit margin, Corporate leverage ratios, Sunk bank loan ratio, Total asset-to-capital ratio, LIBOR interest rate, Debt-equity ratio	The 3-month LIBOR interest rate and the banks' submerged loan rates are the most important factors in the Asian crisis.
(Ibrahim & Shah, 2012a)	Malaysia	Time Series Analysis	1991-2011	Real income, Real bank loan, Interest rate, Volatility, GDP deflator	Increased market uncertainty is negatively related to output in the long run; It is concluded that increased market uncertainty decreasing the real output, real credit and real stock prices
(Khan & Park, 2009a)	Thailand, Malaysia, Indonesia, S. Korea, Philippines	Panel Time Series analysis	1994-1999	Stock prices, Trade balance, Interest rate, Exchange rate	As a result of the analyzes conducted by controlling macroeconomic variables, it is determined that the crisis had an infectious effect among the countries of the region.
(Bratsiotis & Robinson, 2005a)	S. Korea	Time Series Analysis	1994-1998	Growth, Consumer Price Inflation, Real Estate Price Inflation, M2, Exchange Rate, Fiscal Balance (% GDP), Short Term Debt / Total Debt, External Debt / GDP	The currency risk premium is positively linked to the relative supply of corporate financial liabilities.
(Broome & Morley, 2004a)	Thailand, Malaysia, S. Korea, Indonesia, Philippines	Panel Time Series Analysis	1996-1999	Price index, Foreign exchange reserves, Money supply, Industrial output, Interest rates, Local stock Market indices, Stock prices	The effectiveness of stock prices has been determined as a key indicator of the 1997 East Asian currency crisis.
(Hsing, 2004)	Thailand	Time Series Analysis	1993-2001	Real GDP, real exchange rate, Real government tax revenues, Real government expenditures, Real money amount, Expected inflation rate, GDP / government domestic debt, GDP / government external debt	The depreciation of the Thai Baht leads to a decrease in real GDP as a result of more government tax or higher domestic borrowing.
(Y.-S. Kim & Koo, 1999)	Asian Countries	Data Analysis	1987-1997	International Loans, Deposit Rate, Debt Interest Rate,	There are two main reasons for the Asian crisis. The first is the problem of sunken credit in the international financial markets and the second is the structural problems of the countries themselves.
(Husted & MacDonald, 1999)	Asian Countries	Panel Regression Analysis	1974-1996	Exchange Rate, M1 money supply, Real GDP, Short Term Interest Rates	As a result of the decline in some of the exchange rate ratios in 1997, the exchange rate model was not the result. Other economic variables were also effective in the decline of the exchange rate.

trust before and after the crisis is one of the most important factors in communication. Transparency is what makes risks and threats clear at an early stage (Hallwarson, 2010; Ersin,2018).

It is of great importance to share accurate information with the market and establish healthy communication in economic crisis situations. The fact that communication channels are open during the crisis is an important factor in controlling and not growing the crises. In this context, our study aims to analyze the formation dynamics of the South East Asian crisis through the *panel logit method* and to reveal the role of *financial communication* in the Asian crisis process. In the first part of this study within the scope of literature were reviewed in three stages; the studies on *Asian crisis*, *crisis communication* and *logit method*. In the second part of the study, the dynamics of the Asian crisis were investigated and in the third part, an analysis was made about the role of financial communication in the Asian crisis process. The study was concluded with political suggestions within the results and evaluation.

LITERATURE REVIEW FOR FINANCIAL CRISIS AND CRISIS COMMUNICATION

Literature Review on the South East Asian Crisis

The Asian economic crisis is an important economic event that has entered the world economic crisis literature in history. There are many studies examining the formation and causes of the Asian crisis. Some of these studies are given in the Table 1.

In the study by Majid and Yusoff (2004), 4 Asian countries, which were chosen as effective in the crisis, were taken as scope and it was concluded that the foreign exchange crisis had an impact on financial crises (Majid & Yusoff, 2004). Similar to this result, Calvo et al. (2004) investigated the effects of capital movements on the dollarization and ultimately the financial crisis. In a study including Asian countries, it was concluded that pause in capital movements had a negative impact on foreign exchange policies and thus caused a financial crisis (Calvo, Izquierdo, & Mejia, 2004). Chinn and Kletzer (2000) stated in their studies that Asian countries increased their indebtedness due to the inefficiency of high capital inflows and the increase in indebtedness affected the capital outflows and thus the crisis occurred. Almost the same result appeared in the studies of Radelet and Sachs (1998) (Chinn & Kletzer, 2000; Radelet & Sachs, 1998).

Stone and Weeks (2001) conducted regression analysis using the variables affecting the crisis, but the results showed that only the company's balance sheets proved the shortage of foreign exchange (Stone & Weeks, 2001). Driffield and Pal (2001), which deals with the crisis over micro factors, found that high corporate leverage and LIBOR interest rates triggered the Asian crisis (Driffield & Pal, 2001). Sarno and Taylor (1999), who are concerned with the problem of moral hazard among the factors affecting the Asian crisis, found that the moral hazard posed a speculative effect on capital mobility and eventually the crisis occurred (Sarno & Taylor, 1999).

Cerra and Saxena (2005) in their study show that there were losses in output levels of countries after the crisis (Cerra & Saxena, 2005). Kim and Stone (1999) stated that capital losses were experienced in the post-crisis period and firms had difficulty in finding resources (S.-J. Kim & Stone, 1999). Yang et al. (2003) examined the impact of stock markets in the US, Japan and Asian countries. According to the findings, the US stock market affected the Asian countries during the crisis and the post-crisis period but was not affected by these countries (Yang et al., 2003). Another study after crisis is S.J. and Roy (2014) on the impact of the Asian crisis on trade. In the study of panel time series and panel regression, it was observed that China and the Philippines have expanded their trade potential despite the financial crises in their relations with India regarding the global crisis in the economies of Asia (S.J. & Roy, 2014).

Quin (2001), who discussed the Asian crisis on a country basis, conducted a regression analysis on S. Korea and concluded that the external debt increases in S. Korea had destroyed its own currency and thus, the crisis erupted in the country (Qin, 2001). According to Kwack's (2000) study, corporate high leverage ratios and LIBOR interest rates significantly affected the Asian crisis. Lowering world interest rates and taking measures to reduce assets and debt-equity ratios in Asian countries would be effective in preventing new crises (Kwack, 2000). Ibrahim & Shah (2012) conducted a research on Malaysia by using time series analysis method that interest rate shocks have significant effects on macroeconomic performance and stability on real income, real bank credit, volatility and GDP deflator variables.

According to the study of Bratsiotis and Robinson (2005) in the context of the exchange rate risk and risk premium of the S. Korean crisis, the decrease in the interest rate difference caused a significant decrease in the relative volume of the corporate debt in this period and the devaluation expectations were much higher than the expected interest difference (Bratsiotis & Robinson, 2005; Ibrahim & Shah, 2012). In the study of Broome & Morley (2004), the effectiveness of stock prices was recorded as the leading indicator of the East Asian currency crisis. In addition to domestic stock prices; Equity prices of Hong Kong, China and Japan were also analyzed. Using monthly data as a result of research, it was found that local stock price, Hong Kong stock price and especially US prices were the leading indicators of the crisis. In the study conducted by Khan & Park (2009), decreases in stock prices were found to be a leading indicator of the foreign exchange crisis. Accordingly, the slowdown in the economy influenced stock prices and investors pulled their capital out of the country and put downward pressure on the economy (Broome & Morley, 2004; Khan & Park, 2009). According to Hsing's (2004) study, the depreciation of the Thai Baht caused more government tax or higher domestic borrowing to reduce real GDP. As a result, government spending, real money and external debt growth were expected to increase real output, and the government should follow a responsible fiscal policy in the long term.

Literature Review for Crisis Communication

The development of technology in the world has caused many financial activities to be carried out with technological means without going to financial institutions. When we look at studies related to financial communications, we encountered the work of Horvath and Gertler (2018), which established the relationship between the central bank communication and financial markets. The study examines the impact of mutual marketing communication between the members of the European Central Bank Board from July 2008 to January 2014 on financial markets using high frequency data. In the study using the Least Squares method, the relationship between the timing of the communication, its order or the immediate response of the content to the markets were found to be weak. The results suggest that the market responds to declarations of the key figures in the central bank.

Kahveci and Odabaşı (2016)'s research offers a semantic examination of monetary policy statements from the US Federal Reserve, the European Central Bank and the Central Bank of the Republic of Turkey (Fed, ECB and CBRT) in order to to observe the change in tone of monetary policy declarations with movements toward greater clearness. In this study, the monetary policy statements of the three central banks of the pre-crisis period of 2002 are analyzed according to the next period of 2015. Using the Diction 7 software, the characteristics of the language used before and after the crisis are compared. The results of the study show that the optimistic attitude of the Fed decreased during the study period and the attitude of certainty increased. Regarding the ECB and the CBRT, there is no significant difference in accuracy, optimism and realism over time. However, there is a significant increase in the optimistic tone for the CBRT's last two-year statements.

Looking at the studies on financial crisis communication, Jin et al. (2018) discussed the impact of communication problems during the 2008 global crisis and interviewed experts using a qualitative method. As a result of the interviews, attention was drawn to institutional and inter-institutional learning to ensure an ethical and institutional reaction during a future financial crisis. In the study of Hayo and Neuenkirch (2015), Central Bank communication was discussed in the financial crisis. In this research, a questionnaire was applied to the participants and sequential probit model was used as the method for this survey data. It was concluded that the Fed had a good communication with the market in the study which answered questions about the Bank of England (BoE), the Bank of Japan (BoJ), the European Central Bank (ECB) and the Federal Reserve. In addition, there was a positive relationship between (i) assessment of central bank credibility, (ii) satisfaction with non-traditional measures, and (iii) the perceived level of central bank independence with central bank communication perception.

Conrad and Zumbach (2018), who researched the impact of political communication on financial markets during the economic crisis, stated that European politicians' communication during the country's debt crisis affected European financial markets. In a study that analyzed the explanation of European politicians in August-December 2011, it was concluded that political communication had a significant impact on the European stock and bill markets as well as the EUR-USD exchange rate. The explanations in the surrounding countries in Europe directly affect the exchange rate. In addition, the markets saw the German bond market as a safe haven. Moreover, according to the results of the study, the markets saw the German bond market as a safe port.

In the study of De Los Ríos (2010), which examines how economic crises are reflected by means of communication, the cover designs of The Economist were analyzed, and it was investigated whether these designs affected the crisis. According to the results of the study, it has been shown that cognitive metaphors, metonymes, image schemes, colors and cultural aspects are used as a general persuasive strategy in the financial context. According to the report "Communication in the financial crisis" prepared by FSPOS, it is stated that measures should be taken against cyber-attacks. It was said that having a communication problem during the crisis negatively affected the uncertainty and this situation increased the crisis. Therefore, it was emphasized that communication channels should be open during the crisis. In addition, the FSPOS stated in this report that it has a precautionary measure and stated that it has a guide (FSPOS, 2017). According to the report also prepared by Hallwarson, financial crisis control includes measures to be taken against the crisis threats that need to be conveyed. Since the communication of measures comes before the effect of the measures, the communication should be so good that people can believe that the measures will result. If not, the threat of crisis can turn into a real crisis. This belief based on trust in the parties responsible for the measures. Trust closes the gap between knowing and not knowing, and therefore a necessity for all voluntary economic relations. No one can fully possess the complete knowledge for rational action. The concept of trust before and after the crisis is one of the most important factors in communication. Therefore, transparency is important. Transparency is what makes risks and threats clear at an early stage. This increases knowledge among all organizations. As transparency makes the element of confidence inevitable, financial institutions naturally compete at the trust point. In summary, when the development of information and technological tools is provided, there is also development in areas such as integrity, transparency and expertise. This area is related to the strengthening of communication (Hallwarson, 2010).

In the study of Kim (2010), which is said to be important for information and communication technologies (ICT) in crisis communication, the development of ICT was emphasized in the process of the crisis in 1997 of the Asian country S. Korea. In this study, 1997 Economic crisis and the role of ICT, the result of the budget development in S. Korea after the economic crisis, important tools for the development of ICT, the background of the successful ICT initiative and the results of the S. Korean experience were focused on. In the study, it was stated that the following policies were caused by the ICT in overcoming the crisis: Determination of a comprehensive policy strategy by the S. Korean Ministry of Information and Communication, implementation public information training programs to overcome the digital divide and those increase self-sustaining demand, create a competitive environment for telecom service providers and develop basic information technologies. In the study of Vlăduţescu (2012), the impact of the media on the crisis was discussed in the course of a global crisis. It is emphasized in the study that increasing the number of articles related to the crisis published in newspapers adversely affects the crisis. In the study conducted in consultation with the Romanian press statements about the crisis in the articles created a crisis environment rather than the real crisis (Çolaklar, 2017).

Researches Using Logit Method

There are many studies using the logit model in the literature. In particular, the logit model has been widely used in terms of revealing economic crisis indicators. In this study, 14 explanatory variables were used to understand the determinants of the crisis and the annual data of the periods between 1984 and 2014 were analyzed using MARS and logit models. According to the results of the analysis, the amount of total assets and NPLs is one of the important reasons of the crisis in terms of the analysis of the logit method. In the study of Barışık and Tay (2010), logit models based on macroeconomic and financial data were used to investigate the predictability of the financial crisis in transition economies and emerging markets. As a result of the study, it was found that the real exchange rate, the percentage change in foreign exchange reserves, inflation, current account deficit and foreign direct capital are the leading indicators for the financial crisis in the transition economies. The increase in the real exchange rate reduces the competitiveness of the country, and the decline in international reserves increases financial fragility. The increase in credit growth reveals the reality of moral hazard in the banking sector, and an increase in the current account deficit upsurges the probability of the crisis causing speculative pressure in the foreign exchange market.

In the study of Yüksel (2017), strategic achievements of developing countries were analyzed in order to overcome the 2008 global economic crisis. In this study, it was subjected to logit method analysis taking into account quarterly data for the period between 2008-2014. In this article, growth rate was taken as dependent variable and 8 independent variables were used, 5 of which were money and 3 of them were fiscal policy instruments. As a result of the study, the government debt reduction policy was found to be a successful strategy to overcome the economic crisis in developing countries.

In the study of Nam and Jin (2000), the sample of companies that went bankrupt in the period between 1997-1998 which the IMF crisis started in S. Korea and there was a deep recession was used and the projected work failure model was investigated empirically. In the study using Logit model, it was understood that most of the companies that had gone bankrupt during the economic crisis of S. Korea from 1997 to 1998 had financial distress symptoms before the crisis. In the study of Woo et al. (2000), the effect of exchange rate and current account deficit on the Asian crisis was tested by logit method. In this study, the top five competitors in each of the top 10 exports of Indonesia, Malaysia, Philippines, South Korea and Thailand were selected and a competitor and product weighted real exchange rate index was formed for each country. With the appreciation of the Dollar, Yen and Yuan also gained value, but this did not affect the current account deficit. Therefore, it was revealed that the collapse of currencies was not caused by the current account deficit.

In another study of Yüksel and Zengin (2016), the factors affecting the liquidity risk of banks in Turkey considering the period 2005-2014 has been tested with the logit method. According to the model results used 12 independent variables, it was determined that "capital adequacy ratio" and "net interest margin" variables affect liquidity risk. In the study of Yüksel et al. (2015), the deposit banks in Turkey were analyzed by credit rating relations between the logit method with CAMELS rates. In the study which 20 deposit banks were analyzed using data between 2004-2014, it was revealed that the three components of CAMELS (Asset Quality, Quality of Management and Sensitivity to Market Risk) affected credit ratings, but the ratios related to Capital Adequacy and Earnings were not effective. In the study ofYuksel et al. (2016), factors affecting the decision of Participation banks has been identified, despite the foreign exchange position in Turkey. In this study, the logit method was used between 2005 and 2015. As a result of the analysis, it was identified that participation banks prefer to have long position when they are more profitable. Similarly, Dinçer et al. (2016) by Mukhtarov et al. (2018) and Yüksel et al. (2016) analyzed the banking sector and used logit method. In the research of Young and Torna (2013), it was investigated that whether income from non-traditional banking activities contributed to the failure of hundreds of US commercial banks during the financial crisis. Estimates from a multi-period logit model indicate that the probability of distressed bank failure declined with pure fee-based nontraditional activities such as securities brokerage and insurance sales, but increased with asset-based non-traditional activities such as venture capital, investment banking and asset securitization. Similar to this study, in the study of Metwally (1997), structural differences between interest-free banks and traditional banks were tested by logit, probit and discriminant analysis. The analysis extends to various financial dimensions that assess performance such as liquidity, leverage, credit risk, profitability and productivity. As a result of the study, including 15 interest-free banks and 15 traditional banks, it was found that two groups of banks can be differentiated in terms of liquidity, leverage and credit risk, but they cannot be different in terms of profitability and productivity.

GENERAL INFORMATION ABOUT 1998 SOUTH ASIAN CRISIS

South East Asian crisis affects mostly growing economies in world. What was the cause of the Asian crisis in 1997, a weak foundation or financial panic? Corsetti, Pesenti & Roubini (1998) stated that the cause of the crisis was the current account imbalances, real appreciation, bad loans, overinvestment and foreign debt accumulation. On the contrary, according to Radelet and Sachs (1998), while Asian economies had important problems, they did not constitute a situation that would create a crisis.

In the years shortly before the crisis; Indonesia, South Korea, Malaysia, the Philippines and Thailand had intensified capital flows. Intensive capital inflows, particularly short-term capital movements, can be attributed to irregular financial liberalization. International expansion process started with the permits given to the priority sectors, which led to an increase in the short-term capital movements. Significant restrictions have been imposed on non-resident securities purchases and direct investments (especially in South Korea), but financial lending has increased short-term borrowing opportunities abroad. A regular financial liberalization can prevent the progression of short-term debts, but when financial liberalization is not made in the right order, financial vulnerability increases, especially when there is no effective supervision system (Rüland, 2010).

The Southeast Asian crisis hit mostly developing countries. Until that time, it led to the most important financial recovery in history. It was the biggest financial crisis after the 1982 debt crisis. As a result of the researches, corrupt and mismanagement in banking system in Asia and the inadequacy of the capitalist economic system managed by the state were mentioned. In fact, at least as much as the international financial system needed to be taken into account (Radelet & Sachs, 1998).

Since the first half of the 1990s, Asian countries have begun to recover from the mechanisms of monitoring and regulating the banking system. These improvements have not been sufficient. In addition, the increase in the risk of bad loans was seen when the failure of the financial institutions in risk management was added. There were also close relations between major industrial organizations and banks and politicians in Asian countries. Due to the guarantees imposed on the deposits, banks have irresponsibly extended loans to large industrial enterprises with which they are related and thus bad loans continued to increase. One of the most important reasons for the issuance of such loans by banks was the prevailing belief that the state would save the sinking banks (Güloğlu & Altunoğlu, 2011; Şenel, 2019).

The crisis is an indicator of the shortcomings of international capital markets and their weakness in the sudden change of market confidence. The crisis has also caused serious doubts as to the IMF's approach to managing financial disturbances in private financial markets. Perhaps most importantly, the confusion and rush of states, international committees and market participants showed how their wrong and hasty policies led to a simple panic and deep crisis of finance. Asian economies had many problems at the micro and macro-economic level, but in fact these imbalances were not effective enough to bring about such a crisis. Because of insufficient communication between policy makers and market institutions, political decisions and events in the crisis process increased the panic and unnecessarily deepened the crisis (Radelet & Sachs, 1998).

According to Radelet and Sachs (1998) there were determined five main factors in the formation of any crisis.

1. **Macroeconomici Policy Induced Crisis**: According to Krugmann (1979) model, currency depreciation, loss of exchange reserves such balance of payments crisis come into existence when fixed exchange rate does not match domestic credit growth determined by central bank.
2. **Financial Panic:** According to Diamond-Dybvig (1983) model, Panic is the anti-equilibrium situation in which short-term creditors suddenly withdraw their money. Panic causes major economic losses.
3. **Bubble Colapse:** According to Blanchard and Watson (1982), the speculators are the reason of the surplus value of a property in the hope of making more profit in the future. By which bubble would grow soon or later.
4. **Moral-Hazard Crisis:** According to Akerlof and Romer (1994), a moral problem may occur because banks can borrow their debts on the basis of implicit or explicit public guarantees. If the banks are not adequately audited, they may use these funds in excessive risk or criminal attempts.
5. **Disorderly Workout:** According to Sachs (1995), a disorderly workout occurs when an illiquid or insolvent borrower provokes a creditor grab race and a forced liquidation even though the borrower is worth more as an ongoing enterprise.

On the basis of the Asian crisis, there is a large-scale foreign capital inflow to financial systems that are vulnerable to panic. As the productivity of the economies where the capital inflows increased tremendously, the opposite was devastating. In fact, there was a slight decline in capital flows at the beginning of 1987, although international investment community and panic practices of Asian governments and poorly designed international rescue programs deepened the crisis (Katz, 1999).

There is a consensus in the literature that many complex factors trigger the crisis. While a few years before the crisis, a seminal study of the World Bank described the miracle of Asia as a result of prudent policies, but with the emergence of the economic crisis, it was appeared that the countries in question had major structural weaknesses in economic and political fields. The basis of the crisis was the early liberalization of the financial sector. Financial liberalization, which attracted high domestic interest rates, led to a large amount of short-term capital inflows in the form of portfolio investments. At the same time, the elimination of regulations facilitated the access of local corporate borrowers to cheap loans in the offshore markets. Most of these loans were shorter than one year. As a result, the private sector debt in Thailand was US $ 49 billion in 1994, to US $ 98 billion in 1997, and in Indonesia it was US $ 84 billion in 1994 and reached to $ 129 billion in 1997 (Rüland, 2000).

In the Asian countries, the real value of the national currencies, the short-term external debts and the deterioration of the current account balance caused great pressures and imbalances in the foreign exchange market. In such a case, the markets believe that the exchange rate policies implemented by Asian countries cannot continue for a long time and the speculative movements for exchange rates have gained momentum. As a result of the decline in exports due to the exports of relatively expensive Asian countries, the sharpening of the current account balance, and the increase in bad loans due to the rapid decline in the prices of the banks in the construction industry, the Asian countries had to devaluate their money very quickly. Increasing interest rates and the use of international reserves to prevent the rapid loss of national currency could not prevent the exchange rate policies in Asian countries from going bankrupt (Güloğlu & Altunoğlu, 2011).

There were also close relations between major industrial organizations and banks and politicians in Asian countries. Due to the guarantees imposed on the deposits, banks have irresponsibly extended loans to large industrial enterprises with which they are related, and thus bad loans continued to increase. One of the most important reasons for the issuance of such loans by banks was the prevailing belief that the state would save the sinking banks (Chang, 2000).

AN ANALYSIS OF THE DIRECTED TO ROLE OF FINANCIAL COMMUNICATION IN THE ASIAN CRISIS PROCESS

Data Set and Method

In our study, 1997 Asian economic crisis is analyzed by logit method and Asian countries are considered as South Korea, Malaysia, Indonesia, Philippines and Thailand. In the study using Logit method, data of 1975-2006 period are used and the data set indicators which are frequently used variables in literature are taken into consideration. These variables are listed in the Table 2. In addition, the data used in our study were obtained from the World Bank.

Logit Model

When the dummy variables that take two or more values are included in the regression models as the dependent variable, the dependent variables indicate preference or decision. In the choice models with two or more values of the dependent variable, the aim is to determine the probability of selection (Aldric ve Nelson, 1984). In the application of Linear Probability Models, which are called the simplest of the preferred models, there might be problems in realizing some assumptions. Probit and logit model analysis methods are recognised as important models to overcome these problems. In addition, it provides more effective results in predicting financial crises as logit model has the feature of being non-linear (Cebeci, 2012).

Table 2. Variable name and definitions

Name of Variable	Definition of Variable	Formula Icon of Variable	Reference Sources of Variables
Inflation	Inflation Rate %	X1	(Cerra & Saxena, 2005; S.-J. Kim & Stone, 1999; Qin, 2001)
Growth	Growth Rate %	X2	(S.j. & Roy, 2014; (Ibrahim & Shah, 2012; Bratsiotis & Robinson, 2005; Hsing, 2004)
Unemployment	Unemployment Rate %	X3	(Cerra & Saxena, 2005)
Finance Credits	Share of financial loans in GNP %	X4	(Sarno & Taylor, 1999; Chinn & Kletzer, 2000; Majid & Yusoff, 2004)
Debt	Share of total debt in GNP %	X5	(Chinn & Kletzer, 2000; Radelet & Sachs, 1998; S.-J. Kim & Stone, 1999)
Current account	The share of current account deficit in GNP %	X6	(Stone & Weeks, 2001)
Money Supply	The share of money supply in the GNP %	X7	(Majid & Yusoff, 2004; Qin, 2001; Bratsiotis & Robinson, 2005; Hsing, 2004; Husted & MacDonald, 1999)
Saving	The share of gross savings in the GNP %	X8	Calvo, Izquierdo, & Mejia, 2004; Chinn & Kletzer, 2000)
Interest	Interest Rate %	X9	(Qin, 2001; Driffield & Pal, 2001; Kwack, 2000)

This model was developed to provide the condition of $0 \leq E\left(Y_i / X\right) \leq 1$. Logit distribution function is used to explain the Logit model. Logistics distribution function is given in Equation 1 below.

$$P_0 = F\left(Z_i\right) = F\left(\beta_0 + \beta_1 X_i\right) = \frac{1}{1+e^{-Z_i}} = \frac{1}{1+e^{-\left(\beta_0+\beta_1 X_i\right)}} \tag{1}$$

Pi, which gives information about the explanatory variable (Xi) in this equation, is the possibility of making a specific selection of the *i* individual. The lower limit of Pi is 0 because the exponential term in function is always positive regardless of which values it takes. This function provides the condition of $0 \leq Pi \leq 1$ required for the probability. Zi, called the logit distribution function, as long as takes values between $-\infty$ to $+\infty$, Pi will take values between 0 to 1. Thus, the relationship between Pi and Zi will not be linear (İhal vd., 2006).

Logistic regression is mostly used in case-controlled studies. Especially if the variable to be estimated has two values like available / unavailable, then the model is used. In logistic regression, when the dependent variable is categorically observed in double, triple and multiple classification, the cause-effect relationship with explanatory variables is determined. Logistics distribution is a regression method which helps to make classification and assignment process in which the expected value of the dependent variable is obtained as a probability according to explanatory independent variables. In this method, the effects of the explanatory variables on the dependent variable are calculated as probability (Ege & Bayrakdaroğlu, 2009). Therefore, the Logit model is the most widely used model among qualitative selection models. Logistic model is a logistic distribution function derived from cumulative probability distribution. Odds ratio, $\frac{P_i}{1-P_i} = e^{Z_i}$, is calculated by dividing the probability of occurrence of an event by the probability of not occurring. Logistic function can be used in linear regression analysis. Taking a natural logarithm; $L_i = \ln e^{Z_i} = Z_i = \ln\left(\frac{P_i}{1-P_i}\right)$ is obtained and Li is linear. This function, called a logit model, is a semi-logarithmic function that can function as a linear relationship. In other words, the logarithm L of the Odds is linear not only by X but also by the coefficients of the population. The linearization of the model provides great convenience for estimating (Güriş & Çağlayan, 2005).

There are different methods used to test the probability of coefficients in the Logit model. Tests are generally used for logit models instead of the F test in the regression models which are the “Wald Test” and “Likelihood Ratio Test” tests. With these tests, as all variables are examined together and one or more of them are also examined (Demirci & Astar, 2011).

Logistic regression is slightly different from other regression methods due to its assumptions. In fact, these differences have provide significant benefits to researchers and have facilitate the interpretation of output results. We can summarize these differences as follows (Erdoğan, 2002; Gujarati, 2006; Ege & Bayrakdaroğlu, 2009):

- In the regression analysis, it is necessary to have multiple normal distribution of independent variables and especially the dependent variables to be continuous, while these conditions are not required in logistic regression.
- Logistic regression assumes that there are no multicollinearity problems between the independent variables.
- In logistic regression analysis, the equality of variance-covariance matrices is not required.

In our study, a model has been established considering the assumptions of logistic regression. This model has been subjected to Eviews 8 program and its outputs have analyzed. According to program outcomes, some variables have been meaningless within the model and meaningless variables have been excluded from the model. The model has reformulated in Equation 2 below with significant variables.

$$Y = \beta_0 + \beta_2 X_2 + \beta_4 X_4 + \beta_7 X_7 + \epsilon$$

The dependent variable, Y, represents the crisis variable. Y = 0 shows that there is no crisis and Y = 1 shows that there is a crisis. In the study, the growth, financial credit and money supply variables were significant in the periods of the crisis.

Findings

In our study, factors affecting the Asian 97 crisis within the scope of crisis communication analyzed in the Eview8 program with the logit method in the period of 1975-2006. Analysis results are given in the Table 3 In this study, 9 independent variables were used. However, since 6 of these independent variables were insignificant, we only included significant variables.

The results of the logit analysis to determine the causes of the Asian crisis are given in Table 3. As seen in the table, “McFadden R-squared” value is 0.49. This figure shows that the power of our model is sufficient. In addition to this, the fact that Prob (LR statistic) is less than 0.05 indicates that our model is

Table 3. Logit logit analysis results

Depent Variable: KRİZ				
Method: ML - Binary Logit (Quadratic hill climbing)				
Date: 02/05/19 Time: 13:28				
Sample: 1975 2006				
Included Observations: 160				
Convergence achieved after 6 iterations				
Covariance matrix computed using second derivatives				
Variable	**Coefficient**	**Std. Error**	**z-Statistic**	**Prob.**
Growth (X2)	-0.430833	0.188363	-2.287246	0.0222
Finance Credits (X4)	0.086599	0.047805	1.811484	0.0701
Money Supply (X7)	-0.100177	0.058581	-1.710045	0.0873
C	-4.779945	4.635479	-1.031165	0.3025
McFadden R-squared	0.487465	Mean dependent var		0.062500
S.D. dependent var	0.242821	S.E. of regression		0.178231
Akaike info criterion	0.364653	Sum squared resid		4.764918
Schwarz criterion	0.556851	Log likelihood		-19.17223
Hannan-Quinn criter.	0.442698	Deviance		38.34446
Restr. deviance	74.81333	Restr. log likelihood		-37.40667
LR statistic	36.46887	Avg. log likelihood		-0.119826
Prob(LR statistic)	0.000033			
Obs with Dep=0	150	Total obs		160
Obs with Dep=1	10			

significant as a whole.According to the test results, the probe value of the growth variable is less than 0.05 and the probe value of financial credit and money supply variable is less than 0.1. This result indicates that the growth variable is statistically significant at 5% and financial credit and money supply at 10%. Since the significance level of the other variables is greater than 0.1, they are not included in the table. Morever, it will be appropriate to examine the coefficients of statistically significant variables. The fact that the growth variable coefficient is -0.43 indicates that the growth was affected negatively during the crisis period. Growth, which is an important variable in the study, is an important factor affecting the crisis in the mentioned period In addition, the fact that the finance loan variable was positive and its coefficient was 0.08 indicates that loans were not productive during the crisis and credit expansion affected the crisis. The coefficient of money supply variable was -0.1, and while the money supply decreased during the crisis period, the increase in loans caused a significant financial problem in the Asian region.

If we evaluate the findings in the context of crisis communication, it can be indicated that the Central Bank communication is insufficient during the crisis period. In other words, while the money supply decreases, the rise in credit increases indicates that there is a communication problem between the central bank and the market. The existence of a communication problem during the Asian crisis period also was emphasized in the study of Kim (2010). According to Kim (2010), the importance of communication in

South Korea was reached after the crisis. Therefore, the development of Information and Communication Technologies and the development of news networks have been mentioned as important factors to overcome the crisis in South Korea.

CONCLUSION

Communication is an important tool for making changes in their knowledge level, attitudes and behaviors by sending understandable messages to the people or groups forming the target audience. Communication also functions as an economic tool beyond being a social tool. In that, the explanations of economics managers are important in shaping the economic behavior of individuals. The central bank and the government's explanations before the crisis can be effective on economic data. Therefore, the examination of the 1997 Asian economic crisis which has entered the literature in the world history has gained importance. While many economic factors affecting the Asian economic crisis have involved in the literature, our study focused on what factors were effective during the crisis.

In this study examining the Southeast Asian economic crisis in the context of communication, logit method analysis was used. Logit method analysis has been taken into consideration in our study because it is a widely used method especially in crisis predictions. Analysis results indicated that economic growth, financial loan and money supply variables triggered the crisis in the Asian crisis. Furthermore, communication in crisis environments is a very important tool.

If a healthy communication could be established between the market and economics managers in the Asian region, the negative effects of the crisis could be reduced. Recognizing this situation, South Korea took early measures during the 1997 period and used the ICT. In the findings of our study, while the money supply in Asian countries decreased, financial loans expanded and this had a negative impact on economic growth. This situation indicates that there was a communication problem between the central bank and banks in the distribution of money and financial loans. Based on this, the establishment of a healthy communication network between the central bank, financial institutions and the market is an important political proposal of our study.

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Chapter 9
Do Financial Investment Decisions Affect Economic Development?
An Analysis on Mortgage Loans in Turkey

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ABSTRACT

The purpose of this chapter is to determine whether mortgage loans have an influence on economic growth in Turkey. In this context, as the variable of the mortgage, the ratio of the mortgage loans to the total loans is taken into consideration. Also, the increase ratio in GDP is used as an economic growth variable. In addition to this situation, quarterly data of these variables for the periods between 2005:1 and 2017:3 is examined. On the other hand, Engle-Granger cointegration analysis is considered in this study in order to reach this objective. In the analysis process, firstly, the variables are subjected to the ADF unit root test, and it is understood that both variables become stationary by taking first order differences. It is identified that there is a long-term relationship between mortgage loans and economic growth in Turkey. By considering these results, it is recommended to encourage mortgage loans in order to increase economic growth.

INTRODUCTION

Credit; the meanings of trust, respectability and reputation from other languages are derived from general words. Today, the loan is used to lend money to a person upon request. In other words, it means accepting to give a trade to the other party, provided that the money is provided later. The reputation of the counterparty plays an important role in the credit as it is important for everyone to be a respected

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person, while giving a person a loan. In other words, the reputation and dignity of a person in the market is also called the as credibility of that person (Yuksel et al., 2016).

It is possible to classify loans in two different groups as cash and non-cash loans according to their qualifications. While cash loans have a system based on interest and commission, interest rate on non-cash loans is not available (Dinçer et al., 2016). In this system, banks can only receive commissions. Loans according to their maturities are divided into 3 groups: short-term, medium-term and long-term. On the other hand, it is possible to classify the loans in two different groups according to the purpose of the loan (Yüksel, 2017).

Mortgage loans, which are also referred to as housing loans, which are part of the consumer loans group, are called loans that individuals who do not have sufficient experience but who want to own a home have requested under certain conditions determined by the banks. In other words, in the course of the mortgage loan, the customer buys the house with the credit used from the bank (Yüksel & Zengin, 2017). Thereafter, the bank has a mortgage on the purchased house until the customer has completed his credit debt to the bank. In this context, if the loan debt is not paid to the bank, the bank has the right to sell this house through the mortgage (Zengin & Yüksel, 2016).

Being a home owner is one of the main problems for individuals with housing problems. Since the housing contains a high value, it is possible for people to save money by saving for years, borrowing from their immediate surroundings or owning property by inheritance. In this context, mortgage loans are considered to be beneficial to the economic growth of the country. On the other hand, in case of uncontrolled loans, it was observed that in 2008 a worldwide crisis was caused (Dinçer & Yüksel, 2018; Yüksel, 2016).

Parallel to the issues listed above, this study examines whether economic growth in is the impact of housing loans granted in Turkey. In this context, 3-month data in the period between 2005: 1-2017: 3 were included in the study. The ratio of housing loans to total loans was used to represent the housing loan variable. In addition, in the context of economic growth, the rate of increase in GDP compared to the previous period is taken into consideration. On the other hand, Engle-Granger co-integration analysis was used to achieve this aim.

The study consists of 4 different sections. In the first part of the study, information about the concept of credit in the banking survey is given. In this framework, the definition of the loan was made first. After that, information on different types of credits is given. For this purpose, loans; They are classified according to their qualifications, maturities and purpose. In the second part of the study, the relationship between housing loans and economic growth is discussed. In the relevant section, housing loans were firstly detailed. In this context, the definition of housing loans, legal dimension, housing finance systems and types of housing loans are explained. Then, in the world and in Turkey were informed about the development of housing loans.

In the third part of the study, literature reviews on housing loans were shared. In this context, first of all, some studies on housing loans in the national literature were discussed. Following the mentioned issue, the relevant section also includes selected international studies. Following the elaboration of these similar studies examining the issue of housing loans, the missing point about this issue has been determined in the literature.

In the last part of the study, an application was made on the Turkish banking sector in order to determine the relationship between housing loans and economic growth. In this context, firstly data sets and variables, followed by information on Engle-Granger co-integration analysis used in the model. Then, the results of the analysis were shared. In the conclusion section, the proposed policy recommendations were shared considering these findings. The limitations of the study and recommendations for future studies are also presented.

MORTGAGE LOANS AND THEIR EFFECTS ON ECONOMIC DEVELOPMENT

General Information About Mortgage Loans

People prefer not to pay rent and to have a home for investment. In this way, they will have a real estate owned by them and they will not have to pay rent to the houses that others own. In addition, people have also used their own savings to buy a real estate. Due to the mentioned issues, many people in our country have either become homeowners or aim to become a homeowner. In other words, people have a thought to make investment by purchasing a house (Nakajima & Telyukova, 2017).

On the other hand, the biggest obstacle to people buying home is the financing problem. Houses generally have high prices. Therefore, people can be forced to buy houses. Especially for someone with a fixed and certain level of income, perhaps it will not be possible to buy a house for the rest of his life. In order to solve this problem, cooperative and many structures were built, and people were meant to be able to get home more easily (Beltratti et al., 2017).

Housing loans also play an important role in ensuring that people with fixed and certain income in this process can become homeowners. People receive loans from the bank to be a host. With this money they acquire, they buy the house and pay the debts back to the bank in installments over the long term. In this way, under normal circumstances, people who cannot have a home as if they are renting like rent (Suwansin et al., 2018).

"Housing Finance" is the system that is created to meet the needs of the individuals who want to own a house or the institutions that will perform the housing planning projects and to provide the necessary budget. The housing finance system is actively identified as a valuable element in the financial market. Long-term maturities and low interest rates are the most important factors for effective housing financing system. The main reason for this is the increase in the difficulty of payment when the maturities are short, and the interest rates are high (Müller & Noth, 2018).

Mortgage markets include individuals from personal investments to corporations' investments, from banks that invest in investment activities to free fund investors. In other words, it is stated that the mortgage market consists of primary and secondary markets. The operating system of both markets is different. This difference is that the institutions that provide credit in a market are issuing securities in return for mortgage loans and in the other market they are financing their loans through investors who buy these securities. Many participants are actively involved in these markets (Phang & Phang, 2018).

Individuals who want to own a home can apply to lenders and initiate the credit process. The term of payment under the term of mortgage loans varies between 10-20 years. At the same time, there should be a secondary market in order to fully talk about the housing loans under the name of the housing finance system (Dinçer, 2018). In the secondary market, the loans to be obtained from the institutions that provide mortgage loans are securitized and the parties that have both surplus and fund need under the roof of an institutional system provide many advantages (Morgan & Zhang, 2017). These loans should be organized in an international area. In the secondary market, they prevent the financial institutions from experiencing cash problems and they increase the chance of repaying the loans they have undertaken (Pereira et al., 2017).

Various mortgage loans have been created in the system depending on the conditions of the economy. The types of mortgage loans vary from country to country. Depending on the loan types, the maturities of the loans may also be different. In mortgaged housing loans, maturities generally vary between 15-30 years (Gu et al., 2017). However, individuals have been more likely to prefer the term of maturity, which has been determined for 15 years. Mortgage lending may differ from developed countries to developing or underdeveloped countries. For example, in countries with a certain economic development and expectations in the future in this direction in general, there is a fixed interest rate, while developing countries where economic instability is subject to variable interest is applied (Tsyganov & Yazykov, 2017).

It is possible to talk about some advantages of the mortgage loans. If the mortgage loans reach individuals in need in a package, with long-term maturities and low interest rates, many people will be able to own housing. Accordingly, the investors will also be very happy in the securitization process (Jung and Park, 2017; Yüksel et al., 2017). On the other side, there are also some risks in the mortgage loans. First of all, it can cause interest rate risks (Yüksel and Zengin, 2017). There may be significant differences between the net and gross rates of the mortgage interest rates announced by the banks (Dinçer et al., 2018a). As a result of the asymmetric information distribution policy of the banks, it is necessary to explain the gross and net interest rates related to the mortgages to be used by informing the consumers correctly. Housing loans will not contribute to the damage of the household without delay and will contribute to a healthier development of the mortgage system (Fan et al., 2017).

Liquidity risk is another risk of the mortgage loans. It is a risk that can be affected due to maturity mismatch between activity and passivity. The funding sources of creditors are generally short-term. Therefore, long term loans may cause maturity mismatch (Dinçer et al., 2019). Banks should continuously measure the maturity gap in the assets and liabilities range and increase the risk management that is most appropriate to their own structure. In addition to them, currency risk is also significant in mortgage loans. It refers to the loss of the value of the currency against different foreign currencies. It is inevitable that the bank or the financial institution in open position will suffer losses as a result of foreign currency liabilities exceeding the actual value (Dinçer et al., 2018b).

Development of Housing Loans in the World

In 1929, the US suffered the biggest economic crisis in its history. The impact of the mortgaged housing financing system is very high in this crisis. The recovery of the banking sector in the aftermath of the major economic crisis took a long time. As a result of this situation, mortgage applications started under the auspices of the state as of 1938. In the USA, which is accepted as the basis of "the Mortgage Housing Finance System", there are laws and regulations supporting the financial institution that provides credit to the buyer who has been in need of loans since the 1930s and the banks that invested in this issue. In 1932, "the Federal Loan Home Bank" was established to regulate the federal credit standards and "Reconstruction Finance Corporation" to provide liquidity to commercial banks for the financing of housing construction. In 1934, "the National Housing Act" and the "Federal Housing Administration" were established to regulate housing (Stuart, 2018).

In 1938, the American State established the Fannie Mae (Federal National Mortgage Association) in order to support housing finance, and through this privileged institution, mortgaged receivables from lending financial institutions were granted the opportunity to be associated. Later on, the Readjustment

Act of 1944 and Ginnie Mae and Frederic Mac, the same as The Housing Act of 1949, appeared. Then, the Housing and Urban Development Act, which encouraged and supported the construction of residential buildings in 1968, was carried out to protect the consumer. In 1977, the Housing and Community Reinvestment Act was organized to regulate the housing program for low-income people and to meet their needs for housing (Antoniades & Calomiris, 2018).

Although the origins of the mortgage system have long been rooted in the US, the ground of housing loans in the United States could only be taken towards the 1970s. The system, which was carried out by only one organization, involved new actors in subsequent years. In the 1990s, the mortgage companies who worked in a systematic manner showed their effects and in the 2000s, the mortgage began to feel deeper and stronger. There are many countries with mortgaged housing loans. The US is at the top of these countries. It is stated that the total amount of loans in 2001 is US $ 6.2 trillion. As the numbers increased, this figure reached 14.557 billion dollars as of 2007. The amount of securities having an important place in the system was around 3.565 billion dollars in 2000 and this amount was 7.210 billion dollars as of 2007. In general, we can see that the US has a huge volume within the mortgage system and this volume is increasing with each year (Shi & Zhang, 2018).

In the European Housing Finance System, the mortgage appeared in Denmark in the 1800s. This system is used in Europe for nearly 200 years. In spite of having such a long history, there are many application differences between countries in the European model. There are many elements under these differences. Major elements; financial conditions, corporate structure, laws and tax practices, social and cultural formations, banking and insurance sector, and economic strength (Van Gunten & Navot, 2018).

In European countries, the mortgage system is quite old. In the United States, approximately 200 years after the implementation began. Denmark is one of the first countries to successfully implement the mortgage system. In Denmark, there is a suitable area to implement this system. When evaluated in general; In Europe, we observe that mortgage-backed securities are mostly used in the UK and Ireland as funding instruments. It is also interesting to note that long-term deposits are the most commonly used method for funding mortgage loans in the member states of the European Union (Gerlach-Kristen & Lyons, 2017).

In Europe, many resources exist for the system to progress in a healthy manner. In the system implemented in Europe, the risks of loans are in the bank's balance sheet. In European countries, mortgage bonds are preferred. The incentives given to loans in the system are very important and these incentives are implemented in different types. For example; loans with low interest rates can be specified as investment rate supports (Arundel & Doling, 2017).

The origins of mortgage applications are seen in European countries with a deeper background than the US. With more than 200 years of experience, Europe is in a more successful position and Denmark is the country that best practices this system. Mortgage bonds are heavily used in the European system and there is no state-funded institution providing financing for the mortgage system. In European countries, factors such as credit incentives and interest support have a positive effect on individuals who want to have a home (Filotto et al., 2018).

In Europe, as of 1987, other mortgage-backed securities were actively implemented, and they gained momentum. As of the 2000s, significant strides have taken place in the securities sector. The Mortgage Housing Finance System, which is widely applied in European countries, refers to the integrity of legal transactions. In order for the system to function in a healthy way, legal regulations are needed, and these legal arrangements are prioritized. Special laws were enacted in many European countries such as Belgium, Spain, Luxembourg and Switzerland (Rossi & Sierminska, 2018).

A Danish model with a mortgage bill tradition for over 300 years. By financing itself with mortgage-backed bonds, Denmark proves to have one of the largest bond markets worldwide. The number of mortgage banks in Denmark, which has a total number of 8, has played the most important role in real estate finance. These banks are specialized in collecting funds through the issuance of debt instruments in capital markets and granting mortgage loans. These banks, which do not operate only in Denmark, differ in terms of the type of real estate provided. As an example, BRF Credit lends loans to homes for individuals, while LR Realkredit lends to public-funded large-scale development projects (Berg et al., 2018).

LITERATURE REVIEW

Adelino et al. (2016) focused on mortgage loans by using descriptive statistical method. In the case of the formation and assumption of credits in the mortgage crisis, the role of the middle class has been studied within the scope of literature review. The mortgage loans, which are preferred by individuals who want to be a home owner (especially middle and low income citizens), caused a very troublesome process due to the sub-prime loans extended during the crisis and caused many people to be seriously harmed. It should also be noted that; Before 2007, the credit scores in FICO have left a positive atmosphere before 2007. It is perceived as a positive for the institutions and organizations that will make loans. However, it was not foreseen that the loans would cause a crisis by adversely affecting the size of the risk and that the measures to be taken in this direction should be taken urgently.

Jorda et al. (2016) described the mortgage loans with descriptive statistics method in the context of literature review. Within the framework of large mortgages, housing finance, crises and business circles are discussed. In the history, the housing finance system is based on old times. However, its spread has not been very fast and in some countries, it has not been able to make any progress. From the 1870s onwards, the share of mortgaged banks in the balance sheets doubled and household debt-to-asset ratios increased significantly in many countries. For this reason, it is stated that housing finance plays an important role in modern macroeconomics and has an important place in the system.

Yusof et al. (2016) used the empirical method to understand the effects of the rental rates on the UK market as an alternative price for Islamic home financing were carried out with an experimental study. It is stated that the distinction between Islamic housing finance model and banking housing finance model is very significant and that there is no interest in Islamic banking. Instead, it is observed that Islamic banks are more stable and less prone to macroeconomic fluctuations by stating that an expression will be included under the name of profit share. At the same time, they stated that both banks and customers are relying on the risk sharing mechanism. The confidence factor, which has one of the most important places in the banking sector, is evident in Islamic banking. For this reason, it was concluded that the status of the bank's statutes is of great importance by relating to the spirituality of the individuals who want to have a home.

Arestis et al. (2016) conducted an empirical study based on OECD countries. Within the scope of the study, the focus was on addressing housing prices and current account imbalances in OECD countries. There is a significant relationship between current account imbalances and housing prices. Therefore, it is stated that housing prices have a negative impact on the potential demand negatively. Based on this, the Central Bank, considering the inflation rates, closely followed the housing prices and reported the most appropriate interest rates and the necessary studies.

Freeman (2016) preferred the descriptive statistics method based on the USA. They have conducted a study on how to facilitate mortgage counterfeiting, which is one of the risks of the housing finance system, in 2008. In this study, which deals with a serious housing crisis, these forgeries directly affect homeowners, as the frauds in every aspect of American life have been directly affected and stated that Wall Street investors are spending high and risky gains in the casinos of America. As a result of this, destructive results have emerged and unfortunately, even valuation experts have been involved. In this crisis process, which started in 2008 and lasted until 2010, there were incredibly difficult times and mortgage fraud, which was not discussed, came into question, and the housing markets in the USA have always been a key task (Yüksel & Zengin, 2016a,b).

Duca et al. (2011) worked on the USA with empirical study method. Within the scope of the US experience, housing prices and credit constraints are met. As a result of empirical study, it was observed that home price models started to deteriorate in the mid-2000s and caused an asymmetric information problem for individuals who want to have housing. Due to this, there are many conditions for individuals who want to have a home. Therefore, the inclusion of debt-to-value ratio in housing price-to-rent ratio models supports the fact that the significant easing of US mortgage standards by creating stable long-term relationships has increased the demand for housing in the early 2000s as a result of which the US mortgage market until the crisis has found its place in a quite important position. In the post-crisis period, the US trying to collect itself started to return to its former performance.

Creel et al. (2016) preferred the Sur model and worked on the Eurozone and the EU. Asymmetric information in the housing market has a large and important place. In order to ensure that the institutions and organizations that will provide the credit do not fall into any trouble for both parties, the individuals and the institutions that will provide the credit should be more cautious in order to ensure that they do not fall into trouble in the future. For this reason, monitoring of bank loans will reduce the risk of bank instability and as a result of this, it is thought that long-term interest rates can be achieved through low interest rate implementations and stable inflation policy by supporting macroeconomic policies within the framework of the banking system and the system will prevent such instability.

Gartenberg and Pierce (2017), using the descriptive statistics method, performed a study on the USA. They state that institutions that will provide housing loans are in a very important place in terms of governance. As a result of not being adequately supervised by the institutions providing credit, the subprime loans provided by the institutions to the individuals who want to be the owners of the houses create serious problems and therefore the management of the financial dimensions of the management is underlined. In the same sector, but different sub-sectors in the form of the merger of the firms in the form of vertical integration due to a number of errors in the form of lending has led to serious problems.

Jou and Lee (2016) conducted a literature search using the descriptive statistics method. Within the scope of the study, the importance of fixed and variable rate mortgage lending, which has an important place in mortgage loan selection, has been mentioned in previous studies. On the other hand, it is observed that the mortgage loans vary depending on the time they are connected, and the risks increase or decrease according to this situation. Accordingly, it is stated that interest rates vary in long-term maturity ratios and also fixed-rate debt prepayment options are more advantageous. Ozel et al. (2016) conducted a literature study using descriptive statistics method. The approach on the macroeconomic impacts of the requirements of mortgage loans is emphasized. By observing that the main problems of the housing market are provided by endogenous money, endogenity is grouped under two concepts; the first is the adaptive endogenity and the second is the structuralist endogenity.

Greenwald et al. (2016) used the descriptive statistical method and made a literature review. According to the results of the loan growth, the prepayment stage in mortgage loans has an effect on the restructuring of the current debt due to the change in the interest rate and the fact that the changes in the interest payments on the basis of the latest researches have been adjusted has taken an important place in the mortgage economies. This is stated that although the redistributions have the least effect on total variables in a flat-rate environment, the total transmission of the riches may be greater than the present value. Hepsen and Kalfa (2009) made a study with the scope of Granger causality test and variance decomposition methods based on models of Turkey. In this study, which covers the years 2002-2007, it is stated that the interest rates and volumes of the mortgage loans show a change in relation to each other and that the construction permit process in the housing construction affects the subsequent construction processes and some works have been granted a license.

Agao (2014) conducted a study on Kenya using the descriptive statistics method. Within the scope of the study, it is determined that there is a positive relationship between mortgage loans and interest rates, and in time, the mortgage market in Kenya is expected to continue to grow and as a result, macroeconomic variables are supported by the findings of the study that have an impact on the mortgage purchase in Kenya. The level of GDP and money supply is a strong positive relationship. Ferreira and Santos (2016) chose the empirical method of study and made a literature review. Credit risk analysis of mortgage loans has been accepted as the most important factor for banking institutions due to serious restrictions on the use of credit arising from the current economic conditions and it is still stated that higher credit supply standards are being followed.

Ashford and Kantarelis (2016) used the descriptive statistical method, they made a literature review. A recent loan is offered to facilitate financial procurement for individuals with such status, due to the recent decline in their national income from middle and low-income citizens who wish to own a home. The capital gains related to the future capital of the financial capital are included in the statements and the strengths and weaknesses of the proposed loan are discussed. Ardia et al. (2017) worked on Canada by choosing the method of Aggregate Macroeconomic Stress Test. Stress testing is an important part of risk management in measuring the results of adverse market and economic scenarios. As the main items of stress test; forward-looking risk assessments are expressed as having to bear negative economic conditions as an indicator of the level of capital required to overcome the limitations of models and historical data.

Dietrich (2016) used the descriptive statistics method and conducted a study on Switzerland. The Swiss mortgage market has been recognized as highly productive and competitive for the last 10 years, with the increase in commercial and residential real estate prices and real estate demand in Switzerland. It is also stated that the mortgage loan volume positively affects the financial crisis. However, the positive development of this market has led to a more aggressive credit policy, leading to a decrease in risk awareness and a negative impact on competition policies. while, it has directed banks to be more careful about lost loans.

Ho (2010) conducted a literature search using the descriptive statistics method. In this study, which examines the effects of traditional housing loans, the deterioration of credit standards issued by rating agencies and the fact that it becomes a big market bubble on behalf of the financial institutions has revealed that the results of the study have become interesting, as well as the subsidy credit-value ratios and debt-service coverage rates are justified. In this way, it was an effective and effective method on the rating agency and therefore it was reported that the loans had objective and objective ratings, no conflicts of interest, and that the seizure of agents should be prevented and terminated. As long as there is no incentive for actual structural and / or philosophical changes, the date for financial firms will repeat itself in other forms or forms.

Kim and Wang (2018) conducted a literature search using the descriptive statistics method. State-managed mortgage guarantee schemes are intended to assist households in economically difficult situations to become homeowners. In addition, it analyzes macroeconomic variables and distribution effects of government programs. The effects of welfare level vary according to the household and financial situation. Jung and Park (2017) used the descriptive statistics method and studied Korean. In the context of the research on the economic impact of financial arrangements, the housing market in Korea during President Ro's administration was mentioned as a market that fought vigorously against the speculative balloon in Korean real estate. They stated that the financial regulations in the mortgage loan market of the economy are not intended to cause any distress, but rather that the regulations should be fully expressed on the housing prices, supported by studies investigating the longer-term effects of the regulations as a market aiming at the cooling of excessive speculative housing.

Czerkas (2016) conducted a study based on Poland using the descriptive statistics method. The rapid growth of mortgage lending in Poland, borrowers with foreign currency loans, formed a typical situation for Central and Eastern Europe, with cases in Europe and Poland being included in the pool. For this reason, it was stated that the financial results of the Polish banks could negatively affect the financial results. Thus, the existence of foreign currency denominated in the Polish banking sector is a risk that mortgage loans (FCML) represent a systematic element and are expressed as being solved. Mitman (2014) preferred Standard Mortensen-Pissarides model and worked on literature review. Considering the effects of three broad state intervention in the economy; bankruptcy and foreclosure laws, mortgage market rescue guarantees, and unemployment insurance, and most of the major stagnation and unprecedented unemployment allowance to reduce the rate of bankruptcy, while significantly increasing the rates and also increased the rate of enforcement of the reforms will bring great prosperity is expressed by the US unemployment insurance policy. It is stated in this policy method that the best condition will be conditional unemployment which will help the fluctuations in the period of unemployment and provide great welfare gains.

Kargı (2013) studied the last 10 years of Turkey with Dickey-Fuller unit root test, Granger causality analysis and multiple regression model. As a result of these methods, more than one conclusion was reached. Considering that the housing is a physiological need, it is clear that increasing inflation and interest rates have a negative impact on individuals who want to have a home. But credit volumes from day to day expansion and housing expenses arising from the need with to respond positively to GDP in the economy of Turkey did not form a housing bubble has also been expressed in the form did not result in any imbalance in the market in this case.

Telli (2016) made a study with logistic regression analysis method. With this process, Turkey's 1999, 2000, 2001, and profitability ratios of commercial banks are experienced as a result of the evaluation was made by comparing the 2008 crisis. An empirical study of the crises that we have experienced in the past years can be an element of measure for any crisis that may be encountered in the following years. Increasing the financial ratios in such studies is predicted to be able to rule out the risks of crisis that we may be exposed to in the future.

Sezer (2011) conducted a study related to the implementation of the housing finance system in Turkey by benefiting from descriptive statistics related to conclusions. The need for housing has now become a physiological need by leaving a territorial dimension. For this reason, it has been stated that being a home owner is very difficult especially for people with moderate and narrow livelihoods even under certain conditions. Even though interest rate cuts, tax incentives and arrangements on real estate are made, the state should state that it should pave the way for subsidies on various subjects for individuals who want to have housing.

Okay (2010) used Granger causality analysis in this purpose. There are many macroeconomic variables depending on a number of conclusions about the differing parameters in Turkey. These parameters are generally different depending on the interest rate, exchange rate and real estate partnership index. It is stated that interest rates are the most effective factor on loan demand. When the exchange rate parameter is considered, it is stated that the demand for housing loans will have an impact on the exchange rate of mortgage loans and thus the demand for housing loans will increase. At the same time, although the housing sector is not only a sector alone, it has a positive impact on other sub-sectors in terms of employment.

Berberoğlu (2009) focused on ANOVA and t-test analysis in the study. This study is based on the Trabzon province under Turkey. Therefore, it is also stated that the results obtained may have different results for other provinces. It is also stated that the application areas of mortgage loans in our country are very inadequate but when there are suitable conditions, there may be a serious breakthrough in terms of passing the economy of our country. The mortgage system has received criticism because it is in favor of the lender. The lender has guaranteed itself in every way, but this is not the same for the borrower. It is stated that new regulations should be made by considering the rights of individuals who use credit in the system. Factors such as interest rate, age, current house prices, having a child, gender, and marital status were influential on the most important factors that affect the credit usage of individuals who want to be a home owner. It is also stated that if the interest rates and inflation decrease, the mortgage system in our country will be built on solid foundations and our country will have the power to revitalize our economy.

İbicioğlu and Karan (2012) considered Turkey with cointegration, causality and the variance decomposition methods. They mentioned that demand for housing loans may vary according to interest rates, confidence factor and unemployment rates. The macroeconomic variables in question have their own results. For this reason, they stated that due to these three variables, the possibility of changing the results should be taken into consideration. Berberoğlu and Teker (2005) conducted a model study on the appropriate recommendations to Turkey. Within the scope of the study, it can be said that no model can be perfect and that there may be differences arising from application depending on many variables within the country to be implemented. The idea that the housing finance systems will stimulate the economy of the sector and the country by ensuring the liquidity flow in the economy if they implement the right policies are defended. Çolak and Öztürkler (2012) conducted an analysis using micro data sets working under Turkey. In the study, it is stated that household income level is a very important factor in terms of preference of housing loans. It has been observed that the saving investment of families with low income levels is very low and insufficient. It is stated that the way to increase saving tendencies is due to the increase in revenues.

Akkaş and Sayılgan (2015) used Toda-Yamamoto method in the study on Turkey. This study clearly states that many factors have positive or negative impacts on housing loans before choosing housing loans in our country. With this method, which is analyzed by using VAR model, however, it can be stated that if the interest rates decrease, the middle and low-income individuals will be able to move towards housing loans and thus the economy will gain vitality and directly affect the main and sub sectors. Demirezen (2015) considered Johansen cointegration method, Wald and Granger Causality Test for Turkey. As a result of the study, it has been stated that a consumer savings may occur due to the use of individuals for consumption rather than investment purposes. As a result of this situation, it has been seen that individuals' lending rates on their personal loans have decreased to a serious extent and they are behind their commercial and investment loans. This negative situation has been provided by the authorized authority to anticipate many risks, and accordingly, within the framework of the 10th development plan, where economic development does not increase in terms of the current account deficit, it is stated that the volume of growth will increase and that it will gain more functionality.

Considering the details of these studies, it is understood that the issue of housing loans is quite important in both national and international literature. In most of the studies, the effect of housing loans on macroeconomic factors is taken into consideration. In this context, the effects of housing loans on economic growth, unemployment rate, exchange rate change and current account deficit are frequently examined. In addition to the mentioned studies, it is understood that the effects of macroeconomic factors on housing loans are taken into consideration in some of the studies. For example, many studies have analyzed the effects of interest rates, economic growth and the unemployment rate on housing loans. Another important issue in the literature review is that many different analysis methods such as regression, VECM, VAR, probit, Toda Yamamoto causality analysis and logit are taken into consideration in related studies. Considering the issues in question, of housing loans in Turkey it is determined that there is a recent study examining the impact of economic growth. Therefore, it is thought that a new study, which takes into account the current and successful method, will contribute significantly to the literature.

AN APPLICATION ON TURKISH BANKING INDUSTRY

Data Set and Variables

In the study, it is investigated whether the effect of the economic growth of housing loans in Turkey. In this context, red housing loans / total loans red ratio is used to represent the housing loan variable. Banks said data to Turkey was reached through the website of the Union. On the other hand, the growth rate of the GDP figure was taken into consideration in representing the economic growth. also said that data was accessed from Turkey Statistical Institute's website. In addition to the mentioned issues, the annual data in the related period 2005: 1-2017: 3 period were taken into consideration.

Engle Granger Cointegration Analysis

Within the scope of the Engle-Granger cointegration test; It is possible to express a stable linear relationship between non-stationary series. If such a situation is encountered, it can be mentioned that there is a cointegration relationship between the series. In the first step of Engle-Granger cointegration test, integration tests of variables are carried out. If there are two variables in the long-term relationship, both of them must be from the same degree of integration, this situation requires necessity. If there are more than two (multiple explanatory) variables, the degree of integration of the dependent variable should not be higher than the integration degree of any of the explanatory variables. In addition, the two explanatory variables must have the same degree of integration (Engle and Granger, 1987).

As a second step, the cointegration equation is used to determine whether the error term is stationary and the criterion of cointegration is the error term. However, the critical values used in the ADF test for cointegration are different from the critical values used for the unit root test. In the cointegration equation, the critical values vary depending on whether the fixed and seasonal dummy is variable. In the conclusion and decision-making stage, if the calculated t value is smaller than the lower critical value in the table, it is rejected in favor of the null hypothesis alternative in the absence of cointegration and it is concluded that cointegration is in this case. If the values found are greater than the upper critical value, it is decided that there is no cointegration, and the intermediate values indicate uncertainty, which makes decision-making difficult (Engle et al., 1986).

If the variables are related to the long-term relationship, or if they are cointegrated, the problem of fake regression is eliminated. When both y and x I(1) variables and if a linear combination of them is I (0), then these two series are cointegrated. If there is a non-zero beta coefficient, this is called co-integration coefficient. In summary, the Engle-Granger cointegration test steps are as follows. First of all, OLS regression should be established in accordance with economic model and co-integration coefficient should be estimated. After that, ADF unit root test should be applied to the residues obtained from this regression. Engle Granger cointegration analysis was considered in the literature by many different researchers. Yüksel and Canöz (2017), Yüksel and Özsarı (2016a,b), Yüksel and Özsarı (2017), Yüksel (2016) and Dinçer et al. (2019) considered this methodology in order to solve financial problems, such as effective usage of central bank reserves, the influence of Islamic banking on economic growth, the effect of consumer loans on current account deficit.

Analysis Results

In the study, it was firstly investigated whether the variables were stationary or not. In this context, these variables were subjected to the extended Dickey Fuller (ADF) unit root test. Unit root test results of economic growth variable are given in Table 1.

Within the scope of the study, unit root test results of economic growth variable are given in the table above. The probability value was found to be 0.4155 and this value was found to be greater than 0.05. For this reason, it is stated that the variable in question carries a unit root. So; if the value is greater than 0.05, we can say that the unit root exists. It is also possible to state that the economic growth variable is not static. In order to achieve the desired static value in our study, the variable should be less than 0.05. In this study, it is stated that the economic growth variable is not stationary, and the first difference of the variable is taken into unit root test. The results of the analysis are given in Table 2.

Table 2 gives information that the probability value is below 0.05. Therefore, it is concluded that the series does not have a unit root. In other words, the first difference of the economic growth variable is made to stabilize the value. Considering the aforementioned issues, it is concluded that the economic growth variable is appropriate for Engle-Granger co-integration analysis. The unit root test results of the housing loan variable, which is the second variable that is used in the study, are given in Table 3.

As can be seen from Table 3, the probability value of the housing loan variable was found to be 0.8838. Since this number is greater than 0.05, it is determined that this variable has a unit root. In other words, it is understood that the housing loan variable is not static. Because, as mentioned before, the probability value must be less than 0.05 for a variable to be static. Therefore, the first difference of the housing loan variable was taken, and the unit was subjected to root test. The results of the analysis are given in Table 4.

According to Table 4, where the first difference of the housing loan variable is included in the stability analysis results, the probability value is below 0.05. Therefore, it is seen that there is no unit root in this series. In other words, the first difference of the mortgage loan variable is made to stabilize the value. Therefore, it is understood that the housing loan variable is also suitable for the Engle Granger

Table 1. Unit root test results of economic growth variable

Null Hypothesis: GROWTH has a unit root				
Lag Length: 0 (Automatic - based on SIC, maxlag=10)				
			t-Statistic	**Prob.***
Augmented Dickey-Fuller test statistic			-0.684477	0.4155
Test critical values	1% level		-2.612033	
	5% level		-1.947520	
	10% level		-1.612650	
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D(GROWTH)				
Method: Least Squares				
Sample (Adjusted): 2 51				
Included Observations: 50 after adjustments				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
GROWTH(-1)	-0.026163	0.038223	-0.684477	0.4969
R-squared	0.008855	Mean dependent var		0.098000
Adjusted R-squared	0.008855	S.D. dependent var		3.968678
S.E. of regression	3.951068	Akaike info criterion		5.605646
Sum squared resid	764.9361	Schwarz criterion		5.643887
Log likelihood	-139.1412	Hannan-Quinn criter.		5.620209
Durbin-Watson stat	1.734562			

*MacKinnon (1996) one-sided p-values.

co-integration analysis. Then, regression analysis should be established among the variables. In this context, due to the idea that housing loans would have an impact on economic growth, housing re-use was used as an independent variable and economic growth was used as a dependent variable in the regression analysis. The results of the regression analysis between housing loans and economic growth variables are given in Table 5.

As can be seen from the Table 5, the results of the regression analysis, the coefficient (0.000742) between the housing loan and economic growth variables was determined to be positive. For this reason, the effect of housing loans on economic growth is positive. The equation obtained as a result of regression analysis is expressed as follows.

Growth Rate = -2.493735 + 0.000742 * Mortgage Loans

As stated above, it is understood that housing loans positively affect the economic growth of the country. On the other hand, the obtained coefficient (0.000742) is observed. This shows that the force of this effect is very low. In addition to the mentioned issues, the information analysis criteria of Akaike, Schwarz and Hannan-Quinn were used in the related analysis process. These information criteria help in the process of selecting the best of different models. After regression analysis in Engle Granger

Table 2. Unit root test result of the first difference of economic growth variable

Null Hypothesis: GROWTH1 has a unit root				
Lag Length: 0 (Automatic - based on SIC, maxlag=10)				
			t-Statistic	**Prob.***
Augmented Dickey-Fuller test statistic			-6.117398	0.0000
Test critical values	1% level		-2.613010	
	5% level		-1.947665	
	10% level		-1.612573	
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D(GROWTH1)				
Method: Least Squares				
Sample (Adjusted): 3 51				
Included Observations: 49 after adjustments				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
GROWTH1(-1)	-0.914301	0.149459	-6.117398	0.0000
R-squared	0.437358	Mean dependent var		0.189796
Adjusted R-squared	0.437358	S.D. dependent var		5.320332
S.E. of regression	3.990754	Akaike info criterion		5.626035
Sum squared resid	764.4538	Schwarz criterion		5.664643
Log likelihood	-136.8378	Hannan-Quinn criter.		5.640683
Durbin-Watson stat	1.938782			

*MacKinnon (1996) one-sided p-values.

co-integration analysis process, the error term series related to the related analysis are obtained. The corresponding error term series are then subjected to the unit root test. The results of the analysis are shown in Table 6.

As can be seen from Table 6, the probability value is determined as 0.0000 according to the unit root test result of the error term series. It is understood that the series is stable because the figure is below 0.05. This indicates that there is a long-term relationship between housing loans and economic growth. In other words, the housing loans in Turkey were found to be effective on economic growth.

SOLUTIONS AND RECOMMENDATIONS

Considering the results obtained, in order to increase economic growth, following policy suggestions are recommended for Turkey. First of all, mortgage loans should be encouraged in Turkey. It is important for the state to take action on issues such as tax advantage in order to encourage housing loans. For this purpose, it would be appropriate to continue the exemption from the already applied PPE and BITT. On the other hand, also received new housing for the property tax exemption for a certain period are expected to support the use of housing loans in Turkey.

Table 3. Unit root test results of mortgage variables

Null Hypothesis: MORTGAGE has a unit root				
Lag Length: 0 (Automatic - based on SIC, maxlag=10)				
			t-Statistic	**Prob.***
Augmented Dickey-Fuller test statistic			0.809131	0.8838
Test critical values	1% level		-2.612033	
	5% level		-1.947520	
	10% level		-1.612650	
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D(MORTGAGE)				
Method: Least Squares				
Sample (Adjusted): 2 51				
Included Observations: 50 after adjustments				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
MORTGAGE(-1)	0.005980	0.007391	0.809131	0.4224
R-squared	-0.043904	Mean dependent var		0.001213
Adjusted R-squared	-0.043904	S.D. dependent var		0.005094
S.E. of regression	0.005205	Akaike info criterion		-7.65861
Sum squared resid	0.001327	Schwarz criterion		-7.62037
Log likelihood	192.4654	Hannan-Quinn criter.		-7.64405
Durbin-Watson stat	0.275391			

*MacKinnon (1996) one-sided p-values.

Furthermore, some applications should be taken on the banks by the state in order to encourage the use of mortgage loans in Turkey. In this context, it is important that the state strictly prohibits the file costs of the banks in the process of mortgage loans. This should be notified to all banks in writing and the importance of the issue should be emphasized by severely imposing fines on banks that do not comply with this rule. Additionally, some actions should be taken minimize the expenses in state institutions during house selling process. In this context, the deed costs encountered in the registration of the purchased houses to the title deed should be exempted if the houses in question are purchased with mortgage. Thus, the use of housing loans for people living in Turkey will become more attractive.

The most important action to be taken in order to become attractive housing loans in Turkey is undoubtedly reduction of interest rates. In this context, the lowering of the benchmark interest rate will be applied by the Central Bank of the Republic of Turkey will be in place. In this way, banks will also cut their loan rates by taking into account these benchmark interest rates. This will reduce the cost of housing loans. As a result, housing loans will be preferred by people and this will be effective in increasing housing loan figures.

Table 4. Results of the stability analysis of the first difference of housing loan variables

Null Hypothesis: MORTGAGE1 has a unit root				
Lag Length: 0 (Automatic - based on SIC, maxlag=10)				
			t-Statistic	**Prob.***
Augmented Dickey-Fuller test statistic			-4.136732	0.0001
Test critical values	1% level		-2.613010	
	5% level		-1.947665	
	10% level		-1.612573	
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D(MORTGAGE1)				
Method: Least Squares				
Sample (Adjusted): 3 51				
Included Observations: 49 after adjustments				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
MORTGAGE1(-1)	-0.265677	0.064224	-4.136732	0.0001
R-squared	0.247217	Mean dependent var		-0.000391
Adjusted R-squared	0.247217	S.D. dependent var		0.002715
S.E. of regression	0.002355	Akaike info criterion		-9.243968
Sum squared resid	0.000266	Schwarz criterion		-9.205360
Log likelihood	227.4772	Hannan-Quinn criter.		-9.229320
Durbin-Watson stat	2.031664			

*MacKinnon (1996) one-sided p-values.

Table 5. Results of regression analysis between housing loans and economic growth variables

Dependent Variable: D(GROWTH)				
Method: Least Squares				
Sample (Adjusted): 2 51				
Included Observations: 50 after adjustments				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
D(MORTGAGE)	0.000742	0.000239	3.098595	0.0032
C	-2.493735	0.983653	-2.535178	0.0146
R-squared	0.166685	Mean dependent var		0.098000
Adjusted R-squared	0.149325	S.D. dependent var		3.968678
S.E. of regression	3.660394	Akaike info criterion		5.472196
Sum squared resid	643.1271	Schwarz criterion		5.548677
Log likelihood	-134.8049	Hannan-Quinn criter.		5.501321
F-statistic	9.601290	Durbin-Watson stat		1.963520
Prob(F-statistic)	0.003247			

Table 6. Unit root test results of error term series

Null Hypothesis: ERROR TERM has a unit root				
Exogenous: None				
Lag Length: 0 (Automatic - based on SIC, maxlag=10)				
			t-Statistic	**Prob.***
Augmented Dickey-Fuller test statistic			-6.815649	0.0000
Test critical values	1% level		-2.613010	
	5% level		-1.947665	
	10% level		-1.612573	
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D(RESIDUAL)				
Method: Least Squares				
Sample (Adjusted): 3 51				
Included Observations: 49 after adjustments				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
RESIDUAL(-1)	-1.008913	0.148029	-6.815649	0.0000
R-squared	0.491420	Mean dependent var		0.140865
Adjusted R-squared	0.491420	S.D. dependent var		5.127175
S.E. of regression	3.656436	Akaike info criterion		5.451052
Sum squared resid	641.7373	Schwarz criterion		5.489661
Log likelihood	-132.5508	Hannan-Quinn criter.		5.465700
Durbin-Watson stat	1.949679			

*MacKinnon (1996) one-sided p-values.

FUTURE RESEARCH DIRECTIONS

There are some limitations in this study. Firstly, due to the fact that data could not be reached in the study, only 3-month data in the period between 2005 and 2017 could be taken into consideration. It is thought that the study which can be done with a longer data set will give more effective results. Also, regarding the scope of the study, the relationship between housing loans and economic growth are taken into account only matters in Turkey. Similarly, only the effect of housing loans on economic growth was analyzed. Another important limitation is that only Engle-Granger co-integration analysis method was used in this study.

Some of the constraints that were encountered in the process of our study are given above. Considering the issues stated in the scope of these constraints, the following headings are shared with the aim of non-disclosure. Only matters relating to Turkey were included in the study. In this context, it would be appropriate to expand the work to a large extent to address many countries in a new study. For example, it is possible to expand the scope of the study by examining the developing countries. In addition to the mentioned issue, similarities and differences between the two different country groups can be determined by making necessary comparisons in a study that takes into account both developed and developing countries.

Additionally, In the study, 3-month data in the period between 2005 and 2017 were taken into consideration. Therefore, it is also important that a similar study be carried out with a larger data set at a later date. In addition, it would be appropriate to repeat the study if previous data in 2005 were available or if monthly data in this period could be obtained. Moreover, Engle-Granger co-integration analysis was used in the study. This method is an approach that is frequently used in the literature and accepted success. However, in a recent study, Dumitrescu Hurlin panel causality analysis, Granger causality analysis, Pedroni and Kao panel co-integration analysis and fuzzy logic can also be considered in terms of the consistency of results.

Furthermore, in this study, the effect of housing loans on economic growth is examined and an issue for the country's economy is discussed. In this way, it is aimed to make an important contribution to the literature. In addition, a new study is considered to be very useful considering the effect of housing loans on other macroeconomic variables such as unemployment rate, current account deficit and industrial production index.

CONCLUSION

Housing has become a compulsory requirement today. In this context, housing has an important place in the society in order to meet the needs of people from physiological and sociological aspects during their lives. It is also an investment instrument and a wealth indicator. Nowadays, individuals who want to have a house have the chance to own a house in many ways. Among these, it is stated that the most valid method is the loans provided by the banking system. These loans are part of a system that operates legally under a certain law and combines both sides under a framework of trust.

Individuals who want to have a home can easily enjoy the housing loans they want to buy with long term and low interest rates. In this process, the financing problem, which is seen as the biggest obstacle, is overcome. At the same time, it is possible to meet the needs of the houses, which have an expensive value and which is an investment tool which is difficult to accumulate in terms of quantity, provided by individuals. This method, which is valid in all parts of the world, places its place in the sector day by day.

The mortgage crisis that started in March 2007 has been effective all over the world. The basis of this crisis was the unimaginable behavior that was applied to individuals when lending. Therefore, the sector was adversely affected. But Turkey's possible to say that too much affected by this situation. As the main reason we can say that Turkey is not fully developed in the secondary market. On the other hand, this subject is discussed in detail in the literature. In order to reduce the risks of mortgage loans, which are intensively preferred, infrastructure works should be carried out on a regular basis each year.

Parallel to the issues mentioned, in this study, an analysis is conducted to determine whether an influence on the economic growth of the housing loans disbursed in Turkey. In this context, 3-month data in the period between 2005: 1-2017: 3 were included in the study. The ratio of housing loans to total loans is used to represent the housing loan variable. On the other hand, in the context of economic growth, the rate of increase in GDP compared to the previous period is taken into consideration. In addition to the mentioned issues, Engle-Granger co-integration analysis was used to achieve this aim.

In the Engle-Granger co-integration analysis; firstly, the variables were investigated. Accordingly, the variables in question were Dickey Fuller (ADF) root unit test. According to the results of the analysis, it is determined that the variables have unit roots. For this reason, the variables in the first row of these variables have become stable. The fact that each of the aforementioned variables became stagnant by taking first-order differences gives information that a prerequisite for Engle-Granger co-integration analysis has been achieved.

Following the provision of the prerequisite, regression analysis was performed between the variables. In our study, because of the purpose of analyzing the effect of housing loans on economic growth, housing loans were determined as an independent variable and economic growth as dependent variable in the regression analysis. As a result of the regression analysis, it was determined that the coefficient of housing loan independent variable was positive. This situation gives information that the direction of the relationship stated in a possible mate integration analysis would be positive.

After regression analysis, a series of error terms for this analysis was obtained. According to the conditions of Engle-Granger co-integration analysis, this series should be stable at the level of the level. Therefore, the series of these error terms were subjected to the ADF unit root test again. As a result of the analysis, it was understood that the series related to the error terms did not have any unit roots. The stagnation of this series indicates that there is a long-term relationship between these two variables. In other words, a long-term relationship between disbursed housing loans and economic growth in Turkey has accessed the information is located.

As a result of this test, it was obtained as a result of the desired stability and it was concluded that Engle-Granger co-integration was suitable for the application of the analysis. In this context, in the related regression analysis, housing loans were used as independent variables and economic growth was used as dependent variable. According to the results of the regression analysis, the coefficient between housing loan and economic growth variables was positive.

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KEY TERMS AND DEFINITIONS

GDP: It is gross domestic product that includes consumption, private investment, government expenditure, and net export amount.

Stationary Analysis: It aims to identify whether there is a unit root in the series or not.

Chapter 10
Interpretation of the Value Relevance Indicator With(out) Dummies:
Demeaning

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ABSTRACT

In the value relevance (VR) literature, the R^2 figure of a regression is considered the VR indicator. Furthermore, a financial reporting item is considered value relevant if its regression coefficient is statistically significant. The variation across the variables of interest is named unobservable heterogeneity (UH) which leads to biased estimators and generates incorrect inferences. The common approach of eliminating UH is adding dummies into a regression. However, this method adds the explanatory power of dummies to that of accounting items, and it eventually results in inflated R^2 figures. Hence, R^2 figures become misleading with dummies since R^2 figures do not purely explain the VR of accounting items. This chapter suggests demeaning as an alternative methodology to deal with UH. Although demeaning and adding dummies are the same methodology of mitigating UH, this chapter documents that adding dummies inflates R^2 figures while demeaning does not.

INTRODUCTION

The value relevance (VR, henceforth) concept has attracted the attention of academia since the second half of the 1960s. According to Barth et al. (2001) and Mulenga (2016), the VR literature begins with Miller and Modigliani (1966). Other pioneering studies of the VR literature are Ball and Brown (1968) and Beaver (1968) (Demir et al., 2016). Although this concept is a very popular subject in academia, the first study using the term "value relevance" is Amir et al. (1993) (Barth, Beaver, & Landsman, 2001). From the beginning, there are many definitions and interpretations of the VR. For instance, Barth et al. (2001) underline that accounting (or financial reporting) information is value relevant if it is reliable enough

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to be used for valuation purposes and it affects share prices.[1,2] Additionally, Francis and Shipper (1999) provides certain useful VR interpretations and they commonly consider the VR by taking the statistical relationship between accounting information and share prices or returns into account. The common ground of the rich research on VR is to analyse the effect of accounting information on capital markets.

Holthausen and Watts (2001) divide the existing VR literature into three main categories: relative association studies (RAS, henceforth), incremental association studies (INAS, henceforth), and marginal information content studies (MICS, henceforth). According to their classification, almost one-fourth (85%) of studies belongs to the RAS (INAS) group while only 11% of studies belongs to the last group. As it can be understood from these figures, there are certain studies grouped at different intersections of combinations of these three major classes. RAS compare R^2 figures belonging to different regressions and such studies consider the greater R^2 figure more value relevant. INAS consider an accounting item value relevant if its regression coefficient is statistically significant. MICS analyse price reactions towards the release of an accounting figure conditional on other information released, and the release is considered value relevant if it is significantly related to price reactions. All in all, the literature is extensively dominated by association (RAS and INAS) studies.

Empirical finance studies are challenged by the effect of unobservable factors on regression coefficients (Gormley & Matsa, 2014) which is named unobservable heterogeneity (UH, henceforth) (Bartolucci, Belotti, & Peracchi, 2015). Omitted variable bias may influence the estimated parameters if UH is not properly controlled. In other words, UH may lead to biased and inefficient regression coefficients which eventually yield in incorrect inferences (Mannering, Shankar, & Bhat, 2016). Obtaining unbiased regression coefficients is a *sine quo non* condition of making a statistically correct interpretation and comparison of the VR of accounting items. Hence, UH should be the main concern of INAS as they focus directly on regression coefficients.

One of the common approaches of controlling for UH is employing the fixed effects methodology (FEM, henceforth) which enables obtaining "*approximately unbiased estimates of the parameters of interest*" (Allison, 2006, p. 2).[3] The FEM simply adds dummy variables for each individual to control for UH at the individual level.[4] In other words, this methodology controls the impact of time-invariant correlated omitted variables (or firm level endogeneity) on regression coefficients. In addition to firm level endogeneity, certain events such as economic instabilities and market trends affect regression outcomes. Therefore, individual-invariant correlated omitted variables (or time level endogeneity) which are another source of UH should be taken into account. Adding dummy variables for each time controls for UH at the time level.[5] As underlined by Ertugrul and Demir (2018), controlling for UH at the time level is complementary to controlling for UH at the individual level.

There are several studies analysing the concept of VR by considering regression coefficients and the R^2 figure of the regression at the same time. In other words, such studies grouped at the intersection of RAS and INAS categories. The classification of Holthausen and Watts (2001) shows that almost 10% of studies are grouped at the intersection of RAS and INAS. A very recent literature review of Ertugrul (in press) also reveals that almost 30% of analysed studies belongs to that intersection. Hence, from the perspective of that intersection, obtaining unbiased estimates of the parameters of interest as well as obtaining reliable R^2 figures are necessary. As discussed above in detail, adding dummy variables for different UH concerns prevents biased and inefficient regression coefficients. Since the analysed model includes certain dummy variables in addition to independent variables, the R^2 figure of the regression reflects the explanatory power of independent variables as well as the explanatory power of these dummy variables. In other words, since the R^2 figure of a regression with dummy variables does not purely reflect the explanatory power of variables of interest, the interpretation of such R^2 figures may be misleading and incorrect. This significant problem especially affects studies grouped at the intersection of RAS and INAS. To illustrate, while adding dummy variables for different UH concerns yields in almost unbiased regression coefficients, it generates inflated R^2 figures which should ideally reflect only the explanatory power of accounting items.

There are several approaches to deal with UH in the literature. Barth et al. (2008) follow a two-step approach to eliminate the impact of differences in mean market figures on the VR indicator, the R^2 figure of the regression. First, they perform the Price Model regression by including only dummy variables, and they obtain residual price figures.[6] Second, they perform the Price Model regression with the dependent variable of residual price figures and independent variables of accounting items, and they interpret the R^2 figure of this regression as the VR indicator. Although this method controls for mean differences in market figures, it does not control for mean differences in accounting items. Hence, it is not a remedy for studies grouped as both RAS and INAS. Another approach which also includes a two-step approach belongs to Barth et al. (2012). First, they perform regressions by including accounting items together with dummy variables, and they obtain their first R^2 figure. Second, they perform regressions by including only dummy variables, and they obtain their second R^2 figure. Afterwards, they interpret the difference between the first and second R^2 figures as the VR indicator. However, this methodology helps only obtaining uninflated R^2 figures, and it mostly suggests a solution for studies grouped as RAS. For instance, Morais et al. (2018) present only R^2 figures by following that methodology, and they do not present outcomes for regression coefficients which are on the focus of INAS.

As discussed above, literature reviews of Holthausen and Watts (2001) and Ertugrul (in press) present that there are numerous studies grouped at the intersection of RAS and INAS, and such studies focusses on regression coefficients as well as R^2 figures. Although adding dummies provides a solution for different UH concerns, it results in inflated R^2 figures. Especially for studies grouped at this intersection, this paper contributes to the literature by suggesting an alternative methodology to obtain more reliable and uninflated R^2 figures while dealing with UH: demeaning. As shown and illustrated by Ertugrul and Demir (2018) in detail, demeaning and adding dummies are the same methodology of controlling for UH. However, adding dummies exaggerates R^2 figures which include the explanatory power of dummy variables in addition to the explanatory power of financial reporting items while demeaning generates uninflated R^2 figures as it does not add dummy variables into a regression. Our regression outcomes show that R^2 figures obtained by demeaning are considerably smaller than R^2 figures obtained by adding dummies. In other words, demeaning does not add the explanatory power of dummies to the explanatory power of accounting items while dummies do. Thus, a more reliable VR indicator is obtained. Furthermore, by following Ertugrul and Demir (2018), the whole period is arbitrarily divided into two as further analyses since most RAS interpret and compare R^2 figures belonging to different periods.[7,8] This study performs several regressions by considering different UH concerns, and it finds that R^2 figures obtained by dummies are considerably greater than R^2 figures obtained by demeaning. Although regression coefficients between different sub-periods are not reported as statistically different than each other which should be interpreted as no significant VR difference between different sub-periods from the perspective of INAS, this study documents that R^2 (obtained by dummies) differences between sub-periods are statistically significant which means that the VR of accounting items significantly differs in sub-periods from the perspective of RAS. These two outcomes document a conflicting evidence because dummies extensively affect the VR indicator and they lead to misleading interpretations by magnifying R^2 differences. This problem disappears when demeaning is performed: no R^2 difference between different sub-periods is reported as statistically significant which should be read as the statistical equivalence of the VR of accounting items in sub-periods from the perspective of RAS. In other words, demeaning removes the inflating impact of dummies on the VR indicator and provides consistent outcomes in parallel with the difference analyses of regression coefficients.

The rest of this study is structured as follows. Section 2 presents a review of the selected literature and hypothesis development. Section 3 describes the model and variables, methodology, and data and sample selection. Section 4 discusses descriptive statistics and correlation matrix together with multivariate and robustness analyses. Section 5 presents solutions and recommendations, future research directions, and it finally concludes this study.

SELECTED LITERATURE AND HYPOTHESIS DEVELOPMENT

Selected Literature

There are several studies which interpret R^2 figures with dummies representing certain UH concerns. We divide this stream into two including studies comparing the VR of accounting items in only one period and studies comparing the VR of accounting items in several time intervals. The first stream generally focusses on the incremental VR of accounting items and the presence of dummies representing certain UH concerns does not significantly affect their outcomes. For instance, by employing industry dummies in both Price and Return Models, Mechelli and Cimini (2014) examine the VR of different performance measures, and they report that the R^2 figure obtained by using only net income as a performance measure is statistically higher than the R^2 figure obtained by using only comprehensive income as a performance measure. Goncharov and Hodgson's (2011) study is another example. By employing year and country dummies, they reveal that the R^2 figure obtained by using only net income as a performance measure is statistically higher than the R^2 figure obtained by using only comprehensive income as a performance measure. To recap, since the first stream generally employs dummies representing same UH concerns for the same period (as in Goncharov & Hodgson, 2011; Mechelli & Cimini, 2014), their outcomes provide the incremental VR of accounting items and are not considerably affected by these dummies. The second stream compares the VR of accounting items in different periods. If those studies employ dummies controlling for certain UH concerns which differently influence R^2 figures in different periods, their outcomes are expected to reflect inflated R^2 figures, the comparison or interpretation of which may result in incorrect inferences. In this section, we chronologically present major outcomes and R^2 inflating items of the selected literature in the second stream.

Barth et al. (2008) reveal that the International Accounting Standards (IAS, henceforth) adoption significantly leads to an increase in the VR of accounting information. They document that i) the VR of IAS adopters is not significantly different than the VR of non-IAS adopters before they adopted IAS, and ii) the VR of IAS adopters becomes significantly greater than the VR of non-IAS adopters after they adopted IAS. By reporting the picture of the accounting quality of IAS adopters in the pre-adoption period, Barth et al. (2008) show that the improvement in the VR of IAS adopters after IAS adoption directly springs from IAS adoption. Instead of employing any R^2 inflating item in their regressions, Barth et al. (2008) perform the Price Model regression with only country and industry dummies, and they obtain residual price figures. Afterwards, they perform the Price Model regression with the dependent variable of residual prices and independent variables of BVE and earnings. Although this methodology does not inflate R^2 figures, it does not control for differences in mean BVE and earnings figures on the VR indicator.

By using the Price Model, Devalle et al. (2010) reveal that the VR of accounting items significantly increases after International Financial Reporting Standards (IFRS, henceforth) adoption in France and the United Kingdom while it significantly decreases after IFRS adoption in Germany, Spain, and Italy. Their outcomes obtained by the Return Model indicate that the VR of accounting items significantly increases after IFRS adoption in Spain, Italy, and the United Kingdom while it does not change significantly for the others. Devalle et al. (2010) obtain these outcomes by considering firm dummies which inflate their R^2 figures before the implementation of IFRS and after the implementation of IFRS for each country. Moreover, Devalle et al. (2010) also report that these findings do not change with one exception when year fixed effects (dummies) are considered as well as firm fixed effects; however, they do not present regression outcomes belonging to those analyses.

Barth et al. (2012) use a different method to compare the VR of pre-IFRS and post-IFRS adoption periods instead of making a direct comparison. They select the VR of US GAAP which is superior in both periods as a benchmark and they observe the VR difference between non-US GAAP and US GAAP samples before the implementation of IFRS and after the implementation of IFRS. Regression outcomes based on the Price Model reveal that the VR difference before the implementation of IFRS is statistically higher than the VR difference after the implementation of IFRS which means that IFRS adoption improves comparability. However, regression outcomes based on the Return Model do not support this interpretation since VR differences are not reported as statistically significant. They perform a very similar methodology to Barth et al. (2008).

By employing the Return Model, Lin et al. (2012) document that IFRS adoption significantly deteriorates the VR of accounting information. Moreover, they reveal that earnings and change in earnings become significantly less value relevant in the post-adoption period. Lin et al. (2012) obtain these outcomes by considering year dummies which inflate their R^2 figures before the implementation of IFRS and after the implementation of IFRS. Hence, their R^2 figures (58.35% in the pre-adoption period and 53.47% in the post-adoption period) are reported as very high which is uncommon in the literature using the Return Model. As argued by Lev (1989), the Return Model generates lower R^2 figures which are too low to be economically relevant. These very high R^2 figures of Lin et al. (2012) reflect the explanatory power of year dummies in addition to the explanatory power of accounting items.

Manganaris et al. (2016) show that the VR of accounting items significantly increases after IFRS adoption. Their Price Model regressions reveal that the VR under IFRS is reported as significantly greater than the VR under local GAAPs for both conservative and non-conservative sub-samples while their Return Model regressions confirm this outcome only for the non-conservative sub-sample. They also extent their analyses by considering different legal law families and find evidence for the following outcomes: i) For Price Model regressions, there is a significant improvement in the VR of accounting information after IFRS adoption in Scandinavian origin and English origin countries, and ii) For Return Model regressions, there is a significant improvement in the VR of accounting information after IFRS adoption in Scandinavian origin and French origin countries. For all Models, the VR under IFRS is not reported as significantly different than the VR under local GAAPs for German origin countries. They further reveal that the VR of accounting items significantly increases after IFRS adoption for countries with high enforcement while no significant difference is reported for countries with low to medium enforcement. Manganaris et al. (2016) obtain these outcomes by considering country dummies together with year dummies which inflate their R^2 figures before the implementation of IFRS and after the implementation of IFRS.

Okafor et al. (2016) document evidence for an increase in the VR of accounting items after IFRS adoption. They employ the Price Model with no UH consideration and the Price Model with industry dummies. Their analyses reveal that the R^2 figure of the Price Model increases from 73% to 83.7% in the pre-adoption period when industry dummies are employed. Furthermore, the R^2 difference between pre-adoption and post-adoption periods jumps from 18% to 26.2% when industry dummies are employed.[9] These statistics indicate that their outcomes mostly influenced by the explanatory power of industry dummies which result in inflated R^2 figures.

Hypothesis Development

As illustrated by Ertugrul and Demir (2018) in detail, UH plays a significant role in regression coefficients. If UH is not properly controlled, it may lead to biased and inefficient estimated parameters, the interpretation of which may result in incorrect inferences (Mannering et al., 2016). UH-related problems are eliminated by using the FEM which adds dummy variables for each firm to mitigate firm fixed effects.[10] In other words, the FEM consider UH at the individual level (or time-invariant correlated omitted variables). UH may also be at the time level (or individual-invariant correlated omitted variables) which should also be controlled by adding dummy variables for each time or year. In other words, "*these fixed effects capture constant firm-specific and time-specific factors*" (Amir & Lev, 1996, p. 13). By performing the FEM, "*approximately unbiased estimates of the parameters of interest*" (Allison, 2006, p. 2) are obtained. As INAS focus on regression coefficients, comparing biased estimators generates incorrect inferences. Therefore, mitigating UH enables this comparison in a statistically correct manner. However, using dummies as a method of eliminating UH considerably affects R^2 figures, which are considered the VR indicator by RAS, since R^2 figures are drastically influenced the number of independent variables in a regression. In other words, from the perspective of RAS, the interpretation of R^2 figures is not convenient for the presence of independent variables other than accounting figures such as country, industry, firm and/or year dummies since adding an extra dummy variable improves the explanatory power of a regression. In that case, the interpretation of R^2 figures does not purely belong to accounting items.

Balachandran and Mohanram (2011) reveal that the VR is increased by adding loss dummies and it is further increased by adding industry dummies. On the average, adding loss (industry) dummies inflates R^2 figures by 5.6% (10.8%). Yearly analysis of Balachandran and Mohanram (2011) indicates that fluctuations of the impact of industry dummies on R^2 figures are considerable. For instance, in 1999, while the R^2 figure of the Price Model with no dummies is very close to 30%, employing industry dummies brings this figure above 50%. In other words, in 1999, industry dummies inflate the R^2 figure of the Price Model with no dummies by more than 50%. Balachandran and Mohanram's (2011) study clearly underscores the inflating impact of dummies on R^2 figures. Devalle et al. (2010) perform Price Model regressions by considering UH at the firm level; and for Italy, they conclude that the VR belonging to the pre-IFRS adoption period is significantly greater than the VR belonging to the post-IFRS adoption period. In addition to controlling for UH at the firm level, they control for UH at the time level by adding year dummies and they document that, for Italy, the VR belonging to the pre-IFRS adoption period is slightly less than the VR belonging to the post-IFRS adoption period. In other words, year dummies significantly change the VR interpretation of Devalle et al. (2010). Furthermore, Lin et al. (2012) present large R^2 figures which are not commonly reported by the Return Model as discussed in the Literature Review section. They obtain such large and inflated R^2 figures by adding year dummies into their regressions.

Barth et al. (2012) mitigate the impact of dummies on the VR indicator to some degree by performing the following three steps: i) they employ country and industry dummies in addition to accounting items, and obtain an R^2 figure, ii) they employ only country and industry dummies, and obtain another R^2 figure, and iii) they get the difference between those two R^2 figures and consider that difference the VR indicator. However, this subtraction may result in incorrect inferences. Our analyses show that the difference between the unreported R^2 figure obtained by employing only year dummies (35.08%) and the R^2 figure obtained by employing accounting items and year dummies (39.50%) is substantially smaller than the R^2 figure obtained by employing only accounting items (13.63%). Amir and Lev (1996) are aware of the impact of dummies on R^2 figures: they underline that their R^2 figures are not reported as statistically significant without fixed effects dummies while they become statistically significant with fixed effects dummies. Their major fixed effects concerns are at the time (quarter) and firm levels which not only inflate R^2 figures but also make R^2 figures statistically significant.

Although adding dummies helps obtain unbiased regression coefficients (Allison, 2006), it distorts the interpretation of the R^2 figure, the VR indicator. This approach exaggerates this indicator (as highlighted by Amir & Lev, 1996) which is aimed to reflect only the impact of accounting figures from the perspective of RAS. In order to eliminate the effect of dummy variables on the explanatory power of a regression, both dependent and independent variables should be demeaned with respect to the corresponding source of UH. As shown in Equation (1), in order to control for UH at the firm level, each variable should be demeaned for each firm; and demeaned variables should be used in the regression.[11] Similarly, as shown in Equation (2), each variable should be demeaned for each year in order to control for UH at the firm level; and demeaned variables should be used in the regression. In order to eliminate both firm/industry/country and year level UH, perform the first demeaning with respect to firm/industry/country (year), then demean these demeaned variables with respect to year (firm/industry/country).

$$MV_{i,t} - \overline{MV}_i = \beta_0 + \beta_1 \text{ x } (BVE_{i,t} - \overline{BVE}_i) + \beta_2 \text{ x } (NI_{i,t} - \overline{NI}_i) + \varepsilon \quad (1)$$

$$MV_{i,t} - \overline{MV}_t = \beta_0 + \beta_1 \text{ x } (BVE_{i,t} - \overline{BVE}_t) + \beta_2 \text{ x } (NI_{i,t} - \overline{NI}_t) + \varepsilon \quad (2)$$

In above equations, i, t, MV, BVE and NI refer to firm, year, market value, book value of equity and earnings, respectively. Variables with a top bar represent the average of those variables. By performing the demeaning process, UH-related problems are expected to be eliminated. In this way, the R^2 figure of a regression which is the VR indicator is not affected and inflated by dummies. In other words, the VR indicator becomes more reliable as it does not include the explanatory power of dummies.

RESEARCH METHOD AND DATA

The Model and Variables

The VR is measured based on two different perspectives of the VR as illustrated by Hellström (2006): the signalling perspective examines the market reaction to the announcement of accounting information, and the measurement perspective analyses the relationship between market figures and accounting information. In order to measure the VR, most measurement perspective-oriented studies use the Price Model of Ohlson (1995) (Devalle, Onali, & Magarini, 2010) while signalling perspective-oriented studies mostly use the Return Model. As stated by Mestelman et al. (2015), the Return Model does not provide a convenient setting for testing BVE and other reconciliation items. The objective of our paper is to reveal the impact of UH on regression coefficients and suggest an alternative methodology which results in uninflated R^2 figures. As it can be deduced from by Mestelman et al. (2015), the Price Model is more convenient to employ more independent variables (or accounting items) which offers more room for analyzing UH. Moreover, the Return Model generates low R^2 figures (Kothari & Zimmerman, 1995; Lev, 1989) which should be read as a poorer summary of financial reporting information. Hence, by following most measurement perspective studies, we employ the Price Model as shown in Equation (3):

$$MV_{i,t+1} = \beta_0 + \beta_1 \text{ x } BVE_{i,t} + \beta_2 \text{ x } NI_{i,t} + \varepsilon \quad (3)$$

where i, t, MV, BVE, and NI represent firm, year, market value, book value of equity and earnings, respectively. MV is obtained by scaling the number of common shares outstanding with the corresponding price measured three months after the fiscal year close.[12] We manually calculate earnings figures in order not to lose a considerable number of observations as the Fundamentals Annual of Compustat Global Database provides missing consolidated net income figures for almost one-fourth of our sample. Hence, we calculate earnings by using the following formula: *pi – txt + do*, where *pi, txt*, and *do* are pre-tax income, total income taxes, and discontinued operations, respectively. Afterwards, we manually calculate BVE by subtracting the calculated earnings figure from the corresponding total common equity (*ceq*) as *ceq* includes the current year's earnings figure.[13] The literature (see, among others, Goncharov & Veenman, 2014; Kothari & Zimmermann, 1995) majorly criticizes the Price Model due to the scale effect and the stale information effect related problems which should be mitigated. As a solution, by following concrete outcomes of Goncharov and Veenman (2014), all variables in Equation (3) are scaled by the previous year's MV.

Methodology

The aim of this study is to reveal the demeaning methodology for different UH concerns. First, we perform the Hausman Test to the whole sample as well as our sub-samples whether the FEM is a convenient approach or not. All outcomes of the Hausman Test strongly reveal convenience of using FEM which means that our regression coefficients are significantly affected by UH at the firm level.

Although controlling for UH at the firm level is superior to controlling for UH at the industry level, we control for UH at the industry level in order to reveal the inflating effect of industry dummies on R^2 figures. Industry dummies are determined based on the first two numbers of SIC codes. However, the Variance Inflation Factor (VIF, henceforth) analysis shows that almost all VIF figures belonging to industry dummies are considerably higher than 10 which is the critical VIF figure. In other words, employing industry dummies creates mechanical interdependencies among our independent variables. We also define industry variables based on the first number of SIC codes, and the VIF analysis indicates a very strong multicollinearity problem again. Hence, we cannot present outcomes by taking UH at the industry level into account.

First, we perform our regressions with no UH consideration. Second, since year fixed effects may be employed independent of the outcome of the Hausman Test (Ertugrul & Demir, 2018), we perform our regressions by taking UH at the year level into account.[14] Third, as outcomes of all Hausman Tests suggest employing the FEM, we perform our regressions by considering firm fixed effects together with year fixed effects.[15] Hence, we show how different UH concerns influence regression coefficients. Furthermore, we present outcomes with each UH concern by adding dummies and demeaning. Although both methods yield in exactly the same regression coefficients, they result in different R^2 figures. The first column of Table 2 and first columns of Panels A and B of Tables 3 to 5 report regression outcomes with no UH consideration. Second and third columns of Table 2 and those of Panels A and B of Tables 3 to 5 document regression outcomes with UH at the time level obtained by dummies and obtained by demeaning, respectively. Last two columns of Table 2 and those of Panels A and B of Tables 3 to 5 present regression outcomes with UH at both time and firm levels obtained by dummies and obtained by demeaning, respectively. All regression coefficients are obtained by performing Ordinary Least Square regressions in Stata.

Certain studies in the literature compare the VR belonging to different periods as discussed in the Literature Review section in detail. Most of those studies focus on the comparison of the VR under various accounting standards. Especially after IFRS adoption, there are ample studies analyzing the impact of IFRS adoption on the VR of accounting items by dividing the whole period into before and after the implementation of IFRS. As the analysed period of this study is not subjected to such an alteration in accounting standards, performing such a comparison is not possible. However, such a setting provides a convenient testing environment for a hypothetical test (or an as if analysis): by following Ertugrul and Demir (2018), the whole period is divided into two sub-periods as if there is a change in accounting standards, and regression outcomes belonging to different periods are compared. Since the whole period is not subject to such a shift, we do not expect to document a significant VR difference between sub-periods.

By following Lin et al. (2012), Manganaris et al. (2016), and Barth et al. (2012), we perform a bootstrapping procedure of 1,000 repetitions in order to calculate variances in R^2 figures as this procedure is convenient for testing without a distribution requirement (Lin, Riccardi, & Wang, 2012). After calculating variances in R^2 figures, by following Arce and Mora (2002) and Wegener and Labelle (2016), we perform a Z-test as shown in Equation (4) in order to test the difference between R^2 figures belonging to different sub-periods.

$$Z = (R_2^2 - R_1^2) / [SE(R_2^2)^2 + SE(R_1^2)^2]^{½} \tag{4}$$

where R_2^2 and R_1^2 are respectively explanatory power figures belonging to second and first periods, and $SE(R_2^2)$ and $SE(R_1^2)$ represent standard errors of these explanatory power figures. The same formula is performed for testing the difference between regression coefficients reported in different periods. Panels C of Tables 3 to 5 present outcomes belonging to these comparisons.

As serial correlation may exist among standard errors, standard errors of regression coefficients are clustered on the firm level. As discussed by Goncharov and Veenman (2014) and Kothari and Zimmerman (1995), heteroskedasticity is also caused by scale-related problems (or using level variables). This concern is mitigated as all independent variables as well as the dependent variable are scaled by the previous year's MV figure.

Data and Sample Selection

Turkey has one of the longest experiences with IFRS based reporting as an emerging economy: all listed firms in Turkey are required to prepare their financial reports under IFRS since January 1, 2005. The financial reporting environment of Turkey provides a distinctive setting since Turkish authorities directly approve and implement new IFRS standards or amendments on existing standards with no local regulatory intervention. In other words, the impact of the local intervention, which may also be considered one of the causes of noise in the accounting quality, on the VR is limited (Ertugrul & Demir, 2018). Hence, this distinctive characteristic of Turkey is very convenient for our analysis. Listed firms on the Istanbul Stock Exchange (ISE, henceforth) between 2005 and 2014 comprises the final sample of this paper.

Accounting data belong to the period 2005-2014 and retrieved from the Fundamentals Annual Database of Compustat Global. Market data belong to the period 2006-2015 and retrieved from the Fundamentals Annual Database of Compustat Global. These two databases are merged, and all unmerged observations are dropped. The homogeneity of the sample is maintained via excluding all observations with the fiscal year end different than December. Consistent with most of the literature, financial institutions (beginning with the SIC code of 6) and utilities (beginning with the SIC code of 4) are excluded as their regulatory environment and reporting regimes are distinctively different than the others. Additionally, observations with different accounting data currency and market data currency are also excluded. In order not to lose further observations, all missing accounting data are manually controlled; however, observations with missing market data are dropped. Finally, as underlined by Gordon et al. (2010), negative BVE figures may indicate problems related to going-concern issues; hence, only observations with positive BVE figures are included.

All dependent and independent variables are winsorized at 1^{st} and 99^{th} in order to eliminate the impact of outliers on regression outcomes. There are 1795 firm-year observations in the final sample.

RESULTS

Descriptive Statistics and Correlation Matrix

Descriptive statistics and the correlation matrix are provided in Panel A and Panel B of Table 1, respectively. The mean deflated MV figure is greater than one which means that market values are growing annually on the average: the current year's MV is greater than the previous year's MV. Furthermore, firms in the sample are lucrative as shown by the mean and median deflated net income figures. However, unreported statistics show that almost one-fourth of observations record loss figures. Moreover, the median and mean deflated BVE figures reveal that firms in the sample trade at a premium to BVE.

Each relationship between dependent and independent variables is shown in the correlation matrix. Expectedly, the correlation coefficient reported for MV and BVE and the correlation coefficient reported for MV and earnings are significantly positive. However, the significant relationship between our independent variables implies a possible multicollinearity problem which should be checked by performing the VIF analysis. As discussed in the Methodology section in detail, all VIF analyses reveal that there is no significant impact of multicollinearity on our independent variables including year dummies.

Multivariate Analysis

Table 2 reveals the impact of different UH concerns on regression outcomes. The first column shows regression outcomes without considering any UH concerns while second (fourth) and third (fifth) columns document regression outcomes with UH at the time level (UH at both time and firm levels) obtained by dummies and obtained by demeaning, respectively. All regression coefficients are reported as significantly positive. This outcome is consistent with the prior literature which documents the VR of accounting items by employing Turkish data for the post-IFRS adoption period (e.g., Ertugrul & Demir, 2018; Kargin, 2013; Suadiye, 2012; Turel, 2009). As demeaning and adding dummies are the same approaches of dealing with UH, regression coefficients provided by second and third columns as well as fourth and fifth columns yield in exactly the same regression coefficients. Note that outcomes obtained by considering UH at both time and firm levels provide the most correct specification from the perspective of INAS. The regression coefficient of BVE reported for no UH concern is considerably smaller than that of BVE reported for UH at both time and firm levels while this is not the case for earnings. In other words, by taking UH at both time and firm levels into account, the VR of BVE increases from the perspective of INAS.

Table 2 also shows the inflating impact of dummies on R^2 figures. The R^2 figure of the first column is almost one-third of the R^2 figure obtained by year dummies and one-fourth of the R^2 figure obtained by both year and firm dummies. These considerable differences quantify the inflating impact of dummy variables on R^2 figures which are expected to reflect only the explanatory power of accounting items. By considering only UH at the year level, the R^2 figure obtained by year dummies is almost 6 times of the R^2 figure obtained by demeaning. By considering UH at both time and firm levels, the R^2 figure

Table 1. Descriptive statistics and correlation matrix

Panel A: Descriptive Statistics						
	N	**Mean**	**P50**	**SD**	**Min**	**Max**
MV	1795	1.2380	1.0238	0.7364	0.3214	4.6557
BVE	1795	0.9552	0.7561	0.7741	0.0551	4.4899
NI	1795	0.0376	0.0491	0.2038	-0.9840	0.6580
Panel B: Correlation Matrıx						
	MV	**BV**	**NI**			
MV	1					
BVE	0.3077*	1				
NI	0.1610*	-0.1336*	1			

Panel A and Panel B show descriptive statistics and correlation matrix. BVE, NI, and MV refer to book value of equity, earnings, and market capitalization measured after 3 months from the fiscal year-end, respectively. All variables are deflated by the previous year's MV measured after 3 months from the fiscal year end. N, MEAN, P50, SD, MIN, and MAX refer to the total number of observations, mean, median, standard deviation, minimum, and maximum. * indicates the significance level at 5%.

Table 2. Regression outcomes of the whole sample

Variables	(1)	(2)	(3)	(4)	(5)
BVE	0.3189***	0.1816***	0.1816***	0.4663***	0.4663***
	(0.0314)	(0.0296)	(0.0296)	(0.0668)	(0.0668)
NI	0.7436***	0.5136***	0.5136***	0.8004***	0.8004***
	(0.1330)	(0.1046)	(0.1046)	(0.1398)	(0.1398)
Year FE	NO	DUMMY	DEMEAN	DUMMY	DEMEAN
Firm FE	NO	NO	NO	DUMMY	DEMEAN
Observations	1,795	1,795	1,795	1,795	1,795
R^2	0.1363***	0.3950***	0.0681***	0.5162***	0.1668***
SD of R^2	(0.0209)	(0.0275)	(0.0147)	(0.0226)	(0.0243)

The first column shows regression outcomes with no UH concern. Columns 2 to 5 reveal regression outcomes with different UH concerns. Columns 2 and 4 (3 and 5) present regression outcomes obtained by dummies (demeaning). BVE, NI, and FE respectively refer to book value of equity, earnings, and fixed effects. The dependent variable is the market capitalization measured after 3 months from the fiscal year-end (MV). All variables are deflated by the previous year's MV. Firm-level clustered standard errors are in parentheses. Standard errors of R^2 figures are obtained by the bootstrapping procedure of 1,000 repetitions with replacement. *** $p<0.01$, ** $p<0.05$, * $p<0.10$.

obtained by dummies is almost 3 times of the R^2 figure obtained by demeaning. Compared to the R^2 figure reported for no UH, the demeaning approach generates comparable and uninflated R^2 figures. From the perspective of RAS, uninflated R^2 figures which are obtained by demeaning provide a more reliable VR indicator.

As discussed in detail, there are several studies analyzing the VR of accounting items for different periods. Such studies generally compare the VR of accounting items under different accounting regimes. In order to extend our analyses, the whole period is evaluated by separating it into two equal periods with the assumption of a shift in accounting standards. As there is no regime change in Turkey within the analysed period 2005-2014, we do not expect to see any difference in the VR of accounting items. Panel A (B) of Table 3 shows regression outcomes with different UH concerns for the first (second) period. Panel C reveals statistical comparisons belonging to outcomes with no UH, with UH at the year level, and with UH at both time and firm levels. It can be deduced that the impact of UH on regression coefficients is obvious. For instance, in both periods, the regression coefficient of BVE with UH at both time and firm levels is considerably different than the regression coefficient of BVE with no UH. Although reported regression coefficients of earnings with no UH and with UH at both time and firm levels are very close to each other in the first period, the latter becomes larger in the second period.

In Table 3, there are two focus points: i) the VR difference reported for both regression coefficients, and ii) the VR difference measured by considering R^2 figures. If we take only UH at the year level into account, no regression coefficient difference is reported as statistically significant. In other words, from the perspective of INAS, neither the VR of BVE nor the VR of earnings significantly changes in the second period. However, outcomes obtained by year dummies indicate that the R^2 figure in the first period (53.29%) is statistically higher than the R^2 figure in the second period (15.64%). From the perspective of RAS, the VR of accounting items is significantly deteriorated in the second period. Analyses of regression coefficients and R^2 figures depict contradictory outcomes which mainly spring from the inflating impact of year dummies on R^2 figures. In other words, these R^2 figures carry the explanatory power of year dummies in addition to the explanatory power of accounting items. After removing the

Table 3. Regression outcomes of sub-periods

Variables	(1)	(2)	(3)	(4)	(5)
Panel A: 2005-2009					
BVE	0.3931***	0.1949***	0.1949***	0.5961***	0.5961***
	(0.0473)	(0.0378)	(0.0378)	(0.0835)	(0.0835)
NI	0.7449***	0.4101***	0.4101***	0.7687***	0.7687***
	(0.1594)	(0.1141)	(0.1141)	(0.1715)	(0.1715)
Year FE	NO	DUMMY	DEMEAN	DUMMY	DEMEAN
Firm FE	NO	NO	NO	DUMMY	DEMEAN
Observations	719	719	719	719	719
R^2	0.1876***	0.5329***	0.0811***	0.6963***	0.2868***
SD of R^2	(0.0360)	(0.0361)	(0.0261)	(0.0236)	(0.0385)
Panel B: 2010-2014					
BVE	0.1575***	0.1436***	0.1436***	0.6469***	0.6469***
	(0.0406)	(0.0418)	(0.0418)	(0.1112)	(0.1112)
NI	0.7668***	0.6838***	0.6838***	1.0185***	1.0185***
	(0.1663)	(0.1587)	(0.1587)	(0.2302)	(0.2302)
Year FE	NO	DUMMY	DEMEAN	DUMMY	DEMEAN
Firm FE	NO	NO	NO	DUMMY	DEMEAN
Observations	1,076	1,076	1,076	1,076	1,076
R^2	0.0732***	0.1564***	0.0638***	0.4665***	0.2168***
SD of R^2	(0.0203)	(0.0296)	(0.0196)	(0.0310)	(0.0293)
Panel C: Differences					
BVE	-0.2356***	-0.0513		0.0508	
	(-3.78)	(-0.91)		(0.37)	
NI	0.0219	0.2737		0.2498	
	(0.10)	(1.40)		(0.87)	
Year FE	NO	DUMMY	DEMEAN	DUMMY	DEMEAN
Firm FE	NO	NO	NO	DUMMY	DEMEAN
R^2	-0.1144***	-0.3765***	-0.0173	-0.2298***	-0.0700
$R^2(B) - R^2(A)$	(-2.77)	(-8.06)	(-0.53)	(-5.90)	(-1.45)

Panels A and B present regression outcomes for the periods of 2005-2009 and 2010-2014. Panel C demonstrates differences of regression coefficients and R^2 figures between sub-periods. The first column shows regression outcomes with no UH concern. Columns 2 to 5 reveal regression outcomes with different UH concerns. Columns 2 and 4 (3 and 5) present regression outcomes obtained by dummies (demeaning). BVE, NI, and FE respectively refer to book value of equity, earnings, and fixed effects. The dependent variable is the market capitalization measured after 3 months from the fiscal year-end (MV). All variables are deflated by the previous year's MV. Firm-level clustered standard errors are in parentheses. Standard errors of R^2 figures are obtained by the bootstrapping procedure of 1,000 repetitions with replacement. In Panel C, z-values are in parentheses. *** p<0.01, ** p<0.05, * p<0.10.

impact of year dummies by performing demeaning, we document that the R^2 figure in the first period (8.11%) does not statistically differ from the R^2 figure in the second period (6.38%). From the perspective of RAS, this R^2 difference points out no change in the VR in parallel with the difference analyses of regression coefficients.

We further extent our analyses by considering UH at the firm level in addition to UH at the year level, as suggested by outcomes of the Hausman Test. For this UH concern, no regression coefficient difference is reported as statistically significant which should be read as no significant change in neither the VR of BVE nor the VR of earnings in the second period. However, outcomes obtained by year and firm dummies indicate that the R^2 figure in the first period (69.63%) is statistically higher than the R^2 figure in the second period (46.65%). From the perspective of RAS, the VR of accounting items is significantly deteriorated in the second period. Analyses of regression coefficients and R^2 figures draw a contradictory picture again as above R^2 figures are inflated by year dummies as well as firm dummies. In other words, these R^2 figures carry the explanatory power of year and firm dummies in addition to the explanatory power of accounting items. After removing the impact of year and firm dummies by performing demeaning, we document that the R^2 figure in the first period (28.68%) is not statistically different than the R^2 figure in the second period (21.68%). From the perspective of RAS, this R^2 difference points out no change in the VR in parallel with the difference analyses of regression coefficients.

All in all, above outcomes reveal that interpretation of R^2 figures with dummies generates incorrect inferences since dummies considerably inflate the explanatory power of a regression. Although there is no real shift in the accounting regime during the period of analysis, R^2 figures obtained by dummies indicate there is a real shift. However, this misleading inference disappears after R^2 figures are obtained by demeaning. All these concrete findings confirm what Amir and Lev (1996) underline: dummies inflate R^2 figures. Hence, especially for studies grouped at the intersection of INAS and RAS, we suggest the demeaning approach to deal with the impact of UH on regression outcomes instead of adding dummies.

Robustness Analyses

By equally dividing the entire period into two, we document the inflating impact of dummies on R^2 figures in the previous section. To check the robustness of our outcomes, we reperform our analyses by unequally dividing the entire period into two. As there is no change in the accounting regime during the analysed period, we do not expect to document a significant VR difference between sub-periods in line with outcomes provided in Table 3.

Panel A (B) of Table 4 presents regression outcome with different UH concerns over the period 2005-2008 (2009-2014). Panel A (B) of Table 5 reveals regression outcome with different UH concerns over the period 2005-2010 (2011-2014). Panels C of both tables show statistical comparisons belonging to outcomes with corresponding UH concerns. Note that no regression coefficient difference with any UH concern is reported as statistically significant in Panel C of both tables which should be read as no change in the VR of BVE and the VR of earnings from the perspective of INAS. However, except the R^2 difference reported by year dummies in Table 4, all R^2 differences with dummies strongly reveal there is a significant deterioration in the VR of accounting items in the second period from the perspective of RAS.[16] By performing demeaning, no R^2 difference is reported as statistically significant in line with the difference analyses of regression coefficients. The same outcome is also reported for regressions with two-way UH concern with no exception.

Table 4. Robustness 1: Regression outcomes of sub-periods

Variables	(1)	(2)	(3)	(4)	(5)
Panel A: 2005-2008					
BVE	0.1489***	0.1360***	0.1360***	0.6900***	0.6900***
	(0.0436)	(0.0385)	(0.0385)	(0.1123)	(0.1123)
NI	0.5178***	0.3652***	0.3652***	0.7827***	0.7827***
	(0.0956)	(0.0872)	(0.0872)	(0.1743)	(0.1743)
Year FE	NO	DUMMY	DEMEAN	DUMMY	DEMEAN
Firm FE	NO	NO	NO	DUMMY	DEMEAN
Observations	546	546	546	546	546
R^2	0.0613***	0.3393***	0.0526**	0.6406***	0.2703***
SD of R^2	(0.0215)	(0.0453)	(0.0218)	(0.0325)	(0.0425)
Panel B: 2009-2014					
BVE	0.3648***	0.1939***	0.1939***	0.4783***	0.4783***
	(0.0395)	(0.0400)	(0.0400)	(0.0802)	(0.0802)
NI	0.7986***	0.6242***	0.6242***	0.9067***	0.9067***
	(0.1796)	(0.1451)	(0.1451)	(0.1879)	(0.1879)
Year FE	NO	DUMMY	DEMEAN	DUMMY	DEMEAN
Firm FE	NO	NO	NO	DUMMY	DEMEAN
Observations	1,249	1,249	1,249	1,249	1,249
R^2	0.1756***	0.3983***	0.0815***	0.5689***	0.1917***
SD of R^2	(0.0276)	(0.0325)	(0.0206)	(0.0243)	(0.0308)
Panel C: Differences					
BVE	0.2159***	0.0579		-0.2117	
	(3.67)	(1.04)		(-1.53)	
NI	0.2808	0.259		0.124	
	(1.38)	(1.53)		(0.48)	
Year FE	NO	DUMMY	DEMEAN	DUMMY	DEMEAN
Firm FE	NO	NO	NO	DUMMY	DEMEAN
R^2	0.1143***	0.0590	0.0289	-0.0717*	-0.0786
$R^2(B) - R^2(A)$	(3.27)	(1.06)	(0.96)	(-1.77)	(-1.50)

Panels A and B present regression outcomes for the periods of 2005-2008 and 2009-2014. Panel C demonstrates differences of regression coefficients and R^2 figures between sub-periods. The first column shows regression outcomes with no UH concern. Columns 2 to 5 reveal regression outcomes with different UH concerns. Columns 2 and 4 (3 and 5) present regression outcomes obtained by dummies (demeaning). BVE, NI, and FE respectively refer to book value of equity, earnings, and fixed effects. The dependent variable is the market capitalization measured after 3 months from the fiscal year-end (MV). All variables are deflated by the previous year's MV. Firm-level clustered standard errors are in parentheses. Standard errors of R^2 figures are obtained by the bootstrapping procedure of 1,000 repetitions with replacement. In Panel C, z-values are in parentheses. *** p<0.01, ** p<0.05, * p<0.10.

All in all, we robustly confirm our findings. Since employing the demeaning approach results in uninflated R^2 figures, especially for studies grouped at the intersection of INAS and RAS, we suggest this approach instead of adding dummies as a solution for dealing with UH.

Table 5. Robustness 2: Regression outcomes of sub-periods

Variables	(1)	(2)	(3)	(4)	(5)
Panel A: 2005-2010					
BVE	0.3865***	0.2105***	0.2105***	0.6036***	0.6036***
	(0.0412)	(0.0338)	(0.0338)	(0.0837)	(0.0837)
NI	0.7383***	0.4406***	0.4406***	0.7880***	0.7880***
	(0.1607)	(0.1184)	(0.1184)	(0.1756)	(0.1756)
Year FE	NO	DUMMY	DEMEAN	DUMMY	DEMEAN
Firm FE	NO	NO	NO	DUMMY	DEMEAN
Observations	905	905	905	905	905
R^2	0.1677***	0.4780***	0.0781***	0.6283***	0.2273***
SD of R^2	(0.0297)	(0.0321)	(0.0212)	(0.0256)	(0.0381)
Panel B: 2011-2014					
BVE	0.1408***	0.1197***	0.1197***	0.6824***	0.6824***
	(0.0418)	(0.0441)	(0.0441)	(0.1356)	(0.1356)
NI	0.7636***	0.6750***	0.6750***	0.8816***	0.8816***
	(0.1539)	(0.1494)	(0.1494)	(0.2416)	(0.2416)
Year FE	NO	DUMMY	DEMEAN	DUMMY	DEMEAN
Firm FE	NO	NO	NO	DUMMY	DEMEAN
Observations	890	890	890	890	890
R^2	0.0797***	0.1273***	0.0634***	0.4851***	0.2256***
SD of R^2	(0.0251)	(0.0308)	(0.0234)	(0.0381)	(0.0379)
Panel C: Differences					
BVE	-0.2457***	-0.0908		0.0788	
	(-4.19)	(-1.63)		(0.49)	
NI	0.0253	0.2344		0.0936	
	(0.11)	(1.23)		(0.31)	
Year FE	NO	DUMMY	DEMEAN	DUMMY	DEMEAN
Firm FE	NO	NO	NO	DUMMY	DEMEAN
R^2	-0.0880**	-0.3507***	-0.0147	-0.1432***	-0.0017
$R^2(B) - R^2(A)$	(-2.26)	(-7.88)	(-0.47)	(-3.12)	(-0.03)

Panels A and B present regression outcomes for the periods of 2005-2010 and 2011-2014. Panel C demonstrates differences of regression coefficients and R^2 figures between sub-periods. The first column shows regression outcomes with no UH concern. Columns 2 to 5 reveal regression outcomes with different UH concerns. Columns 2 and 4 (3 and 5) present regression outcomes obtained by dummies (demeaning). BVE, NI, and FE respectively refer to book value of equity, earnings, and fixed effects. The dependent variable is the market capitalization measured after 3 months from the fiscal year-end (MV). All variables are deflated by the previous year's MV. Firm-level clustered standard errors are in parentheses. Standard errors of R^2 figures are obtained by the bootstrapping procedure of 1,000 repetitions with replacement. In Panel C, z-values are in parentheses. *** p<0.01, ** p<0.05, * p<0.10.

SOLUTIONS AND RECOMMENDATIONS

Holthausen and Watts (2001) divide the literature into three main classes. Their classification reveals that the literature is overwhelmed with association studies: i) RAS, which consider the R^2 figure or the explanatory power of a regression the VR indicator, and ii) INAS, which consider an accounting item value relevant if its regression coefficient is reported as significant at conventional levels. From the perspective of INAS, obtaining regression coefficients by eliminating UH-related problems is very crucial as UH may lead to biased and inefficient estimated parameters if UH is not controlled. In order to deal with UH, the most frequently used methodology in the literature is adding dummies for each UH concern. Although this approach yields "*approximately unbiased estimates of the parameters of interest*" (Allison, 2006, p. 2), R^2 figures are inflated by dummies (Amir & Lev, 1996). Hence, adding dummies may lead to incorrect inferences from the perspective of RAS.

As shown by Holthausen and Watts (2001) and Ertugrul (in press), there is a rich body of research grouped at the intersection of RAS and INAS. Studies under this intersection are interested not only in regression coefficients but also in R^2 figures. Adding dummies solves the UH problem but it brings about inflated R^2 figures. This paper suggests an alternative methodology in order to deal with UH: demeaning. Adding dummies and demeaning generates the same regression coefficients which should be read as their equivalence of UH treatment (Ertugrul & Demir, 2018). On the one hand, adding dummies results in exaggerated misleading R^2 figures by adding the explanatory power of dummies to R^2 figures. On the other hand, demeaning generates uninflated R^2 figures as it does not employ dummies. This study reveals the misleading impact of dummies on R^2 figures and it suggests employing demeaning instead of adding dummies for studies especially grouped at the intersection of RAS and INAS.

FUTURE RESEARCH DIRECTIONS

This paper uses data retrieved from the Compustat Global-Fundamentals Database which provides only annual data. Future research may analyse the impact of dummy variables on the VR in detail by manually collecting more frequent data (i.e., quarterly or semi-annually). Although Turkey provides a unique set for the research of this study, the analysed period does not include a change in accounting standards. Future research may analyse the impact of dummy variables on the VR in detail by examining a real shift in the financial reporting framework. Also, the generalizability of our findings is limited as this paper presents findings by employing a dataset of a single country. Future research may use a large dataset including numerous countries in order to increase the generalizability of outcomes. Furthermore, using numerous countries creates a room for employing country dummies in order to control for UH at the country level. It may also create the opportunity of employing industry dummies if multicollinearity does not exist. In any case, we highlight that UH at the firm level is superior to UH at the country (or state) level and UH at the industry level.

CONCLUSION

According to the classification of Holthausen and Watts (2001), most studies belong to both RAS and INAS groups. A very recent literature review of Ertugrul (in press) further shows that numerous studies are grouped at this intersection. VR indicators of INAS are regression coefficients which may heavily be influenced by UH and may eventually result in incorrect and misleading consequences. Hence, eliminating the impact of UH on regression coefficients is crucial for INAS. The most prevalent method of eliminating UH is using dummies for different UH concerns; however, this methodology results in inflated R^2 figures which are the VR indicator of RAS. In other words, while using dummies eliminates UH and generates approximately unbiased regression coefficients, it generates inflated R^2 figures as it adds the explanatory power of dummy variables to the explanatory power of accounting items. For studies grouped at the intersection of RAS and INAS, this paper suggests an alternative method to deal with not only UH but also inflated R^2 figures: demeaning. This is our contribution to the literature. From the perspective of INAS, both demeaning and adding dummies provide the same regression coefficients and equally effective solutions for dealing with UH (Ertugrul & Demir, 2018). From the perspective of RAS, since demeaning does not inflate R^2 figures by not including the additional explanatory power coming from dummy variables, it generates R^2 figures which purely reflect the impact of accounting items. In other words, owing to the demeaning approach, a more reliable VR indicator may be obtained.

By using a dataset of listed firms on the ISE between 2005 and 2014, this paper documents following outcomes. First, all R^2 figures obtained by dummies are considerably greater than all R^2 figures obtained by demeaning. Second, by following Ertugrul and Demir (2018), the whole period is arbitrarily divided into two as if there is a change in the accounting regime during the period of analysis while there is no change indeed. From the perspective of INAS, no regression coefficient in the first period is reported as statistically different than the corresponding regression coefficient in the second period. These analyses reveal that there is no shift in the accounting standards during the analysed period. For different UH concerns, R^2 differences obtained by dummies are reported as statistically significant. From the perspective of RAS, this outcome indicates there is a shift in the financial reporting framework and it documents a contradictory outcome provided by the difference analyses of regression coefficients. However, after removing the impact of dummies on R^2 figures by demeaning, no R^2 difference is reported as significant at conventional levels which indicates that there is no change in the financial reporting framework and this outcome is in line with the difference analyses of regression coefficients. These outcomes clearly demonstrate that R^2 figures inflated by dummies generate misleading and incorrect inferences which disappear after obtaining R^2 figures by demeaning.

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ENDNOTES

[1] Although Barth et al. (2001) argue the concepts of the VR and decision relevance, we do not distinguish these concepts since it is beyond the scope of our study.

[2] Throughout the paper, the terms "financial reporting information" and "accounting information" are used interchangeably.

[3] Prior to analyses, the robust version of the Hausman Test should be performed. If the outcome of the Test does not support employing the FEM, the Breusch-Pagan Lagrange Multiplier Test should be performed whether UH significantly affects the parameters of interest or not. See Onali et al. (2017) for detailed discussion and empirical outcomes. For all our analyses, the Hausman Test supports employing the FEM.

[4] Dummy variables may stand for each country, industry or firm. Note that controlling for UH at the firm level is superior to others.

5 Independent of the Hausman Test, UH at the time level should be controlled.

6 The Price Model fundamentally includes book value of equity and earnings. The Return Model basically includes earnings together with the change in earnings.

7 As discussed in the following section in detail, such papers are majorly interested in the impact of the change in accounting standards on the VR. Since all Turkish listed firms are required to use International Financial Reporting Standards beginning from 2005, the analysed period of 2005-2014 is not subjected to such a change in accounting standards. Therefore, our sub-periods are subjectively determined in order to reveal the effect of dummies in different periods.

8 Turkey experienced severe economic instabilities and turbulences before 2005. Kaytmaz Balsari and Özkan (2009) reveal adverse impacts of Turkish economic crises on the VR of accounting items. In order to keep our outcomes from adverse consequences of such economic troubles, we do not analyse the VR before 2005.

9 These outcomes are presented in Panel B of Table 5 by Okafor et al. (2016).

10 The Hausman Test checks the conformity of employing fixed effects at the firm level. If the Hausman Test does not document outcomes in favour of using the FEM, year dummies can still be employed to control for UH at the time level.

11 If the analysed period is divided into several sub-periods, using firm dummies is not convenient since this approach considers firm fixed effects time-invariant for each sub-period instead of the whole period. In other words, firm-specific factors are time-invariant and they should be the same for all periods. Demeaning all variables as shown in Equation (1) also solves this problem. However, we allow firm fixed effects to vary between two different periods in order to reveal the comparability of the adding dummies approach and the demeaning approach.

12 The adjustment factor which is coded AJEXDI is used to calculate each price and the corresponding number of shares outstanding figure. It should be highlighted that a cash-dividend adjustment factor is not available at Compustat Global-Security Daily database.

13 Hence, we eliminate the effect of multicollinearity on our outcomes.

14 Any significant multicollinearity problem exists between year dummies according to the outcome of the VIF.

15 Considering firm fixed effects as well as year fixed effects is termed two-way FEM (Sinnewe, Harrison, & Wijeweera, 2017).

16 In Table 4, year dummies inflate R^2 figures in both periods (i.e., the R^2 figure of the first period is 6.13% with no UH concern while the R^2 figure of the first period is 33.93% with UH at the year level); however, this inflation does not significantly change the VR of accounting items.

Section 3

Chapter 11
The Role of IMF–Turkey Relationship on Strategic Investment Decision

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ABSTRACT

The International Money Fund was established as an intermediary to overcome the 1929 World Economic Depression and economic destruction of World War II, balance payment problems, imbalance of international monetary system, and shrinking international trade. However, the role of the IMF has changed with the new developments in the world economy, and after 1980 with its applications called "structural adjustment program," IMF has increased its effectiveness, and it has become an important authority on the crisis occurred with the globalization. In this chapter, the historical development of IMF and Turkey's relationship and its effects on the Turkish economy is discussed. The economic conditions led Turkey to apply to the IMF and all of the agreements made between IMF and Turkey, and as a result of those, the macroeconomic parameters of the Turkish economy are evaluated. The effects of the IMF stability program on the Turkish economy, applied by Turkey as a result of the agreements made with IMF, are analyzed with VAR econometrical model. The effects of IMF loans on balance of payments, current account deficits, economic growth, and inflation rates are analyzed. The macroeconomic parameters are compared with t test to find out if there is any meaningful difference on those parameters between the periods with agreements made with IMF and the periods without any agreements.

INTRODUCTION

In 1929, World Economic Crisis and immediately after II. With the emergence of World War II, international economic relations have entered into a narrow bottleneck, and there has been a great collapse in international trade, employment and living standards. These events brought up the need for the establishment of a new international monetary system, the stabilization of exchange rates through this system, the liberalization of world trade, and the solution of the international reserve problem (Clavin, 2000). In

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1944, a conference was held in the town of Bretton Woods, New Hampshire, USA, under the leadership of developed countries such as the United States and the United Kingdom, to respond to these needs and to create the international monetary system. In this context, the Bretton Woods system was created and the establishment of the IMF was decided. Established in 1945 as an international monetary and financial institution, the IMF is also the main creator of international liquidity, creating an alternative value measure called SDR.

The main purpose of the IMF is to ensure international monetary stability and to meet the short-term debt needs of countries. The IMF has been designed to support countries that have suffered from a balance of temporary payments to prevent import restrictions due to these difficulties. In addition to this basic objective, the obstacles in the 1950s were removed, such as the elimination of barriers on the fund, capital and commodity movements, the provision of the necessary free market power to fulfill its functions, price incentives, the protection of industry, and the elimination of state interventions.

However, due to the crises in the world economy, it is seen that the classical functions of the IMF have changed in time. The IMF has become an institution that provides financial resources to solve the balance of payments problems of the developing countries rather than the advisory mechanism that directs the developed countries. IMF loans have become an important source of financing for countries with economic instability. Countries are implementing IMF-supported stabilization programs in times of economic instability in order to ensure economic stability and to resolve financial crises. Especially the crises that occurred after 1990s affected many countries globally and countries like Brazil, Mexico, Argentina, Thailand, Indonesia, South Korea, Russia had to steal the door of IMF (Stone, 2004).

Depending on these developments shaping the world economy in 1947, Turkey became a member of the IMF, have begun to increase their trade relations with other countries and has been integrated into the outer world. However, the country has faced structural problems as in other developing countries. The programs implemented to solve these problems have often been implemented with the support of the IMF. Not having an emerging economic structure is located between Turkey and the IMF, most applicant countries. Turkey in the last 65-year period from date to date is a member of the IMF, has 19 agreed with the IMF but close to half of these arrangements could not be completed due to failure to fulfill Turkey's borrowing requirements. Turkey has benefited from approximately 42.5 billion dollars in IMF resources in this process (Yeldan, 2006).

In this study, especially in terms of our country to assess the IMF's role in the world economy, the IMF-Turkey relations were analyzed systematically taken up into a whole. The purpose of this study, the IMF is Turkey's establishment of close relations with the IMF since the process of examining the historical context of its relations with the IMF, Turkey has benefited much from the IMF, the economy, especially of the credit economic growth, the effects of Turkey's economy, the current account deficit, inflation and the effect on the balance of payments is to analyze in the axis.

THE FOUNDATION AND PURPOSE OF THE IMF

The IMF was born on December 27, 1945, when 29 countries signed the Bretton Woods agreement, and began financially on 1 March 1947. 80% of the fund quota is committed. The IMF has a Convention on International Monetary Fund. The Articles of Association, consisting of 31 articles and various annexes, encompasses various provisions ranging from the organization of the Fund to its functioning, from relations with member countries to the Fund staff. Since 1944, the IMF Treaty has undergone significant changes. The first amendment came into force on July 28, 1969, and thus the special drawing rights (SDR) were created. The second significant change was made on 1 April 1978. With this amendment, the share of gold in the Funds resources has been reduced and regulations have been introduced to make SDR an important reserve (Önis, 2006).

TURKEY'S MEMBERSHIP PROCESS AND STATUS TO IMF

Political transformation process in the aftermath of the Second World War, Turkey has turned to more friendly political and economic relations with the Western world. He started to join the newly formed international organizations and tried to gain a place in the Western world. In this context, the IMF and Turkey have been adopted in Parliament on February 19, 1947 and officially a member of the World Bank with the law numbered 5016. Turkey has been a member of the IMF quota of $ 43 million. According to IMF principles, 10 million 750 thousand dollars of the quota has been delivered as gold, the remaining 75% of the equivalent of 32 million 250 thousand dollars 90 million 300 thousand pounds It was invested in a special account opened on behalf of the Fund in the Central Bank (Önis, 2006)

Turkey's Western Block with particular intensification of relations with the position of leader of the West in the United States during this period, the Truman Doctrine and the Marshall aid program within the framework of being implemented by experts from Turkey state on criticizing the interventionist economic policy, Turkey has gone to the change in economic policy is implementing. Thereupon the period 1946-1950 it has been carried out for years by the fundamental transformation of Turkey's economic policy. Turkey's long-term debt at the end of 1946 showed a significant increase. The most important reason for this increase is the devaluation. Since the devaluation in 1947, foreign trade deficit has emerged and has become chronic. The foreign trade deficit in this period was met with the gold and foreign exchange reserves accumulated during the war years and the foreign resources entered into the country within the framework of Marshall aid after 1948. The growth experienced in 1946 was largely a compensation for a six-year decline in the war years. The Gross Domestic Product was able to emerge in 1948 on its 1939 level. The average growth rate of the years 1946-1948 reached 18% (Yeldan, 2006).

The development move, which started in 1950, started to decline in 1954. Since 1954, the IMF has been continuously engaged. In the beginning of the first contacts with the IMF, IMF experts who came to Ankara with a delegation before the 1954 elections asked for a series of Stabilization Programs to be implemented. The government of the period rejected these practices. In 1956, the government faced devaluation and negotiations were held in the IMF and Vienna and the dollar was decided to be 5.20. It was also decided on the postponement of Turkey's external debt and obtain additional credit of $ 230 million. However, this agreement could not be realized because Adnan Menderes could not be admitted to his party. The realization of the agreement with the IMF has created a crisis in Turkey. However, due to the uncertainty in the markets in this period, the dollar reached 18 TL and had to be put to the table with the IMF (Evrensel, 2004).

As a result of the interviews, the Turkish Government submitted the first Letter of Intent to the IMF. This letter of intent was approved by the IMF Board in July 1958, and the first stability package came into force on 4 August 1958. The basic idea underlying all decisions taken, Turkey systematically keeping the economy from external factors and possible to evaluate as to reach a sustainable growth rate. For this, the deferred debt near Turkey's 420 Million Dollars 359 Million Dollars is provided around a new loan. However, the targeted objectives could not be achieved. However, with the tightening of domestic consumption through the tight monetary and fiscal policy of the 1958 Stability Program, it was aimed to reduce the external deficit by reducing inflation by bringing inflation under control and devaluation by making the import expensive and cheap. With the implementation of stability measures, the congestion in external economic relations has been tried to be eliminated. As a result of the agreements with the IMF, OECD and the US, the external debt of $ 600 million was delayed and a new loan of $ 359 million was provided. 1958 Stability Measures reflect typical IMF prescriptions. The external resources provided by these stabilization measures delayed the external payment shortages. Price increases were taken under control in this period. On the other hand, a serious economic recession has emerged. Because the devaluation did not show the success expected by the IMF. Since the export figures of 1959-1960 decreased according to the export figures of 1952-1953, foreign trade deficit increased. This is an unexpected result of IMF prescriptions (Ersel and Özatay, 2008).

This period is a period of import substitution industrialization and planned development. With the First Five-Year Development Planning, important steps have been taken in industrialization. But external dependence and Turkey could not be reduced to the desired level in the history of the 10 of the stand-by arrangement IMF has realized in this period. On 1 January 1961, the first stand-by agreement was signed with the IMF. March 30, 1962 with the IMF on a new arrangement to the Turkey of this agreement is finished on December 31, 1962, saying less than a year. The third stand-by agreement signed on 15 February 1963 lasted approximately nine months. The fourth stand-by agreement began on February 15, 1964, and this agreement ended on December 31, 1964. Turkey, since 1961, every year until 1970, has carried out a stand-by with the IMF. The agreements usually ended before the end of one year. Although these regulations had a positive effect on foreign exchange revenues, the net result of the IMF was still not achieved due to the fact that foreign exchange expenditures did not shrink. A total of 10 agreements were signed with the IMF between the years 1961-1970, but all of the agreements in 1963, 1967, 1968 and 1970 were fulfilled and all 1.4 billion SDRs were allocated. During the agreements made in 1961, 1962 and 1965, there was no need to use all of the resources allocated due to capital inflow that exceeded expectations, decreasing import demand and improved balance of payments. After the revision of the stand-by arrangement in 1964, and the stand-by arrangement in 1969, the economic model followed by the new government was abolished without the full use of the loan (Voyvoda and Yeldan, 2005).

Despite a relative increase in welfare during the 1960-1970 period, the need for external loans increased continuously. During this period, a stand-by agreement was signed with the IMF every year. Therefore, the IMF control was a period in which the economy gained continuity. Between the years 1960-1970, Turkey has made $ 2.7 billion in foreign loans. However, $ 1.4 billion of this loan has been spent on payments of debts arising from previous periods (Demirbaş, 2002).

1970-1980 period has been a period of great difficulties in terms of Turkey's economy. In this period, both the political instabilities in the country and the 1973 Oil Crisis deeply affected the economic structure. The main objective of the 1970 stabilization program is the prevention of external deficit. The depletion of foreign exchange reserves and the increasing external debts necessitated the implementation of this stabilization program. At the same time, internal price adjustments were made in order to ensure internal balance in the economy, and interest and discount rates were raised (Demir, 2018).

With these measures, it was aimed to control inflation. However, the main objective is to bring inflation under control with the equivalent budget policy and to support exports by both devaluation and monetary and financial instruments, and to reduce the imports with quantity constraints. The main problems leading to the economic crisis continued to protect their assets. The increase in exports lagged behind the increase in imports and inflation continued to threaten the economic stability. Stabilization policies are seen after the 1970 standoff at the IMF-Turkey relations. The reason for this coldness is that the IMF's effect on the world has been reduced for a while.

Between the years 1971-1978 there is no agreement between the IMF and Turkey. However, since 1977, the fact that the import and production required for production and investment was not done in a timely and adequate manner has caused significant shortages and bottlenecks in the supply side of the economy as well as problems in the labor market. When it comes to the economy in 1978, queues, shortages have occurred, Turkey's economy has entered a major downturn. Difficulties have also begun in foreign borrowing. This period was seen as an important period for the IMF. Because the negative economic and political conditions in Turkey rose against the IMF.

During this period many years at the same time Turkey's intervention in Cyprus were under pressure in the international arena due. The only solution was to get the support of the IMF. As a result, the government had to sit with the IMF. The first agreement was made in 1978, with a 32% devaluation. The price of the dollar has been increased from 19 TL to 25 TL, some demand has been set aside and new debts will be extended by extending the maturity of the debts. As a result of the agreement, the maturity of the debts has been extended but no new money has been received. The Government did not take the necessary measures, arguing that its political ideology was incompatible with the IMF measures. Thus, the Stability Program of 1978, which was held for two years, was suspended in December following the problems that arose in September 1978 and could not be applied by interrupting the two-year program results without being reached (Voyvoda and Yeldan, 2005).

In the country, which has been accustomed to economic growth for many years, there has been a decline in production for the first time in this period. In addition to the decrease in imports, energy shortage has decreased the capacity utilization rate in industry. Prices have increased and the monthly growth rate has reached significant levels. In March 1979, the government announced a new stabilization program, Strengthening the Economy Program. The new program aimed to mobilize internal resources. The program was basically a package of stability aimed at bringing the economy down to equilibrium. In this stabilization program, which was put into effect with the approval of the IMF in June 1979, the Turkish lira has been replaced with 1 Dollar = 47 TL as a result of the TL exchange rate implementation. As a result of the agreement reached with the IMF, $ 2.8 billion of short-term private foreign debts were converted into long-term government debt. Thus, while the burden of pay of foreign debts benefited by the private sector was nationalized, the burden was spread to the whole society. after signing a stand-by agreement with the IMF after the date of July 1, 1979 between the OECD and Turkey maturity from approximately 1,200 million dollars in state and regarding the postponement of government guaranteed commercial debt "Proceedings Relating to Consolidation of Turkey's trade payables" was signed. Looking at the experiences of the IMF in the 1970s, the IMF's measures on the system of prices were not effective in an environment of economic structure with historical roots (Tabakoğlu, 1986).

After the implementation of the stabilization program we look at the figures shows that Turkey's macroeconomic performance remained relatively low. In this period, the measures taken, and devaluations made positive results in the first years, but cannot be successful in the following years. He warned of devaluation exports and remittances, and in 1973, the export surpassed a billion-dollar ceiling. However, in the years following 1973, import prices increased due to the Oil and World Crisis, while the foreign exchange rate, which became over-valued again, caused the imports to be carried out in giant steps but in the place of export. Moreover, the slowdown, which was achieved in the price increases in 1970, could not be continued in the following years and the price increases continued with the acceleration. In 1974, with the rise in oil prices to four times more, import payments increased, while the stagnation in the countries where foreign trade was concentrated and the appreciation of the Turkish lira, exports did not increase sufficiently and the deficit in foreign trade started to grow again. In 1977, short-term high interest rate borrowing was made as a result of the current account deficit to reach a record level, the decrease of remittances and the difficulty of finding credit. After the second oil shock in 1978, the economic crisis and the currency crisis were followed by new devaluations and January 1980 decisions (Voyvoda and Yeldan, 2005).

Turkey, like many countries in the pre-1980 period of high inflation, short-term external debt, unemployment is experiencing congestion problems, such as import and export stagnation. The financial pressure policies implemented before 1980 prevented the development and deepening of financial markets and reduced savings rates. Large political instability occurred in this period. Who want to get rid of the crisis in which Turkey, should an agreement with the IMF on January 24, 1980 has put into effect a major stabilization program that requires financial reforms. These historical decisions were the beginning of a new era and a new economic understanding in terms of the principles of the economic policies implemented during the Republican Period (Demir, 2014).

January 24 Decisions, there has been a structural turning point because it is aims to increase the role of market mechanisms in the formation of economic stability of Turkey resolve the instability in which the target by changing the substitution of the development strategy of import being monitored since the addition year. The opening of the Turkish economy to the outside and the development of exports of industrial goods in particular constituted the basis of the program. This program is similar to previous years as the stabilization program implemented in Turkey, carries the qualities of orthodox stabilization programs implemented in Latin American countries in the IMF's surveillance. On the basis of the fact that the program is orthodox qualified, the main source of imbalance and inflation is the demand, and a significant part of the measures taken are aimed at reducing public expenditures and domestic demand.

Monetary arrangements were made by perceiving the instability as a monetary phenomenon that caused demand swelling. In this stabilization program, in which IMF proposals are implemented in a stable manner, monetary policy has been implemented in a manner that creates shock effects. Interest rates were increased, flexible exchange rate system was introduced, and high rate devaluation was performed. Turkey's long-term stability and stability program foresees structural change that was implemented on January 24, 1980 IMF, World Bank and has been supported by an extensive international capital flows organization that direct their programs, such as the OECD. The stability program Turkey, the OECD countries and the previously be delayed again of deferred debt as well as a three-year stand-by arrangement covering the period 1980-1983 as a result of the commitments given to opening up the IMF free market economy to achieve agreement with the IMF was signed. With this agreement, effective from 18 June 1980, an amount of SDR 1.250 billion was obtained. A new stand-by arrangement was made in 1983, but was canceled due to the failure to meet the performance criteria, and in 1984, a stand-by arrangement was made again.

24 January 1980 The Stabilization Program consisted of IMF-backed orthodox stabilization policies. 24 January Program, with its main line until the end of 1988 marked the economic policies and enriched by the addition of new elements over time. It is a neo-liberal model presented to the masses and to the public through a very intense ideological campaign with the slogan "it has no alternative from beginning to end". It is seen that 24 January Decisions declined markedly in 1990s and the economy is becoming more and more widespread from instability to widespread depression (Akdeniz et al., 2002).

Due to the uncertainty created by the election economy, the early election environment, which has been on the agenda since the second half of 1991, continued to cause negative developments such as inflation and public deficits. With the effect of high interest rates, investments also decreased. When we look at the world wide, Eastern Bloc countries have decided to abandon socialism and move to a pluralist democracy. In 1990, Iraq invaded Kuwait. These situations affected the macro-economic balances in our country. The trade relations with Iraq have diminished and Turkish tourism has been undermined.

1990 in congested conditions showed an increase in external borrowing and domestic debt in parallel, Turkey has become the main problem of the economy. The increase in the borrowing phases resulted in shortening of the borrowing maturities. The wage-salary costs rising in the early 1990s have been one of the factors driving the SEEs to the financial crisis. The second factor was to attract the Treasury's treasury support for SEEs and to direct the sector's growth and modernization efforts to domestic and foreign borrowing. All of the KIT system was successful in terms of the effectiveness of the investments considering the diminishing capital accumulation, which produced significant added value, could stand in terms of labor efficiency movements. However, more than all of the added value went to debt financing and wages, no longer to be allocated to capital accumulation.

The real appreciation of TL in real terms and the increase in domestic demand caused exporters to produce for the domestic market, resulting in a decrease in exports. After the recession in exports and the increase in imports, there was an increase in the current account deficit. The deterioration in fiscal balance started in 1990 and the impact of the Gulf Crisis on the exchange rate in addition to the deteriorations in the financial sector in 1991 led to the inability of the Central Bank monetary program to be disclosed. With the announcement of the stabilization program of the coalition government in 1992, new hopes emerged. Goals such as reducing chronic inflation, keeping it permanently low, increasing production, improving income distribution, facilitating the functioning of the market mechanism, integrating with the world, globalization and preventing terrorism in the country have been determined. However, the desired success has not been achieve (Akdeniz et al., 2002).

In the late 1993, the instability in the financial markets and the volatility of the exchange rate caused a negative environment, as well as the negative expectations of the future. Moreover, the desire to keep interest rates low in an environment with high public deficits at the beginning of 1994 led to an increase in blood pressure in financial markets. In order to reduce the internal debt interest rates, the borrowing policies to cancel the auctions or to impose limits on the amount of borrowing have caused uneasiness in the markets and adversely affected the domestic borrowing market. With the use of short-term advances by the Treasury, excessive liquidity in the market put pressure on foreign exchange.

The increase in public deficits in the 1990s, the financing of these deficits by excessive borrowing, the increase in the foreign trade deficit due to the excessive appreciation of TL, the low tax revenues, the high interest rates caused by the excessive entry of hot money and the resulting political instability caused the system to be blocked. All these developments in January 1994 Moody's and Standard and Turkey's credit downgrade by international rating agencies, such as the closure of three banks and 1994 Crisis conditions has occurred. As a result of all these developments, the emergence of economic crisis conditions led to the opening of a new stability package.

However, the biggest obstacle to the success of the 1994 Stabilization Program was the necessity to start the program without the need to secure the external resource entry. The implementation plan of the program consists of two parts. The first is related to the Stability Program and the second one is related to "Structural Arrangements Bir. 5 After 14 months term for Turkey on July 8, 1994 Decision of

April in the amount of SDR 509.3 million tranche of a stand-by arrangement was approved according to the policy. This amount of Turkey, was intended to be used in case of 14 months and 5 installments.

In addition, the quota limit of 68% for IMF's credit tranche policy was increased to 100% in 1995. Turkey can use the facility with an additional tranche of SDR 101.2 million, according to the new regulation 610.5 million SDR exchange rates from April çıkarılmıştır.5 Decisions have been released. One day after the official exchange rate was announced in advance, the exchange rate was tried to be stabilized. An important regulation to ensure fiscal discipline is to reduce the amount of short-term advances that can be made up to 15% of budget appropriations as of 1995 and to reduce it to 3% in 1998.

With the 5 April 1994 Stabilization Program, the state is expected to be attracted a little more than the economy and directed towards the main functions of supervisory, supervisory and standard setting. In this context, legal and institutional arrangements regarding protection of competition, protection of consumer, protection of intellectual and industrial property have been introduced. After the decisions of April 5, 1994, the Economic and Social Council was established to enable the participation of representatives from different segments of the society to the decision-making process in order to ensure social reconciliation and solidarity in the economic and social area. However, even though the Law was enacted, the Council did not provide the necessary functionality.

When the decisions of April 5, 1994 are evaluated in general, it is seen that the structural decisions taken have not been realized. Because the structural arrangements in the SEEs concerning privatization could not be realized. The World Bank has declared Turkey as the country failed privatization. The stand-by arrangement with the IMF was suspended in 1995 due to deviations in performance criteria and then canceled. 460 million SDRs of the 610 million SDRs provided by this regulation were available. IMF programs have been implemented more frequently since 1998 than in previous applications. Arrangements made under the name of structural measures or structural reforms have also become a social and political quality by overcoming the macroeconomic criteria. From macroeconomic framework to monetary policy, from public finance to structural public finance reform programs, from debt management to financial sector reform and improvement of investment environments, information has been provided in detail.

The Brazilian Crisis which started abroad in 1999 and the 17 August earthquake in the country led to an increase in real interest rates and debt / GNP ratio. International organizations such as the IMF and the World Bank reported that the current situation is unsustainable. As these developments continued, the coalition government, which was formed after the April 1999 elections, introduced a stabilization program, including structural reforms, which were severely delayed by internal and external conditions (Przeworski and Vreeland, 2000).

In June 1999, it was agreed that the Close Monitoring Agreement would be converted into a financially supported stand-by agreement. In December 1999, a new three-year medium term stand-by agreement was signed with the IMF. The IMF made the agreement, Turkey has approved a USD 4 billion in lending, the World Bank also approved a $ 750 million loan for economic reform package. When the results of the first 12 months of the program are considered, there is a general opinion that it will be successful. The fact that the end-2000 inflation rates were close to the targeted figures and that businessmen gave messages to the program strengthened this belief.

Although an economic recovery was initially observed with the introduction of the program in 2000, the national currency appreciated in real terms as price increases were above the exchange rate increases. As a result of this development, while imports increased, exports remained stable, leading to a deterioration in foreign trade balance. Turkey is scheduled to continue for three years, approved by the IMF in December 1999, and the exchange rate anchor that program was put into effect at the beginning of 2000. However, depending on the resource requirement for the continuation of the program, the letter of intent dated 18 December 2000 and the additional reserve resource utilization on 21 December 2000 were revised and the 17th Stand-by Agreement was revised (Esen, 2000).

However, Turkey's economy, especially in the 1990s, since the middle of the process of encountering economic difficulties since the beginning of 2000, gained a new dimension and the IMF's "Currency Board" context of a fixed exchange rate system applications that foresees the exchange rate-based disinflation program for two consecutive financial crises interrupted It has undergone. Following the letter of intent given to the IMF in December 1999, a letter of intent for the second review was given on 22 June 2000 in the framework of this stand-by. In this letter of intent, the success of the stabilization program is mentioned, and it is claimed that this program will continue.

In the second half of 2000, the failure to realize structural reforms, the inability to obtain the expected revenues from privatization and the rise in domestic debt interest rates were the main reasons for the acceleration of the economic crisis process. The rise in the domestic debt interest rates led to the liquidity crisis in the banks that mainly hold public sector securities in their portfolios. The sinking of the Bayindirbank September 2000 branches in Romania has been an indicator of the onset of the crisis in the banking system in Turkey. In addition to discussions on privatization during the same period, debates on current account deficit are not sustainable. Among the ones who say open unsustainable IMF is also included. The IMF also did not grant the second tranche loan, which the Bank committed to grant if the condition of the stand-by agreement is complied with. Thus, tensions in financial markets since September 2000, has dragged Turkey into crisis.

With the foreign investors leaving the country by selling government securities, the 22 November financial crisis has begun. The economy; The fact that the tendency of sensitive balances to react negatively to the negative signals, which are open to speculation, played a role in the outbreak of the November crisis. In addition, the impact of the devastation caused by the August 17 and November 12, 1999 earthquakes on the economic structure is the result of the crisis. While the negative effects of the November crisis have partially improved, the disagreement in the upper level of the government in February 2001 has shaken the trust in the program and, since the value of TL has declined, an extreme escape has begun. As market participants panicked, the reserves decreased by approximately 30% due to their application to buy foreign currency to the Central Bank.

With the February 21, 2001 crisis, the program of 9 December 1999 completely disappeared, and the Central Bank lost 6 billion dollars reserve. In the Interbank market, overnight interest rates exceeded 6000% and the average rate was 4000%. In the face of these developments, the exchange rate was allowed to fluctuate. After the crisis, banks and decision-making units in the domestic market, together with foreign banks, have been demanded against foreign exchange. The 21 February 2001 crisis, which was a currency crisis, was mainly caused by the high rate of increase in the current account deficit. The factors that prepared the crises of 2000-2001 are over-valued TL, the current account deficit is above the critical limit, the financial sector devoid of capital, open positions (bank - real sector - public), duty losses of public banks and, as a result, the financial sector especially and increased interest rate risk.

In this period, one of the reasons that deepened the crisis is the short maturity of the debts obtained from the foreign markets. Moreover, the increase in domestic debt interest payments in the policy and consolidated budget in 2000 was the main reason behind the increase in the public debt stock in the period under which the public debt stock increased. Starting in November 2000 and February 2001 "Year 2000 Inflation Reduction and Stabilization Program Providing" bringing an end of the economic crisis, marked the beginning of a new era in Turkey. The economic crisis, which the government's earlier stabilization measures have taken over, has caused a major economic collapse in the country over time.

With the financial and technical support of the IMF within the framework of the search for economic stability, the 2000 Year of Reduction and Stabilization Program me ended on 22 February 2001, with the Turkish Lira being allowed to fluctuate without reaching the desired targets. With the floating exchange rate, Turkish Lira devalued in the 55-60% range against the Dollar. Thus, the stabilization program, which was considered as three years in 1999, was terminated.

Following the end of this program, on April 14, 2001 a new program called Bu Transition to Strong Economy 14 was prepared. The main objective of the din Transition to Strong Economy Program, which was announced in May 2001, was explained as the breaking of the debt dynamics which caused the public debt to reach unsustainable dimensions. This new program, approved by the IMF, has two basic features. The first feature of the program is the creation of a new economy management group and the second is a reinforced program. The program by the government, Turkey's financial and economic structure of the deeply affecting in February 2001. In 2002, the first exceeded and the inflation crisis in a macroeconomic framework that aims to drop below 20%, the policy the country will implement to put the strong economic recovery, uncover programs and measures are based on. Growth, stability and structural reforms will be focused on in order to achieve these objectives.

When we look at the results of the program, the economic crisis that erupted in February 2001, the credits taken from the IMF, the summer season activity in the tourism sector and the abundance of agricultural products in the summer season were slightly skipped. Most of the legislative arrangements envisaged in the program have helped to ensure confidence in efforts to exit the crisis. The new legal arrangement, which provides vehicle independence to the Central Bank and determines price stability as the primary objective, is a new development that will change the design method of macroeconomic policies.

In addition to strengthening the financial structure of the Bank's system, legal and operational regulations were introduced to enable the institutional structure and supervision of the system. In the new legal framework, the assignment of duties to state banks was conditional upon the appropriation of the central government budget. This change of importance to Turkey's political economy, political functions and the transparency of the budget is a phenomenon that contributed to the increase. When the economic crisis is considered in terms of economic growth figures, a rapid downsizing process is observed. Turkey's economy in the first quarter of 2001, has experienced the deepest decline from 1945 up to this time. This rapid decline in growth rates resulted from the shrinkage policies of the public and private sectors to protect against the crisis, as well as high interest rates, devaluation, money escape and demand contraction following these adverse developments.

External political circumstances occurring after the September 11 incident, Turkey has facilitated the continuing and increasing the financial support provided by international institutions. 18. In February 2002, the three-year stand-by arrangement with the IMF $ 16 billion loan to Turkey were provided. USD 4 billion of the 2000 program, which was not used in IMF support of $ 19 billion, was included in the loan amount ($ 16 billion) disclosed in February 2002. Debt repayment was made with 6 billion of the new support of 16 billion dollars. Excluding other types of support, all the stand-by of the total resources it makes available in the regulations (about 55 billion dollars), the largest part of the success of the IMF's Turkey program that allocated to Turkey, its internal financial balances (the repayment of credit) is important in terms.

It is aimed to secure the economy against the crises that may occur and to ensure a sustainable growth that is not inflationary. For this reason, it was decided to continue the implementation of floating exchange rate regime and to implement inflation targeting to reduce inflation. In this context, inflation was targeted as 35% for 2002, 20% for 2003 and 12% for 2004. The restructuring of the banking sector will be accelerated. Thus, financial stability will be ensured, and loans will be directed to the most effective uses. In this context, it is aimed to restructure the private banking sector and restructure it through the privatization of state banks (Baris and Küçükyalı, 2012).

The role of the private sector in the economy will be improved. For this purpose, privatization will be accelerated, company debt restructuring will be facilitated and all large SOEs will be restructured at the end of the program and many will be privatized. In order to achieve financial and macroeconomic stability and to make further progress in structural reforms, the primary surplus will reach 6.5%. Along with the primary surplus to be provided, the active and flexible debt management strategy to be implemented will facilitate the translation of public debt.

In 2003 and with the sustainable growth in the following years, the fight against inflation will continue. The level of at least 5% expected to be realized in 2003 and following years will be prepared for GNP increases. Revenues from privatization revenues of $ 1.7 billion, which was planned for 2002, amounted to $ 506 million. The privatization revenue of $ 4 billion, planned for 2003, could not be realized. Nevertheless, the economic program, which was signed in 2002 with the IMF and ended in 2005, seems to have reached its goals to a large extent according to previously implemented programs. Although there has not been any change or progress in areas such as employment and savings, this program has increased the Government's commitment to economic policies, but it has not. He could not prevent the signing of a new stand-by agreement covering the years 2005-2008 (Çapoğlu, 2004).

AN APPLICATION ON FINANCIAL COMMUNICATION BETWEEN TURKEY AND IMF

Data Set

The economic indicators used in the analysis, balance of payments, current account deficit, CPI growth figures for the year as Turkey Statistical Institute in the database electronic indicators Turkey Statistical Institute Statistics from Yearbook (1923-2008, 2009) and Statistical Indicators are taken from the Statistical Indicators 1923-2010 files. In addition, the Economic and Social Indicators in the official site of the Ministry of Development were taken from the 1950-2010 file and from the official website of the Central Bank. Other data used in the analysis are IMF loans from the IMF's official website, T.C. It was taken from the official website of the Ministry of Development and from TURKSTAT. In the analysis, the loans received from the IMF are calculated by dividing the months according to the duration of the agreement and the years covering the agreement. The data in the analysis covers the years 1947-2008.

Methodology

In this study, Turkey's IMF members that the IMF stabilization program implemented since 1947, the growth, the current account deficit, inflation and its impact on the balance of payments was measured by the Vector Autoregressive Model. The IMF program was measured with the years of implementation and the IMF program was not implemented, the current account deficit, inflation and balance of payments values were measured by t test. The analyzes were performed using the E-Views 7.1 (Econometric Views) computer program.

Vector Autoregressive Model (VAR) was first formulated by Sims (1980). It is an equation system that shows the mutual relations of the variables. VAR models are primarily used in the study of the relations between macroeconomic variables and the dynamic effect of random shocks on the system of variables. All variables included in the VAR model developed by Sims to model without making internal or external discrimination between the variables are internal. The VAR model is a simultaneous model because the variables are considered internal.

Each variable in the system is defined as a function of the lagged values of all internal variables. The lack of necessity of determining variables as internal and external variables provides great flexibility in terms of analysis. The VAR model is an equality system where each equation has the same right-hand side variables. VAR models are highly advantageous in predicting models of each variable. The modeling model based on the VAR model provides a systematic way of analyzing and interpreting the rich and dynamic structure of time series. In the VAR model, dynamic relationships between internal variables are estimated without strong prior constraints.

Regression Analysis Results

In this section, the effects of the credits taken from IMF from 1947 to 2008 are analyzed. In this study, logarithms were used to stabilize the mean and variance of the series. Since the series are time-dependent values, the simplification logarithm of other effects is taken. Decreases and increases in series are observed more clearly by taking logarithms. Since the logarithm calculation problem will occur as the values of the current deficit variable are mostly negative, the logarithms are taken after the current deficit values are converted to positive. The coefficients of the estimated linear regression equations give the elasticity of each economic variable to IMF credits.

In order to measure the effect of IMF loans on the growth variable, the logarithm of the growth variable was first calculated as the dependent variable. IMF loans were also determined as independent variables. Estimation function is given below.

$$GROWTH = \alpha 0 + \alpha 1 * IMFCREDIT + ut$$

According to the results of the regression analysis carried out by the Ordinary Least Squares method in E-Views, the estimation result of the equation is;

$$GROWTH = 1.406032 + 0.028651 * IMFCREDIT$$

It is seen that the coefficient of IMFCREDIT variable is not significant at 95% confidence level although the constant term is statistically significant in equation (probability = 0.6219). This means that IMF Loans do not have an impact on Growth alone. The fact that the determination coefficient value (R-square = 0.009874) is too low supports this view. The details of this situation are given on Table 1.

In order to measure the effect of IMF loans on the current account deficit, the logarithm of the CURRENT ACCOUNT DEFICIT variable is calculated and defined as the dependent variable. IMF loans were also determined as independent variables. Estimation function;

$$\text{CURRENT ACCOUNT DEFICIT} = \alpha 0 + \alpha 1 * \text{IMFCREDIT} + ut$$

According to the results of the regression analysis carried out by the Ordinary Least Squares method in E-Views, the estimation result of the equation;

$$\text{CURRENT ACCOUNT DEFICIT} = 3.026631 + 0.755673 * \text{IMFCREDIT}$$

In Table 2, it is seen that the coefficient of IMFCREDIT and the constant term in the equation is statistically significant for the probability values 0 and for 5% and 1% meaning level. According to this model, the current account deficit will increase by 0.75% in response to a 1% increase in IMF loans. The coefficient of determination (R-square) of the equation is 0.6565. The explanation power of the equation is 65%. In other words, 65% of the change in current account deficit is due to the change in IMF credits. The remaining part is due to variables not included in the model.

Table 1. The effect of IMF loans on growth variable

Variable	Coefficient	Std. Error	t-Value	Prob
IMFCREDIT	0.028651	0.057381	0.499313	0.6219
C	1.406032	0.338782	4.150251	0.0003
R-square	0.009874	Prob (F-value)		0.621925
Adj R-square	-0.029731	Durbin-Watson value		1.230736

Table 2. The effect of IMF loans on current account variables

Variable	Coefficient	Std. Error	t-Value	Prob
IMFCREDIT	0.755673	0.104190	7.252865	0.0000
C	3.026631	0.612959	4.937736	0.0000
R-square	0.669228	Prob (F-value)		0.621925
Adj R-square	0.656506	Durbin-Watson value		1.230736

SOLUTIONS AND RECOMMENDATIONS

In this study, it is identified that IMF programs have significant effect on the macroeconomic variables of Turkey. This situation gives information that IMF economic program provides a chance for the companies to make effective macroeconomic plan. Hence, it is recommended that especially emerging economies should make effective macroeconomic planning and keep effective relationship with financial institutions to have sustainable economic growth.

FUTURE RESEARCH DIRECTIONS

In this study, the role of economic relationship between IMF and Turkey is evaluated. In the analysis process, VAR and regression analysis are conducted. In the future studies, a new analysis can be performed with a different methodology, such as probit and logit. This new study will provide different view for this situation.

CONCLUSION

This study aims to Turkey economic history in a very important place, which from the IMF loans and the growth of the most important macroeconomic indicators of the implementation of the stabilization program of Turkey's economy, the current account deficit, that inflation and pay are effective on the balance is to investigate whether or not they move together in the long term. Moreover, the growth of IMF loans and stabilization programs in the years of implementation and the comparison of current account deficit, inflation and balance of payments indicators. The lack of any other study investigating the effects of all loans and the stabilization programs implemented by the IMF on these four economic variables has been an important factor in this study.

The IMF has an important role and importance on the economic structures of the countries. However, in addition to this activity and importance, it is also the subject of important criticisms to restrict the sovereignty of the countries. In addition, there are major debates and disagreements over the economic measures that the IMF is foreseen to implement before lending to the countries applying to it. Economists differ in their views on the effectiveness of the IMF's stabilization programs.

Between World War I and II., international monetary relations were dragged into total chaos. With the collapse of the gold standard system, independent money blocks were formed, and trade relations were formed among these blocks. In order to cope with the contractionary effects of the 1929 Economic Crisis on the national income and employment levels in this period, high tariffs and quantity restrictions were applied in many countries and competitive devaluations were applied. As a result of all these practices, world trade and production have narrowed further.

These events II. Before the end of World War II, the establishment of a new international monetary system, the stabilization of exchange rates through this system, the liberalization of world trade, the need to resolve the international reserve problem has brought with it. All in order to create an international monetary system in order to respond to these needs, the US and Britain's leadership in the 1-22 between July 1944 and 44 country representatives, including the USSR, one of Turkey and its era's most powerful state, the Bretton of the US New Hampshier state They organized an international conference in the town of Woods. As a result of the meeting, which was called in Bretton Woods Conference, it was decided to establish International Bank for Reconstruction and Development (IMF) and World Bank (WB) in 1972. The chief architects of the international economic regulations to be developed in Bretton Woods are; The US Treasury Secretary, Harry Dexter White, was an economist John Maynard Keynes.

The IMF was born on December 27, 1945, when 29 countries signed the Bretton Woods agreement, and began financially on 1 March 1947. The IMF's objectives are set out in the Fund's Articles of Association: to mediate cooperation and consultation on international financial issues and to promote cooperation on international monetary issues through a permanent institution, to develop productive resources in all Member States as the main objectives of economic policy and to ensure that in order to contribute to the protection and development of international trade in a balanced manner, to maintain regular exchange relations between member countries in order to ensure foreign exchange stability, to avoid competitive exchange adjustments, to prevent competitive devaluations, to eliminate the exchange restrictions that prevent the growth of world trade and to help establish multinational payments system in order to regulate relations, In order to prevent temporary distortions that may occur in the balance of the balance, to prevent the use of funding sources for the member states in order to prevent them from resorting to measures that will disrupt international trade and mutual prosperity;

According to the Articles of Association regulating the establishment and functioning of the IMF, the members of the Fund are divided into two as founder members and other members. The founding members consist of countries that participated in the conference in Bretton Woods and accepted the fund contract until 31 December 1945. Other members are the countries participating in the fund after the establishment phase. Each country can become a member of the IMF. The 45 countries are the founding members of the IMF and later on, along with the participating countries, 188 countries are members of the IMF. The member countries of the IMF are also members of the World Bank.

Each member of the IMF has a designated quota in terms of SDR. Quotas are determined according to the economic conditions of the countries. Indicators and various values of the country's national income, exports and external reserves are important factors in determining the country's quota. Quota of economically strong countries is higher than in developing countries. Quotas with a total amount of 237.357.8 SDR are a significant part of the IMF's revenue sources. Quotas are important in various aspects. The voting rights of the IMF members are determined according to their quotas. The quota shows the limit of the country's financial means to the IMF. The quota also indicates the amount of SDR to be allocated to countries. Both organizations are based in Washington D.C. The IMF consists of the Board of Governors, the Executive Board, the Chairman and the Secretariat, the Committees and the groups and the Advisory Board.

The IMF and the World Bank are called Bretton Woods Twins. In 1973 the Bretton Woods system collapsed, but the IMF continued to coordinate and coordinate the monetary mechanism among the developed countries. However, with the increasing speculative capital movements since the second half of the 1970s, the determination of the parities by the markets caused the IMF to lose its most important advisory function. The IMF's relevance to the balance of payments problems of the industrialized countries has generally been cut after this date. The focus of the Fund's financial support has now shifted to underdeveloped countries. Thus, the IMF abandoned its international financial consultancy role, including the developed countries, and moved on to the role of crisis manager and financier for the underdeveloped countries.

Today, however, developed countries also benefit indirectly from the work of the IMF. In international trade relations, the developed countries evaluate the developing countries according to whether they have signed a stand-by agreement with the IMF. Thus, while making decisions to make loans and investments to developing countries, IMF criteria are considered to a great extent. The collapse of the Bretton Woods system, the increase in international liquidity and the adoption of the floating exchange rate regime by the majority of developed countries, and international oil shocks have led to changes in the world economy. With the globalization process that took place after 1980, the problems caused by the opening up of the foreign markets in the financial markets of developing countries have emerged. The degree to which developing countries are affected by successive international shocks has been much higher than in developed countries. As a result, the deterioration in domestic balances and the related high inflation rates, on the other hand, the rapidly increasing current account deficit made inevitable crisis in the financial markets and spread.

Latin American countries are also significantly affected by the crisis. Many Latin American countries, particularly Brazil, Argentina and Mexico, borrow large amounts of money from international institutions for industrialization and, in particular, infrastructure programs. As the economies of these countries developed, international credit institutions continued to lend. However, in 1982, international capital markets realized that Latin American countries could not pay their debts and thus the debt crisis began. The economic stabilization policies proposed by the IMF, especially in the fight against these crises, have been implemented in this context and the effects of the financial crisis on the markets have been tried to be mitigated.

In the face of the crises, Latin American countries generally put the first priority into the fight against inflation by implementing the stability policies proposed by the IMF. With the stabilization programs implemented, it is aimed to reduce inflation by reducing the domestic demand. In order to prevent the fragilities in financial markets from further accelerating the escape of foreign capital, narrowing practices aiming to give confidence to financial markets are included. The most important success of the regional economies was the reduction of inflation. However, the budget deficits and the unemployment problem continued. Most of the stabilization programs implemented in almost all Latin American countries did not give the expected results because the structural arrangements in the countries were not sufficient. The political changes in the countries also affected the implementation of these policies and led to delayed successful results.

Another crisis in the financial markets is the Southeast Asian Crisis. In the middle of 1997, the Southeast Asian crisis took place in Southeast Asia, mainly in Thailand, and the balance of payments and current accounts in many countries started to be open. As a result, fluctuations have started in the markets. The fact that the foreign exchange rates have been stable for a long time in the countries of the region has increased the risks in the markets due to excessive foreign borrowing. As a natural consequence of this, the idea that the exchange rate has risen has dominated the markets and put pressure on exchange rates. The divergence of fiscal discipline in the countries of the region negatively affected the structures of banks.

The economic crisis has prepared the environment for the political crisis and both crises have negatively affected each other and caused the crisis to grow. This uncertainty environment increased the pressures in money and capital markets and led to a deepening of the crisis. Thailand, Indonesia and South Korea have signed agreements with the IMF on stabilization programs. The IMF modeled the Asian economies model, which had the highest and longest growth in world history in the 1980s and 1990s, showed a model to developing countries and did not indicate any disruptions. The IMF faced criticism that it could not foresee the policies leading to the crisis and could not predict the depth of the crisis.

In the period of political transformation of the period following World War II, Turkey turned to the more intimate political and economic relations with the Western world. The country started to join the newly formed international organizations and tried to gain a place in the Western world. In this context, the IMF and Turkey have been adopted in Parliament on February 19, 1947 and officially a member of the World Bank with the law numbered 5016. Turkey has been a member of the IMF quota of $ 43 million. According to IMF principles, 10 million 750 thousand dollars of the quota has been delivered as gold, the remaining 75% of the equivalent of 32 million 250 thousand dollars 90 million 300 thousand pounds T.C. In the Central Bank, a special account was opened on behalf of the Fund.

Turkey, to get rid of the economic crisis faced up to the present day from the date of the member IMF, to provide structural change and in order to resolve financing problems has signed 19 stand-by agreement with the IMF and implemented stabilization programs. Turkey, IMF agreements with most countries and the IMF resources which is located at the beginning of the list of countries that use the most.

1950 began in the year 1960 and continued with increased momentum in the 1970s, Turkey's import-substitution model, an internal market try to keep as far away from external influences, the fixed exchange rate policy, low interest rates and massive state-backed resistant - production of non-durable goods increased above a weighted industrialization policy. The industrialization started by the domestic companies, which have been transitioned from trade to industry on the basis of cooperation with foreign capital, formed the backbone of this model, and the SEEs supported this industry primarily as a low price input. However, the problem of this accumulation model was the fact that the exchange rate was kept behind the back with the effect of keeping the exchange rate and being dependent on imports from the point of input and equipment. This meant giving an external deficit with increasing rates every year. During the agreements made in 1961, 1962 and 1965, there was no need to use all of the resources allocated due to capital inflow that exceeded expectations, decreasing import demand and improved balance of payments. After the revision of the stand-by arrangement in 1964, and the stand-by arrangement in 1969, the economic model followed by the new government was abolished without the full use of the loan.

1970-1980 period, Turkey has undergone a difficult time economically and socially. In this period, price stability deteriorated and as a result, devaluation was carried out in 1970. Between the years 1971-1978 there is no agreement between the IMF and Turkey. However, due to the reasons such as the oil shock in 1973 and the Cyprus Peace Operation, since 1977, the fact that the import and the necessary imports for the investment could not be done in a timely and adequate manner, caused problems and bottlenecks in the supply side of the economy along with the problems in the labor market. After all, Turkey has signed again with the IMF in 1978 stand-by agreement. When the devaluation request of the IMF was not fulfilled, the agreement was suspended, and a new stand-by agreement was signed in 1979. However, this agreement was canceled due to the failure to meet the performance criteria.

By the 1980 high inflation in which Turkey, the short-term external debt, unemployment has put import congestion and export recession as a stabilization program to an agreement with the IMF on January 24, 1980 in order to find solutions to problems that require large-scale financial reforms into effect. Decisions of January 24 were more than medium term and long-term structural transformations. In the short term, the external deficit was reduced, an improvement in the balance of payments and a slowdown in the inflation rate were targeted. In the medium and long term, it is aimed to introduce permanent solutions to the balance of inflation and external payments and to shift from the import substitution model of the country to a new accumulation model based on outward-oriented industrialization. As a result of the measures taken, there has been an increase in exports, and although there have been decreases in the price increases, the expected success in the stabilization program has not been achieved. In this period, the full amount of the loan is used. In 1983, a stand-by agreement was signed with the IMF, but was canceled due to the failure to fulfill the required performance criteria. In 1984, a stand-by agreement was signed with the IMF. After 1984, Turkey has no agreement with the IMF for 10 years.

In the 1990s, it was observed that the 24 January Decisions had significantly lost its influence. In these years, the increase in public deficits, the financing of these deficits by excessive borrowing, the increase in foreign trade deficit due to the excessive appreciation of TL, the low tax revenues, the high rate of interest rates causing excessive money entry and the resulting political instability. and the result was a stand-by agreement with the IMF in 1994. However, in 1994 the agreement with the IMF has not been a positive impact on Turkey's economy. The stand-by arrangement with the IMF was suspended in 1995 due to deviations in performance criteria and then canceled.

In 1999, the Brazilian Crisis started abroad, and in the domestic market, real interest rates and debt / GNP increased. International organizations such as the IMF and the World Bank reported that the current situation is unsustainable. As a result of all these developments, a new stand-by agreement with the IMF for three years was signed in December 1999. The IMF made the agreement, Turkey has confirmed to grant credit in the amount of $ 4 billion. Although an economic recovery was initially observed with the introduction of the program in 2000, the national currency appreciated in real terms as price increases were above the exchange rate increases. As a result of this development, while imports increased, exports remained stable, leading to a deterioration in foreign trade balance.

The fact that the positive effect that occurred with the announcement of the stability program decreased the rate of interest faster than expected increased the demand and imports of consumer goods. Inflation declined compared to the previous year. Nevertheless, the price increases were above the expectations. The letter of intent dated 18 December 2000 and the additional reserve resource utilization on 21 December 2000 and the 17th Stand-by Agreement were revised depending on the resource requirement for the continuation of the program implemented.

External political circumstances occurring after the September 11 incident, Turkey has facilitated the continuing and increasing the financial support provided by international institutions. 18. In February 2002, the three-year stand-by arrangement with the IMF $ 16 billion loan to Turkey were provided. USD 4 billion of the 2000 program, which was not used in IMF support of $ 19 billion, was included in the loan amount ($ 16 billion) disclosed in February 2002.

The economic program, which was signed in 2002 with the IMF and ended in 2005, was closer to the targets than previously implemented programs. However, there has been no change or improvement in areas such as employment and savings, and could not prevent the signing of a new stand-by agreement covering 2005 and 2008. 19. The stand-by arrangement was signed on May 11, 2005 before the end of the 18th Stand-by Agreement and entered into force and ended on 10 May 2008. 19. The desired performance could not be achieved in achieving the targets set by the Stand-by Agreement, and the negative impact of the world financial markets that started to fluctuate since 2006 was very important.

Although the agreement with the IMF was sought for the signing of the new stand-by agreement after the end of the last stand-by agreement, no new agreement ground was found in the negotiations. In this case, to insist on some issues, such as checking the IMF's municipal revenues and the impact of Turkey's IMF now no longer needs belief that is great. Two separate analyzes were performed in the study. In the first analysis, Turkey's IMF members that implemented since 1947 IMF stabilization programs within the context of credit growth, the current account deficit, inflation, payments impact on the balance VAR (Vector Autoregressive Model) were measured using econometric methods. In the second analysis, growth, current account deficit, inflation and balance of payments values were measured by t test. The analyzes were performed using the E-Views 7.1 (Econometric Views) computer program.

In the first analysis, the logarithm of the series was first taken in order to measure the effects of the credits received from the IMF on the growth, current account deficit, inflation and balance of payments in the period from 1947 to 2008. Then the time path graphs of the obtained logarithmic series were generated. The regression analysis was performed for each macroeconomic value in the E-Wiews using the Ordinary Least Squares method. In the analysis carried out at the level of 95% significance, it was concluded that IMF loans had no significant effect on growth and CPI alone and had a significant effect on the current account deficit and the balance of payments. However, the regression estimations of non-stationary time series were misleading, and the stability of the variables was tested by the ADF test. According to the ADF test results, the growth variable has a stable series. The current account deficit became stagnant in the first round of IMF loans and CPI variables. The balance of payments balance is the second one of the series. The series, which became equally stagnant, were subject to the current account deficit, IMF credits and CPI Cointegration Analysis. According to the results of the analysis, current account deficit and CPI variables are not cointegration between IMF loans. In other words, the current account deficit and the CPI and IMF credits do not act together in the long term. In the second analysis, comparisons were made by using the t test on the logarithmic values of the indicators in order to examine whether there is a significant difference in terms of economic indicators in the period of agreement with the IMF. When the agreement period between 1947-1960 and 1961-1971 agreement period were compared, it was found that there was a significant difference between the two periods in the current deficit only. During the period 1961-1971, the agreement was signed with the IMF, but the current account deficit increased during this period.

When the agreement period between 1972-1977 and the agreement period between 1978-1985 were compared, it was concluded that there was a significant difference only in the CPI variable. During the 1978-1985 period, the period was agreed with the IMF, but during this period the CPI increased positively. When the period between 1986-1993 and 1994-1996 agreement period were compared, it was concluded that there was a significant difference between the two periods in terms of CPI. Despite the period of agreement with the IMF in the 1994-1996 period, the CPI increased positively. When the pre-understanding period between 1997-1999 and 2000-2008 agreement period were compared, it was concluded that there was a significant difference between the two periods in terms of CPI. The period between 2000 and 2008 is an agreement with the IMF and it is concluded that there is a negative increase in the CPI variable in this period.

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KEY TERMS AND DEFINITIONS

IMF: International Monetary Fund.

Logit: It is a model to make relationship analysis when the dependent variable has two different alternatives.

VAR: Vector autoregression analysis.

Chapter 12
Investment Decision Process in Oil Economy for Major Oil Exporting and Importing Countries

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ABSTRACT

This chapter examines the economies of four major countries, which are Canada, Japan, Russia, and the U.S., in which two of them are oil importers, Japan and Canada, and two of them are oil exporters, Russia and the U.S. The effect of oil price changes differ owing to the country being an oil exporter or importer. Moreover, it should also be considered that the effect on economies of each country is different as each of the countries has different economic and demographic characters specific to itself. Moreover, it should also be considered in the process of investment analysis.

INTRODUCTION

Oil is very crucial source of energy in today world but how did it become such an important material? Ancient people of Middle East used oil for different purposes. The Babylonians – modern day Iraqis – used oil to waterproof their boats and as mortar in building construction while Egyptians used oil in the preparation of mummies. Although it was used by many people for different purposes, until the late 19th century, interest for oil in the world is small. After the invention of kerosene lamp, interest for crude oil increased significantly and first large scale demand for petroleum had been seen (Kerosene first was made

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from coal, but by the late 1880s most was derived from crude oil.). Later on; commercial oil wells were created with a new technique which allows deeper drilling. The success of the oil well and production of kerosene triggered an oil rush and a new major industry emerged (Black, 2015). Second crucial step in the rise of oil was the invention of motor car by German engineer Karl Benz in 1885. This first practical and commercially available vehicle mechanized transportation via an internal combustion engine. Fuel for this vehicle was gasoline which is derived from crude oil. (MacRae, 2012). Demand for crude oil increased again significantly with the invention of the first motor car. Dramatic increase in demand for crude oil came after creation of car called Ford Model T in 1908 by Henry Ford. Energy source for this Ford Model T car was gasoline. The car established a mass market for automobiles and more than 15.000.000 Ford Model T's were built and sold. This affordable transportation vehicle increased importance of crude oil immensely (Ford Motor Company, 2012). Another turning and critical point for petroleum was World War 1 (WW1). Countries which have navies started to convert their warships from coal burning into oil burning. Especially, United Kingdom converted all of its coal burning warships into oil burning warships in the leadership of Winston Churchill who was Navy Minister of United Kingdom in the World War 1 despite harsh criticisms. This leaded to navies to move faster and stay longer in the sea. This was a great advantage in the fights made in seas. United Kingdom (U.K.) took this advantage and benefited from it in the Great War which helped a lot to U.K. in the road of victory in WW1. In addition, horseless army vehicles such as cars, tanks and trucks which were running by oil proved their usefulness in the transportation of war materials and troops in the Great War. According to the Daniel Yergin who is the Founder of IHS Cambridge Energy Research Associates; taxi-cabs which run by oil played vital role in the fate of Paris / France in WW1. French armies were resisting against German troops near Paris but if reinforcement did not come to French soldiers, they would not be able to withstand German pressures any more. Only way to carry soldier coming as support to French troops was rail lines in Paris. However, it was destroyed by Germans and rail lines could not be used any more. If French forces coming for reinforcement walked to front line, they would be too late and Paris would fall into hands of Germans. Paris Military Governor General Joseph Gallieni found a solution to carry reinforcement troops. He decided to use taxi-cabs for transportation of soldiers to front line for fighting. Thousands of soldiers carried by taxi-cabs to front lines and German troops were repelled. This moment was crucial point for the Great War. Second turning point in WW1 was invention of "Tank" which was necessary for breaking through the German resistance line. Tank which is running by oil seemed only way to gain victory against Germans. Those two developments caused importance of internal combustion engine and oil to be understood completely. In 1914 August, U.K. army was holding 827 motor cars in their hands and 747 out of 827 were not belonging to U.K. army. When it came to the end of the war, U.K. army had 56.000 tanks, 23.000 motor cars and 34.000 motorbikes. United States manufactured 50.000 motor cars and brought them to France in order to be used in WW1. In addition; internal combustion engine which is running by oil triggered to use airplanes in the war. England, France, Italy, Germany and United States (U.S.) manufactured 55.000, 68.000, 20.000, 48.000 and 15.000 airplanes respectively. As it is stated above, oil was very important to gain something from the war. In order to fulfill oil need of German armies, Germans invaded Romania but U.K. reacted earlier and they made sabotages to oil refineries and oil depots. When Germans took control of the oil areas, there was no oil ready to use. When calendars show October 1918, Germans have very little oil in their stocks and they wanted ceasefire after a month. Lord Curzon who was Minister of Foreign Affairs of U.K. was saying that "Allied Forces walked to victory on the waves of oil" (Yergin, 2016). To summarize, vehicles which are running by oil played vital role in the Great War and made crude oil very important asset for superpowers' armies. Moreover; "it is understood that oil would assume a rapidly-growing importance in the civilian economy, making it a vital element in national and imperial economic strength and a source of untold wealth to those who controlled it. Already in the United States, John D. Rockefeller, founder of Standard Oil Company, was the world's richest person" (Paul, 2002). Ultimately; these developments created a huge demand globally for crude oil. When it came to today, it is seen that usage area of petroleum products is very broad. Petrochemical industry uses crude oil as a critical input in order to produce many chemical products such as plastics, polyurethane, solvents, and hundreds of other intermediate and end-user goods. Transportation industry is heavily depending on oil products by using oil main energy source. Oil is also used in construction sector for production of various materials (U.S. Energy Information Administration, 2016). In short; it is in the heart of production chain for most products in modern world. Therefore; any changes in crude oil price or supply - demand condition of crude oil has serious effects on economics and finance as well as political environment. Let us remind you past oil crisis which have significant impacts in different aspects on the whole world.

The First Oil Shock: 1862-1864

Civil war in United States (U.S.) caused demand for oil to increase. At the same time; tax on alcohol which was the substitute of oil increased from 20 cent per gallon in 1862 to $2 per gallon by 1865. Therefore; consumers preferred to use petroleum instead of expensive alcohol as a source of illuminant. Meanwhile; new method of drilling and new source of oils caused oil to be produced in excess amounts and excess supply of oil were seen between 1860-1861 and price had fallen 10 cents per barrel by the end of 1861. Therefore; many drilling operations stopped their activities. This resulted oil production to decrease after 1862. To summarize; due to the civil war and tax on alcohol, demand for oil had risen while supply of oil declined. As a result; price of oil increased significantly during 1970s and during the U.S. Civil War (Hamilton, 2011).

Oil Shock: 1865-1899

This shock was similar with the first oil shock. Finding new crude oil sources in U.S. and in other countries such as Russia leaded oil price to fall down to 56 cent per barrel by 1892. However; depletion of oil resources which could be easily drilled and cholera epidemic in Baku caused oil price to hike (Hamilton, 2011).

Great Depression

New sources of oil were discovered in United States at the beginning of the 1920s. Since there was no regulation in U.S. in 1920s, "rule of capture" was in operation. Rule of capture was meaning that owner of source can extract as much as oil it wishes. Producers of oil were in race to extract the oil from well on adjacent properties. In short; new oil resources and no control on oil production resulted in excess supply of oil. This leaded the price of oil to decline around % 40 between 1920 and 1926. In twentieth century, oil's importance increased since it was used for heating, transportation and power. Usage of oil was seriously depending on the economic / business cycle. With Great Depression, economic recessions were seen nearly in all sectors and in many areas of the world. Subsequently; demand for oil declined significantly. To summarize; supply of oil was increasing while demand for oil was declining between 1920 and 1931. “By 1931, the price of oil had dropped an additional % 66 from its value in 1926” (Hamilton, 2011).

Postwar Era Price Fluctuations

After World War II, demand for petroleum products increased significantly. In addition; Iran Prime Minister Mohammad Mossadegh nationalized Iran’s oil industry in the summer of 1951. In response; boycott of Iran emerged in the world. This caused 19 million barrels of monthly Iranian oil production to be eradicated from world market. Excess demand and shortage of supply of oil in the world resulted in spike in oil price (Hamilton, 2011).

Suez Crisis

In 1875, Egypt ruler Khedive had difficulties in the payments of liabilities. Therefore; he decided to sell shares of Suez Canal Corporation which he owned. United Kingdom (U.K.) Prime Minister Benjamin Disraeli quickly bought % 44 shares of the Canal Corporation from Khedive since he thought the canal was strategic path to India which was a U.K. colony. After the sale of the shares, U.K. and France remained as only powers controlling Suez Canal. In 1948, after Indians gained their independence from U.K., Suez Canal was not a strategic path anymore; it started to lose its importance. Meantime; the Canal acquired a new role as main road of oil. In 1955, two third of traffic volume in the canal were being created by oil transportation. Furthermore; two third of European oil was being carried through Suez Canal. It was playing key role for fast and cheap transportation of oil from Persian Gulf to Europe. It was estimated that it costs probably $600 million more per year to carry the same cargo around the Cape of Good Hope to Western Europe and North America with existing facilities (Economic Weekly, 1957). As time passes by, Dependency of Europe on Middle East Oil and importance of Suez Canal was rising. However, for Egypt, Suez Canal was economic loss. Income generated by canal toll (passing fee) was flowing to shareholders of Suez Canal Corporation which were U.K. and France. Populist Arab nationalist Gamal Abdel Nasser who was Egypt President was feeling uncomfortable due to transfer of the income from Middle East to Europe. U.K. and United States (U.S.) decided to decrease tensions of Nasser by providing loan for industrialization of Egypt through World Bank. After a while, due to various reasons, World Bank loan agreement had been cancelled. This angered Nasser and he decided to nationalize Suez Canal Corporation. He thought income generated from canal toll could be used for construction of Assuan Dam which was very critical for industrialization of Egypt. Nationalization of the Canal Corporation astonished European Powers. However, they had no intention to give up controlling of the canal. It was bridge for transportation of European oil. It was vital for sustainability and continuity of oil supply of Europe. Through the canal, 1- 1.5 million barrels of oil per day were being transported. In 1956s, Anthony Eden, Prime Minister of U.K., was saying that “I will be clear, we fight for oil if necessary, we cannot live without oil and we have no intention to die without it”. Balance of payment of U.K. was in the urge of deterioration. Dollar and gold reserves were just enough to cover of three month imports. One of the main sources of foreign income for U.K. was Middle East Oil Corporations. If those corporations do not keep on bringing income, U.K. economy would be affected adversely and significantly (Yergin, 2016).

Meanwhile, countries were seeking diplomatic solution to Suez crisis. Unfortunately, diplomatic efforts failed to smooth crisis environment and Israel invaded the Sinai on October 29 (Boughton, 2001). United Kingdom and France joined this military intervention by air strikes. Egypt blocked the canal and sabotage was made to pumping station along the Iraqi oil pipeline. Oil production from Middle East declined dramatically. Reductions in oil production nearly reached %10 of total world oil production. European countries were supposing that U.S. would supply oil instead of Persian Gulf countries during the crisis process. However, they were wrong in their idea and U.S. refused to supply oil. Influence of oil production cut off was felt strongly in Europe (Hamilton, 2011).

Later on; ceasefire had been made among countries and armies started to withdraw their troops and Egypt reopened canal under its own control and pipelines from Iraq were also reopened (Boughton, 2001). Emergency oil supply program which was cooperation between oil companies and governments was operated and ultimately the crisis had ended. "The economic consequences of the crisis were subtle and temporary and would not by themselves have constituted an international crisis. For the United Kingdom, however, Suez was also a financial crisis. Throughout 1956 and 1957, the United Kingdom had a current account surplus despite the disruptions to its international trade, but the value of its currency came under speculative pressure due to deteriorations in the international trade coming from Suez Crisis (Delice, 2003). The Bank of England was forced to deplete its U.S. dollar reserves to defend the fixed value of the pound sterling against the dollar". However, Bank of England's U.S. Dollar Reserves were not enough to beat this speculative attack. United Kingdom (U.K.) was applying fixed exchange rate which was $ 2.80 in those times. The Directors of the U.K. Economy believed that this rate was ideal for inflation and international trade and exchange rate stability was essential for preserving both the sterling area as a preferential trade zone and sterling's broader role as a reserve currency (Boughton, 2001). Bank of England was always trying to hold minimum 2 billion U.S. dollars in its reserves. It was believed that if U.S. dollar reserves falls under 2 billion, then it means alarming for devaluation of sterling against U.S. dollar. In this crisis, with fear of devaluation of sterling against the dollar, speculation attack commenced and Reserves of Bank of England had fallen under 2 billion U.S. dollars. Later on; International Monetary Fund (IMF) appeared and its credit package helped United Kingdom to overcome this financial crisis. In nine months, IMF lent $858 million to these countries and committed itself to provide another $738 million in credits on a stand-by basis (Boughton, 2001). Meanwhile; France, Egypt and Israel did not experience any kind of financial crisis because their currencies were not convertible. In short; to hold oil trade route under control, global dispute had occurred and safety of Suez Canal which provides two third of oil European oil had been put in danger so this resulted in a financial crisis whose effects are limited. In addition; this crisis caused global oil trade volume to decrease 10%. Due to the crisis, Middle East supply of oil decreased but other oil producers in the world increased their oil production therefore dramatic rise in oil price did not seem, it just jumped from 2.82 to 3.07 (Fortune Turkey, 2015).

OAPEC Embargo

World energy consumption increased more than three times between years 1949 and 1972. In the same years; world oil demand risen 5.5 times. United States daily oil consumption increased from 5.8 million barrel to 16.4 million barrel when it came to 1972. At the same time, oil demand increased 15 times in Western Europe and they were consuming 14.4 million barrel per day. In Japan, unbelievable consumption increase was seen. Daily oil consumption surged from 32 thousand barrel to 4.4 million barrel between years 1949 to 1972. Huge increase in oil demand was coming from fast economic growth and wage increases during golden age of capitalism (1960s). Householders increased their real income in these years. They were enjoying with their high life standards which can never be dreamt 20 years ago. They were buying houses, electrical equipments, central heating systems, air conditioners, plastic materials, automobiles etc. Number of motor vehicles went up from 45 million to 119 million between years 1949 to 1972 in U.S... Out of U.S., number of motor vehicles used surged from 18.9 million to 161 million globally in the same years. To meet this increasing demand, firms increased their production and output level. The firms were running with fuel oil. Although coal had been used in the industrial revolution in 18th and 19th centuries, 20th century was era of oil (Yergin, 2016). Importance of oil and dependency of world on oil was clear to everyone. Meantime; U.S. lifted quota on imported oil to meet oil demand of industry since domestic oil production reached its peak in at the beginning of 1970s, this caused global oil demand to rise once more (Yergin, 2016).

Second prominent issue in those years was abandonment of Gold Exchange Standard in U.S. This was important because all international transactions including oil trade were being made with the American dollar. Leaving international gold standard system allowed floating of value of the dollar. This resulted in depreciation of dollar. In return, depreciation meant economic loss for oil producer countries since value of their income coming from oil trade reduced and made imports expensive for those countries. Subsequently; Organization of Petroleum Exporting Countries (OPEC) changed dollar based oil trade and they linked value of a barrel of oil to gold. This caused oil price to surge. As stated; global oil demand was swelling, dollar and other currencies were depreciating. This leaded to higher crude oil price in the world. Meanwhile; new Israel – Arab conflict erupted and on Yom Kippur, holiest Jewish holiday, Syria and Egypt attacked on Israel in order to obtain lands they lost in 1967. United States helped Israel by supplying military equipments in response to Soviets backed Arab attack. Organization of Arab Petroleum Exporting Countries (OAPEC) decided to increase oil price % 70 and cut oil production % 5 to put pressure on their enemies by showing military aid of U.S. as a reason. However, U.S. President Nixon resumed helping to Israel by providing financial aid. This caused combined response of OAPEC which was putting embargo on shipments of oil to U.S. and other western nations helping Israel. Those events triggered oil shortage and oil prices increased immensely. Before Yom Kimpur War, crude oil price was about $3 but after the embargo it was $12 in 1974 (Verrastro, 2013).

Limited supply and huge increase in price of oil had driven big industrialized economies and world into recession. Unemployment surged and higher inflation rate were seen all over the world. The oil crisis exacerbated “stock market crash” started at the beginning of 1973 and resumed until the end of 1974 (Alpanda & Peralta-Alva, 2010). Impacts of the crisis were felt strongly in United States. Gasoline lines occurred. It is estimated that spent waiting in queues to purchase gasoline added % 12 to the cost of gasoline for urban residents in December 1973 and % 50 in March 1974 (Frech & Lee, 1987). “The American Automobile Association recorded that up to % 20 of the country’s gas stations had no fuel one week during the crisis. In some places, drivers were forced to wait in line for two – three hours to get gas” (Frum, 2000). It is estimated that 1973 oil shock caused U.S GDP to decline approximately % 2.5 while leaving unemployment and inflation high. Country experienced serious and longer recession during the years 1973 – 1975 (Verrastro, 2013).

Iranian Revolution

During the Yom Kimpur War in 1973, Iran increased its oil production to offset the effect of 1973 oil crisis but it was not enough. In 1978 large public protests and demonstrations against Shah Mohammad Reza Pahlavi and his regime were seen in capital and other cities of Iran. The public was discontented with the Shah regime. This public movement resulted in revolution in Iran and Ruhollah Khomeini had taken control of the country instead of Mohammad Reza Pahlavi as a leader. During the revolution, strikes were seen many sectors including oil sector of Iran. Those strikes caused around % 7 reductions in production of oil in total world production. Other Arab countries tried to fill the production gap but their efforts were not enough in the revolution process. In short; Iranian revolution made shortage of oil for some time and price of oil had risen again (Hamilton, 2011).

1980 – 1981 Iran-Iraq and 1990 – 1991 First Persian Gulf War

As it did become in 1973 oil crisis and Iran Revolution, instabilities in Middle East were main source of oil crisis because OPEC was responsible for two third of world oil production for a long time. Iran-Iraq war created instability in Middle East once more. After the Revolution, Iran started to increase its oil production level. However, with the attack of Iraq, oil production of Iran had been deteriorated. Total loss in oil production (Iraq plus Iran production cut) due to the war was about % 6 of total oil production. Combined effect of Iran Revolution and Iran-Iraq war was doubling of oil price between years 1978-1981. Likewise, First Persian Gulf War which resulted in invasion of Kuwait by Iraq created problems and cut downs in production of oil and this decline in production caused oil price to go up for a short time. However, this price hike was not severe as it became in the past (Hamilton, 2011).

1997-1998 East Asian Crises

After industrialization of new economies such as China and "Asian Tigers", global demand for oil increased significantly. China's demand for petroleum has grown year by year. In the summer of 1997, some of Asian economies faced with serious financial problems and stresses. Their currencies lost value against dollar immensely. Investors thought that story of Asia rise had come to end, their industry will operate slower and those countries' demand for petroleum will decline. This caused strong decrease in oil price. Price of oil was about $12 per barrel by the end of 1998. It was lowest price since 1972 (Hamilton, 2011).

Steady Increase of Oil Price

During years 2004, 2005, 2006, 2007, world had experienced a strong growth. In 2004-2005, world annual growth rate was about %4, 7. In 2006 and 2007, world real GDP increased additional % 5 per year. This faster and continuous economic growth caused global demand for oil to increase significantly. However, supply of oil was steady during this process due to various reasons. Some of oil sources reached its peak while some sources were giving out less petroleum day by day. Some geopolitical events in places like Iraq and Nigeria also prevented to increase supply of oil. To summarize; while demand for oil was increasing strongly supply of oil was stagnating. This resulted in price of oil to reach $142 in 2008 (Hamilton, 2011).

CHARACTERISTICS OF OBSERVED ECONOMIES

Economic Structure of Russia Federation

After collapse of Soviet Union, economic structure of Russia changed from a centrally planned economy to more or less free market economy. Although Russia moved its structure of economy towards more market based system, government still plays an important role, dominates many areas and sectors in the economy. While some industries were privatized in1990s, the sectors such as energy, transportation, banking etc. are still controlled by the government. So Russian economy can be called as "Mixed Economic System" in which government intervention in the economy and some level of economic freedom goes hand in hand. (Focus Economics, 2017).

Service sector which has share around %60 consists of major part of Russian economy. Industry sector with a weight nearly %35 is coming in the second place and agriculture is in the last place with a weight around %5. Industry sector includes extractive industries generating oil, gas, coal, chemicals and metals; machinery, aircrafts and defense industries. Russia has abundant natural resources. Those natural resources play vital role in its economy. Economy is heavily relying on the revenue collected through sales of natural resources. Russia is exporting those industrial energy products like oil and natural gas. In addition; it sells out metals like steel and primary aluminum. Government budget and Russian economy is mostly depending on those exports. This makes Russian economy vulnerable against volatility in the price of exported goods. (The World Bank, 2016). To illustrate; Russia experienced with high growth rate which was on average %7 between years 1998 - 2008. In these years, oil prices increased continuously and immensely which set record at $145. This price hike in oil contributed a lot to Russian economy (Focus Economics, 2017). Oil revenues which consist of %25 of total revenues made possible to increase government spending. Total government spending had risen more than 10 times between 2000-2013. This increased spending was used for creating jobs in public instutions and for transfer payments, pensions, social security spending etc. Share of public sector in the economy increased significantly which also helped job creation (World Bank Group, 2016).

Government spending increased as a share of GDP. Non-tradable sector was main driver of the growth. This increase in public spending was provided by surging oil revenues. In 2000, share of government spending in GDP was only %2.3. When it came to 2008, it surged to %10 of GDP. This provided growth of GDP for a long time. Resource-rich Russia experienced average real GDP per capita growth %4 which was provided by favorable terms of trade triggering mostly government spending and consumption. In other words; favorable terms of trade and well external environment (rising oil prices and valuable ruble) were main sources for the growth. Those good conditions came to a halt in global financial crisis. In this crisis, Russian economy contracted around % 8 with sharply decreasing oil prices. From 2008 to 2009, oil price came down from $145 to around $60-$70. Another shock that Russian economy faced was in 2014 and 2015. During 2011-2013, oil prices were around $105. However, it hit less than $60 at the end of 2014. In 2014, Russian economy's growth was close to zero and it recorded negative growth which was around %4 in 2015. It is expected that Russian economy will record negative growth in 2016 as well due to low oil price, international sanctions and structural limitations. The statistics above shows us that health of Russian economy closely related with external environment and oil prices (Focus Economics, 2017). Because deterioration in terms of trade and reductions in GDP go hand in hand as World Bank Report told (World Bank Group, 2016).

According to the World Bank Report; one of the weaknesses inherent in the current Russian economic system is its vulnerability, because the economy is concentrated in just a few sectors, and a significant degree of state involvement slows innovation and structural transformation. Market dominance and concentration in a few sectors by large and relatively old firms close to the state provide fewer incentives for productivity increases in and perpetuate economic volatility. Investment in new areas and diversification of economy were not made during growth boom period. Investments did not increase after global financial crisis because it was driven mostly by public infrastructure projects. Since government revenues declined with falling oil price, it became difficult to finance new public infrastructure projects. In short; unfavorable terms of trade (i.e. declining oil price) caused reduction in investments and growth. Still, external economic conditions and terms of trade are not favorable enough so economic growth which almost disappeared by 2014 is not seen. Main reason for this is Russian economic structure which is dominated by large corporations operating in traditional heavy industries such as oil and gas. Similarly; market capitalization of the stock market is dominated by oil and gas or related stocks. This causes external oil shocks to be sent to domestic economy. Another weakness in Russian economy is dominancy of the state in the economy and in many sectors. For example; more than half of the banking sector is controlled by public banks. This lowers competition and efficiency in the financial sector. Third weakness that World Bank pointed is geographic dispersion of Russia's population and economic activity. It is asserted that there is spatial misallocation which causes geographic distortions over long distances. This prevents the economies to be clustered that intensify structural change and diversification. In other words; spatial misallocation in the economy causes main production factors such as labor and capital to be used ineffectively. This productivity problem prevents economic growth. Efficient and better allocation of production factors (land, labor, and capital) seem only solution for increasing productivity in the economy (World Bank Group, 2016).

Russia has current account surplus for a long time in its international trade. Current account surplus is largely created by exports of crude oil, petroleum products and natural gas. Around %60 of total exports are formed by crude oil, petroleum products and natural gas. Average current account surplus was $66.8 billion during years 2010 – 2014. It hits top at $98.8 billion in 2011. However; current account deteriorated due to the decline in oil prices and imposed sanctions after 2014. Geopolitical problems and falling oil prices also caused capital outflow which further worsened balance of payments of Russia. In 2014, "capital and financial accounts of the Russia Federation fell from a deficit of $45.4 billion to a deficit of $146 billion (%2.2 and 57.8 of GDP respectively)" (Focus Economics, 2017).

Until 2014, ruble was pegged against a euro and dollar basket. By pegging the ruble, Russia was making exchange rate controls. However, after dramatic decline in oil price and international transactions, Russian Central Bank left pegging regime and they moved to free-floating exchange rate system. Due to the low oil prices and international sanctions ruble nearly lost half its value in 2014 after passing to free-floating exchange rate system. Strong fluctuations and volatility in Russian currency were seen in 2015 as well. Main reason for these fluctuations and values lost in ruble was price of oil, which along with gas. Dollar exchange rate of ruble set record in January 2016 while oil prices were reaching lowest level of the last ten years (Focus Economics, 2017). However, this weaker ruble provided comparative advantage in international trade to Russian economy especially in non-oil products such as wheat. For example; country's wheat export increased %3.3 and it had risen to 23.5 million metric tons, outpacing the United States and Canada (Pant, 2016).

Russian government had surplus in budget between years 2001 and 2008. This budget surplus was due to tight fiscal policy and continuously increasing prices of energy commodities such as oil and natural gas since half of the government budget is created by oil and natural gas revenues. However, global financial crisis hit Russian economy hard and government budget mostly recorded deficits after 2009 with falling price of oil and natural gas (World Bank Group, 2016).

Observation of Japan Economy

Before World War 1 (WW1) Japan managed to industrialize its economy by transferring technology. It transformed agriculture dependent economy into industrialized economy and it emerged as military and economic power before the Great War. However, Japan's industrial infrastructure was devastated after World War 2 (WW2). With contribution of United States, Japan economy succeeded to recover and it was reconstructed after WW2. It experienced sustainable growth with the help of international trade agreement, strong domestic demand, infrastructure investment, capital investment, adapting high-modern technology for a long time. Economic growth was about % 10, %5 and %4 in 1960s, 1970s and 1980s respectively (The Japan Institute for Labour Policy and Training, 2016). Growth reduction in 1970s was due to oil shock in these years since Japan economy was heavily relying on imported oil as energy source. The oil shocks caused even economic shrinkage around %1 in the mid of 1970s and in early 1980s. In addition to oil shocks; the economic growth was deteriorated by appreciation of Japanese currency, Yen. Due to the yen appreciation, exports became more expensive in international markets and this hampered competitiveness of Japan economy. This in turn, reduced economic growth of Japanese economy. To revitalize the economy, both fiscal and monetary stimulation packages had been put into action at the end of the 1980s. This in turn triggered dramatic price increase both in real estate and financial sectors. In addition to price increase; speculation in financial markets and large real estate investments created price bubbles in those markets. With a contractionary monetary policy, this bubble in the economy at the beginning of the 1990s was removed and deflationary process with a low growth started for Japanese economy. The 1997 Asian Financial crisis worsened economic situation. This financial crisis caused demand for Japanese exports in international market to fall. Along the crisis years, Japanese economy recorded negative growth (The Japan Institute for Labour Policy and Training, 2016).

Although Japan has third highest GDP after U.S and China, its problem of deflation and low rate of growth still continue today (International Energy Agency, 2016). Zero and even negative interest rate policies of Bank of Japan and increasing government spending in huge volumes did not provide sustainable solution to the problems (International Monetary Fund, 2016). The reasons behind these problems are mostly structural. Decline in labor force, solid-inflexible labor market, non-increasing productivity of labor and capital, decelerating capital formation are some structural impediments in front of economic growth and deflation. Especially, aging population, narrowing labor force, guarantee of lifetime employment are important labor market problems preventing mobilization and right allocation of the labor. Labor market flexibility is needed for increasing productivity and mobilization of labor which can only bring economic growth. (Danninger & Steinberg, 2012). Anderson et al. (2014) claim that "declining labor-force participation rate, falling land prices, and currency appreciation following the repatriation of foreign savings by the elderly could all create deflationary pressures". It is recommended that high and sustainable economic growth could only be achieved by increasing labor force, rising woman labor force participation rate, higher productivity and dynamic labor (Danninger & Steinberg, 2012).

Share of service sector is higher than other sectors in Japanese economy as it occurred in other developed economies. Third four of GDP is provided by service sector. Rest of GDP is comprised by industry and agriculture which has only %1 share (International Monetary Fund, 2016).

Japan has gained from international trade for a long time by creating the trade surpluses due to lower domestic demand of aging population for imported consumer goods, strong barriers to imports and high export potential. However, it recorded deficits between 2011 and 2015. Export which is lifeblood for the economies experiencing low domestic demand and decreasing commodity prices is main contributor to Japan economy. It is one of largest exporters in the world after China, United States and Germany (International Energy Agency, 2016). Manufacturing sector which is driver of exports is capable of producing diversified and high-tech products. It can also produce light and heavy industry commodities. However; manufacturing sector is heavily relying on imported raw materials and foreign fossil fuels source especially on oil (The Japan Institute for Labour Policy and Training, 2016). This dependency on foreign oil increased after the earthquake and tsunami disaster which caused shutdown of nuclear power plants in 2011. Imported energy dependency increased from %80 to %94 when it came to 2013 after the disasters. Shutdown of nuclear plants created gap in electricity supply. This gap is fulfilled by importing fuel fossils especially liquid natural gas (LNG) and oil. Trade deficits recorded between 2011 and 2015 are due to increasing import of fossil fuel (oil + LNG). Nearly %93 of total energy need is provided by foreign resources after the nuclear disaster and around half of total energy imports of the economy were provided by imports of crude oil and oil products in 2015 (International Energy Agency, 2016). The statistics above show that how Japan economy is depending outside sources of energy. This means that Japan economy is vulnerable to fluctuations in energy commodity prices.

In Japanese economy, share of private sector is bigger than public sector. There is a network among corporations called as "keiretsu". Many suppliers, producers and distributors are connected each other in this conglomerate. Keiretsu plays important role for the economy. Especially, after World War 2, its role for providing growth, developing technology and increasing productivity was fascinating. "Keiretsu" can be defined as cluster in which there are many firms managed independently and having strong ties with each other. There are two types of Keiretsu which are horizontal and vertical. In horizontal Keiretsu, clusters are managed by a body of directors while in vertical Keiretsu conglomerates are managed by one big producer (Grabowiecki, 2006). Ties among companies in Keiretsu are very strong, they exchange managers and employees and those companies hold stocks of each other. Since they are connected to each other very closely, they make their business strategy and define their common aims and targets together (Gerald, 2014). In short; it can be said that keiretsu is a systematic organization of firms running for common goal in close cooperation. As stated above; share of public sector is smaller than private sector but situation is a bit problematic with respect to fiscal position. Japanese economy has huge public debt which is amount at % 246 of its GDP in 2014. This amount public debt mostly was caused by public spending to revive economic growth and to avoid deflationary pressures. To cure public debt, Japanese government took decision of increasing taxes but it has been delayed due to huge fiscal and monetary stimulus program of Prime Minister Shinzo Abe. Although public debt of Japanese economy is high, long term interest rate is still low. This is mostly due to higher demand of aging population to safe assets (International Monetary Fund, 2016). Secondly; Bank of Japan applied many monetary stimulation programs in order to increase output growth and inflation. Beginning with 2001, Bank of Japan used asset purchase programs in huge amounts to revive economic activity and it also adopted zero or even negative interest rate policy (Berkmen, 2012). Bank of Japan could be assumed successful for rising output time to time but it couldn't reach inflation targets mostly with monetary easing programs.

Observation of Canadian Economy

Canada is industrialized and developed country. Its economy is strong and competitive on an international level. Trade plays an important role for health of economy. Canadian economy is depending on three major industries: Services, manufacturing and natural resources. Service sector which is supplying around %75 of total employment has highest share in the economy. Service sector includes banking, health care, tourism education etc. Manufacturing industry is also significant driver of the economy. It considerably contributes to trade strength of the economy. This sector contains manufacturing of high tech products, automobiles, aerospace technology, machinery etc. in different areas. Another strong part of the Canadian economy is natural resources sectors. Those sectors which are mining, energy, agriculture, forestry, fishing etc. are historically important sectors for Canada. Sale of those natural resources products are forming of significant share of trade (Citizenship and Immigration Canada, 2016).

Canada is benefiting from trade for a long time and commerce can be counted as driver of the economy. According to the World Bank statistics; around %65 of GDP in 2015 was created by trade (World Bank, 2016). %31.5 of GDP was formed by exports in 2015. Value added exports (calculated by taking imports embedded in exports out) accounted for %22.2 of GDP in the same year. This trade roughly created 3 million jobs which forms nearly %17 of total employment. Imports were about %34 of the GDP in 2015 and nearly one fourth of imports were used in production process of exported goods (Fraser Institute, 2016). Main trading partner is U.S. According to Euler Hermes (Economic Research Organization) report; nearly %75 of Canadian exports are going to U.S. and half of total imports are coming from United States (North, 2016). Exports of Canada to European Union were rising until 2008 global financial crisis. It reached nearly $ 40 billion in 2008 but it did not increase anymore because of the economic stagnation in Europe. Share of European Union in Canadian exports are still less than % 10. Main trading partners of Canada in European Union (EU) countries are United Kingdom (UK) and Germany. Half of the Canadian EU exports are going to UK and Canada buys around $15 billion goods and services annually (Fraser Institute, 2016).

Approximately %75 of total Canadian exports was formed by three sectors which are manufacturing, mining (including oil and gas) and agriculture in 2015. Significant share of exports in Canadian economy is made up of crude oil and share of crude oil in exports is %17 (North, 2016). Around 280000 people are employed in energy sector. Approximately %30 of total exports is accounted by energy sector. Annual average contribution of energy sector to governments is around 20 to 25 million Canadian dollars (CAD) in taxes (International Energy Agency, 2016). According to the International Energy Agency; "around CAD 100 billion is invested each year in new capital goods in Canada's energy sector, representing 40% of total non-residential and machinery and equipment. Canada's energy sector attracted foreign direct investment of CAD 182 billion in 2013, up from CAD 27 billion in 1999, representing over a quarter of Canada's total foreign direct investment across all sectors" (International Energy Agency, 2016). As statistics above pointed out Canadian economy seems dependent on trade and natural resources. Especially, trade of petroleum products holds an important place in trade and economy. However; Canada is also taking the leads in most of the high technology sectors. Economic growth and prosperity in Canada for a long time could not be accounted for only trade of energy commodities. Canadian economy is well diversified and it is not fully depending on a few sectors. To illustrate; starting from 2014, energy prices declined during 2015. However; Canadian economy still recorded positive growth which is %2.5 and %1.2 in 2014 and 2015 respectively. Economic performance of energy sector decreased but rest of the economy did quite well. Due to decrease in oil prices, job losses and bankruptcies had risen in energy sector but share of energy sector in GDP is just around % 10 and employment provided by energy sector is around %17. In other words; although declining oil prices affected Canadian economy negatively, its impacts remained limited. In addition; well performance of non-energy sectors compensated negative performances of energy sector. For example; energy sector declined %2.8 in 2015. In the same year; approximately 26500 job losses were recorded. However; service sector created 159600 new jobs with contribution of manufacturing industry in the same period. In addition; total output in non-energy sector increased around %1.6 (North, 2016). In automotive sector, Canada recorded $90 billion export revenues in 2015. Manufacturing of machinery and equipment which were exported created around $85 billion revenues. Consumer goods and agriculture contributed to export of the country in amount roughly equals to $70 billion and $32 billion respectively (Fraser Institute, 2016). Those numbers show that energy sector is important for Canadian economy but the economy is not solely depending on natural resources or oil industry. Dependency of the economy on any one sector is very low since it is well diversified. Oil and Gas sectors' share of real GDP is just around %6.

On the other hand; manufacturing sector which is providing approximately 1.7 million employments (all of them is almost full time and well paid) nearly creating % 11 GDP. Weekly wages paid to workers in the manufacturing industry is around $ 1.85 billion. Manufacturing firms made investment in amount equal to $14.8 billion and contributed a lot to huge infrastructure projects in 2014 only. Contribution of manufacturing sector to trade strength of the country is also immense. % 61 of total merchandise exports was formed by manufacturing industry in 2014 (Ministry of Industry, 2015). Moreover; fishing, telecommunications, computer software, pharmaceuticals, aerospace, automobiles etc. sectors are very productive and they all contribute to export /trade of the country. For example; automobile products are one of the main drivers of the exports, it creates around %11 of total exports (North, 2016). Forest industry which is export oriented manufacturing sector creates %7 of total exports in 2015. Value of forest industry exports was about 32.7 billion Canadian dollars. According to the Canada, Minister of Natural Resources; "Canada is the world's largest producer of newsprint and northern bleached softwood kraft pulp and the second-largest producer of softwood lumber. In recent years traditional and other forest products have contributed 8% to 10% of Canada's manufacturing gross domestic product (GDP)" (Minister of Natural Resources, 2016).

Another important sector for Canadian economy is agriculture and agri-food industry. Value of this industry was around 108.1 billion Canadian dollars in 2014. Its contribution to GDP is %6.6 in the same year. In addition; agriculture and agri-food industry created 2.3 million employments at the same time. It is estimated that approximately 58% of the value of primary agriculture production in Canada is exported, either as primary commodities or as processed food and beverage products. According to the Canada, Minister of Agriculture and Agri-Food; "The U.S. remains Canada's most important agriculture and agri-food export destination, accounting for 51.4% of total Canadian exports. China accounted for 9.2% of Canadian agriculture and agri-food exports, and Japan, the E.U. and Mexico collectively accounted for 17.1%. Exports to the U.S. increased by 13.1% in 2014 to $26.5 billion, while exports to non-U.S. markets grew by 10.1% to $25.0 billion. (Minister of Agriculture and Agri-Food, 2016). All the data, information and statistics above give one inference to us: Canadian economy is one of the best diversified economies in the world. Canadian Northern Economic Development Agency calculates a diversification index for Canada as a whole and different terriotories of Canada. It is calculated by the formula which is "(1- sum of squares of the (decimal) proportions of each of 20 industry sectors in the total gross domestic product (GDP) at basic prices) x 100 " (Canadian Northern Economic Development Agency, 2016). At national level, Canadian economic diversification seems very well compared to its territories. There is no dominance of any one sector in the Canadian economy.

Observation of United States Economy

Golden age of capitalism was also golden age for U.S. economy as well. After World War 2, U.S economy experienced with long term and sustainable growth. Prosperity had been increased among ordinary people. Until 1970s, this prosperity increase continued. However, collapse of Bretton Woods System and oil crisis in 1970s put health of U.S. economy into danger. Stagnation and high inflation became problems of U.S. economy. When it came to 1980s, U.S. economy experienced structural transformations with President Ronald Reagan. This economic structural transformation is also called "Reaganomics" in literature. This structural transformation brought low taxes on individuals and corporations, less economic rule or regulations (more economic freedom), decreased government spending and tight monetary policy. This meant that Keynesian demand side economic understanding was left and it was replaced by supply side economic understanding. This transformation increased growth and productivity of the U.S. economy but it also caused government debt to increase immensely. When it came to 1990s, growth and productivity rise through technological development especially in information and communication technologies which provided prosperity globally and U.S economy benefited from this growth with contribution of high technology companies. It was maybe longest sustainable high growth times for U.S. economy until 2001. Low unemployment, high growth, high income and budget surplus were features of times starting from 1990s until 2001. This high growth and fiscal improvement yielded surge in stock markets. Meanwhile; companies working in internet technology became very popular and their stocks' value increased strongly. End of this huge increase in values of the stocks caused overvaluation and bubble. This process ended with burst of the bubble which is already known as "dot-com bubble" in 2000. This financial event caused economic activity to be slower in addition to the terrorist attack in 2001. The economy started to struggle at the beginning of 2000s once again. The respond of FED to struggling of the economy was lowering interest rate. It is assumed that this response of FED opened a way to bubble in housing sector which caused financial crisis and global recession in 2008. U.S. economy had characteristics which were lower interest rate, excess amount mortgage lending, and weak regulations in financial market before 2008. These were main factors causing collapse of house market and banks and putting the economy into contraction. Government intervened to solve this big turmoil and to stabilize financial system by buying problematic mortgage or mortgage related assets. With a stimulation package (increasing government spending + lowering interest rate + providing money supply in huge amounts) of the government, economy started to recover beginning from late of 2009. Putting aside stimulation packages, government prepared and put new regulations which is called Dodd-Frank act into action in order to reform financial markets in 2010 (Focus Economics, 2017).

United States (U.S.) is biggest economy in the world today. Although China is taking steps very fast to close the gap, U.S. is still leader with respect to economic size in the world. Today, %20 of total production in the world is produced by U.S and it takes active role in %12 of world trade. High and advanced technology is very important for U.S. economy. Companies benefit from high technology a lot in their production chain. Largest share in the economy is accounted by service sector. Its share is around %80 of whole economy Dominancy of service sector is significantly felt in the U.S. economy. In addition;

high technology intensity in service sector is very apparent. The second largest sector in U.S. economy is manufacturing. Its share is around %15 in total (Focus Economics, 2017). In manufacturing area, U.S. is one of the main leaders in the world. U.S. economy is also taking first place in high technology oriented manufacturing sectors such as automobile, aerospace, telecommunication etc. Another sector in U.S. economy is agriculture. Its share in the economy which is %2 is very small. However; U.S. is leader in exporting of agricultural products in the world since it has vast abundant-productive land suitable for agriculture. U.S. makes agricultural production by using advanced technology as it did in manufacturing sector Trade is also very important for U.S. economy. It takes first place in imports and second place in exports in the world. The United States sells technologically sophisticated goods and materials to world. Most of its exports are manufactured goods with advanced technology. The sectors of its exports are varying from airplanes, industrial machines sectors to motor vehicles and chemistry industry. U.S. total exports reached USD 1.510 trillion in goods in 2015. In addition; U.S. also exports services in many areas especially in knowledge intensive service sectors. Likewise, exports, U.S. is very active in buying goods from abroad. It is leader with respect to import volume in the world. Most of its imports are goods. Share of goods are around %80 in total imports. Around %15 of imported goods is crude oil, fuel oil and petroleum products. Roughly %55 of imported goods is composed of machinery supplies and equipment and capital goods. Imported consumer goods are just around %20 in total imports (Focus Economics, 2017). These statistics show that most of the imported products are used as input in order to make production in U.S.

U.S. experiences with trade deficit for a long time. Oil imports are one of the main reasons for trade deficit. However, this energy gap is getting smaller due to improvements in domestic oil production and improvements in new-sustainable energy sources in production process. Although trade deficit is getting smaller compared to years 2005-2006, (it was around %5.6 of GDP between those years) it is still large. This deficit is mostly financed by foreign direct investments (FDI) coming from developed countries such as United Kingdom, Germany, Netherlands etc. (Focus Economics, 2017). U.S. tries to find solution for trade deficit for a long time. Policymakers especially worry for trade deficit in energy sector for decades. The country had shown dependency on foreign oil after World War 2. Especially in 1970s, disruptions in world oil productions and quickly increasing oil prices were main reasons for problems in the U.S. economy. In 1970s, U.S. economy was stagnating, it was exposing to high inflation and unemployment due to oil crisis (Brown & Yücel, 2013). Oil crisis (sharp increase in its price in world market) in those years cause decline in U.S. GDP and they caused income transfers from U.S. to oil selling countries. U.S. exposed to 11 economic stagnation or recession since World War 2. It is assumed that 9 of 11 recessions were caused by oil shocks. This result is compatible with the claim asserted by Bohi & Toman (1993). They assert that when an economy starts to consume more oil, it become more vulnerable oil shocks. In addition; source of oil that U.S. imported is also important. Unstable sources of oil for U.S. make its economy more vulnerable to oil disruptions (Brown & Huntington, 2013). Unstable sources of oil and increasing oil consumption of U.S. economy gave U.S. rough times in the past. However; U.S. had learnt a lot from those hard times. Most of the economic decision makers left energy intensive industries between years 1980s and 2000s. Moreover; most of the investment on energy production has been moved out to other sectors. Employment in energy sector decreased significantly in those years. In 1980s, five industries most sensitive to oil prices were providing 1.6 million employments which was %1.8 of non-agricultural employment. However; when it came to 2000s, jobs provided by these industries were just around 450.000 which was only % 0.4 of nonagricultural employment (Brown & Yücel, 2013). In addition to this adjustment made by economic decision makers in U.S. economy, U.S. invented new technology for drilling oil called “shale revolution”. This new method of drilling made possible to produce oil and gas in huge amounts from sources in United States. Domestic oil production increased significantly after 2008 with invention of this drilling method. This dramatic rise in domestic oil production and leaving energy intensive industries of economic decision makers for more than 20 years caused decline in foreign energy dependency of U.S. economy. In addition; they resulted in more diversification in the economy. The share of oil and gas sector in GDP decreased significantly until recent years.

This shows that U.S. economy is not dependent on only one sector like oil and gas. U.S. has a well-diversified economy. This situation is proven by the Economic Diversification report of Booz & Company which is global management consulting firm. In this report; diversification of Group of Seven (G7), Gulf Cooperation Council (GCC) and Transformation economies, consisting of Hong Kong, Ireland, New Zealand, Norway, Singapore, and South Korea are analyzed. The diversification index or economic concentration level is measured by looking to the distribution of sectors in GDP. If GDP is composed by lots different kinds of sectors whose weights in GDP are close to each other, then it is accepted as a diversified economy. On the contrary; if the large share of GDP is formed by a few sectors, then it is not accepted as a well-diversified economy and it is supposed that the economy is concentrated on a few sectors. In return, sustainable growth for that economy does not seem possible for concentrated economy. In this diversification index order; United States takes fifth place in the world with respect to diversification of its economy and economic concentration (Abouchakra et al., 2008). In other words; the U.S. economy is the fifth most diversified economy in the world.

SOLUTIONS AND RECOMMENDATIONS

The importance of diversification arises, as the low oil prices for the oil exporter countries increases the need of diversification. They have to implement appropriate policies in the case of decline in the price of oil. In the case of oil decline, the importance of other non-oil sectors should also be considered for creating revenue for the country. Each of the country is unique to itself. It’s economic situation, financial and political variables are different. That’s why the policies should be tailor-made due to the specific circumstance each of the country has. Fiscal policies are also necessary in the case of sudden oil increases or decreases. The countries, either oil exporter or importer, should follow the market dynamics carefully.

CONCLUSION AND DISCUSSION

In this study, the economies of four major countries, namely Canada, Japan, Russia and the US, are examined in terms of their being either an oil exporter or an oil importer. The oil importer countries are Japan and Canada whereas oil exporter countries are Russia and the US. The oil price changes affect the economies of these countries differently as each of the countries has different economic and demographic characters specific to itself.

Japan is one of the largest economies in the world. It experienced high and sustainable growth in the past but for nearly two decades it experiences low economic output growth. Economic activity is revived with fiscal and monetary expansion programs but deflation problem is not cured yet. Japanese economy is mostly driven by exports as domestic demand is low and is not enough for sustainable economic growth. This makes it vulnerable to outside shocks and price fluctuations. Moreover; Japan is poor in terms of natural sources. Therefore; it has to buy raw materials and energy from other countries. This makes Japanese economy dependent on outside sources and foreign energy especially on oil. The last factor which is deteriorating the economy is labor force market. It is very solid-inflexible and labor force participation rate is decreasing day by day and productivity of labor could not be increased since labor force is aging and birth rate is still low.

Canadian economy is one of the strongest economy in the world. Technological development and innovation in many sectors contribute significantly to the strength of the economy. Shares of sectors in economy are very close to each other. This provides diversification of economy and it would be wrong to talk about dominancy of any one sector in the economy. Although energy sector and crude oil trade are significant for Canadian economy, Canadian economy is not only accounted for by trade of oil and oil products. According to the report of Booz & Company which is a leading global management consulting firm; Canadian economy is the most diversified economy in the world (Abouchakra et al., 2008).

The U.S. is a still superpower economically. Nearly one fifth of the total world GDP is produced by U.S. economy. Huge amount funds or assets in the world are controlled by American fund managers. American financial markets are one of the most liquid markets in the world. Contribution of finance and insurance to U.S. GDP is around %7. Many of the Fortune's Global 500 companies put their headquarters in U.S. today. U.S. economy applies advanced technology in most of the sectors. Manufacturing industry makes production by using mostly high technology. Finally; it is difficult to see dependence on any one sector in U.S. economy. Foreign oil dependency and oil dependency of industries have been decreased significantly in recent years through developments in oil drilling and lower energy intensity in firms.

For Russia, favorable terms of trade, stable economic / external environment concealed vulnerability and shortcomings of Russian economy. Natural resource (single largest asset, oil) dependent economy provided sustainable and high growth for certain time. This prevented diversification of economy and highly reliance on oil and a few sectors made economy vulnerable to oil shocks. Therefore; low oil prices and international sanctions prevent growth of the economy, constraint government revenues which are main engine for the growth and put financial stability into risk now (World Bank Group, 2016).

FUTURE RESEARCH DIRECTIONS

In this study, the role of oil in the economies of four major economies are considered where two of the countries are oil exporting while the others are oil importing countries.As a future work, the study may be extended to other developed or developing countries by classifying according to their being either net oil exporting or net oil importing countries.

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KEY TERMS AND DEFINITIONS

IMF: International Monetary Fund.

Investment Analysis: It is the process of evaluating an investment for risk.

OAPEC: Organization of Arab Petroleum Exporting Countries.

Oil Economy: In an oil economy, a considerable part of the country's economy is funded by the revenues of oil.

Oil Exporting Country: It is a country that produces oil and sells it to other countries.

Oil Importing Country: It is a country that buys oil from the other countries.

OPEC: Organization of Petroleum Exporting Countries.

Chapter 13
The Use of Quantitative Methods in Investment Decisions:
A Literature Review

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ABSTRACT

Quantitative methods are mainly preferred in the literature. The main purpose of this chapter is to evaluate the usage of quantitative methods in the subject of the investment decision. Within this framework, the studies related to the investment decision in which quantitative methods are taken into consideration. As for the quantitative methods, probit, logit, decision tree algorithms, artificial neural networks methods, Monte Carlo simulation, and MARS approaches are taken into consideration. The findings show that MARS methodology provides a more accurate results in comparison with other techniques. In addition to this situation, it is also concluded that probit and logit methodologies were less preferred in comparison with decision tree algorithms, artificial neural networks methods, and Monte Carlo simulation analysis, especially in the last studies. Therefore, it is recommended that a new evaluation for investment analysis can be performed with MARS method because it is understood that this approach provides better results.

INTRODUCTION

Investment decision is a very important subject for many different parties (Dinçer, Yüksel & Martínez, 2019). The main reason behind this condition is that investors put high amount of their money to this process (Dinçer et al., 2019a,b). In this framework, some investors may prefer to make risky investments whereas some others aim to be risk averse (Dinçer, Hacıoğlu & Yüksel, 2016). In addition to them, some investors can also be risk neutral. As it can be seen that the profile of the investors plays a key role in the investment decision making process (Şenel, 2019; Dinçer, Yüksel & Pınarbaşı, 2019).

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On the other side, the profitability of the investment alternatives is also significant for this decision. It is obvious that the main purpose of the investors is to make profit for their preferences (Dinçer, Hacıoğlu & Yüksel, 2017; Zengin et al., 2018). Therefore, if the investors have a loss for their decisions, it shows that the wrong decision is made by these investors (Dinçer & Yüksel, 2018a,b). Hence, it is understood that portfolio analysis should be made by using effective methodology (Dinçer, Yüksel & Çetiner, 2019). Otherwise, it brings negative results for many different parties. Especially in the last years, quantitative methods became very popular for this purpose (Dinçer, Hacıoğlu & Yüksel, 2018; Emir et al., 2016; Dinçer, Yüksel, Eti & Tula, 2018). The main reason is that quantitative methods provide objective and qualified results for the policy makers (Ersin & Eti, 2017; Çankır & Eti, 2017; Eti, 2016; Cekici et al., 2018; Kocak et al., 2018).

There are many different quantitative methods with respect to the investment decision process (Yüksel, Dinçer & Emir, 2017). First of all, probit methodology became very popular in this framework. On the other side, some researchers also preferred to use logit approach for this purpose. The main difference of these methods is that logistic distribution function is considered in logit method. In addition to them, decision tree algorithms and artificial neural networks methods are also very poplar for the investment decision process. On the other side, in the last years, multivariate adoptive regression spline (MARS) approach is also considered in this framework. There are also some fuzzy multicriteria decision making models which can be used in this purpose (Dinçer, Yüksel & Şenel, 2018; Dinçer et al., 2011; Dinçer & Hacıoğlu, 2015; Dinçer & Görener, 2011)

The main purpose of this study is to evaluate the usage of quantitative methods in investment decision subject. Within this framework, the studies related to the investment decision in which quantitative methods are examined. Regarding quantitative methods, probit, logit, decision tree algorithms, artificial neural networks methods and MARS are taken into consideration. As a result of this review, it can be possible to present recommendations about the future studies in this context.

THE USAGE OF PROBIT MODEL IN INVESTMENT DECISIONS

General Information About Probit Model

Probit is a method used when the dependent variable has two categories (Yüksel, Özsarı & Canöz, 2016). Generally, the 0-1 binary variable can be coded as "successful-unsuccessful", "yes or no" that is a method of predicting or classifying variables by means of qualitative or quantitative variables. Again, the binary variable can be used to detect variables that affect a variable (Oktar & Yüksel, 2015a).

Probit is a generalized linear model. In this model, the relationship between the independent variables and the probability that the dependent variable belongs to a category is considered linear (Yüksel & Özsarı, 2017). The general expression of a simple probit model is,

$$probit\left(\pi\left(x\right)\right) = a + bx$$

The probit link function applied to $\pi(x)$ gives the standard normal distribution (z-score) where the probability of the left tail is equal to π (x) (Agresti, 2003).

Selected Studies of Investment Decision With Probit Model

Coleman and DeLeire (2003) created a model regarding investment decision of human capital. In this model, teenager's assessment is taken into the consideration. In the analysis process, probit approach is considered. As a result, it is identified that expectations play a key role in human capital investment decision. Williams (2007) focused on the social responsibility factor of investment in the study. In order to reach this objective, a large survey is conducted. According to the results of probit methodology, it is defined that consumers prefer the goods and services of the companies which give importance socially responsible investment.

Hasson et al. (2010) evaluated the changing aspect in investment decision. In this study, different profiles of the investors are considered. Probit methodology is taken into the account. They asserted that the subject of behavioral finance became so significant in investment decision situation. It is also concluded that there is no important differences between mitigation and adaptation with respect to the investment decision. Additionally, Smarzynska (2002) tried to analyze the indicators of foreign investment. For this context, the regions of Europe and Central Asia are analyzed. Additionally, probit model is used in order to reach this objective. It is concluded that the intellectual property protection has an important effect on the decisions of foreign investment. In other words, when the intellectual property regime is weak, it encourages the investors to make distribution project instead of local production.

Similar to these studies, Lansink et al. (2001) aimed to evaluate the horticulture investment. Within this framework, Dutch companies are analyzed in this study. Annual data for the periods between 1986 and 1998 is evaluated in the study. Additionally, panel probit model is conducted for these companies. It is determined that debt capital ratio and firm size are the most important variables to decide the horticulture investment. Also, Habib and Zurawicki (2002) considered a study to understand whether corruption has an impact on foreign investment. American companies are evaluated in this study as a sample. A panel probit evaluation is conducted in the analysis stage. According to the results, it is identified that in case of corruption in the countries, investors become reluctant to enter.

Moreover, Ji et al. (2012) assessed the relationship between machinery investment decision in agriculture and off-farm employment. For this purpose, China is taken into the scope. In this study, a survey analysis was conducted with 453 households. By using this survey data, probit analysis is taken into the consideration. As a result, it is identified that if farmers have small sized machinery, they tend to reduce their off-farm employment time. Javorcik and Wei (2009) made a study to see the influence of the corruption on the foreign investments. Annual data of 262 different European companies are considered in this study. In addition to them, a panel probit analysis was conducted for this data to reach the objective. With respect to the variables, corruption index and foreign investment data are considered. The findings show that corruption has a strong and negative effect on foreign investments.

Furthermore, Kuo and Li (2003) focused on the investment decisions of small and medium enterprises. For this purpose, they created a model to see this situation. A panel probit model is taken into the consideration in this analysis process. They reached the conclusion that capital intensity, firm size, export ratio and research and development capacity are the most important factors which affect the investment decision of these small companies. Parallel to this study, Bogan et al. (2013) tried to examine whether gender has an influence on investment decisions. In the analysis process, the relationship between gender and investment is evaluated with the help of probit methodology. According to these analysis results, it is defined that males more tend to make risky investment. On the other side, it is also seen that females mainly demonstrate risk aversion profile in this condition. Additionally, Yüksel (2017a) aimed to evaluate the indicators of the credit risk in developing economies. For this purpose, after crisis period is taken into consideration. In this scope, 23 different deposit banks are examined with the help of panel probit methodology. It is concluded that industry production is the most significant factor of the credit risk.

THE USAGE OF LOGISTIC REGRESSION MODEL IN INVESTMENT DECISIONS

General Information About Logistic Regression Model

Logistic regression is a generalized linear model that accepts a logarithm of a odds of success (Agresti, 2018; Yüksel et al., 2016). The general equation of logistic regression is as follows.

$$\ln\left(\frac{\pi}{1-\pi}\right) = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \ldots + \beta_n x_n + \varepsilon$$

where π is the possibility that belongs to a class and β_i are the regression coefficients (Yüksel & Zengin, 2016; Yüksel et al., 2015). It shows that effect of independent variables on the logarithm of the chance of belonging to the class (Yüksel & Zengin, 2016). If the calculated probability of the general mathematical expression is higher than the determined cutoff value, it is assigned to class 1 and below class 0 (Zengin & Yüksel, 2016). Usually this cut off point is taken as 0.5 (Eti & İnel, 2016; Yüksel, 2017b).

Selected Studies of Investment Decision With Logistic Regression Model

Liu et al. (2014) have integrated logistic regression models with Decision-Theoretic Rough Sets. Thus, the classification was tried to be more accurate. They applied this new approach to two examples. In the first example, they classified the failed or non-failed status of 60 companies with 12 independent variables. In the second example, they were in the preschool program. Hassan and Anood (2009) examined the financial literacy of individual investors and the factors affecting the investment decision in this study. They designed a three-part questionnaire. Demographic information in the first part, the 37 factors affecting the investment decision in the second part and the last part in the form of yes-no 18 questions about financial literacy. In this study, logistic regression was used to analyze the effect of the factors discussed. As a result, women were seen to be less financial literate. In general, financial literacy is far from expected. In addition, it is concluded that financial literacy, income level, education, and workplace activity.

Sonfield et al. (2001) compared the entrepreneurial strategy matrix, entrepreneurial innovation and the situational model of strategies proposed in risk-taking. 184 small firms were analyzed. The chi-square and logistic regression model have analyzed the effect of gender. There was no significant difference in the choice of gender-based strategy. Female participants were found to have lower risk performance compared to men. Larimo (2003) explored the investment of Nordic firms. The first aim of the study is to examine the characteristics of the Nordic companies in the world market, their parent company, target industry, and target country. The second aim is to identify the similarities and differences of firms from different Nordic countries. For this purpose, information on Nordic companies from 71 countries was collected. Logistic regression was used to analyze the independent variables. As a result, 9 of the 11 variables examined were found to be significantly associated with the investment method. In addition, the similarities in the behavior of various Nordic companies were determined.

Dutta et al. (2012) conducted a research on the Indian stock exchange. In the study, they used logistic regression to investigate the indicators that significantly affect the performance of stocks traded on the Indian stock exchange. They also use various financial ratios as independent variables for analysis. Firms have divided into two categories: “good” or “bad”. The accuracy rate was obtained in the classification of 74.6%. The model was analyzed with 8 financial ratios. Gutter et al. (1999) studied race differentiation in investment behavior. For this, they benefited from the Consumer Finance Survey in 1995. In addition, socioeconomic, financial and voluntary variables are included in the questionnaire. Black Household and White Households were analyzed by logistic regression in two categories. They show that observed racial differences in risky asset own are explained in differences of racial in the individual determinants of risky asset own. But, race in and of itself is not significant.

Lovata et al. (2002) suggested that economic value added was a new measure of performance in investment decisions. In other words, creating economic value is effective in making investment decisions. In order to analyze this situation, the study also used logistic regression. As a result, it has become necessary to focus on providing appropriate incentives. Chung and Enderwick (2001) conducted a study on the choice of market entry strategy. The direct investment option of foreign capital is export and direct investments. The sample of the study was 124 New Zealand companies operating in the Taiwanese market. Some important factors in the study are international work experience, immigrant impact, service requirements, and market size. The factors determining the investment option were determined by logistic regression analysis. As a result of the analysis, the most important factors have been product type, immigration effect, and experience.

Hennart and Park (1994) examined the Japanese companies investing in the US. They investigated the factors that determine the location, management, and strategies of Japanese production investment. They determined the logistic regression method as the analysis method. The high R & D expenditures of Japanese firms have shown that the possibility of producing in the US is high. However, this was not the case for advertising expenditures. It is observed that medium-sized companies tend to invest in the US. In addition, the strategy was to follow the leader behavior, while there was no threat to change competitors. Another result is that the US industries, high growth and investor concentrate attract Japanese producers to their countries. Kovenock and Phillips (1997) examined the capital structure and product market behavior of companies. Within the scope of the study, ex-factory and investment decisions were evaluated. In the analysis process, the logistic regression approach is considered. As a result of the analysis, after recapitalization, firms in high concentration sectors were less likely to close and invest in facilities. In addition, when the market share of leveraged firms is higher, competitors are less likely to close and invest.

THE USAGE OF DECISION TREE IN INVESTMENT DECISIONS

General Information About Decision Tree Algorithms

Decision trees are algorithms for creating a sequence of rules, with the highest level of knowledge gain. It provides the possibility of classification by building a model consisting of branches and leaves. There are many algorithms according to a data structure and tree structure such as CART, ID3, C4.5, and C5 (İnel et al., 2016). The decision tree has a structure consisting of branches, nodes, and leaves. Knowledge is gained in the formation of branches and nodes. The size of the tree is optimized. Pruning is performed in the leaves. In the process of creating the decision tree, the entropy account is considered. Shannon's Entropy Model is the most widely used in the literature. Mathematically, the model is as follows.

$$H\left(t\right) = -\sum_{i=1}^{l}\left(P\left(t=i\right) * \log_{s}\left(P\left(t=i\right)\right)\right)$$

where l is the number of different categories in the set, s is the arbitrary logarithmic base, usually, 2 is taken (Kelleher et al., 2015).

Selected Studies of Investment Decision With Decision Tree Algorithms

Hespos and Strassmann (1965) proposed an approach as an investment decision method. In this approach, they aimed to create a model that is resistant to high uncertainty in the market. One of the decision-making techniques, decision trees were discussed with probability in an uncertainty area. For this purpose, the integration of stochastic processes and decision trees is aimed. As a result, the empirical study they have proposed has shown that it is an easily applicable and ideal method in a variety of investment situations.

The investment decisions should not be taken cross-sectionally under the risks arising from both market risk and investment complexity. Yao and Jaafari (2003) proposed not only the decision-making phase but also an approach to optimize the investment process. For this purpose, they proposed an integrated approach to investment decisions and risk management. They had the opportunity to decide on the investment process by combining real options and decision trees.

Garvin and Cheah (2004) benefited from the valuation technique for infrastructure investment decisions. Investment decision in public infrastructure projects is a very important issue for local governments. In this study, a case study of the toll road project in the USA is discussed. For this purpose, the decision tree model and the investment decision situation are discussed. Traffic and growth scenario are the most important factors in decision making as the road project. As a result, the decision maker who will make an investment decision in infrastructure projects such as roads should create scenarios that will represent traffic growth.

Heidenberger (1996) conducted a study on funding selection. He proposed an approach for identifying funds at risk and choosing a dynamic project. This approach is a mixed linear programming model based on the decision tree. The model is based on the probability-based stochastic decision tree model. The node and branching in the traditional approach and the probability distributions are controlled with this approach. Thus, both the cost and the benefits of the investments can be considered as the exact probability distribution.

Ryan and Harrison (2000) made a proposal to consider the cost and benefit for investment decisions. In the application part of the study, they discussed the social subsystems on information technologies. 50 information technology decisions were made in different sectors. During the interview, when and how frequently the system evaluations were included in investment decision processes were questioned. Information obtained from the interview was analyzed. A decision-based tree-based dual rule sequence was also developed. This model provides several decisions and cost-benefit multi-objective decision making.

Faulkner (1996) conducted a study on the valuation of R&D investments. For this, the decision tree with the probability formed, then the expected value theory has made the evaluation. R&D cost and market cost are discussed. Thus, it is aimed to prevent two different evaluators to produce different results with different calculation techniques.

Canbolat et al. (2007) discussed the country selection for production. The position for logistics in global manufacturing plant investment is very important. In the study, the country selected for the plant was discussed. Countries were asked to assess and determine the most appropriate location: Mexico, Czech Republic, Poland, South Korea, and South Africa. For this purpose, the combination of the decision tree and MAUT methods was used. In this approach, first the decision tree and then the MAUT method was applied. The purpose of the decision tree is to analyze the impact of uncertainty on the cumulative risk profile for the cost.

Clemons and Weber (1990) conducted a study on strategic investment decisions in information technology. With this study, they aimed to make the decision process in the strategic information technology investments a series of rules. They made use of the decision trees to create this rule structure. Thus, optimal decision-making based on the situation based on decision nodes was provided. A conceptual study has been carried out on the scenarios that may occur at the end of the decision nodes.

Smith and Nau (1995) focused on risky projects. There are many alternative methods to evaluate risky projects in the literature. This study focuses on three of the methods: risk-adjusted discount-rate analysis, option pricing analysis, and decision analysis. Decision tree algorithm was used as decision analysis. As a result of the study, it has been seen that pricing analysis and decision analysis methods give consistent results. It also focused on the combination of decision analysis and option pricing techniques.

Cavusoglu et al. (2008) analyzed the security investments of information technologies. Despite the growing security threats of enterprises, it is important to identify the threat to deal with. Inadequate insufficiency of investment decisions with traditional techniques. The theory and decision theory of the weed is recommended for this study. As a result of the study, it was observed that there was no difference between the two methods in terms of the ratio of convergence and learning model.

THE USAGE OF ARTIFICIAL NEURAL NETWORK IN INVESTMENT DECISIONS

General Information About Artificial Neural Network

Nowadays, with the development of technology, computer-based algorithms in numerical methods started to gain importance. One of these iterative models is artificial neural networks. Artificial neural networks are the learning of a machine consisting of input, hidden and output layers inspired by the work of the human brain. Two types of artificial neural network models can be established as forward and backward. In neural networks, there are nerve cells in layers. In these cells, the inputs from the neural cells in the previous layer are processed by the collection and activation functions. The output is then output to be sent as input to the next layer. Artificial neural networks are a controlled learning algorithm. In the creation of the model, the difference between the actual value and the final output of the network is minimized. Optimization techniques are used for this (İnel et al, 2016). The sum function used in artificial neural networks is as follows.

$$f\left(x\right) = \sum w_i x_i + b$$

where wi, are weights of inputs, xi are inputs for another neural cells. Also, b is biased. Activation function is a non-linear function. In the cell, the input corresponds to the output. It should be a function that can be differentiated. Therefore, the sigmoid function is usually used. In addition, tangent hyperbolic and sine functions can also be used as an activation function. The sigmoid function is that,

$$f\left(x\right) = \frac{1}{1 + e^{-x}}$$

This function is a special function of type S in the Cartesian plane. This function is defined from real numbers to (0,1).

Selected Studies of Investment Decision With Artificial Neural Network

Barr and Mani (1998) made a forecasting-based application for securities. In their project, they developed a securities portfolio selection method. The project aims to make the most accurate investment decision. They preferred artificial neural networks as the decision method used in the background of their invention. They have patented the invention they developed.

Lam (2004) conducted a model study for financial performance estimation of enterprises. In the analysis, 16 financial statements and 11 macroeconomic variables were used. The data of 364 companies were used in the study. For the prediction model, the feedback artificial neural network analysis was used. As a result of the experimental study, neural networks with both financial and macroeconomic estimators are not successful to perform better.

Costantino et al. (2015) propose an innovative methodology to assist decision makers in the evaluation of investment projects. In the methodology process, the artificial neural network model is used. Critical success factors (CSF) are considered as an input of this model. Any project is expected to be successful or unsuccessful with the help of the model.

Sureshkumar and Elango (2012) were proposed model about the stock exchange forecasting. It is important for investors to predict stock prices quickly and accurately. In this study, they benefited from artificial neural networks. They developed a model for estimating future stock prices. In this way, it is aimed to help the investor to analyze better in investment decisions such as buying or selling a stock.

Chatterjee et al. (2000) discussed various decision-making techniques for financial markets. In this study, artificial neural networks models are discussed with generic Algorithm. In the financial market, the superiority of artificial neural networks against conventional methodologies has been observed. It has been pointed out that artificial neural network models have achieved successful results in various financial institutions.

Lai et al. (2004) conducted a study on forex. In this study, it is aimed that both financial institutions and individual investors can benefit. Artificial neural networks and web-based decision support system have been implemented. Thus, it is aimed to provide support in making foreign exchange forecasting and trading decisions. Web-based forex trading decision support system is integrated into back-spread neural networks. An integrated framework is presented.

Tsai and Wang (2009) deals with stock investment activities. They did a research on Taiwan. Two methods were used in the study. While foresight is possible with artificial neural networks, the rules are not clear. For decision networks, it is possible to create some rules to explain the estimation decisions. These two cases are considered in the study. Methods for creating a stock price forecasting model have been proposed to be integrated into each other. As a result of the experimental study, this integrated system was found to have 77% accuracy. Thus, it was concluded that the investment decisions would be better than the old models.

Zhang et al. (2004) compared the predictive accuracy of neural network models with multivariate models. It was examined whether the basic 4 models can produce accurate estimates. These 4 models are univariate linear, multivariate linear, univariate neural network and multivariate neural network. As a sample, 283 firms from 41 sectors were discussed. As a result of the analysis, it was concluded that the neural network approach is more accurate than the linear prediction models.

Patel and Marwala (2006) discussed classification methods for investor decisions. For classification, artificial neural networks, fuzzy inference systems, and adaptive neuro-fuzzy inference systems were used. As a result of the analysis, the classification was made by these methods. The proposed model has a classifier design. It has also been found to have low complexity and high scalability.

Haofei et al. (2007) conducted a study on food prices in China. In the study, it is aimed to suggest the model of forecasting food prices in the short term. As a process, a neural network model based on multi-stage optimization approach was used. This model has shown better performance than traditional ANN models. The model has overcome the weaknesses of ANN. The accuracy rate is higher.

THE USAGE OF MONTE CARLO SIMULATION IN INVESTMENT DECISIONS

General Information About Monte Carlo Simulation

Monte Carlo technique is the stochastic and deterministic parameter estimation method based on random sampling. With this technique, it is possible to obtain a random variable with random numbers and move to an appropriate probability distribution. The values obtained by simulation are independent and random. The data obtained remains connected to a confidence interval system. If the normal distribution is considered, for the confidence level α, the confidence interval of the X true area

$$\bar{X} - \frac{s}{\sqrt{N}} t_{\frac{\alpha}{2};N-1} \leq X \leq \bar{X} + \frac{s}{\sqrt{N}} t_{\frac{\alpha}{2};N-1}$$

where $\bar{X}$ is the mean and s is variance of N repetition. $t_{\frac{\alpha}{2};N-1}$ is the N-1 degree of freedom t distribution table value at confidence level α. It should be noted that N is equal to the number of repetitions, not the sample size n.

Selected Studies of Investment Decision With Monte Carlo Simulation

Kwak and Ingall (2007) discuss the risks and uncertainties of investment projects. Taking a realistic approach to identifying risks results in more accurate results. For this purpose, the Monte Carlo simulation was used. Provides the opportunity to see the real-world situations with the help of simulation. When making an investment decision, this information is obtained. According to Cheah and Liu (2005), evaluation of state support in infrastructure projects is important when making an investment decision. In the Build-Operate-Transfer infrastructure projects, there are many criteria for the private sector to make an investment decision. For this purpose, it is important to estimate the risks that may occur in long-term investments. In the study, Monte-Carlo simulation was used to predict the risks and to make an investment decision. In the study, the example of Malaysia Second Parade in Malaysia was discussed.

Ye and Tiong (2000) emphasized the importance of strategic investment decisions. These decisions give rise to risks and should not ignore this risk of project evaluation methods. In this study, Monte-Carlo simulation was applied to take risks into account. Thus, a model has been proposed by combining the methods of evaluating investments and the dual risk-return unit. Smith (1994) conducted a simulation study on capital budgeting decisions. He has produced macro for it. It used Monte Carlo simulation to assess the risks. The macro it develops provides a fast, reliable distribution of freq. Thus, the investor can easily make an administrative decision under uncertainty.

Topal (2008) conducted an article on investments in mining and mineral industries. He made recommendations because the risks in these sectors were effective in investment decisions. Discounted Cash Flow, Decision Trees, Monte Carlo Simulation and Real options methods were used. These methods were compared in the article. Hoesli et al. (2006) conducted a study on real estate values. They aimed to identify the risks in the real estate assessment. They proposed a model for this. They used Monte Carlo simulation to include uncertainty in the valuation parameters. The proposed model has been found to be the most sensitive model to the long-term equilibrium interest rate and growth rate.

Abele et al. (2006) discussed investment decisions in manufacturing systems. These decisions are affected by the cost of purchase and operation, the cycle time in connection with maximum capacity and achievable workpiece quality. The flexibility in this evaluation is neglected. This point is mentioned in this study. For this purpose, the Monte Carlo simulation was used. With the proposed method, the decision-making process is enhanced. Hughes (1995) evaluated the rental investments in this study. In this study, the stochastic structure in risk analysis and asset valuation were discussed. It used the Monte Carlo simulation for this stochastic structure.

Gapenski (1990) emphasized the best capital investment decision. Classical financial analysis methods in investment decisions provide incomplete information to the researcher. To eliminate this missing information, Monte Carlo simulation is integrated into the study. In the application part of the study applied to the field of health. This integrated method has been successful in decision making. Garvin and Cheah (2010) discussed valuation techniques for infrastructure investment decisions. The implementation of these decisions, the assumptions, and limits of the methods are not seen to see. The method developed for this purpose offers the opportunity to examine the assumptions. As an application, the toll road project in ABD is discussed. As a result, the selection of a valuation model is critically dependent on the characteristics of the variables of a project. In addition, it was seen that the informed decision was not separated from the decision-making process.

THE USAGE OF MARS METHOD IN INVESTMENT DECISIONS

General Information About MARS Methodology

The word MARS comes from the expression of "Multivariate Adaptive Regression Splines". Friedman (1991) developed this approach. It mainly aims to evaluate the relationship between the variables (Yüksel et al., 2018). However, this approach has many different benefits by comparing with other similar techniques (Yüksel & Özsarı, 2017a). MARS methodology considers smoothing splines instead of only one direct regression line. This situation has a positive influence on the quality of the analysis results. In addition to this issue, it is also possible to consider many different independent variables at the same time. Another important advantage of this method is that there is not a multicollinearity problem (Yüksel & Adalı, 2017). The analysis process has mainly two different steps. In the first stage, all possible models are created by the system according to the criteria uploaded. In the second phase, unnecessary functions are eliminated so that the best model can be identified. In this circumstance, the functions, which decrease the explanation quality, are deleted by the system (Yüksel, 2016a,b).

Selected Studies of Investment Decision With MARS

MARS is a very new approach in the literature. Because of this condition, there are very limited studies in the literature by considering MARS method for social sciences. Dinçer, Hacıoğlu and Yüksel (2018a) aimed to understand the leading indicators of the currency exchange rate in Turkey. For this purpose, they identified many different candidate indicators. With the help of MARS methodology, it is understood that current account deficit is the most significant variable for currency exchange rate. Similarly, Oktar and Yüksel (2015b) tried to understand which factors lead to financial crisis in Turkey. Within this framework, two different banking crises in Turkey (1994 and 2000) are taken into consideration. They created a model with MARS approach and resulted that speculative purpose derivatives are the main reason of the banking crisis.

In addition to them, Oktar and Yüksel (2016) examined the indicators of the derivative usage for Turkish banks. In other words, they tried to examine whether Turkish banks heading or speculative investments on the financial derivatives. They constructed a model by considering MARS methodology. They reached the conclusion that banks mainly use financial derivatives as an investment for the heading purpose derivatives because there is a positive relationship between the derivative usage and non-performing loans. Yüksel and Özsarı (2017b) aimed to define the influencing factors of credit note of Turkey by using MARS approach. They underlined that current account deficit is the main factor which decreases credit rating of Turkey.

Moreover, Yüksel and Zengin (2017) focused on the determinants of net interest margin in Turkish banking system. For this purpose, MARS approach is taken into consideration. In this framework, 14 different independent variables are identified. As a result, it is concluded that non-performing loan ratio has negatively affects the net interest margin of Turkish banks. On the other side, Yüksel, Zengin and Kartal (2016) tried to evaluate which conditions lead to credit card usage. In this context, Turkish credit card market is examined with MARS model. They concluded that there is a negative relationship between the unemployment rate and credit card usage in Turkey.

Yüksel, Canöz and Adalı (2017) conducted a study for the purpose of determining the variables of price earning ration of the banks. Within this scope, deposit banks in Turkey are included in the analysis process. In order to reach this purpose, a model was created with the help of MARS approach. They determined that return on equity has a direct effect on the price earning ratio of Turkish deposit banks. Dinçer, Hacıoğlu and Yüksel (2018b) made a study to analyze the factors of gold investment. According to the results of MARS methodology, it is defined that there is a negative relationship between gold price and inflation rates.

SOLUTIONS AND RECOMMENDATIONS

In this study, it is identified that MARS methodology provides a more accurate results by comparing with other approaches. Another important result of this review is that probit and logit methodologies were less preferred in comparison with decision tree algorithms, artificial neural networks methods and Monte Carlo simulation analysis especially in the last studies. Therefore, it is recommended that MARS, decision tree algorithms, artificial neural networks methods and Monte Carlo simulation analysis should be preferred more in order to understand the details of investment analysis.

FUTURE RESEARCH DIRECTIONS

This study provides a literature review related to the investment analysis. In this review, the usage of quantitative methods is taken into consideration. In the future studies, a new evaluation for investment analysis can be performed with MARS method because it is understood that this approach provides better results. In addition to them, decision tree algorithms, artificial neural networks methods and Monte Carlo simulation can also be considered in a study to compare the results. Hence, it can be possible to understand which of these methods give more accurate results.

CONCLUSION

Investment decision is such a significant issue that it has an essential effect on many different parties. The main reason behind this condition is that if the investors make wrong decisions, it may lead to high amount of the losses. In other words, the risk of the investments should be identified clearly. In addition to this situation, the profitability analysis of the investment should be made in an effective manner. Otherwise, an important amount of the losses can be seen as a result of the investment.

It can be understood that investment opportunities should be analyzed in a very detailed way. In this framework, the chosen methodology to evaluate these opportunities plays a very key role. For this purpose, there are some quantitative methods which can be used to examine the investment opportunities. For example, some researchers prefer to use profit or logit methodology. On the other side, decision tree algorithms and artificial neural networks methods can be taken into consideration by many researchers as well. In addition to them, MARS method is a very new approach that is less preferred in social sciences.

In this study, it is purposed to evaluate the usage of quantitative methods in the subject of the investment decision. In this framework, the studies related to the investment decision in which quantitative methods are taken into consideration. With respect to the quantitative methods, probit, logit, decision tree algorithms, artificial neural networks methods and MARS approaches are used. Within this scope, firstly, theoretical information related to these methods are given. Additionally, the studies in the literature regarding these methods are shared.

According to the results of this review, it is determined that MARS methodology provides a more accurate results in comparison with other techniques. This approach is a very new method and there are limited studies with this method in the social sciences. However, these studies identified that it is possible to reach better results by considering MARS approach. Another important result of this review is that probit and logit methodologies were less preferred in comparison with decision tree algorithms, artificial neural networks methods and Monte Carlo simulation analysis especially in the last studies.

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KEY TERMS AND DEFINITIONS

Logit: A type of regression analysis in which dependent variable has two different opportunities.
MARS: Multivariate adaptive regression splines.
R&D: Research and development.

Chapter 14
The Periods of Crisis in the Ownership of the Media of Large Enterprises in Turkey

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ABSTRACT

Like every giant holding, large enterprises in the media may also face crisis in certain periods. This chapter will evaluate Dogan-Group and its publications in the context of the media industry in Turkey and will analyze the tax crisis the group in question experienced in 2009. In order to ensure an objective perspective in the research, the authors chose to examine the publications of newspapers which are thought to represent three different ideologies in Turkey. In this context, to ensure the objective approach in this study the 42 news reports published between February 2009 and September 2009, newspapers that are thought to have different viewpoints in Turkey, such as Sabah, Cumhuriyet, YeniSafak, and the so-called "flagship" of the group, Hurriyet Newspapers, have been investigated using content analysis. The time interval was chosen in accordance with the tax penalty. Content analysis method will be used in this study, and in this context, how much space the newspapers allocated to the crisis, their ways of handling the crisis, and the language they used when handling the crisis will be examined.

INTRODUCTION

Globalization, in its general sense, refers to the process of economic, cultural and political integration. This integration is described with a reference to information economy as well as transition to post-industrial society, internationalization of production, trade and finance, the rise of multinational companies, reduction of cross-border customs on goods and services flows, deregulation of financial markets, weakening

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of the nation-state structure, importance of local dynamics and development of new communication technologies. The most important tool in this process is the media. For, the media removes the boundaries between the societies, thus enabling them to obtain information about each other more easily.

Economic and political conditions should be taken into account when making globalization policies. For national and international companies, the only target is profitability, and the neoliberal economy maintained in line with this goal should be organized within the framework of these policies. Neoliberalism's fundamental target is to establish a market mechanism with its own rules, in which there is minimum state intervention.

The implementation of neoliberal economic policies in Turkey accelerated with the irregularities experienced since the 1980s. The reflections of these policies in the media field were seen in the regulations on the private channels, whose numbers increased rapidly in the 90s (Taskaya, 2008). The 1990s, when the number of private initiatives in the field of broadcasting increased and private broadcasters and publications were diversified, was an important period for Turkey. The rapid changes in information technologies brought about the global commercial media market. This commercial media market appears to have resulted from dominant companies, new technologies that make the cost of global systems efficient, World Bank, IMF and World Trade Organization and the neoliberal economic policies that have lifted the regulatory barriers of global commercial media and have been supported by the US government (McChesney, 2003).

A number of developments in the audio-visual field attract attention in the media transformation that occurred after the 1990s. In this process, the structure of traditional family businesses started to change and large conglomerates took advantage of the economic opportunities offered by neoliberal policies and began to enter the press sector. With this transformation, a new process took place: the new owners of the newspapers expanded their media enterprises horizontally and vertically and transformed them into large media groups organized around newspapers. In this process, the media started to become monopolized, becoming a tool that supports the nature of the capitalist system and serves its legitimation. Mass media studies after 1980s identified economic factors as their starting point and based their arguments on economic factors. In this period, Aydin Dogan, one of the important businessmen of Turkey who was announced among the top taxpayers by the Istanbul Chamber of Commerce in various years since 1977, entered the media sector by acquiring the Milliyet newspaper in 1979 and then started to build the group of large companies in the press sector. Over time, this group has grown rapidly with horizontal and vertical monopolizations and has become one of the giant conglomerates of Turkey.

Large media groups may be affected by global crises as well as by local crises. In the global crisis experienced in 2008, Dogan Holding increased its annual turnover and expanded its conglomerate structure. However, due to the sale of 25% of the shares of Dogan Media Group to Axel Springer in 2006 and then due to the tax crisis resulting from the tax penalties imposed after the audit of the Finance Revenues Controllers, the Holding went through a downsizing process. The Holding entered into a difficult period due to the tax penalties imposed in February and September 2009.

In the present study, the tax crisis experienced by the Dogan Media Group is evaluated within the framework of the media industry in Turkey. In order to make the study objective, Yeni Safak, Cumhuriyet and Sabah Newspapers, which are considered to represent 3 different ideologies in Turkey, and Hurriyet Newspaper, which is considered as the group's flagship, were examined In the study, the number of news stories about the crisis in newspapers was determined through content analysis method and in this context, how much space the newspapers allocated to the crisis-related news stories, their handling of the crisis and the language they used in these news stories were examined through descriptive text analysis.

NEOLIBERAL POLICIES IN THE FRAMEWORK OF GLOBALIZATION

The concept of globalization does not have an agreed definition; however, the only thing on which different approaches agree is that globalization is a process of integration. While some researchers define globalization as a continuation of modernization, some define it outside of modernization and others as cultural imperialism. Globalization is constantly referenced in popular debates in the context of Marshall McLuhan's "Global Village" concept. Similarly, Manuel Castells raises the idea of the "Network Society". According to the network society concept, human relations are connected with information and communication technologies on the basis of communication (Castells, 2000, p. 695). According to Held et al. (1999) who conducted studies on globalization, globalization is a process of increasing flow of goods, services, capital, people, information and culture between borders. In addition to this definition, according to Anthony Giddens, who defines globalization as a process, globalization creates decomposition of time and space, and with the loss of locality, it stretches social relations in time and space (Tomlinson, 2004). According to Chomsky, who is known for his opposition to globalization, globalization is the tyranny of "mega businesses" that seek profit. Noam Chomsky (2001) argues that if the subject (of globalization) is considered in the context of phenomena such as the cross-border circulation of capital according to the capacities of economies, the current situation is not very different from the beginning of the 20th century. The discussions in the framework of globalization are based on three different approaches. These approaches are globalists, globalization critics and opponents of globalization.

Examining the common point of globalist approaches, these approaches explain globalization as a new and irreversible situation (Martinelli, 2003). Held et al. (1999) associate globalization with a unified global economy and argue that national economic regulations are no longer effective enough for this unified global economy. This is because the decisions affecting the spatial organization of economic power and asset are determined by the central budget planning and portfolio investment decisions of multinational enterprises, which are international economic organizations. G8, IMF, World Bank, World Trade Organization and other international organizations support this regulation. These organizations help to make international regulations more detailed and help grow this global civilization through liberalization of trade, investment, exchange rate, regulatory and factor markets (Bryane, 2002). Thomas Friedman, another globalist, defines globalization as a faster, cheaper and deeper integration of people and markets with technological developments than before. According to him, globalization is based on the integration of markets, nation states and technologies in such a way that it is impossible to resist and the basis of this integration lies in the spread of free market capitalism all over the world. Friedman argues that globalization has unique economic, cultural and technological rules. The economic rule is the outward opening, the reduction of state control, the determination of prices by the market and privatization. The cultural rule is the realization of hybridization with the dominance of American culture. The technological rule is the development of new communication technologies; that is, the digitization of telecommunication and the emergence of multimedia and interactivity (1999) . According to globalists, the common aspect of the system is the formation of a network with the emergence of new communication technologies, the importance of information that is more important than industrial products, and the elimination of borders that separate people with the weakening of nation-states. Globalists advocate that globalization has become inevitable and that it is not possible to reverse it. For this reason, the phenomenon of globalization is transformed into discourse (Eken, 2016).

The common point of opponents of globalization is that they treat globalization in relation to capitalism and do not see globalization as a whole new stage in the history of capitalism. According to Noam

Chomsky, one of the leading opponents of globalization, beyond being new, globalization is a visible representative of American-origin neoliberalism and its main purpose is to protect and extend the interests of American capitalism (Fox, 2002). Wallerstein defines globalization as the discourse of the neoliberals defending the free trade of goods and capital and uses the concept to refer to the unusually strong pressure on all governments to open borders for the free movement of goods and capital in recent decades (Wallerstein, 2011). Wallerstein opposes the imposition of the notion that globalization is (with the unforgettable sentence of Margaret Thatcher) a wonderful new world without any alternatives that has already begun, arguing that globalization is not a new process (Wallerstein, 2004). When Robert McChesney says that globalization is nothing more than the neoliberal economic policies that envisage the minimum regulation for profit maximization and uninterrupted supply of free goods and capital flows as the fundamental principles of a dominant and valid economy, he indicates that the interests of firms are of primary importance (2003). Oliver Boyd-Barrett deals with globalization on the basis of international one-way media (news-information) flow. According to the thesis of media imperialism, there is a one-way mass media flow from the West to other countries. On the other hand, there is scarcely any flow from other countries to developed countries (1977).

Critical approach to the process of globalization opposes the view that globalization is a process of economic and political actions. Approaching the concept from a transformative perspective, this group explains globalization as a concept with communicative and social aspects as well as economic and political aspects arising from multiple reasons such as technological, cultural and political reasons (Held, 1998; Haines, 2002; Martinelli, 2003). From transformationalists' point of view, globalization is, with its multiple structures, the main driving force behind the social, political and economic changes that reshape modern societies and the world order. This power requires the restructuring of the power, functioning and authorities of national governments. Such a restructuring involves the proliferation of power relations in the world. Moreover, transformationalists believe that these power relations neither create a complete integration, as globalists claim, nor create a complete division, as the opponents of globalization claim. According to transformationalists, globalization is highly variable in its inclusion and impact and it integrates as much as it divides (Bryane, 2002). Globalization is undoubtedly directly related to the notion of internationalization. However, globalization has a greater power to transform what is produced, where it is produced, how it is produced, and by whom it is produced. This is because the comprehensiveness of globalization that cannot be compared with previous periods enables it to transform social relations and ways of doing business. Today's globalization reorganizes intercontinental and interregional interaction and power relations (Held & McGrew, 2001).

Economic and political conditions should be taken into account when making globalization policies. For national and international companies, the only target is profitability, and the neoliberal economy maintained in line with this goal should be organized within the framework of these policies. When McChesney says that globalization is nothing more than the neoliberal economic policies that envisage the minimum regulation for profit maximization and uninterrupted supply of free goods and capital flows as the fundamental principles of a dominant and valid economy, he indicates that the interests of firms are of primary importance (McChesney, 2003).

The neoliberal economic policies began to be accepted and dominated the world in 1980. Four reasons caused the neoliberal policies to gain importance and spread rapidly all over the world (Erdogan and Ak, 2003). These are:

1. The spread of "Thatcherism and Reaganomics" neoliberal economic policies that Thatcher applied in England and Reagan administration in the United States since the early 1980s.
2. Structural Adjustment programs established by international financial institutions such as the World Bank and the IMF in line with the neoliberal vision; the dissemination of neoliberal policies in the post-1980 period.
3. The collapse of communism regarded as an alternative to capitalism until the 1980s and the end of the cold war; the spread of neoliberal policies.
4. The fact that neoliberalism has become the main ideology of the globalization process, defined as the integration of the world economy into a whole (globalization); development of neoliberal policies.

According to Bauman, among all the factors that paved the way for the sustained grind and systematic coherence of the neoliberal destruction against all ethical outrage the market forces that are increasingly deregulated, freed from all political control, and are driven only by the pressure of competitiveness are awarded with the highest position. Through technical advances supported by the abolition of restrictive political regulations, the capital becomes increasingly free to move wherever it wishes. "In this case, potential advocates and guards of social justice were deprived of the economic muscle power without which no application of ethical principles could be conceived. While the political institutions maintained their locality, the real forces that decide on the form of the present and emerging things gained a true supranational quality" (Schiller, 1993).

Neoliberalism was theoretically constructed with an emphasis on the individual and the market. The main objective of neoliberalism is the market mechanism, which contains minimum state intervention, functions by itself and continues its existence with its own rules. The view that state intervention should be kept at a minimum level in neoliberal ideology should not be limited to the market mechanism. State intervention is very little desired for the whole of the social system. In a social system without state intervention, individuals will be freer. From this point of view, the idea that freedom is "being free from one thing" becomes clearer. The idea of being free from something is, on the other hand, directly related to the negative dimension of freedom (Kurt, 2006).

Implementation of neoliberal economic policies, political instability and increasing trends of violence and negativities in the economic sphere laid the ground for the emergence of 24 January decisions[1] and 12 September military intervention, which would have a significant share in the transformation of Turkey's economic, political and social life after 1980 (Ekzen, 2009). The reflection of neoliberal policies on Turkey took place under the power of the Motherland Party - ANAP (Turgut Ozal), who came to power in the period following the 1980 military coup. With the influence of neoliberalism which emerged in Turkey in the 1980s with the discourses of keeping up with the times, integration with the new world order and globalization, it was aimed to enable free market order and to open the Turkish economy to completely free competition. Although the governments that came to power in Turkey in the period from the proclamation of the Republic to the 1980s advocated politically liberal thought, the state was seen as the determining power of economic and social life. The understanding of a social, protectionist and supervisory state generally dominated the structure of the state. After 1980, however, social and economic policies which were based on the leadership and protectionism of the state were abandoned and policies were adopted in line with the preferences of international financial institutions and market forces. The Law Regarding the Protection of the Value of Turkish Currency was abolished and the laws encouraging mining and foreign capital were issued. First, public institutions and then the services that could provide high returns were privatized. (Kiper, 2006).

In other words, the aim of the implementation of neoliberal policies was to minimize the state intervention in the economic field and to make the market economy functional. The state was replaced by private initiatives, which led to a balance in the economy; it was aimed to replace the administrative decisions by the decisions taken by the price mechanism. In order to achieve this goal, interventions to goods and factor markets need to be lifted. In this context, not administrative decisions but free market forces would be effective in the functioning of the economy; all public sectors, including SEEs, would be narrowed and private enterprises would be encouraged. In addition, price competitiveness would be established by ensuring liberalization in imports and encouraging foreign capital (Ozturk & Ozyakisir, 2005).

"Parallel to the irregularities experienced in the overseas expansion in the 1980s, when the implementation of neoliberal economic policies in Turkey accelerated, despite the existing laws, the national monopoly was destroyed by a free enterprise partnership, which included the son of the head of political power; after the legal regulation in 1994, the sector, which was disabled with the irregularity, was able to turn into almost single-voice choir of the conglomerates in parallel with the usual irregularity in other sectors" (Atabek, 1999). The reflections of neoliberal policies in the media became evident in the arrangements for the private channels, which increased rapidly in the field of broadcasting in the 90s (Taskaya, 2008). This period has an important place in Turkey's media history. Moreover, "the privatization of radio and television broadcasting in this period brought a huge media structure in front of advertisers" (Pekman, 2001). In the 1990s, the intensity of private enterprises in broadcasting has diversified and increased the number of broadcasters and publications; therefore, this period is an important turning point in the media history of Turkey. The 1990s were also the years when neoliberal economic policies were applied extensively in all areas. "The emergence of the global commercial media market in the wake of the use of new media technologies and the arrangements shaped globally is one of the remarkable developments in the 1990s. This commercial media market is a result of dominant companies, new technologies that make the cost of global systems efficient, World Bank, IMF and World Trade Organization and the neoliberal economic policies that have lifted the regulatory barriers of global commercial media and have been supported by the US government" (McChesney, 2003). The results of the lobbying activities carried out by private broadcasters in order to gain privileges (or irregularities) during this period are seen in the unethical practices we face today (Taskaya, 2008).

If we examine this period in terms of media, it is seen that the structuring movements of the media develop in the audio-visual field. In this process, large business groups (conglomerates) benefited from the economic opportunities offered by neoliberal policies and entered the press sector, gradually changing the old-style ownership structure under the control of "journalist families". Thus, a new process began in which the new owners of newspapers expanded their media enterprises horizontally and vertically into large media groups organized around the newspapers. In other words, the old-style mass media became a component of large multimedia groups and multiple monopolies (Kabas, 2006). "In the wake of the change experienced after the private equity rapidly entered the sector in this period, which could be called the 'conglomeratization' of the media, the traditional media owners who did not invest much in the fields other than journalism moved away from the sector; businessmen and conglomerates with investments in many areas such as banking, construction, tourism, trade, etc. emerged as the new owners of media. Capital's activity in this area can be attributed to a number of factors such as sharing fourth power, ensuring efficiency in political circles and thus benefiting from tenders, using media to advertise other companies, and increasing marketing activities using media (Ozsever, 2004).

CHANGES AND TRANSFORMATIONS IN GLOBALIZING MEDIA ORGANIZATIONS

In the period called as new imperialism or the second globalization, economic dependence on the West began to increase through giant organizations. The World Bank and the World Trade Organization supported dependence on this issue and the economy was brought to an international level through multinational corporations. The barriers to capital were removed and the investments of multinational companies were supported. The media industry also had its share of this situation (Kihtir & Erbuyurucu, 2013).

The newspapers, which started to be published in early 17th century, targeted the elite in the first periods. However, towards the end of the 19th century, journalism targeted the masses. With the understanding of making news about many issues that attracted the attention of the readers, the newspapers started to address to people from all walks of life. Moreover, with the technological developments and industrialization, they began to be sold at a cheaper price. Urban journalism began to gain importance alongside mass journalism and difficulties of finding new capitals for new technologies emerged (Tokgoz, 2012). At this stage, it is possible to clearly see the change in the structure of capital accumulation in the media sector as a necessity of the functioning of capitalism. The relationship between capital and industry gradually began to consolidate as the return of industrialization and as the reflection of the economic development. In the economic restructuring process, the information sector, alongside the new economic structure, achieved a different position. The media, which is on the same plane as the information sector, has a structure parallel to and within the information sector in the context of the structural composition and labour processes of capital (Dagtas, 2006).

Increases in media ownership and the shifts from public ownership to private ownership, general Partnerships, the proliferation of transnational corporations and the diversity of media products are among the significant features of this change (Kihtir and Erbuyurucu, 2013). In this period, the relationship between capital and labour succeeded in determining the functioning of media outlets as accumulation and monopolies. With industrialization, companies grew larger and became giants, and small or medium-sized companies entered in the process of disappearing. This is called accumulation. Towards the end of the 19th century, the accumulation and monopolies began to become more evident in the media first in the US and then in some European countries. Today, it is possible to see these monopolies in the whole media sector (Tokgoz, 2012).

According to Kaya, the new world order depends on globalized money markets on the one hand and on developing Global Media on the other hand. Many arguments trying to explain the society we are in with definitions such as information society etc. regard the media sector as the new model of accumulation of the capitalist system. With privatization and deregulation policies, the media has become one of the main engines of capital accumulation. The end of the developed public monopolies in the light of the argument that free competition would develop libertarian understanding accelerated monopolization and the giant private companies began to dominate the media world and laid the ground for the emergence of global media (Kaya, 2016).

MONOPOLIZATION IN THE MEDIA

Monopolization is a phenomenon that appears as an inevitable consequence of the order and as a tool that supports the nature of the capitalist system in the wake of post-industrial society, industrialization and technological developments and serves the legitimacy of the capitalist system. Underlining the use of the media instead of mass media, Erdogan emphasizes the mistake in the use of the media as referring to public and commercial organizations in mass communication. Media monopolization has been realized in two ways. The first is the organization of the media as a public monopoly based on the view of public service. The second form of monopolization is the realization of growth within the framework of different strategies that require the control of private companies on supply distribution and demand in the capitalist market (Erdogan İ., 2002)

Rasit Kaya mentions two different forms of rapid monopolization in the media: the first form is that any firm operating in a single field expands its fields of activity to other areas of the sector; the other form is the integration of firms by mergers or acquisitions. Growth is achieved in this way (Kaya). Vertical integration refers to the collection of all production in similar branches by one hand (newspaper production, filmmaking, paper industry, advertising etc.) Horizontal integration is the other ownership of all transactions and enterprises until the sale of other media productions in the sector (Atilgan, 1999).

In his economy-political assessment, Thomson underlines the processes of diversification and internationalization as well as horizontal and vertical integration in the process of increasing concentration. Diversification, also known as cross-integration, refers to the inclusion of different sectors of large companies strengthened by mergers and acquisitions. For example, an institution that publishes newspapers can also enter the music sector. Thus, any possible cyclical decline in the sector can be overcome with growth support from different sectors. According to internationalization, on the other hand, the media industries turn to new markets with neoliberal policies and open up to international markets. Companies prefer to eliminate the cash/profit shortage they experience from time to time by turning to the international market (Adakli, 2006). The media sector is currently owned and controlled by the large caps. Moreover, giant capital groups have gained control of the media sector.

These organizations called the leading actors of the media sector include Time Warner, News Corporation, Disney, Berteman, General Electric, CBS, VIACOM, Vivendi and Gannett. It would surely not be wrong to think that these classifications will change with each passing year. It will be inevitable that this list will change continuously through mergers and acquisitions (Kaya, 2016).

Conveying the views of Miller, Tokgoz states that after national television channels were sold to giant companies in 1996, the US became a national entertainment state. Miller states that this period begins with the sale of CBS to Westinghouse, of NBC to General Electric, of ABC to Disney and of CNN to Time-Warner, and peaks with the sale of CBS to Viacom cable broadcasting, and with the merger of AOL (worldwide internet provider) and Time Warner in 2000s.

At this point, Miller mentions the increasing prevalence of the phenomenon of tabloidization and underlines the worrisomeness of this situation. Furthermore, he emphasizes the effectiveness of these companies in the American and international markets rather than being a multinational corporation (Tokgoz, 2012).

The 2003 revenues of giant media companies is listed in the Columbia Journalism Review as follows:

1. General Electric: $ 139.2 billion
2. AOL/Time Warner: $ 39.6 billion

3. Vivendi Universal: $ 30.1 billion
4. Walt Disney: $ 28.6 billion
5. Viacom: $ 26.6 billion
6. Bertelsman: $ 19.8 billion
7. News Corporation: $ 17.5 billion

General Electric was not included in the list of 2010 due to the downsizing.

The first four giant media companies of 2010 are listed as follows: Walt Disney, News Corporation, Viacom.

Some companies are not included in the rankings. The most important companies not included in the list are Vivendi and Bertelsmann. Today Walt Disney draws more and more attention with its international expansions (Tokgoz, 2012). The development of communication technologies at a dazzling speed and competitive world conditions, as McLuhan claims, make the world smaller rapidly. This is the same for the global media sector. According to a report by ZenithOptimedia, which announced the world's first thirty global media group, the annual turnover figures of the giant organizations exceed the national income of many countries. This is a clear indication of the dominance of certain power blocks over the world. The report dated May 28, 2013 lists the top 5 giant companies and their income levels as follows: Google 37.9, The Direct TV Group 27.2, News Corporation 26.4, Walt Disney Company 19.7, and Comcast 16.2. Research results show that the market value of the new media and telecommunication companies has risen to astronomical figures. In particular, the market values of Apple, Google, Microsoft, Facebook, and Amazon have peaked. Moreover, the competition is becoming more intense with mergers and acquisitions (Baytar, 2013).

MEDIA STRUCTURE IN TURKEY WITHIN THE CONTEXT OF MEDIA OWNERSHIP

While underlining the social and political factors in his analysis of the pre-80 period, Kologlu emphasized that economic factors played a major role in the process of change and transformation. In this context, it would not be wrong to say that studies conducted in the post-80 period on mass media determined economic factors as basic arguments.

Decisions of 24 January 1980 constitute the first steps of a fully liberal structure in Turkey. Until that time, newspaper papers were supplied to the press by the state. At that time, the state provided a very high amount of subsidy to the press organizations. After the Demirel government set the paper price as 41 liras, the entire press experienced hardship. Many press organizations had difficulties in surviving. The press started to focus on advertisements in order to cover the expenses of newspaper papers supplied from the free market. However, press organizations were still not able to remedy the deficit of state subsidies. At that time, the amounts spent on advertising increased. Promotional campaigns accelerated in order to increase circulation of newspapers. Together with the 'coupon journalism', there was a periodic increase in circulation in newspapers such as Milliyet, Sabah and Turkiye. The use of pictures in the newspapers began to increase (like in tabloids) and sensational reporting began to come to the fore. During the promotion period after 1990, the method of attracting the reader with various draws and promotions began to be preferred. Books, health bracelets and cardboard toys were used. After a while, however, due to the high costs, some publishers faced the risk of bankruptcy (Kologlu, 1994).

Despite this competitive environment, in 1989 only 3 million 184 thousand newspapers were sold. In this case, 386 thousand 624 more newspapers were sold compared to the previous year. In other words, all these campaigns and advertising spending generated an increase of 386 thousand in newspaper sales figures. In addition, 52 kinds of gifts were distributed. Instead of providing news and information and creating public opinion, which are the ultimate purposes of newspapers, press organizations entered a competition to give more houses, cars or other materials to their readers. However, they still could not achieve desired circulation figures. Despite a certain increase in circulation during the delivery of gifts and coupons, when the delivery of gifts and coupons was ceased, readers immediately turned to other gift-delivering newspapers. In this context, there was no significant change in the total circulation of the newspapers.

If the revenue from this promotional journalism and advertisements had been spent in other areas, the situation of the press could now be at a more advantageous point. For instance, specialization and in-service training would pave the way for more qualified publishing. In 1991 there was a significant decline in total circulation. According to April data, newspapers spent only 7 billion on advertising. The results were not pleasant at all in terms of the costs of newspapers. While each reader paid 32 liras a day on TV commercials in 1989, two years later this figure increased to 70 liras. At this point, it would not be wrong to say that promotion is not a circulation-increasing factor. There was no one who supported the participation of the newspapers in this crazy movement, but this was not abandoned. Tutar describes this situation of newspapers entering a race with no winners as a drug trap in which the need to increase dose is always felt. In 1992, although a very significant increase in circulation was not achieved, newspapers that spent a lot of promotional expenses continued to distribute gifts. One of the crazy promotion examples of these periods is that the Hurriyet Newspaper gave a thousand crystal tea sets for seven coupons and Lada Samara cars for only one coupon. The Milliyet Newspaper gave elliptical and stores. In the face of all these promotion frenzies, the Cumhuriyet newspaper used the slogan ‘The newspaper that only gives a newspaper’ (Tutar, 1993).

Sabah Group President Dinc Bilgin briefly summarizes this situation and says that coupon journalism started with one car and reached to twenty cars. Furthermore, he underlines the fact that 800 million liras are paid for the television advertising of a newspaper sold for only 400 liras. Stating that such a loss luxury cannot be found anywhere in the world, Bilgin argues that newspapers are in a dilemma: the government is too concerned with the financial situation of the press; capital outside of the profession of journalism can easily purchase marginal newspapers and make losses. This approach, which is valid in every period for marginal newspapers, is directed towards the big press in recent times with different approaches.

This excessive dependence on large capital also substantially increases the tendency of monopolization in the press (Kologlu, 1994).

Gunaydin and its publications were separated from Hurriyet and some groups began to form. According to the data of 1996, Topuz classifies Tercuman, Hurriyet and Ihlas Group as follows:

- **Tercuman Group:** Tercuman Journalism and Printing Inc., Mistas Representation Exports and Imports Inc., Meric Textile Inc. Tarimsan, Ter-Oto, Tercuman Motor Vehicles, Kervan Bookselling, Termos Tercuman, Mesken Sarayi, Martas, Mor-Su Industrial Products, Saba Kirklar Auto, Encyclopedia Publications...
- **Hurriyet Group:** Hurriyet Journalism and Printing Inc., Hurriyet Ofset Printing and Journalism Inc. (Hurriyet Gosteri, Tempo, Dataline Turkey), Hergun Journalism and Printing Inc., (7 days

in weekend, TV, Elele, Parquet), Ideal Publishing (Playmen, Blue Jeans),Hurriyet News Agency, Hurguc Journalism and Printing, Super Channel TV, Video Radio and News Services, Huryay Inc.

- **Ihlas Group:** Turkiye Newspaper, TGRT, Ihlas News Agency, Turkiye Children's Weekly, Monthly Journals (Textile Technic, Medical Tech. etc.), Yay-Sat Distribution, Ihlas Journalism;(outside the field of communication, Ihlas Marketing, Yurtbank, Otomobilcilik Inc., International Hospital, Ihlas Home Appliances, Ihlas Automotive, Ihlas Foreign Trade, Ihlas Fair etc.)
- **Asil Nadir Group:** Gunes, Gunaydın, Tan Fotospor, Gelisim Publications, 4 weekly and 9 monthly magazines (e.g. Nokta), 24 encyclopedias
- **Media Holding:** In addition to the newspapers Sabah, Yeni Asir, Bugun, Fotomac, 8 other publications such as Aktuel etc. In 1990s, Cukurova Group became a shareholder with 10% share.
- **Dogan Group:** Aydin Dogan started to establish a group of companies after the acquisition of Milliyet newspaper. In 1994, he acquired 70% of Hurriyet Holding. Dogan Group contains Milliyet Journalism, Milliyet Publishing, Gercek Publishing, AD Publishing, Kanal D, Hurriyet Holding as well as various banks, insurance companies, automotive and import companies, Dogus Construction Group, Dogus Tourism Group, Dogus Air Transport etc. (Topuz, 1996; Kologlu, 1992).

Despite the fact that the press companies spent 30 percent of their cost on promotions, they did not pay the salaries of their employees, which amounted to only 20 percent of the total cost. Moreover, they dismissed employees without indemnity and refused their social security. Under these conditions, the only hope for the press companies was the foreign capital in late 1991. Monopolization inevitably led groups to take measures to protect their publications. The obvious example of this situation is that the newspapers introduced strict conditions for the distribution of publications other than their own side broadcasts. With this decision, many magazines in the field of ideas, art and politics faced the danger of closing. Another effect was that the conflict between newspapers was proportional to the size of the groups, and each newspaper began to blame the other. The result was that many groups such as Asil Nadir could not survive the crisis and went bankrupt (Kologlu, 1994).

RESEARCH: DOĞAN HOLDING 2009 TAX CRISIS

Dogan Yayin Holding started negotiations on November 11, 2006 to sell 25% of its shares to Axel Springer. They announced this in a statement to the Capital Markets Board. The sales agreement with Axel stipulated certain conditions. On 22 December 2006, Dogan Yayin Holding informed CMB that this agreement was being completed… …According to the tax audit report, the legal sales procedures of the equities representing 25 percent of the capital of Dogan TV Holding A.Ş. to Dreiundvierzigste Media Vermögengsverwaltungsgesellschaft GmbH (DMV), 100% associate of Axel Springer AG, was carried out in 2007. However, the actual sale was realized in 2006 and no commercial records regarding this sales procedure were kept in 2006. For this reason, it was claimed that the necessary conditions were not met to benefit from the share sales gain exemption issued in article 5/1-e of the Corporate Tax Law (Haber7.com, 2009). A tax penalty of 826 million TL was imposed on the alleged tax evasion during the sales procedure. Finance Revenue Controllers imposed a tax penalty of 3 billion 755 million TL due to irregularity in the share transfer of the same company within the group. Dogan Yayin Holding informed the Istanbul Stock Exchange on 8 September 2018 of the historical decision of the Revenue

Controllers. According to a statement made to the stock exchange, on 10-25 August 2009, 15 Tax audit Reports were prepared for Dogan TV, D Yapim, Dogan Production and Alp Visual Communication, the direct and indirect subsidiaries of DYH. In the statement, it is stated that after the tax audit conducted between 2005 and 2007, 1 billion 878 million TL tax original, the same amount tax loss, 60 thousand TL irregularity and 282 thousand TL special irregularity penalty were imposed on DYH. The total amount of the penalty imposed on the Holding was 3 billion 755 million TL. It is stated that since the tax audit was conducted between 2005 and 2007, together with the interest on the delay, this penalty can reach to a total of 5 billion TL (Sabah.com.tr, 2009). The tax penalty imposed on the subsidiaries of Dogan Yayin Holding has been recorded as the biggest tax penalty imposed on a company to date (sabah.com.tr, 2009).

Before the tax penalties, Dogan Holding had not experienced a decline in the annual turnover even in the 2008 Global Crisis. 2008 global crisis, The 2008 Global Crisis led to declines in the profitability of many giant companies. Large groups in Turkey performed relatively better than their competitors in the world. Dogan Holding increased its 2008 turnover by 21.4 percent to TL 12 billion 500 million (Gözütok, 2009). The penalties caused a big financial setback for the Dogan Group. For example, the value of Dogan Yayin Holding in the stock exchange in 2008 was 2 billion 516 million dollars. However, after the tax penalty was imposed on February 18, 2009, this value fell to 186 million dollars. Dogan Holding's value of 2 billion 806 million dollars in 2008 decreased to 796 million dollars on February 18, 2009 (Hurriyet.com.tr, 2016). The Holding which was on the brink of economic crisis started to dismiss its employees. The number of employees of the Holding was 10.780 according to 2014 figures; in 2015, however, this figure fell to 8.668 (Takvim.com.tr, 2015).

Dogan Group of Companies Holding Inc.'s statement to the Public Disclosure Platform was as follows: "In the framework we have previously disclosed to the public, and within the scope of the 'Share Sale Agreement' signed between our Company and Demiroren Media Investments on April 6, it was decided to realize in cash and in advance the sales procedures of all of the shares of our direct subsidiaries Dogan Journalism Inc., Hurriyet Journalism and Printing Inc., Dogan TV Holding Inc., Dogan News Agency Inc., Dogan Distribution Sales Marketing Printing Payment Brokerage and Collection Systems Inc., Dogan Internet Broadcasting and Investment Inc. and Dogan Media International GmbH (together with 'the Companies subject to transfer') and our indirect subsidiary Mozaik Communication Services Inc. and Radio D and CNN Turk Radio's license rights in consequence of the purchase right used to the Demiroren Media Investments Trade Inc. (Buyer) for a total 893 million dollars sales price (Sales Price); sale and transfer of share certificates have been completed by providing the closing conditions as of today and the sales price was deposited fully and in cash into our accounts" (Hürriyet.com.tr, 2018).

Purpose of the Research

The media sector, which is shaped on the axis of globalization, operates in markets based on capitalist system-oriented neoliberal policies. With the ever-changing and transforming conditions of competition, the media has entered into a process of integration that includes different industries. Property structures and control mechanisms of dominant ideology played an active role in this situation. Integrated with the capital and financial sector, the media entered under the dominance of giant conglomerates. This has also led to radical changes in the traditional media. Over time, the impact of family companies in the Turkish press was over; and in the period after 1980, a new era began after the big capital entered the media. In the 1990s, media bosses turned their businesses into industrial complexes (Tokgöz:48).

Many media groups entered a fierce competition with each other; some media groups were destroyed and some of them were purchased by other groups since they could not survive the crisis.

As one of the most important actors in the media sector in Turkey, Dogan Holding was affected by these turbulent times in the media. Before the tax penalties, Dogan Holding had not experienced a decline in the annual turnover even in the 2008 Global Crisis. The penalties caused a big financial setback for the Dogan Group. The Holding which was on the brink of economic crisis started to dismiss its employees. Therefore the tax crisis played an important role in the future of the Holding . The present study aimed to evaluate the conglomeratization in the media sector and the Dogan Holding Crisis in the context of media ownership.

Importance of the Research

Aydin Dogan, the owner of Dogan Media Group, established a large group of companies after acquiring Milliyet. The group, which later on incorporated the Hurriyet Newspaper, was among the largest media conglomerates in Turkey for many years. In this context, the tax crisis experienced by Dogan Media Group in 2009 is important for giant media companies. After this crisis, Dogan Media Group gradually shrunk and was sold to Demiroren Media Investments in 2018.

Limitations of the Research

When the population of the study was taken into consideration, the news stories published in 4 different newspapers were evaluated. In this context, in order to make the study objective, the relevant news stories published between February 2009 and September 2009 in Yeni Safak, Cumhuriyet, Sabah and Hurriyet Newspapers, which are considered to represent different ideologies in Turkey, were investigated.

In this context, to ensure the objective approach in this study the 42 news reports published between February 2009 and September 2009, in newspapers that are thought to have different viewpoints in Turkey, such as Sabah, Cumhuriyet, Yeni Safak and Hurriyet have been investigated using content analysis. The time interval was chosen in accordance with the tax penalty.

Research Methodology

In the study, the number of news stories about the crisis in newspapers was determined through content analysis method and in this context, how much space the newspapers allocated to the crisis-related news stories, their handling of the crisis and the language they used in these news stories were examined through descriptive text analysis. Content analysis was first started by journalism students in the USA with the studies on newspapers. This method was used in the propaganda studies during the Second World War. The content analysis method provides positive data on the access to data in the quantitative research in the field of communication and in the evaluation of these data. Content analysis is a quantitative method based on the analysis of recorded texts obtained by the codes based on certain rules. This method is based on the scope of the message and the information it transmits (Yildirim, 2015). The content analysis method provides the opportunity to interpret the data obtained through statistical data. The use of statistical data enables the researcher to make a systematic and objective interpretation (Kocak & Arun, 2006). The content analysis method aims to reach quantitative data. The content analysis is based on the fact that there is no developed and standardized category system suitable for each study; therefore, each research should create the category system from its own analysis material. The content analysis includes the agreed-upon information into the category. Information that is not agreed-upon is not included in the category (Gokce, 2006).

Also and the in the study, the thematic and schematic structures that Teun A. Van Dijk has defined in the context of news analysis is shaped on the axis of his method. In this context, macro and micro structures are used in the thematic analysis. In thematic analysis, answers to the questions emphasizing the hierarchical structure such as upper headline, title, subtitle, spot, news entries (in summary), news (the relation of the headings with each other, the relation between the title and the text is questioned, the length of the headline text is important, whether there is summary in the news entry, what the length is) are sought. In schematic analysis, the plot and its structure are analysed. The history of the news, the way of approaching it, the proper use of the necessary information, background information are sought. The sentence structure of the news is used in micro analysis. Simple complex sentence, passive sentence, the choice of phrases, rhetoric (pictures, photographs, quotations) are evaluated (Inceoglu and Comak, 2009).

The most time consuming part of the content analysis is the coding part. Each encoder is given a coding guide with categories and encoding rules (Wimmer & Dominick, cited by Akdenizli, 2012). In the content analysis, researchers make coding according to variables and categories. The evaluations related to the research are revealed by these encodings. The categories used for coding can be created by the researcher or can be selected from those previously developed by other researchers. At the coding stage, the researcher examines the information obtained and tries to divide them into meaningful sections and to find out what each section conceptually means. Thus, the research data is divided into these sections which constitute a meaningful whole in itself; that is, it is coded by the researcher. In the data coding process, the researcher has to take into account how the data will be divided into sections in terms of meaningful wholes, how to code to these divisions, and whether the data in these different sections will be arranged with similar codes (Simsek & Yildirim, 2008).

The reliability of the research means that the same thing produces similar results under the same conditions. Thus, the objectivity of the research is ensured. The content analysis includes information from a large number of units. Therefore, investigation of the same data by different coders is important in terms of the consistency of the research. For this purpose, different encoders independently encode the same text and control consistency (Neuman, 2007). The reliability of content analysis depends on the encoding process. Therefore, it is important that the encoders are trained in this regard and that reliability tests are conducted with the encoders. In addition to reliability, the relevance of the measurement tool and the error-free measurement increase the validity of the research (Akdenizli, 2012). In the content analysis method, analysis and coding are obtained as statistical findings. The issues of the newspapers of the period examined in the research were reviewed under the following headings. The categories to be used in the study are listed below.

1. Are the headline and text compatible?
2. Is there any cause/effect analysis in the news story?
3. Does the news have an objective view?
4. Are there any references/citation/quotation in the news?
5. Does the news contain the historical background of the event?
6. Are there any emotional texts?
7. Are there any texts with humour/slang/violent contents?

8. Has any metaphor/analogy been used?
9. Are there clear and strict statements?
10. Is a straight/moderate narration preferred?
11. Masking (in other words describing implicitly)

Findings of the Research

The news about the subject in Table 1, No. 1, dated February 19, 2009 Thursday in Sabah Newspaper, was given in the 1st page subheading with the title "826 Million Fine for Dogan" supported by an Aydin Dogan visual. In the context of the news it was stated that "Finance Sentenced Dogan with Tax Fine for Infraction in Share Transactions between 2004 and 2006."

Table 1. Sabah newspaper news headlines

Order	Date	1st Page Headline	Headline /Subheading/ 1st Page News	Inside Page Headline
1	February 19, 2009	826 Million TL Fine for Dogan	Subheading	826 Million TL Tax Fine for Dogan for the Sale of Shares
2	February 20, 2009	Second Shock for Dogan	Subheading	Another Shock for Dogan... Criminal Case on the Agenda
3	February 21, 2009	Six More Companies are on the Agenda	Headline	Tax Penalty Has Reached 1 Billion, File Was Sent to the Prosecutor's Office
4	February 22, 2009	Dogan's Fear of Bankruptcy	1st Page News	Tax Notice Came from Inside Sequestration Risk For Dogan
5	February 23, 2009	We Have no Involvement in Dogan Business	Headline	Not Just the Finance, But the Autonomous CMB Examines Dogan As Well
6	February 24, 2009	914 Million Lira Collateral Request	1st Page News	Time for Fake Invoice for the Former Employee in Dogan Media
7	February 25, 2009	Shock Bargaining on the Internet	1st Page News	Hasan Sek.: That Job? That Was a Job for Request and Respect
8	September 9, 2009	Historical Fine for Dogan	Headline	Historical Fine for Dogan: 3.8 Billion TL Fine
9	September 11, 2009	Aydin Dogan's 25 Percent Game	Subheading	Dogan Passed the Line in the Sale to Axel
10	September 12, 2009	Aydin Dogan's Score Decreased As Well	1st Page News	What is the 99.99 percent of the 25 percent of 28 companies?
11	September 15, 2009	Dogan is not the Greatest	Subheading	Finance: Largest fine in Tax Fines was not for Dogan
12	September 26, 2009	Record Collateral	1st Page News	Dogan Has Been Clamped for 4800000000 Lira Tax Fine
13	September 27, 2009	We can Cash the Collateral	1st Page News	"Your Collaterals can be Sold" Message to Dogan
14	September 28, 2009	Refusal from the Ministry of Finance to Dogan	1st Page News	Dogan Group's Chess with the Ministry of Finance was Locked in VAT
15	September 29, 2009	Dogan's Last Effort	1st Page News	Dogan's October 9 Operation

Table 2. Analysis findings concerning Sabah and Cumhuriyet newspapers

	Sabah															**Cumhuriyet**					
	February							**September**								**February**			**September**		
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**1**	**2**	**3**	**4**	**5**	**6**
Are the headline and text compatible?	X	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Is there any cause/effect analysis in the news story?	X	X	X	X		X	X	X	X	X	X	X	X	X		X			X		
Does the news have an objective view?	X	X	X	X	X	X		X	X	X	X	X	X						X		
Are there any references/citation/quotation in the news?	X	X	X	X	X	X	X	X	X	X	X	X	X		X	X		X	X	X	X
Does the news contain the historical background of the event?	X	X	X	X	X	X	X	X	X	X	X	X							X		
Are there any emotional texts?	X	X																			
Are there any texts with humour/slang/violent contents?			X	X		X										X				X	
Has any metaphor/analogy been used?		X					X				X					X		X		X	
Are there clear and strict statements?			X	X			X								X	X		X			
Is a straight/moderate narration preferred?	X	X	X		X	X	X	X	X	X	X	X	X	X			X		X	X	X
Masking (in other words describing implicitly)		X		X			X	X		X	X										X

In page nine it was given with the headline "826 Million TL Tax Fine for Dogan for the Sale of Shares" and the news was supported by the statements of Finance Controllers. In the text of the news, "*Record Fine for Dogan Yayin Holding in the Investigation of Finance Controllers. 826.3 million tax fine was notified to the Group. It was declared that "Dogan Yayin Holding defended that the practices were in accordance with law, legislation and notifications."* According to the criteria in Table 2; the title and the content of the news text match each other. In the statement in the headline of the news it was stated that the reviews that went on for 6 months were completed and tax fine was sentenced because the finance controllers came across some infractions. In the news text, it was handled within cause and effect relationship. 826.3 million fine was issued for infractions after the investigations that were carried out in the Holding. The objective view was ensured in the news. The statements by the Ministry of Finance Income Controllers and Dogan Holding were given objectively. The explanations of the Ministry of finance Income Controllers and Dogan Holding to the ISE were used as sources. In the news text, the historical background of the event was revealed; Dogan Holding was notified of the fine for infractions that were found after investigations that went on for 6 months. A moderate/straight narration was chosen in the news.

The news about the subject in Table 1, No. 2, dated February 20, 2009 Friday in Sabah Newspaper, was given in 1st page subheading with the title “Second Shock for Dogan” supported by an Aydin Dogan and Nurettin Canikli, Vice President of AK Party Group, visuals. In the context of the news it was stated that “Possible criminal case for Dogan Yayin Holding for tax evasion is in question”. In the news, the news was intensified by using Nurettin Canikli’s, Vice President of AK Party Group, “no prerogative to anyone” expression.

In the page 19, “Another Shock for Dogan... Criminal Case on the Agenda” was used as headline and supported by an Aydin Dogan visual and the report written by Ministry of Finance Revenue Controllers, and by giving reference the assessments of Nurettin Canikli, Vice President of AK Party Group, and DYH (Dogan Yayin Holding). In the news were “The revenue controllers fined Dogan Yayin Holding record 826.3 million TL from tax evasion. In the news “irregularity and accounting fraud in the sale of shares were detected in an investigation started in March 2008 in 5 companies of the Holding.” and “The inspectors attributed the investigation report to a crime of tax evasion.” For this reason, the file will be sent to the prosecutor’s office for fining a criminal case as well as financial responsibility. For this offense, 6 months to 3 years imprisonment is foreseen. According to the criteria in Table 2; the title and the content of the news match each other. The news is discussed in the text within the context of cause and effect relationship. The news contains events that led to the penalty completely, as well as information on the post-punishment and the post-criminal situation. The news includes Objective Point of View. The views of the Ministry of Finance, Revenue Controllers of the Ministry of Finance, DYH and AK Party Group Vice President Nurettin Canikli takes place impartially. In the report, Ministry of Finance, Revenues Controllers of the Ministry of Finance, DYH and AK Party Group Vice President Nurettin Canikli have been asked for their opinions and used as a reference. In the news, the historical background of the event has been presented by giving detailed information about the events that have been going on since 2008. The advertisement DYH placed on its own group newspapers contains sentimental texts. Metaphor/analogy was used in the news text. Expression of “melting in shares” is an example of this. In the text of the news, moderate/straight narration was used instead of harsh/sharp expressions. In the news, the expression of “tax evader for unpaid taxes” in DYH’s full-page advertisement is an example of masking.

The news about the subject in Table 1, No. 3, dated February 21, 2009 Saturday in Sabah Newspaper, was given in the 1st page subheading with the title ” *Six More Companies are on the Agenda* ” supported by an Aydin Dogan visual. In the context of the news it was stated that ” The Dogan Group’s 6 more companies were sentenced with a penalty of 862 million liras and 988 million liras in total with an interest rate.” In the news, the news was intensified by using Nurettin Canikli’s, Vice President of AK Party Group, “No prerogative to anyone” expression. In the news, Vice President of DYH, Soner Gedik, stated that 7 companies, which consists of 90% of the revenue of Dogan Group together with DYH, were examined in the investigations initiated by ten experts on 18 March.

In page 10, it was given in the headline “*The tax penalty is about 1 billion. File sent to prosecutor’s office*” and the news was supported by the visual of Aydin Dogan and the report prepared by the Ministry of Finance Revenues Controllers referred to the tables of active stocks of SPK officials, DYH Vice President Soner Gedik and Dogan Holding’s listing on the Istanbul Stock Exchange. *It was declared* *that "Dogan Yayin Holding defended that the practices were in accordance with law, legislation and notifications."*

In the news, it was expressed that "*While the tax penalty of 862 million liras fined for Dogan Yayin Holding by Revenue Controllers has a broad repercussion, two critical developments are on the agenda"* and the "Controllers" reported "*the tax evasion*" report to the prosecutor. It was stated that If DYG "*loses the lawsuit against the penalty, it will pay the interest of at least 120 million TL. Capital Markets Board (CMB) also requested the file*." according to the criteria in Table 2; the title and the content of the news text match each other. Statements of Vice President of DYH, Soner Gedik together with Report of the Financial Revenue Controllers match with the statement in the headline of the news. It was handled within the cause and effect relationship. As a result of the investigation reports that caused the penalty, launching an examination by the CMB resulted in a decline in the shares of Dogan Holding in the Istanbul Stock Exchange. The objective view was ensured in the news.

Information about the report written by the Ministry of Finance Revenues Controllers, shares of CMB officials, DYH Vice President Soner Gedik and Dogan Holding traded on the Istanbul Stock Exchange was given impartially. In the news, the report written by the Ministry of Finance Revenues Controllers was used as a source by referring to the information about the shares of CMB officials, DYH Vice President Soner Gedik and Dogan Holding traded on the Istanbul Stock Exchange.

In the news, the process subject to punishment is explained by DYH Vice President Soner Gedik. In the news, that statement of Soner Gedik "*we are curious about what will happen to the 6 companies under investigation*" contains humor/slang/ violence. In the news, there are harsh/sharp expressions. However, a straight/moderate narration was preferred throughout the text.

The news about the subject in Table 1, No. 4, dated February 22, 2009 Sunday in Sabah Newspaper, was given in the 1st page subheading with the title "Dogan's Fear of Bankruptcy" supported by an Aydin Dogan visual. In the context of the news it was stated that "*Dogan Holding is anxious about sequestration.*"

In page 13, it was given in the headline "Tax Notice Came from Inside, Sequestration Risk for Dogan" and the news was supported by referring to Legal Counselor of Ministry of Finance, Der Tagesspiegel newspaper from Germany, press conference of Soner Gedik, DYH Vice President, and DYH's advertisement in their group newspapers.

In the news, it was stated that *"Ministry of Finance is to file a defamation case against accusations of being "unscrupulous". The company also faces a risk of sequestration after a tax fine of 862 million liras."* According to the criteria in Table 2; the title and the content of the news text do not match each other. The statement in the headline *"Tax Notice Came from Inside Sequestration Risk for Dogan"* and the expressions in the content do not match each other. It was handled within cause and effect relationship. In response to the statements in the advertisement placed by DYH in its own group newspapers, Legal Counselor of the Ministry of Finance officials made statements using their right of reply to the advertisement. The objective view was ensured in the news. Statements regarding to Legal Counsellor of Ministry of Finance and advertisement given in DYH's own newspapers are impartial. The news was supported by referring to Legal Counselor of Ministry of Finance, Der Tagesspiegel newspaper from Germany, press conference of Soner Gedik, DYH Vice President, and DYH's advertisement in their group newspapers. In the news, it was explained in which years DYH audits were made on which subsidiaries and which accounting periods. In the context of the news, there are heavy accusations of humor, slang / violent statements in the advertisement of DYH in their group newspapers. The news about the Ministry of Finance contains sharp and harsh statements. Masking is used in news text. In his statements, Soner Gedik criticizes the judiciary without mentioning any names.

The news about the subject in Table 1, No. 5, dated February 23, 2009 Monday in Sabah Newspaper, was given with the headline " We Have no Involvement in Dogan Business " supported by an Aydin Dogan visual. In the context of the news it was stated that "*Prime Minister Tayyip Erdogan says that the tax inspection for Dogan Yayin Holding is the Ministry of Finance's own initiative.*"

In page 6, it was given in the headline "Not Just the Finance, But the Autonomous CMB Investigates Dogan As Well" and the news was supported by the interview with Prime Minister Recep Tayyip Erdogan conducted by Emre Akoz, and by Prime Minister Recep Tayyip Erdogan's image. In the context of the news, Prime Minister, in his statements related to fine for Dogan Group stated that "they will not intervene insisting on conducting an investigation and examining the documents by Finance Department and expressed that the controls are routine and CMB is an independent organization." According to the criteria in Table 2; the title and the content of the news text match each other. The statement in the headline of the news and the statements of Prime Minister Erdogan in the news match each other. The news was supported by referring to the interview with Prime Minister Recep Tayyip Erdogan conducted by Emre Akoz. In the context of the news, moderate/straight narration was used instead of harsh/sharp expressions.

The news about the subject in Table 1, No. 6, dated February 24, 2009 Tuesday in Sabah Newspaper, was given in the 1st page with the title "914 Million Lira Collateral Request "supported by an Aydin Dogan visual. The news was intensified using the expression of "*The finance didn't leave it to chance. Take precaution against Dogan preparing to file a suit.*"

In page 10, it was given in the headline "*Time for Fake Invoice for the Former Employee in Dogan Media*" and supported by using Ministry of Finance audit reports, DYH CEO Mehmet Ali Yalcindag, Independent audit firm PricewaterhouseCoopers (PWC), Halkali Tax Administration Directorate, DYH Vice President Soner Gedik and Dogan Holding former employee Hasan Şek as sources. In the context of the news, it was stated that, "While Finance was requesting a collateral money of 914.8 million TL for a tax penalty of 826 million TL from the Group, confessions of Hasan Şek, former Dogan employee revealed that Dogan Raks was sold with a counterfeit bill." According to the criteria in Table 2; the title and the content of the news text match each other. Together with the statement in the headline of the news, Sek stated that "*Although he was appointed as the Chairman of the Board of Directors of the Commercial Registry Gazette, he was not invited to any meeting and signed a contract in which the date was left blank in case there could occur a problem.*" The news was supported by referring to the interview with Prime Minister Recep Tayyip Erdogan conducted by Emre Akoz. In the context of the news, moderate/straight narration was used instead of harsh/sharp expressions. It was handled within cause and effect relationship. DYH stated that the independent audit firm PricewaterhouseCoopers (PWC) expressed that Dogan Media sales were made on 16 November 2006, not 2007. The objective view was ensured in the news. Audit reports of the Ministry of Finance, thoughts of Halkali Tax Office Directorate, PricewaterhouseCoopers, Mehmet Ali Yalcindag, Soner Gedik and Hasan Sek were included impartially. In the news, referring to the Ministry of Finance audit reports, thoughts of DYH CEO Mehmet Ali Yalcindag, Independent audit firm PricewaterhouseCoopers (PWC), Halkalı Tax Administration Directorate, DYH Vice President Soner Gedik and Hasan Sek, Dogan Holding former employee, they were used as sources. In the news, the historical background of the incident is described in detail. In the context of the news, there are humorous elements in the statements of Mehmet Ali Yalcindag and Soner Gedik. In the context of the news, moderate/straight narration was used instead of harsh/sharp expressions. The news about the subject in Table 1, No. 7, dated February 25, 2009 Wednesday in Sabah Newspaper, was given in the 1st page with the title " *Shock Bargaining on the Internet* " supported by Soner Gedik, DYH Vice

President and M. Akif Ulusoy, President of Revenue Administration visuals. In the context of the news it was stated that "*Prime Minister Tayyip Erdogan says the tax inspection for Dogan Yayın Holding is the Ministry of Finance's own initiative*." The content of the news includes statements that telephone conversation between Dogan Holding Manager (Vice President of DYH Soner Gedik) and a bureaucrat (Revenue Administration President M. Akif Ulusoy) came out on the internet.

In the news continuing in the 9th page, the headline was given as "*Hasan Şek: That Work? That was Request Work*" and the news is supported by showing parts of phone conversation between Soner Gedik and M. Akif Ulusoy as sources. In the text, it was stated that "*While DHY's 1 billion tax fine was being discussed, telephone conversation between Vice President of DYH Soner Gedik and Revenue Administration President M. Akif Ulusoy has been the shocking news on the agenda*" and "*Şek, who is a former employee of Dogan Group stated on the sale of Dogan Raks to himself that "They convinced me by saying that is is bad for Yalçındag's image."* According to the criteria in Table 2; the title and the content of the news text match each other. The statement on the news title and the phone conversations of Gedik and Ulusoy and Hasan Şek's statements in the news match each other. The situation was utilized in the news by including declarations of Dogan Holding, telephone conversation between Vice President of DYH Soner Gedik and Revenue Administration President M. Akif Ulusoy and thoughts of Hasan Şek, former employee of Dogan Holding. In the text of the news, the background of the situation was given with the telephone conversation between Vice President of Finance of DYH Soner Gedik and Revenue Administration President M. Akif Ulusoy and statements of Hasan Sek. In the text of the news in Hasan Şek's statement "the reconciliation number is a small sum" is a good example of metaphor. In the text of the news in the phone conversation records between Gedik and Ulusoy, there are harsh and sharp statements. In the news straight/moderate tone was preferred. In the text of the news, in Hasan Sek's statement, masking was used by covering it with another statement.

The news about the subject in Table 1, No. 8, dated September 9, 2009 Wednesday in Sabah Newspaper, was given in the 1st page with the title "*Record Fine for Dogan*" supported by Aydin Dogan visual. The statements, such as "*The Ministry of Finance sentenced Dogan Yayin Holding's 4 companies 3.8 billion lira tax fine. The fine will reach 5 billion with the interest*" and the share transfers regarding the fine will be sent to RTÜK, were included in the text of the news. The news was intensified by stating that Dogan Holding shares fell by 20 percent.

In page 8, the news was given with the headline "*Record Fine for Dogan: 3.8 billion TL Fine*" and the news was supported by Aydin Dogan's visual, the report given by DYH to ISE and the Vice President of Finance of DYH Soner Gedik's opinions shown as sources. In the text of the news, it was stated that "*Ministry of Finance sentenced Dogan Yayin Holding's subsidiaries Dogan TV Holding, D Yapim, Dogan Production and Alp Visual Communication 3.8 billion fine for the investigations regarding the years 2005, 2006, 2007"* and *"This number has made the history for being the highest tax fine for one company . Regarding the fine that was calculated on the real tax value of 1.88 billion, Dogan Group said that all legal means will be utilized."* An important point in the news is that the loss for one day is 775 million dollars and Dogan shares fell by 20 percent. According to the criteria in Table 2; the title and the content of the news text match each other. The statement in the news headline, "*This number has made the history for being the highest tax fine for one company. Regarding the fine that was calculated on the real tax value of 1.88 billion, Dogan Group said that all legal means will be utilized*" and in the text of the news, the report that Dogan Group sent to the ISE match each other. The news was handled within cause and effect relationship. The relationship of the situation is that the fine sentenced for DYH as a result of routine investigations carried out by the Ministry of Finance and the decrease in the shares of the Holding due to the fine. Dogan Group's answers against the Tax Administration's decision are given in the text of the news. Objective view was ensured because both sides' answers were given in the news. The report given by DYH to ISE, the Vice President of Finance of DYH Soner Gedik's opinions and the statistical data of Dogan Group shares which is in the ISE-100 index are used as sources. The cases that led to the fine were given in the text of the news by stating the investigations in DYH in certain periods. In the text of the news, straight/moderate expressions were used instead of harsh/sharp expressions. Masking was used in the text of the news. The statement that unjust criticisms were carried out in the statements of Soner Gedik is an example for that.

The news about the subject in Table 1, No. 9, dated September 11, 2009 Tuesday in Sabah Newspaper, was given in the 1st page with the subheading "*Aydin Dogan's 25 Percent Game*." In the text of the news, the statements such as "*It was revealed that Dogan, which were sentenced to 3.8 billion tax fine did not comply with RTÜK Law and transferred over 25 percent shares to Axel"* were given. In the news, it was also stated that the records about the 28 companies of Dogan were written by lead pencil in the decision notebook.

The news continuing in page 9 was given with the headline "*Dogan Passed the Line in the Sale to Axel*" and it was supported with Aydin Dogan's visual and the news reported previously in Sabah newspaper along with the RTÜK law that is shown as sources. In the text of the news, it was stated that "*There was contradiction with the RTÜK law as well, while the RTÜK law said that you can sell 25 percent of TV to foreigners, the Controllers found that of the 28 radio and TV companies, more than 25 percent was sold. "*According to the criteria in Table 2; the title and the content of the news text match each other. The statement in the news headline and the statement that says of the 28 radio and TV companies, more than 25 percent was sold in the news text are examples of this. It was handled within cause and effect relationship in the news text. The news relays Dogan Holding's dispatch to RTÜK due to overselling of the allowed TV number and shareholding to a foreign group according to the RTÜK law. Objective point of view was ensured in the news. The Revenue Controllers' reports and RTÜK law is in the text of the news objectively. In the news, RTÜK law and the news in the previous publications of Sabah newspaper were cited as sources. In the text of the news, the points against the RTÜK law found during the investigations in DYH in certain periods were explained in detail. In the text of the news straight/moderate expressions were used instead of harsh/sharp expressions.

The news about the subject in Table 1, No. 10, dated September 12, 2009 Saturday in Sabah Newspaper, was given in the 1st page with the headline "*Aydin Dogan's Score Decreased As Well."*

In the news continuing in page 16, the news was given with the headline "What is the 99.99 percent of the 25 percent of 28 companies?" and it was supported with the report that Dogan Yayin Holding sent to Public Disclosure Platform and the international rating institution Fitch shown as sources. In the text of the news it was stated that "*Opposed to the statement by DYH saying 'It is not our line of business and we do not have license authority,' Kanal D, CNN Turk and Star TV is among the 28 companies under Dogan TV which belongs to the Holding. The retail of 25 percent of these TV channels to German Axel supports the claim that it contradicts with the RTÜK law."* The text of the news included the structural qualities of the companies within the Holding and that Fitch decreased DYH's credit score. According to the criteria in Table 2; the title and the content of the news text match each other. In the news text and the statement of the headline, the company structures within the Holding are given in detail. In the news text, it was handled within cause and effect relationship. It was stated that after Holding got fined and its shares decreased in the ISE, Fitch decreased the credit score. Objective point of view was ensured in the news. The data about the fine and the statements made by DYH about these fines were given objectively.

The report sent by DYH to PDP was shown as source by applying to Fitch and Trade Registry Gazette. The cases that led to the fine were given according to years along with the background of the cases. In the text of the news straight/moderate tone was used. Masking was used in the text of the news. TÜSİAD's statement that the fine is a problem of democracy beyond a simple tax fine is an example for that.

The news about the subject in Table 1, No. 11, dated September 15, 2009 Tuesday in Sabah Newspaper, was given in the 1st page with the subheading "*Dogan is not the Greatest*" supported by Aydin Dogan visual. In the text of the news, it was given that "*The Finance revealed that the greatest fine written to a taxpayer does not belong to Dogan*." The news was intensified with the statement of Prime Minister Erdogan saying "*It is not right to show a legal action as a pressure on press.*"

In the news continuing in the 9th page, it was given with the headline "*Finance: The Greatest Tax Fine was not Given to Dogan Group*" and the news was supported with the visual of Minister of Finance, Mehmet Simsek and the declarations of the Ministry of Finance shown as sources. In the text of the news, the Ministry of Finance opposed the news about the 3.8 billion lira fine to DYH saying that "There is no special practice for any tax payer." According to the criteria in Table 2; the title and the content of the news text match each other. In the statement in the news headline and the text, the information about who got the greatest fine and the fines to other institutions throughout the years were given. In the news text, it was handled within cause and effect relationship. It was stated that the Finance makes routine investigations in companies and the fine was written after these investigations. The Ministry of Finance replied to the statements made by the DYH after the fines. Objective point of view was ensured in the news. The Ministry of Finance statements were given objectively. In the news, the opinions of the Prime Minister Recep Tayyip Erdogan and the Ministry Of Finance were given as sources. In the news text, examinations in DYH over the years and the cases that resulted in fines were given. In the news text, metaphor/analogy was used. The statement in the news headline saying "Dogan is not the Greatest" is an example for that. In the text of the news, moderate/straight narration was used instead of harsh/sharp expressions. Masking was used in the news text. Prime Minister Erdogan's criticism for Dogan Group and some EU authorities without giving names is an example for that.

The news about the subject in Table 1, No. 12, dated September 26, 2009 Saturday in Sabah Newspaper, was given in the 1st page with the headline "Record Collateral" supported by Aydin Dogan visual. In the text of the news it was given as such "*The Finance requested collateral for the 4.8 billion TL fine from Dogan. Capital Market Board filed a criminal complaint the prosecutor's office for Aydin Dogan and his daughter Hanzade.*"

In the news continuing in page 9, the headline was "*Dogan Has Been Clamped for 4800000000 Lira Tax Fine*" and the news was supported with the statements of the Ministry of Finance, CMB, Revenues Controllers, Ekininvast Research Manager Ozgur Yurtdasseven and Dogan Holding shown as sources. In the text of the news, it was given that "*the Finance requested a collateral of 4 billion 823 million lira of tax fine including the due interest from the shareholders within Dogan Yayin Holding. If Dogan cannot show collateral, we will start the lien process.*" According to the criteria in Table 2; the title and the content of the news text match each other. The statement in the headline and the statements of the Ministry of Finance in the text of the news match each other. In the news text, it was handled within cause and effect relationship. In the news, the collateral stated within the laws is requested for the fine and the interest of the fine. Objective point of view was ensured in the news. The statements of the Ministry of Finance, CMB and Dogan Holding were given objectively. In the news, the opinions of Ministry of Finance, CMB, Revenues Controllers, Ekininvast Research Manager Ozgur Yurtdasseven and Dogan

Holding are given as sources. In the text of the news, the claim for accounting trick that caused the fine was given as the background of the case.

The news about the subject in Table 1, No. 13, dated September 27, 2009 Monday in Sabah Newspaper, was given in the 1st page with the headline "*We can Cash the Collateral"* supported by Aydın Dogan visual. In the text of the news, it is stated that "*Message from the Finace to Dogan Group for the tax fine of 4.8 billion lira and its interest.*"

In the news continuing in page 16, the headline was "*The Message that your Collaterals can be Sold is Given to Dogan*" and the news was supported with the notification sent by Halkali Tax Administration and the previous information about the Finance authorities shown as sources. In the text of the news it was stated that "The countdown for the 4.8 billion lira collateral that the Finance requested from Dogan (DYH) has started. Valid or enough collateral is of great importance." According to the criteria in Table 2; the title and the content of the news text match each other. In the headline and in the text, it was stated that the fine will be accepted, a discount will be requested and there is an opportunity to file within 30 days. Objective point of view was ensured in the news. The news was given objectively by depending on the laws. In the news the notification sent by Halkali Tax Administration and the opinions of Finance authorities were used as sources. In the text of the news, moderate/straight narration was used instead of harsh/sharp expressions.

The news about the subject in Table 1, No. 14, dated September 28, 2009 Monday in Sabah Newspaper, was given in the 1st page with the headline "*Refusal from the Ministry of Finance to Dogan"* supported by Aydin Dogan visual. In the text of the news, it was given that "*Dogan Group's expectation of correction for the tax fine was unanswered*."

In the news continuing in page 13, the headline was "*Dogan Group's Chess with the Ministry of Finance was Locked in VAT*" and the news was supported with the Finance's report about the assessment shown as source. In the text of the news, it was given that "*Dogan asked for correction in the assessment about the VAT which makes up a large sum of the tax fine of 4.8 billion lira. Finance said nothing can be done because the request for compromise was reviewed before the assessment."* According to the criteria in Table 2; the title and the content of the news text match each other. In the statement in the news headline and the news text it was stated that nothing can be done because the request for compromise was reviewed before the assessment. In the news, the report about the assessment was shown as source. In the text of the news, moderate/straight narration was used instead of harsh/sharp expressions.

The news about the subject in Table 1, No. 14, dated September 28, 2009 Monday in Sabah Newspaper, was given in the 1st page with the headline "*Dogan's Last Effort"* supported by Aydin Dogan visual. In the text of the news, it was stated that Dogan needed to show collateral for 4.8 billion lira fine until 9 October and Dogan worked for the suspension of execution as a last resort.

In the news continuing in page 12, the headline was "*Dogan's 9 October Operation*." In the text of the news it was stated that "Dogan Group, who was fined for 4.8 billion lira with the interest by the Finance, will start an operation to gain time until 9 October." According to the criteria in Table 2; the title and the content of the news text match each other. It was stated in the headline that Dogan will start an operation to gain time until 9 October. In the news, the report sent to CMB was shown as a source. Harsh/sharp expressions were used in the text of the news.

The news about the subject in Table 3, No. 1, dated February 20, 2009 Friday in Cumhuriyet Newspaper, was given in the 1st page with the headline "*Pressure on Media is a Regime Problem"* supported by Aydin Dogan visual. In the text of the news it was given as such "*The leader of the Republican*

Table 3. Cumhuriyet newspaper news headlines

Order	Date	1st Page Headline	Headline /Subheading/ 1st Page News	Inside Page Headline
1	20 February 2009	Pressure on Media is a Regime Problem	Headline	"Not Media, But Regime Problem"
2	23 February 2009	Where are We Going	1st Page News	Where are We Going
3	25 February 2009	From Erdogan to Dogan: Come to Your Senses	1st Page News	Dogan Group and CHP was Targeted by Erdogan Again
4	9 September 2009	Fine for Dogan	1st Page News	Another Tax Shock for Dogan
5	12 September 2009	Dogan and Erdogan Against Each Other	1st Page News	The Economist: Dogan and Tayyip Erdogan Against Each Other
6	14 September 2009	AKP Silencing the Press	1st Page News	AKP Silencing Those not in the Same Line

People's Party (RPP) said the government adopted a process impossible to put the brakes on it." The news includes the statements of Prime Minister Recep Tayyip Erdogan and Deniz Baykal, leader of RPP.

In the news continuing in page 4, the headline was "*Not Media, But Regime Problem.*" The news was supported referring to a visual and interview of Deniz Baykal. In the news was stated that "*It went beyond the notion of hindering the opposition party*." According to the criteria in Table 2; the title and the content of the news text match each other. Interview of Deniz Baykal's concerning to the penalty of Dogan Holding in the content of the news is consistent with the statement in the headline. In the news, it was handled within cause and effect relationship. Harsh/sharp expressions were used in the text ot the news. In the news, according to Baykal it is "*teaching a media group its lesson for irritating the party in power*." In the news, referring to the opinion of Deniz Baykal, leader of the PRP, they were used as sources. In the news, the process subject to the penalty is explained by DYH Vice President Soner Gedik. In the news, the expressions of "teaching one's lesson and bringing into line" from the statements of Deniz Baykal contains humor/slang/ violent expressions. The expression of "teaching one's lesson" is a sample of metaphor or simile. Text contains sharp and harsh expressions.

The news about the subject in Table 3, No. 2, dated February 23, 2009 Monday in Cumhuriyet Newspaper, was given in the 1st page with the headline "*Where are We Going"*. In the content of the news, it was stated that imposing tax penalty on Turkey's largest media group causes anxiety about the future of democracy in Turkey.

In the news continuing in page 16, the headline was *"Where are We Going"*. The news supports that "*Even if President Erdogan wins the elections in March 29, he will not be able to win the whole."* According to the criteria in Table 2; the title and the content of the news text match each other. The statement in the headline of news is consistent with the gloomy picture painted in the content of the news. Statements in the news "*being successful on this way and end of the state of law"* contains humor/slang/ violent expressions. A moderate/straight narration was chosen in the news.

The news about the subject in Table 3, No. 3, dated February 25, 2009 Wednesday in Cumhuriyet Newspaper, was given in the 1st page with the headline *"From Erdogan to Dogan: Come to Your Senses"*. In the content of the news is the response of Prime Minister Recep Tayyip Erdogan to the statements of Aydin Dogan in a foreign newspaper.

In the news continuing in page 16, the headline was *"Dogan Group and RPP was Targeted by Erdogan Again"* and it was supported by a visual of the Prime Minister Recep Tayyip Erdogan and referring to the statements of Erdogan as sources. The news gives wide coverage to Prime Minister Erdogan's explanations about Aydin Dogan and to the statement that he emphasizes he is different from previous Prime Ministers. According to the criteria in Table 2; the title and the content of the news text match each other. The statement in the headline of news is consistent with the speech of the Prime Minister Recep Tayyip Erdogan at the meeting of Yozgat. Statements in the news "*being successful on this way and end of the state of law"* contains humor/slang/ violent expressions. A moderate/straight narration was chosen in the news. The news was supported by referring to the statements of President Recep Tayyip Erdogan at the meeting of Yozgat as sources. In the content of the news, statements of *"Ikitelli, Babiali and bow and scrape"* are a sample of metaphor/ simile. The expression of *"bow and scrape"* contains humor/slang/ violence. In the content of the news are harsh/sharp expressions.

The news about the subject in Table 3, No.4, dated September 09, 2009 Wednesday in Cumhuriyet newspaper, was given in the 1st page with the headline *"Fine for Dogan"* and supported with a visual of Aydin Dogan. In the content of the news is a statement of *"A bill of 3.76 billion TL from the Ministry of Finance."*

In the news continuing in page 13, the headline was *"Another Tax Shock for Dogan"* and supported with an Aydin Dogan visual and referring to Dogan Yayin Holding, Investment and Finance audit reports as sources. In the content of the news was "*Ministry of Finance imposed the biggest tax penalty in the history of the Republic to Dogan Group with an amount of 3.76 billion TL."* According to the criteria in Table 2; the title and the content of the news text match each other. The statement in the headline of news is consistent with the tax penalty imposed on Dogan Holding in February 2009 and the sum of this penalty in detail. It was handled within cause and effect relationship. It is emphasized that DYH and its subsidiaries have been imposed a penalty of 3.76 billion TL due to the audits conducted in certain years. As a result of the penalty, the statement made by DYH says that they will use all their legal rights. Objective point of view was ensured in the news. The explanations of DYH, Investment and Finance audit reports are presented impartially. The news is supporting by referring to the audit reports of DYH, Investment and Finance as sources. In the news, the historical background of the event was discussed. Audits conducted in different years and the penalty for the sale of shares to Axel Springer are explained. A straight/moderate expression was preferred in the text.

The news about the subject in Table 3, No.5, dated September 12, 2009 Saturday in Cumhuriyet newspaper, was given in the 1st page with the headline "*Dogan and Erdogan against Each Other*." In the content of the news is a statement of *"The fight between the moderate Islamist government and the biggest media boss Aydin Dogan is going on and people have difference of opinion among them on this issue."*

In the news continuing in page 13, the headline was *"The Economist: Dogan and Tayyip Erdogan Against Each Other"* and supported by using a Aydin Dogan visual and referring to statements of The Economist magazine, DYH (Dogan Yayin Holding), Turkey Journalists' Association (TJA), Industrial Businessmen Association of Turkey (IBAT) as sources. According to the news published in The Economist magazine, it is stated that *"the public is divided on this issue by using the expression "whether it is a matter of silencing the press or just punishing a tax evader?"* According to the criteria in Table 2; the title and the content of the news text match each other. The statement in the headline of news is consistent with the article from the Economist in the content of the news. The news was supported by referring the statements of DYH, TJA, and IBAT as sources. Metaphor/simile was used in the context of the news. The expression of *"coup"* is a sample of this. There are statements containing humor/slang/ violent expressions in the context. Expressions such as *"in return for mercy"* are sample for this. A moderate/straight narration was chosen in the news.

The news about the subject in Table 3, No.6, dated September 14, 2009 Monday in Cumhuriyet newspaper, was given in the 1st page with the headline "*AKP Silencing the Press*." In the news, the comment of New York Times on the penalty imposed was presented as *"An open attack on the press. Turkey, seen as intended to ensure the failure of the criminal activities of a major media company with $ 2.5 billion in fact gave an example of a chilling silencing of independent voices."*

In the news continuing in page 12, the headline was *"AKP Silencing Those not in the Same Line*" and supported by referring to statements of New York Times and Claudia Roth, Co-President of the Greens of Germany as sources. In the context of the news was the expression of "*independent voices are being silenced by penalties."* According to the criteria in Table 2; the title and the content of the news text match each other. According to the criteria in Table 2; the statement in the headline of the new and the article from New York Times and expressions of Claudia Roth are consistent with each other. The news is supported by referring to New York Times and expressions of Claduo Roth as sources. A moderate/ straight narration was chosen in the news. In the news masking technique was used. The expression in the news taken from New York Times *"a large fine, often an effective curtain that covers the pressure"* is a sample of this.

The news article number 1 in Table 4 was published with the headline "826 Million TL Tax Shock" on the front page, on February 19, 2009. According to the news, it is stated that the shares of the group in the stock market are in decline, 132 million debt has not been paid for 5 years, while Dogan will ask for reconciliation. Continued from page 7, the title reads "Dogan's Nightmare", the companies in Dogan Yayin Holding are listed as follows:

Printing: Dogan Press, European Activities, DMG International Freedom, Invest BV, Kanal D (Channel D) Romania''. In accordance with the criteria in Table 6, the news item and the title are consistent with each other. The newspaper emphasizes the loss of 487 million in one day by mentioning it in the title of the news article. The cause-effect relationship is given by mentioning that the cash insolvency might lead to the sale of the companies. The news is written using a subjective point of view. Even though not directly suggested, the expression "due to irregular tax transactions" may lead to a judgment on the ac-

Table 4. Yeni Safak newspaper news headlines

Order	Date	1st Page Headline	Headline /Subheading/ 1st Page News	Inside Page Headline
1	19 February 2009	Tax Shock of 826 Billion,	Subheading	Nightmare for Dogan
2	20 February 2009	No Agreement like in the PO	Headline	Sharp Answer to Dogan from Finance
3	21 February 2009	Going to File a Suit	1st Page News	
4	24 February 2009	Villa city could not meet the conditions	1st Page News	Conducting Organic Agriculture Instead of a Villa with a Golf Course.
6	February 27, 2009	Don't Worry About It	1st Page News	Aydin Dogan's BEST Assurance
7	September 9, 2009	Record Fine for Aydin Dogan,	Headline	The History of Dogan's Shock
8	September 19, 2009	Dogan given 57 million Turkish lira of tax penalty	Subheading	Another Tax Penalty For Dogan
9	September 26, 2009	Shocking News for Aydin Dogan due to Collateral	1st Page News	Dogan Group Shaken By The Collateral. The Companies May Be Confiscated
10	September 27, 2009	The Market Remains Active	Subheading	A Most Challenging Time for Aydin Dogan,

Table 5. Analysis findings concerning Yeni Safak and Hurriyet newspapers

	Yeni Safak										Hurriyet										
Are the headline and text compatible?	February						September				February					September					
Is there any cause/effect analysis in the news story?	1	2	3	4	5	6	7	8	9	10	1	2	3	4	5	6	7	8	9	10	11
Does the news have an objective view?	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Are there any references/ citation/quotation in the news?	X	X		X		X		X		X	X	X	X	X	X	X	X	X	X		X
Does the news contain the historical background of the event?		X	X	X	X	X		X	X	X											
Are there any emotional texts?	X	X	X	X	X	X	X	X			X	X	X	X	X	X	X	X	X	X	X
Are there any texts with humour/slang/violent contents?	X		X	X	X	X	X	X		X	X	X		X	X	X	X	X	X	X	X
Has any metaphor/analogy been used?																					
Are there clear and strict statements?				X		X				X	X										
Is a straight/moderate narration preferred?	X	X		X		X				X			X	X	X	X		X		X	X
Masking (in other words describing implicitly)	X				X		X			X	X	X	X	X	X		X		X	X	X
Are the headline and text compatible?	X	X		X		X		X	X	X						X					
Is there any cause/effect analysis in the news story?		X				X								X							

curacy of the irregularity of the tax payments. The reporters asked Investment Research Expert Yunus Kaya Gedik his opinions regarding the topic. Gedik provides background information about the 2006 Axel Springer sales. The situation in the stock market is described as a nightmare. In the text, words such as tax shock, shock, damage, nightmare etc. are given in a sharp tone. A plain narration has been preferred in the news article.

The headline of the news article numbered 2 in Table 4 dated February 20, reads ‘’No Deal as in PO’’ and emphasizes that due to Dogan Holding’s 826 million Turkish Lira of tax fraud, a settlement with the Ministry of Finance would not be possible unlike the previous settlement regarding the Petrol Ofisi Oil Company. The newspaper criticizes the announcement published by Dogan Media Group that talks about the events that led to the unjust penalty and the intentions behind giving this penalty. The newspaper also states in the headline that the announcement reads like a threat. According to Table 6, the rest of the news article read that the Ministry of Finance retorted the Dogan Group. It was written in the news item that Ugur Dundar, who presented Star Haber at the time, was the person who showed the strongest reaction to the decision by using an analogy in his statement: “I am determined to eat you alive" (The Turkish version is literally "I am determined to eat you, wolf.") The news article refers to AK Party Group Deputy Chairman Nurettin Canikli's statements and the reason behind the actions taken by the Government is claimed to the privileges of companies and organizations. Titles are compatible with text. With the reporting of various opinions such as Dundar's, an objective journalism approach was practiced. The narrative is clear and simple. The noise metaphor has been used in the news report and with the statement of 'timing error", an implicit narration has been preferred.

The news report number 3 in Table 4 dated February 21 refers to DHY CEO Soner Gedik's statements regarding seeking the rights of the company, and this article stands out on page 1 with the title "He'll file a suit". Table 6 also includes the statements of DHY CEO Soner Gedik. Information regarding the Axel sales is given. Title and text are compatible. The seeking of the protection of the rights is supported by retroactive assessment of unjust events.

The news article number 4 in Table 4 the 4 published on February 24, 2009, Tuesday describes that Dogan's golf resort project with a thousand luxurious villas was not approved due to development laws with the headline "Villa city Didn't Get the Passing Grade" (referring to the land having a dam, and employing the Turkish phrase "crossing the bridge" which means to get a passing grade.) It is illustrated that the golf course and villas will not be built and not a single nail can be driven in the dam area written under the headline "Instead of villas and a golf course, he'll practice organic farming". The news story continues on the page 13 reporting that plans to build an ecological agriculture land rather than a golf course might come true. A 15-day period for collateral is given. It is also emphasized that there is a $2 billion project. The news in Table 6 reports uses analogies such as "the project failed" refers to the Environmental Reconstruction Plan and tax review reports. Irregularities sent to the company in the past are given in chronological order. In the news report, Aydin Dogan and the land images cover a large part of the page. The tone is simple and there are no strict statements. The title and text are compatible.

The news report number 5 in table 4, dating February 25, Wednesday, was given on the first page. It is stated in the report that the land in Omerli is familiar. The article is titled "Land Familiar" "Dogan Acquired the Land via MILPA" is title used in the inner pages of the newspaper for the rest of the same news story. A rather sharp tone is employed with the use of expressions such as "he purchased the land lot by lot" as stated in table 6. A chronology of events to address the process of the purchase of the land and information regarding the period of Kemal Ilicak is reported. The 236th folder of the Ergenekon indictment is shown as the source and the statements of Nazli Ilicak are given.

The news story number 6 in Table 4 published on February 27, 2009 Friday had the headline ''Don't worry, nothing will happen" and it is reported that Aydin Dogan smiled for the first time in a long time after the statement of 9th President of Turkish Republic, President Demirel. The story supports these with the images of Demirel and Dogan shaking hands. The article continues saying that the News Archives of the Milliyet Newspaper confirms the Finance Ministry's claims. In addition, it is emphasized that there is an overall curiosity towards Demirel's statement at the award ceremony organized by the Koc Foundation and that many wonder if his words were related to the Dogan crisis or not. Table 6 describes the process of the tax penalty of the Group in line with Demirel's speech. Statements such as "dreams coming to naught" and "the shocking process for the group" are observed and an allusive tone is used with expressions like "he forgot to pay 1.2 billion TL". The report has the subtitle "Top Assurance to Aydin Dogan by the Father" using Demirel's nationwide nickname "Father" or "Daddy" and the Turkish phrase "Daddy/Father" used to refer to "top/best" and this title agrees with the main text of the article. The report depicts a fatherly support to Dogan from Demirel and gives the readers clues about the support from Demirel. The expression ''Don't worry, nothing will happen'' is dealt with a humorous tone.

In the article, Milliyet's archive is stated as the source for the news story. In the content of the news, it is questioned whether Demirel's words are the cause of the Dogan Group crisis.

Item number 7 in Table 4, about the news reported on September 9, 2009 Wednesday has the front page headline "Record → Fines for Aydin Dogan" and reports that Dogan Group made fraudulent share transfers between its financial companies and was fined to pay 3 billion 755 million TL. The report consists of affirmative statements about the Finance Ministry's decision about Dogan Group by using expressions like the fraudulent shares transfer and tax fraud, and uses a strong and clear tone to emphasize these. In the continuation of the news in the inner pages of the newspaper, the report has the titles "Record Shock to Dogan" and "Dogan's Penalty Journal" where the process of the given fines is explained step by step. According to Table 6, the period of the tax penalty is discussed chronologically under the subtitle of Dogan's Punishment/Penalty Journal. Dogan Yayin (Press) Holding's disclosures on the Public Disclosure Platform are cited as references.

Number 8 in Table 4 dating September 19 has the title "57 million TL tax penalty for Dogan" and the subtitle "Another tax penalty for Dogan" on the inner pages of the newspaper. A new penalty for the group was brought to the forefront in the news and the statements of DYH regarding the demand for reconciliation are included. In the explanations, it is stated that the affiliated partners can demand a settlement after the evasion, and a lawsuit can be filed against the tax office without any request. Table 6 cites DYH's comments as a source, and employs a neutral and plain narrative. Tax review reports of each year are given too. As a result of the 8 examination reports, detailed information on the penalty is given.

The news item dating September 26, 2009, Saturday has the title ''Aydin Dogan's Collateral Shock'' is shown in table 4 with number 9 and was reported on the first page of the newspaper. In the news that the page of some 7 pages of the group showed some collaterals; it would be a bit of a relief, a compromise was planned, the group could only be forced to shrink, the result can go to the precautionary lien decision. Table 6 cites Ministry of Finance as the source. An objective tone is dominant. The information that Dogan is shaken by the collateral and that the companies can be confiscated is paralleled with the text.

In the first page article titled "He Does Not Stop" (or He Does Not Remain Idle) dating 27 September 2009, Sunday displayed as number 10, Table 4, it is stated that the Dogan Group is going to have restless days. Continued from page 7, the news has the title "Aydin Dogan's Most Challenging Period" and it is highlighted that the period proves to be Aydin Dogan's most challenging period, and he tries strategies to skip the tax penalties, and will have a meeting with General Ilker Basbug of the Turkish Armed Forces. According to the examinations carried out on Table 6, there are affirmative statements in favor of the penalty such as the investigation, carried out by the Finance Ministry since 2006 as a result of irregularities the group is given a total of 5 billion TL fine. The report uses a sarcastic language from time to time. The irregularities that have been continuing since 2006 are discussed on a chronological basis. A clear tone from an objective perspective is evident. "The Petrol Ofisi dream" analogy is employed. The words challenging period that appear in the title comply with the text. Ironic expressions such as "To raise money using the market" are encountered. It is said that the group is going through a hard time due to the 5 billion TL fine and the collateral.

News number 1 in Table 6, dating February 19, 2009, Thursday has the title ''826 Million TL Penalty to Dogan Group'' and continues on page 6 with the titles ''Finance Disregarded the Documents, and Gave Unfair Fines of 826.3 Million TL''. In accordance with the statements in Table 6, in the news content, the Ministry of Finance is criticized using strong expressions. The news with the headline "826 million penalty to the Dogan group" reports that no higher penalty has been given before, and during the process, the documents were ignored, using the cause and effect logic. The news article continues

Table 6. Hurriyet newspaper news headlines

Order	Date	1. Page Title	Headline/Subheading/1 Page News	Inside Page Headline
1	February 19, 2009	826 million TL penalty to Dogan Group	Headline	Finance Ministry Disregards, Gives Unfair Punishment of 826.3 million TL
2	February 20, 2009	We Want Equality and Justice	Subheading	Dogan Yayin Holding's Statement: We Want Justice, Fairness and Equality
3	February 21, 2009	The Government Wants to Destroy Dogan Group	Subheading	Taz: The Government us Trying to Give Penalty To The Dogan Group Because of Deniz Feneri (An NGO)
4	February 22, 2009	Erdogan's Goal is to Liquidate The Media,	Subheading	Dogan Group Paid 21 Billion 363 Million Dollars to The State in Five Years
5	February 23, 2009	If There is An Error It is The Law	Subheading	Baykal: The Government Intimidates the Media, Democracy is in Danger
6	February 24, 2009	There Will Remain No Media That Criticizes the Government	Subheading	WSJ: Tayyip Erdogan Likened to Putin who Silenced the Media
7	September 9, 2009	Unprecedented Punishment of 3.755.000.000	1st Page News	Reuters: The Government Strikes Dogan with a Tax Penalty
8	September 10, 2009	The Target of the Punishment is the Democracy Itself	1st Page News	FT: Large Sum of Penalty to Dogan Will Damage Foreign Investors' Image of Turkey
9	September 11, 2009	These Fine Will Have a Negative Impact on Our Potential EU Membership	1st Page News	AB: Negative Effects on Progress Report Due to the Dogan's Penalty
10	September 12, 2009	TUSIAD: Tax Penalty is a Problem for Democracy	1st Page News	TUSIAD: Tax Penalty is Now a Democracy Problem
11	September 26, 2009	They Asked for Record Collateral	1st Page News	Finance Now Hits Deposit/Collateral Record

on page 6. The visuals containing the documents are presented and it is said that the Finance ignored the documents were and gave the 826.3 million TL unfair penalty. The title represents the content of the news. In the report, the charges against the ministry were collected under four main headings. The first of these charges is that the sale in 2006 was claimed to be done in 2007, and the second one is that VAT was claimed for the first time from the sale of shares, tax was claimed before the second sale was completed, and the last claim states that even after the tax was paid, the group was viewed as involved in tax fraud. Written in a small corner on the same page, it is claimed that even if the sale was made in December, it would not exceed 4 million TL. It is emphasized that the claims in the news are closed with the accusations of smuggling and that 6 times of the punishment imposed on the 1st level of penalty under normal conditions. It is stated that despite the payment of the money, the transfer of shares and the payment of the tax, the punishment is applied. Disregarding the laws and documents of the law, the sale was made in 2006, claims the news article which has the headline that an unbelievably high penalty was given. It is also said all documents point to the year 2007, but the Finance claimed the sale was made in 2006. The closing memorandum is cited as the source and it is stated that the delivery of the shares between DYH, Springer and Axel took place on 2 January 2007 but that the ministry ignored these documents. The report uses an incriminating language.

The report number 2 in Table 6, titled 'Justice, Fairness and Equality", published by the newspaper on February 20, 2009, Friday is striking. In the news, it is stated that Dogan Yayin Group looks for justice only, that they are against privileges in business, they seek equality, and they are not a political party and the methods used against them are not used in democracies. It is emphasized that there is a suspicion of the political environment and 40 officials have been sent to 7 separate companies for investigation. The news report continues on page 7 with the title Dogan Yayin Holding's Statement: We Want Justice, Fairness and Equality It is among the discourses in the news that the broadcasting organ is not involved in any party that criticizes both the power and the opposition. It is noteworthy that, in the news on the full page of the internal pages, each company of the group can be examined up to the smallest details. In line with Table 6, the statements that it was not easy to resist an authoritarian power were taken in a critical manner. The title and text are compatible. The Articles 414, 415 and 416 of Turkish Commercial Law are cited, and it is said that despite the fact that all the relevant documents have been submitted to these articles by reference to the articles, this penalty is discontinued and unjustified. In the articles related to the transfer of shares of the Turkish Commercial Code, it is said "turnover, deliver and share in the book of shares". The statement that "Without these, the share transfers will not occur." is written in the summary at the end of the news report. In the Economy page the AKP Group Deputy Chairman Nurettin Canikli's statements have been highlighted that the investigation cannot be made with the minister's request and Canikli is in favour of the penalty with his AKP member identity. Canikli's statements that the attacks against the government are unrealistic and the Dogan Group's acting like an opposition party are given in subtitles to strengthen the points made. Deniz Baykal's, the leader of the CHP and Erdogan's thoughts on the penalty are reported in another column. While Baykal says the penalty is regime problem and in a democratic regime, this kind of event does not occur, Erdogan agrees with the decision taken by the state institution saying it is a legal operation. The report gives different arguments, but the support for Dogan Group and criticism of the Minister and the government is more stressed.

The news item 3 in the Table 6, dating February 21, 2009, Saturday titled "The Government Wants to Destroy the Dogan Group" and claims that the government wants to get rid of Dogan Group. German Newspaper Taz comments that there are alleged tax penalty claims and the penalty is not lawful. In addition, it is emphasized that they are not unjust by supporting those who say that punishment is an attack on press freedom. In the continuation of the news on page 6 it is said "Taz: The Government is trying to punish Dogan Group with Deniz Feneri penalty" and the penalty against Deniz Feneri NGO is associated with Dogan Group. In table 6 the title and the main text are compatible. In Die Tagezeitung, the report is backed by a small image, focuses on the fact that the government has acquired a large part of the media in 7 years. The International Press Institute's statements are reported with the title "AKP is trying to silence the press". It is reported that the Prime Minister said "Condemn the press to loneliness" in his speech in the rally on February 11, 2009 and based on the cause-effect reasoning, it is said that the media should not be silenced in order to avoid false news. The economics page focuses on the statements of Dogan Yayin Holding Vice President Soner Gedik who condemned the tax penalty. He further stated that they would apply to the Tax Court and metaphorizes the punishment using the analogy of the sword of Democles. He underlines that they had paid 11 percent of the whole tax paid in Istanbul. He emphasizes that they have been investigated lasting 11 months and that there was a mathematical mistake. Turkey Association of Journalists and The Contemporary Journalists Association emphasize the freedom of the press and democracy. The news continue from page 6 where Dogan Group is highly exalted, it is stated that the group was 13 times the top tax payer between 1994-2007, the tax is the penalty of the parliament's agenda, the amount of the fine is astronomical and that Erdogan often targets the Dogan Media Group.

News no. 4 in table 6 published on February 22, 2009 Sunday has the heading "Erdogan Wants to Eliminate the Media" and continues on page 6 with the title "Dogan Group paid the state 21 billion 363 million dollars in 5 years". According to Table 6 the headings constitute compliance with the text. Dogan Group's payments to the state are explained in tables within the historical background. The statements about the tax fraud being a disguise for the silencing of the media are prominent.

In the report numbered 5, published February 23, 2009, Monday, which is given in Table 6 has the title "If There's A Mistake, There's Law Too". The statements of Deputy Prime Minister Cemil Cicek, that there are laws in the event of any errors or omissions, have been taken to the title. Cicek stated many times that those who think their tax inspection was wrong can apply to the relevant authorities in Turkey. On page 8 it is also stated that Baykal the democracy is in danger of and the penalty is a strategy to intimidate media with the title ''From Dogan Group to State: 21 billion 363 million dollars in 5 years''. In other news, the Co-President of Turkey-EU Joint Parliamentary Commission Joost Lagendijk's concerns about the events are reported. The title and the text are in line with each other in Table 6. The report uses a sharp tone and a critical style. Cemil Cicek's thoughts are cites as a source, and the metaphors are strengthened by supporting them with visuals. The developments related to the punishment are expressed by taking into account the historical process through the results analysis, and the metaphors of intimidation are made. The report often mentions Baykal's statements. His expressions such as him likening the period to the spy agencies founded during the Ottoman Empire and reducing (the Dogan Group) to silence are highlighted.

On Tuesday, 24 February 2009, the statements of the then Prime Minister Tayyip Erdogan and the reverberations of his words in the world press, such as The Wall Street Journal and The Welt is reported. News number 6 in Table 6 reports that the sentence is meant to mute the Dogan Group and the punishment is considered as the government taking revenge. In the inner pages the heading WSJ: Tayyip Erdogan is Like Putin Who Silenced the Media" and the statements in news stories reported in foreign newspapers are being elaborated on. The news states that Putin who destroyed Media Most and Erdogan are similar in their actions and that they do not accept free media. Table 6 also highlights the fact that the AFP, one of the world's longest-established news agencies, has negated the decision and the tax penalty increased fears in free media.

In the news no. 7 in Table 6, on 9 September 2009 Wednesday, Hurriyet Newspaper carried the news of the tax penalty to the headline and the text read striking statements regarding the Ministry of Finance. The news has the headline "Reuters: Unprecedented Penalty in the World: 3.755.000.000 TL" on the front page, and the title "The Government Hits Dogan with Tax Penalty" in the inner pages. According to Table 6, in the news published in the text, the title is representative of the items in the text. Disregarding all of the exemptions and evaluations such as trading in the middle indicate the dominance of subjective opinion. The source of the 8th page, the international news agency Reuters, focuses on the statements of the Turkish Government that imposes a tax penalty on the Dogan Group. The word "hits/strikes" suggests an unjust penalty. The news highlights that the group is the country's largest group and the historical background is emphasized. It is stated that the decision may damage the freedom of the press. Reuters reported that in a country that has pledged to develop political standards to join the EU, the media may fear that the government is worried about repression, fearing retaliation. The International Press Institute IPI also has opinions that negate the sentence. IPI press freedom is said spokesman Anthony Mills, concerns about the press freedom and Turkey began to occur.

In the news numbered 8 in Table 6, published on Thursday, September 10, 2009 in Hurriyet Newspaper has the title "The target of the penalty is democracy" on page 1 with Deniz Baykal's image. In inner pages the news report continues with the title "FT: The Rocket High Penalty Damage the Foreign

Investors' image of Turkey". Table 6 overlaps with the news headline in the scope of the news, and in the text of the news, CHP leader Baykal's reactions to the tax penalty imposed on the Dogan Group are expressed. In the news, the statements that place the tax penalty on the parable of persecution are noteworthy. In addition, statements such as "We should say 'No' together" resemble the acting together discourses and the call to call and national integrity. Criticizing the tax auditors in the news, Baykal emphasizes that the objective of this practice is the concept of democracy. The crisis is considered to be a threat to democracy. News continued from page 12 highlights the statements in Financial Times and Reuters. It is stated in the report that the situation may damage the foreign investors' image of Turkey, and that EU Commission President Barroso voiced his concerns about the lack of respect for pluralism and the principle of independence of the press. In another column of the news in half a page, "the world press is confused: The horrific penalty" titles are used. The news includes reactions from the world press.

The report dated 9 September 2009 on Friday, September 9, 2009 titled 'Negative Impacts on EU Membership' was used in the news in Table 6, and the news was given by the headline. The statements (that he has not encountered such erroneous reporting) of the former treasurer Kadir Boy have been provided with the support of Boy's picture in the subtitle. In the news that continues from page 14, the title "EU: Negative Impacts on Criminal Progress Report Due to Penalty to Dogan" is noteworthy. European Union Executive for Enlargement Olli Rehn said Turkey's entry is in danger after this penalty, and EU Commission President Jose Manuel Barroso's statements about press pluralism, democracy, independence and that the pluralism and press freedom are under threat are used to support the claims. The statements of Kadir Boy are reported in the rest of the news story. Boy, sternly criticized the tax inspection staff, saying that they are breaking the law and justice and acting against a traditional advice. By taking these statements to the headline, the newspaper exhibits a supportive tone about the sentence. With the "What I Saw, What I Heard" subtitles, the negative discourse and opinions are emphasized.

In the news no. 10 in table 6, dating September 12, 2009 Saturday, and the title "TUSIAD: Tax Penalty is a Democracy Issue" is noteworthy. The punishment imposed on the Dogan Media Group is considered as an offense and it is as blow to the right to information. Continuing on page 10, the news story with the title 'TUSIAD: Tax Penalty Problem of Democracy Now' in table 6 attract attentions with the use of strong expressions. The phrases, such as the freedom of the press, the deprivation of the right to be informed, are accusatory and offensive. The news headlines provide parallelism with the text and analogies such as "striking/blowing" are given. TUSIAD's statement is supported with retrospective information and cause and effect relationship.

On the first page of the newspaper reported on September 26, 2009, Sunday the headline "The Request Skyrocket Collateral" stands out. The news report continues on page 14 with the title "Finance Breaks Its Collateral Record". The opinions of Mr. Yahya Arikan, the President of the Istanbul Chamber of Independent Accountants and Financial Advisors are cited in table 6. Title and text compliance is observed. In addition, Murat Dogu and Soner Gedik's comments are also included in the rest of the news report. The statements emphasize that the law is complied with and that the rights will be sought. Tax Expert Prof. Dr. The comments of Sukru Kizilot are also included in the texts. In the report, the feud metaphor is being used and the statements of the famous British newspaper Financial Times that finds the criticism against Dogan Group harsh are highlighted. The situation after the crisis is explained in a chronological order and supported with numbers in the news report.

SOLUTIONS AND RECOMMENDATIONS

When we look at the results obtained, it can be understood from the literature review in this study that the concentration of media ownership has been increasing both in Turkey and across the globe. However, this is for the freedom of press. According to the liberal pluralist institution, the press is free and very pluralist. The growing number of holding companies constitutes a threat to pluralism and diversity by interrupting them.

Contrary to the liberal pluralistic discourse, the horizontal growth of monopolies accelerates the desires of the large group companies to increase profit margins. In this profit, media ownership has started to influence the government/states by using it as a weapon. New international policies need to be developed about media ownership in order to prevent the growing monopolization resulting from neoliberal policies, the formation of conglomerates/holding companies and to stop control over the state. It is important for the independence of the media that the policies proposed to be developed should be kept away from the statist concept of the capitalist system. At this point, it is suggested that different views should be included in the media in order to increase media diversity and press freedom.

FUTURE RESEARCH DIRECTIONS

This study, aims to analyze the newspaper articles that report topics such as the conglomerates in the media sector and the media ownership within the context of Dogan Holding Crisis, using content analysis, which is one of the quantitative research methods within the framework of certain criteria. In this context, the tax penalties imposed on the Holding by the Ministry of Finance as a result of the audits in February and September 2009, were taken into consideration. According to newspaper reports analyzed Dogan Holding is one of the major media conglomerates with regards to media ownership in the Turkey and in the world.

Dogan Holding's tax crisis not only in the news media in Turkey has also been mentioned in the major media organizations in the world. Dogan Holding's tax crisis has led to changes and transformation in media ownership in Turkey and in the world. At this point, it is believed that this study is a contribution to the literature. Also, this study gives information about the opinions and delivery of the newspapers in Turkey and the world about the Dogan Corporation crisis. The news reports in four Turkish newspapers have been analyzed based on the selection criteria in this study. It is recommended to include the international newspapers based in Europe and the US that Dogan Holding collaborate with in the sample in the future studies. Conducting a study that adds different countries and newspapers may give different results.

CONCLUSION

The idea of global media arose from the idea that global media companies in industrialized countries could unite to increase foreign profits and global monopoly ideology. The globalization of media is used to legalize the political, economic and moral foundations necessary to promote capitalist relations. It also helps to spread the ideological concept and the commands of the market to new nations and regions.

Today, global media empires are dominated by certain groups around the world. The media in Turkey is under the impact of the global media. Before the 1990s, Turkish media, newspaper and magazine publishing were dominated by the family business. With the 1990s newspapers, magazines, radio, television, publishing, news agencies, distribution and production holdings, like their counterparts in the West, emerged, and media ownership became more pronounced. At the same time that the holdings have a share in communication technologies, banking and finance, electrical, automotive, construction and textile industries. The cooperation of Turkish media with global media has started with the printing of Turkish translated versions of global fashion, health, decoration magazines and led to the wider partnership of Turkish media companies with global companies in the world.

One of the more important issues with neo-liberal policies is the freedom of the press. Both in Turkey and in the West, before the media becoming an industry there were no problems about freedom of the press. Because before the neo-liberal policies, the employer was a journalist himself, and his name was mentioned as the owner of the newspaper and the editor-in-chief or the editor-in-chief in the byline of the newspaper. Because the only business activity of the newspapers was of journalism in the event of an independence issue, it was resolved quickly. With the lack of non-journalistic interests of the employer, it was relatively easy to resolve the issues because the main idea was to defend the principles of journalism against pressures from the state, the government, the army, the law, advertisers or readers. However, since there is a cross-integration in media ownership today, organizations do focus on only publishing. The media in Turkey has a cross-media ownership structure where the first purpose is making profits. Commercialization and the power of the nation states over media systems constitute the limits of the system. As a result, the relations between the state and the corporations are problematic. The holdings may be confronted with major crises and become smaller and even face the risk of bankruptcy from time to time in this structure.

This study explores the crisis experienced by Dogan Group in 2009 after the tax penalty given to them by the Ministry of Finance. Dogan Group includes several media companies such as Hurriyet Newspaper, once seen as the “flagship” of Turkish media, and the group also operates in several other industries. Before the tax penalties, Dogan Holding had not experienced a decline in the annual turnover even in the 2008 Global Crisis. Tax penalties to Dogan group have been a heavy financial blow. The holding which was on the brink of economic crisis started to dismiss its employees, therefore, the tax crisis plays an important role in the history of the group. In the study, four different newspaper articles published in the Turkish newspapers have been evaluated. In this context, to ensure the objective approach in this study the 42 news reports published between February 2009 and September 2009, in newspapers that are thought to have different viewpoints in Turkey, such as Sabah, Cumhuriyet, Yeni Safak and the so-called ‘flagship’ of the group, Hurriyet Newspapers have been investigated using content analysis. The time interval was chosen in accordance with the tax penalty.

42 news items have been analyzed within the study. 6 news items published in Hurriyet Newspaper in February and 5 in September; 6 news in Yeni Safak Newspaper reported in February and 4 in September; in Sabah Newspaper, 7 news in February and 4 news in September; in Cumhuriyet Newspaper, 3 news items reported in February and 3 reported in September were analyzed.

It is important to note that negative tone in the news about the crisis reported in Hurriyet Newspaper. In the news, the cutting of the tax penalty is often considered as a factor blocking the freedom of the press and pluralism/multiple point of views. The newspaper highlights the discourses of leading institutions of the world press. Financial Times and Reuters etc. from time to time. The discourse often mentions the crisis to be a problem in the process of Turkey's membership application to the European Union. In newspapers, headlines are in line with the text content and often a plain and moderate expression is preferred. However, in the news, especially the anti-government and financial statements on the hard and sharp language stand out. At this point, the newspaper moves away from the dominance of objective opinion and shows a biased perspective. The opinions of Deniz Baykal, Ugur Dundar are given with images in a way to support their argument. The opinions of the people who are constantly on the news are cited with sources. Emotional content is not encountered, but the historical background is reinforced with examples. Implicit expressions are employed at times. Events are provided in the form of cause-and-effect analysis of past assessments carried out on the various metaphors.

In the Yeni Safak Newspaper, the punishment resulting from the tax crisis is brought up by various affirmations. Some discourses in the form of illegal tax evasion by Dogan Media Group are used and the Ministry of Finance's attitudes towards the process of punishment are continuously raised in the framework of the historical background. It is noteworthy that there is emphasis on the lack of possibility of compromise between Dogan Group like the one they had in the past. In addition, comments on Demirel-Dogan support are brought to the fore with the visuals. The fact that the tax penalty is justified is frequently seen in the news content by the newspaper, which leads to subjective approaches in the newspaper, which often seeks to achieve the dominance of objective opinion. In the newspaper, which uses a plain and simple narration, strong and sharp expressions are rarely seen. From time to time, there are implicit expressions and the masking method and cause and effect relationship between events is established. The tone is not sentimental yet some content contains metaphors.

Visuals and table-weighted texts are used in the news about Dogan Holding's tax penalty in Sabah Newspaper. The number of news stories about the group published in the Sabah Newspaper is even more than the number of news in the newspaper Hurriyet. Despite the negative statements when we look at the headlines of the newspaper news, an objective view was opened in the news in the text. In other words, while giving information about the Dogan Group, the opposite of the news is given to the Dogan Group. In this way, the newspaper has provided objective opinion on the news they report. Newspaper news reports especially give background information of the events. In the news related to the tax penalty, there is a compliance provided between the news title and the text, and the news content is given detailed information about the cause and the result of the event. All reports published in the newspaper cite the opinion of a person or an institution. In the news published about the tax penalty, it is seen that generally plain and moderate expressions are used; yet, in some news, the tone is sharper and stronger. Allusions have been used a few times in the news. Metaphors have also been frequently employed. Some examples of these metaphors are pocket money (money to buy seeds in Turkish), dissolving, deflate, and blow.

It is noteworthy that the visuals were rarely used in the news about the crisis in Cumhuriyet newspaper. The newspaper's news reports about the crisis do not directly report the events in an individual news article but rather mention it in one or more paragraphs in the tax penalty news. There is congruence between news headline and text in news related to tax penalty. However, in the news related to tax penalties, while the title is "tax penalty", the text is not about tax penalty. In the news about the tax penalty, only one person's opinion of the topic is reported rather than the objective view. The newspaper usually cites the views of one person. The opinions of the opposing parties and New York Times, the co-chair of Germany Green Party, Claudio Roth, or The Economist are often cited in the news report. Usually, the cause-effect relationship is not established in the news reports. Only a few reports have a cause-effect relationship. While the newspaper's news does not include the chronological background which led to the tax penalty, there are reports of the tax penalty. A plain and moderate tone is generally used, while the strong and sharp expressions are sometimes employed in the news about the tax penalty. Allusions are not very common in the news reports but humor/slang/terms about violence are sometimes employed. Phrases like "taught them a lesson", "blow" are used as metaphors to hide the message in the news reports about the tax fine.

Media cannot represent only one side, it is obliged to address issues from the eyes of all parties. In other words, it is of great importance for all parties. The media has a structure that is both commercial and ideological, i.e. creating public opinion and agenda. Through the media, the boundaries between the societies are removed and societies can be more easily informed. Therefore, the media should be plural and independent. This can only be achieved through the development of newly implemented state and private capital policies.

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KEY TERMS AND DEFINITIONS

2009 Tax Crisis: Between 2003 and 2008 by the controllers of the Ministry of Finance ran investigations that resulted in one of the highest tax fines in Turkey given between February and September 2009 due to the lack of information or misinformation in Dogan Holding's financial ledgers.

Dogan Holding: The corporation entered the media when Aydin Dogan acquired *Milliyet* newspaper in 1979. It has become one of the largest holdings in Turkey after the 1980s via neoliberal policies and grew over time with horizontal and vertical monopolization.

Media Ownership: Ownership is an important factor for media corporations. The issue of property ownership is of vital importance, especially in terms of media independence and broadcasting policies. In media ownership, which is commonly observed in the world, the control of individuals and organizations is dominated by large multinational conglomerates. For this reason, there is a cross-integration of media ownership.

ENDNOTE

1 Outlines of the program announced to the public on January 24, 1980 (Palabıyık, 2018) • *A devaluation of 32.7% was applied and a daily exchange rate was applied. • Measures were taken to reduce the share of the state in the economy. • In parallel with the implementation in SEEs (state economic enterprises), agricultural product support purchases were limited. • Subsidies in areas other than fertilizers, energy and transport were removed. • Foreign trade was liberalized. • Foreign capital investments were encouraged. Profit transfers were facilitated. Overseas contracting services were supported. • Import was gradually liberalized. Export was encouraged with tax refund, low interest rate loan, customs exemption in imported inputs and incentive system that differed according to sectors. • The practice of convertible deposit was terminated. • Foreign currency trading was allowed. • Controls on the foreign exchange market were removed; interest rates were liberated and real interest policy was adopted. • Price controls and restrictions were abolished and free market approach was adopted.*

Chapter 15
Corporate Scandals and Systemic Risk

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ABSTRACT

Corporate scandals are unpredictable misbehaviors of person/people that have engagement within corporate ended by bankruptcy of corporate. In the global world, companies are related with each other, and one bankruptcy triggers another company; moreover, it may cause a systemic risk depends on size of company as occurred in 2008 economic crisis. Corporate scandals are unpredictable; however, experience from history may guide regulators to avoid in the future by effective regulations. In this chapter, corporate scandals will be studied carefully to classify subjects of scandals and their impact.

INTRODUCTION

Corporate scandals not only cause corporate go bankruptcy but also impact economy deeply. It has impact on stock markets, dept. securities and even governments bond. The last experience proofed that one scandal may cause wave of panic. 15th of September Lehman Brothers, fourth largest investment bank of America bankrupted as a consequence that FED rejected bail out of corporates which carries mortgage-backed securities in their assets. Bankruptcy of Lehman Brothers triggered panic into economy, stock market crushed, and these consequences caused to one of the largest economic recession in the world. Lehman Brothers wasn't only responsible of the economic crises, it was the result that misbehavior of financial institutions, credit agencies, regulators and even though real estate firms that make great profit from house financing. 2008 economic crisis wasn't only corporate scandals that caused huge impact to economy. First corporate scandals reported in March 1792, which is also called as panic of 1792 caused by William Duer who is used knowledge from his official position as an assistant secretary of the Treasury for speculation (Geisst, 1997). Beginning of the 2000s, United States economy was damaged by financial accounting scandals of large corporates on purpose to manipulate investors and stock market by hiding debt or creating fake revenues. Afterwards these scandals erupted, even though corporation

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went bankruptcy it caused series damaged to economy by cause of many people lost their job, many investors lost their money, and thus economy was shrink.

These corporate were large and well regulated. Moreover, they had strong internal and external auditing nevertheless these companies managed to keep fraud many years and took many advantages. Frequency of corporate scandals launched a discussion about accounting auditor firms responsibility especially The Big Four that provides credibility on financial reports of corporates. However, according to Hemraj (2004), accounting auditor firms are not responsible on detection of fraud. Corporate scandals are the consequences of fraud. And, fraud is ‘an intentional deception, misappropriation of corporates’ assets or the manipulation of financial dates’ to get advantages and may be classifies in employee and management fraud (Hemraj, 2004). So that, corporates scandals generally are consequences of management fraud rather than employee. Enron scandal was a result of using creative accounting principles supported by senior management (Skeel, 2005), while Lehman Brothers sold toxic asset again and again to create liquidity that was management strategy. Even though corporate scandals have strong impact on financial market, we may see recurrent of the examples. According to (Skeel, 2005), after he wrote article on accounting scandals, 4 years after accounting scandals and 3 years before 2008 economic crises, corporate responsibility in United States is still inefficient and need new regulations. Corporate scandals may cause to heavy regulations. However, there is a debate what is the main reason of corporate scandals whether regulations are insufficient or inadequacy control.

Corporate scandals may result in systemic risk by falling to run economy. Systemic risk is an entire market risk triggered by financial institutions and would cause widespread damage in economy (Mishkin & Eakins, 2015). In the connected world, potential of systemic risk is higher than ever and critical for sustainable of world as seem in 2008 economic crises. In 2008, corporate scandals triggered financial panic that increases the financial effects of corporate scandals by running to banks and fire sales and caused widespread damage not only in United States both also around the world. Since 10 years past from 2008 economic crises, world economy has its side effects. In this article, financial system is introduced to understand how financial system player depended to each other and corporate scandals; The case of the Madof, Libor Scandal, Sub-Prime and Mortgage Scandals, Olympus Scandal, Enron, Worldcom, Danske Bank, Raj Rajaratnam, H.J. Heinz Company, Deepwater Horizon, Volkswagen case’s being researched to understand reasons behind corporate scandals, financial effect after the scandals arises and how regulation play proactive role rather than reactive role to avoid large corporates scandals that have potation trigger systemic risk.

LITERATURE REVIEW

Corporate scandals are very common an illegal activity that occurred in financial markets and classified under white collar crimes that involve by high educated people that generally works in senior management positions. (Geis, 2011) white colors crimes as "…a misrepresentation in financial statements of corporations, manipulation in the stock exchange, commercial bribery, bribery of public officials directly or indirectly in order to secure favorable contracts and legislation, misrepresentation in advertising, and salesmanship, embezzlement and misapplication of funds, short weights and measures, and dishonest grading of commodities, tax frauds, misapplication of funds in receiverships and bankruptcies." In this part, literature was reviewed to understand reason behind corporate scandals and their effect both market and corporates.

Bartunek (2002) focused on academy that supports bad management practices that caused scandals. Additionally, Haimowitz (2005) stated that business school should focus on ‘the wisdom of common sense’ rather than mathematical theories. Coffee (2005) worked on geographical view and research on differences of Europe and United States. In the United States, corporates mainly have a dispersed ownership system that controlling by strong securities markets and disclosure standards while European corporates generally has a concentrated ownership system that controlling by block holders. Corporates, which have concentrated ownership systems controlling by stakeholders and rely on ‘command and control’. (Coffee, 2005) stated that concentrated ownership provides determination of fraud in advance because these corporates have low level private benefit while dispersed ownership system in the Unites States encourages corporates to manipulate incomes. (Carson, 2003) worked on business ethic to define reasons of corporate scandals. According to (Carson, 2003), stakeholder theory and shareholder theory that mainly focus on interest of stakeholders may cause unethical attitudes. Additionally, rewards and bonuses encourage employees on unethical behavior. Corporate should also consider social responsibility.

Bonini and Boraschi (2010) analyzed how capital structure of corporate change as a consequence of scandal. Bonini and Boraschi (2010) reported that before scandal arise, stock prices of corporate generally higher that its value and using as a financing of corporate. Even though corporate’s stock prices higher than their peer in pre-scandal term, corporate lose their value and additionally negatively impact their industries by decreasing stock market returns and limiting peers’ financing.

During the post-scandal term, communication is key factor that may affect future of corporates and also impact on stock markets. Grebe (2013) worked on AWB case study that how mismanagement of crises of corporate caused another crises. AWB Ltd was the partner “oil for food” that allow Iraq to sell oil for food. News about AWB dealing with Saddam Hussein regime caused crises. However, miscommunication of AWB triggered another crises (Pollitt, 2014). Grebe (2013) stated that corporates should take responsibility immediately and apologies are important to manage scandals especially based on ethical or illegal behavior of corporate. Lack of responsive communication may cause another scandal as seem at AWB case. Corporate reputation is key factor for sustainability of corporates. During post scandals should focus on commutations to rebuild confidence of investors (Resnick, 2004). Dhir (2006) worked on nonviolent rhetoric strategies maybe useful to create large-scale effect for public, investors and employees. Warren (2007) worked on stigma management on communication strategies that includes taking responsibility or denying responsibility by blaming workers.

Numata and Takeda (2010) reported that insufficient audit may cause to corporate scandals and corporate scandals result in stock prices’ lost by stating a link between audit quality and economic value. Moreover, other corporates that audited by the same auditors also lost their stock market values. Chen (2016) reported that scandal affects their peers’ value of stock market by analyzed 260 scandals during 1996-2013, which cost almost $122 billion to economy. Chen (2016) reported that firms, which are auditing by Big 4, have positive impact on investors trust. Dan Hu (2014) analyzed auditors’ reputation after Olympus scandal whether affects the market and their reputation using multivariate regression analysis. According to Dan Hu (2014) there is no changing on their reputation of auditing firms in Japan after financial scandal. (Kartal et. al., 2018a) and researched that how independent internal auditing crucial for banks to determine risk.

While Drutman and Cray (2002) classify scandals into ten financial scandals that result to 2002 crises in the United States, Davies (2009) and Vaknin (2008) classified financial scandals in seven groups. Ten financial scandals stated by Drutman and Cray (2002)

1. Accounting Conflicts-Of-Interest
2. Analysis Conflicts-Of-Interest
3. Frontbody Issue
4. Improperly Booked Expenses
5. Insider Loans
6. Insider Trading
7. Ipo Spinner
8. Overseas Bribery
9. Special Purpose Entities
10. Round Tripping And Network Capacity Swapping

Seven financial scandals stated by Davies (2009) and Vaknin (2008)

1. Accounting Scandals
2. Stock Market Scandals
3. Derivatives Market Scandals
4. Savings and Loans Scandals
5. Banking Scandals
6. Mergers and Acquisitions Scandals
7. Financial Scandals Involving the Political Class

Grant and Visconti (2006) classified the reason of accounting scandals into four groups; corporate board who prevent shareholders' interest, insufficient auditing process, subjective research by investment banks which only consider income and insufficient ratings of credit agencies. Agrawal and Cooper (2015) analysis selling behavior of managers beforehand scandals erupted to define relationship between unethical behavior and frequency of stock sell. However, Agrawal and Cooper (2015) couldn't find strong relationship. Kartal et. al. (2018b) researched that how auditing comities works sufficient to clarify risk and unethical behaviors.

Dalko and Wang (2016), Burke and Jarkowski (2007), and Hansen (2013) pointed out in their paper that determination and regulation on insider trading is insufficient to avoid while Lehtman and White (2013) focused on insider trading is nor limited in United states and need to investigated in globally sharing the case of H.J. Heinz Company acquisition. (Filstad & Gottschalk, 2012) highlighted that white color criminals is a consequences of being in powerful position that provides access to money using data on white-collar criminals. (Dai et. al., 2017) analyzed short-term hedge fund trading activities during 46 trading days before acquisition announcement to determine insider fraud risk using transaction includes spin-off, repurchases and self tenders. (Dai et. al., 2017) concluded that %3.2 of target shares purchased beforehand the public announcement of a merge or acquisition deal.

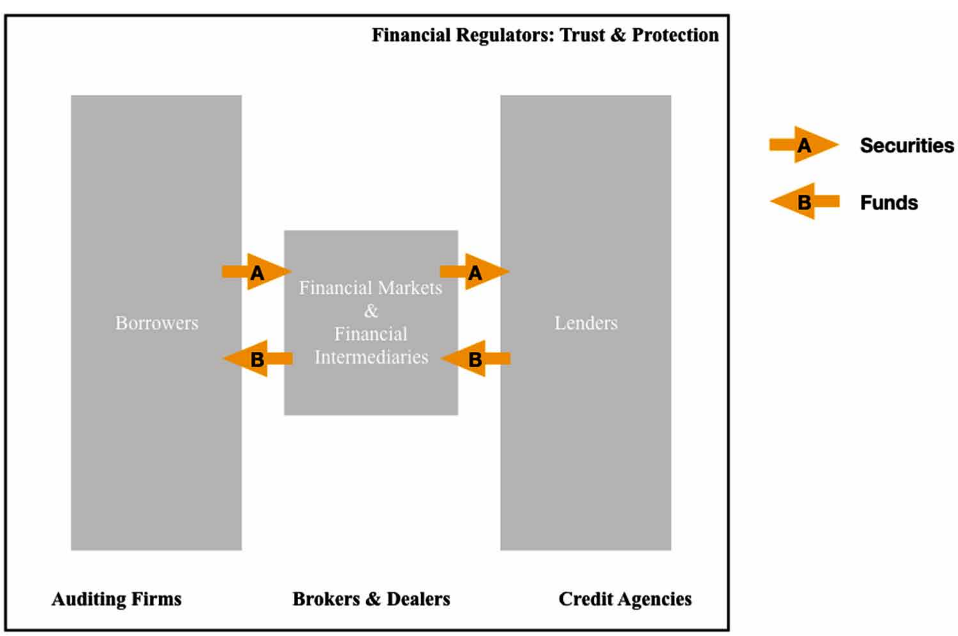
ELEMENTS OF FINANCIAL SYSTEM

Financial system includes financial intermediaries and financial market, which provide funds transfer from investors to firm or individual looking for funds. Well functional financial market is crucial for every participant in the system; individuals, firms, governments. Regulators play key role for well functional market, additional, auditing firms and credit rating agencies protect investors from asymmetric information problems such as adverse selection and moral hazard (Mishkin, 2007; Mishkin and Eakins, 2015). As stated in Figure 1, financial system includes Lender, borrowers, financial intermediaries, financial markets, auditing firms, credit agencies and financial regulators. Lenders who have a fund is looking for invest their money whereas borrowers are looking for fund to invest (Uludag & Arican, 1999).

Well-regulated financial system is very important for sustainable of economy to building a trust by providing a protection to investors (Neave, 2009). Otherwise, lack of trust trigger economic crises after financial scandal erupted as seem after sub-prime and mortgage scandals. Moreover, poor financial system caused to poor economy that effect personnel wealth (Mishkin, 2007) because that financial system play role on creating money, promoting trade, managing risk, distributing and transferring of resources and providing information (Thakor, 2015). Money creation is a crucial role of financial system. Deposit banks, part of financial intermediaries, play role on money creation into the system (Faure, 2013; Uludag & Arican, 1999). Financial is a market place, which connect seller and buyer in order to fund transfer (Aytekin, 2008). Financial markets include many market places such as money markets, bond markets, capital market, and derivative markets (Madura, 2015).

Credit agencies arose at 1900s to provide information to investors regarding investment tools, however, their role in financial system increase after 1970s within economic expansion (Sylla, 2002). Due to the reason that credit agencies charge a fee to owner of assets, credit agencies' reputation always being questioned (Partnoy, 2002). Credit agencies had been given an idea about the investment since many years, in 2008 crises credit agencies reputation decreased sharply (Levine, 2010). Nevertheless, credit agencies may be useful to measure risk, however, credit agencies are required to regulate under systemic approach (Fons, 2002) to provide sustainable trust to financial system. In the financial system, investors have to face with corporation without knowledge about corporation (Sikka et. al., 2009). Auditing in the

Figure 1. Elements of financial system
Reference: (Faure, 2013)



financial markets works as a representative, monitor and reporter of regulators to provide information on corporation whether follow regulations (Jeppesen, 2018). Auditing quality is questioning, especially after corporate scandal was erupted, on determination of fraud or scandal regarding; audit fee, education and audit quality (Chen et. al., 2018; Siddiqui et. al., 2009).

Regulations define role of financial institutions and requirements of financial systems. In the United States, Glass–Steagall legislation act of 1933 is the first regulation to separate investment-banking service from commercial banking to avoid risky transaction for commercial banks (Carpenter et. al., 2016). Securities Act of 1933 and Securities Exchange Act of 1934 were enacted to govern securities and security transactions (SEC, 2018). Trust Indenture Act of 1939 was enacted as an addition of Securities Act of 1933 to provide standards and bring requirements for special securities (Howards, 1940). Investment Company Act of 1940 was enacted to avoid conflict of interest by SEC register requirement with independent board, regulating investment restrictions, transactions and extensive filling document (SEC, 2018). Investment Advisers Act of 1940 provide protection for investors by putting SEC register requirements to investment advisors both firms and individuals (Barbash & Massari, 2008). Sarbanes-Oxley Act of 2002 was enacted after accounting scandal to increase corporate responsibility within financial disclosures creating by Public Company Accounting Oversight Board (SEC, 2018). Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was accepted to reshape U.S. regulatory system in many areas such as consumer protection, trading restrictions, credit ratings, financial products, corporate governance and disclosure, and transparency (SEC, 2018). In United Kingdom, Financial Services and Markets Act 2000 was enacted in order to "...make provision about the regulation of financial services and markets; to provide for the transfer of certain statutory functions relating to building societies, friendly societies, industrial and provident societies and certain other mutual societies; and for connected purposes…" (The Financial Services and Markets Act 2000, ch 8)

CORPORATE SCANDALS

Ponzi Sheme: The Case of the Madoff

End of 2008, financial markets rocked by the Madoff scandal. Bernard L. Madoff Investment Securities fraud investors almost $65 billion using ponzi scheme (Henriques & Rouwe, 2008). Ponzi scheme is known as a financial fraud that returns paid in investors with their own money in order of subsequent of investor until money is end (Lewis, 2012). Fraud of Bernard L. Madoff Investment Securities was the good example of how high regulated and well documented corporate manage such a huge ponzi scheme. Bernard L. Madoff had been promised their investors long term significant profit with very professional that deliver first profit on time to provide trust (Strober & Strober, 2009). Not only individual investors, banks also damaged because of Madoff backed securities that directly or indirectly invest in Bernard L. Madoff Investment including Banque Bénédict Hentsch and Neue Privat Bank, HSBC and Sandanter (Henriques & Rouwe, 2008). Bernie Madoff established Bernard L. Madoff Investment Securities in 1960 and became nonexecutive chairman of the Nasdaq market after 20 years since he set up the firm. Bernie Madoff has impressive career in Wall Street providing trust somehow. Bernard L. Madoff was known a respectfully and trustworthy person that provide him to maintains ponzi sheme in many years (Arvedlund, 2009). However, in 2008 suddenly his investors started to want their cash back and The Madoff's ponzi scheme bursted (Henriques, 2008).

After the scandal was occurred, OIG launched investigation on how SEC missed the fraud of Bernard L. Madoff Investment Securities. However, OIG couldn't find any relationship between SEC and Bernard L. Madoff Investment Securities (Kotz, 2009). Moreover, SEC announced that they have inefficient recourses to uncover red flags and publish a report on post Madoff scandal to improve determination of such as fraud (Rouse, 2010). The report includes 14 actions that need to follow. Those of some action includes corporation with insiders and looking for new recourses, recruiting staff with specialized experience, training, improving of internal control & analyzing, and reporting of the tips and complaints *(SEC, 2018).*

LIBOR Scandal

LIBOR, the London Interbank Offered Rate, is a benchmark rate of bank's lending cost (Paxson and Wood, 1997) was authorized in 1986 by the British banking association (Bariviera et. al., 2015). LIBOR is highly acceptable reference rate using for many financial instruments such as corporate debts, mortgages, swap and derivatives may affect $800 trillion (Brandy, 2012). Additionally, LIBOR is using for benchmark rates for central banks in many countries, for instance TRLIBOR in Turkey, SIBOR in Singapore and HIBOR in Hong Kong. Moreover, it using with 10 currencies such as USD LIBOR and EUR LIBOR (Hou & Skei, 2014; Chorafas, 2015).

LIBOR is calculating by 16 contributor panel banks' lending rates. Thomson Reuters on behalf of BBA, collect the blind offers represent their cost of fund for ten currencies from the panel banks, take average of the offers and publish as a LIIBOR at 11 am, daily (BBA, 2010). LIBOR represent cost of funding of banks; therefore, it generally aligns with other financial instruments funding cost. However, In 2007, LIBOR had started to differentiated from market price and fluctuated irrational (Hou & Skei, 2014), (FSA, 2013). In 2012, irrational behaviors of LIBOR started being questioning. As a result of investigation of US Department of Justice and the European Commission, data manipulation made by panel banks including Barclays being detected (Bariviera et. al., 2015) and fined £59.5 million regarding manipulation of their cost of fund (FSA, 2013).

LIBOR Scandal showed that how trader may manipulate the system, moreover, regulators may keep silence even they aware of the irrational fluctuation of LIBOR (Vasudev & Guerrero, 2014). After LIBOR scandals erupted, new regulations conducted. These are, in July 2012, Martin Wheatley, a former FSA chief, publish report including recommendation and FSA implement new regulations. In April 2013, LIBOR was regulated under the Financial Services and Markets Act 2000. Additionally, in February 2014, ICE became LIBOR's new administrator instead of Thomson Reuters. (Youngblood, 2015)

Sub-Prime and Mortgage Scandals: 2008 Economic Crises

Afterward World War II, Europe and US economic growth provide global prosperity. During the golden age, financial institutions supplied large amount of liquidity to investors. Therefore, profit of financial institutions increase enormously. Large profit of financial institutions charm many investors and many banks were launched after World War II. However, Beginning of 1970 inflation rise dramatically, therefore, new economic policy was announced by President Richard Nixon to control inflation. Smithsonian Agreement signed at 1971 by group of ten; Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States to prevent fluctuation regarding US currency and revalued of US dollar after the Bretton Woods Agreement that signed at 1944 which is represent US dolor as a reserve currency linked to gold (EESC, 1978).

In 1975, Home Mortgage Disclosure Act of 1975 enacted by Congress to encourage banks to lend money for low-income households (FDIC, 2018) as a part of American Dream, which is represent of home, car, beauty, youth and talent (Cullen, 2003). Home Mortgage Disclosure Act of 1975 highlighted responsibility of banks, stating as; (GPO, 2018).

The Congress finds that some depository institutions have sometimes contributed to the decline of certain geographic areas by their failure pursuant to their chartering responsibilities to provide adequate home financing to qualified applicants on reasonable terms and conditions

…the term ''mortgage loan'' means a loan which is secured by residential real property or a home improvement loan; …..the term ''depository institution" means— (i) any bank (as defined in section 1813(a)(1) of this title); (ii) any savings association (as defined in section 1813(b)(1) of this title); and (iii) any credit union

In 1980, Monetary Control Act of 1980 enacted to define a framework of modern banking activities. Monetary Control Act of 1980 brought requirements for reporting, reserve requirements and a set of pricing principles (BostonFED, 2018). Even though Monetary Control Act of 1980 aim to improve financial market, it triggered many banks failures during 1980-1994. During the term, 1.647 banks went bankruptcy with $206,178,657 assets that represent the 8.98% of the total assets of United States (FDIC, 2018). Therefore, during the term, rest of banks started to use risky investment strategies to increase liquidity, maximize their profit (Paulet, 2011), additionally to fund buying home because of Home Mortgage Disclosure Act of 1975 (Buttimer, 2011). Late of 1990s, derivatives and other financial instruments structuring with assets became popular for financial institution to manage their capital requirements (Levine, 2010).

Usage of mortgage loans secured by home had been increased sharply during 2002 and 2007, which is rise from $5.833 trillion to $10.143 trillion (Rapp, 2009). Within rising of mortgage loan demand, banks had been stated to pose their risk to private agencies using CDS, which is find it good investment opportunity which is help banks to reduce their capital in order to give more loan (Levine, 2010). CDS is a credit derivative to insure the payment in case of loan defaults (Aytekin, 2008). Therefore, these securities named as a safe investment in a long term (Paulet, 2011) by rating agencies, which are selected by private agencies in order to get good rate, conflict of interest and as a result mortgage based securities was being rated as less risky than their backed mortgage pool (Tarr, 2010).

The economic stagnation was occurred between 2007-2008, shrink the housing market which is trigger economic panic (Buttimer, 2011), which is hit by worst economic crisis since 1933 as result of the erupted of the housing bubble and complex and toxic financial products based on mortgage-backed securities that heavily recommended by credit agencies to invest on (Levine, 2010). Sub-Prime and Mortgage Scandals caused to meltdown of worldwide financial system because investors didn't trust any of asset and banks (Buttimer, 2011). Cost of Sub-Prime and Mortgage Scandals is still ambiguous because of size, however, according to IMF report approximately $945 billion lost recorded in March of 2008, which is represent $142 per person in the world (Bianco, 2008).

In 2008, Bankruptcy of Lehman Brothers trigger bankruptcy of many banks and liquidity decreased dramatically. Lending rate fell by 36% that caused recession by restraining credit of many corporates including banks (Ivashina & Scharfstein, 2010). Congress accepted the Emergency Economic Stabilization Act of 2008 to bailout banks and financial institutions need liquidity stating by, (Emergency Economic Stabilization Act of 2008, section 2)

(1) to immediately provide authority and facilities that the Secretary of the Treasury can use to restore liquidity and stability to the financial system of the United States; and

(2) to ensure that such authority and such facilities are used in a manner that (A) protects home values, college funds, retirement accounts, and life savings; (B) preserves homeownership and promotes jobs and economic growth (C) maximizes overall returns to the taxpayers of the United States; and (D) provides public accountability for the exercise of such authority.

During the economic crises FED played important role as a lender to provide liquidity to markets. Nevertheless, it is time to collect back the liquidity provided during economic crisis. After 10 years from Sub-Prime and Mortgage Scandals were burst, still, there is a question regarding economic has been fixed (The economist, 2018).

Accounting Scandals: The Case of Olympus Scandal

Olympus global, a japan-based corporation, which is produces medical systems and cameras, established in 1919. Even though the companies' old age, Olympus got into the fraud in 2011 after investigation triggered by CEO, Michael Woodford who is become suspicions after determine spending over a hundred million of dollar transactions for acquisitions which no relevance with business of Olympus (Woodford, 2011). Michael Woodford, CEO of Olympus, questioned the situation, and call independent investigation from auditing firms. After the investigation, executives of the corporates were being accused to involve in accounting fraud and finally, in July 2012, Ysuyoshi Kikukawa and Hideo Yamada found responsible for the accounting fraud (Knapp and Knapp, 2014). Olympus is another example of accounting scandal as saw in Enron, which is attempted fraud by executives to hide, lose.

Olympus accounting fraud backed on 1990s that is recorded $1.7 billion lost from speculative deals after Japanese economy crushed (Voigt, 2012). Corporate executive started to acquire new dummy companies to hide company lost using a tobashi scheme, which is a shift loss to new company. After scandal burst Olympus lost its value %80 in Tokyo Exchange and $1.2 million fined (Elam et. al., 2016). On the other hand, Olympus was auditing by one of big four, which are failed to determine accounting fraud many years (Dan Hu, 2014). The reason behind the lack of determination was backed on poor whistleblower system of the company and regulations. Whistleblower Protection Act is law that protects employees in case of providing illegal activities about corporation (Shiozaki & Coney, 2015).

Accounting Scandals: The Case of Enron and Worldcom

Enron scandal is known as a world biggest fraud, which is, damaged United States' economy seriously. Afterward Enron went bankruptcy, many investors lost their money includes banks; Citigroup and J. P. Morgan Chase and also questioned the role of audits and financial regulators (Jickling, 2003). Natural Gas Policy Act of 1978 created an opportunity for entrepreneurs by economic linearization and energy market become attractive (Brandley, 2018). Enron established in 1985 in Houston, Texas by Kenneth

Lay as a rebranding of Houston Natural Gas Co. and Omaha-based Inter North Inc. merger (McLean & Elkind, 2004). Enron was funding by loans since its set up and Kenneth Lay was looking to alternative instruments to fund the company (Tan & Yeo, 2012). During the 1980s, regulation was allowed to use derivatives for energy sector. Jeffrey Skilling was working as a consultant in McKinsey & Company on devivatives in energy sector and known as a rising start. Kenneth Lay assigned Jeffrey Skilling as a chairman and chief executive officer of Enron Finance Corp (Brandley, 2018).

Enron was served as an energy trading company, which valued as a $77 billion and ranked as a 17th largest company at Fortune 500 between 1996 and 2011 with 20.000 employees (Geis, 2011). Enron was using high profitability derivatives to create income and when the derivatives bring loss, Enron hide the lost by creating special purpose entities (Newton, 2006) Moreover, it selected as a most innovative company because of innovative accounting standards (Reksulak & Shughart, 2004). However, Enron was hiding their debt by hiding debts of its balance sheet, enhance income, and adjusting profit volatility using mark to market accounting principles (Tan and Yeo, 2012). Arthur Andersen, an audit of Enron also was being accused to not responsible for lack of determination but also involved to use complex financial instruments to hide lost and show company profitable (Jickling, 2003).

Beginning of the 2001, fortune published an article that stated suspicious on overvalued of Enron. As a result, this article triggered questions and increased suspicion on price of its stock. Afterwards, Enron' stock prices dropped dramatically and on 16 October 2001, Enron was forced to announce their loss and 4 mounts late it went bankruptcy (Reksulak & Shughart, 2004). Bankruptcy of Enron named as a largest bankruptcy of Unites States. It values drop dramatically from $90 to under $1 and $65 billion capital gone from market (Mizrach, 2006). Moreover, Enron workers lost their pension fund which is invested in Enron' stocks (Jickling, 2003).

Enron scandal is a good example of "conflicts of interest" which how manager may use corporation for their personal benefits rather than benefit for corporations. After the Enron Accounting scandal, many accounting scandals were detected and as a consequent, Sarbanes-Oxley Act of 2002 and also known as Corporate Responsibility Act of 2002, which is arranged into eleven titles was enacted to protect investors. Main changings stated in Sarbanes-Oxley Act Section 302, 401, 404, 409 and 802. These are; (Sarbanes-Oxley Act Of 2002).

- Sarbanes-Oxley Act Section 302 includes titles to define responsible of corporates:
    - *The signing officers have reviewed the report*
    - *The report does not contain any material untrue statements or material omission or be considered misleading*
    - *The financial statements and related information fairly present the financial condition and the results in all material respects*
    - *The signing officers are responsible for internal controls and have evaluated these internal controls within the previous ninety days and have reported on their findings*
    - *A list of all deficiencies in the internal controls and information on any fraud that involves employees who are involved with internal activities*
    - *Any significant changes in internal controls or related factors that could have a negative impact on the internal controls*
- Sarbanes-Oxley Act Section 401 includes titles to define the formal requirements of periodic reports

   - *Financial statements are published by issuers are required to be accurate and presented in a manner that does not contain incorrect statements or admit to state material information. These financial statements shall also include all material off-balance sheet liabilities, obligations or transactions.*
   - *The Commission was required to study and report on the extent of off-balance transactions resulting transparent reporting. The Commission is also required to determine whether generally accepted accounting principles or other regulations result in open and meaningful reporting by issuers.*
- Sarbanes-Oxley Act Section 404 includes titles to define responsible of internal controls
   - *Issuers are required to publish information in their annual reports concerning the scope and adequacy of the internal control structure and procedures for financial reporting. This statement shall also assess the effectiveness of such internal controls and procedures.*
   - *The registered accounting firm shall, in the same report, attest to and report on the assessment on the effectiveness of the internal control structure and procedures for financial reporting.*
- Sarbanes-Oxley Act Section 409 includes titles to define real time issuer disclosures
   - *Issuers are required to disclose to the public, on an urgent basis, information on material changes in their financial condition or operations.*
   - *These disclosures are to be presented in terms that are easy to understand supported by trend and qualitative information of graphic presentations as appropriate.*
- Sarbanes-Oxley Act Section 802 includes titles to define real time issuer disclosures
   - *This section imposes penalties of fines and/or up to 20 years imprisonment for altering, destroying, mutilating, concealing, falsifying records, documents or tangible objects with the intent to obstruct, impede or influence a legal investigation.*
   - *This section also imposes penalties of fines and/or imprisonment up to 10 years on any accountant who knowingly and willfully violates the requirements of maintenance of all audit or review papers for a period of 5 years*

Additionally, accounting standard is play crucial role for investors to get information for corporate financial situation. Especially after 2008 crises, mark to market accounting standards was being questioned that these standards doesn't represent situation of corporates (Ellul et. al., 2013). In 2008, Mark to market accounting principles or fair value measurements redefined in the Emergency Economic Stabilization Act of 2008, the reason of hiding information from investors (SEC, 2018).

Series of accounting scandals erupted begging of 2000, As a consequence, incentives of complex financial instruments, poor accounting standards and unethical behavior of executives who is eager to make profit (Grant & Visconti, 2006). Worldcom is another corporate scandals erupted beginning of 2000 with misinterpretation of financials, approximately $3.8 billion profit, which is linked to Arthur Andersen (Marius-Christian, 2016). Even though internal control highlighted the issue, management neglected the repost of internal controls because of high profit (Hilley, 2002)

Insider Trading: The Case of Raj Rajaratnam and H.J. Heinz Company

Insider trading, is an activity of using of confidential information before publish it to capital markets to get advantage (Aytekin, 2008), (Geis, 2011) which is type of captain market fraud (Hansen, 2013) that has been prohibited since first years of stock exchange and regulated in Securities Act of 1933 (Dalko & Wang, 2016). In 1980s, financial market was rocked by many insider trading scandals which involve many senior executives (Hristova, 2011) because of insufficient regulations. Afterward many scandals occurred, in 1988 new regulation was subjected to increase efficiency of financial market and build trust. Insider Trading and Securities Fraud Enforcement Act of 1988 stating as; (Insider Trading and Securities Fraud Enforcement Act of 1988, Sec 21A.1)

Whenever it shall appear to the Commission that any person has violated any provision of this title or the rules or regulations thereunder by purchasing or selling a security while in possession of material, nonpublic information in, or has violated any such provision by communicating such information in connection with, a transaction on or through the facilities of a national securities exchange or from or through a broker or dealer, and which is not part of a public offering by an issuer of securities other than standardized options…

Insider trading to predict on good news (Hansen, 2013) is very common on acquisition or mergers that according to SEC statement; more than %40 of companies stock prices start to rise a week before announcement of acquisition or mergers (Burke & Jarkowski, 2007), (Frunza, 2016) which is shows that system needs new regulations. H.J. Heinz Company is a good example on how SEC determined insider trading even thought it occurred out of United States (Lehtman & White, 2013 In 2009, Raj Rajaratnam who was head of the Galleon Group hedge fund arrested in charge of insider trading with corporates such as Intel, McKinsey & Co, IBM regarding complaints of SEC (SEC, 2009), (Hristova, 2011). Raj Rajaratnam, manager of Galleon Hedge Fund, a key case of insider trading that shows how fund manager may gather almost $45 million advantage by providing tips (Hansen, 2013). In 2011, Raj Rajaratnam was sentenced eleven years prison regarding insider trading and Galleon Group was failed with $7 billion assets in the same year (Colesanti, 2011), (Raghavan, 2013).

Money Laundering: The Case of Danske Bank

Money Laundering is illegal activity that embedded money comes from illegal activates to financial system to show legal (Gurule, 1995), (Madinger, 2012) and may define as *"any act that is aimed at frustrating the identification of the origin, the tracing or the forfeiture of assets which are known or assumed to originate from a felony"* (Maximilian & Teichmann, 2017). In the United States, Money Laundering was regulated under Money Laundering Control Act of 1986 that define penalties for;

…1)Whoever, knowing that the property involved in a financial transaction represents the proceeds of some form of unlawful activity, conducts or attempts to conduct such a financial transaction which in fact involves the proceeds of specified unlawful activity (A) (i) with the intent to promote the carrying on of specified unlawful activity; or (ii) with intent to engage in conduct constituting a violation of section 7201 or 7206 of the Internal Revenue Code of 1986; or (B) knowing that the transaction is designed

in whole or in part (i) to conceal or disguise the nature, the location, the source, the ownership, or the control of the proceeds of specified unlawful activity; or (ii) to avoid a transaction reporting requirement under State or Federal law, shall be sentenced to a fine of not more than $500,000 or twice the value of the property involved in the transaction, whichever is greater, or imprisonment for not more than twenty years, or both. (2) Whoever transports, transmits, or transfers, or attempts to transport, transmit, or transfer a monetary instrument or funds from a place in the United States to or through a place outside the United States or to a place in the United States from or through a place outside the United States. (Title 18, part 1, ch.96, 1956)

Money laundering cycles includes mainly three stages; "*placement, layering, integration*". In the placement stage, launderer put money to financial system using trade off, in the layering stage, launderer use complex transaction to hide source of money and integrated to the financial system. And in the final stage, launderer use money to fund illegal activity (Madinger, 2012), (Geis, 2011) (Unger, 2017). Money laundering is critical to determine for government to avoid illegal activities. Thus, governments introduce new regimes for financial institutions to determine customer risk, verifying of who get beneficial from transaction, understand customers' source of wealth, provide sufficient records related transaction and revaluation of existing customer (Bosworth-Davies, 2007). Financial institutions may get fine and also they may lose their unless build system to control money transactions. Moreover; financial institutions may called as accomplices in money laundering (Onyiriuba, 2016). Thus, it is very crucial for financial institutions to catch money laundering activities or avoid. Today, financial institution use concrete anti money laundering system with new technologies such as AI, or new models using big data to unmask transactions (Demetis, 2018; Colladon & Remondi, 2017) or build sufficient internal auditing and compliance organization for systemic review (Norton, 2018).

Danske Bank called with biggest money laundering scandal in Europe because of Estonia Branch (The Guardian, 2018). After scandal was erupted, The Danish Financial Supervisory Authority published a statement regarding new investigation to understand if Danske Bank follows the regulations and has sufficient compliance to avoid money laundering (The Danish Financial Supervisory Authority, 2016). According to investigation report Danske Bank's Estonia branch didn't have sufficient process from Group's risk management, including monitoring and reporting that later conduct new system to manage sufficient risk management for anti-money laundering (Danske Bank, 2018). After scandal erupted, Danske Banks lost $13 billion value because of potation fine beside its reputation (BBC, 2018).

Other Corporate Scandals

In 2010, BP and the Deepwater Horizon caused wide affected disaster by spilling oil. BP and the Deepwater Horizon caused 4.9 million barrels of petroleum to flow into about 68.000 sq miles sea during 87 days (Shutz et. al., 2014). 11 people lost their life and 17 people were injured (BP, 2010). BP and the Deepwater Horizon oil spilling scandal is an example of mismanagement of spilling risk in oil industry (Sylves and Comfort, 2012). BP and the Deepwater Horizon oil spilling scandal caused huge impact both environment and consumer that according to (Morgan et. al., 2016) analysis, this scandal impact consumer's short term demands negatively. Aftermath of scandal, BP published a report regarding investigation to identify critical factors in order to avoid further risks (BP, 2010). Additionally, (GPO, 2018) published a report regarding lessons that learn from BP and the Deepwater Horizon oil spilling scandal.

According to report, new regulations regarding safety were introduced in energy policy to avoid future risks (GPO, 2018). There are also series nature affects that hard to measure cost, however, BP and the Deepwater Horizon oil spilling scandal cost $65 billion to the firm (The Guardian, 2018).

On 18th September 2015, US Environmental Protection Agency issued a notice regarding Volkswagen's cars that broke clean air standards (Griffin, 2016). Volkswagen admitted the fraud that CO2 emissions result was adjusted (Schroders, 2018). 25th October 2016 U. S. Distinct court approved $15 billion for settlement but it wasn't enough to cover scandals consequences. In 2016, Volkswagen announced that they will apply additional settlement for 80.000 cars includes Volkswagen, Porches and Audi that cost almost $1.3 billion. Moreover, In 2017, settlements' cost reach to $20 billion (Ewing & Richards, 2017). Additionally, more important, Volkswagen lost reputation (Griffin, 2016) (Horn, 2017) and their stock priced dramatically decreased almost %40 in three weeks after the scandal had been erupted (Schroders, 2018). Volkswagen's emissions scandal is known to consequences of organization culture that push engineers to adapt regulation in limited time and budget, push engineers to cheat CO2 emission test (Mansouri, 2016).

Table 1 shows the cost of some scandals had been erupted since last 18 years. Last 18 years, financial markets lost around 1.3 trillion that equals almost Canada's GDP (RBC, 2018).

SOLUTIONS AND RECOMMENDATIONS

There are many researches that systemic risk which is associated with banks. However, large corporation may also trigger systemic risk as a player of financial system. In this article, corporate scandals being researched to understand how corporate scandals may cause large loss in stock markets or for banks, which provide loan. This article may provide insights to regulators, investors and financial institutions on how one unethical behavior may cause butterfly effect in financial system. Additionally, new regulations may be introduced for large corporates to avoid large affect in financial markets such as systemic risk in case of unethical behaviors may hit financial markets.

Table 1. Cost of scandals

Case	Scandal	Cost of Scandal
Bernard L. Madoff	Ponzi Sheme	$65 billion
Barclays	LIBOR Scandal	£59.5 million fined
2008 Economic Crisis	Sub-Prime & Mortgage Scandals	$945 billion
Olympus Scandal	Accounting Scandals	%80 lost in Stock prices
Enron	Accounting Scandals	$40 billion
Worldcom	Accounting Scandals	$175 billion
Raj Rajaratna	Insider Trading	$7 billion
Danske Bank	Money Laundering	$13 billion
Volkswagen	Emissions scandal	$20 billion
BP & The Deepwater Horizon	Oil spill	$65 billion

FUTURE RESEARCH DIRECTIONS

This article aims to provide insights on effect of corporate scandals. Therefore, corporate scandals; The case of the Madof, Libor Scandal, Sub-Prime and Mortgage Scandals, Olympus Scandal, Enron, Worldcom, Danske Bank, Raj Rajaratnam, H.J. Heinz Company, Deepwater Horizon, Volkswagen case's being researched to understand reasons behind corporate scandals. Regulators play crucial to avoid risk in financial system. Proactive regulations may be beneficial to avoid corporate scandals in especially in large corporates that have potation on systemic risk.

CONCLUSION

Systemic risk represents the risk that a bank fails caused many banks failures (Archarya, 2009). Systemic risk mainly state that one banks failure that triggers other banks in literatures, however, many large corporates also may trigger systemic risk because these corporates are element of financial system as a fund receivers. As Schwarchz (2008) stated that financial system may collapse like a dominoes. Since 20 years, financial system has been rocked by many of corporate scandals, which has very serious consequences on economy. There is some argument on why these unethical behaviors are common in business industry. One idea that provides a reason behind repetitive corporate scandals is "too-big to fail" corporations. There is general belief that government always bail out large companies in case of failure, which cause irresponsible behaviors of corporates manager (Shank, 2018). Another idea is insufficient regulations and poor auditing. Corporate scandals may called as "an opportunity of lifetime" (Geis, 2011) for many firms or executives that make profit many years, when scandals arise, it generally ended with corporate fail that cause many people lost their job and pension fun. It also cause huge loses to banks which give loans to corporates that may consequences systemic risk. Therefore, independent internal auditing play crucial role to clarify unethical behaviors. Final discovery that, cases of corporates scandals proof that regulation comes after corporate scandals arise. Regulators may play proactive role to figure out potation risk rather than risks, which have been happened.

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KEY TERMS AND DEFINITIONS

BBA: The British Bankers Association.
CDS: Credit default swap.
CFPB: Consumer Financial Protection Bureau.
CTFC: Commodity Futures Trading Commission (CFTC).
EESC: European Economic and Social Committee.
FDIC: Federal Deposit Insurance Corporation.
FED: Federal Reserve System.
FSA: Financial Services Authority.
GDP: Gross domestic products.
GPO: US Government Publishing Office.
ICE: Intercontinental Exchange.
Mortgage-Backed Security: A type of financial instrument that is secured by a mortgage or collection of mortgages.
OIG: The Office of Inspector General.
RBC: Royal Bank of Canada.
SEC: Securities and Exchange Commission.

Section 4

Chapter 16
A Comparative Analysis of Drivers of Secondary Market Liquidity in Financial Markets for Investment Analysis:
Evidence From Turkey

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ABSTRACT

The purpose of this chapter is to examine the drivers of secondary bond market and stock market liquidity for investment analysis after global financial crisis in Turkey. The literature in Turkey mainly focuses only on the volatility of return for driving liquidity in both bond and stock markets. However, it is argued that other types of volatilities including domestic and international volatilities have also a deteriorating impact on secondary market liquidity in Turkey. In this context, it is empirically tested whether the volatility and/or uncertainty that stem from the FED and ECB policies within the last 10 years had a negative impact on liquidity both in government bond and stock markets. Moreover, the impact of non-residents in bond and stock markets on secondary market liquidity is examined by including their holdings in stock and bond market.

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INTRODUCTION

A significant number of researches reveal that there is a close correlation between economic development and financial development (Gelb, 1989; Ghani, 1992; King & Levine, 1993; Levine, 1995; De-Gregorio & Giudotti, 1995; Demirguc Kunt et al., 2004; Levine & Zervos, 1996). One of the indicators of the development of financial sector is its liquidity. However, providing a rigorous and empirically relevant definition of liquidity is a difficult task. This difficulty arises from different reasons. First of all, there is no one single type of liquidity and often different types of liquidities are confused. Second, liquidity has different dimensions and hence a single liquidity measure may not be able to capture all of these different dimensions. Third, although liquidity can be considered as a public good, meaning that each financial actor benefits from the availability of it although they do not voluntarily contribute to it. Another complicating factor is that issuers of assets, policy makers or financial institutions investing in these assets have different perspectives on liquidity.

Liquidity is a complex concept with several different dimensions such as market liquidity vs. funding liquidity, micro liquidity vs. macro liquidity and endogenous liquidity vs. exogenous liquidity. These difficulties make it hard to define liquidity and to measure it in a straightforward way. Hence, different proxies are used to measure it. There are three types of liquidity often confused with each other. In this study, the aim is to talk about the liquidity of a financial asset. This type of liquidity is called market liquidity. It is defined as the ability to rapidly execute sizeable transactions at a low cost and with a limited impact on market price (IMF, 2015). The concept of market liquidity is different form the concepts of funding liquidity and monetary liquidity. Funding liquidity is the ability of market participants to obtain funding from financial markets at acceptable conditions whereas monetary liquidity is the liquidity that is provided to financial markets and to the economy through increase in monetary aggregates by central banks and monetary authorities (IMF, 2015). Although all these concepts are different from each other, there are close relations among them. First, funding liquidity is usually a prerequisite for market liquidity since market makers, who are the main providers of liquidity also use credit or short term borrowing to maintain their inventories. Market liquidity tends to enhance funding liquidity because margin requirements depend on the liquidity of the securities. Increase in monetary aggregates through monetary easing (monetary expansionary policy) ease funding conditions and hence facilitate market-making activities. With the facilitation of market making activities monetary liquidity also helps to get higher market liquidity. However, one should be careful about interpreting these relations among three liquidity concepts, because they are not always one to one and other factors may also play important roles in the relations among these three liquidity concepts. After making the distinction among three types of liquidity clear, it is possible to turn to market liquidity which is the main issue of this study. According to the traditional definition of market liquidity, a market is said to be liquid if market participants can sell financial securities at the lowest cost and without having any significant impact on the market price. This definition of liquidity incorporates some important features which are worth mentioning to fully understand the concept of market liquidity. The features may be expressed as follows:

- **Tightness:** A market is said to be tight, when the spread between bid and ask prices are narrow. As the liquidity dries up in a financial market, the spread between bid and ask prices increases. Hence, this difference is also used as a proxy for the measurement of liquidity.
- **Depth:** The depth of a financial market illustrates the maximum transaction volume that can be executed without having an impact on the market price (IMF, 2004). It can be measured by the

volume of transactions of sell orders above market price or by the volume of transactions of buy orders under market price (Kara, 2011). Moreover, sometimes total transaction volume is also used as a measure of depth of a financial market. Another ratio that is used to measure the depth of a financial security is its turnover ratio. This is calculated by dividing total transaction volume in a given period by the total stock of that security.

- **Breadth:** It is similar to depth and many researchers use these terms interchangeably. The measurement of debt takes into account the best ask and bid prices above and below market prices whereas the breadth takes into account all bids and ask prices above and below market clearing price. The breadth of a market can be measured by the elasticity of ask and bid prices. The higher the price elasticity of bid and ask, the higher the breadth of the market and hence the liquidity, because in these markets high volume of transactions have a limited impact on prices (Wyss, 2004).
- **Resiliency:** Monitoring and measuring liquidity is easy during normal times. However, sometimes liquidity may dry up due to financial stress or other major distortions. Measures of the liquidity in normal times may be insufficient to assess risk that a shock will produce if liquidity suddenly disappears (IMF, 2015). The resiliency of a market shows the speed of returning back to normal liquidity when normal level liquidity disappears due to major event or financial stress. The more resilient a market, the more liquid is market (Csavas & Szlizard, 2005).

According to Bank for International Settlements (BIS), liquidity in financial markets is a public good so that all the financial market participants benefit from it yet they do not have sufficient motivation to supply liquidity (BIS-CGFS, 1999). Moreover, as discussed before, market liquidity has close relations with other types of liquidity concepts. Hence, market liquidity has utmost importance from different perspectives.

First of all, a liquid market allows different prices at different maturities so that an efficient yield curve can be established. This is especially valid for fixed income securities such as government bonds and corporate bonds. An efficient yield curve of government bonds with sufficient level of liquidity serves as a benchmark for other financial instruments and help to the formation of pricing of these instruments (Wheller, 2004; Coluzzi et al., 2008). Moreover, due to their risk-free feature, government bonds can be used as collateral by financial institutions. Hence, financial institutions have high tendency to carry government bonds in their balance sheet as source of quick liquidity. In case of an unexpected cash flow, these securities can be easily converted to liquidity. Hence, the liquidity of these securities has utmost importance for financial institutions carrying these securities in their balance sheets.

The liquidity is a demanded feature of a security not only for the safe functioning of the financial system but also for the issuing part, especially for government debt offices who issue government bonds in primary markets. A liquid government security has high demand from investors compared with the same illiquid security even if all features of both securities such as maturity, cash flows, risk etc. are the same. Hence investors demand extra premium for illiquid assets, called liquidity premium (Diaz & Arribas, 2003). Thus, liquidity of a government security decreases cost of borrowing for governments. Moreover, the presence of a liquid government security markets help governments to obtain funds from domestic markets which in turn help decrease their dependency on foreign markets and hence FX risk they face (Sidaoi et al., 2012).

The liquidity of government securities has also implications for central banks in conducting monetary policy and maintaining financial stability. First, the prices of liquid government securities contain useful information regarding expectations of monetary policies and central banks try to get this formation by monitoring secondary market developments (Gravelle, 1999). For instance, government securities linked to inflation contain useful information regarding inflation expectations (Duran et al., 2011). Hence, liquidity of these markets is a desired feature to reflect true prices of these securities and hence helps central banks to accurately get estimates of market expectations regarding future inflation rates.

The liquidity of government bond market is also important for central banks due to their open market operations. Open market operations are the widely used monetary policy instrument both in developed and emerging countries due to their simplicity, flexibility and easy implementation. Through these operations, central banks can increase money supply by buying back government securities from markets or decrease money supply by selling these securities to the markets. Hence, an illiquid government securities market causes central bank open market operations to either fail or produce negative consequences.

Secondary market liquidity of government bonds is also important for central banks from financial stability perspective. After global financial crisis in 2008, central banks added another variable to their objective functions, the maintenance of financial stability because financial stability is one of the main drivers of price stability which is the main objective of all central banks. Liquidity in financial markets helps restore investor confidence and increase resiliency of the financial markets against unexpected shocks and decrease systemic risk (BIS, 1999). When there is sufficient liquidity, market participants can obtain the necessary funding from markets and hence there will be less reliance on central bank reserves as lender of last resort.

The liquidity is not only a desirable feature of bond markets but also in stock markets from corporate finance perspective. The concept of liquidity in stock markets was initiated by Amihud in 1986 and then has been subjected to research due to its implications for different perspectives. The liquidity of an individual stock or the stock market has important implications for pricing of the stock, returns, market efficiency, pricing behavior, dividend policy and firm value. Faff et al. (2010), for instance, analyzed the effect of liquidity on stock return on Tokyo Stock Exchange. They found that liquidity is priced during expansionary phase of business cycle but not significantly priced during contractionary period. Spindt et al. (2007) analyzed the empirical relation between dividend policy and liquidity of a firm's share. They found that investors prefer cash dividends in illiquid markets. Lipson and Mortal (2009) argue that firms with more liquid share have lower leverage and prefer equity financing when raising capital.

The drivers of liquidity have been received great attention form researchers, academicians and policy makers in the recent history. In that regard, drivers of local government bonds, sovereign bonds, corporate bonds and stock markets have been deeply analyzed in the literature. Moreover, some of literature studied commonality in secondary market liquidity in financial markets. In this field of research, drivers of stock and bond markets have been analyzed together to assess whether there are common factors that drive liquidity in these markets. There have been also researches on how liquidity in bond and stock market are related to each other. Although most of the literature is about the market liquidity, some researchers also analyzed the interlinkages between funding liquidity and market liquidity.

Ui (1999) analyzed the relation between price volatility (as a measure of liquidity) and transparency of the bond market in Italy. He defined transparency of the market as the ability of investors to access information during transactions. He found that as transparency increases, price volatility decreases. A similar analysis has been conducted by Scalia & Vacca (1999) for Italian government securities. They also found that a decrease in transparency has a deteriorating effect on liquidity because investors are waiting for right information before they do any transaction which causes delays in transactions.

Fleming (2002) analyzed whether reopening of a security causes an increase in liquidity or not by studying liquidity patterns of US government securities. He compared the liquidity of 52 weeks government bonds that have been subject to reopening after 26 weeks with that of bonds that have an initial maturity of 26 weeks. He found that's reopening facility has a significant effects on the liquidity of securities.

Chabchitrchaidol and Panyanukul (2005) analyzed the secondary bond market liquidity in Thailand. To measure liquidity they used bid ask spread. They analyzed the effects of price volatility and transaction volume on the liquidity. They found that price volatility has a negative impact on market liquidity and transaction volume has a positive impact on the bond market liquidity. This makes sense, because as the volume of transactions increase, bid-ask spread decreases and hence increases liquidity.

Moser (2007) analyzed the perceptions of investors regarding changes of minister of Economy or Finance in cabinet in 14 Latin American countries. He found that political events may suddenly increase bid and ask spreads and hence decrease liquidity. He argued that the resigning of Ministry of Finance caused an immediate increase in bid-ask spreads and decreased liquidity in government bond markets.

Bloommestein et al. (2009) focused on the electronic trading platforms, over the counter transactions, broadening of investor base and availability and effectiveness of primary dealership system in analyzing liquidity. They argued that liquidity increases as the issues of government bonds are transparent and announced according to a pre-determined agenda. Moreover, reopening of the same security, a well-functioning repo market, measures to ease pricing of securities by investors and an effective primary dealership system are important factors in having a liquid bond market.

Bellas et al. (2010) analyzed the bid ask spread of emerging countries during 1997-2009. They used EMBI (Emerging Markets Bond Index) spread, financial stress index, volatility index, ratio of short-term debt o international reserves, share of external debt in GDP and share of interest payments to international reserves as dependent variables in their model. Moreover, since this was a cross-country analysis, they also added share of foreign trade volume to the model to reflect differences in competition in these countries. They analyzed short term and long-term determinants of liquidity and they found that financial variables affect liquidity in short term whereas macroeconomic variables affect in the long-term. Moreover, they observed that crisis years have also a significant effect on liquidity, so they incorporate this observation by adding dummy variables for these years. They found that an increase in volatility index increases bid-ask spread meaning that volatility decreases secondary market liquidity. This finding is also consistent with the findings of related literature. They also found that an increase in external debt as shares of GDP, an increase in politic risk or financial stress have deteriorating effects on liquidity in government bond markets.

Goyenko et al. (2011) compared the liquidity of the on-the-run and off-the run securities in US government bond market using data between 1967-2005. They found that the liquidities of the on-the-run securities have been significantly affected by return volatility. On the other hand, the liquidity of off-the run securities has been affected by not only return volatility but also by macroeconomic variables. The main reason for this difference they argue is that the high volume of the transactions of on –the run securities diminishes the effects of macroeconomic variables on the liquidity.

The literature on the liquidity of government bond market in Turkey is rather limited. Kara (2011) analyzed the effects of price volatility and transaction volume on the liquidity which is measured as bid-ask spread of the security during December 2007 to December 2010. He found a positive and significant relation between transaction volume and liquidity of the security. Results also revealed that as price volatility increases, liquidity decreases. A similar analysis has been conducted by Karatas (2015). Like Kara, he also used bid-ask spread to measure secondary market liquidity in government bond market. He found that there is a negative relation between market concentration and bond market liquidity and there is a positive relation between transaction volume and market liquidity.

By utilizing a panel data model, Kilimci et al. (2014) analyzed the effects of interest rate risk, interest rate volatility, currency risk, currency volatility and carry opportunity variables on the trading volume and the bid-ask spreads of the benchmark bonds. They found that, the above-mentioned explanatory variables indeed affect the secondary market liquidity, with most of the risks coming from currency risk, interest rate risk and interest rate volatility. Table 1 reports the summary of literature review on drivers of liquidity in bond markets.

Table 2 reports the drivers of secondary bond market liquidity in literature.

As discussed before, some researchers have focused on the covariance of liquidity in bond and stock markets. The main argument behind this shift is that there are strong volatility linkages between the two markets (Fleming et al., 1998) which can affect liquidity in both markets. In other words, liquidity can exhibit movement across different assets (bonds and stocks for instance) and can also be driven by common factors such as systemic shocks to volatility, returns and trading activity. Chordia et al. (2003)

Table 1. Summary of literature review on drivers of liquidity in bond markets

Authors (Year)	Country	Model	Main Findings
Ui (1999)	Italy	Analyzed the relation between price volatility and transparency	As transaparency increases price volatility decreases
Scalia & Vacca (1999)	Italy	Analyzed the relation between liquidity and transparency	Decrease in transparency has a deteriorating effect on liquidity
Fleming (2002)	United States	Analyzed whether reopening of a security causes an increase in liquidity using July 1st 1996-December 31, 2000 data	Reopening facility has a significant impact on the liquidity of securities
Chabchitrchaidol & Panyanukul (2005)	Thailand	Analyzed the effects of price volatility and transaction volume on liquidity	Price volatility has a negative impact and transaction volume has a positive impact on liquidity
Moser (2007)	14 Latin American Countries	Analyzed perceptions of investors regarding change of Minister of Economy and Finance	Political events may suddenly increase bid-ask spreads and hence decrease liquidity
Bloommestein et al. (2008)	OECD Countries	Focused on the role of electronic trading platforms, OTC transactions, broadening of investor base, availability of PD system	Liquidity increases with transparency, reopening's, well-functioning repo market affective PD system
Bellas et al. (2010)	14 emerging countries	Analyzed liquidity spreads using macro and financial variables (external debt, fiscal balance, short term debt/ reserves, external debt amortization/reserves, trade openness, politic risk, financial fragility) during 1997-2009	Financial variables affect liquidity in short term whereas macro variables affect liquidity in long run.
Goyenko et al. (2011)	United States	Compared liquidity of the on-the run and off-the run securities using data between 1967-2005	Liquidity of the on the run securities have been impacted on return volatility whereas liquidity of the off-the run securities have been affected by not only return volatility but also by macroeconomic variables
Kara (2011)	Turkey	Analyzed the effects of price volatility and transaction volume on liquidity using December 2007-December 2010 data	He found a positive and significant relation between transaction volume and liquidity and negative relation between volatility and liquidity
Kilimci et al. (2014)	Turkey	Analyzed the effects of interest rate risk, interest rate volatility, currency risk, currency volatility and carry opportunity on trading volume and bid-ask spread using February 2010-September 2014 data	They found that mentioned explanatory risk factors are affecting the secondary market liquidity with most of the risks coming from currency risk, interest rate risk and interest rate volatility

Source: Author based on Literature Review Analysis analyzed the joint dynamics of liquidity, trading activity, returns and volatility in stock and US Treasury bond markets over the period 1991 through 1998. Their results indicate that the time series properties of stock and bond market liquidity have similarities such as common calendar regularities. They also found that shocks to spreads in one market increase spreads in both markets. Further, they find that the correlation between innovations in bond and stock market liquidity and volatility is positive and significantly different from zero, indicating the presence of a common underlying factor that drives both liquidity and volatility. Lastly, they also argue that flows to the stock and government bond sectors play an important role in forecasting both stock and bond market liquidity. They also analyzed the effects of monetary policy on the liquidity and found that an expansionary monetary policy has a positive impact on the stock market liquidity during crises. Further, an unexpected increase in FEDs rate has a negative impact on liquidity and both stock and bond volatility decreases upon an unexpected increase in FED's rates.

Bouwman et al. (2013) studied the link between bond and cross section of stocks and provide new evidence that links stock market illiquidity to sovereign bond premium. They also argue that stock market illiquidity is associated with the state of funding liquidity. They also find that changes in stock market illiquidity are related to flight to quality through shifts of US mutual fund flows from equity to money market mutual funds. Lastly, they found that stock market illiquidity is also associated with and predictive changes in the implied volatility index.

Guyenko and Ukhov (2009) analyzed the joint dynamics of US stock and Treasury bond market liquidity over a long time. They find that stock and bonds markets are linked not only though volatility but also through liquidity as well. According to their findings, positive shock to stock illiquidity decreases bond illiquidity and positive shock to bond illiquidity increases stock illiquidity. In other words, illiquidity conditions in the two major markets affect each other. They also analyzed the joint drivers of bond and stock market liquidity in the same paper. Accordingly, returns and return volatility are important

Table 2. Drivers of secondary bond market liquidity in literature

Macroeconomic Variables	Financial Variables	Volatility/ Uncertainty	Events	Market Microstructure
Ratio of short term debt to international reserves	EMBI spread	Price volatility	Political events	Transparency
Share of external debt in GDP	Interest rates	Return volatility	Announcements of news	Reopenings
Share of interest payments to international reserves	Currency	Volatility index		Transaction volume*
Foreign trade volume	Carry trade opportunity	Financial stress index		Electronic Trading Platforms
Monetary Policy Stance		Interest rate volatility		Over the counter transactions
Growth of Industrial Production		Currency risk		Broadening of investor base
Consumer Price Index				Availability and effectiveness of Primary Dealership System
				On the run-off the run discrimination
				Market concentration

Source: Author based on literature review analysis

* Some researchers use transaction volume as the measurement of liquidity instead of a driving factor

drivers of bond and stock market liquidity, a finding consistent with the literature. They also analyzed some key macroeconomic variables in terms of their effects on the liquidity. Specifically, they analyzed the effects of monetary policy stance, the growth rate of industrial production and consumer price index. The Granger causality results indicate that shocks to CPI, to monetary policy stance are informative in predicting stock market liquidity. Shocks to CPI are informative in predicting bond liquidity across all maturities and shocks to monetary policy stance has an effect on medium- and short-term bonds. Thus, there is evidence that macroeconomic variables are linked to financial market liquidity. Moreover, their results indicate that tightening of monetary policy point to an increase in stock and bond market illiquidity.

Research in the area of stock market is much more developed compared to government bond markets. According to literature there are two main categories that explain stock market liquidity: i) Firm and sector specific factors and ii) macroeconomic factors (Kumar & Misra, 2015).

Jacoby and Zeng (2010) analyzed the empirical relation between ownership dispersion and market liquidity. They found that higher ownership dispersion improves stock market liquidity.

Beber et al. (2012) analyzed the relationship between institutional investors, liquidity and liquidity risk. Their results reveal that institutional ownership generally leads to larger stock liquidity. A similar analysis has been carried out by Yaghoobnezhadet et al. (2011) for Tehran Stock Exchange. They found that the presence of institutional investors can affect stock liquidity in two ways: i) informational benefits and ii) increase in liquidity due to the increase of price discovery resulted from the competition between institutional investors. Although Sharma (2005) studied the same relation on Indian Stock Market, contrary to the literature; he found that shareholding is not a statistically significant variable in explaining the determinants of liquidity.

Kim and Verrecchia (1994) studied the relationship between earning announcements, trading volume and liquidity and found that earnings announcements increase the information asymmetry, which in turn leads to reduction in liquidity.

Hendershott et al. (2011) analyzed the empirical relationship between algorithmic trading and liquidity. They used auto quoting on NYSE as an instrumental variable for algorithmic trading. They found that algorithmic trading reduces trading costs, trading frictions, makes risk sharing more efficient and enhances liquidity.

Kumar et al. (2001) studied the impact of international listings like ADR (American Depository Receipts) and GDR (Global Depository Receipt) on the liquidity of Indian firms' underlying domestic shares. They found that GDR listings are associated with enhanced liquidity while ADR listings are associated with reduced liquidity of the shares of domestic firms.

Chordia et al. (2001) analyzed the relationship among liquidity, trading activity, market return and interest rate of NYSE listed stocks. They found that liquidity and trading activity is influenced by market returns, its volatility, short term and long-term interest rates. Macroeconomic news like GDP, inflation etc. also impact liquidity at the time of announcements.

Ding et al. (2013) empirically studied the relationship between foreign institutional investors and stock market liquidity on Shangai and Shenzen stock exchanges. Their results indicate that with the increased participation of foreign institutions, stock market liquidity improves.

Chordia et al. (2005) showed that the predictive power of monetary policy for stock market liquidity is modest whereas Goyenko and Ukhov's (2009) findings gave strong evidence that monetary policy predicts liquidity of the stocks listed on US markets for the period 1962-2003. Table 3 reports the summary of literature review on drivers of liquidity in stock markets.

Table 4 reports the drivers of secondary stock market liquidity in literature.

Table 3. Summary of literature review on drivers of liquidity in stock markets

Authors (Year)	Country	Model	Main Findings
Jacoby & Zeng (2010)	United States	Analyzed the empirical relation between ownership dispersion and market liquidity using NASDAQ, NYSE and AMEX firms	They found that higher ownership improves stock market liquidity
Beber et al. (2012)	United States	Analyzed the relation between institutional investors, liquidity and liquidity risk using data form January 1990 until December 2009	Institutional ownership generally leads to stock liquidity
Yaghoobnezhadet et al. (2011)	Tehran Stock Exchange	Analyzed the relation between institutional investors and liquidity using 2004-2008 data	Presence of institutional investors positively affects stock liquidity
Sharma (2005)	Indian Stock Market	Analyzed the relation between institutional investors and liquidity using cross-sectional data as of December 2004	Contrary to literature he found that shareholding is not a statistically significant variable in explaining the stock market liquidity
Hendershott et al. (2011)	New York Stock Exchange	Analyzed the relation between algorithmic trading and liquidity using data from February 2001 to December 2005	They found that algorithmic trading reduces trading costs, trading frictions make risk sharing more efficient and enhances liquidity
Kumar et al. (2001)	Indian Stock Market	Studied the impact of ADR and GDR on liquidity using data from January 1st, 1996 to 30th June, 2001	GDR listings are associated with enhanced liquidity while ADR listings are associated with reduced liquidity
Chordia et al. (2001)	New York Stock Exchange	Analyzed relation between liquidity, trading activity market return and interest rate using data from 1988 to 1998	They found that liquidity and trading activity are influenced by market returns, its volatility, short term and long term interest rates. Macroeconomic news like GDP, inflation etc. also impact liquidity at the time of announcements
Ding et al. (2013)	Shanghai Shenzhen Stock Exchanges	Studied the relationship between foreign institutional investors and stock market liquidity using data from April 2004 to end of March 2012	Their results indicate that with increased participation of foreign institutions, stock market liquidity improves
Chordia et al. (2005)	United States	Looked at the predictive power of monetary policy for stock market liquidity using data from 1988 to 2002	The predictive power of monetary policy for stock market liquidity is modest
Goyenko & Ukhov (2009)	US Stock Market	Analyzed the predictive power of monetary policy for stock market liquidity for 1962-2003 period	Found strong evidence that monetary policy predicts liquidity of the stocks on US markets.

Source: Author based on Literature Review Analysis

DATA SET AND METHODOLOGY

Data Set

In this study, the data on stocks and government securities are obtained from Borsa Istanbul. To measure the liquidity of government bonds bid-ask spread of 2 years bond and the transaction volume are used. To measure the secondary market liquidity in stock markets daily transaction volume is used. The variables used in the study are described below.

Table 4. Drivers of secondary stock market liquidity in literature

Firm and Sector Specific Factors	Macroeconomic Factors
Ownership dispersion	Short term interets rates
Institutional Investors	long term interest rates
Earning announcements	Macroeconomic news like GDP, CPI etc.
Algorithmic trading	Monetary Policy
ADR and GDR	
Trading activity	
Market return	
Foreign instituional investors	

Source: Author based on literature review analysis

- **Interest Rate:** As an interest rate, secondary market interest rate of the 2-year government bond is used for measuring the return of the bond. The data is taken from Borsa Istanbul through Bloomberg. Using this data the volatility of the return of the government bond is also calculated.
- **BIST 100 Index:** Daily BIST 100 index levels are used to calculate the return and return volatility of stock markets.
- **VIX**: VIX is a popular measure of the stock market's expectation of volatility implied by S&P index options calculated and published by Chicago Board Options Exchange (CBOE). It is also referred as fear index regarding stock markets at global level. The VIX index value quotes the expected annualized change in S&P 500 index over the next 30 days as computed from options theory and current options market data. An increase in this index indicates a rising fear in stock markets whereas a decrease in the index indicates a decrease in fear.
- **MOVE Index:** The Merrill Lynch Option Volatility Estimate (MOVE) Index is a yield curve weighted index of the normalized implied volatility on 1-month Treasury options which are weighted on the 2, 5, 10, and 30 year contracts. In other words, it is the government securities version of VIX and shows the fear in government securities markets. Similar to the VIX index, an increase in this index indicates increasing fear in government securities markets whereas a decrease indicates a decreasing fear level.
- **Stock of Foreign Portfolio of Government Securities and Stock Markets:** The CBRT weekly publishes foreign purchases as well as stock of government securities and stock markets held by foreigners. This data is used to get the information on the interest of foreigners in the government debt and stock markets.

Methodology

In methodology part, the drivers of secondary market liquidity in government bond and stock markets after global financial crisis in Turkey are anlayzed. Firstly, it is tested whether the series are normally distributed or not by using both skewness, curtosis analysis and by applying Jarque Bera test. Secondly, the existence of unit root (stationarity) in the data are tested. Then, an OLS regression model is used to test drivers of secondary market liquidity in bond and stock markets. The existence of heteroskedasticity and autocoreelation problems are also tested.

Skewness describes asymmetry from the normal distribution in a set of statistical data set. Skewness can come in the form of negative skewness or positive skewness, depending on whether data points are skewed to the left and negative, or to the right and positive of the data average. A dataset that shows this characteristic differs from a normal distribution. When data is skewed to the right, the mean and the median of the set are greater than the mode. Conversely, when data is skewed to the left, the mean and the median are less than the mode. The skewness in a normal distribution is zero.

Kurtosis, on the other hand, measures whether the data is heavy tailed or light tailed relative to a normal distribution. That is, data sets with high kurtosis tend to have heavy tails, or outliers. Data sets with low kurtosis tend to have light tails, or lack of outliers. The kurtosis of a normal distribution depends on the sample size. Yet, the kurtosis is converted into z-normal distribution by dividing standard deviation, a rule of thumb is that kurtosis should be between -3 and 3 for normally distributed data sets.

The Jarque Bera test statistics is another way of looking whether the data sets are normally distributed or not. The null hypothesis for this test is that the data is normally distributed, and the alternative hypothesis is that it is not normally distributed. The probability of the test statistics should be greater than 0.05 for normality under 95 percent confidence interval. The results of the Skewness, Kurtosis and Jarque Bera test values for daily datasets are reported in Table 5.

The results of the Skewness, Kurtosis and Jarque Bera test values for weekly datasets are reported in Table 6.

To test whether the series are stationary or not both Augmented Dickey Fuller Test (with constant and constant and trend) and Philllip-Perrron Test (with constant and comstant and trend) are used. The results of the ADF test for daily data is reported in Table are shown in Table 7.

The results of Phillips Perron test for daily data is reported in Table 8.

The results of ADF test for weekly data is reported in Table 9.

The results of Phillips Perron test for weekly data is reported in Table 10.

Table 5. Skewness, Kurtosis and Jarque Bera test values for daily data sets

Variables	Skewness	Kurtosis	Jarque Bera Test Statistics	Probability of Jarque Bera
FX Volatility	0.14	2.17	6.32	0.09***
2Yr Bid-Ask Spread	0.24	2.49	4.97	0.082***
2 Yr Volume (Million TL)	-0.97	3.95	3.50	0.093***
2 Yr Interest Rate	-0.36	2.91	2.73	0.082***
2 Yr Interest Rate Volatility	-0.22	2.84	1.48	0.050**
Bist 100 Return	-0.34	2.99	2.54	0.064***
BIST 100 Return Volatility	1.53	1.98	7.38	0.098***
Bist 100 Volume (Millon TL)	-0.46	3.34	8.25	0.097***
VIX Index	0.64	3.07	1.13	0.048**
Move Index	0.25	2.71	0.82	0.032**

** Significant at 95 percent confidence level
*** Significant at 90 percent conficence level

Table 6. Skewness, Kurtosis and Jarque Bera test values for weekly data sets

Variables	Skewness	Kurtosis	Jarque Bera Test Statistics	Probability of Jarque Bera
FX Volatility	0.04	2.57	3.44	0.18*
2Yr Bid-Ask Spread	0.19	1.83	7.34	0.08**
2 Yr Volume (Million TL)	-0.91	3.41	5.75	0.092***
2 Yr Interest Rate	-0.58	3.28	7.50	0.061***
2 Yr Interest Rate Volatility	-0.48	3.66	4.91	0.072***
BIST 100 Return	-0.58	5.28	7.50	0.062***
BIST 100 Return Volatility	-0.48	3.66	4.91	0.068***
BIST 100 Volume (Millon TL)	-0.67	4.67	3.12	0.09***
VIX Index	0.65	3.03	3.68	0.091***
Move Index	0.25	2.72	2.91	0.05**
Stock Holdings of Non-Residents (Millon Dolar)	-0.36	2.99	2.25	0.061***
Gbond Holdings of Non-Residents (Million Dolar)	-0.13	2.21	2.24	0.02**

* Significant at 99 percent confidence level
** Significant at 95 percent confidence level
*** Significant at 90 percent conficence level

Table 7. ADF test results in daily data

Variables	ADF(I0)		ADF(I1)	
	Constant	Constant+Trend	Constant	Constant+Trend
FX Volatility	-5.76*	-8.29*	-18.75*	-18.74*
2Yr Bid-Ask Spread	-5.55*	-9.30*	-4.43*	-4.42*
2 Yr Volume (Million TL)	-5.78*	-7.85*	-21.62*	-21.61*
2 Yr Interest Rate	-2.29	-3.04	-22.06*	-22.09*
2 Yr Interest Rate Volatility	-7.34*	-7.36*	-16.44*	-16.44*
BIST 100 Return	-4.14*	-4.14*	-19.33*	-19.32*
BIST 100 Return Volatility	-3.81*	-4.19*	-15.48*	-15.48*
BIST 100 volume (Millon TL)	-8.25*	-8.77*	-22.23*	-22.22*
VIX Index	-5.42*	-7.16*	-45.84*	-45.83*
Move Index	-4.38*	-5.22*	-33.57*	-33.56*

*significant at 99 percent confidence level
**significant at 95 percent confidence level
***significant at 90 percent confidence level

Table 8. Phillips-Perron test results in daily data

Variables	PP(I0)		PP(I1)	
	Constant	Constant+Trend	Constant	Constant+Trend
FX Volatility	-6.32*	-7.48*	-43.51*	-43.50*
2Yr Bid-Ask Spread	-32.60*	-38.59*	-29.12	-30.02*
2 Yr Volume (Million TL)	24.35*	-32.31*	-29.42*	-29.31*
2 Yr Interest Rate	-2.39	-3.54***	-41.94*	-41.93*
2 Yr Interest Rate Volatility	-5.21*	-5.24*	-20.76*	-20.75*
BIST 100 Return	-44.17*	-44.17*	-64.26*	-64.03*
BIST 100 Return Volatility	-5.68*	-5.99*	-40.73*	-40.72*
Bist 100 Volume (Millon TL)	-26.08*	-27.02*	-27.71*	-23.91*
VIX Index	-4.69*	-6.62*	-55.15*	-55.14*
Move Index	-3.92*	-4.81*	-47.84*	-47.85*

*significant at 99 percent confidence level
**significant at 95 percent confidence level
***significant at 90 percent confidence level

Table 9. ADF test results in weekly data

Variables	ADF(I0)		ADF(I1)	
	Constant	Constant+Trend	Constant	Constant+Trend
FX Volatility	-4.39*	-5.30*	-14.84*	-14.82*
2Yr Bid-Ask Spread	-3.77*	-5.31*	-17.12*	-17.10*
2 Yr Volume (Million TL)	-3.36**	-6.50*	-17.10*	-17.08*
2 Yr Interest Rate	-2.56	-3.27***	-14.89*	-14.93*
2 Yr Interest Rate Volatility	-7.28*	-7.24*	-16.26*	-16.25*
Bist 100 Return	-18.37*	-18.38*	-11.39*	-11.38*
BIST 100 Return Volatility	-8.72*	-8.94*	-12.75*	-12.73*
Bist 100 Volume (Millon TL)	-5.73*	-6.24*	-17.26*	-17.26*
VIX Index	-4.01*	-5.42*	-16.77*	-16.75*
Move Index	-3.59**	-4.23*	-20.02*	-20.00*
Stock Holdings of Non-Residents (Millon Dolar)	-3.03***	-3.04***	-19.33*	-19.33*
Gbond Holdings of Non-Residents (Million Dolar)	-3.08***	-3.75**	-18.49*	-18.68*

*significant at 99 percent confidence level
**significant at 95 percent confidence level
***significant at 90 percent confidence level

Specification of the Model

In this part, the following four hypotheses are tested:

Hypothesis 1: *The secondary bond market liquidity is negatively affected by uncertainty or volatility*
Hypothesis 2: *The secondary bond market liquidity is positively affected by the availability of foriegn investors in domestic debt market.*
Hypothesis 3: *The secondary stock market liquidity is negatively affected by uncertainty or volatility*
Hypothesis 4: *The secondary stock market liquidity is positively affected by the availability of foriegn investors in domestic stock market.*

To test the validity of the arguments the following OLS regression models are used.

Daily Data Models

Model 1:

$$BAS = \propto + \beta_1 GBR + \beta_2 GBRV + \beta_3 M + \beta_4 FXV \tag{1}$$

where *BAS* is bid-ask spread, *GBR* is government bond return, *GBRV* is government bond return of volume, *M* is move Index and *FXV* is FX volatility.

Table 10. PP test results in weekly data

Variables	PP(I0)		PP(I1)	
	Constant	**Constant+Trend**	**Constant**	**Constant+Trend**
FX Volatility	-5.67*	-6.29*	-18.63*	-18.48*
2Yr Bid-Ask Spread	-6.76*	-10.87*	-60.04*	-60.46*
2 Yr Volume (Million TL)	-5.40*	-8.56*	-51.30*	-51.22*
2 Yr Interest Rate	-2.58***	-3.25***	-14.98*	-15.02*
2 Yr Interest Rate Volatility	-7.27*	-7.26*	-32.20*	-31.92*
BIST 100 Return	-18.39*	-18.40*	-28.23*	-28.91*
BIST 100 Return Volatility	-8.50*	-8.65*	-57.25*	-58.02*
Bist 100 Volume (Millon TL)	-10.78*	-11.33*	-30.64*	-34.97*
VIX Index	-3.68*	-5.52*	-24.02*	-23.98*
Move Index	-3.37**	-4.11*	-20.73*	-20.71
Stock Holdings of Non-Residents (Millon Dolar)	-3.27***	-3.37***	-19.42*	-19.42*
Gbond Holdings of Non-Residents (Million Dolar)	-3.07***	-3.77**	-18.71*	-18.74*

*significant at 99 percent confidence level
**significant at 95 percent confidence level
***significant at 90 percent confidence level

Model 2:

$$GBV = \propto + \beta_1 GBR + \beta_2 GBRV + \beta_3 M + \beta_4 FXV \tag{2}$$

where *GBV* is government bond volume, *GBR* is government bond return, *GBRV* is government bond return of volume, *M* is move Index and *FXV* is FX volatility.

Model 3:

$$BV = \propto + \beta_1 BR + \beta_2 BRV + \beta_3 VIX + \beta_4 FXV \tag{3}$$

where *BV* is BIST 100 volume, *BR* is BIST 100 return, *BRV* is BIST 100 return of volume, *VIX* is VIX index and *FXV* is FX volatility.

Weekly Data Models

Model 4:

$$BAS = \propto + \beta_1 GBR + \beta_2 GBRV + \beta_3 M + \beta_4 GBNR + \beta_5 FXV \tag{4}$$

where *BAS* is bid-ask spread, *GBR* is government bond return, *GBRV* is government bond return of volume, *M* is move Index, *GBNR* is government bond held by non residents and *FXV* is FX volatility.

Model 5:

$$GBV = \propto + \beta_1 GBR + \beta_2 GBRV + \beta_3 M + \beta_4 GBNR + \beta_5 FXV \tag{5}$$

where *GBV* is government bond volume, *GBR* is government bond return, *GBRV* is government bond return of volume, *M* is move Index, *GBNR* is government bond held by non residents and *FXV* is FX volatility.

Model 6:

$$BV = \propto + \beta_1 BR + \beta_2 BRV + \beta_3 VIX + \beta_4 SNR + \beta_5 FXV \tag{6}$$

where *BV* is BIST 100 volume, *BR* is BIST 100 return, *BRV* is BIST 100 return of volume, *VIX* is VIX index, *SNR* is stocks held by nonresidents and *FXV* is FX volatility.

In Models 1 and 2, the impact of volatility on government bond market is analyzed by using two different dependent variables. In Model 1, the secondary bond market liquidty is measured by the bid-ask-spread. In Model 2, the total transaction volume (Million TL) is used for the same purpose. To capture the impact of volatility, not only the return volatility is included but also global volatility is added regarding the bond market which is measured by MOVE Index. The main argument behind this incluison is that, this period is characterized by uncertainties regarding the policies of the FED and ECB and it is argued that these uncertainties are reflected in bond markets. Moreover, FX volatility is included which is measured by standard deviation of USD/TL.

In Model 3, the impact of volatility on the secondary stock market is examined and the stock market transaction volume is used as a proxy for market liquidity. Similar to what is done for bond market, not only return volatility is included but also global volatility is added regarding stock markets which is captured by VIX Index and FX volatility.

In Model 4-6, the same analysis are made by extending the analysis by including the holdings of non-residents in bond and stock markets.

EMPIRICAL FINDINGS

In models 1 and 2, the impact of bond return, bond return volatility, FX volatility and MOVE Index are estimated on the secondary market liquidity in bond markets. Two different dependent variables are used to measure liquidity: bid ask spread and transaction volume. The results of the estimated regression of model 1 and model 2 are reported in Table 11 and Table 12 respectively.

The results are in line with the expectations and with the literature. Specifically, government bond return volatility had a positive impact on bid-ask spread, which means that an increase in volatility causes bid-ask-spread to increase and hence liquidity to decrease. Similary, FX volatility has a positive impact on bid-ask-spread which means that an increase in this volatility causes bid-ask spread to increase and hence secondary market liquidity to decrease. The only unexpected results come from MOVE Index. An increase in this index decreases bid ask spread and hence improves secondary market liquidity. These results generally confirm the first hypothesis that volatility/uncertainy had a negative impact on secondary market liquidity. The same analysis is made this time using transaction volume as a proxy for secondary market bond liquidity. Again, the results confirm the first hypothesis that volatility/uncertainty had a negative impact on secondary market bond liquidity. Speicifically, government bond return and bond return volatility had negative impact on bond transaction volume which means that an increase in volatility decreases transaction volume and hence deteriorate secondary market liquidity. Similarly, an increase in FX volatility has a negative impact on transaction volume and hence on secondary market liquidity. MOVE Index again suprisingly, has a positive impact on transaction volume.

Table 11. Regression results of model 1

Explanatory Variables	Dependent Variable: BAS		
	Coefficient	**P-Value**	**t-Statistics**
Government Bond Return	1.997	0.000	8.48
Government Bond Return Volatility	0.408	0.000	6.302
MOVE Index	-0.847	0.000	-4.470
FX Volatility	0.424	0.000	6.664
R-Square	0.480		
Prob. (F-Statistic)	0.0000		
Number of Observations	1897		

Table 12. Regression results of model 2

Explanatory Variables	Dependent Variable: Bond Volume		
	Coefficient	P-Value	t-Statistics
Government Bond Return	-3.448	0.000	-8.264
Government Bond Return Volatility	-0.312	0.001	-3.305
MOVE Index	1.948	0.000	3.510
FX Volatility	-0.822	0.000	-8.566
R-Square	0.371		
Prob. (F-Statistic)	0.0000		
Number of Observations	1897		

The impact of return volatility on secondary market liquidity had been examined in the past in Turkey. However, it is proved that not only return volatility but also volatilites that arise from FX markets and from international markets had also a significant impact on secondary bond market liqudity.

However, it is also argued that volatilities that arise from qualitative variables such as from arrivals of political and economical news may also have a deteriorating impact on secondary market bond liquidity. To measure the impact of these qualitative varibles one should use intra-day data and should look at the behaviour of liquidity when the economic or political news arrive and it is left for future researchers due to the absence of intra-day data at hand.

The regression results of the Model 3 is shown in the following Table 13. Here, the impact of retrun volatility is estimated and global stock market liquidity on secondary market stock liquidity which is measured by total transaction volume in Borsa Istanbul Stock Market.

For stock market, total transaction volume is used as a proxy for secondary market liqidity. Altough the transaction volume is the sum of all transaction volumes of stocks traded at Borsa Istanbul, it can be considered as one of the best aggregate liquidity indicators for stock markets.

As witnessed in bond market, the global fear index regarding stock markets, which is measured by VIX index, has negative and significant impact on secondary stock market liquidity. The return volatility, produced insignificant results and these are again in line with the hypothesis that volatility and

Table 13. Regression results of model 3

Explanatory Variables	Dependent Variable: BIST100Volume		
	Coefficient	P-Value	t-Statistics
BIST100 Return	1.001	0.058	2.585
BIST100 Return Volatility	0.035	0.049	1.965
VIX Index	-0.202	0.000	-6.775
FX Volatility	0.041	0.003	2.903
R-Square	0.381		
Prob. (F-Statistic)	0.0000		
Number of Observations	1897		

uncertainty had negative impacts on secondary market liquidity in stock markets. However, as argued for bond market, volatility or uncertainty that arise from qualitative vatiables such as from news arrivals should also been analyzed in future research using intra-day data.

By using models 1-3, it is reported that retrun of volatility as well as global fear factors regarding bond and stock market have significant and negative impacts on secondary market liquidity both in stock markets and bond markets after global financial crisis in Turkey. These results are in line both with the expectations and with the literature so far although the global fear factors have been firstly used in this study as drivers of secondary market liquidity.

By interpreting the regression results from another pesrpective, it is found that the secondary market liquidity in bond markets deteriorate after May 2013, which is the time of famous Bernanke's speech. This speech changed the expectations of market participants regarding the availability of global liquidity as Bernanke hinted the end of expansionary monetary policy of the FED and beginning of the normalisation of the monetary policy. These explanations had signicant negative impacts on global investors and these investors decreased their holdings of bond stock in emerging markets including Turkey.

These interpretations led us to extend the econometric model by incorporating the holdings of nonresidents in bond and stock markets. As it can be seen in descriptive analysis, after May 2013, the deterioration in secondary bond market coincided with the decrease of holdings of nonresidents. Based on this, models 4, 5 and 6 are constructed using weekly data. In models 4 and 5, the impacts of government bond return volatility, move index, FX volatility and the stock of nonresidents in bond markets on the secondary market liquidity are tested. The regression results of model 4 using weekly data is reported in Table 14.

The regression results of model 5 using weekly data is reported in Table 15.

In model 4, bid-ask spread is used as the dependent variable to measure secondary bond market liquidity and in model 5, bond transaction volume is used. Return volatility, FX volatility and the stock of non-residents are three significant drivers of secondary market liquidity when measured by bid ask spread. However, in model 5, it is observed that return volatility, MOVE index and FX volatility are significant drivers of government bond transaction and bond holdings of foreigners are not significant drivers of liquidity when measured by transaction volume. The regression results of model 6 using weekly data is reported in Table 16.

Table 14. Regression results of model 4

Explanatory Variables	**Dependent Variable: BAS**		
	Coefficient	**P-Value**	**t-Statistics**
Government Bond Return	2.610	0.000	9.198
Government Bond Return Volatility	0.181	0.005	1.458
MOVE Index	-0.297	0.127	-1.527
FX Volatility	0.631	0.000	9.373
Government Bond Non-Residents	1.224	0.000	7.208
R-Square	0.378		
Prob. (F-Statistic)	0.0000		
Number of Observations	428		

Table 15. Regression results of model 5

Explanatory Variables	Dependent Variable: BondVolume		
	Coefficient	P-Value	t-Statistics
Government Bond Return	-2.678	0.001	-3.184
Government Bond Return Volatility	-1.124	0.000	-2.411
MOVE Index	-1.575	0.000	-3.332
FX Volatility	-0.831	0.000	-5.023
Government Bond Non-Residents	-0.289	0.518	-0.646
R-Square	0.286		
Prob. (F-Statistic)	0.0000		
Number of Observations	428		

In model 6, the impact of return volatility is tested, VIX Index, FX volatility and stock of non-residents on the transaction volume in stock markets. VIX Index and stock of non- residents have significant and negative impacts on transaction volume of BIST100 at Borsa Istanbul. FX volatility, which negatively impacts secondary market liquidity in bond market, does not have significant impact on secondary market liquidity in stock markets. One potential explanation for this may be the fact that nonresidents hold almost 60-65 percent of stock in stock market whereas this ratio is around 20 percent in government bond market.

It is argued in the study that, volatility/uncertainty has a negative impact on secondary market liquidity both in government bond and stock markets. However. the type of volatility or the way this volatility is measured differs among bond and stock markets. The global uncertainties, which is measured by MOVE index for government bond market has a negative impact on secondary market liquidity measured in terms of transaction volume but does not have a significant impact on bid-ask spread in government bond market. On the contrary, government bond stock of nonresidents have a negative impact on bond market liquidity measured in terms of bid-ask spread whereas it does not have significant impact on bond market transaction volume. However, FX volatility is a significat driver of secondary market liquidity both in terms of bid-ask spread and bond market transaction volume.

Regarding stock market, the global uncertainties measured by VIX Index, have significant and negative impacts on transaction volume. FX volatility, which has a negative impact on government bond market secondary liquidity does not have a significant impact on transaction volume in stock markets. The stock of non-residents has a negative and significnat impact on transaction volume at Borsa Istanbul.

In sum, as it is argued in the hypotheses, uncertainties that arise from global or domestic financial markets and the behaviours of foriegn investors are the key drivers of secondary market liquidity in bond and stock markets in Turkey. In Table 17, a comparison of the hypotheses with the findings are reported.

SOLUTIONS AND RECOMMENDATIONS

The primary dealership system is important in its contribution to the secondary market liquidity. The primary dealers are doing this by giving bid and ask quotations in secondary markets, whose spread are determined by the Treasury. The spread for quotations, which was 50 kurus until 2016 has been reduced

Table 16. Regression results of model 6

Explanatory Variables	Dependent Variable: BIST100Volume		
	Coefficient	P-Value	t-Statistics
BIST100 Return	0.2811	0.450	0.752
BIST100 Return Volatility	0.060	0.010	2.343
VIX Index	-0.179	0.002	-3.011
FX Volatility	0.034	0.233	1.193
Stocknonresidents	-0.095	0.0050	-1.930
R-Square	0.281		
Prob. (F-Statistic)	0.0000		
Number of Observations	428		

Table 17. A comparison of the hypotheses with the findings

Hypotheses	Dependent Variable(s)	Explanatory Variables	Emprical Findings
1) The secondary bond market liquidity is negatively affected by uncertainty or volatility	• Bid ask spread • Transaction volume in bond markets	• Bond Return Volatility • FX Volatility	Both bond return volatility an dFX volatility positively impacted bid ask spread which means that an increase in these variables led to an increase in bid ask spread and hence to deterioration in liquidity. These variables also negatively impacted bond transaction volume which supports the hypothesis
2) The secondary bond market liquidity is positively affected by the availability of foriegn investors in domestic debt market.	• Bid ask spread • Transaction volume in bond markets	• Return Volatility • Bond holdings of non-residents • FX Volatility • MOVE Index	Return volatility, FX volatility and bond holdings of non residents are sigificant drivers of liquidity measured by bid ask spread and MOVE index is significant when the liquidity is measured by transaction volume
3) The secondary stock market liquidity is negatively affected by uncertainty or volatility	• BIST100 volume of transactions	• VIX • Return Volatility • FX Volatility	The VIX index, retrun volatility and FX volatility negatively affectd transaction volume of BIST 100 index
4) The secondary stock market liquidity is positively affected by the availability of foriegn investors in domestic stock market.	• Bid ask spread • Transaction volume in bond markets	• VIX • Stock Holdings of Non-Residents	VIX index and holdings of non residents at Borsa Istanbul are significantd rivers of stock market liquidity

and differentiated according to maturity. This policy contributed to enhance liquidity in bond markets. Another policy introduced by the Treasury to enhance liquidity has been the introduction of regular buy-back programs. Through this policy, the Treasury increased the stock of 5 and 10 year benchmark bonds through reopenings. When they reached a certain level, to decrease refinancing risk at the maturity, Treasury started to buy back some portion of the stock of these securities. These two polices have been welcomed by market partcipants and a significant increase in secondary market bond liquidity is observed.

There are also some recommendations related to this study. First of all, in the first hypothesis it is argued that volatility or uncetainty has negative impact on liquidity and used some quantitative varibles to measure domestic or international volatilities. During volatile periods, market makers usually are unwilling to trade their secuirites since they may not be able to appropriately price the value of their securities. However, some volatilities or uncertainities may not arise from quantitative macro and financial variables but from political or geopolitical developments such as announcements of politicians or policymakers. These annuncements may have some impact on the secondary market liquidity and should be subject to new research. However, it is argued that intra-day data, instead of daily data, will better capture the impact of annuncements.

Second, in the study, the secondary bond market liquidity is analyzed using only 2 year benchmark government bond data. However, Treasury issues not only 2 –year bond but also 5 and year maturities as well and the liquidity pattern of these securities may be different than that of 2 year bonds. Hence, this research may be extended by including these securities as well.

Lastly, to measure the liquidity in stock markets BIST 100 index is used. However, this index is an aggregate index and covers 100 differents stocks from different sectors. The liquidity pattern may differ from one stock to another or from one sector to another. Hence, this reserach may be extended to cover sub-lists of BIST 100 index.

CONCLUSION AND DISCUSSION

The concept of market liquidity has utmost importance for the development of financial markets and from the perspectives of central banks, Treasury, financial market participants and financial sector regulatory authorities. Depsite its importance, the concept of liquidity is one of the least understood concepts in the literature.

It is argued that there are four main reasons for it to be less understood and its importance to be undermined. First, there is no single type of liquidity and often different types of liquidities such as market liquidity, monetary liquidity and funding liquidity are confused. Second, liquidity has different features and a single liquidity measure may not be able to capture these different features. Third, although liquidity can be considered as public good, meaning that each financial sector participant benefits from the availability of it although they do not voluntarily contribute to it. Lastly, different stakeholders in financial sector, such as issuers of assets, traders, policy makers or financial sector regulators have different perspectives on the concept of liquidity.

The concept of market liquidity, which is the main focus of this study, is different from funding liquidity and monetary liquidity. Funding liquidity is the ability of market participants to obtain funding from financial markets at acceptable conditions whereas monetary liquidity is the liquidity that is provided to financial markets and to the economy through increase in monerary aggregates by central banks and monetary authorities. Although these concepts are different, there is a close relations among them. Specifically, funding liquidity is a prerequisite for market liquidity. Similarly, increase in monetary aggregates through monetary easing ease funding conditions and hence facilitate market making activities and help market liquidity.

The market liquidity is defined as the ability to rapidly execute sizeable transactions at a low cost and with a limited impact on market price. This definition of liquidity incorporates the following important features of liquidity: tightness, depth, breath and resiliency.

A market is said to be tight when the bid-ask spread is narrow. The narrownes of the spread indiciates a liquid market and the wider the spread the less liquid is the market. The depth of a financial market illustrates the maximum transaction volume that can be executed without having an impact on the market price. Breadth of a financial market is similar to the concept of depth and many researchers use these terms interchangebly. The measurement of depth takes into account the best bid and ask prices above and below market prices whereas the breath takes into account all bids and ask prices above and below market clearing pice. The resiliency of a market liquidity shows the speeed of returning back to normal liquidity when normal level liquidity disappears due to major event or financial stress.

Since the market liquidility has many and diverse features a single mesure of it is not available. Hence, different techniques are developed in the literature to capture different aspects of liquidity. The conventional measures of liquidity are bid-ask spread, transaction volume, trading frequency, turnoever ratio and liquidity index ratio. Yet, there are many other measures such as The Index of Martin, The ratio of Hui and Heubel, Roll's Price Reversal, Amihud's Illiquidity measure.

The secondary market liquidity has important implications for financial stability, for efficient functioning of financial markets, for risk manaement purposes, for central bank operations and for corporations and Treasuries.

First of all, a liquid secondary market allows different prices at different maturties so that an efficient yield curve can be established especailly for fixed income securities such as government bonds and corporate bonds. The liquidity is not only a desirable feature for the safe functioning of the financial system but also for issuing part, especially fo government debt offices who issue bonds in primary markets. A liquid security usually has higher demand compared with the same illiquid security.

The liquidity of government secuirities has also implications for central banks in conducting monetary policy and maintaining financial stability. The prices of liquid government securities contain useful information regarding the expectations of monetary policies and central banks try to get this information by monitoring secondary market developments. Moreover, government bond market is also important for central banks due to their open market operations. Through these operations, central banks can increase money supply by buying back government securities or decrease money supply by selling these securities to markets. Hence, an illiquid government securities market may cause open market operations to fail or produce negative consequences. Secondary market liquidity of government securities is also important for central banks from financial stability perspective. Liquidity in these markets helps restore investor confidence and increase resiliency of financial markets against unexpected shocks and decrease systemic risk. The availability of liquidity decrease dependency on central banks as a last lender of resort since markets can easily get funding form liquid markets.

The concept of liquidity in stock markets was first initiated by Amihud in 1986 and has been subjected to research due to its implications for different perspectives. The liquidity in individual stock or in stock market has implications for pricing of the stock, returns, market efficiency, pricing behaviour, dividend policy and firm value.

The liquidity in bond and stock markets has been deeply analyzed in literature. This research is concentrated mainly in two segments: one is on the drivers of secondary market liquidity and the other one is policy discussions regarding to increase liquidity. According to literature, drivers of secondary bond market liquidity can be classified in five categories: macroeononic variables, financial variables, volatility or uncertainty, events or event announcements and market microstructure. The drivers of secondary market stock liquidity can be classifed in two categories: firm and sector specific factors and macroeconomic factors.

In this study, the drivers of secondary bond and stock market liquidity is empirically tested by using time series data and OLS model after global financial crisis in Turkey and discussed policy measures taken by Turkish Treasury to enhance liquidity in bond markets and offered alternative policy alternatives. Specifically, the period that is covered in the study is between 2009-2017. This period consisted significant volatilities and uncertainties both in domestic and global financial markets due to central banks' policies to combat negative impacts of global financial crisis through expansionary monetary policies and then through exit strategies. Not only their decisions but also the market expectations and any news regarding their policies created significant uncertainties in global financial markets. Espeically after Bernanke's speech in May 2013 regarding on the exit staregy of the FED, global financial markets witnessed significant fluctuations and these fluctuations negatively impacted international financial flows to emerging economies including Turkey.

Based on the developments in global financial markets the following two hypotheses are tested regading the drivers of secondary market liquidity in bond and stock markets:

1. The volatility or uncertainty in global financial markets has negatively affected the secondary bond and stock markets liquidity in Turkey
2. The share of nonresidents in bond and stock markets has a significant and positive impact on secondary market liquidity.

To test the first hypothesis. daily data, bid-ask spread and transaction volume as a mesure of liquidity is used in bond markets and transaction volume of BIST 100 index as a measure of stock market liquidity. To capture global volatilities, MOVE index for bond markets and VIX index for stock markets are included. In addition to capture domestic volatilities, return volatility of the bond or stock and FX volatility of both bond and stock markets are included.

It is emprically found that return volatility as well as global fear factors regarding bond and stock market have significant and negative impacts on secondary market liquidity both in stock markets and bond markets after global financial crisis in Turkey. It is argued that these results are in line both with the expectations and with the literature so far although the global fear factors have been firstly used in this study as drivers of secondary market liquidity in Turkey.

To test the second hypothesis, shares of non-residents in bond and stock markets are included and used weekly data as the data on the share of nonresidents are available only weekly. The results showed that as the share of nonresidents increases in bond or stock markets the liquidity improves.

It is concluded that the study with measures taken by Turkish Treasury to enhance secondary market liquidity in government bond market. As the secondary market liquidity deteriorated significantly especially after May 2013, the Turkish Treasury introduced some amendments in primary dealership system and introduced regular buy-back programs.

FUTURE RESEARCH DIRECTIONS

As a future research, related to the annuncements, intra-day data may be used instead of daily data which may capture the impact of annuncements better. In addition, while analyzing the secondary bond market liquidity, instead of using only 2 year benchmark government bonds, 5 year maturities that have different liquidity pattern may be used. Next, in addition to BIST 100 index which is used in the study, other main and sectoral indices may be used.

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KEY TERMS AND DEFINITIONS

BIST: Borsa Istanbul.
IMF: International Monetary Fund.
Liquidity: It is an indicator of financial development.
MOVE Index: Merrill Lynch Option Volatility Estimate.
VIX Index: Chicago Board Options Exchange Volatility Index.

Chapter 17
A Review of the Literature on IFRS Adoption From the Perspective of the Value Relevance

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ABSTRACT

International Financial Reporting Standards (IFRS)-based financial reporting has become widespread all around the world especially after its mandatory adoption in the European Union in 2005. There are several objectives of IFRS-based financial reporting, all of which depends on the idea of a single set of high-quality standards as frequently highlighted by promoters of IFRS. This literature review depicts a comprehensive picture of the archival research on the impact of IFRS-based reporting on capital markets from the perspective of the value relevance (VR) concept. First, the VR concept, as well as models employed to measure the VR, are described. Afterwards, selected studies of the archival research are grouped, summarized, and discussed. Finally, archival research is methodologically analyzed by considering different dimensions. All in all, this literature review provides information on IFRS adoption from the perspective of the VR.

INTRODUCTION

By catering financial information of the reporting entity, financial reporting contributes to the decision-making of existing or potential resource providers of the entity (IASB, 2010).[1] This is the general objective of financial reporting. By analyzing the literature on objectives of financial reporting, Zeff (2013) defines two major approaches: the functionalist approach describes objectives as intention-based and the representationalist approach defines objectives as measurement-based. In other words, the former seeks any information to meet the intended actions of intended users while the latter is just about provid-

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ing information about identified variables. Among all recognition criteria of FASB (1984), relevance falls under the functionalist approach as financial information is relevant if it plays a significant role in decision-making, and reliability belongs to the representationalist approach since financial information is reliable 'if it represents what it purports to represent' (Barth, Beaver, & Landsman, 2001, p. 80). Bischof and Daske (2016) and Nguyen and Molinari (2013) illustrate that i) relevance assists users of financial statements in evaluating past, present or future transactions through predictive values, and ii) reliability depicts completeness and faithful representation of accounting information as well as the non-existence of any material error and bias.

As discussed above, more reliable and relevant accounting information eventually results in higher financial reporting quality. A rich body of research analyses several financial reporting quality measures belonging to different legal families which are majorly shaped by commercial law systems. La Porta et al. (1998) underscore that English-originated common law and Roman-originated civil law create today's commercial laws. Although the groundbreaking study of La Porta et al. (1998) provide a comprehensive and very detailed picture regarding these law families, it can be summarized as follows: investor protection is higher in common law countries than in civil law countries.[2] Based on this classification, the literature extensively documents that the financial reporting quality in common law countries is superior to the financial reporting quality in code law countries (Knauer & Wöhrmann, 2016). In other words, accounting information is more reliable and relevant in common law countries. This evidence indicates that accounting standards in different law families may be improved in order to provide a higher level of financial reporting quality. The convergence of accounting standards from the inferior one to the superior one came into the scene at the beginning of the 1970s: International Accounting Standards Committee was established by professional accounting authorities of ten countries in order to adopt a single set of accounting standards, which is named International Accounting Standards (IAS, henceforth), for cross-border listings.[3] The Committee published the first international conceptual framework in 1989 and the initial comprehensive set of thirty-one IAS in 1990; afterwards, the convergence process fastened. In 2002, the European Parliament enacted the Regulation which requires all listed companies in the European Union (EU, henceforth) to prepare their consolidated financial statements based on International Financial Reporting Standards (IFRS, henceforth) as of the beginning of 2005.[4] This decision of the EU significantly accelerated the way to a single set of accounting standards: by following the EU, several countries including Australia, Hong Kong, New Zealand, South Africa, and Turkey implemented IFRS-based financial reporting in 2005. As of the end of the third quarter of 2018, IFRS-based financial reporting is mandatory in 144 countries.

The EU Regulation 1606/2002 defines the objective of IFRS adoption as improving and enhancing the level of transparency and comparability of financial statements which is expected to result in efficient functioning capital markets within the Community level as well as the individual member state level. Brüggemann et al. (2013) provide a detailed discussion on the objectives of IFRS-based reporting; financial reporting objectives of IFRS include transparency and comparability. They also highlight that capital markets objectives and macroeconomics objectives are strongly related to financial reporting objectives. Ball (2016, p. 548) briefly summarizes advantages of IFRS-based reporting including increased transparency, comparability, efficiency, and lower cost of capital; and he further underlines that "most of the expected benefits involve the efficiency of markets".[5] As underscored by De George et al. (2016) and Walker (2010), promoters of IFRS generally emphasize a single set of high-quality accounting standards; and these objectives are majorly based on this high-quality emphasize.

A rich body of research examines whether IFRS adoption leads an increase in financial reporting quality by analyzing accounting quality from different perspectives of empirical accounting research, one arm of which focusses on the relation between financial information and capital markets. This arm is named Capital Markets-Based Accounting Research and includes several subcategories according to different authors. For instance, Beaver (2002) divides this arm into five including value relevance (VR, henceforth), market efficiency, Feltham-Ohlson modeling, analysts' behavior, and discretionary behavior. Similarly, Kothari (2001) highlights that this arm attracts the interest of research belonging to market efficiency (from the perspective of accounting information), fundamental analysis, and VR. The VR concept is one of the common subgroups of Beaver (2002) and Kothari (2001) since it provides an excellent research setting for examining the impact of accounting information on capital markets. Barth et al. (2001) underline that the VR is a very convenient method for testing both reliability and relevance criteria.

The literature includes very few literature reviews studying IFRS adoption and the VR. However, such studies analyze a limited number of papers which also do not maintain the similar quality as analyzed studies are retrieved from different journal groups (i.e., Web of Science listed journals vs others). For instance, Ahmed et al.'s (2013) literature review is limited to 30 VR studies. De George et al. (2016) review the IFRS adoption literature from very broad dimensions and they use several VR studies.[6] They use nearly 20 VR studies published only five journals. In this study, we provide a comprehensive literature review of IFRS adoption by considering the VR concept. We analyze papers listed in the Web of Science Database which ensures the quality of papers and the comprehensiveness of our study. To the best of our knowledge, there is no study presenting a comprehensive literature review of IFRS adoption from the perspective of the VR. This study attempts to fill the gap left open in prior research.

The rest of this study is structured as follows. Section 2 briefly describes the basics of the VR concept including definitions, the classification of Holthausen and Watts (2001), and models. Section 3 presents the selection process of analyzed articles in detail and provides descriptive information. Section 4 analyses and summarizes the literature by considering it in three ways: i) literature comparing IFRS with other standards, ii) literature on the issue of new standards and replacement of (or amendment on) existing standards, and iii) literature providing the VR under IFRS. Section 5 discusses analyze techniques of the archival research including Models employed, dependent variable measurement dates, and deflator types. Section 6 presents solutions and recommendations, future research directions, and it finally concludes this study.

BASICS OF THE VR CONCEPT

Definition of the VR

The VR research begins after the second half of the 1960s. First three studies belong to Miller and Modigliani (1966), Ball and Brown (1968), and Beaver (1968); and the vast literature follows their research. Although this concept has attracted the academic interest for more than half a century, the term "value relevance" is firstly used by Amir et al. (1993) (Barth et al., 2001). The literature defines and interprets the VR in several ways, the key commonality of which is that an accounting figure is value relevant if it is significantly associated with share prices or returns. In other words, the VR research analyses the impact of accounting information on capital markets. Francis and Schipper (1999) provide four useful interpretations of the VR. First, profits from accounting-based trading rules is an indicator of the VR as accounting information captures intrinsic share values. Second, the inclusion of accounting information into a valuation model or the assistance of accounting information in predicting any variable of a valuation model is an indicator of the VR. Third, if accounting information significantly contributes to the information set in the market which is used by investors for decision-making, it is considered value relevant. Francis and Schipper (1999) note that this interpretation is vulnerable to either the timeliness of other competing information or the predictability of accounting information, which may reduce the VR of accounting information from the perspective of this interpretation. The same concern is also highlighted by Barth et al. (2001). Last, the statistically significant effect of accounting information on market figures including returns is termed the VR. This interpretation is commonly accepted, and the VR is generally defined based on this interpretation.

The Classification of Holthausen and Watts (2001)

Holthausen and Watts (2001) provide a detailed literature review and classify the VR literature into three major categories: i) relative association studies (RAS, henceforth), ii) incremental association studies (INAS, henceforth), and iii) marginal information content studies (MICS, henceforth). Holthausen and Watts (2001) analyze 62 papers, 15, 53, and 7 of which respectively belongs to RAS, INAS, and MICS. We analyze Holthausen and Watts' (2001) Table 1 and conclude that 50 of 62 papers belongs to only one category: 6 (41) [3] papers are classified as RAS (INAS) [MICS]. There are 8 (3) papers are classified as both RAS and INAS (INAS and MICS) while there is no paper at the intersection of RAS and MICS. Finally, only one paper belongs to all categories. These numbers indicate that INAS solely dominates the literature while there are several studies focusing the VR from different perspectives simultaneously.

Holthausen and Watts' (2001) first category, RAS, directly focusses on the explanatory power or R^2 of the regression which is considered the VR indicator. Such studies consider the greater R^2 figure more value relevant. RAS usually compares R^2 figures obtained by employing different accounting items. Assume there are three accounting items and the variable of interest is the third one. First, a regression is performed by using all variables and its R^2 figure is obtained. Second, another regression is performed by using all variables except the variable of interest and another R^2 figure is obtained. The statistically significant difference between these R^2 figures is considered an evidence for the VR of the third accounting item. Furthermore, RAS compares R^2 figures obtained by employing the same accounting items under different reporting regimes. Note that such studies not only perform before and after analyses but also test the VR of accounting items in the same period if items are reported under different reporting regimes simultaneously. First, a regression is performed with variables of interest under the first reporting regime and its R^2 figure is obtained. Second, another regression is performed with variables of interest under the second reporting regime and its R^2 figure is obtained. If the difference between these R^2 figures is statistically significant, the regime with the high R^2 figure is more value relevant than the regime with the low R^2 figure.

Regression coefficients of accounting items are at the center of the second category of Holthausen and Watts (2001), INAS. These studies consider an accounting item value relevant if its regression coefficient is reported as significant at conventional levels. Additionally, similar to RAS, INAS not only performs before and after analyses but also tests the VR of accounting items in the same period if items are reported under different reporting regimes simultaneously. If the difference between the regression coefficients of an accounting item is reported as statistically significant, it means that the VR of that accounting item changes significantly. For instance, if the regression coefficient of an accounting item under the first regime is significantly lower than the regression coefficient of an accounting item under the second regime, it should be read as an increase in the VR of that accounting item under the second regime.

The last category of Holthausen and Watts (2001), MICS, analyses whether an accounting item contributes to the available information set. These studies typically employ the event study methodology and generally focus on reconciliation items. If an accounting item is released under two different regimes, the VR of the difference between those different versions of the same accounting item is the variable of interest of MICS. For instance, the first-time release of an accounting item under a new reporting regime also includes its value under the old regime. If the difference between figures under new and old regimes significantly affects price reactions, MICS considers such releases value relevant.

Models

Hellström (2006) defines two major perspectives analyzing the VR of accounting information. The first perspective is the Measurement Perspective which examines the market value and accounting information by employing the Price Model of Ohlson (1995). As shown in Equation (1), the Price Model's dependent variable is the market value while its independent variables are accounting items which are mostly book value of equity (BVE, henceforth) and several types of earnings. In addition to these independent variables, other variables may be employed in the Model in order to test the VR of the interested item. The second perspective is the Signalling Perspective which studies the market's reaction towards an announcement of accounting information by employing the Return Model. As shown in Equations (2a) and (2b), the Return Model's dependent variable is the return or cumulative abnormal returns while its independent variables are accounting items which are mostly several types of earnings and the change in the corresponding earnings item.[7,8] The researcher may add other independent variables into the Model depending on the scope of his/her research.

$$MV_{i,t+1} = \beta_0 + \beta_1 \text{ x } BVE_{i,t} + \beta_2 \text{ x } E_{i,t} + \varepsilon \tag{1}$$

$$Return_{i,t+1} = \beta_0 + \beta_1 \text{ x } E_{i,t} / P_{i,t-1} + \beta_2 \text{ x } \Delta E_{i,t} / P_{i,t-1} + \varepsilon \tag{2a}$$

$$CAR_{i,t+1} = \beta_0 + \beta_1 \text{ x } E_{i,t} / P_{i,t-1} + \beta_2 \text{ x } \Delta E_{i,t} / P_{i,t-1} + \varepsilon \tag{2b}$$

where i, t, MV, P, BVE, E, Return, and CAR represent firm, year (or time), market value, price, book value of equity, earnings, returns, and cumulative abnormal returns, respectively.

The use of the Price Model and the Return Model depends on the characteristics and the scope of the research. However, the use of both Models is subject to certain caveats: the Return Model is criticized due to accounting recognition lag (Ota, 2003) and stale information (Kothari & Zimmerman, 1995) problems while the Price Model is prone to the scale effect (Brown, Lo, & Lys, 1999; Easton & Sommers 2003; Kothari & Zimmerman, 1995). Earnings figures may not affect current returns due to certain accounting principles such as reliability and prudence; it is termed the accounting recognition lag problem (Ota, 2003). Earnings figures are anticipated by the market to some degree; therefore, the anticipated (or the stale) part of earnings is already embedded in share prices although it is not relevant in current returns

(Kothari & Zimmerman, 1995). It is termed the stale information problem which supports the use of the Price Model while hindering the use of the Return Model. The scale effect is the influence of size on both the dependent variable and independent variables of the regression: large (small) firms have large (small) BVE and large (small) earnings figures (Easton & Sommers 2003). As this effect inflates the explanatory power or R^2 of the regression, the Price Model is heavily criticized in the literature (Brown et al., 1999). The general solution of the scale effect is dividing both sides of Equation (1) with a common indicator. As a deflator, the literature employs several items including the number of shares outstanding, previous BVE, previous market capitalization (or price), total assets, and/or sales figures. There are also several studies which do not use any deflators. As a further solution of the scale effect, certain research uses the Weighted Least Squares Method (Akbar & Stark, 2003).

The Return Model generates low R^2 figures which mean a poorer summary of accounting information (Easton, 1999).[9] Certain events influencing the market may not be reported by earnings figures while they may already be reflected by returns; hence, earnings may not be a perfect summary of the analyzed return interval (Easton, Harris, & Ohlson, 1992). Kothari and Zimmerman (1995, p. 184) underline that "*low R^2 figures of the return studies might potentially lead researchers to draw incorrect inferences*" and they discuss several examples of such inferences. On the other hand, the price reflects all returns since BVE represents "*all accounting measures of change in value since the firm came into existence*" (Easton, 1999, p. 401) and the Price Model generates high R^2 figures which should be read as a better summary of accounting information. As a further econometrical concern, Easton (1999) underlines that White (1980) specification is less problematic in the Return Model while earnings response coefficients are less biased in the Price Model. Lastly, the Return Model is not convenient for testing BVE and other reconciliation items (Mestelman, Mohammad, & Shehata, 2015) as well as other balance sheet figures.

All in all, depending on the intention and econometrical concerns of the researcher, any Model may be employed.

SAMPLE SELECTION AND DESCRIPTIVE STATISTICS

In order to maintain the quality of papers included in this study, we include only articles which are written in English and available on the Web of Science Database. We do not limit the timespan; hence, all studies from the earliest possible date to September 22, 2018, are included. First, we search by using "value relevance" and "IFRS" keywords in topics which result in 136 articles. Second, as IAS is the earliest version of IFRS, we further search by using "value relevance" and "IAS" keywords in topics which result in 36 articles. Before merging these two samples, we dropped 21 articles that are common in both samples. Our initial sample includes 151 unique articles.

Since we want our sample to include as many articles as possible, we prefer detecting whether a study is irrelevant to our research, manually. Therefore, in order not to reduce the number of studies in our sample, we do not follow Ahmed et al.'s (2013) keywords of "IFRS adoption" or "IAS adoption" which yields in a reduction in our sample size for more than a half. We eliminate irrelevant studies as well as qualitative studies providing descriptive information, which yields a total loss of 75 articles. Note that as 4 articles are not accessible, they cannot be analyzed. Our final sample includes 72 articles.

Table 1 presents the distribution of analyzed articles per year, per country, and per journal. *represents Israeli firms either listed on the local Stock Exchange or listed on US exchanges.

Panel A of Table 1 shows the number of studies per year. The final sample includes only one study prior to 2000 and there is no study up to 2006. From 2006 to 2014, there are 9 studies in total. There are 11, 13, and 14 studies published in 2015, 2016, and 2017, respectively. As of September 22, 2018, there are 7 studies published in 2018. It is apparent that there is a clear trend in the number of studies analyzing IFRS from the perspective of the VR. Especially beginning from 2015, the gap in the literature has begun to be filled. Panel B of Table 1 summarizes sample countries employed by the literature, and it reveals that 48 of 72 papers employ a dataset belonging to a single country. Almost half of the single-country studies is comprised of five countries: there are 8 / 6 / 4 / 4 / 3 studies using a dataset of Australia / Germany / United Kingdom (UK, henceforth) / Canada / Malaysia. Finally, Panel C of Table 1 implies that our sample is not dominated by any journals. There are 3 articles published in each of the following journals: Abacus, Australian Accounting Review, Australian Journal of Management, Journal of Applied Accounting Research, and Review of Accounting Studies. Other journals in our final sample include at most 2 published articles.

Table 1. Descriptive statistics.

Panel A: Number of Articles per Year				**Panel C: Number of Articles per Journal**	
Year	**Number**	**Year**	**Number**	**Journal Name**	**Number**
1999	1	2012	4	Abacus	3
2006	2	2013	3	Australian Accounting Review	3
2007	1	2014	5	Australian Journal of Man.	3
2008	2	2015	11	Journal of Applied Accounting Research	3
2009	4	2016	13	Review of Accounting Studies	3
2010	3	2017	14	Advances in Accounting	2
2011	2	2018	7	Applied Economics Letters	2
				European Accounting Review	2
Panel B: Number of Countries Analysed by the Literature				International Journal of Accounting and Information Man.	2
Country	**Number**	**Country**	**Number**	Journal of Accounting in Emerging Economies	2
Multiple Countries	24	Greece	1	Journal of Business Finance and Accounting	2
		Israel*	1	Journal of International Financial Man. and Accounting	2
Australia	8	Jordan	1	British Accounting Review	2
Germany	6	Kenya	1	Journal of International Financial Man. and Accounting	2
Canada	4	Korea	1	Others	39
UK	4	Nigeria	1		
Malaysia	3	Norway	1		
China	2	Pakistan	1		
France	2	Russia	1		
Hong-Kong	2	South Africa	1		
Spain	2	Switzerland	1		
Thailand	2	Taiwan	1		
Brazil	1				

ANALYSIS OF THE LITERATURE

In this section, analyses of the archival research based on the classification of Holthausen and Watts (2001) and our classification are briefly discussed. Table 2 summarizes all analyzed archival research with their sample characteristics, Models employed, price measurement dates, and deflation techniques.

First, we analyze the archival research based on the Holthausen and Watts' (2001) classification. Prior to revisiting Holthausen and Watts (2001), we slightly modify their definition of MICS. Holthausen and Watts (2001) highlight that MICS generally employs the event study methodology which focuses on short-term returns (returns around the announcement date). Such short-term returns are abnormal returns which are typically obtained by subtracting normal stock returns from the actual stock returns. Since employing abnormal returns as the dependent variable of the Return Model is very rare in the literature[10] to the best of our knowledge, we consider all studies analyzing the impact of reconciliation items on market figures a part of MICS, regardless of their dependent variables. Additionally, whether they perform a statistical comparison, studies interpreting the explanatory power or the R^2 figure of the regression as the VR indicator are classified as RAS. Our classification reveals that 38 papers belong to only one category: 9 (29) papers belong to RAS (INAS) while there is no paper reported for MICS. There are 23 (3) studies classified as both RAS and INAS (INAS and MICS). There is no paper at the intersection of RAS and MICS, similar to the analysis of Holthausen and Watts (2001). Finally, 8 papers are grouped at the intersection of these three categories. By revisiting Holthausen and Watts (2001), we conclude that i) the literature is dominated by studies grouped as only INAS; however, their weight in total is almost two-thirds of their weight reported by Holthausen and Watts (2001), ii) the percentage of studies grouped under RAS and INAS is more than two times of the percentage of studies grouped under RAS and INAS in the analysis of Holthausen and Watts (2001), and iii) the number of studies analyzing the VR from the perspective of the intersection of these three categories is considerably high compared to Holthausen and Watts (2001).

Second, this section analyses the literature by dividing it into three major groups, and it discusses main findings of selected studies. The first group includes studies which compare the VR of accounting items under IFRS and the VR of accounting items under other standards. There have been certain issues of new standards and amendment on existing standards in order to faithfully reflect the financial position and performance of an entity (IASB, 2016). It should be read as the improvement within the same accounting standards. Hence, our second group includes studies analyzing the VR of the issue of new standards or amendment on existing standards. Our last group includes research providing evidence for the VR of accounting items only under IFRS-based reporting. The first group overwhelmingly dominates our review (52 of 72 analyzed papers). There are 9 papers in the second group while the remaining 11 studies grouped under the last category. Our analysis also reveals that the last category has recently attracted the interest of this archival research as the oldest study classified as our last category was published in 2015.

Based on our classification, the only group analyzing the impact of IFRS on the VR by considering other standards as benchmarks is our first group. Out of 52 papers in our first group, 38 (4) of them examine the impact of mandatory (voluntary) IFRS adoption and 4 of them examine the impact of both mandatory and voluntary adoption. Remaining 6 studies do not fall under any of these categories.

The rest of this section presents outcomes of selected studies i) comparing IFRS with other standards, ii) literature on the issue of new standards and replacement of (or amendment) on existing standards, and iii) providing the VR under IFRS.

Table 2 summarizes above discussion by analyzing each paper in our sample.

Table 2. Summary of the literature

Authors	Year	Classification of Holthausen and Watts (2001)	Our Literature Classification	Sample Countries	Period	Model(s) Employed	Price(s) used	Deflator Type(s)
Abdullah et al.	2015	INAS	3	Malaysia	2008	P	4	NA
Acaranupong	2017	RAS, INAS	2	Thailand	2011-2012	P	3	2
Aharony et al.	2010	RAS, INAS	1	14 EU Countries	2003-2006	P, R	3, 5	2, 3
Alkali and Lode	2016	RAS	1	Nigeria	2009-2013	P	3	2
André et al.	2018	INAS	2	16 European Countries	2010-2011	P	4	2, 4
Bandyopadhyay et al.	2017	INAS	3	Canada	2011-2014	P	q	7
Barth et al.	2008	RAS	1	21 countries	1994-2003	P	6	2
Barth et al.	2012	RAS, INAS	1	27 countries	1995-2006	P, R	6	2
Barth et al.	2014	RAS, INAS, MICS	1	15 countries	2004	P	4, 6, 12	1, 2
Beisland and Knivsflå	2015	INAS	1	Norway	2001-2008	P, R	3, 12	2
Benyasrisawat et al.	2015	RAS, INAS	1	Thailand	2006-2011	R	q	NA
Bepari and Mollik	2017	INAS	1	Australia	2006-2009	P	12	1, 2
Chalmers et al.	2008	RAS, INAS	1	Australia	2005	P	e	2
Chalmers et al.	2011	INAS	1	Australia	1990-2008	P, R	3	2
Chen et al.	2017	INAS	1	Israel**	2007-2011	P, R	3, 4, 5	1
Choi et al.	2013	INAS	1	UK	2003-2007	P	e	2
Christensen et al.	2015	INAS	1	Germany	1993-2006	P	6	2
Clacher et al.	2013	INAS	1	Australia	2000-2010	P	3	2
Cutillas-Gomariz et al.	2016	RAS, INAS	1	Spain	2001-2008	R	3	NA
da Silva and Ciampaglia	2017	INAS	1	Brazil	2000-2011	P, R	3	7
Devalle et al.	2010	RAS, INAS	1	5 EU countries	2002-2007	P, R	3	2
Eloff and de Villiers	2015	INAS	2	South Africa	2001-2009	P	3	2
Gan et al.	2016	RAS, INAS, MICS	2	Malaysia	2006-2011	P	12	2
Gassen and Sellhorn	2006	RAS	1	Germany	1998-2004	R	3	NA
Goh et al.	2016	INAS	3	France	2005	P	12	1, 4, 8, 7
Gong and Wang	2016	INAS	1	9 European countries	1997-2012	P, R	4	2
Harris and Muller	1999	RAS, INAS, MICS	1	13 countries*	1992-1996	P, R	6	1, 2
Henry et al.	2009	INAS, MICS	1	14 countries*	2004-2006	P, R	6	1
Hilliard and Neidermeyer	2018	RAS, INAS, MICS	1	Canada	2011	R	e	NA
Hillier et al.	2016	INAS	1	5 African Countries	2002-2009	P, R	3, 4	7
Horton and Serafeim	2010	INAS, MICS	1	UK	2006	P, R	e	1, 2
Hung and Subramanyam	2007	RAS, INAS, MICS	1	Germany	1998-2002	P	8, 12	1, 7
Kajüter and Nienhaus	2017	RAS, INAS	2	Germany	2007-2010	P	3, 4, 5, 12	2
Kim	2016	INAS	1	Russia	2009-2012	P, R	12	2, 7
Kouki	2018	RAS, INAS	1	3 EU countries	2000-2011	P, R	6	2
Lapointe-Antunes et al.	2006	INAS	1	Switzerland	1997-2001	P	6	2

continued on following page

Table 2. Continued

Authors	Year	Classification of Holthausen and Watts (2001)	Our Literature Classification	Sample Countries	Period	Model(s) Employed	Price(s) used	Deflator Type(s)
Lin et al.	2012	RAS, INAS	1	Germany	2000-2010	R	3	NA
Lourenço et al.	2012	INAS	3	France	2005-2008	P	3, 12	2
Maigoshi et al.	2018	RAS, INAS	1	Malaysia	2009-2015	P	3	2
Manganaris et al.	2016	RAS	1	15 EU countries	1998-2011	P, R	3, 4, 6	2, 5
Mardini et al.	2018	INAS	2	Qatar and Jordan	2013-2014	P	3	2
Martínez et al.	2014	RAS, INAS, MICS	1	Spain	2005	P	e	2, 7
Mechelli et al.	2015	RAS, INAS	1	22 countries	2009-2012	P	NA	1
Mechelli et al.	2017	INAS	2	15 EU countries	2010-2013	P	12	6
Mestelman et al.	2015	RAS, INAS, MICS	1	Several countries*	2002-2008	P	NA	2
Mitrione et al.	2014	RAS, INAS	1	Australia	2003-2009	P, R	3, 12	2
Morais and Curto	2009	RAS	1	14 European Countries	2000-2005	P	6, 12	3, 4
Morais et al.	2018	RAS	3	14 European Countries	2005-2010	P, R	3	2
Müller et al.	2015	INAS	3	15 European countries	2003-2012	P, R	1, 3, 12	1
Okafor et al.	2016	RAS, INAS	1	Canada	2008-2013	P, R	3, 12	2
Outa et al.	2017	RAS	1	Kenya	2005-2014	P	3	2
Park	2018	INAS	1	Korea	2007-2014	R	3	NA
Power et al.	2017	INAS	3	UK	2006-2012	P	3	2
Qu and Zhang	2015	RAS, INAS	1	China	1991-2010	P	4	2
Rehman and Shahzad	2014	RAS, INAS	3	Pakistan	2006-2010	P	3	2
Rodríguez García et al.	2017	RAS, INAS	1	4 Latin American Countries	2000-2014	P	q	5
Salewski and Zülch	2015	RAS, INAS	3	Germany	2005-2011	P	3	8
Shah et al.	2013	INAS	1	UK	2001-2011	P	3	2
Siekkinen	2016	INAS	3	34 countries	2012-2014	P	3, 4, 5, 6	2
Siekkinen	2017	INAS	3	29 European countries	2012-2013	P	4, 5, 6	2
So and Smith	2009a	INAS	1	Hong-Kong	2004-2006	R	4	NA
So and Smith	2009b	INAS	1	Hong-Kong	2004-2006	P, R	4	2
Tahat et al.	2016	RAS, INAS	2	Jordan	2006-2007	P	3	2
Thijssen and Iatridis	2016	RAS	1	17 countries	2009-2015	P	12	2
Tsalavoutas et al.	2012	RAS, INAS, MICS	1	Greece	2001-2008	P, R	4	2, 6
Wee et al.	2014	INAS, MICS	1	Australia	2005	P	3	2
Wegener and Labelle	2017	RAS, INAS	1	Canada	2010	P	3	2
Wu and Hsu	2011	INAS	1	Taiwan and European countries	2005-2008	P	q	2
Wu et al.	2017	RAS	1	Taiwan	1990-2011	P	12	2
Xu et al.	2017	RAS, INAS	2	Australia	2012	P, R	3	4, 2
Zhou et al.	2015	RAS, INAS	1	Australia	2003-2009	P, R	3	2
Zhou et al.	2016	RAS, INAS	1	China	1999-2012	P, R	4	2

This table presents an overview of the analysed literature. Authors, year of publication, grouping based on Holthausen and Watts (2001), grouping based on our classification, countries in the sample, the period of analysis, model(s) employed, price measurement date(s) and deflator types are respectively shown in columns. In the Our Literature Classification column, 1, 2, and 3 respectively represent the group comparing IFRS with other standards, the group analysing the issue of new standards and replacement of (or amendment on) existing standards, and the group providing the VR under IFRS. In the Sample Countries column, * represents cross-listed firms of several countries while **represents Israeli firms either listed on the local Stock Exchange or listed on US exchanges. In the Model(s) Employed column, P and R symbolize the Price Model and the Return Model. In the Price(s) Used column, each number except 12 shows the measurement of the dependent variable: i.e, 3 indicates the dependent variable is measured 3 months after the fiscal year. In that column, 12 indicates the dependent variable is measured at the end of the fiscal year. Furthermore, q and e represent the dependent variable measured on a quarterly basis and the dependent variable around the financial report release date, respectively. Deflator types are listed as follows: 1: undeflated, 2: share, 3: book value of equity, 4: total assets, 5: previous total assets, 6: market value, 7: previous market value, 8: sales, NA: not available. Note that deflation is a concern of studies employing the Price Model.

Literature Comparing IFRS With Other Standards

Barth et al. (2008) study the impact of voluntary and mandatory IAS adoption on the VR measured by R^2 figures. They reveal that the VR of IAS adopters is superior to the VR of non-IAS adopters in the post-adoption period while the VR of IAS adopters is not superior to the VR of non-IAS adopters in the pre-adoption period. In other words, Barth et al. (2008) show that the improvement in the VR after IAS adoption does not spring from accounting quality differences between IAS adopters and non-IAS adopters in the pre-adoption period, and hence, the improvement in the VR after IAS adoption is directly associated with IAS adoption.

Devalle et al. (2010) examine the impact of IFRS adoption on the VR and reveal that the VR, measured by R^2 figures, significantly increases after IFRS adoption in the UK and France while it significantly decreases in Germany, Spain, and Italy.[11] They further document that after IFRS adoption, the regression coefficient of BVE declines for all countries except the UK and the regression coefficient of earnings increases for all countries except Italy.[12] One of the most interesting outcomes of this study is that earnings reported under UK Generally Accepted Accounting Principles (GAAP, henceforth) are negatively value relevant which contradicts to the literature (e.g., Ali & Hwang, 2000; Ball, Kothari, & Robin, 2000) documenting the earnings oriented financial reporting behaviour of common law countries. Moreover, in the pre-adoption period, Devalle et al. (2010) show that the VR in Germany (R^2 = 95.15%) is considerably greater than the VR in the UK (R^2 = 69.88%). This outcome is also interesting as it indicates that the VR in a code law country is greater than the VR in a common law country. Note that, as highlighted by Knauer and Wöhrmann (2016) and Jermakowicz et al. (2007), the VR in common law countries is higher than the VR in code law countries.

Barth et al. (2012) analyze the impact of IAS/IFRS adoption on the VR measured by R^2 figures. Their accounting quality benchmark is the VR under United States (US, henceforth) GAAP, and they perform their analysis by following these three steps: i) first, they obtain the VR difference between the US GAAP sample and the IFRS sample in the pre-adoption period, ii) second, they obtain the VR difference between the US GAAP sample and the IFRS sample in the post-adoption period, and iii) third, they compare the first VR difference and the second VR difference; if the VR difference in the post-adoption period is significantly lower than the VR difference in the pre-adoption period, it should be read as the positive impact of IFRS adoption on the VR. Barth et al. (2012) employ both Price and Return Models, and they reveal that the VR difference between the US GAAP sample and the IFRS sample significantly erodes in the post-adoption period. Moreover, for the Price Model in the post-adoption period, Barth et al. (2012) report that IFRS adoption significantly improves the VR of mandatory adopters more than the VR of voluntary adopters. They further extend their analysis by statistically comparing the regression coefficients of BVE and earnings by following the same three steps methodology, and document that the VR of earnings (BVE) is (not) significantly improved after IFRS adoption.[13]

Choi et al. (2013) investigate the effect of IFRS on the VR of forecasted earnings. The main motivation of their research is that if IFRS provides high-quality financial reporting, IFRS adoption should make more information available which is only calculated/obtained by analysts in the pre-adoption period. This motivation seeks a reduction in the VR of earnings forecasts of analysts and an increase in the VR of reported earnings. Outcomes of Choi et al. (2013) confirm their motivation: while the VR of reported earnings significantly increases, the VR of forecasted earnings significantly declines in the post-adoption period.[14] They further reveal that IFRS adoption significantly improves the VR of BVE.

Shah et al. (2013) analyze the impact of IFRS adoption on the VR of research and development (R&D, henceforth) expenses and capitalizations. In the pre-adoption period, they document that capitalized R&D items are positively value relevant while expensed R&D items are negatively value relevant; however, both capitalized and expensed R&D items are not reported as value relevant in the post-adoption period. They also re-perform their analyses by considering only firms with non-zero R&D figures, and they confirm the same outcome.[15]

Barth et al. (2014) study the VR of IFRS reconciliations by dividing their sample into two: financial and non-financial firms. Both BVE and earnings reconciliations are reported as value relevant for both samples. The BVE reconciliation figure is reported as more value relevant for financial firms than non-financial firms. Moreover, earnings reconciliation figures are reported as equally value relevant for both samples. They further divide earnings reconciliation figures into eleven calculated separately for the impact of different standards and compare their VR between financial and non-financial firms. Their outcomes indicate that only the earnings reconciliation figure based on IAS 39 (IAS 17) is more (less) value relevant for financial firms than non-financial firms while no significant difference is reported for other reconciliation figures.

Martinez et al. (2014) investigate the VR of IFRS reconciliations by considering the sample as a whole and dividing the whole sample into two based on different firm sizes and leverage levels. They first reveal the VR of accounting items reported under different regimes separately: i) BVE under local GAAP is reported as value relevant for the whole sample and for all sub-groups; however, BVE under IFRS is found as value relevant except large firms and high-levered firms, and ii) earnings under either local GAAP or IFRS is value relevant for the whole sample and for all sub-groups. For the whole sample, the impact of the BVE (earnings) reconciliations on share prices is significantly negative (positive). For sub-samples, Martinez et al. (2014) provide mixed outcomes. The earnings reconciliation figure is positively and significantly associated to share prices for only small firms and high-levered firms while there is no significant association reported for large firms and low-levered firms. The BVE reconciliation figure is negatively and significantly associated to share prices for only large firms and high-levered firms while the association is reported as significantly positive for low-levered firms and no significant association is reported for small firms. They also obtain reconciliation figures based on different standards and document that among nine standards, i) the BVE reconciliation figure based on three standards is negatively value relevant while the BVE reconciliation figure based on the others has no significant impact on market prices, and ii) the earnings reconciliation figure based on two standards (one standard) is positively (negatively) value relevant while the earnings reconciliation figure based on the others has no significant impact on market prices.

Christensen et al. (2015) study the impact of voluntary and mandatory IFRS adoption on the VR of BVE and earnings. Their analyses document that the VR of BVE (earnings) significantly declines (increases) after firms voluntarily adopt IFRS while the VR of both BVE and earnings remains statistically unchanged after firms mandatorily adopt IFRS. If accounting standards provide the same quality, we should then observe an increase in the VR for both voluntary and mandatory adopters. In other words, there are certain incentives which make firms voluntarily adopt IFRS and make firms postpone the adoption until it becomes mandatory.[16]

Qu and Zhang (2015) investigate the VR of accounting information in an emerging economy, China, where accounting regulations have progressively converged to IFRS. They divide the whole period into 5 including pre-formation period, formation period, fair value accounting adoption period, revision period, and international convergence period. Qu and Zhang (2015) report that R^2 figures obtained for each year show a significant increase which should be interpreted as the improvement in the VR of accounting items. Moreover, earnings figures are reported as value relevant for all year with one exception while BVE is constantly reported as value relevant for each year after the third period. Regression analyses for each sub-period confirm these findings. The IFRS convergence considerably improves the VR of BVE as its regression coefficient in the last period is nearly four times of the previous two sub-periods while its regression coefficient is reported as significantly negative in the second sub-period and statistically insignificant in the first sub-period. Their R^2 interpretation documents almost the same outcome.

Thijssen and Iatridis (2016) analyze changes in the VR of accounting information reported under IFRS or US GAAP over time. First, they obtain the R^2 figure of each year belonging to IFRS and US GAAP samples. In four (two) years, R^2 figures reported under US GAAP is greater (less) than R^2 figures reported under IFRS while R^2 figures of one year are reported equal to each other.[17] Thijssen and Iatridis (2016) reveal that the VR of accounting information reported under IFRS (US GAAP) significantly increases (decreases) over the analyzed period. After adjusting for the increase in the coefficients of variation, the VR under IFRS is found as statistically unchanged while there is a significant decline reported in the VR under US GAAP over the period.

Wu et al. (2017) examine the VR of accounting information over time and reveal that there is a significantly increasing trend in the VR of accounting information. They also divide the whole period into two: introduction of US GAAP period and IFRS convergence period. Their outcomes indicate that this significantly increasing trend in the VR of accounting information disappears in the IFRS convergence period.

Hilliard and Neidermeyer (2018) investigate the VR of IFRS reconciliations. They measure the VR of several reconciliation items by considering cumulative abnormal returns from day -5 to day +5 around the announcement date of financial reports in the first quarter just after the mandatory adoption date. Hence, they obtain the direct reaction of the market towards IFRS reconciliation figures, and the methodology of their study is consistent with the MICS definition of Holthausen and Watts (2001). Their outcomes reveal that the effect of the BVE reconciliation figure on cumulative abnormal returns is negative at conventional significance levels. In other words, the BVE reconciliation figure is value relevant; however, its impact is significantly negative. Hilliard and Neidermeyer (2018) document the same outcome for the retained earnings reconciliation figure. They further divide the retained earnings reconciliation figure into two and conclude that i) the retained earnings reconciliation figure related to management discretionary choices is negatively value relevant, and ii) the impact of retained earnings reconciliation figure related to standard-to-standard differences has no statistically significant effect. This outcome indicates that underlying standards may offset each other, and the market puts a significant weight in reconciliation items reflecting discretionary choices of the management.[18]

Literature on the Issue of New Standards and Replacement of (or Amendment on) Existing Standards

Eloff and de Villiers (2015) compare the VR of goodwill balance reported under IFRS 3 and IAS 22. They report that goodwill has a statistically significant impact on market price, and the switch from IAS 22 to IFRS 3 significantly increases the impact of goodwill balance on market price. In other words, goodwill balance becomes more value relevant after IFRS 3 adoption.

Gan et al. (2016) examine the VR of accounting items after the enforcement of the local standard which is compatible with IAS 39. They conclude that the VR of BVE (earnings) under IAS 39 is significantly superior (inferior) to the VR of BVE (earnings) under the previous standard. Moreover, Gan et al. (2016) document that the BVE reconciliation has a significantly positive impact on share prices while there is no statistically significant association reported for the earnings reconciliation. In other words, the BVE reconciliation is reported as value relevant while the earnings reconciliation is not.

Tahat et al. (2016) examine the VR of financial instruments disclosure under IFRS 7 and IAS 30/32. The percentage of financial instruments disclosure (POFID, henceforth) is reported as value relevant under both IFRS 7 and IAS 30/32. However, POFID under IFRS 7 is reported as statistically more value relevant than POFID under IAS 30/32. They also divide their sample into two based on disclosure levels, and they confirm this outcome for the sample of high disclosure. They further provide three categories of POFID measures and reveal that the VR of all categories under IFRS 7 is higher than under IAS 30/32. Moreover, although risk disclosure is not value relevant under IAS 30/32, it becomes value relevant after IFRS 7 adoption. Their outcomes also indicate that BVE becomes value relevant after IFRS 7 adoption.[19]

Kajüter and Nienhaus (2017) analyze the VR of segment reporting under IAS 14 and IFRS 8. They find that segment reporting under IFRS 8 is more value relevant than segment reporting under IAS 14. They further analyze the VR of segment-level equity reporting and segment-level earnings reporting, and they report that the VR of segment-level earnings reporting under IFRS 8 is superior to the VR of segment-level earnings reporting under IAS 14. They document the same outcome for the VR of segment-level equity reporting.

Acaranupong (2017) investigates the impact of a local standard compatible with IAS 40 on the VR of investment properties. Although IAS 40 majorly requires the use of fair value accounting, the local standard requires entities to report investment properties based on both fair value accounting and cost accounting. Hence, this requirement of the local standard provides a good research setting to observe the VR difference between cost accounting and fair value accounting, the use of the latter is mostly required by IFRS. Their outcomes robustly reveal that cost accounting provides more value relevant information than fair value accounting.

Mechelli et al. (2017) analyze the VR of the business model disclosure which is recommended by IASB. As this disclosure is voluntary, it may be considered a part of the improvement in standards. Their outcomes show that the voluntary business model disclosure significantly contributes to the VR of both

BVE and earnings figures. They also analyze the impact of four different dimensions of the business model disclosure on the VR of accounting items, and they find that all dimensions significantly improve the VR of both BVE and earning figures with one exception.

Xu et al. (2017) examine the impact of IFRS 16 on the VR of operating leases capitalization. Prior to IFRS 16, several long-term leases are allowed to remain unrecognized on the balance sheet by IAS 17. After IFRS 16, all long-term leases are required to be recognized on the balance sheet. By employing the Price Model, Xu et al. (2017) reveal that the change in the BVE generated by operating leases capitalization is value relevant. They also find that the impact of abnormal earnings derived from operating leases capitalization is significantly negative on share prices. However, by employing the Return Model, Xu et al. (2017) report that the change in earnings resulting from operating leases capitalization is not reported as value relevant at conventional significance levels. All in all, the study provides mixed outcomes.

Literature Providing the VR Under IFRS

In the post-IFRS adoption period, Rehman and Shehzad (2014) analyze the VR of accounting information over time. They reveal that total VR, measured by R^2 figures, declines from 79.3% in 2006 to 38% in 2010. Moreover, BVE is reported as value relevant only in 2008 and 2009 while it has no significant impact on share prices in 2006, 2007, and 2010. Although they document that the earnings figure of each year is value relevant, the impact of the earnings figure on share prices in 2006 and 2007 is more than two times of the impact of the earnings figure on share prices in 2008, 2009, and 2010. To recap, Rehman and Shehzad (2014) document that total VR, as well as the VR of earnings figures, deteriorate over time in the post-IFRS adoption period.[20]

Salewski and Zülch (2015) examine the impact of the management's discretion on the VR of defined benefit obligations (DBO, henceforth). Although IAS 19 deals with certain issues related to the DBO, there is still a room for the management's discretion as the accounting of DBO is complex and requires certain assumptions. Salewski and Zülch (2015) reveal that the discretionary component of DBO is not value relevant while its non-discretionary part is value relevant and has a negative impact on share prices. They further analyze the VR of the discretionary component of DBO for distinctly underfunded plans and the other, and document following outcomes: i) the non-discretionary part is negatively value relevant for both plans, and ii) the discretionary component of DBO is value relevant and positive for the sample of firms with underfunded plans while it is not value relevant for the other sample. In other words, the management's discretion on the DBO has a significant impact on share prices for only firms with underfunded plans.

Power et al. (2017) investigate the impact of different exploration policies allowed by IFRS 6 on the VR. First, they reveal that the balance of exploration and evaluation assets is (not) value relevant for the oil and gas (mining) sector. They further document that in the oil and gas sector, firms following the full cost method has more value relevant BVE, earnings figures, and the balance of exploration and evaluation assets than firms following the successful efforts method. However, exploration policies do not result in significant VR differences.[21]

Siekkinen (2017) analyses the impact of several board characteristics on the VR of fair value estimates.[22] Their outcomes reveal that i) the percentage of independent directors and the percentage of female directors make level 3 fair value assets positively value relevant while it has no impact on the VR of other levels, ii) the frequency of audit committee meetings makes level 1 fair value assets positively value relevant while it has no impact on the VR of other levels, iii) the number of board of directors makes level 3 fair value assets negatively value relevant while it has no impact on the VR of other levels, and iv) the appointment of a risk committee makes level 1 (2) fair value assets negatively (positively) value relevant while it has no impact on the VR of level 3.[23]

Morais et al. (2018) study whether IFRS adoption leads to a similar level of accounting quality in different countries. They separately obtain the VR indicator (R^2 figure) for each country and group countries based on their VR figures. Their first group includes Belgium, France, and Sweden; and their second group includes Finland, Portugal, and Greece. Remaining countries in their sample are grouped as the third category. They conclude that countries in the second category have IFRS-converging local standards and allow the adoption of IFRS for standalone financial statements while this is not the case in the first group. They further discuss several characteristics of the last group in detail.

ANALYSE TECHNIQUES OF THE LITERATURE

In this section, the archival research is analyzed based on Models employed, dependent variable measurement dates, and deflator types.

48 studies employ only either the Price Model or the Return Model in order to reveal the statistical association between accounting items and market figures. While 41 of them use the Price Model, the remaining 7 papers use the Return Model. 24 studies employ both Models at the same time. Employing both Models is considered complementary to each other as it strengthens the robustness of outcomes. For instance, Chalmers et al. (2011) and Kim (2016) use the Price Model for their main analyses, and they re-perform their analyses by employing the Return Model as a robustness check. As discussed in Section 2.3 in detail, employing these Models majorly depends on the intention and econometric concerns of the researcher. All in all, only 7 papers out of 72 do not use the Price Model, which should be read as the extensive dominance of the Price Model in the literature.

There are 46 studies measuring the dependent variable at the end of a single month. More than half of those studies measure the dependent variable 3 months after the fiscal year-end while 8 [7] papers measure the dependent variable 4 [6] months after the fiscal year-end. There are also 7 papers measures the dependent variable at the end of the fiscal year. 15 studies also employ different dependent variables which are measured different months after the fiscal year-end. Such studies measure the dependent variable 1, 3, 4, 5, 6 or 8 months after the fiscal year-end or at the end of the fiscal year. Dependent variables measured for different months after the fiscal year-end are employed as a robustness check (among others, see Kajüter & Nienhaus, 2017; Manganaris, Spathis, & Dasilas, 2016; Siekkinen 2016, 2017). 9 studies measure the dependent variable different than the others: 4 studies use quarterly market figures while 5 studies measure the dependent variable around the announcement date or at the end of the month of the financial report release. Finally, 2 papers do not report their exact market figure measurement dates. All in all, our analyses show that measuring the dependent variable 3 months after the fiscal year-end is the most prevalent approach while the dependent variable measured at the end of the fiscal year comes second.

As discussed in Section 2.3 in detail, the Price Model significantly suffers from the scale effect, the general solution of which is scaling the dependent and independent variables of a regression by a common deflator. For the archival research employing the Price Model, we analyze deflator items if any.[24] There are 65 studies employing the Price Model, 46 of which use only one item as a deflator while 4 studies do not employ any deflators.[25] For 46 single deflator studies, the number of shares outstanding is used as a deflator by 40 studies. 4 papers use the market value (or price) or the previous market value (or price) as a deflator. The previous total assets and sales are used by one paper as a deflator. The use of the number of shares outstanding as a deflator also dominates studies employing multiple deflators. All in all, although the number of shares outstanding-based deflator use is the most prevalent approach in the literature, it may be beneficial to underscore that certain studies use multiple deflators as a robustness check.

SOLUTIONS AND RECOMMENDATIONS

This literature review has three recommendations based on the analyze techniques of the literature. We highlight that the Return Model is not convenient for testing BVE and other reconciliation items (Mestelman et al. 2015). Hence, our first recommendation is that if the research setting and question are convenient, performing the Price Model together with the Return Model is better since such an approach increases the robustness of regression outcomes. Second, we recommend employing dependent variables measured at different dates since using several market figure measures increases the robustness of regression outcomes. As presented in the previous chapter in detail, the market figure at the end of the fiscal year is the second prevalent dependent variable measurement of the literature. We underline the statement of Gregory et al. (2005): sufficient time should be given to the market in order to make it completely reflect the impact of accounting information. However, market figures measured at the end of the fiscal year cannot reflect the impact of financial reports which are generally realized three months after the fiscal year-end. Hence, in the light of Gregory et al. (2005), we do not recommend employing a dependent variable measured only at the end of the fiscal year. Instead, employing a dependent variable measured at the end of the fiscal year may be complementary to employing a dependent variable measured at different dates.

Goncharov and Veenman (2014) discuss which deflation method is convenient for markets-based accounting research and they reveal that deflation methods other than the market capitalization of the previous period distort not only the significance level but also the sign of dividend by adding dividends to the Price Model. The regression coefficient of dividends is significantly negative for market value deflation while it is significantly positive for other deflation methods. Moreover, their outcomes indicate that the regression coefficient of market value-deflated BVE is around 1/6 of regression coefficients of both undeflated BVE and per share-deflated BVE. This difference is reported higher for regression coefficients of asset-deflated and equity-deflated BVE. Very similar outcomes are provided for regression coefficients of earnings. As Goncharov and Veenman's (2014) findings are very concrete, we suggest using the previous period's market capitalization figure as the deflator for studies employing the Price Model in order to deal with the scale effect. In addition to the lagged market capitalization figure, other deflators may be employed as further robustness checks.

FUTURE RESEARCH DIRECTIONS

Our literature review reveals that the impact of IFRS adoption on the VR of financial reporting (or accounting items) has become a popular topic especially after 2015. Beginning from 2015, the clearly increasing trend in the number of published articles indicates the promising potential of this topic. Hence, future research may examine this topic in detail. Moreover, as the literature is dominated by studies comparing the VR under IFRS and the VR under other standards, there may be more room for future research on the impact of issue of new standards and replacement of (or amendment) on existing standards on the VR of accounting information as well as the VR under IFRS. Our review further shows that two-thirds of the literature presents outcomes belonging to the sample of a single country. Thus, future research may employ multi-country data in order to underpin the generalizability of their outcomes. Additionally, as the literature documents less evidence for emerging markets, future research may present outcomes belonging to emerging markets. As shown by our review, the literature overwhelmingly uses annual data. Since the volatility of quarterly earnings is more than the volatility of annual earnings (Bandyopadhyay, Chen, & Wolfe, 2017), future research may examine this topic by analyzing quarterly data in order provide more precise and complete outcomes. Lastly, in order to maintain the quality of analyzed papers, this literature review is restricted by articles available on the Web of Science Database. Future research may also provide a comprehensive literature review on this topic by gathering articles from other databases.

CONCLUSION

The decision usefulness perspective of the objective of the financial reporting leads the inference of the desirability of the VR (Kvaal, 2018). Hence, as highlighted by Manganaris et al. (2017), providing value relevant information to financial statement users is one of the major objectives of IFRS-based reporting. In order to reveal the impact of IFRS-based reporting from the perspective of the VR, this literature review analyses 72 quantitative articles which are available on the Web of Science Database and are obtained by setting several keyword limitations. To the best of our knowledge, there is no study providing a comprehensive picture of the existing literature, and this study aims to contribute to the literature by filling this gap.

This review not only revisits the classification of Holthausen and Watts (2001) but also groups the literature under i) studies comparing IFRS with other standards, ii) studies examining the issue of new standards and replacement of (or amendment on) existing standards, and iii) studies providing the VR under IFRS. Our classification of Holthausen and Watts (2001) show that studies grouped under only INAS (29 papers) and studies grouped under both RAS and INAS (23 papers) dominates the literature. Moreover, the number of studies grouped at the intersection of RAS, INAS, and MICS is considerably high. Moreover, according to our classification, 52 papers belong to the first category and dominate our review. Our second and third categories respectively include 9 and 11 papers.

This review also examines analyze techniques of the archival research by considering Models employed, dependent variable measurement dates, and deflator types. This review reveals that i) the Price Model is dominantly used while the use of the Price Model together with the Return Model is a prevalent approach, ii) the literature extensively measures the dependent variable 3 months after the fiscal year-end while measuring the dependent variable at different dates is used as a robustness check, and iii) as a remedy for the scale effect, the number of shares outstanding is overwhelmingly employed as a deflator while there are certain studies which employ multiple deflators as a robustness check.

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ENDNOTES

1 Throughout the paper, the terms "financial information" and "accounting information" are used interchangeably.

2 We do not provide additional discussion on this issue as it is beyond the scope of our study. For an excellent illustration, we refer the reader to La Porta et al. (1998).

3 IFRS is a set of accounting standards which are created by considering common law notions (Ball, 2016). As IAS is the earliest version of IFRS, IAS is also heavily influenced by common law notions.

4 Regulation No 1606/2002: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2002:243:0001:0004:en:PDF

5 IFRS adoption also exerts corporate governance, and accounting standards are one of the corporate governance proxies used by the literature (Goergen & Renneboog, 2008). For instance, Cormier (2013) shows that there is a substitution effect between corporate governance and IFRS adoption. Because corporate governance concept is beyond the scope of our study, we do not discuss it further.

6 Note that De George et al.'s (2016) focus point is not analyzing the literature from the perspective of the VR.

7 For all Models, the dependent variable should be calculated by employing dividend-adjusted price data (if available) in order to take the impact of the dividend yield in total into account and employ precise variables.

8 As the methodology and the logic behind abnormal returns are beyond the scope of our study, we refer the reader to Kothari and Warner (2006) for an excellent illustration.

9 Lev (1989) discusses several possible reasons of such low R^2 figures.

10 Employing the event study methodology requires exact announcement dates which may be hard to determine for older periods. For instance, Bartov et al. (2005) state that they cannot employ the event study methodology for that reason.

11 Devalle et al. (2010) document regression outcomes by employing the Price Model and the Return Model. For the sake of brevity, we discuss their outcomes reported by employing the Price Model.

12 Note that these outcomes are descriptive as authors do not provide a statistical comparison.

13 For the Return Model, they also report a significant increase in the VR of earnings after IFRS adoption.

[14] This outcome belongs to the regression without fixed-effects. Choi et al. (2013) also employ the fixed-effects regression, and they document that the VR of reported earnings increases while the VR of forecasted earnings is not significantly affected in the post-adoption period.

[15] Shah et al. (2013) also document evidence for different sample sizes and industries. However, these outcomes are provided without considering pre- and post-adoption periods. Hence, those outcomes are not discussed here.

[16] Christensen et al. (2015) analyse characteristics of voluntary and mandatory adopters; however, we do not provide further discussion as it is beyond the scope of our study.

[17] Note that these outcomes are descriptive as authors do not provide a statistical comparison.

[18] Hilliard and Neidermeyer (2018) also provide detailed outcomes of assets & liabilities and retained earnings reconciliation items obtained by different standards. For the sake of brevity, we do not discuss those outcomes.

[19] This outcome is deduced from Table 6 of Tahat et al. (2016).

[20] Note that all outcomes are descriptive as authors do not provide a statistical comparison.

[21] Power et al. (2017) provide outcomes for different market segments. In this section, we discuss their outcomes belonging to the whole sample for the sake of brevity.

[22] This study may also be considered a part of our second classification as it further reveals the VR of different fair value levels before and after IFRS 13 implementation. However, as the main motivation of this paper is to present the association between board characteristics and the VR of different fair value levels, we prefer classifying this paper under our third category.

[23] These outcomes belong to their Table 7.

[24] Undeflated specifications are also considered a form of deflation because certain studies (among others, see Barth, Landsman, Young, & Zhuang, 2014; Bepari & Mollik, 2017) in our sample consider undeflated specifications a robustness check.

[25] Abdullah et al.'s (2015) paper is not dropped from our final sample as they state that they perform also the VR analysis in their robustness section. However, they do not provide details and a regression outcome belonging to their VR analysis. We deduce that they employed the Price Model; however, their paper is not included for the deflator analysis as they do not provide details. Hence, the number of studies employing the Price Model is reported as 65 in this part of our study.

Chapter 18
Strategic Management of Finance and Role of Documentary Credit

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ABSTRACT

Financing is one of the most important aspects of trade. International trade, although seemingly not different from local trade, differs from local trade because shipment/delivery takes longer, and different documentation and legislation is due to different countries involved in international trade. Financing also differs compared to local trade, and there are some specific methods used in international trade like documentary credit, although there is no limitation for documentary credits to be used in local trade. Documentary credit is a well-known method generally used in international trade. This chapter aims to define the role of documentary credits in international trade finance. In this chapter along with other finance methods, documentary credits, types, process will be explained. It is aimed to help importers and exporters how to mitigate the potential risks by using documentary credit. Furthermore, which type of documentary credit is to be used depending on the situation is clarified.

INTRODUCTION

The most important issue in international trade financing is that how the payment or financing will be made and from which sources (Dinçer, Yüksel & Şenel, 2019). As the international trade covers too many parties involved like importer, exporter, importer's bank, exporter's bank etc, it is important for all parties to contribute in solving the finance issue (Yüksel, 2017). In other words how and when the exporter will be paid is main issue. As financing is the payment of the value of the goods exported, the main finance method can be defined as the payment methods, namely payment of the value of the goods by the importer (Dinçer, Hacıoğlu & Yüksel, 2018a,b).

Payment methods can be defined as advance payment, payment against goods/open account, where there are no intermediary institutions settled between importer and exporter (Dinçer et al., 2019). How-

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ever, there are other methods like letter of guarantees and documentary credits, where banks have to be involved in the transaction between importer and exporter (Foley, Johnson & Lane, 2010). Although the payment and delivery in a purchasing transaction seem the same in local trade and international trade, international trade transactions are different from local trade transactions because transportation takes longer and different rules apply in cross border transactions in international trade (Antras & Foley, 2015). There are also finance methods from external sources like factoring, forfaiting, export credit agencies, IFC, Worldbank etc.

INTERNATIONAL TRADE FINANCE

International Trade Payment Methods

Advance Payment

If the exporter requests payment before the goods are shipped, the name is self expanatory, it is called advance payment. The transaction starts with exporter's advance payment of the goods to the importer (Li et al., 2018). Importer ships the goods after receiving the value of the goods from importer (Dinçer, Yüksel, Adalı and Aydın, 2019). In this payment exporter is financed by the importer, by the advance payment. It is an advantageous payment and finance method for the exporter. In this form of payment, the importer pays the price of the goods in advance before loading more exporter goods. In the form of this payment, contrary to the goods, the exporter makes a loan to the exporter (Tunay et al., 2019). Before accepting such a form of payment, the buyer must fully trust the seller and believe that he will fulfill his commitment (Giovannucci, 2001).

Open Account/Payment Against Goods

The importer pays the goods after clearing the goods. In this system, the importer is advantageous because it will withdraw the goods from the customs without any payment and will have the opportunity to control. The exporter is faced with the risk that the importer will not pay the cost of the goods. In a way it is the opposite of advance payment methot as in open account method, the exporter ships the goods before the payment where importer receives the goods before making payment and pays after receiving the goods (Karadag, 2015).

Consignment

Consignment is one step further than open account. It can be defined as international version of open account (Export.gov, 2018). In this method, payment is effected only after the goods are sold by the importer. It is usually used between parties which know each other well and trust each other, i.e. distributer of the production company. It is also usually used for very expensive or heavy machinery and equipment where the importer has to display it before selling like new cars etc. The payment is effected after selling the goods, by deducting their profit, commission and charges are transferred to the exporter as per the sales contract. If the importer can not sell it can return it back to exporter depending on the contract (Khezr & MacKenzie, 2018). Although it is risky for the exporter to send the goods on consignment it has some advantages as well. It helps the exporter to compete with others with faster delivery and availability when the product is already displayed (like auto shop rooms) without storing and management costs in the importer's country. The main risk is to have a credibly, trustworthy partner/distributer as importer is in full posses of the product. The importing country risk is also another important aspect of this method because of the country risk covering commercial and politic risks. Insurance for non-payment of the goods already sent to importer must cover such risks. In this payment method importer is fully financed till the imported product is sold. Payment is effected after the sale of the imported product.

Counter Trade (Barter)

In generally it is defined as barter. It is usually used by countries who do not have sufficient foreign currency however has goods to sell. This method is used by countries who have international trade finance problems (McVey, 1980).

Bank Acceptance / Aval Credits

Acceptance payments are where the time draft submitted by the seller is accepted by the importer's bank directly. Whereelse aval credits are avalised by the bank in other words guaranteed by the importer's bank after the importer accepts the time draft presented by the exporter (Dinçer, Yüksel & Çetiner, 2019). The bank acceptance / aval loans are a type of loan that allows the importer to accept the draft issued by the seller and receive the goods without payment (Oktar &Yüksel, 2016). Payment is made at the maturity date of the draft. The bank acceptance/aval credits enable the delivery of the goods to the importer without making payment. In addition, when the draft is accepted or avalised by a bank, i.e. importer's bank, exporter has the security of the payment guarantee of a bank (Dinçer, Hacıoğlu & Yüksel, 2017). Although the maturity date is after delivery of the goods, at a later date, exporter knows that the bank guarantees, on behalf of the importer that the draft will be paid at the maturity date of the draft. Thus, in bank acceptance/avalised credits, the bank is a kind of guarantor. Exporters can discount such drafts at any other bank as it already accepted or avalised by a bank which will enable him to recieve the value of goods before the maturity date of the draft. In case of avaliable by the importer's bank, the issuers can discount the bank accepted draft at any bank and receive the value of the draft earlier than the draft maturity date (Yüksel, Dinçer & Emir, 2017). Payments are guaranteed by the bank, ensuring flexibility and confidence in company's international trade transactions. By the discount of the bank accepted or bank avalised draft, both the exporter and the importer are financed, exporter is financed by discounted draft before the maturity of the draft, importer is financed by effecting payment after receiving the goods till the maturity date of the draft (Sakarya, 2009).

Documentary Collection (Payment Against Documents)

In documentary collection the process is after shipping goods, the exporter sends the shipping documents to importer's bank directly or via his bank (Tunay & Yüksel, 2017). He instructs the bank to deliver the documents against payment. Upon receipt of shipping documents, the exporter's bank delivers the documents against payment. It is called documentary collection or payment against documents (Yüksel, 2017a,b). If there is a draft enclosed with the other documents, the bank does not deliver the shipping documents before the importer accepts the draft. If the draft is accepted by only the importer, it is called trade acceptance (Emir et al., 2016). If it is accepted or avalised by the importer's bank, it is called acceptance/aval credit (International Chamber of Commerce, 1995).

International Finance Loans

They are are financed by international institutions like World Bank, International Finance Corporation (IFC), European Investment Bank etc finance international trade transactions as well. Investments are financed by IFC (International Finance Corporation) and the World Bank. International Finance Corporation (IFC) is a subsidiary of the World Bank which provides loans to the private sector. Domestic banks generally provide consultancy services for the analysis of whether or not the companies have sufficient qualifications. Application is transmitted via local bank with the necessary application documents. The local banks act as intermediaries between the debtor and the international financing institutions (Dinçer, Yüksel, Pınarbaşı and Çetiner, 2019). International loans examples are European Investment Bank loans, Council of Europe Development Bank loans, World Bank loans, Islamic Development Bank loans, the OPIC (Overseas Private Investment Corporation) and other loans obtained from different sources like export credit agency (ECA) loans, known as country credits. Details are given below with some examples (International Trade Finance, 2018; Yüksel & Canöz, 2017).

Export Credit Agency (ECA) Loans

In order to support exports, some countries provide financing to the companies that will import from their countries through the relevant Export Credit Agencies (ECA) and insure the risk of the importing country. ECA Loans provides medium and long-term resources for companies that want to import investment goods (Abgaryan and Rosenthal, 2017). Export Credit Agencies (ECAs) are organizations established to support exporters in their countries. The main objective of ECA Loans is to protect the exporters of the country concerned against commercial, political, foreign exchange and other risks and to encourage export (Yüksel et al., 2018).

For this purpose, it provides medium- and long-term loans to the buyers that exporters sell. In doing so, relevant insurance companies can insure approximately 95% of the transactions and in some cases 100%. In such loans, financing can be provided for maturities between 2 and 10 years depending on the nature of the goods to be imported. According to OECD rules; maximum 85% of the commercial contract amount is financed. It is essential that 15% of the commercial contract amount is paid in advance to the exporter company from the sources of the importer company. In general, according to OECD rules, maximum 85% of the commercial contract amount is financed. 15% of the total amount of the commercial contract is paid as an advance to the exporter company from the sources of the importer company. Trade may be carried out by the documentary credit or by the counterguarantee.

The advantages of country credits, export credit agency loans are as follows. The first of all it increases exporter's chances of competing against other country exporters. It provides the guarantee of collecting the goods and collects immediately. Export Credit Agencies offer new markets. They support their exporters to increase competitiveness against other countries' exporters. ECA Loans actually finance the exporter of their own exporter company by paying them in advance and by disbursing long term loan in favour of the importer via importer's bank in importer's country (Dinçer & Yüksel, 2018).

Country loans are accrued with each other in equal consecutive months and expenses and commissions related to the same period. The commencement date starts from the date of installation or the date of installation of the equipment. For example, the 5-year Country Loan is repaid in 10 installments at 6-month intervals from installation to installation. The advantage for the importer is that 'Export Credit Agency' provides medium / long-term financing support for importers and provide them low-cost borrowing. They faciliate cash flow for importers with long term low cost loans. The ECA Credits as per countries are as follows (Organisation for Economic Co-operation and Development, 2018; Zengin et al., 2018). The list of the Export Credit Agencies and the most common used credit examples are given as shown in Table 1.

Table 1. List of export credit agency

Country	Name of Export Credit Agency
Australia	Export Finance and Insurance Corporation (EFIC)
Austria	Oesterreichische Kontrollbank AG (OeKB)
Belgium	Credendo
Canada	Export Development Canada (EDC)
Czech Republic	Export Guarantee and Insurance Corporation (EGAP)/Czech Export Bank
Denmark	Eksport Kredit Fonden (EKF)
Estonia	KredEx
Finland	Finnvera
France	Bpifrance Assurance Export
Germany	Euler Hermes Aktiengesellschaft
Greece	Export Credit Insurance Organisation (ECIO)
Hungary	Hungarian Export Credit Insurance Ltd and Hungarian Export-Import Bank plc/(EXIM)
Israel	The Israel Export Insurance Corp. Ltd. (ASHRA)
Italy	Servizi Assicurativi del Commercio Estero (SACE)
Japan	Nippon Export and Investment Insurance (NEXI) Japan Bank for International Cooperation (JBIC)
Korea	Korea Trade Insurance Corporation (K-SURE)/ The Export Import Bank of Korea-(KEXIM)
Latvia	Latvian Guarantee Agency (LVA)
Luxembourg	Office du Ducroire (ODL)
Mexico	Banco National de Comercio Exterior
Netherlands	Atradius
New Zealand	Export Credit Office (ECO)/Norway Export Credit Norway/ Garantiinstituttet for eksportkreditt (GIEK)
Poland	Korporacja Ubezpieczén Kredytów Eksportowych (KUKE)
Portugal	Companhia de Seguro de Créditos
Slovak Republic	Export-Import Bank of the Slovak Republic (Eximbanka SR)
Slovenia	Slovenska izvozna in razvojna banka, d.d. (SID)
Spain	Compañía Española de Seguros de Crédito a la Exportación (CESCE)
Sweden	Exportkreditnämnden (EKN)/AB Svensk Exportkredit (SEK)
Switzerland	Swiss Export Risk Insurance (SERV)
Turkey	Export Credit Bank of Turkey (Türk Eximbank)
United Kingdom	UK Export Finance
United States	Export-Import Bank of the United States (Ex-Im Bank)

Hermes Credits

A credit to be financed by the German Hermes Insurance Agency for the financing of imports of investment goods from Germany, which corresponds to 85% of the total import amount (Euler Hermes Deutschland AG, 2018). These import credits are the credits that cannot be used by any business. The enterprises that will use the credit must have the financial power to guarantee financial payment. Hermes loans are international loans that can be used in the importation of German investment goods in the industrial or agricultural sector to our country. The main purpose of the loan is the marketing of German goods to third countries. The Hermes Credit mediated by importer's bank is repaid with the equal installments covering the interest and the principal every six months. The remaining 15% of the payment amount is paid by the importer in advance. The repayment of the loan is made in six months with fixed installments. For the importer to benefit from the Hermes loan; importer has to give a payment guarantee to the reporter who mediates the Hermes loan in his name. In addition, the Hermes loan and the issuer of Hermes Kreditversicherungs AG have to be approved for the Hermes loan.

US Exim Credit

In order to increase exports in the US, this type of loan is financed by US Exim (Export-Import Bank of the United States, 2018), to finance investment goods imported from the US. It is disbursed against the importer bank's collateral. 15% of the contract amount is paid by the importer before the shipment date and the remaining 85% is credited (Emery, 2018).

GSM Loans

GSM loans is under the guarantee of Commodity Credit Corporation (CCC), a subsidiary of the United States Department of Agriculture, in order to increase US exports of agricultural and animal products. This credit has GSM 102 and GSM 103 types (United States Department of Agriculture Foreign Agricultural Service, 2018). In GSM loans, the Commodity Credit Corporation (CCC) insures the commercial and country risk, and the loan is provided by the intermediary bank in the United States. When the loan is used for the importer company, a sight documentary creit is issued and a loan is provided to the domestic bank by the intermediary bank in the US. In GSM transactions, the total amount of import (usually FOB value, CIF value for some goods types) is fully credited and there is no obligation of partial advance payment like in other ECA credits. The principal amount, which is already paid to the American exporter, with the loan disbursed to the local importer's bank is repaid annually or (optionally) at the end of the six-month period. In GSM programs where a wide range of goods can be credited, the maturity varies between 3-10 years depending on the practices of the banks. The due date is calculated from the date of the bill of lading, and the calculation of interest is from the date of receipt.

Products which can be with GSM Credit are as follows: Wood, wood products. Wheat, wheat flour, semolina, rice, paddy, corn, peanut, soybeans, forage seeds. Animal feed products, protein foods, breeder farm animals, breeder poultry, fish, vegetable oils, seeds, tallow, oil, animal fat, dairy products, meats, fattening cattle, cotton, cotton yarn, cotton products, crop seeds, ethyl alcohol, breeding farm animals (cattle, sheep, goat, horse, serm and embryo), fattening cattle, breeder poultry and fiber.

French Development Agency Loan

The characteristics of the country loan of the French Development Bank, which was put into use by local banks can be used by companies with a net sales value of not more than EUR 25,000,000 and those with more than 250 employees (The Agence Française de Développement, 2018). Credit can be used alone as investment / business or in the form of both investment and business loan. In investment loans, a maximum of 75% of the investment amount will be financed by international resources and a minimum of 25% by equity. In case of use of lending loans alone, self-contribution is not required. The lower limit of the loan is EUR 100,000 and the upper limit is EUR 2,000,000. A credit may be requested upon being within the upper limit.

Operating loans have a one-year grace period, a minimum of 3 years, a maximum of 4 years maturity, and a 2-year grace period for Investment Loans, a minimum of 5 years and a maximum of 7 years maturity. Sectors to benefit from French Development Bank; Agriculture-based industry, manufacturing, tourism, education, health, environmental protection, renewable energy (hydroelectric, geothermal, wind, energy, bioenergy, etc.), information and communication technologies and companies operating in sectors that provide direct services to these sectors will be able to use credit (Yüksel, Dinçer & Meral, 2019; Dinçer, Yüksel and Martinez, 2019). All kinds of fixed assets (building, machinery-equipment, facility, vehicles etc.) and other expenses directly related to the project cost, excluding the land (which can be considered as the contribution of the shareholders' equity), will be able to cover the expenses that generate the need for working capital.

In the secondary disbursements to be made from the principal repayments in the maturity of the Bank, the companies operating in the mentioned provinces will also be able to benefit from the loan. This loan, which can be used in agriculture-based industry sector, is a kind of loan which enables the products of France to enter our country under favorable conditions. When looking at the conditions of the Loan, it is seen that the Charter for the use in investments other than the developed provinces is also present. This is seen as a favorable condition when viewed from the first, the country's economic impact of the country that the loan, the user is distributed all over the country, such as covering an implicit reason (Yüksel, 2016).

European Investment Bank (EIB) Loans

The European Investment Bank is the financing organization of the European Union (European Investment Bank, 2018). The capital of the EIB, which is a non-profit organization within the framework of the Treaty of Rome, is met by the member states and the finance ministers of the member states form the European Investment Bank Board of Directors. It borrows most of the European Investment Bank sources from the capital markets. The EIB's financial strength has increased over time; The capital of 1 billion Euro in 1958 reached 100 billion Euro in 1999. In 2000, the Bank provided more than 36 billion Euros. With its financial structure, the European Investment Bank is one of the world's leading international financial institutions.

The European Investment Bank in central Luxembourg provides loans primarily to finance investment projects that will contribute to the balanced growth of the Community. The European Investment Bank also supports the financing of investment projects in the EU countries as well as in the Mediterranean countries and the Lomé Convention countries. The European Investment Bank is the financial institution of the EU, which provides long-term loans (Dinçer et al., 2019). The European Investment Bank provides direct financing for projects above a certain amount, and indirect (financial institutions, banks) for consistent projects under it. The European Investment Bank, established in 1958 with the Treaty of Rome and the Central Bank of Luxembourg, is the financing organization of the European Union.

The European Investment Bank is a non-profit organization that provides financing for permanent projects. The Bank is a member of the European Union member states and since its establishment in 1958 it has provided more than 540 billion Euros to support the projects in the Union and its partner countries. To achieve this objective primarily emphasized to intensify the disclosed following sectors: Supporting the business sector: It is aimed to encourage foreign private companies as well as the national private sector by expanding the range of financial instruments provided by the Bank and providing credit in local currency. In particular, the priority given to foreign direct investments targeting rural plans will continue in this context, as well as the projects that promote development in less developed regions, as well as initiatives to promote cross-border trade or regional integration.

European Investment Bank supports the infrastructure sector by expanding its credit support to municipalities, urban transportation sector, solid waste and heating services and water supply enterprises. The European Investment Bank will also support maritime and air ports and road and rail investments of the public sector. The Bank also supports the energy sector by accompanying public and private sector companies to invest in energy generation, transportation and distribution areas, and energy efficiency. EIB, in cooperation with local banks and financial institutions, provides the availability and variety of financial resources and aims to improve the investment environment in the country by offering financing opportunities in the most appropriate conditions.

The Bank also facilitates the implementation of cooperation policies towards non-EU countries. In this context, it operates in Africa, Caribbean and Pacific countries, the Mediterranean basin, Central and Eastern Europe, Latin America and Asia. The majority of the projects financed by the European Investment Bank are projects for the development of economically backward regions within the EU. In this respect, European Investment Bank loans support the other financial instruments of the Community, in particular the Structural Funds. The European Investment Bank (EIB) provides loans to investment projects that will contribute to the balanced growth of the European Community. The European Investment Bank loans, which can be used by both public and private sector projects, are mainly; Agriculture, transportation, communication, environment, energy, industry and services are given to the sector. The projects to be supported are preferred to be cross-border and the credit ratio does not generally exceed 50% of the total investment cost of the project.

Prefinancing

These are prefinancing loans that provide cheap funds for financing exporters. As prefinancing loans are provided from international markets, internet rates are usually lower than domestic loans. They are specifically used in financing export or for export related goods production and delivery. These loans are disbursed before the shipment. Sometimes local banks guarantees repayment to the international lender.

Prefinancing credits are loans that are available to banks by banks or private finance institutions themselves, and in this case, the bank makes cash loans. Therefore, the bank acts as an intermediary for the loans obtained from the enterprise abroad and also guarantees the credit to the company abroad in case of need. In case of guarantee, this transaction is a non-cash loan for the bank.

Maturity and interest are determined at the time of disbursement and will not change until the end of maturity. At the end of the maturity of the principal and interest collection is made.

Postfinancing

Postfinancing credits are the loans obtained by the companies from the seller abroad or from international markets and used by banks to be used in financing of imports. The loan aims importer's financing. The post financed documentary credit is usually the international credit obtained by the buyer/importer company from the bank or other correspondent banks. The guarantor of the post financed documentary credit is the importer's bank, the issuing bank of the documentary credit. Usually the exporter is paid at sight as in sight payment documentary credit type. With the postfinancing credits, exporter is paid at sight and importer is financed with the postfinance loan. It has an increasing effect on imports by financing the importer and an increasing affect on exporter by financing, paying at sight under post financed documentary credit.

Export Credit Insurance

Export credit insurance programs, usually issued by eximbanks of countries like Türk Eximbank. They provide insurance for commercial risk like bankruptcy of the buyer and political risk like war risks etc. as well. Export credit insurance encourage exporters to export politically risky countries as well by covering political risks as well.

Letters of Guarantee

Letter of guarantees which are paid in case if the commitment is not fulfilled on the contrary of documentary credits which are paid if the commitment is fullfilled i.e. when the exporter is in complaince with the terms and conditions of documentary credit. Letter of guarantee used in international trade are issued by a bank when one of the parties are abroad like documentary credits. They usually guarantee payment if the importer does not fulfill his obligation for payment at maturity, if the exporter does not deliver goods or if one of the parties do not fulfill in accordance with the conditions of the contract etc. The amount of the guarantee is to be paid by the bank at the first request. It is commonly in deferred payments or open account/payment against goods or advance payment methods.

Forward / Forward Rate

The exchange rate of the foreign exchange purchase / sale transaction at a later date is determined by agreement. The forward transaction is a binding agreement for the related term and the cash flow takes place in the term. Forward transactions are hedging instruments. hedging; It is a method of protection from price movements in the markets. It is one of the ideal solutions for companies that do not want to take the currency risk of the future foreign exchange flow.

Forfaiting

As a financing technique, forfaiting can be defined as "discounting the receivables from future sales of goods and services without any recourse (unconditional and irrevocable)". It must be noted that forfaiting is based on "selling the receivables" without any recourse. Exporter sells his receivables to a forfaiting institution by discounting his future receivable rights, arising from a time draft (with a maturity date of a future date) or a bond (promissory note) or a acceptance documentary credit (letter of credit) and receives the export value in advance (Moran, 1999).

Export Factoring

It is the operation of the export receivables to be discounted and paid before the due date for the approved transactions. This method is a financing method undertaken by the factoring company on behalf of the exporter company to collect the collection risk of the term receivables. In this method, the exporter assigns the receivables arising from the sales of goods and services to the factoring company in writing. In this system, up to a certain percentage of the receivables (70% - 90%) is paid immediately to the firm in cash, and the balance is completed when the bill is paid by the debtor. With export factoring, the risk of the buyer's-collection of receivables-financing risk is taken over by the factoring company.

Advantages of factoring can be summarized as follows: There is no obligation to determine the credit worthiness of the buyer, no collection and follow-up problem. The exporter can benefit from his discount by making a cash payment in the purchase of its own raw materials through the conversion of the forward sales; reduce production costs. Provides the opportunity to open accounts of companies that sell their products, and provides them with a competitive advantage in external markets. Provides exporter the possibility to enter new markets without risk through guarantee service. Information with the service of the commercial understanding of the buyer to obtain detailed information about the buyer, the credibility of a specialist by the establishment allows.

DOCUMENTARY CREDIT

International trade payments are usually advantageous for one of the parties and disadvantageous to the other party. Like in advance payment method, where exporter has advantage of receiving money before shipping goods, whereelse in 'open account' method, importer has more advantage by paying after receiving goods. Sellers want to receive money as soon as possible preferably in advance and buyers want to receive goods as soon as possible preferably before payment. However this is not really possible, unless there is trust between importer and exporter.

If there is no trust between importer and exporter, documentary credit is a common preferred payment method. documentary credit is desirable in high value and/or high-risk transactions (Bergami, 2019). documentary credit is a safe and secure payment method for both parties in international trade. A documentary credit can be simply defined as a "conditional payment order" issued by a bank. In other words, a conditional payment order issued by importer's bank in favour of exporter with two conditions as follows:

1. To submit the required documents in compliance with the documentary credit. Documentary compliance is very important as per UCP600, to enable delays in exporter's receiving money (Low, 2010).
2. To meet documentary credit terms like latest shipment date, latest presentation date etc.

If these two conditions of the conditional payment order (i.e. documentary credit) are met, exporter/beneficiary is guaranteed to be paid by the bank-the issuer of documentary credit. In international trade finance, transaction is more secure for the exporter because the importer's bank trustworthiness is replaced onbehalf of the importer (Antras & Foley, 2018). Actually, documentary credit are used as a security method in international trade finance for both parties. The documentary risk has to be takin into consideration as the payment depends on presentation of documentary credit compliance documents (Meral, 2018).

The documentary documentary is a payment method. It is a payment commitment to which a bank is liable to fulfill the specific conditions prescribed by the importer's customer in the event that such conditions are met. In the documentary credit transaction, the importer's bank acts as an intermediary between the importer and the exporter and gives the assurance that the payment will be made to the exporter on behalf of the importer on condition that it fulfills terms and conditions of the documentary credit. In other words, documentary credit is the standard payment method for international transactions. Documentary credit, which is one of the forms of payment in international trade, undertakes that the importer's bank will make the payment. If the documents which are in complaince with the specified terms in the documentary credit. Therefore, the documentary credit is the type of payment that provides the highest level of assurance to both parties.

Documentary credit may be classified according to their types or characteristics as follows; Payments types of documentary credits can be summarized as sight payment documentary credits, deferred payment documentary credits, mixed payment or acceptance payment documentary credits. Documentary credits can be issued as confirmed or unconfirmed documentary credits, if the payment commitment/undertaking is only by issuing bank, then documentary credit is unconfirmed however if a second bank, usually the exporter bank is also committed to pay against presentation of compliance documents as per the documentary credit, then the documentary credit is a confirmed documentary credit, there is a second bank taking the risk of the issuing bank and issuing bank's country risk as well. Middleman or intermediaries in international trade transactions are common. If there is an intermediary or a middleman in documentary credits then transferable documentary credit or back-to-back documentary credit are used for financing.

Advantages of Documentary Credit

In international trade, the parties are in a mutual distrust and risk because they do not recognize each other very well and have different exchange regimes in different countries. The seller intends to collect the price of the goods he sells, and the buyer intends to obtain the goods determined in the contract on time. If the seller does not comply with the terms of the letter of credit, the bank does not pay in any way. This provides confidence for the importer/buyer. For these reasons, the letter of credit is the type of payment that provides the highest level of assurance to both parties.

Advantages of Documentary Credit for Importer/Buyer

The Bank does not pay to the seller who does not fulfill the letter of credit. This is a safer method for the buyer. It ensures that the goods are loaded according to the terms of the contract and at maturity. The buyer has the assurance that no payment can be made to the seller who has not fulfilled the terms and conditions of the letter of credit. The banks will examine whether the terms and conditions of letter of credit have been fulfilled on behalf of the buyer. The importer can decide the latest shipment date, which allows him to obtain the goods on time (especially if he does not know the exporter well). It is possible for the importer to find finances from various sources like if the seller agrees for a deferred payment documentary credit, for example after 60 days after shipment date, the importer will probably obtain a loan at a lower cost than the debt that he will find in another 60 days from another source.

Advantages of Documentary Credit for Exporter/Seller

Documentary credit provides easier financing to the seller. In case the goods are shipped and the documents are prepared in accordance with the terms of the letter of credit and international trade rules, the payment is a definite commitment of the bank that opens the letter of credit. Seller has the guarantee of payment of a bank (in addition to the issuing bank, sometimes a second bank, i.e. in confirmed documentary credit, the confirming bank's guarantee is an assurance of a second bank). The political risk in the importer's country is minimized due to bank security. Exporter can receive export credits. Exporter can increase sales by going to new markets. Documentary credit is provided to the importer by the importer to make payment when the goods arrive at customs instead of paying in advance. Documentary credit is actually a conditional bank guarantee issued by a bank. The exporter/seller is assured that upon presentation of the stipulated documents indicating that the goods have been loaded or the service has been fulfilled, will be paid if the documents are in compliance with the documentary credit and all terms and conditions are met by the exporter. Exporter knows that it is the obligation of the issuing bank to make payment to the seller of goods or services.

Transferable Documentary Credit

Documentary Credit is a conditional payment order issued by importer's bank in favour of exporter via exporter's bank (Alabayır & Muzır, 2016). Upon receipt of documentary credit, exporter ships goods and claims payment from issuing bank upon presentation of complaince documents required by the documentary credit in condition meeting other conditions required in documentary credit, like latest presentation date etc.

If beneficiary is not the manufacturer, in other words if beneficiary is a middleman, an intermediary trader, who does not manufacture goods but buys from other manufacturers. He may not be able to supply the goods with his own financial sources. Therefore he might require a transferable documentary credit which will enable him to transfer a certain amount of documentary credit to the manufacturer. In this case middleman/intermediary trader is the first beneficiary of the transferable documentary credit and the manufacturer is the second beneficiary of the transferable documentary credit. The transferred documentary credit provides the guarantee to the manufacturer, i.e. the conditional payment order, of which if he presents the complaint documents and meets documentary credit other conditions, issuing bank will pay the manufacturer.

The transferred documentary credit provides a bank guarantee for payment of the goods shipped on condition that the goods are in compliance and other conditions are met by the manufacturer/second beneficiary. In other words, transferable documentary credits are used where there is an intermediary/middleman between i.e. exporter himself is not the manufacturer, and there is an intermediary/middleman between manufacturer and importer. The intermediary/middleman works with a low profit margin or receiving commission over international trade transaction. The transferable documentary credit enables the first beneficiary i.e. the middleman to transfer to usually the manufacturer/s, i.e. second beneficiary/beneficiaries.

A transferable documentary credit is subject to UCP600 (International Chamber of Commerce, 2007) article 38 as per the sub article 38g only the following changes can be made while transferring to the second beneficiary/supplier as per the instruction of first beneficiary as follows: International Chamber of Commerce's documentary credit rule with article number 38-g for transferable documentary credits only allow that the amount of the credit can be amended. The price of the goods can be changed. The expiry date can be different from the original documentary credit issued. The period of presentation can be amended as well. Furthermore, the latest date of shipment can be given as an earlier date. The shipping period can be curtailed. To enable the insurance to cover the origin documentary credit amount which is higher than the transferred documentary credit, must be increased as well. The second beneficiary, in other words the manufacturer, of which the goods are provided usually offer a cheaper price, therefore the intermediary might not prefer the applicant to know the details of the manufacturer. Likewise, the intermediary might not prefer the manufacturer to see the details of the applicant, who is ready to pay a higher price for the goods. Therefore the first beneficiary requests the applicant's name to be changed with his name wherever necessary. All other terms and conditions must be remain unchanged, including the confirmation clause of the original documentary credit (International Chamber of Commerce, 2013).

Transferable Documentary Credit Process

Transferable documentary credit process is as follows:

1. Importer and exporter agree upon payment term as 'transferable documentary credit' in sales contract.
2. Importer requests his bank to issue a 'transferable documentary credit' (conditional payment order) in favour of seller/middleman/intermediary trader namely 'first beneficiary' of the transferable documentary credit. Buyer's bank sends 'transferable documentary credit' to first beneficiary's bank via swift.
3. Sellers/first beneficiary's bank, if accepts to be the transferring bank, advises the 'transferable documentary credit' to the 'first beneficiary'.
4. 'First beneficiary' requests his bank (transferring bank) to transfer documentary credit to another supplier/manufacturer namely 'second beneficiary', as transferable documentary credit will enable him to have it transferred to another supplier/manufacturer/second beneficiary. (If he supplies goods from different sources then if the documentary credit allows partial shipment, then the first beneficiary can request partial transfers to more than one supplier namely other 'second beneficiarias').
5. As per the first beneficiary's request, transferring bank, first beneficiary's bank transfers documentary credit to a supplier/manufacturer/'second beneficiary's bank via swift.
6. Second beneficiary's bank advises the transferred documentary credit to the second beneficiary.

7. The second beneficiary ships the goods as per the conditions of the transferred documentary credit (like not exceeding latest shipment date condition etc.).
8. The second beneficiary presents the required documents including the second beneficiary's invoice and if applicable draft in compliance with the transferred documentary credit to his bank.
9. The second beneficiary's bank sends the presented documents to the transferring bank.
10. The transferring bank, upon receipt of second beneficiary's documents, requests the first beneficiary/intermediary trader/middleman to present his own invoice (and draft if applicable). Upon presentation of first beneficiary's invoice in compliance with the original transferable documentary credit, the transferring bank changes (to avoid the importer to find out the first beneficiary's supplier's information and the price details etc) the second beneficiary's invoice with the first beneficiary's invoice and sends the documents enclosed with first beneficiary's invoice to the issuing bank and request payment.
    a. If the first beneficiary/intermediatry trader/middleman fails to present the required invoice as per the documentary credit in presentation period, the transferring bank has the right to send the second beneficiary's documents to the issuing to protect the second beneficiary's rights.
11. Upon receipt of funds from issuing bank,
    a. pays the 'second beneficiary' the amount as per the transferred documentary credit and
    b. pays the 'first beneficiary' the difference between the original transferred documentary credit and the transferred documentary credit.
12. Issuing bank delivers the documents in compliance with the transferable documentary credit to the buyer for customs clearance.

Advantages of Transferable Documentary Credit

The First Beneficiary/Intermediary Trader/Middleman

The first beneficiary is very advantageous in transferable documentary credit because even if he does not have sufficient limit or funds with his bank, he has the security of a documentary credit. In other words he does not have to issue a documentary credit in favour of the supplier, he only has to transfer an already issued documentary credit to the supplier. At the same time he is also protected under the security of the documentary credit, as long as he can present his invoice in complaince with the documentary credit terms within presentation period to be substituted with the supplier's/intermediary trader/middleman's invoice.

Second Beneficiary/Supplier

Along with the first beneficiary the second beneficiary's/suppliers' rights are guaranteed by the transferable documentary credit. In other words supplier is under the protection of the transferred documentary credit. If the second beneficiary presents the required documents in complaince with the transferred documentary credit and meets requirements of documentary credit, he can claim payment under the transferred documentary credit independent from the first beneficiary.

Importer/Buyer/Applicant

For the buyer, with the transferable documentary credit, buyer allows receiving goods not from the first beneficiary, from a third party whom he does not know. As the documentary credit is transferred the risk of fraud and loss and error also increases. The risk on applicant also increases who is responsible to his bank who will reimburse in presentation of compliance documents.

Back-to-Back (Counter) Documentary Credit

Back-to-back (Counter) documentary credits serve the same goal as transferable documentary credits, they are both used for the same purposes. They are used as bridge credits (Luk, 2011). They are both used for cases where the first beneficiary is not the supplier of the goods therefore there are more than one beneficiary. Sometimes the buyer may not want an unknown third party to ship the goods, so may not consent to issue a transferable documentary credit. Then a back-to-back documentary credit might have to be issued. There are two documentary credits issued in this case.

The first documentary credit (1) is issued in favour of the intermediary/middleman by order of the importer. Upon receipt of the first documentary credit, the intermediary/middleman requests his bank to issue a separate documentary credit/second documentary credit (2) in favour of the supplier/manufacturer. The second documentary credit issued by the intermediary's/middleman's own bank, it is called the counter documentary credit or back-to-back documentary credit. The second documentary credit, counter documentary credit is the counter of first original documentary credit. The intermediary/middleman is the beneficiary of the first documentary credit becomes the applicant of the second (counter) back-to-back documentary credit, where the beneficiary is the manufacturer/supplier.

The parties must be aware of that although they are named as back-to-back documentary credit or counter documentary credit. They are two separate, independent documentary credits. In other words the first documentary credit is not collateral of the second documentary credit namely, back-to-back documentary credit or counter documentary credit. It can be considered secondary collateral because there is always a risk of not receiving the payments from the first documentary credit, if there is a discrepancy found on the documentation presented under first documentary credit.

The intermediary's/middleman's bank, by issuing the second documentary credit is liable to pay for the counter/back-to-back documentary credit if documents are presented by the manufacturer/supplier are in compliance as per the terms and conditions of the second documentary credit. Whether the intermediary/middleman pays or not or whether the first documentary credit is paid or not by the applicant/buyer/importer the counter/back-to-back documentary credit has to be paid by the intermediary's/middleman's bank, the issuing bank of the second documentary credit.

To enable to succeed in the transaction, the intermediary/middleman and his bank must be very cautious in issuing the second counter/back-to-back documentary credit, which must be the mirror of the first documentary credit . If the intermediary/middleman can not provide that replacing documents will not comply with the first documentary credit and other documents presented under second counter/back-to-back documentary credit will not be in compliance with the first documentary credit, the transaction might not be completed successfully. In other words intermediary/middleman and/or his bank might end up paying the manufacturer/supplier for complying documents presented under second counter/back-to-back documentary credit. However may not be able to receive funds if intermediary/middleman can not provide documents in complaince with the first documentary credit. It requires experts, expertise to manage the process. The transport documents, representing title of goods/ownership of goods must not be transferred unless received payment of the goods, otherwise loss would be higher (International Chamber of Commerce, 2013).

Back-to-Back (Counter) Documentary Credit Process

There are two separate documentary credit issued in back-to-back documentary credit. Documentary credit, can be simply defined as engagement/commitment of issuing bank to pay a debt. The debt which will arise in future upon shipment of the goods by the exporter (Mentschicoff, 1963). Payment will be paid upon presentation of shipping documents which are in compliance with the terms and conditions of the documentary credit. The process of letter of credit is given below.

1. Importer/applicant requests his bank to issue and sends the first documentary credit in favour of the intermediary trader/middleman's bank via swift.
2. Upon receipt of the first documentary credit, the intermediary trader/middleman requests his bank to issue a second documentary credit in favour of his supplier.
3. Second documentary credit is issued by the intermediary trader/middleman's bank in favour of his supplier. The second documentary credit is the counter 'back-to-back documentary credit' because the second documentary credit is opened counter to the first documentary credit (on the back of the first documentary credit). In other words when the second documentary credit is issued by the intermediary trader/middleman's bank, the second documentary credit is referred as the 'counter documentary credit'.

Parties must be aware of that there are two separate documentary credits with separate obligations. The first documentary credit is not a guarantor for the second documentary credit. In other words, the first documentary credit funds might be used to make payment of the second documentary credit but it is not granted. Second documentary credit's documents might be used for the first documentary credit as well. The second beneficiary/middleman/intermediary trader has to pay for the second documentary credit issued by his request whether or not the first beneficiary's funds are received or not.

One of the most important things in back-to-back documentary credit is while issuing the second documentary credit, the first beneficiary and his bank must make sure that the documents required must be in complaince with the first documentary credit. Furthermore, the conditions of the second documentary credit must be the same with the first documentary credit as much as possible.

There is a great risk that if second documentary credit documents of the supplier are not in compliance with the first beneficiary's documentary credit, then the first documentary credit presentation will not be in compliance. As the title of the goods will be in the name of the first documentary credit issuing bank and if the discrepant documents are not accepted by the importer and if the intermediary trader/middleman can not pay then process might end up with loss, especially if the transport documents are not in the name of the issuing bank for title of goods.

Transferable Documentary Credit and Back-to-Back Documentary Credit Differences

The processes are different in these types of documentary credits. The main difference is that there two different documentary credits in back-to-back documentary credit process, that is the applicant of the first documentary credit, is the beneficiary of the second documentary credit. Wherelse in transferable documentary credit, there is only one documentary credit of which can be partially or wholly transferred to a second beneficiary with changes allowed as per international trade rules for documentary credits, article 38-g of UCP 600 as mentioned above.

The transferable and back-to-back documentary credits both have an intermediary, a middleman in between the manufacturer and the buyer. Both documentary credits require substitution of documents first of all the invoice with the lower amount presented by the manufacturer has to be substituted or replaced by the intermediary's/middleman's invoice of higher amount. The bank which is nominated as the transferring bank has to receive both of the documents of the intermediary/middleman to control the discrepancies of documents in both documentary credits. In other words expiry must be the transferring bank's counters in both documentary credits.

With the main similarities given above, the main difference between both documentary credits is that transferable documentary credit and back-to-back documentary credit is that back-to-back documentary credits are two seperate documentary credits, issued independenty from each other. Wherelse transferable documentary credit consists of one original documentary credit. Which enables specific conditions to be changed permitted under the standard rule of the latest version of ICC Uniform Customs and Practice for documentary credits, all other terms and conditions of the original documentary credit remain unchanged.

SOLUTIONS AND RECOMMENDATIONS

Documentary credit is a common method used in international trade. However it requires specialty to benefit from the advantages of documentary credit. As it is a conditional payment order issued by importer's bank, it enables security both parties, including importer and exporter. It is a safe and secure method because importer is certain that the bank on his behalf will check the terms and conditions of the presenation of shipping documents on his behalf and only after checking if found compliance with the terms and conditions of documentary credit, which is actually a mirror of sales contract, the payment will be effected.

It is a safe and secure method for exporter because exporter does not ship the goods until the documentary credit issued by importer's bank is received. Furthermore exporter knows that the payment will be effected by the bank as documentary credit is independent from the importer. In other words, whether the importer goes bankruptcy or financial difficulty whatsoever exporter knows that upon presentation of shipping documents in compliance with the documentary credit terms and conditions will be paid. Documentary credit is a safe method for international transactions where there are intermediary/middleman between manufacturers and buyers as well. If the documentary credit is issued as a transferable documentary credit, it enables intermediary/middlemen, without credit limits with banks, to transfer partially with only permitted conditions changed to the manufacturer.

FUTURE RESEARCH DIRECTIONS

Whether the importers and exporters are aware of potential risks in international trade and how they can mitigate these risks is an important factor in international trade. Country based payment terms researches and decisions factors of traders choosing those payment terms can be investigated by researchers in future.

CONCLUSION

Documentary Credits are used in international trade frequently because documentary credit rules accepted voluntarily by all parties all over the world cover both parties i.e. importer and exporter. Intermediaries in other words middleman, that is traders between importers and exporters do not always have the limits in banks to issue documentary credits. Then there are two options to be used, transferable documentary credit or back-to-back documentary credit to enable the trade transaction to be completed. As the processes of both letter of credis are given above, the first of option, in transferable documentary credit which enables tranfers of documentary credit amount requested by the intermediary to the second beneficiary i.e. the manufacturer. Therefore, transferable or back-to-back documentary credits are used to enable the transaction to be processed. However back-to back/counter documentary credit requires a separate documentary credit issued in favour of the manufacturer, keeping the first documentary credit in favour of the intermediary as secondary collateral as it is not guaranteed that the first documentary credit will be paid. This method is called as back-to-back documentary credit, becaused it is backed up by the first documentary credit, or counter documentary credit, with the same conditions and documents required required in the first documentary credit issued in favour of the intermediary. However back-to-back documentary credit option is more risky then transferable documentary credit option. The transferable documentary credit protects the first beneficiary (intermediary), the second beneficiary (the manufacturer) and the applicant, even if the first beneficiary fails to present the required documents i.e. the invoice for the applicant, the manufacturer. Back-to-back documentary credit option, consisting of two documentary credits are more difficult to follow up for all parties involved.

Transferable documentary credit and back-to-back documentary credit, both types of documentary credits are used in case there is a middleman/intermediary trader. Middleman/intermediary trader's documentation (invoice and draft if applicable) has to be changed with the supplier's in both options. In transferable documentary credit option, there is only one documentary credit, which is transferred with the same terms and conditions except authorized amended conditions to the second beneficiary. In back-to-back documentary credit however there are two separate documentary credits, which are completely independent from each other although underlying transaction is the same goods for both of the documentary credits. It is recommended that importers, intermediary trader/middleman and suppliers to prefer transferable documentary credit for the following reasons:

- Transferable documentary credit lc is simpler and more reliable than back-to-back documentary credits.
- Transferable documentary credit enables the supplier the documentary credit security for payment even if the intermediary trader/middleman does not present the invoice (and draft if applicable) because international trade rules for documentary credit UCP600 enables presentation of supplier's documents to protect supplier's rights as well.

- If a documentary credit is issued as 'transferable' both parties and banks accept a third party presentation other than the first beneficiary.
- There is only one documentary credit, therefore it is easier to handle the process for all parties, to follow up, the same conditions apply for all parties authorizes changes only with the conditions given in UCP600 related article.
- In back-to-back documentary credits, there are two separate documentary credit. Therefore it is more difficult and there is always a higher risk that if the second documentary credit conditions are met payment is due however the same documentation might not be in compliance with the first documentary credit. Furthermore if the applicant refuses documents, there is a higher risk for the intermediary trader/middleman and his bank for potential losses.

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Chapter 19
Quality in Labor Market and Labor Relations as a Strategical Administration Aim

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ABSTRACT

Nowadays, quality has become a concept not only used to evaluate the economic life but is also used to assess social and corporate life. The need to adapt to qualitative changes in product and service markets affects workforce market as much as quantitative changes. Workforce market is under quantitative effect of workforce cost reduction pressure, which trivializes workforce in respect to funds, and qualitative effect of the pressure to increase workforce quality, which increases related to creating innovations and innovative thinking. In this context, it is known that the flexibility in payment and hour of work to increase participation in workforce market and workforce productivity causes problems like wages inequality and discrimination. Demands for increasing product and production process quality causes changes both in the area of individual and collective work relations, and role of the government. It is observed all the applications toward increasing quality of product and production process do not affect work-life quality similarly so that it is vital to have a strategic management.

INTRODUCTION

Work-life quality is a very relative and broad concept. Therefore, there is no definite description on which a consensus is reached. Nevertheless, it should be noted that the universal application of quality in work-life is the international labor standards (ILO, 2004). There are national and international bases for labor standards, which are in mutual interaction. It can be said that they are created by the conventions of the International Labor Organization (ILO), adopted into national legislations by laws and improved through collective bargaining (Ponte & Gibbon, 2005).

The approach of work-life quality assumes that a one to one relationship between the welfare of employees and the performance of the business can be established (Huzzard, 2003). The well-being and

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improvement of employees, and their control over the activities are defined as the sustainability of self-respect in a sense (Standing, 1999). Therefore, the work-life quality has gained a technical context which is limited to occupational health and safety standards, and which can be measured merely by individual indicators, with the contribution of work psychology which increases the work satisfaction by protecting the physical and mental health of employees (Ingelgard & Norrgren, 2001). In the development of the concept, its association with the socio-technical approach, and particularly its interpretations in the Scandinavian countries have played an important role. The concept of work-life quality is increasingly integrated into a broader systemic view, which is not limited to the design of work. Contrary to Taylorist practices, classical and neo-classical economic theories which regard the employees as unavoidable cost elements to be controlled it has started to perceive employees as entities with social necessities, and workplaces as a social system. In this approach the more the socio-psychological well-being of the workers looked for in the use of control and monetary incentives, the more the performance of the business will increase (Huzzard, 2003).

The increasing importance of the work-life quality results from both the methods used in the production of quality products and the expectations it has created. While enterprises struggle to remain competitive and competitiveness is perceived as being attached to the quality of the products which are the outcomes of the work and the quality of the production process which guarantees the highest quality expectation punctually, the idea of quality will also reflect the needs and the expectations of employees. The work-life quality requires to design the quality of product and production process in a way that it will increase the quality of work and employment (Erdut, 2006). The work-life quality also requires the participation of the workers in decisions that affect their working conditions (Işık, 1991).

What is expressed by the concept of work-life quality is actually establishing the business conditions that will provide satisfaction to workers. The job satisfaction can affect not only the work-life quality but also the quality of social life (Adler, 1999). The factors which affect the work and work-life such as nature of work, wages and earnings, working conditions, management and organization of works, the technology used, satisfaction and motivation of workers, participation, employment security, social justice and social security, demographic structure and continuing training are regarded as the determinants of work-life (Can, 1991). While some intellects define the work-life quality as the job satisfaction that an individual receives from work-life (Sirgy et al., 2001), others define it as a way of meeting the important personal needs of the workers through their works (Bowditch & Buono, 1994; Newstorm and Davis, 1997).Moreover, some thinkers have considered the concept of work-life quality as the humanization of work, and have put it forward as improving the working conditions of workers, taking into account their mental, psychological and social needs as well as their physical needs (Beh & Rose, 2007). The work-life quality involves the creation of an environment that allows them to acquire the sense that they contribute to their organization by meeting their basic needs, to recognize and develop their abilities (Otto & Bourget, 2006).

Having put forward the fact that there is a positive relationship between the work-life quality and the mental health much the same as between the work-life quality and job satisfaction (Schulze, 1998; Yüksel, 2004) the researchers have stated that the quality of work and social life is out of the question since life is a whole. Because it is known that there is a multifaceted and interactive relationship between work and social life conditions. The work-life quality plays an important role in ensuring mutual benefit through the participation of workers in the decision-making process of the management as a result of an effective and respectful relationship and co-operation between management and the workers (Bowditch & Buono, 1994; Rose, 2003).

The main purpose of the work-life quality is to develop suitable working conditions for the workers with ensuring the organizational success. Ensuring the work-life quality, which is highly significant from the point of the workers, also determines the effectiveness of the organization (Newstrom & Davis, 1997). Businesses spend a lot of money every year to achieve organizational success, increase customer satisfaction and gain loyal customers in the competitive environment in which they operate. However, recent researches carried out in both the sectoral and scientific field, shows that the road to success in winning satisfied customers is throughhaving happy employees first (Sivadas & Baker-Prewitt, 2000; Bassi et al., 2000).

The work-life quality comes to mind as the happiness an individual achieves through colleagues with whom he or she enjoys working together and production outcome along with the material gains from the work. It is important for the work-life quality that the workers find their business environment valuable, their work meaningful and that it develops them. This situation ensures that the individual enjoys life in general and is happy. The level of the individuals' satisfaction of his expectation from their work-life generally determines the direction of satisfaction from life. It is also observed that the fact that the work-life quality is low or a lack of quality affects the individual's general standard of living, negatively. The negativities encountered in the work-life negatively affect the individuals' life in their off-hours and therefore their general life satisfaction (Keser, 2005).

QUALITY OF WORK

The quality of work is a concept involving the relationship between the worker and the work he or she performs. It is necessary to consider the adaptation of the worker's characteristics with the objective features of the work as well as the requirements of the work. The features of the work also include a subjective assessment based on worker-specific characteristics, experience, and expectations. Since there is no single compound indicator, the analysis of the quality of work has to be based on both objective and subjective features, and on subjective evaluations of the work and worker compatibility (European Foundation; 2002). The quality of work should be supported by occupational assurance, quality assurance, assurance regarding occupational health and safety, and job security and revenue assurance (Erdut, 2006).

The quality of work requires ensuring risk-free working conditions in terms of occupational health and safety. Approximately 250 million workers are the subject of work accidents each year, and 300,000 of them die during working. Although most of the data collected is limited to the formal economy, the working conditions of atypical and/or undeclared works, which are common in developing countries, are much worse. There is a limited number of studies on occupational health and safety regarding the farms, overcrowded neighborhoods, insanitary barracks with polluted air where women spend most of their time, and the problem is hardly ever addressed in political debates. Moreover, new risks are added to the traditional ones which are within the scope of occupational health and safety, nowadays. Therefore, it is necessary to go beyond the traditional approach in protecting the employees against diseases, occupational diseases and work accidents, and to include new risks such as stress and dementia (Ghai, 2003).

The development of skills and career opportunities are also significant for the quality of work. While the level of qualifications contained in most of the new jobs created is reduced, encouraging multiple resourcefulness and creativity in a small part creates a polarized skill structure in the labor market. Employment opportunities are shrinking due to the outsourcing strategies of businesses and the increase in the business to business relations leads to the flexibility in career. As a result of reducing the internal career opportunities, career possibilities in a single business get limited, and it is replaced with a career approach which is flexible or with uncertain limits, which is dependent to multiple businesses and multiple employers based on competition (Rubery & Grimshaw, 2001). It has become difficult to plan a career in an uncertain environment in which large organizations are shrinking and subcontracting their activities to other businesses and individuals based on temporary contracts in order to focus on their main activities (Erdut, 2006).

It is difficult to measure the quality of work. In general, depending on the feedback of the persons, the personal opinions and perceptions, such as work satisfaction, are parts of the measurement of the work-life quality, including all possible prejudices of a subjective assessment. Some aspects of the work-life quality, such as safety, can be measured more precisely. However, these constitute only one part of the assessment. The quality of work can also be measured depending on the increase in complaints, absenteeism and the rise in labor turnover. However, these results may stem from not getting along well with the managers in their works, finding other job opportunities or personal reasons. Therefore, concrete behaviors such as absenteeism or labor turnover are used as indirect indicators of the quality of work (Davis, 1986).In this sense, the quality of work requires control over access to work, features of work, income of employees, working conditions and protection of work. Ensuring the social justice should be addressed together with the control relations and provide both job and life security of the people (Standing, 1999).

EMPLOYMENT QUALITY

It is clear that the work-life quality is in the field of interest and expertise of the International Labor Organization (ILO). One of the ILO's main objectives is to increase opportunities for freedom, equality, human dignity and efficient employment for people. In this context, the concept of *"decent work"* was first used in the International Labor Conference, which was held in 1999. Decent work approach represents an integrated strategy towards goals such as economic growth, social development and employment. The concept includes four elements, i.e. employment, social protection, fundamental rights related to working and social dialogue (Ghai, 2003). With the decent work approach, the ILO has selected policies regarding the reduction of unemployment and underemployment, and the development of rights in employment in its field of interests. In other words, defending the rights in the work also includes the obligation to increase the employment opportunities (Biagi et al., 2002).

The approach of the European Union (EU) on the work-life quality reflects not only defending minimum standards, but also improving the standards and the desire to secure a fairer allocation of the proceeds of growth. During the modernization of the European social model, quality was first presented as a guiding factor in the Lisbon Summit of the European Council in March 2000. The concept of "social quality" was proposed as an alternative target and measurement to measure the citizens' quality of life. Quality became the common subject of the social agenda. Thus, Europe has adopted the goal of increasing the competence for access to full employment and transforming Europe into the world's most competitive economy based on information by preserving strong social cohesion and modernizing the social protection system. It is aimed to achieve the goals of increasing the employment and improving the quality of work simultaneously during the modernization process of the European social model, which constitutes the basis of reaching the economic and social goals of the Lisbon Strategy (Biagi et al., 2002).

The importance of creating active welfare states, and the necessity to consider the well-designed and well-functioning welfare systems as beneficial elements which provide assurance were emphasized in the conclusions of Stockholm European Council (Commission of The European Communities, March 2001). The Council clarified the concept of full employment, which is included in the quality approach. Restoration of full employment means that it is important that the action is based on improving employment both quantitative and qualitatively. In this sense, an increasing effort must be made to realize a good business environment for everyone, which provides equal opportunities for people with disabilities, gender equality and reconciliation between professional life and private life in the best way, which ensures the work satisfaction, and which involves a flexible work organization, occupational health and safety, employee participation in the management and variety in professional life (Klosse, 2005). The Laeken European Council (December 2001) gave an opportunity to bring a quantitative context into the concept of quality through determining the elements of employment quality and recommending a list of indicators. Pursuing the full employment target, the quality of employment is considered in two broad dimensions in Laeken. The first dimension is regarding the quality of work, such as work satisfaction, wages, skills and career development. The second dimension is broader, concerning the labor market context and includes gender equality, access to work, and quality of social dialogue (Klosse, 2005).

The concepts of decent work from the International Labor Organization (ILO) and employment quality from the European Commission quality of employment share similarities in many respects. Above all, the goal is common. Indeed, as well as the job creation, the fact that the created jobs are in an acceptable quality is crucial. On the other hand, although the quality of the business environment and the labor supply are particularly taken into account in the approach of the International Labor Organization (ILO), the fact that there is more reference to the quality of the labor market in the European Commission's approach is the most obvious difference between the two approaches. There is no striking aspect in the differences of their approaches when the fields of interest and activity of the two organizations are considered. The International Labor Organization (ILO) is following a path which bestows favors on the viewpoints of employees and labor unions. Its main role is to contribute to improving the working conditions of employees by ensuring that conventions regarding minimum standards concerning employment and social protection, and certain assurances are ratified and implemented. Along with sharing this goal, the Commission's function is to ensure the coordination of economic policies, employment policies and even social policies. Therefore, the definition of the employment quality is wider and uncertain (Erdut, 2006).

Since the EU does not have a standardized or a definition of the quality of work, on which there is a consensus, and a single mix of criteria, the Commission has determined the six direction of the employment quality with the Declaration of June 2001. The *quality of life* is based on the problem of reconciliation between family life and occupational life. The *quality of the labor supply* is based on such problems as the level of knowledge, skills and experience the workforce possesses, and the ability to adapt to the needs of the labor market. The *quality of the labor demand* is based on the problems regarding the wages to be paid to the wage earners by the employer. The *quality of the business environment* is based on the features of legal protection oriented at the wage earners when they are employed. In this sense, the legislation on occupational health and safety, job security and social dialogue comes into question. The *quality of social protection* is based on the problems regarding the level of social obligations and insurance payments. The *quality of the labor market* is based on the problem regarding the characteristics and performance of the labor market. Accordingly, it covers an important part of the macroeconomic dimension. In this dimension, flexibility (wage and work hour flexibility), wages inequalities (or discrimination problem), labor productivity and the employment participation rate are the main issues (Biagi et al., 2002).

In the Declaration of June 2001, the Commission distinguished 10 dimensions of employment quality from each other and proposed one or more indicators for measurement purposes the indicators proposed for the dimension of *actual employment quality* are the level of work satisfaction and improvement towards best wage. The indicators for the dimension of *qualifications basic training, vocational training, lifelong vocational training and career evolution* are the rate of the adult population participating in basic and vocational training. The possible indicators for the dimension of *equality between males and females* are the proportion of gross hourly wages of women to gross hourly wages of men and gender discrimination regarding employment. The possible indicators for the dimension of *occupational health and safety* are work accidents and occupational diseases. The possible indicator for the dimension of *flexibility and security* is the rate of employees covered by flexible methods. The possible indicators for the dimension of *access to the labor market* and *work placement* are the rate of youth's transition to active life and long-term unemployment. The indicators for the dimension of *social dialogue and employee participation in the management* are the number of days lost due to business disputes and the percentage of employees covered by collective bargaining. The indicator for the dimension of *diversity* and *non-discrimination* is the participation rate of the 55-64 age group in the workforce. The increase in labor productivity is proposed as the indicator for the dimension of *overall performance dimension* (Biagi, 2001).

LABOR MARKET AND QUALITY

The need to adapt to qualitative changes in product and service markets, as much as the quantitative changes affects the labor market. In other words, the labor market is, on the one hand, under the quantitative impact of the pressure to reduce labor costs, which trivializes the workforce depending on the capital, on the other, it is under the quantitative impact of the pressure to increase the quality of the workforce which gradually increases due to creating difference and innovation in the product and service markets. In this context, the wage and duration flexibility, which are used to increase the participation in the labor market and the labor productivity, are known to cause problems such as wage inequality or discrimination. Such problems pose an obstacle to increasing the quality of work and employment (Erdut, 2006).

Labor Demand and Quality

The labor demand depends on the supply levels in the products and services markets. In this sense, the quality of the product and production process is closely related to the professionalism. In other words, producing quality products requires a certain level of expertise (ILO, 2004). The acceptance of knowledge as a source of productivity in the information economy has increased the importance of employee contribution. Beyond traditional labor productivity, increasing the productivity of the capital has also become dependent on workers' knowledge and skills (Henning, 2001). Indeed, the inputs of the production process can be transformed by multinational enterprises with the quality of the workforce, which is considered to be the only sustainable source of competition superiority (Lowe et al., 2002). In this sense, as well asthe quality of the product, the qualification level of the workforce affects the position of the national industries in international competition. Thus, it is assumed that the production of quality products requires more qualified workforce, gradually (Erdut, 2006).

Therefore, the demand for labor with better coordination, better education and different skills than in the past is increasing. The workforce is expected to have new skills and expertise, such as problem solving, teamwork, communication skills, creativity, entrepreneurship, and most importantly lifelong learning capacity (Lloyd & Payne, 2002). From the viewpoint of businesses, sufficiency of qualifications is also measured by the ability of employees to adapt to the changes. Because knowledge and skills are not static. On the contrary, rapid technological development and global competition require flexible knowledge and skills in workforce. Therefore, acquiring the ability of lifelong learning has become the main specialty sought (Numhauser-Henning, 2001).

Indeed, it is desired that a limited number of employees (core workforce) are highly qualified due to the rapid spread of information technology, the increase in global competition and the search of enterprises for flexibility (Esping et al., 2002). At the same time, information technologies negatively affect labor demand in terms of a large number of (environmental workforce) workers at different skill levels for jobs that do not require much qualification and that are based on repetition (ILO, 2004). While qualified jobs are performed by a small number of qualified workers, those employed in unqualified and repetitive jobs constitute the majority. These effects usually manifest themselves in labor market conditions from which while the most qualified workers limited in number benefit, the others who are the most unqualified and limitless in number suffer (Erdut, 2006).

Labor Supply and Quality

Quality in the supply of labor refers to both the level of knowledge, skills and experience, and workforce whose ability to adapt to the labor demand is high. Increasing the productivity requires continuous investment in the training and skills of the workforce. The balance between the demand and supply of the workforce to be ensured depending on the types of skills is significant in regard to the labor market. While high skill levels constitute the basis for adapting to rapidly changing conditions, education and training are the important areas in which changes are taking place (Egger, 2003).

Poverty means that the workforce does not have the skills and training to match the demand of the current conditions of the labor market. In this sense, education and skills are offered as solutions to many economic and social problems ranging from productivity, competitiveness and economic growth to unemployment, poverty and social exclusion (Sapancalı, 2003). Indeed, as much as it is true that the well-educated and skillful people earn high income, it is impossible for countries to sustain economic growth without investing in the workforce (Erdut, 2006). Human capital constitutes an important input for both the production and use of information. Human capital accumulation is perceived as the driving force of development and is also shown as the source of the differences in living standards among countries (ILO, 1998).

Those working in unqualified jobs typically have an insufficient level of general education and limited access to trainings which they can receive from their workplaces during their careers. Indeed, it is difficult for those who start working in an unqualified job to take advantage of the trainings and informal skill-building opportunities in the workplace in order to change their jobs. The fact that they are in a weak position to update their skills and adapt to changes in the labor market, increases the need to protect them against unemployment and makes it increasingly hard to find jobs again. It is not a coincidence that those who are at risk of benefiting from educational opportunities come from families who are less qualified and less secure in the labor market. This continues throughout the career of the employees and extents until the retirement. The fact that employees starting their work-life in unqualified jobs also means that they find too few opportunities to improve their lifelong learning skills (Esping et al., 2002). In this context, their right to education and training increasingly becomes an important resource in protecting the employment.

In-Company Training in an Effort to Improve the Quality of the Labor Supply

From past to present, it has been revealed that providing training and improvement opportunities that will enable employees to improve their knowledge and skills is a motivation to ensure the dedication of many different types of employees to work. The lack of progress and development opportunities is the biggest factor explaining why employees are less committed to work (Towers Perrin, 2006). In a work environment where certain skills become unfashionable over the night, employees utilize the programs as an opportunity to develop new, marketable skills that are needed and have validity on the market. Whether it's a young worker seeking to develop marketable skills, or an older worker seeking retraining, or a professional with higher level of skills seeking to even further their skills, providing progressive opportunities to these workers can have a positive impact on job commitment levels. Moreover, as hierarchical managements shrink and narrow pyramidally (vertical), progressive opportunities that allow hierarchical growth are also shrinking. In horizontal organization structures, there are less vertical developmental opportunities for employees; however, there is more lateral movement opportunity to increase skill diversity. In such an environment where progress is based on skills, employees value learning new marketable skills more. (Castellano, 2006).

People learn from different ways (Deming, 1993). Some people learn from conferences or a videotape, while others learn from books. For most employees, the best way to learn is through experience. They need to participate in the practice of the subject in order to learn something better. For example, almost no one learns how to ride a bicycle by reading a book or listening to a conference. They listen to the instructions given to them under the guidance of someone who knows how to ride a bicycle, watch how they ride a bicycle, and then try it themselves. The actual learning occurs in this stage where they are experimenting. After falling down for a few times, they learn to ride bicycles.

On-the-job learning experience can be a powerful factor in the transformation of organizations as well as their workforce.The individuals who conduct the workforce must be trained to be able to successfully increase the productivity of individuals and organizations. While the employees are trained in areas such as decision-making, cooperation, using basic statistics techniques, the management should assume the participating leadership and support role in these areas, too (Weaver, 1997).Training is a reasonable strategy from which both the employers and the workers will benefit by sharing costs together the former as a result of the increased productivity, and the latter due to the increase in their marketable skills in both ways (Castellano, 2016).

The Effects of People Centered Management Approach on the Quality of Labor Supply

The idea that mechanization and automation is the best way to maintain perfect product and service production is widespread. For example, since humans tend to make mistakes, they are replaced by industrial robots. However, robots do not yet have the ability to mend themselves; therefore, they cannot do all the work done by people, for the moment at least. On the other hand, people have never given up on constantly improving and using their sui generis ability to create. For example, the impression, "a company consists of its employees," reflects the fact that human motivation has the greatest importance among all items (people, materials, money, information, etc.) necessary to manage a business.

Systematizing and standardizing the jobs in businesses are not always a guarantee of success. One of the common management problems is that even though an effective organization is ensured, the business does not still fare well. The reason is that people become sluggish and indifferent when their work is over standardized. It will be beneficial to identify and implement what organizational and working methods, which protect entrepreneurship and positive attitudes, motivate people when performing a job. It is an undeniable fact that people need to have a positive desire to work. No matter how perfect the organization is designed, if the workers lack motivation, it will not be beneficial at all and the productivity will be affected negatively.

What can be done to motivate employees and stimulate their work enthusiasm? The hierarchy of human needs proposed by Abraham Maslow in 1953 when he was a psychology professor at the Massachusetts Institute of Technology is well-known. According to this theory, human needs can be categorized as follows (Maslow, 1953)

1. Physiological needs
2. Safety needs
3. Social needs
4. Self or esteem need
5. Self-actualization need

Human needs do not follow each other in an organized way; every five needs are always in question; however, their relative importance shifts as our living standards rise. In terms of motivation, it should be remembered that humans always have a number of needs, although their intensity varies from time to time.

Orientation of motivation by two different types of factors, satisfaction and dissatisfaction, is the main idea of the motivation theory (Herzberg, 1969) proposed by Herzberg when he was a professor at the University of Chicago.For example, low wages, poor working conditions or inadequate social facilities for workers create dissatisfaction among employees. Therefore, it is both important and effective to remove the sources of dissatisfaction by increasing wages, improving working conditions and providing better facilities. However, removing the sources of dissatisfaction in this way does not always motivate us right away and does not fuel our enthusiasm to work. Motivation also requires including the sources of satisfaction in our daily work. For example, actively involving the workers in the preparation of labor standards and in forming up the improvement goals (including improvement of both processes and final outcomes), and they are a source of high motivation.

Maslow's hierarchy of human needs, says that satisfying the relatively low level of needs such as physiological and safety, removes the sources of dissatisfaction such as hunger or danger, and satisfying the higher level of needs presents the sources of satisfaction This means that people cannot be motivated by only satisfying the low-level needs such as physiological or safety. The five types of needs are always present and not only does motivation demand the lower level of needs (i.e. to remove the sources of dissatisfaction) to be satisfied, but also demands the higher level of needs to be satisfied with the inclusion of satisfaction sources.Both sources of satisfaction and dissatisfaction are important in terms of motivation; however, providing adequate sources of satisfaction is more essential to removing any potential dissatisfactions (Kondo, 1999).

Relationship Between the Motivation of Earning Money and the Quality of Workforce Supply

Although economic development is highly desirable in terms of increasing social welfare, it should be remembered that sometimes it also leads to social problems. The world economy has undergone a period of rapid growth that began in the mid-1960s and continued until the mid-1970s. The 1970's was a decade full of upheavals. Student upheavals spread to many countries, two major energy crises occurred and environmental pollution became evident due to industrial waste. Welfare removes many sources of dissatisfaction; however, one of the common reasons for student upheavals was the increase in the number of students who could not find a suitable source of satisfaction.

In almost the same period, the percentage of absenteeism which was very low before exceeded ten percent in Western European companies. It is generally said that in times of economic recovery, absenteeism would increase, and in times of economic crisis it declines. However, that wasn't the only reason why the rate of absenteeism increased so much. As a result of higher wage levels, with the increase in living standards and educational levels of, workers began to dislike specialized, standardized and simplified tasks specific to the Taylor system. Instead of going to work and earning money, they preferred to take time off and enjoy.

As a matter of fact, absenteeism was increasing at the both ends of the week, especially on Fridays and Mondays. The jokingly phrase "FM cars" (especially the defective vehicles produced on Fridays and Mondays) became popular in those days. Some companies have begun to seriously consider implementing the 40-hour and four-day workweek and whether to include Friday's on weekends (Gabor, 1972). The production line system in which conveyor belts were used was the perfect way to achieve efficient mass production by employing low skilled labor. However, as wages, living standards, and levels of education increased, workers began to get tired of detailed and simplified works and not to go to work. In April 1974, the Commission of the European Union (EU) stated that the production line system creates psychological stress on workers and should be removed within three years (Kondo, 1974).

Of course, a system in which each area of work and the responsibility of each worker is rigidly defined (in which material rolls up at a fixed speed and the workers have to work at the same speed regardless of their physical condition) obviously has an inhumane effect and creates a great psychological stress. Moreover, when the scope of works which are allowed for the worker is narrowed in such a way, the balance of the line goes downhill as the situation of the workers changes every day. In addition, the rate of total production is determined by the slowest employee and fixed at the lowest level.Such problems cannot be eliminated by artificial and superficial measures such as replacing the production line system with another system, transitioning into four-day workweek by declaring vacations on Fridays, when absenteeism is common or employing young workers in production and paying them extraordinarily high wages. Real and permanent solutions can only be achieved by investigating the underlying causes of this phenomenon. And that means investigating the basic approach to working.If people are poor, it is true that work and money are in a very close relationship. People need the money to cover their basic needs such as food, clothing and shelter which are related to surviving. However, as peoples prosper and societies progress, the relationship between money and work decreases rapidly. If it is still insisted that it is only a means of making money, that will only lead to high absenteeism. Of course, people need money to live. But jobs are more than just making money.

Work and Game

As mentioned above, the money and work had strict relationship with each other in the past when life was hard and the level of life was low. In those days there was a clear distinction between work and play; the work was just a means of making money, and leisure times were a means of using it. The work was nothing but a means of earning one's keep. However, as the level of education increase and the living standards improve, the value of the money related to working decreases rapidly. Because a person whose wage doubles does not need to eat food for two or wear a double-layered dress. The reason for the increase in absenteeism in European and US companies can be attributed to these wage increases. As the phenomenon of separating the money and work becomes stronger, the distinction between work and leisure becomes vague and begins to intertwine. The recent growth of the entertainment and fashion industries shows how difficult it is to separate work with game. Sports is a typical activity in leisure times. It's also a common idea that sometimes work can become tedious, but the sports are fun enough to keep people from eating and sleeping. If the elements which makesports so much fun can be identified, and if active steps to incorporate those into the work are taken, work will surely become enjoyable, too (Kondo, 1975).

LABOR RELATIONS AND QUALITY

The desire to increase the quality of the product and production process is strongly sensed by businesses and employees. This desire leads to changes in individual and collective labor relations.

Individual Labor Relations and Quality

Increasing the quality of the product and production process in businesses requires the governance of flexibility and risk management in the area of individual labor relations and is influenced by quality standards.

Governance of Flexibility

In the context of globalization, competition and flexibility requirements transform social and financial organizations of businesses, deeply. The global development of business networks, externalization or localization, and finance groups have many results on the conditions of the implementation of labor law and the labor relations (Morin, 2005). Therefore, the disclosure of the changes in labor relations requires that the interaction with the production organization be examined first. Today, the production organization in which the labor relations are established and the center of power is determined is based on the governance of flexibility. Flexibility leads to the reorganization of three types of governance forms of labor relations, i.e. individual governance through labor contracts between employee and employer, collective governance through collective labor contracts between employers and labor unions, and legal governance through government regulation (Zagelmeyer, 2003). In addition, flexibility-based governance changes the distribution of economic and social risks associated with the production and the work of those who compete in this area (Morin, 2005).

Historically, labor law began with the conceptualizing of the business as the producer. Business is the place where products are manufactured for the market, where capital and labor are brought together. Thus, the factory which is on the focus is where the workforce actually works and where wage workers need to be protected. Labor law first comprehends the labor relations on a workplace scale in order to regulate working conditions of tangible work and to extend protection to the physical integrity of employees. Paid labor relations are organized within the framework of bilateral relations between employers and wage earners. The collective solidarity networks that caused the first collective actions also emerged from these tangible workplaces. Then, within the economic boundaries defined by the activities of the business, labor law was directed at ensuring the protection of employment and regulating collective relations (Morin, 2005).

When considered as an economic and social organization, in labor law, business has become the source of the development of the concept of contemporary employment both working in a passive sense and having a work in an active sense, i.e. becoming evident by involving in an organization. From this moment on, as a unique institution, the labor contract has also become the legal structure to maintain the continuity of employment based on belonging to the business as it is seen from disemployment, especially for economic reasons. The social protection mechanisms based on working in a job have developed correlatively with each other (Morin, 2005).

On the other hand, as much as a social and economic institution, the labor contract is a significant innovation that limits the employer's obligation. The structural flexibility of the right to management or the idea of authority relationship has been an important source of saving transaction costs in large and vertically integrated organizations. However, it is put forward that certain aspects of the individual labor relation, such as regular work, regular wages and career opportunities, can be seen as a compensation of complying with the employer's instructions. The fact that workers have the promise of an implied job security they receive in exchange for being exposed to the bureaucratic power of the business is also equally important (Deakin, 2004).

Defining the labor relations through labor contracts has led to the development of social legislation regarding the protection of employees' wages, social security and employment over time. In advanced systems, the government has used the social security premiums and income tax to support provision of welfare services by the public with the social insurance system as a whole, and has become the implicit third party to the contract by challenging the risks of precarity which threaten the workforce. The complex interaction between these different forms of governance is also reflected in the legal form of the labor contract. In this sense, the labor relations defined by the contract has two basic aspects. The first is to limit the management right of the employer. The second is that the labor relation challenges social and economic risks by imposing obligations in exchange for generating income for the employers and by compensating the cuts in the incomes of employees. In other words, the labor relation is used as a means of reallocating the risks (Deakin, 2004).

Today, the possibility of employers to avoid indirect labor costs of regulation and taxation (through subcontracting and outsourcing) has become one of the main factors of competition in the output market. The desire to increase the quality of the products and to reduce costs causes employees to be asked to move independently and responsibly. On the contrary, dependence is growing in the relations of businesses among one another. Refocusing on the main activities requires the major business to tightly control the punctuality of subcontractors' obligations on which the quality and the quality of their specific products depend (Supiot, 2001). In this process, the use of employment policy measures, which are essential government aids for the traditional forms of employment, to support indefinite period labor relations have now been reversed with the transition into the short-term and precarious employment which is considered as factors that increase the employability of jobseekers (Deakin, 2004). The risks which arises with the up-to-date developments regarding the flexible organizations and flexible labor relations covers the loss of typical labor contract and the rights concerning the work it involves (ILO, Report 2001).If the worker does not agree to cooperate in the context of flexibility, the risk of disemployment is of strategic importance for management (Eaton, 2000).

Collective Labor Relations and Quality

The parties, level and theme of collective labor relations are being restructured on the basis of social dialogue. In this process, the multilateral and multilevel pluralistic governance in which flexibility and assurance are pursued together by benefiting from various coordinate forms, new parties are added to traditional sides of collective labor relations, and global level is participating in the traditional levels of collective bargaining, is taken as a basis (Erdut, 2006).

Multilateral Governance

As a requirement of multilateral governance in collective labor relations, it is required that social partners expand their approaches and methods for better cooperation with non-governmental organizations. This demand can lead to new forms of participation of new actors, especially as part of civil dialogue (EC, 2002). In this context, various forms of social partnership (or social or multilateral governance) emerge (Clegg & Clasen, 2004).

Social dialogue constitutes one of the elements of the concept of decent work. The ILO defines social dialogue as any kind of interview, consultation or briefing about the common interests concerning the economic and social policy between government, employers and workers' representatives. While there is no ambiguity in the concept of tripartism in the field of collective labor relations, the different interpretations of social dialogue can create problems. Tripartism means "tripartite interaction" between employers and their organizations, workers and their organizations and competent authorities. The ILO has given a different and clearly-defined purpose to tripartism. In this sense, it is aimed to improve workers' rights in work-life. Social dialogue, by definition, is considered as an operational tool of the tripartite system, along with including the issues of bilateral collective labor relations such as collective bargaining and the resolution of conflicts. The purpose of defining the concept in the form of social dialogue is to distinguish it from civil dialogue which takes many forms. Therefore, social dialogue is open to the influence of all agents, but is inherently related to the field of economic and social policy. Social dialogue, which adds an operational meaning to tripartism in order to improve the rights of workers in the work-life, is expected to facilitate the provision of participation, coverage and consensus. Moreover, it should also strengthen the recognition of workers' and employers' freedom of association and the right to participation in order to resolve disputes about labor market and social policy (Fashoyin, 2005).

There is the decline in the representation power of labor unions and employer organizations behind the calls for social partners and other actors to come together on the basis of social dialogue. It is observed that organizing between on the one hand, those newly entered to the labor market, especially women, the youth and generally wage workers and on the other, employers of small or medium-sized businesses have decreased (EC, 2002). In fact, decentralization and the decrease in the power of unions have become a feature of collective work relation all over the world since 1980s (Bifl & Isaac, 2005). Indeed, the most important problem the businesses face nowadays is the difficulty to adapt to the new organization forms.Therefore, unionism is recommended to organize according to the network system. It is observed that this development is necessary, if unionism wants to expand the representation of the interests of not only the male workers of large businesses in developed countries but also of the interests of wage earners, temporary part-time, female, unemployed, retired workers of semi-independent poor countries and subcontracting businesses. It has been suggested that such labor unionism is necessary to meet the expansion of the functions of collective bargaining, based both on the mutual relations regarding wages and benefits, and on the general interest problems regarding the development of negotiations concerning employment, the organization of working hours and the evolution of labor law (Supiot, 2001).

Another feature of the new relations is the revaluation of workers' participation in the management process, profit and ownership of the business. Modern relations increasingly mean more active worker participation, not only in the identification and resolution of problems, but also participation in the management of wages, in the profit of the company -with the creation of systems related to productivity- and even in the ownership of its shareholders is in question. The main purpose of this increasing participation is to strengthen the commitment of workers to the employing company and to enable them to identify with it in order to remain competitive. In this respect, modern collective bargaining involves a radical defiance, i.e. to achieve a higher level of internal harmony in the business, to identify common points of interest, to enable agreements based on maximizing individual or group productivity, to ensure business stability and to coordinate possible wage adjustments. And consequently, to create a new pattern seeking to fulfill a dual objective in industrial relations: to limit the potential for conflict and to promote initiatives, participation and employability; on the one hand, to guarantee the basic labor rights and on the other hand to improve the training of human resources. The last of these is that the vocational education and training for sustained productivity growth has become another fundamental element of the new work context. This has always been a matter of debate, but the changes in recent decades have made training an extremely urgent need. The quality of human resources has become the most important asset of businesses not only in words but also in deeds, and it applies to both the leading companies and all the other companies. In short, current trends have brought the need for special attention to the restructuring of businesses and the need to substitute staff, but the tendency is towards the specialization of the production frameworks, the institutionalization of the formation of the workforce (Valdez & Bernedo, 2003). Despite a massive reduction and restructuring of the workforce in the US and Europe, the Conference Board's survey on CEOs suggests that the issue of internal talent development is the most critical issue they all face. They note that one of the critical facilitators of commercial growth is human capital (Castellano, 2016).

TRANSFORMATIONS IN THE LABOR MARKET

For decades, technology has shaped how people live and work. When access to technology is balanced, it becomes a product and businesses do not differ in owning technology. Businesses have begun to perceive innovation as the foundation of their existence, and technology as a means of this innovation. Businesses are using technologies like social media and digital marketing to improve communication and collaboration within their borders and abroad. The developments in technology have shaped the where, when, and how to do a job for a long time. The concept of workplace, which is defined as a fixed physical location, has lost its validity. Today, millions of individuals work remotely from their homes and work in a universal workplace concept. For many employees, going to work means walking into a home-office where they can be directly connected to their manager or colleagues (Castellano, 2006).

The social networks such as Facebook, LinkedIn and Twitter create new ways for employees to collaborate, share information, and know one another. There are "chat rooms" where employees who are scattered in different regions can get together and talk. Companies such as Cisco and IBM are benefiting from social networks to analyze accumulated information, improve collaboration, and promote information sharing among their organizations as well as video conferencing (Bisson et al., 2010). While these new technologies reduce the costs of creating and disseminating information, they are also rapidly transforming reaching the experts outside of the organization.There is no wonder that there have been major changes in the labor market with the changes both in the relations between employers and employees and in the nature of the work.Conflicting developments are witnessed: while there is a lack of labor (with qualifications), many people continue to be unemployed. At the same time, the informal economy grows as far as it can be seen. The new economy, which is primarily based on information and knowledge, indeed, requires the competence of workers; both the textbook information about the work to be done and the social skills are among these. While traditional, especially assembly-line jobs, are being eliminated by new technologies, workers who do not have the skills to be employed in the information society can be jobless. People live in a dual society of insiders and outsiders, and the inequalities between the two groups are increasing.The outsiders are poor workers and workers in the informal economy outside of the social safety nets (Blanpain, 2003).

No doubt, a lot of effort are being made to support those having difficulties in participating in the labor market of the new economy. In fact, one of the goals of social policies is to integrate people by contributing to the society and the other citizens, and by giving them the opportunity to produce goods and to provide services. From a practical point of view this means making people employable and/or maintaining it. It is clear that the best form of job security for workers is to obtain appropriate competencies. While in the past job security was approached more in terms of the reason for disemployment or notice of termination, the new style security means those preplanned measures which give employees the opportunity to successfully compete in the labor market (Blanpain, 2003).

Labor Practices of the New Capitalism and Reflections of Labor Processes on Labor Market

People live in a new society. They were taken from the industrial society and thrown into the information and network society. The worldwide competition and new communication technologies for investments and workplaces have abolished the old paradigms of social protection, stable jobs and industrial relations systems. Supply-oriented economics brushes aside labor law, collective bargaining, minimum wages and social security (Blanpain, 2003).

Before it was used by Karl Marx, the proletariat had been used as a word describing the lower social class which had not have enough property to bequeath and the people who had been part of that class. With Karl Marx, proletariat turned into a sociological term used to describe the working class and proletarian to describe those belonging to this class. In Marxist theory, the proletariat is the general name of the working class, which continues its life by selling labor that does not have the means of production. The emergence of the proletariat was after feudalism. With the end of feudalism, the fact that the people who did not have the possibility of continuing their life depending upon the property lived by selling their labor force for a fee led to the emergence of the proletariat class. In Marxist theory, the proletariat faces the bourgeois class which is the owners of the capital. Capitalism is a system based on the exploitation of the proletariat by the bourgeoisie. The bourgeoisie/capitalists provide the necessary equipment to the proletariat for the production of goods, utilize the proletariat's labor and that equipment, and produce goods. From the sale of the goods, the capitalists pay a wage to the proletariat, which is enough to keep them alive, and keep the rest for themselves. In fact, even though the proletariat produced all the value of the goods, the surplus value, the difference between the wage of the proletariat and the value of the sale of goods, remains with the capitalists.

In the 20th century, the beginning of the organization of the laborers and the acceleration of this development on the one hand and its getting widespread on the other led to the rise of the labor unions all over the world and to become a power protecting the labor from the capital. Thanks to this strengthening, the rights of the laborers have been secured a little more. The right to strike has been an improvement which increases the strength of labor completely. The working class started to rise especially in the western world. The Cold War was also important in this rise. The western world was more receptive to the wishes of the unions for the fear that the Soviet-type socialism could become widespread among peoples. The practice of minimum wage, which has become widespread all over the world, was developed as a result of these fears.

After globalization and the end of the cold war, the whole world adopted the capitalist economy model with some differences. Today, all countries which are called socialist are nothing but a capitalist formation that the global system shaped. After globalization and the collapse of Soviet-type socialism, the capitalists in the western world gradually began to take back the rights that the working class had acquired, seeing that the danger was diminishing. Thus, from the 1980s onward, the tendency for the rise of the working class and the protection of labor, first slowed down, then stagnated, and then started to decline. Today's labor unions are not as strong as the unions of the 1960s and 70s. Disemployments under the name of the flexible labor market, informal employment is becoming increasingly widespread and unions cannot counter these developments. Employees can be dismissed from employmentmore easily than how it was 15-20 years ago, the strikes are nowhere to be seen, and the workers cannot defend their social rights as strongly as it used to be.

The concept of precariat (Standing, 2011), which was introduced by the economist Guy Standing in his book "The Precariat: The New Dangerous Class", is used to describe the new working class created by these assurance losses. Precariat is a word created by combining two words which are precariousness and proletariat (those who earn their livelihood by selling their labor). Standing suggests that the neoliberal approaches which emerged almost together with globalization in the last quarter of the 20th century makes the unions lose their power. Since unions have now lost the old powers such as bargaining and the protection of the laborer, it has created a class of workers with much less assurance than their old counterparts. According to Standing, this group, living in constant fear of losing their jobs, is also creating a dangerous situation for both the society and the democracy as a result of the tendency to sinking into extremism.

In terms of the western world, precariat is born as a new class. When the scopeis changed from developed economies to developing economies, the issues get more hectic. The definition of precariat may be sufficient to describe the situation in the western countries; however, it is not enough to describe the situation outside the developed countries. In the developing economies, there are those who work with low job security as well as those who are totally deprived of security. For example, the rate of those who work without any social security goes up to 35 percent in Turkey (September 2017). That is, one-third of the employees have no assurance upon losing their jobs. They only have a chance of earning a wage as long as they work. The high rate of those who are unemployed in any kind of work while they are not studying, as well is another problem. The rate of those who are in this situation exceeds 25 percent in Turkey. The unemployment rate in the youth population, which defines the population between the ages of 15-24, has exceeded 20%.

The increase in the number of people who have jobs but whose job security is diminished in developed countries, and the number of people with no work or no social security in their works in the developing countries are arousing anxiety. This group of unemployed, precarious, informal people are preparing to leave their marks in the 21st century as a pliable group susceptible to all kinds of manipulation (Eğilmez, 2018).

FACTORS AFFECTING THE WORK-LIFE QUALITY

It is important in terms of the quality of the working life that the workers find their jobs meaningful and valuable and evaluate them in accordance with their personal developments. This situation can contribute to the happiness and enjoyment in the worker's life since it might be reflected on their job satisfaction. In this context, the factors affecting the work-life quality can be classified as personal, organizational and external factors.

The work-life quality can be affected by demographic characteristics such as age, gender, marital status, ethnic group, religion and sect, and education level (Lowe, 2001). The fact that the attitudes and behaviors of the employees vary based on the demographic characteristics, and these behaviors can be perceived and evaluated differently by the other workers can cause the deterioration of relations and internal conflicts (Trau and Härtel, 2007). On the other hand, the irregularities in social life such as family problems, economic insufficiency, lifestyle, bad habits, etc. have some consequences that affect the productivity and the success of workers in their work-lives (Rose et al., 2006). These negativities can affect the work-life quality by causing work accidents and economic losses in production and services.

It has been suggested that organizational culture, particularly as organizational structuring and management style (such as autocratic, participatory, democratic), has an important effect in determining the Work-Life Quality (Gillespie et al. 2008; Nichols, 2001). The ability of management-worker relations to achieve organizational goals and facilitate inter-organizational communication can motivate all employees in providing the quality in work-life. In the workplace, the quality of work evaluated by the wage system regarding monetary payments such as salaries, premiums, etc., creativity and autonomy, social justice, job security, and workload as a quantity of work to be done at a certain time and quality are among the important elements of the work-life quality and can create pressure on the workers' tendency of leave of employment or intention to stay at work (Beauregard & Hanry, 2009; Browne, 2005; Carmeli, Elizur & Yaniv, 2007; Danford et al., 2008; Rethinam & Ismail, 2008).

Apart from the personal and organizational factors affecting the work-life, there are external factors which cannot be controlled totally or mostly, and which arise due to social and environmental conditions, labor market, national and global developments and changes. These factors can be expressed as legal regulations concerning work-life, workforce structure, social values, labor union activities and technological developments. It is a known fact that the activities of unions operating for the protection and improvement of economic and social rights and interests of workers in the work-life has an influence on the work-life quality. The unions are contributing greatly to the solution of the existing problems by supporting the participation of the workers in the management (Bayazıt, 1998). While encouraging the workers to unionize motivates them positively, the union activities ensure the improvement of the working conditions of the workplace and improve the work-life quality by meeting the workers' expectations and desires (Fields & Thacker, 1992). On the other hand, it can be said that the developments in technology have significantly influenced the work-life quality since they can bring a certain speed and efficiency in the organizational management system and the employed workers.

It is inevitable to give importance to people who are the most valuable resource of organizations and to work in this direction.Working in organizations where employees feel safe and they can develop their skills will make them happy and productive.Increasing the efficiency of organizations depends not only on the use of technological innovations, but also on the understanding of the organization management. Therefore, a contemporary management model which is people-oriented, makes people successful with mutual performance, and empowers the strengths of employees should be adopted.

This management model will increase both the quality of the organization and the quality of life of the individual and will combining the aims of the organizations and employees on a common ground. One of the most important variables affecting the work-life quality is wages. The wage system is the main determinant of employee satisfaction or dissatisfaction. The wage is very sensitive from the viewpoint of employees and very critical in terms of business. It is necessary to design the wage system correctly, to ensure employee participation in the design phase, to establish a balanced, fair and equal wage structure.

The product, customer and employee trio are the main factors in terms of the future of a business in competitive conditions. With the emergence of these three factors to a high decree, the importance of the role of the employee and its performance has increased even more. The employee participation to reach the highest level in terms of morale, creativity and initiative has become an inevitable necessity.

Therefore, merely the improvements and monetary incentive systems regarding the performance of the work are not enough to ensure this participation and different methods are required (Akal, 2005). Various methods have been developed to improve the work-life quality. The aim is to reduce psycho physical workloads caused by working conditions with new arrangements on working hours such as rest breaks, shift works, flexible working hours, and with such methods as job enlargements, job enrichments, and group works oriented at increasing the job satisfaction. The latest developments have brought the newest dimensions to the working life. Technological developments have created a new class, called information workers, in the business world instead of the weight-bearing production workers within the working class of the past.

The expectations from this class have changed in this process as well as their expectations. The role of employees changed from their physical abilities into using their creativity, innovation, and decision-making skills, and the development and democratization encountered in society encouraged the transition into the participative methods in the work environment. Ensuring the quality in work-life depends on the establishment of a career system suitable for the performance and abilities of employees, i.e. on setting individual goals in line with the common goals, and on ensuring the necessary environment for them to participate in the management of the organization and to take an active role in decision-making processes concerning them.

However, employees have to be interested in participating in order for an efficient participation in management. At the same time, employees need to be aware of the importance of their decisions and the seriousness of what is required from them. The employees who believe that decision-making regarding the management is not their own responsibility, or who believe that their manager knows the best and do not make any efforts in this direction, cannot reach the motivation required in business life.

The contemporary organizations are the organizations which implement a contemporary form of management in which all employees have more voice in decision-making regarding the issues which interest themselves and employees also make serious efforts in this regard (Uysal, 2011). In traditional organizations, the concept of “management” is considered together with the concept of “hierarchy” and reminds of a series of steps in its associated meaning in business life. These hierarchical steps complicate communication and cooperation within the organization. In contemporary organizations, a horizontal organizational structure and a flexible management approach stand out.

Cooperation with employees, ensuring participation in decisions, giving importance to individual expectations and desires together with organizational goals come into prominence in contemporary management approach (Serbest, 2000). Business ethics must also be institutionalized in line with the work-life quality. Business ethics includes ethical principles and standards that guide employees about their behaviors in the business world. Protecting the basic rules, principles and values which integrate and guide the organizations, i.e. ensuring the establishment and continuity of the organizational culture, ensuring the cultural integration between the organization and the society, and spreading the cultural values within the organization are among the elements which increase the work-life quality. Maximizing the participation of employees in the processes is of great importance.

The satisfaction of employees in the jobs they perform in the work environment also affects their work-life quality and their performance, ultimately. To this end, employees need to have in-service training opportunities for technical and personal development on a regular basis in order for employees to improve themselves in terms of both operational and mental development. It will be beneficial to popularize practices such as uniting on common purposes, recognition of employees (valuing), encouragement of creativity, combining the organizational goals with the individual goals participation in decision making and responsibility for results. These practices and the contributions provided by them can be considered as indicators determining the work-life quality in a business (Akal, 2005).

SOLUTIONS AND RECOMMENDATIONS

The provision of work life quality; which is pretty important for the employees, is also offering positive contributions to the organizational activity at the same time. The enterprises make a great effort in order to increase the satisfaction and the loyalty of the customers in the intense competition environment of the global world. However, the sectoral and the scientific research results show that acquiring satisfied and loyal customers is depending on happy employees. When these results are considered, having applications and programs that provides all employees to become devoted for the organization is strongly suggested.

FUTURE RESEARCH DIRECTIONS

The purpose of this study is to analyze the effect of changes in labor market in the context of work life quality on working relationships. It is believed that providing working conditions that satisfy employees, contributes to literature by focusing on to the accomplishment of the vital strategic targets of businesses such as creativity and innovation. On the other, it is thought a study that considers the change and the transformation in the working relationships and the nature of the workforce depending on the flexibility of the production will be beneficial.

EVALUATIONS AND CONCLUSION

The fact that the non-price elements in the global competition are also influential has caused the concept of the work-life quality to gain currency. The competition based on quality initially emerged with relation to products and gradually spread towards the production process. Today quality has become a concept not only used for economic life but also for institutional analysis of social life. In this sense, the work-life quality is closely related to the formation of quality requirement in the market and the provision of quality in accordance with the demand. It is understood from the studies that the work-life quality affects the work and social lives of the workers.

Today it is clear that organizations must develop new strategic management skills for the technological, global, economic and demographic trends that affect them. This speed of change is now considered normal. There is a need for reviewing the methods that fit every problem with the old procedures oriented at increasing and sustaining the work-life quality. Oriented at ensuring the organizational compatibility, the companies, which deal with a number of issues such as managing a few generations together, have to develop proven strategies to be carried out with the intention of managing a highly diverse global workforce.

In order to determine which management practices will enhance the work-life quality, the managers need to acquire a strategic way of thinking oriented at this purpose. Often managers focus on short-term financial losses and respond negatively to the requests by cutting the funds from the Human Resources management programs, which will damage their long-term competitiveness. In the crisis periods, the budgets and programs allocated to human resources are terminated. As the markets regain their old situations and return to their normal course, giving back the budgets and recruitments follow. It is a constant cycle in which tens of thousands of workers are recruited and dismissed. Clearly, expenditures must be meticulously managed in times of crisis, but investments aimed at the work-life quality and maintaining the competitive advantage have to be left untouched. This lack of comprehensive management has led to the collapse of many companies acting in this way.

Especially, companies based on manpower and intellectual capital have to strategically manage their human resources. Organizations need to have dedicated and committed workers who can fulfill their duties in both good and bad times so that they can cope with these conditions in a way that they can progress in unpredictable market conditions and economic fluctuations. Determining what motivates employees is not easy in today's diverse business environment. Success has different meanings in every developmental phase in the life cycle of people. Work and life are too complicated to think that there is only one type of practice to achieve a specified business strategy or to motivate a unique individual with his or her own conditions and preferences.

Current research suggests that many organizations respond to the different needs of their employees, particularly high-performance employees for whom they show the maximum effort to keep in the organization by offering personalized employment or custom arrangements which are called personalized work arrangements. These custom arrangements can be in the forms of recognizing what he or she has to say regarding the performance of the work, providing flexibility about where and when to do the work or providing specific developmental trainings to increase the employees' skills.

The best approach for organizations is to have a wide variety of policies, practices and programs that can ensure that all employees are dedicated. This requires workers to be able to comprehend their preferences and needs, and their personalization skills regarding their work arrangements. What makes the custom arrangements effective is to convey a message to the workers in line with the fact that they are valued. If the other employees believe that they can achieve similar work arrangements, they may feel that custom arrangements are fair. The essential part of the work-life quality is to create a work environment in which all employees can feel they are valued

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KEY TERMS AND DEFINITIONS

Creativity: It is the ability to create new ideas.

Innovation: It is creating new resources for customer satisfaction.

International Working Standards: The norms that regulate the work life which were created by ILO contract, nationalized by law and collective labor agreement.

Quality of Work Life: The working conditions that provide satisfaction to the employees.

Workforce Demand: It is the amount of manpower which is required by employers.

Workforce Supply: It is expressing the presentation of manpower, which is one of the productions factors, to the employment market.

Chapter 20
Corporate Scandals Involving Social Media:
Cases From Turkey

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ABSTRACT

The importance of public relations and crisis communication is undeniable for companies. In a corporate scandal or crisis situation, the right messages have to be conveyed to the relevant audiences including shareholders at the right time and in the right way. Today, social media is one of the most popular tools of crisis communication. Including Turkey, the number of social media users all over the world is quite high and continues to increase every day. In recent years, we observe that companies use social media as an effective communication tool during their crisis periods. The aim of this chapter is to make an in-depth review of the literature on crisis management and the use of social media and to reveal the position of social media in communication efforts carried out during the company crises through various cases that took place in Turkey.

INTRODUCTION

No matter how well a company do its plans, manage its communications carefully, problems can happen. Dealing with these problems, handling them in the right way, can turn the negative situation into an advantage for the company's image. Prompt and well-planned communications can counter the disruptive and critical situation and replace it with a stable or even positive environment. Therefore, implementing a good crisis management program is crucial for the companies.

Social media is ruling today's world. It would be unwise to acknowledge its power in business world. Companies are interacting with their customers, promoting their new products, gaining feedbacks, even engage customers in new product development through social media. We encounter with many examples, which some will be discussed throughout this paper, about how corporate scandals are being resolved

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using the power of new media tools. In a crisis situation, social media has to be used as a collaborative tool and be integrated into marketing communication plans of a company.

In this study, a comprehensive literature search on crisis management and role of social media in managing crisis has been done. Some good and bad examples have been examined and necessary conclusions have been drawn.

CRISIS MANAGEMENT

Meier (2011), states that a crisis is always a major turmoil for a business or for a social environment. It leads to national news media coverage and is a serious event in which the public needs information to make good decisions. It is a situation that stops business, alerts individuals and jeopardizes their reputation. A crisis would cause individuals to get panicked, take them out of their passive mood and push people to be in action.

Crisis management is defined as "the set of direct actions taken to prepare for, respond to and mitigate to a crisis event. These actions involve intervention points between various escalating stages of a crisis and use information superiority in an attempt to disrupt the cascading effect of a crisis" (Hetu, et al., 2018). Marcus and Goodman (1991) state that crisis differ on at least two important points: effect on possible victims and in what can be doubtlessly and apparently told about the causes. Authors consider a crisis to be either an accident or a scandal. Accidents are unfortunate occurrences which company can deny for responsibility. On the other hand, scandals are disreputable and inglorious incidents. Since the scandals are resulting from violations and faults, it is hard for companies to deny responsibility. In a scandal situation company wants to get rid of the negative effect and to do so offer an apology to the public backed up by management change to prevent the repetition of the unwanted and doubtful acts.

A company can encounter with various types of crises. They can be listed as; product issue – e.g. having physical or functional risk-, negative public perception of the company, financial problem such as cash problem, workplace violence, death of a senior officer and disasters resulting from nature such as an earthquake or intentional acts such as terrorist attacks. Each organization should carry out a risk analysis that identifies the most likely types of crises that it can face. This enables them to focus initially on the development of a plan to respond to the most likely crises. Yet, after this risk assessment step has been completed, many organizations have faced a crisis that has either not been identified as highly likely or one or more that has not even been identified on no account (Devlin, 2007).

There are three stages of a crises: Pre-crises stage, acute-crises stage and post-crises stage. The topic is elaborated as follows (Devlin, 2007);

The pre - crisis stage is the earliest stage of a crisis, the time when the organization realizes the situation first. The "developing situation" is small at this time and the outside world is unaware of the problem. This is a timely moment to take action which would eliminate the pre - crisis situation. At this point, management must ask what can be done to change the current negative situation. For this reason, organizations need an applicable and consistent crisis management plan that allows them to recognize warnings before the crisis occurs. Once managers are warned of an imminent crisis, they can take the suitable action. Even though there are many reasons why pre-crisis situations move to the acute-crisis stage, four of them come to the front: the underestimation of the problem by management; overestimation of their managing ability; being unaware of the developing situation and ignoring the situation deliberately. The acute-crisis stage, is the stage where the public and the media is being aware of the "developing situation". When the situation reaches the stage of the acute crisis, it is too late to prevent it from damaging either the image of the organization or its financial status. Since it is too late to take preventive action, managers should do damage control in order to minimize damage and prevent further damage. When the reputation of the organization has been damaged, it would have serious consequences for the company. When everyone can see it, it can be difficult to manage the organization because there would be a possible breakdown in respect for top managers. There might be loss of key employees who look for safety in another workplace. Shareholders and creditors would be concerned; shareholders might dump their stocks and creditors would definitely want to be satisfied. Companies should explain what they have been going through, to the related groups, namely, the media, the general public, the employees, the customers, the shareholders and etc. In this period they need to take the necessary actions to fix the problem and nullify the crisis. Post-crisis stage, is the last stage where, the organization gets the acute crisis under control, and management concentrates on the actions to take. Therefore, recovering losses, assessing the performance of the company during crisis time and making necessary changes are the main goals. The acute-crisis stage ends at one point but post-crisis stage is lengthy (Devlin, 2007).

CRISIS COMMUNICATION

Crisis communication aims to explain the specific event, determine the probable outcomes and provide specific harm reduction information to distressed public in an honest, frank, timely manner. One of the main differences between crisis communication and risk communication is about the origins. Crisis communication is typically linked with public relations. The basic missions of risk and crisis communication differ. Risk messages relate to the probability of damage and related methods for the reduction of the possibility of damage. Risk messages are often based on current scientific and technical apprehension of a specific risk factor, besides on cultural or social beliefs about risk. The risk messages pursue to transform technical understanding of risk into behavior through persuasion. Crisis messages on the other hand often are more focused on informing than persuading. Crisis communication, is to a great extend event specific and is mainly non-routine. Risk communication is to a large extent sender-message focused, where crisis communication is more sender-event centered which aims to respond to immediate information need of public spontaneously. In addition, crisis communication also pursue to reduce general anxiety among the individuals (Reynolds & Seeger, 2005).

According to Coombs (2010), Crisis communication is a crucial part of crisis management. In pre–crisis, crisis communication involves gathering information on crisis risks, deciding how to manage possible crises and training people such as members of the crisis team, crisis spokespersons involved in the crisis management process. Crisis communication involves collecting and processing information for decision - making by the crisis team, as well as creating and spreading crisis messages to public. Post-crisis involves carefully analyzing and observing the efforts to manage the crisis, communicating necessary changes to people and providing follow - up messages as needed.

The crisis response phase is the most extensively investigated element of crisis management. The reason for this is what and how an organization communicates during a crisis has an important impact on the consequence of the crisis, including the amount of reputational damage the organization has suffered. A brief review has been made (Coombs, 2010):

- **Tactical Advice**: Research has demonstrated the value and importance of bad news disseminated from the organization. When an organization is the source of information about a crisis, reputational damage is lower than if the news media are the first to provide information. Inaccuracy damages credibility and misstatement can put shareholders at risk. Inconsistency create confusion within the public, so being consistent would make a contribution in building credibility.
- **Strategic Advice**: Strategic crisis communication research aims to understand how crisis communication can be used to achieve specific results and impact stakeholders. The focus is on how different crisis response strategies are used to seek different organizational goals. Sturges (1994) identified three types of content for stakeholders. Instructing information informs how to physically protect themselves from a crisis. The information adjustment helps stakeholders deal psychologically with the crisis situation and internalization of information where the information is used to build an image about the company.
- **Apologia**: Apologia is a concept which examines the use of self - defense communication. The character of a person is called into question when he or she is accused of taking an action involving wrongdoing. When an individual' character is attacked, one of four communication strategies can be used. According to Ware and Linkugel (1973), they are, denial, bolstering, differentiation and transcendence. Denial stands for the person not involve in misconducting; Bolstering aims to remind people the positive and good things the person has done, Differentiation aims to remove the action from negative circumstance and finally transcendence positions the action in a more favorable context. Crises, for example, could be regarded as acts of wrongdoing and create the need for corporate apology. Apologia from companies are used to improve social legitimacy.
- **Image Restoration Theory:** Image Restoration (Repair) theory is based on apologia theory. Benoit (1995) has introduced the theory to the academic literature. The theory has two bases: the communication is a goal-oriented activity and maintaining positive reputation is one of the key communication goals. He proposed five image repairing strategy: Denial, evading of responsibility, reducing offensiveness, corrective action and mortification. Benoit divides denial into two, as simple denial – the accused did not perform the act- and shifting the blame - that another person or organization is actually responsible of the negative act. Evading of responsibility has four versions including provocation, defeasibility –company being lack of information-, accident-the negative act happened accidentally and good intentions which states that company undertake the negative resulted act with positive and good intentions. A company may also try to reduce the perceived offensiveness of that act by bolstering, minimization (showing the act is really not having any great importance), differentiation, transcendence, attack accuser and finally compensation which is compensating persons affected negatively by the act. Corrective action prevent negative act happening again and lastly mortification states attaining to gain forgiveness from public by apologizing.
- **Rhetoric of Renewal:** In rhetoric of renewal the focus is on helping victim and the emphasis on a positive view of the company's future and recovery. It values positive communication in crisis times. Researchers have established four criteria necessary for the use of renewal: (1) pre - crisis ethical standard is strong in the company; (2) the pre - crisis relationship between constituency and organization is powerful and favorable; (3) the organization can focus on life beyond the crisis; and (4) the organization wishes to communicate effectively.

One of the most important crisis communication theory in the literature has been proposed by Coombs and his colleagues. Situational Crisis Communication Theory is public-oriented because it aims to illustrate how people perceive crises, how they react to crisis response strategies and how they respond to the crisis organization. The nature of the crisis shapes the perception and attribution of the audience. Therefore, efforts to understand how individuals perceive situations of crisis, focus on the audience. Main idea is to develop an understanding on how individuals perceive crisis and the impacts of these perceptions on their attitudes and behaviors (purchase intention and word-of-mouth) (Coombs, 2010).

Situational Crisis Communication Theory (SCCT) proposes a two - stage process for evaluating the threat related to crisis. The first step is to identify the frame shareholders are using to categorize the process. SCCT operates by grouping three types of crisis: victim (low crisis / threat), accident (minimum crisis / threat), intentional (strong crisis / threat). These classifications represent an increasing degree of attributions of responsibility for the crisis and the threat posed by a crisis. Determining the type of the crisis establishes the basic threat posed by the crisis. The second step is to determine whether there are intensifying factors existing. (1) crisis history – if the company had similar crisis before and (2) prior reputation – general state of the company's relations with the shareholders. Only one of the intensifiers must be present to change the threat posed by the crisis. SCCT discusses that each crisis response should start with the instructing and information, adjustment. Instructing information shows the guidelines to shareholders about how to protect themselves from a crisis. Adjusting the information helps shareholders to deal with a crisis psychologically. The managers can try to repair or restore reputation after these two information have been provided. There are three primary and one supplemental strategy in SCCT. Deny strategies try to demonstrate that the organization was not responsible for the crisis. The crisis either did not occur or the responsibility was on someone else. Diminishing strategies aim to minimize the responsibility of the organization for the crisis and/or reduce the perceived gravity of the crisis. Rebuilding strategies are very accommodating and aim to improve the organization's perception by compensating and/or by apologizing. Reinforcing strategies attempt to develop and present positive information about the company by ingratiation and/or bolstering (Coombs, 2010).

As an organization returns to normal operations, public need to be informed of the continuity efforts of the business. Employees, suppliers and customers all want to know when ' normal ' operations are taking place and they need to be regularly updated. Companies may need to cooperate with investigations, produce their own reports and/or respond to reports from external agencies such as the government. Investigations are the extension of crisis information. In the post- crisis phase reputation restoration continuous. Renewal is an example of how efforts to repair reputations go beyond the crisis. Future and repair are the main focus of renewal. Months or years of communication could take to rebuild a reputation (Coombs, 2010).

Another important theory is the Crisis and Risk Communication Model. There are five stages of Crisis and Risk Communication Model (CERC). It proposes that crises will develop in largely systematic and certain direction. It will be developed from risk, to eruption and to clean-up and from recovery on into evaluation. The model decreases uncertainty and let crisis managers to look beyond and predict certain needs and problems of communication. Some potential crises might not follow this sequence because of the presence of factors including effective risk during the early stages, or unpredicted interactions. In the model, all communicational efforts are directed to the general public and effected groups. In the Pre-crisis stage of the model, it is aimed to facilitate an understanding of risk, recognition of emerging risk, preparation for the likelihood of an unfavorable event occurring, etc. Second stage is the initial event stage. It involves establishing empathy and reduction in anxiety, develop an understanding of general understanding of the consequences and possible outcomes of the crisis, etc. The third stage, maintenance, pursue to develop more up to date view of ongoing risks, developing an understanding of the background factors, support with recovery efforts, etc. Resolution, being the fourth stage, aims to inform public related to recovery and rebuilding efforts, improve understanding of the risks and risk avoidance behaviors, etc. Finally evaluation stage evaluate the responses, document the lessons learned from the crisis, create links to stage one, pre-crisis stage (Reynolds and Seeger, 2005).

SOCIAL MEDIA AND ITS ROLE IN CRISIS COMMUNICATION

As Akyüz (2013) indicated, Web 2.0, which is known as second generation World Wide Web, created social media concept which allows users to create, edit, share contents online. Social Media, transformed already active individuals into more effective users. Today, consumers increasingly, creating content about brands, communicating with each other, advising about the product, sharing their criticisms and reviews and even without the need of consulting manufacturers, helping each other in order to solve the problems they experience with the specific product/brand. In this context, customer interaction in social media environments is an important issue for the success of marketing and communication strategy.

As Meier (2011), states, in the old media, it has been a compulsory action to be part of the social media world. It is apparent that if they're not part of the action, they'll miss it. So they wishfully follow one another. In today's media, the speed and acceleration of news create a competitive environment. The old media simply cannot bear the consequences of missing the breaking news story on social media. Citizen journalists are now existing and having a great role in newsgathering process. CNN's iReporters is a great example of it. On the other hand MSNBC serves interactive news. The collaboration of old and new media can be observed everywhere.

Social media presents many ways to spread the information in a cost-effective, quick and effective way. Right information is communicated to the right people at the right time. This helps support the decision-making needs of the public and emergency management during crises (White, 2012).

The use of social media must be incorporated into risk and crisis decision - making and policy development. Crisis managers should actively engage in online conversations with the public, listen to the concerns of stakeholders and respond to the requests for assistance from victims in a timely fashion. Instead of passively disseminating information on risk and crisis online, risk or crisis managers should fully adopt social media for bidirectional communication (Lin, et al., 2016). Managers must make a decision on what social media tool will be selected during crisis communication and how often they will continue to post the message. The alternatives ranges from microblogging sites such as Twitter, to social networking sites as Facebook, to video sharing sites as Youtube and photograph sharing sites such as Instagram (Graham, et al., 2015). As Austin and Jin states (2017), advances is social media has altered the frame of crisis communication in at least two crucial dimensions. First of all, a crisis can be originated from social media, as a poorly-devised social media campaign or a message that harms the company image and reputation. Secondly, social media platforms have become important tools for hindering the transmission of rumor or negative opinion sharing related to a company.

Researchers developed the social-mediated crisis communication model in 2010. The model is divided into two sections that describe how the source and form of crisis information influences company's response alternatives and recommended social-mediated crisis response strategies. For crisis information source, the model shows the interaction between a company experiencing a crisis and three types of publics who produce and consume crisis information by way of traditional word of mouth, social media and traditional media. The publics include, influential social media creators, who created the crisis information content; social media users who consume the crisis information; and social media in-actives, who might consume crisis information indirectly through traditional WOM. At the center of the model the company exist as a source. Accordingly, sources can be divided into two as company-based and third-party based. Different organizations can place and position themselves as the central organization in the center of the model to make assessments and react to a given crisis (Liu, et al, 2011).

Lin et al (2016), notes that, crisis practioners, should establish an online interaction with the public in an active manner, listen to shareholders' anxieties and responds to victims' requests for help and support at the right time. Rather than passively disseminating crisis information online, they should fully adopt social media since it provides two-way crisis communication opportunities. When company starts a dialogue with the public, it should be continued. Empirical evidence from previous researches indicates that an effective crisis management should be fast when the issue is the information feeds on social media. Information feeds would make the individuals to take the necessary actions by receiving updates from official or authoritative information sources. Therefore, it is paramount to designate how frequent the social media feeds would be shared and how the feeding will be planned and executed. Crises managers should make certain that the information is delivered in right frequency to be noticed during unfavorable events. Company also has to create a team who would have access to the official social media accounts. They should get a training on providing accurate updates to the public. Besides, companies have to own the hashtag they created and need to monitor hashtag to make certain of the dissemination of useful information (Lin et al, 2016).

CASES

Continental Crisis: Erasing Turkey From the Map

Early in 2018, worldwide known German automotive manufacturer Continental, has caused a major crisis in Turkey. In the unfortunate event, official website has shown an advertising promoting the Continental powertrain technologies, in which there was a map that did not contain the country, Turkey. Instead of where Turkey is located, Mediterranean Sea was shown. Realizing this, Turkish citizens shared the video on both Twitter and Facebook and responded with unfavorable attitude towards the company. Turkish people were divided in to two: the ones who believed that this was done accidentally and the ones who thought this was done intentionally. But even those who think that a mistake was made; argued that a global company has to check such ads over and over again before being broadcasted or published. The event was discussed for several days on various blogs, social media sites.

Continental Turkey posted an apology text in Turkish language on Twitter account after the mounting pressure, which can be translated as: "Thanks to the shares on social media, we noticed that there was a video containing graphics error in Continental Automotive Global page. We would like to thank all the social media users for reporting this error. We would like to inform you that the video has been removed immediately. We're in deep sorrow. We apologize to the community." Continental also posted an apology text on official international Facebook and Twitter accounts as "Today we were made aware that unfortunately a faulty video file has been uploaded to the Continental Automotive Internet pages.

We thank the social media community for making us aware of this fact and withdrew the video immediately. We apologize deeply for this mistake" ("German tire manufacturer Continental erases Turkey on map", 2018).

Both apologies were criticized by Turkish people. In the apology which was made in Turkish, the negative event was classified as a graphic error and as being perceived as a simple event by the company, caused negative reactions to increase. In case of apology published in the global website, in English, the country name and event were not specified. In the message, "Turkey" word was not used and the message did not come sincere to the Turkish people because Continental did not apologize directly.

A press spokesperson for the Continental company, who answered the questions of the Avrupa Bülteni, said they had noticed the error in the film after the negative reactions and removed the ad immediately from website. He stated that they have been investigating the cause of the unfavorable event but suspected that it might be originated from the advertising agency ("Continental, Türk kamuoyundan özür diledi", nd.) Continental International told the Daily Sabah that the error was an isolated case, and they were in deep regret. They stated that, even in global companies, people sometimes make mistake, but in the present case the error was noticed not on time. They said they responded to the unfavorable situation by pulling the video out of circulation right away and assured that measures were taken to avoid similar incidents in the future" ("German tire manufacturer Continental erases Turkey on map", 2018).

As a result, Continental could not manage this crisis properly. Social media allowed them to meet Turkish consumers quickly. But Turkish people did not believe the sincerity of the apology and found the restoration efforts inadequate. The incident in February is still not forgotten.

In a study conducted between January 2107 and May 2018, 824 respondents in unaided format were asked about which brand crisis was remembered. 25% recalled the crisis; 19% of the participants stated that they shared the negative incident on social media. In addition, 28% of those who correctly remembered the Continental crisis indicated that they stopped using the Continental brand; 61% said that they haven't been using the Continental brand and are not using in present; 4% said they stopped using it during the crisis time but using in present and 6% would continue to prefer the brand because they did not experience any personal problems ("Sosyal Linçler, Marka Krizleri ve İtibar Araştırma Sunumu, 2018").

n11.com: Siren Crisis

n11.com was founded in June 2012 in partnership with Doğuş Group, one of the most successful conglomerates in Turkey and SK Group, one of the largest groups in South Korea.

According to alexa.com it is Turkey's 12th most clicked web site, and second most clicked e-commerce site ("Top sites in Turkey", accessed on 09.02.2018). November 10 is an important day for Turkish people. On November 10, Turkish people commemorate the death anniversary of Mustafa Kemal Atatürk, the founder of the Republic. On every November 10, at the time of his death, 09.05 am., sirens sound and moment of silence is held in all over the country.

n11 used a different communication strategy to announce its traditional 11.11 (11 November) sales on November 10, 2018. But this strategy was not a thought-out strategy and turned into a crisis for the company. On the 10th of November, the n11 users received a message saying "We do not feel comfortable and to not to disturb you- at least not by the siren- we send you a message to inform you that the special discount products page will be opened at 00.00 hours." The words "siren and disturbance" used in the same sentence distressed and annoyed the public. Eventually, the incident began to spread on social media like a virus. "# n11boykot" – n11boycott hashtag was started on Twitter. In Turkey's most famous interactive social media platform, Ekşi Sözlük, "10 November 2018 n11.com vileness" and "November 11, 2018 n11 boycott" topics were created immediately and hundreds of posts containing angry reactions were written by Ekşi Sözlük users.

The first response n11.com did was to write the following post on November 11, 2018 at 03.00 am at eksisozluk.com under the title of "10 November 2018 n11.com vileness": "Dear public, it is necessary to make a statement about the notification that was discarded from our application at 00:00 this evening. First of all, we would like to share with you with all our sincerity that we are in a deep sorrow. In order not to cause disturbance at midnight, the notification text sent in silent mode that use our campaign theme, siren, is unfortunately very misunderstood and misinterpreted on this important day. While our commitment to the great leader Atatürk and his principles was one of our most indispensable values, we are very sorry to encounter with such unfortunate situation. We sincerely apologize for the misunderstanding caused by the notification ("10 Kasım 2018 n11.com rezaleti", nd). The same message was posted on the official social media accounts of the site such as Twitter, Instagram at noon on November 11th.

After the incident, some users have deleted the n11 application from their smartphones. And some decided not to shop from the site. Later on, in social media, it was claimed that the message was originally directed at trendyol.com, another important e-commerce site of Turkey since short siren played in the notification messages coming from trendyol.com. At the same time there is an important fact that, in the commercial to announce the 11.11 discounts of n11.com, commercial song included the lyrics "sirens are sounding"

When we evaluate the crisis management; it is a favorable situation to see a quick and sincere statement immediately right after the reactions were being noticed by managers of n11.com. However, since the communication accident is associated with one of the most important values, Atatürk, the reactions have continued in social media. Individuals have found the apology to be sincere over time and have connected the siren message as a response to the trendyol.com or understood that the company was actually referring to their own advertising. In fact, there was a clear misunderstanding; but the cautious approach of the public continued as the event in question had a sensitive content. Although the interactive world requires speed; this event showed us once again the importance of the right creation of marketing messages. Indeed, the humorously designed message would not have received so much reaction if it had been communicated on another date, not on November 10th. The communication department might be caught in the excitement of the campaign. But n11.com, should not have forgotten that as being Turkey's one of the biggest online shopping sites; the message would be transmitted to millions of people and accordingly, extra care should have been shown in message design process. This is an accident, but it is the result of the negligence and the lack of broad-frame focus of the communication department or all individuals who control the message.

Onur Air: Van Crisis

On October 23, 2011, a massive earthquake occurred in Van, a city in the Eastern Anatolia Region of Turkey. The intensity of the earthquake was 7.2. 601 people were killed because of the earthquake, while the number of the injured was 4152. A number of buildings were either destroyed or heavily damaged. Power lines and phone lines went out. It was a day of great sorrow, grieving all the people of Turkey.

Onur Air is a low-cost airline founded in 1992. In 2003, it became the first private airline starting domestic flights in Turkey. According to the 2017 aviation sector report by the Union of Chambers and Commodity Exchanges of Turkey (TOBB, 2017), Turkish Airlines (along with AnadoluJet) held 56% of the domestic passenger market, while Pegasus, Sun Express, Onur Air, and AtlasGlobal held 31%, 5%, 4%, and 3% respectively. In 2017, Turkish Airlines held 64% of the international passenger market by itself, while Pegasus held 17%, Sun Express got a 7% share, AtlasGlobal held 5%, Onur Air and Corendon had a 2% share each, and Freebird and Tailwind held 1% each. As of 2018, Onur Air has a fleet of 25 passenger aircraft (Onur Air, 2018)

Onur Air posted a message on its official Facebook and Twitter pages on the day of the earthquake, stating "Due to the catastrophe experienced in Van, we wish all our citizens there to get well soon and God's mercy to those who have passed away, and send our condolences to their close ones". On October 25, 2018, the company started a campaign to support the victims of the earthquake on its Facebook page; at that time the number of its followers on Facebook was about 220,000. The campaign basically started when the company declared that for every follower it got, it would give away 0.5 Turkish Lira to be donated to the earthquake victims and the donation amount would be the same for each new follower and that the target was 250,000 TRY. Facing with heavily criticizing comments increasing rapidly after the post on the Facebook page was shared, Onur Air firstly started to erase negative comments. But this only increased the numbers and the intensity of the negative reactions. Afterward, the following message was posted by the company for those who accused the brand of being insincere and opportunist: "Our campaign, which was created with the aim of drawing attention to the donations for the families of our martyrs and the earthquake victims in Van on social media, has been brought to an end due to some of our followers who could not grasp this. The first of the benefit receipts for 110,000 TRY collected on your behalf is attached, and the second will be posted within the day. We would like to point out for our discreet followers that we are also performing other kinds of charity activities such as aircraft allocation to the region free of charge, and collective help from our employees, and we will continue to do so. We sincerely apologize for any misunderstanding to our followers who have not misunderstood us" (Akdaş, 2011).

This message, declaring the cancellation of the campaign, drew backlash again due to Onur Air's harsh comments. It started on the company's official Facebook page but spread to other networks like Twitter and Ekşi Sözlük. In addition, it became a trending topic on Twitter and Ekşi Sözlük, becoming the most mentioned incident. Even though they changed the content of the message, it did not really change anything. What was done could not be undone, and the consequences were dire for the company.

Assessing the crisis management, we can see that Onur Air erased the negative comments on Facebook, which caused the reactions to get more intense. The company assumed an offensive attitude towards its followers who were criticizing it. On its message through which it declared the cancellation of the campaign, the company stated "we are also performing other kinds of charity activities such as financial benefit apart from social media, aircraft allocation to the region free of charge, and collective help from our employees, and we will continue to do so". If they had informed people about these charitable activities beforehand, which was actually demanded by the followers, maybe the campaign would not have drawn such an intense reaction.

Therefore, timing strategy must be taken into account for the sake of every implemented campaign. Brands or companies must perform a very thorough analysis of the target audience's sensitivity and the cultural infrastructure which they belong to or interact with while organizing their campaigns. With regard to this incident, the fact that the social media administrator got into fights with the individuals on social media and posted accusing messages was another problem. Thus, this crisis demonstrates the importance of taking into account the sensitivity of people, the contents of a message, and educating social media administrators properly. In terms of communication, the company can be absolutely said to have adopted an unprofessional attitude, which is a mistake that cannot easily be forgiven by people.

Watsons: Theft Crisis

Having been active since 1841 as a part of the A.S. Watson Group established in Hong Kong, Watsons is one of the most prominent beauty and personal care chain stores in the world today with its more than 6,300 stores in 11 different markets. Representing an innovative and quality retail approach, Watsons enables its consumers to familiarize themselves with more than 25,000 products of cosmetics, personal care, and the complementing innovative product groups every week in an enjoyable and fun store concept.

Watsons Turkey has more than 300 stores in more than 75 cities in Turkey (Watsons, 2018).

A female high-school student with the initials BC filed a criminal complaint claiming that she was strip-searched by the store manager and security staff due to the allegation that she had stolen a lipstick from a Watsons store located at Vialand shopping mall in Istanbul. Allegedly, BC, a third-grade high-school student, visited the Watsons store when she went to Vialand shopping Mall in Eyüp, Istanbul on November 26. Examining a lipstick that she liked with her hands and then putting it back again, BC was stopped and accused of stealing the lipstick by employees just as she was going out of the store. Claiming that she was searched completely naked by the security staff working for the shopping mall by order of the store manager in the store's depot. The moments when BC was brought to the depot and kept against her will for 33 minutes there started at 5:32 pm. On the footage, exactly at that time, BC is seen being kept at the depot by 4 staff members, one of them male. An improper search by taking some clothes of BC was evidentially observed on the camera footage. After the minutes-lasting search, at about 6.00 pm, BC's cousin gets into the depot whose bag and clothes are searched as well (Cumhuriyet, 2016).

The first statement coming from the Watsons was as follows: "The allegations that our customer was strip-searched by male security staff members in an incident at our Vialand store do not reflect the truth. In the incident in question, female staff members dealt with our customer. All the security footage showing the incident has been immediately sent to judicial authorities by Watsons. As Watsons, we are deeply saddened that such an incident was experienced at one of our stores and we sincerely share the public's sensitivity. Security procedures at Watsons stores are absolutely clear and do not allow any violation of individuals' personal rights. All our employees are regularly educated and inspected about these procedures. The relevant investigation is being thoroughly carried out in cooperation with judicial authorities. We assure that we are determined to fulfill all our responsibilities and will not tolerate people responsible for this incident."

As can be seen in the first part of the statement, Watsons denied the incident. Although a fast response, it did not include any apologies. In response, campaigns against Watsons started on Facebook and Instagram. Having become extremely sensitive due to recently increasing violence against women and child abuse cases, the society responded harshly, which led to a second statement from Watsons. Various excuses were presented but there were still no apologies in this statement as well.

And in the final statement, the company had this to say (Watsons Türkiye Kamuoyu Açıklaması, 2016):"We would like to share our sadness with the public over what a young girl was exposed to at one of our centers located at a shopping mall in Eyüp, İstanbul. Regardless of the reasons and whoever was responsible, what happened at our store is unacceptable for us. We apologize to the young girl exposed to such behaviors, her family, and also the public. Our personnel, who caused this unfortunate incident and did not fulfill his tasks by allowing the shopping mall security staff to keep on with their attitudes, is dismissed. We also officially declare that we have taken the utmost precautions to prevent any similar incidents from occurring in the future. We would like to state that we sincerely share the public's sensitivity regarding this incident and, once again, apologize to our young customer, her family, and the public."

After the incident was heard about, Watsons was exposed to loads of negative comments on Facebook, Twitter, and Ekşi Sözlük. The company erased the comments made on the apology statement and closed its Instagram page for comments. However, the company understood that this approach was not the right crisis management method, albeit too late. The incident was submitted to the court. At a time when the sensitivity for violence against women and child abuse was at its peak, this incident had a traumatic effect on the society. Denial of the incident and insincere remarks in the first two statements did not relieve the public; on the contrary, it caused a surge in the number of negative comments. A boycott was organized in front of Vialand shopping mall, and similar boycott campaigns started on social media in which several social media influencers got involved as well. Only when Watsons informed in their final statement that they dismissed the responsible personnel and took the whole blame, the public started to calm down. During this process, the company granted several discounts and campaigns to the customer to earn them back. Social media can turn a crisis into an advantage. But erasing or closing comments is an indicator that social media is not being utilized in the right way. If their denial had not been that obvious in their first statement, the consequences might have been different, and their holier-than-thou statement would not have turned into a chain of reaction that snowballed on social media. Watsons was absolutely not able to manage the process properly during the first stage and adopted attitudes that did not show any signs of empathy which an indispensable crisis management element is.

SOLUTIONS AND RECOMMENDATIONS

In this study, crisis management is discussed within the context of social media. Models related to crisis communication and crisis management are specified and steps to be taken for effective crisis management are mentioned. Brand crises which occurred recently in Turkey have been examined; and the negative situations resulted from unplanned, inefficiently managed crisis communication have been revealed. Firms experienced growing negative reactions from public during the examined crisis; some have found solutions to convince the people; others have failed in managing crisis. It is believed that this study is of great importance for firms to take some lessons. Also it will be beneficial for academicians working on crisis management and crisis communication.

FUTURE RESEARCH DIRECTIONS

As any study, the present research is constrained by limitations that offer venues for future research. In future studies which will use content analysis, the number of cases can be increased. Four brand crisis were examined in this study. Empirical research methods, on the other hand, can be used in future studies. Topics such as evaluation of brand communication during and after the crisis, change of consumer attitude towards the brand or buying intention can be investigated by choosing a brand that has experienced a crisis.

CONCLUSION

Crises create an unstable and dangerous environment for the company. If the crisis is not managed well, it would lead to an unfavorable image and decline in company's reputation. Managing crises is not easy. However, with the right strategies and tactics, a brand can overcome the problems. The reaction of the consumers and individuals in times of crisis can be very intense. The company should not panic and maintain the necessary communication efforts. What people really want is a convincing, quick and sincere response. If a crisis is not managed properly, it can cause great damage to the company. Crisis management is not difficult, but it does require some forethought, planning and decisiveness. In this context, it can be said that the way to manage a crisis includes honesty, sincerity, empathy, giving importance to the values and sensitivities that people care about, and understanding the target audience and interacting with them in the right way.

Today, social media has become one of the most important tools of crisis management. Years ago, when a company experienced a problem, some of the people learned about the unfavorable situation from newspapers; some of them either didn't learn at all or they'd hear later. Nowadays, a negative situation reflects on social media instantly. Companies should not forget that the power in the social media is held by the users. A hashtag or blog with the company name, or a comment including the brand name telling about the negative situation company experience can go viral immediately. This is usual for today. What is unusual is that firms still underestimate the power of consumers. Examining the right ways of utilizing social media in crisis management, one of the most important issue is the presence of properly trained social media team in the company. Others include integrating social media into communication efforts properly, perceiving social media as a way of communicating public with a timely manner.

In this study, social media-related crises were examined and the companies' approaches to the crises were assessed. Necessary conclusions were withdrawn via content analysis. The study is expected to make good contributions to the current literature. It will also shed light to company managers and public relations experts.

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Index

2009 Tax Crisis 286, 315

A

AML 30, 37-39, 49
annual integrated reports 127, 129, 136, 142
Asian Crises 242
authentic leadership 110-112, 117-122, 126
authenticity 110, 117, 119-120, 126
Aydin Dogan 277, 288, 290, 292-300, 303-304, 315

B

banking sector 1-2, 9, 14, 35, 78, 81-82, 134, 155-156, 169, 171, 173, 176, 225, 244
BBA 322, 338
BIST 354, 358, 360, 362, 366
bond market 154, 340, 343-347, 354-358, 360-362

C

Canada 31, 39, 175, 236, 244, 247-248, 251, 322, 329, 338, 373
CDS 323, 338
CFPB 338
compliance 28-29, 35, 37-40, 43, 113-114, 116, 307-308, 311, 328, 405-407, 409-411
corporate actions 50-51, 128
corporate communication 112, 116, 127-130, 140, 142-143
corporate governance 50-51, 54, 68-70, 110, 113, 128-129, 133, 137-138, 321
corporate scandals 117, 128, 316-318, 321, 326, 328-330, 442
Corporate Social Responsibility 14, 129
creativity 419, 423, 433-436, 441
crisis communication 3, 148, 151-154, 160-161, 442, 444, 446-448, 453
CRM 51-52, 56, 68, 73
CTFC 338
Cumhuriyet 276-277, 285, 288, 298-301, 310-311, 452
customer loyalty 50-55, 57-62, 64, 66, 68-69
Customer relationship management 51, 68, 73

D

DEMATEL 1-3, 10-12, 14-15, 27
demeaning 192, 194-195, 198-200, 202-203, 205, 207-209
De-Risk 37, 44, 49
documentary credit 395, 398, 403-412
Dogan Holding 277, 287-288, 291-297, 299-300, 302, 309-311, 315
dummy variables 158, 193-194, 197-198, 202, 208-209, 344

E

E-7 94
economic crisis 74-75, 78, 80, 83-84, 95, 148-149, 151-152, 154-155, 157-158, 162, 171, 215, 218, 220-221, 223-224, 228, 230-231, 287-288, 310, 316, 323-324, 426
economic development 61, 74, 76, 80, 82, 168, 170-171, 178, 248-249, 282, 341, 426
economy 35, 52, 74-80, 82-85, 87-88, 98-99, 104, 149, 153, 171, 176-177, 185, 201, 215-225, 228, 230-232, 236, 238-240, 243-252, 255, 276-282, 306, 316-318, 320, 324, 330, 341, 344, 360, 379, 419-420, 422, 426, 431-432
EESC 323, 338
employment quality 420-422
Engle-Granger co-integration analysis 169, 179, 184-186
EU 42, 80-81, 97, 107, 174, 247, 297, 307-308, 368, 401-402, 420-421, 426

F

FDI 96-99, 103-104, 107, 250
FDIC 323, 338
FED 153, 249, 316, 324, 338, 340, 346, 354, 357, 362
Finance 28, 32-33, 36, 39, 42-44, 60, 75, 113, 116, 121, 157, 161, 169-174, 176-177, 193, 222, 238, 244, 252, 258, 260, 276-277, 286, 290-298, 300, 302-305, 307-311, 315, 325, 343-344, 363, 395-398, 400-402, 405, 427
financial communication 28-29, 41-43, 49, 95, 110, 112-117, 120-122, 126, 151, 158, 225
Financial Disclosure 122, 126
financial reporting 115-116, 128, 133, 192, 194, 196, 199, 201, 208-209, 367-369, 377-378, 384
financial system 29-35, 37-38, 43, 49, 81, 129, 156, 249, 317, 319-320, 323-324, 327-330, 342, 361
FSA 41, 322, 338
fuzzy DEMATEL 1-3, 10-12, 14-15
fuzzy MOORA 1-2, 7, 12, 14-15

G

G-20 82, 94
GDP 61, 82, 98, 150, 152-153, 168-169, 175-176, 178, 185, 191, 241-252, 329, 338, 344, 347
GPO 323, 328-329, 338
growth 35, 61, 75-76, 78-82, 84, 87, 96-98, 104, 114, 116, 128, 148, 153, 155, 160-162, 168-169, 175-176, 178-181, 184-186, 215-217, 219, 221, 224-230, 233, 240, 242-247, 249, 251-252, 260-261, 265, 283, 309, 322, 324, 347, 401-402, 420, 423-424, 426-427, 430
GSM 55, 61, 64, 66, 68-69, 73, 400

H

Hurriyet 276-277, 285, 287-288, 307, 310-311

I

ICC 29-30, 411
ICE 322, 338
ICT 61, 73, 154, 162
IFRS adoption 196-197, 200, 367-369, 372, 374, 377-379, 382, 384
IMF 39, 75, 79, 83-84, 87, 94, 97, 155, 157, 215-220, 222-233, 235, 240, 255, 277-278, 281, 323, 341, 366
innovation 34, 57, 82, 87, 141-143, 244, 252, 259, 422, 428, 431, 434, 436, 441
International Financial Reporting Standards 196, 367-368
international trade 2, 28-30, 43, 215, 229-230, 240, 244-246, 395-398, 403-407, 411-412
International Working Standards 441
investment analysis 128, 236, 255-256, 267, 340
investment decision 215, 236, 256-259, 261-263, 265-268
it 1-3, 7, 14-15, 29-44, 50-62, 64, 66-69, 73, 75-88, 95-100, 102-104, 110-116, 118, 120-121, 126-129, 131, 134, 136-138, 140-143, 148-159, 161-162, 168-182, 184-186, 191-199, 203, 208-209, 215-233, 235-252, 255-268, 278-312, 315-317, 322-325, 327-330, 340-342, 349-350, 354, 356-362, 366, 368-374, 377-383, 395-398, 400-406, 409-412, 417-436, 441-444, 446-454

J

Japan 39, 75, 81, 85, 152-154, 236, 240, 245-246, 248, 251-252, 318, 322

K

KYC 28, 42-43, 49

L

liquidity 138, 149, 155-156, 171, 177, 216, 221, 223, 230, 317, 322-324, 340-349, 355-362, 366
literature review 3, 14, 55, 76, 81, 129, 134, 152-153, 173, 175-176, 178, 193, 198, 200, 209, 256, 267, 309, 317, 345, 347, 367, 369-370, 383-384
logit 148, 151, 155-156, 158-160, 162, 178, 228, 235, 256-257, 267-268, 275
logit method 148, 151, 155-156, 158, 160, 162, 257

M

market liquidity 340-349, 355-358, 360-362
MARS 155, 256-257, 266-268, 275
media ownership 282, 284, 288, 309-310, 315
Money-Laundering 28, 41
MOORA 1-2, 7, 12, 14-15, 27
mortgage loans 168-177, 181-182, 185, 323
Mortgage-Backed Security 338
MOVE Index 353-355, 357-358, 362, 366

O

OAPEC 240-241, 255
OECD 39, 82, 94, 173, 218-220, 398
OFAC 40-41, 49
OIG 322, 338
Oil Economy 236, 255
Oil Exporting Country 255
Oil Importing Country 255
OPEC 241-242, 255

P

positive psychology 111, 117, 119, 126

Q

Quality of Labor Supply 425
Quality of Work Life 441
quantitative methods 256-257, 267-268

R

RBC 329, 338
Russia 30, 39, 75, 82, 216, 236, 238, 243-244, 251-252

S

Sabah 276-277, 284-285, 287-288, 290, 292-298, 310-311, 449
sanctions 28, 36-37, 39-44, 49, 86, 243-244, 252
SEC 321-322, 326-327, 338
Stationary Analysis 191
stock market 84, 121, 152, 241, 244, 301-302, 316, 318, 340, 343, 346-347, 355-358, 361-362
strategic communication 1-2, 113
strategic management 28, 50, 111, 395, 417, 436
strategy 3, 52, 55, 57-60, 69, 79, 97-98, 102-103, 115-116, 121, 154-155, 220, 225, 246, 259-260, 307, 317, 420, 424, 436, 446-447, 449, 451
SWIFT 28-30, 34, 41-44, 49
systemic risk 316-317, 329-330, 343, 361

T

telecommunication sector 50-51, 55, 60-62, 68
TOPSIS 7, 27
transparency 1, 3, 10, 12, 14-15, 28, 38, 40, 42, 110-122, 128, 151, 154, 224, 321, 343, 368
Turkey 2, 39, 55, 57, 60-62, 64, 69, 74-77, 79, 81-88, 96-97, 103, 128-131, 134, 136, 138, 140, 142, 153, 155-156, 168-169, 175-178, 181-182, 184-186, 201, 203, 208, 215-226, 228, 231-233, 240, 252, 266-267, 276-277, 280-281, 284, 287-288, 299-301, 306-311, 315, 322, 340, 344, 349, 356-358, 361-363, 368, 433, 442, 448-453
Turkish banking sector 9, 169
Turkish economy 74-75, 83, 85, 215, 220, 280

U

U.S 37, 40, 58, 236-241, 245, 247-252, 321
UK 30, 75, 81, 83-84, 94, 172-173, 247, 373, 377
unobservable heterogeneity 192-193
US 28, 30-31, 35, 40, 42, 66, 75, 80-81, 84-85, 94, 128-129, 152-153, 156, 158, 171-172, 174, 176, 196, 218, 228-229, 238, 243, 248, 251, 260, 277, 281-283, 309, 322-323, 329, 338, 343-344, 346-347, 357, 372, 377-379, 400, 425, 427, 430, 449-452

V

value relevance 192, 367, 369, 372
VAR 177-178, 215, 226, 228, 233, 235
VIKOR 7, 27
VIX Index 354-356, 358, 362, 366

W

WB 79, 94, 229
Workforce Demand 441
Workforce Supply 426, 441
work-life 417-420, 424, 429, 433-437
work-life quality 417-420, 433-437
WTO 79, 94

Y

Yeni Safak 277, 288, 310-311