

**CORPORATE GOVERNANCE AS A STRATEGIC
MANAGEMENT FACTOR: INVESTIGATING FINANCIAL
INSTITUTIONALIZATION IN ÇORUM SMEs**

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ABSTRACT

Globalization affects every single economic unit substantially. Turkish business has also been under this effect. In the context of globalization, institutionalization is very important and it is vital for the success. Institutionalization is crucial not only for large enterprises but also for SMEs. Considering SMEs constitute 99% of all enterprises in the country, institutionalization of SMEs becomes very important for the economy. This study examines the contribution of institutionalization and corporate governance to the company's financial structure. In this regard, research on SMEs in Çorum is done to see what has been done so far.

Key words: Institutionalization, Globalization, Corporate governance, SME, SMEs in Çorum

1. INTRODUCTION

Institutions can be described as large organizations that deal with financial, social and cultural problems of the society. In the social sciences, it is expressed as the procedures and rules set for a particular purpose or business. Institutions, in short, can also be described as a form of doing something definite, formal and regular. Certain behaviors are repeated and accepted commonly by the society. Hence, it becomes an institution when a particular procedure, rule or form of behavior is adopted by the public. Institutionalization, however, can be described as the continuity of the institution, setting a standard to the behaviors and stabilizing the institution.

Institutionalization explains the adoption process of organizations with their environment (organizational environment / organizational area) and the progress in these organizations over time.

Different from management alone, governance is the combination of management, communication and interaction, and it means manage together. To manage together, the people must have the same knowledge level. Governance is easier in institutions where education level is high; however, it is also difficult in these institutions since everybody wants to participate in management. Corporate governance is like a "corporate constitution" which regulates how different partners are managed and controlled.

2. INSTITUTIONALIZATION AND CORPORATE GOVERNANCE

Organizations constitute a recognized environment to eliminate uncertainty in the first stage of their life span. This environment consists of similar services and products producers,

suppliers, consumers and regulators. Organizations have to adapt to the pressures of their environment to get the support of the environment. Organizations which do not adapt with the environment are rejected by their environment, and thus they do not survive. Therefore, organizations maximize the support of the environment and increase their chance of survival by combining the commonly accepted rational elements in the environment. The success of institutions that accomplished institutionalization depends on the trust provided by organizational similarity and continuity. (Özkaya, [http:// www. dtm.gov.tr/ ead/ DTDERGI/ ozelsayiekim/ sibel.htm](http://www.dtm.gov.tr/ead/DTDERGI/ozelsayiekim/sibel.htm)).

In the widest sense, organization can be defined as large and widespread organizations that deal with social problems and needs such as economic, social and cultural issues. In social sciences, it is used to define all the procedures and rules that has continuity and established for a particular act or purpose. Institution in short, can be defined as a form of doing something definite, formal and on a regular basis. Some certain behaviors are repeated, got rigid and accepted as a common form of movement by the members of the society. As a result it becomes an institution when a specific procedure, rule or behavior takes root in society. Hence, it is normal that organizations may have different properties in different societies. Stable development of determined rules, laws, customs and traditions, religious and ethical social interaction patterns depends on their standardization and continuity into the framework of specific rules. Based on this conceptual framework, we can say following three fundamental necessities about institution and institutionalization: 1- Stable development of social interaction patterns, 2- Standardization of behavior patterns within certain rules, 3- continuity of institution. (Gün, [http:// www. caginpolisi.com.tr/21/39-40](http://www.caginpolisi.com.tr/21/39-40).)

In Turkey, the vast majority of business owners have effort to be qualified in planning, organization, coordination, execution and supervision issues. No matter aforesaid qualification seems to be adequate, common sense, good and strong reasoning, good communication skills, and the importance of weighing and measuring should not be forgotten.

Business owners of non-institutionalized enterprises have to be not only a manufacturer and merchant but also an accountant, financier and marketer. All these areas require independent point of view and technical and administrative training; therefore ingenuity of business owners does not always work. Today, the wisest investment is the investment done to increase the quality of human capital and administration.

2.1. Definition and Development of Corporate Governance

Relationships and behavior emerged in social system have institutionalized character. Legitimacy of social roles and definition of the behaviors of individuals are done by means of institutionalization. The most basic function of institutionalization is to be a solid foundation to regular social relationship system. Of course change in regular and stable behavior patterns will take time. Hence, changes in institutions and institutionalization do not happen suddenly and fast; however, they occur in a long time interval.

Institutionalization, on the other hand, is continuity of institutions and setting standards to behaviors for stability.

In Turkey, “institutionalization” concept maintains its place in the agenda for years and become more important gradually. Recently, it became the most important issue in both public and private sector in terms of rationalization of activities. In fact, in the public sector, solid and stable steps in institutionalization were observed with the influence of the statist approach in the first years of the Republic. Conversely, development in private sector happened oppositely. In the first years of the Republic there was a structure based on limited

number of employees who are all family members; however, currently, private sector has reached to a modern and professional institutionalization level (Berki, 1998).

Institutionalization is the integration process of the organizations and their activity fields and the progress in the institutions which occurs over time (Selznick 1995). In other words, institutionalization shows the similarity between the environment and the structural and operational features of institution operating in this specific environment. Institutionalization also points the similarity in organizational structure over time. (Orru, Biggart ve Hamilton 1991). According to Cleassens (2003) corporate governance consists of two parts. The first part is made of institution's own abilities such as financial structure, performance measures and shareholders. The second part, however, is composed of market, legal framework and rules. Oman et al. (2003) describes corporate governance as harmonizing formal and informal elements to give them to the institution (Oman and Fries and Butter, 2003:6).

In institutionalization, the most important function of corporate managers is to facilitate the creation of harmony within the organization. The managers should identify the future priorities of their organizations by the participation of all employees and try to make these priorities understood and accepted by all employees. Otherwise, the purpose of the organization and the employees may differ. As a result, desired efficiency and participation will not be provided (Özkaya, [http:// www. dtm.gov.tr/ ead/ DTDERGI/ozelsayiekim/sibel.htm](http://www.dtm.gov.tr/ead/DTDERGI/ozelsayiekim/sibel.htm)). Organizational culture is developed, strengthened and the level of institutionalization is increased due to the value that organizations give to their employees.

“Corporate Social Responsibility”, which was a hot topic and started to be discussed in 1970s by private sector in USA, led to the concept of “Corporate Governance” in 2000s after 25 years of research on “the responsibilities of joint-stock companies to the society” (Midilli, [http:// www. elegans.com.tr/ 51/ sonbahar2000/html/036.html](http://www.elegans.com.tr/51/sonbahar2000/html/036.html)).

Corporate governance refers to all laws, regulations, codes and practices, which defines how institution is administrated and inspected, determines rights and responsibilities of different partners, attracts human and financial capital, makes institution work efficiently, provides economic value to stack holders in the long turn while respecting the values of the community it belong. For corporate governance, the management approach should be in accordance with the following principles. (Argüden, [http:// www. insankaynaklari. com/ cn/ ContentBody.asp?BodyID=3865](http://www.insankaynaklari.com/cn/ContentBody.asp?BodyID=3865)).

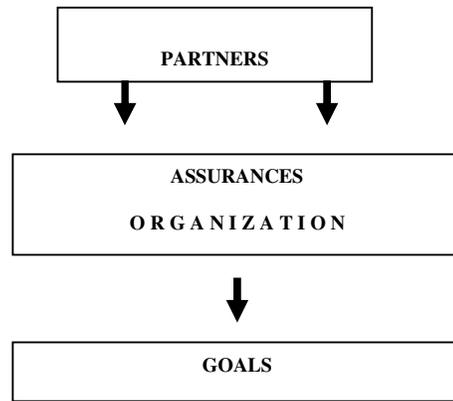
1. Management should not profit from company assets.
2. Corporate should not merchandise with the companies which are controlled directly or indirectly.
3. It should be prevented that an administrator can establish an empire using the resources of the institution.
4. Promotions and assignments should be done by concerning the skills and capabilities of the employees, not by considering bilateral relations.
5. Trading of shares with a tip from somebody inside the company should be prevented.
6. It should be ensured that the internal control mechanism works properly in the company.
7. Employees should be trained not to have conflict of interest with the company.
8. Company should not show favor to any of the stake holders, and all business transactions with any stack holder should be done according to market conditions.
9. Company should not think that they produce the best product, and should be open to the external knowledge and developments.

10. Continuity of institutional development should be provided.

11. Developments which affect the company's value should be noticed and evaluated in time.

Corporate governance is being implemented mainly in the business world. Corporate governance deals with responsibilities of Control Board, General Board of Stakeholders and Board of Directors, existence of local internal control systems, accountability, and role and function of supervisor. The origin of modern governance concept goes back to English speaking countries, but now it is taken into account in all over the world. The basic of corporate governance is that the organization's internal and external stakeholders benefit from an effective control system and can bring somebody to account. More generally, corporate governance is related to the administration and control of the companies, reporting and monitoring these activities for the favor of the stake holders (Özeren ve Temizel, 2004, s.5).

Corporate governance has a positive effect on efficiency of public and private organizations and their economic growth and development. The brand, which is the integral part of the organization, is also included to this development. If deficiencies in corporate governance mechanism lead to the failure of corporate governance, it may cause systematic risks. Each element of governance analysis gives birth to large number of recommendations. Then, a general view is presented about the governance examined by evaluating each element of the loop ultimately, and considering the interactive relations among these elements (Özeren ve Temizel, 2004:26). Governance focuses on the stake holders, common goals and administration that will realize these goals (Özeren ve Temizel, 2004:7).



Source: Özeren B. et al., Kamusal Yönetişim Kamu Sektöründe Kurumsal Yönetişim, Niçin ve Nasıl?, Sayıştay Yayınları, Ankara, 2004, s.7.

The purpose of an organization's existence, in fact, is to reach to specific goals on behalf of its stake holders. The main purpose of the governance is to create assurances to reach to these goals easier. To achieve these objectives, organization should be managed, controlled, and giving accounts via a supervisor commissioned on behalf of stake holders. For this reason, governance, in fact, contains management, supervision, control and giving of accounts (Özeren ve Temizel, 2004:8). These elements, also referred to as universal principles of corporate governance, can be briefly explained as follows.

- Management element of governance cycle deals with the question “how management process and share of responsibilities necessary to achieve policy goals will be established?” (Özeren ve Temizel, 2004:21). In addition, governance approach obligates an investigation by considering the interactive relations among supervision, control and responsibility of giving of accounts (Özeren ve Temizel, 2004:22).

- Control element of the cycle deals with if the is enough assurance to accomplish the goals. The key words here are: monitoring and appropriate and effective organizational structure. It is very important to know the interactive relations between control and

management, supervision, and responsibility of giving of accounts (Özeren ve Temizel, 2004:22).

-The purpose of supervision is to determine if the policy goals are accomplished or not. It also offers making change to achieve the goals. Verification is highly important in supervision process. Supervision process should determine if decision makers do supervising properly and give account of what they do. It is very important to know the interactive relations between supervision and management, control and responsibility of giving of accounts (Özeren ve Temizel, 2004:23).

-Responsibility of giving of accounts deals with the way of giving of accounts in all stages. It also copes with if goals are achieved or not, and management and control units supply verified information regarding execution. Accountability reports prepared to give information to stake holders should be clear, transparent, and produced in time (Özeren ve Temizel, 2004:25).

3. INSTITUTIONALIZATION RESEARCH IN ÇORUM SMEs IN RESPECT OF FINANCE

3.1. Purposes and Hypothesis Used

The purpose of this research is to investigate the institutionalization status of SMES in Çorum financially (in respect of accounting process, financial governance and preparation of financial statements), and to determine the problems encountered during this process.

Hypothesis used in this research are as follows:

- Information given by enterprises is true.
- Survey questions are fully understood by enterprise representatives and answered accordingly.

3.2. Methods and Scope

This study consists of two parts. The first part includes the theoretical literature. In this part, general information is given about institutionalization and corporate governance. This part also discusses the contribution of institutionalization and corporate governance to the financial structure of enterprises. In the second part of the study (application), a field research was made for Çorum SMEs. This research seeks for the existence of institutionalization and corporate governance in Çorum SMEs and if it exists, how it affects the financial structure of the enterprise.

The research includes the SMEs in Çorum. In the data acquisition phase, a survey is done by visiting each SME, and questions are asked to the representatives of the SMEs in person. Then, each survey is evaluated individually. Gathered data is analyzed using SPSS for Windows 11, 0.

3.3. Evaluation

13 questions, which constitute the entire survey, are asked to 100 managers of SMEs in Çorum to determine their perspectives on institutionalization. The findings are as follows.

KOSGEB recognizes 368 enterprises in Çorum as SME and only 86 of them (23%) are accessed. The number of minimum enterprise is calculated as 44 with two standard deviations¹. This corresponds to 12% of the entire data set. The number of SMEs visited are

$$^1 n = \frac{N(pq)Z^2}{(N-1)E^2 + (pq)Z^2} \quad n = \frac{368(0.98*0.02)2^2}{(368-1)0.04^2 + (0.98*0.02)2^2}$$

higher than this ratio ($100/368=27\%$). An internal consistency test is done for the questions of the survey and the internal consistency coefficient alfa is calculated as 0.927. As a result of this statistic, it is understood that the used measure is valid and robust. The distribution of the characteristics of SMEs and their managers are given in Table 1.

Table 1: Distribution of characteristics of SMEs and their managers

Field	Number of SME and SME Manager	%Ratio
A.Sectors of SMEs		
Food	27	27
Textile	11	11
Paper Industry	4	4
Rock-Soil Industry	35	35
Machine	15	15
Others	8	8
Total	100	100
B. Who manages the enterprise		
Owners	36	36
One of the	41	41
Professional manager	23	23
Total	100	100
C. Education level of the managers		
Elementary	4	4
Junior high school	3	3
High school	17	17
Vocational high school	4	5
College	71	71
Total	100	100
D. Size of the Enterprise		
Small Enterprise	73	73
Medium Enterprise	27	27
Large Enterprise	0	--
Total	100	100
E. Administration Type		
Centralized Governance	39	39
Decentralized Governance	13	13
Democratic and Participatory Governance	48	48
Total	100	100

SMEs in Çorum mainly concentrate on three sectors: rock-soil industry (35%), food industry (27%) and machine industry (15%). These SMEs are administrated by either owners (36%) or one of the partners (41%). On the other hand only 23% of the SMEs are administrated by professional managers. These managers generally have a Bachelor in Science degree from a college (71%). This figure increases to 76% when vocational high school graduates are added. 73% of SMES in Çorum consider themselves as small scale enterprise, while 27% of them think that they are medium scale enterprise. These enterprises (48%) mainly adopt democratic governance. The distribution of the responses of managers for institutionalization is given in Table 2 below.

Table 2: Perception of Institutionalization in SMEs in Çorum

Test Fields	Number of SME and SME Manager	%Ratio
A. What do you think about institutionalization?		
Not necessary, It is done since manager wants it	3	3

$$= 43,35= 44 \text{ (number of enterprise)}$$

N=Total number of enterprise (taken 368).

p=It is assumed that 98% of the enterprises are SMEs.

q= It is assumed that the probability that an enterprise is not a SME is 2%.

E= Acceptable sampling error.

Organizations continue to exist thanks to institutionalization	87	87
Institutionalization is not a must	7	7
Institutionalization impairs the functioning of business	3	3
Total	100	100

B. How do managers describe the institutionalization?

Integration to the social system	17	17
Interaction between organization and the environment	24	24
Description of social roles	7	7
Harmony of the organization with the environment	3	3
Durability, stability, and standardization of organizations	49	49
Total	100	100

C. External Causes That Make Institutionalization Compulsory

Technology	7	7
Structural requirements	6	6
Competition	37	37
Globalization	20	20
Customer demands and expectations	30	30
Total	100	100

D. Internal Causes That Make Institutionalization Compulsory

Low-efficiency	27	27
Employee relations	23	23
Low customer satisfaction	20	20
Conflict among individuals and groups	10	10
Rising educational level of staff	20	20
Total	100	100

Majority of survey participants (87%) think that the existence of their organization depends on institutionalization. 49% of the managers describe the institutionalization as durability, stability, and standardization of their organizations. With respect to external factors, these managers link institutionalization to competence (37%). Customer demands and expectations take the second highest percentage (30%). Managers rank globalization, which makes the institutionalization compulsory, as the third factor (20%). Managers also rank the internal factors related to institutionalization as low-efficiency (27%), employee relations (23%), low customer satisfaction (20%) and rising educational level (20%).

Table 3: Policy Determination and Organizational Resistance in Institutionalization Process
 Test Fields
 %Ratio

Number of SME and SME Manager		
A. While plans and policies are determined, are internal and external environmental analyses considered?		
Absolutely Yes	23	23
Yes	61	61
Partly	13	13
No	3	3
Total	100	100
B. Plan and Policy detection systematic in Enterprise		
Plan and policies are generated by top management	34	34
Plan and policies are generated by top management but applied by subordinate managers	56	56
Every stage participates in decision-making at every levels	10	10
Total	100	100
C. Does resistance occur in institutionalization applications?		
Absolutely Yes	13	13
Yes	17	17
Partly	43	43
No	24	24
Definitely No	2	2
Total	100	100
D. Resistance against institutionalization in Enterprises		
Reluctance	38	52,8
Little work as possible	19	26,4
To reduce interest of working	6	8,3
Deliberately making mistakes	2	2,8
Breaking, sabotaging	5	6,9
To resign	2	2,8
Total	72	100

Table 3 gives information about whether SMES in Çorum considers external factors in policy determination during institutionalization process. Additionally, assessment regarding organizational resistance also included in Table 3. As is seen in Table 3, almost all of the managers (97%, when ‘partly’ option is also considered as ‘yes’) agree that internal and external factors are taken into consideration when plans and policies are determined. According to the statement of managers, plans and policies in enterprises are determined by top management (34%+56%=90%), but applied by middle management. The ratio of managers who state that all employees participate in decision-making process in all stages is only 10%. It is stated that there is a resistance to institutionalization process, and the ratio of survey participants who claims this rises to 73% when “partly” option is also counted as “yes”. The reason of this resistance can be explained with the answer to one above question, which states that the decisions regarding institutionalization are made by top managements. This may reveal that the employees are not informed about institutionalization process. The form of resistance occurs as reluctance (53%), little work as possible (26%), to reduce interest of working (8%), and sabotage (7%). The reasons why employees do not in favor of institutionalization are: fear of technical knowledge shortage (33.3%), fear of work load increase (23.6%), fear of unemployment (16.7%) and lack of information about institutionalization.

RESULTS AND DISCUSSION

Globalization is inevitable and will affect whole world. Instead of avoiding it, companies have to be prepared for this situation. In this process, one of the factors that will

affect enterprises substantially is the criteria to be implemented in banking based on Basel II criteria. Suppose that the globalization has affected the global market, Turkish economy and market will not be avoiding it. Thus, they will use global criteria while assessing the companies.

It is expected that Basel II criteria will cause a fundamental change all over the world in banking and loan lending techniques. Noncompliance to these rules is expected to result in contraction in loan lending and usage opportunities of loans by individuals or organizations. For the organizations in finance sector, it is not sufficient to be prepared, yet it is more important that real sector using these loans should be prepared. Assessment of enterprise value can be made most objectively using fiscal tables. In Turkey, 98% of the enterprises are SME. Because of market conditions, reliability of SME fiscal tables is questionable. Moreover, even reliability of the fiscal tables of companies that are affiliated with the Capital Markets Board of Turkey (CMB) and listed on Istanbul Stock Exchange (ISE) can also be questionable. This is supported by the fact that in the last ten years several companies listed on ISE have gone bankrupt. Ceassens (2003) considers this as the main reason why corporate governance has become so important recently, and scandals and crises put corporate governance forward.

In order to be prepared for this fact, Turkish companies should standardize their accounting system accept more transparent registration system. In other words, financial statements should not be kept as a state secret. The financial statements should be prepared transparently in compliance with accounting standards.

Restructuring of the firms are required with in the framework of the SME market of with in another format. If possible, either initial public offering should be preferred (this will force them monitor accounting standards, thereby make them more transparent) or they should strengthen their capital or else, they should try to find new partners from global actors. In companies, institutionalization should be provided. Institutionalization should be applied in all departments to discontinue “one man responsible from everything” phenomenon. Personnel infrastructure necessary for this should be established as soon as possible. The higher the quality of corporate governance, the higher the funding chance and the lower the capital costs. In this context, Çorum businesses are aware of institutionalization and institutional governance. However, they have not kept up with this process too much due to enterprise and personnel conditions.

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