

## Tilburg University

### The past, present and future of corporate governance and corporate culture

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# The Past, Present and Future of Corporate Governance and Corporate Culture



Doğan Baran Mengüş





# **The Past, Present and Future of Corporate Governance and Corporate Culture**

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As Mustafa Kemal Atatürk once said, “for everything in the world, for materiality, for spirituality, for success; the supreme guide is science and knowledge”. When I graduated from the law school, I felt like “now I know everything”. During the master’s programme, I realized that “there are more to learn”. However, my path to PhD made me say “I know nothing”. At this point, my passion is to find out more about the subjects that I am interested in, and I hope to contribute to the academia in the future, and transmit what I have acquired to the younger generations. I cannot think of a better mission in life, and this PhD thesis is the gateway to my ultimate goal.

Dogan Baran Mengüs

Izmir / 20.12.2022

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## Summary

The importance of corporate culture in relation to business success have been understood better especially in the last couple of decades, and the topic receives considerable attention from the academia and business world. Firms, business leaders, authors and academics bring forward ideas and commit to paper regarding the concept of corporate culture. However, there are relatively fewer pieces that consider the significance of corporate governance and its connection to corporate culture while working on the subject. Many works solely focus on the psychological or operational side of culture. Nevertheless, our idea is that a firm's culture originates from its governance structure and management practices; therefore, the relationship between culture and corporate governance needs to be academically studied and revealed. It is because corporate governance practices create and define the actual and prevalent interactions and relations among a firm's internal and external stakeholders.

Corporate culture has an impact on the business life wherever individuals are involved. Particularly, the importance of culture reveals itself when it comes to employee engagement, motivation and performance, and corporate leadership. Examination of earlier studies regarding corporate culture uncovers that, previously, the focus was on creating a culture which ensures that employees of a firm should act in a standardized ways and in accordance with the predefined patterns. The ultimate goal was establishing a cultural system in which actions of employees and their reactions to certain situations are preassigned. As a matter of fact, such mentality and perspective regarding culture were the result of the predominant corporate governance applications.

Shareholder primacy norm have predominated the corporate governance practices, applications and regulations for long time, and even today, such a norm can be considered as the most prevalent idea. Very basically, according to shareholder primacy norm, everyone in a firm should act as if they were the investors, and the rights and interests of shareholders should be primarily protected. In this model, "control and power flow downwards from shareholders through the board of directors to managers and to employees, and responsibility and accountability flow upwards". According to this idea, the ones that occupy the lower levels of the hierarchical pyramid (shareholders are on the top, and board of directors, managers and employees follow them respectively) cannot be fully "trusted" and must be kept under control. Therefore, severe internal procedures and reporting obligations must be

mandated to eliminate the information asymmetry, protect the shareholders and give them a chance to evaluate whether their investee companies are operated and managed sufficiently.

Over the time, corporate scandals and crisis have led to enactment of several laws and rules to better protect the rights and interests of shareholders. On the other hand, we see that shareholder primacy norm had created strictly hierarchical organizational structures, which has caused to emergence of highly bureaucratic cultures. Thus, corporate culture was seen as a tool to direct employees to behave in a standardizing way under that model. However, our idea is that standardized behaviors do not suit this digital age, and this era requires innovative and out of box thinking. Therefore, there has been an effort to change in corporate culture, and such a change is also strictly related to firms' and business leaders' alteration desire in corporate governance practices. From this perspective, we compared the shareholder primacy norm with a relatively new idea; stakeholder centric corporate governance. It is our suggestion that the purpose of the business needs to be redefined as acting in the best interests of all stakeholders, and firms should find a balance with the interests of shareholders and all other stakeholders.

We witness that many executives, academics and business organizations have been promoting a change in the purpose of the corporation. From this perspective, one of the fundamental research question and aim of this thesis is to find out *"how and to what extent the traditional approach and applications of corporate governance and corporate culture have been altered"*. As a result of the examination of some of the world's most successful technology firms (such as google, Apple, Amazon and Microsoft), we demonstrated that a flatter governance structure backed by an inclusive, open, and the best-idea-wins culture is one of the important sources of business success. Those sample firms have been selected due to their inevitable financial and business success, altered approaches to corporate governance practices and strong cultures. Those firms' annual reports, sustainability reports, websites, studies conducted about them, news and social media posts of their executives have been collected and evaluated.

Examination of the selected tech firms have led us to determine the basic organizational components of those. However, we demonstrated that the components are not only relevant to tech firms, but can be deployed by any firm. Such organizational components are presented not only as the firm characteristics of the most successful firms, but also smart business strategies for the firms that desire to stay relevant in the future. The components determined are digitalization, a flatter governance structure, co-creation, collaboration, communication, community driven corporate governance and real care.



We found out that innovation, autonomy, and open and inclusive cultures are highly important for being successful, but the desired culture cannot be fully achieved under the traditional hierarchical structures. On the other hand, the flatter structures enable companies to benefit from stakeholders' feedback, which is highly valuable for answering the demands of the customers, employees and investors, and for being innovative. Flatter structures can enable firms to achieve transparency and accelerated decision-making processes, and dilute borders between the firm and its external environment. Digital technologies have been already used for corporate governance activities, such as virtual board meetings. However, the new digital technologies have too much to offer; using block-chain-based technologies for annual shareholder meetings can increase security and increase participation rate, social media platforms can be used for enhancing stakeholder engagement and corporate communication, and firms can provide instantly updated corporate reports by using digital technologies instead of publishing their reports annually.

In today's world, companies should not isolate themselves from their external environment. For example, customers should not be seen only as someone to sell something, but as business partners. Therefore, we determine that co-creation and collaboration with all stakeholders through open and effective communication can be highly beneficial for the firms. The sample firms do this to a certain extent by actively communicating with their stakeholders. Gathering feedback from consumers, shareholders and employees is a smart option, but taking such feedbacks into consideration during decision-making processes is even smarter. Some of the sample firms, such as Microsoft, has a consumer co-creation program, and also Microsoft actively collaborate with external experts, such as engineers. We see that after the appointment of Satya Nadella as the new CEO, he has significantly changed the culture of Microsoft, which showed its results in financial performance of the company.

We experience that ESG, CSR, and sustainability topics in general, have gained a significant importance. Today, many firms claim that they have sustainable business models, they value the rights of all stakeholders, and show their best efforts to protect environment. However, these statements should be more than just window-dressing statements; companies need to really care about their stakeholders, meaning that a company needs to show that they value the feedback received from its stakeholders, and also should avoid "greenwashing".

Furthermore, the importance of corporate governance regulations cannot be overlooked. It is because the laws and regulations that a firm must comply directly and significantly affect its corporate governance practices. From this perspective, and in relation to the altered

applications of corporate governance, another aim of the thesis was to find out *“how and to what extent do the new corporate governance codes integrate sustainability, and other purposes, such as diversity and stakeholder engagement?”*. Accordingly, we determined that many recently published corporate governance codes indicate that the board of directors should act in the best interest of the company, and directors should also consider the social and environmental consequences of their actions while taking decisions. Regulators around the globe have integrated sustainability issues into their corporate governance codes to an extent, and it looks like they acknowledge the importance of such issues. Nevertheless, our conclusion regarding this topic is that the regulators need to enact more concrete rules and regulations to truly achieve a change in corporate governance from both enhanced stakeholder rights’ perspective, and also from sustainability perspective.

As argued, innovation is highly important for firms to be successful and stay relevant in the rapidly changing world. From this perspective, we tried to answer, *“what is the role of governance and culture in influencing the quality and direction of corporate innovation?”*. To find out the answer to this question, the most innovative firms’ board compositions and directors’ educational and professional background, age and gender information, corporate culture ratings, and share-price performance have been gathered to determine their characteristics. We found that the most innovative companies today are mostly governed by technical experts and product oriented board members. We further found that there is no relationship between the ages of the board members with innovation potential; the average age of all directors is 61.2. We conclude that *“in today’s rapidly changing and developing business environment, financial success depends on innovation to a significant extent, and in order for companies to boost innovation, they should create strong and convenient corporate cultures. As important factors for enhanced innovation output; employee engagement, satisfaction, and motivation are strongly bounded to corporate culture. Furthermore, in order to be innovative, companies should expand the diversity in their teams. Establishing an open, inclusive, and the best-idea-wins culture by creating a flatter governance structure that will allow firms to effectively communicate, cooperate, and co-create with all stakeholders is vitally important for financial success and being highly innovative. The data evaluated within the scope of this chapter shows that the most innovative companies elect significant number of technical experts and product-oriented persons as directors. Hence, other firms that desire to become more innovative shall commence to consider electing more technical experts, product-oriented persons and more importantly digitally savvy directors.”*



# **Chapter 1**

## **Introduction**



### 1. Introduction

Corporate governance and corporate culture are two highly related, in fact, overlapped concepts. It has been widely suggested that good governance and strong culture can lead to better corporate performance and sustained value creation for everyone.<sup>1</sup> However, statements like “good governance” or “strong culture” are somehow subjective.<sup>2</sup> There is no consensus neither in academia nor among corporate leaders regarding what good governance or strong culture is.<sup>3</sup> Naturally, scholars have divergent viewpoints on such concepts.

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<sup>1</sup> See: Kotter, J., Heskett, P., “Corporate Culture and Performance, New York, Free Press, 1992”; See Also: Maher, M., Andersson, T., “Corporate Governance: Effects On Firm Performance And Economic Growth”, OECD, 1999; See Also: Kotter, “Does Corporate Culture Drive Financial Performance?”, accessed 14.08.2022, Forbes, 10 February 2011, <<https://www.forbes.com/sites/johnkotter/2011/02/10/does-corporate-culture-drive-financial-performance>>; See Also: Sorensen, J., “The Strength of Corporate Culture and the Reliability of Firm Performance”, Administrative Science Quarterly, Vol. 47, March 2002, pp. 70-91

<sup>2</sup> For instance, according to the shareholder wealth maximization viewpoint of corporate governance, “good governance” is about creating organizational and managerial structures, which ensure all the decisions are made with the main focus on shareholders’ best interests (see; Sharfman, B.S., “Shareholder Wealth Maximization and Its Implementation Under Corporate Law”, Florida Law Review, Vol 66, Issue 1, pp.3). This viewpoint implements enhanced shareholder rights, strengthened monitoring over directors, and hierarchical organizational structures. On the other hand, stakeholder centric corporate governance redefines a firm’s purpose as to acting in the best interests of all stakeholders (see; Schwab, K., Vanham, P., “Stakeholder Capitalism: A Global Economy that Works for Progress, People and Planet”, John Wiley & Sons, 2021). It can be argued that stakeholderism may, therefore, prefer horizontal or flatter organizational structures instead of traditional hierarchical structures. However, it should be noted that there is no single definition of “good governance” (Maher, M., Andersson, T., “Corporate Governance: Effects On Firm Performance And Economic Growth”, OECD, 1999, pp.44). In terms of corporate culture; according to the traditional view, a strong culture refers to a culture that ensures employees act in a standardized way (see; Deal, T.E., Kennedy, A.A., “Corporate Cultures: Rites and Rituals of Corporate Life”, Perseus Book Publishing, 2000). However, the contemporary view of culture argues that culture should be used as a tool to provide more flexibility or autonomy (See: Reisinger, H., Fetterer, D., “Forget Flexibility. Your Employees Want Autonomy”, accessed 14.08.2022, Harvard Business Review, October 2021, <<https://hbr.org/2021/10/forget-flexibility-your-employees-want-autonomy>>). Hence, the definitions of “good governance” or “strong culture” depend on who defines them.

<sup>3</sup> According to some scholars, a firm’s purpose should be still maximizing shareholder value (For instance: Bebchuk, et al, “Does Enlightened Shareholder Value Add Value?”, Harvard Law School John M. Olin Center Discussion Paper No. 1077, 06 Apr 2022). Furthermore, some scholars refuse the rise of stakeholderism and argue that stakeholderism does not add value, instead it has the potential to harm stakeholders (For instance: Bebchuk, L.A., Tallarita R., “The Illusory Promise of Stakeholder Governance”, Harvard Law School Program on Corporate Governance Working Paper 2020-1, 27 Feb 2020). On the other hand, some academics argue that “maximizing shareholder value might be harmful to companies, because it takes the focus to short term profit and creates obstacles for long term success and innovation” (See: Vermeulen, E., Fenwick, M., “A Sustainable Platform Economy & the Future of Corporate Governance”, Law Working Paper N° 441/2019, ECGI, March 2019). Furthermore, some argue that focusing on the interests of all stakeholders can be beneficial for all. (For instance: Edmans, A., “Company Purpose and Profit Need not be in Conflict If We Grow the Pie”, Economic Affairs, 40, Wiley, 2020). Hence, it can be said that there has been a debate among scholars regarding what good governance is and what should be the corporate purpose. This debate will be revisited in sub-section 4.2.5.

On the other hand, there are financially well-performed companies with particular governance styles or cultures, and some of those can be seen as very well-suited examples for companies with “good governance” or “strong culture”. Alphabet (Google), Microsoft, Netflix, Apple, Airbnb and Amazon are some of the firms that have been investigated within the scope of this thesis. These firms are quite famous, but the reason for examining them is not about their fame or recognition. As will be presented, these firms’ financial performance and business success are inevitable. All of these firms are among the world’s largest corporations (“*Forbes Global 2000*”), and especially Microsoft, Apple, Amazon and Google are on the top of the list.<sup>4</sup> What is common for these firms is that they are organized as platforms.<sup>5</sup> Although there is no “one-size-fits-all” solution or suggestion regarding creating a culture or establishing a governance system, there are substantial lessons to be taken from those successful and well-performed companies, which will form a basis for asserting the components of future’s corporate governance and culture in this thesis.<sup>6</sup> However, it should be noted that several components collectively lead to success, meaning that only possessing a good business model or well-functioning governance structure is not enough; the combination of an innovative business model, suitable governance structure and strong culture with one accord is the key to business success. This is, in fact, what we attempt to demonstrate in this thesis; the combination of firm characteristics, along with corporate culture, attributed to the success of those firms.

Corporate governance and corporate culture are not static concepts or, at least, they should not be stationary. It is because corporate life, and social life, have been changing, and such change has been enormously accelerated, especially since the last millennium, because of technological and digital advancements. Therefore, it can be said that the concepts of corporate governance and culture have also been changing and developing. It has been argued that since the foundation of the first joint-stock company, “corporate governance has been evolving

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<sup>4</sup>Murphy, A., Contreras, I., “Global 2000”, Forbes, accessed 15.08.2022, <<https://www.forbes.com/lists/global2000/?sh=6c76b6545ac>>

<sup>5</sup>Parker, G.G., Alstytne M., Jiang, X., “Platform Ecosystems: How Developers Invert The Firm”, MIS Quarterly, Volume 41, Issue 1, March 2017, pp 255–266

<sup>6</sup>Digitalization, A Flatter Governance, Collaboration, Co-creation, Communication, Communities, and Real Care are determined as the components of the future’s corporate governance and corporate culture, by examining the most successful digital platforms and tech companies. The detailed explanations regarding the components will be made in Chapter 5.

continuously and continues to evolve".<sup>7</sup> The same statement can be made for corporate culture. Earlier, the focus was on creating a corporate culture that would ensure that employees of a firm behave in a standardizing way.<sup>8</sup> However, today, standardized behaviors and pre-defined patterns might not be quite preferred. Instead of those, out of box thinking, autonomy, and the best idea wins culture gained importance; considering that this digital age requires constant innovation, improved processes, and new skills, and it might be compelling to achieve such innovation and progress under the traditionally bureaucratic cultures.<sup>9</sup>

There are new ways of governance and contemporary approaches to culture.<sup>10</sup> Earlier, when a company grew over time, the sole option was considered establishing a hierarchical organizational structure. However, several firms have proved that flatter, open and inclusive governance and culture is possible and even might be better.<sup>11</sup> Companies have started to desert the old ways and now seek something enhanced, which may be better suited to the digital age that we are living in. Also, the realities of the corporate world in the twentieth century and the facts of twenty-first-century's corporations are significantly different. "20th century companies rely heavily on hierarchical, formalistic and closed structures, but 21<sup>st</sup> century companies have been using technology, software and algorithms to develop new business models and challenge incumbents and such companies have flat, and inclusive corporate cultures".<sup>12</sup> From this perspective, this thesis attempts to evaluate the past and present of corporate governance and corporate culture and provide suggestions for the future.

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<sup>7</sup> Tricker, R., "The Evolution Of Corporate Governance", In Clark & Branson, The SAGE Handbook Of Corporate Governance, Sage Publications, 2012, pp. 39-61

<sup>8</sup> Deal, T.E., Kennedy, A.A., "Corporate Cultures: Rites and Rituals of Corporate Life", Perseus Book Publishing, 2000 pp.15

<sup>9</sup> See: Vermeulen, E.P.M., Fenwick, M., "The End of the Corporation", ECGI, Law Working Paper N° 482, 2019, pp.19, See Also: McCahery, J.A., Vermeulen, E.P.M., Fenwick, M., "The End of "Corporate" Governance (Hello "Platform" Governance)", ECGI, Law Working Paper N° 430/2018, December 2018, pp.19-20

<sup>10</sup> See: Weeks, R., "Organizational Culture: A Contemporary Management Perspective", Acta Commercii, 2010, pp. 43–58., See Also: Tricker, B., The Evolution of Corporate Governance (Elements in Corporate Governance). Cambridge: Cambridge University Press, 2021

<sup>11</sup> Yale Insights, James Baron, "Can a Company Succeed without a Hierarchy?", accessed 15.08.2022, <https://insights.som.yale.edu/insights/can-company-succeed-without-hierarchy>, See Also: Marquez, S., Mehrotra, N., "Evolution Of Corporate Culture", IAPCO, 2020, accessed 15.08.2022, < <https://www.iapco.org/app/uploads/2020/04/Evolution-of-corporate-culture-2020-Vancouver1.pdf>>, See Also: Hamel, G., First, "Let's Fire All the Managers", Harvard Business Review, December 2011, accessed 15.08.2022, < <https://hbr.org/2011/12/first-lets-fire-all-the-managers>>

<sup>12</sup> Vermeulen, E.P.M., "How Technology Has Changed The Way We Live And Work", accessed 15.08.2022, < <https://www.linkedin.com/pulse/how-technology-has-changed-way-we-live-work-erik-p-m-vermeulen/>>



However, by providing suggestions for the future, we do not try to present a forecast or “fortune telling”. Instead, by looking into today’s realities and developments, this thesis aims to demonstrate that there are already better ways exist, and many firms and the whole society significantly benefit from those. As will be argued, under closed and hierarchical structures, the decision making power belongs to the top executives, and internal communication (from top to down) is limited. However, considering the structure and strategies of digital platforms and other flatter firms, they highly promote open communication and co-creation with all stakeholders.<sup>13</sup> Firms should not ignore the changing needs and expectations of customers, clients, suppliers, employees, investors and all other stakeholders, and having a flatter structure supported by an open and inclusive culture might be the key to answering such needs.

Corporate culture is vitally important because culture can have an impact on business life wherever individuals are involved. Afterall, culture is strictly related to the human side of the business. “Corporate culture provides an invisible force that offers a strategic direction to employees, guides organizations in fulfilling their goals through generally accepted norms and rules, mobilizes internal energies, and gives motivation and satisfaction to all participants”.<sup>14</sup> Culture can be used as a tool to enhance employee engagement, motivation, and performance as well as productivity, which can subsequently support the financial performance of firms. Furthermore, a firm’s organizational structure defines the interrelations among all stakeholders; for instance, strict hierarchies create borders within a firm as well as between the firm and its external environment; on the other hand, flatter and open cultures dilute the borders and enable firms to collaborate and co-create with all stakeholders.

Moreover, corporate leadership and culture are closely related, and corporate leaders are often seen as culture creators and changers.<sup>15</sup> In the beginning, leaders (as entrepreneurs) establish the firm and create its initial culture, and when a firm grows in time, such leaders also often

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<sup>13</sup> In Chapter 5, how Microsoft, Amazon, Google and the others have created feedback and communication channels with all stakeholders will be examined in detail.

<sup>14</sup> Illie, M.S., Ghita, R.C., “Organizational Culture from a Contemporary Perspective”, *Cross-Cultural Management Journal*, Vol XXI, Issue 2, 2019, pp.154

<sup>15</sup> Schein, E., “The Corporate Culture Survival Guide”, Jossey-Bass Press, 2009, pp. 215, *See Also*: Groysberg, et al., “The Leader’s Guide to Corporate Culture”, *Harvard Business Review*, January-February 2018, pp.44–52, *See Also*: Schein, E., Schein, P.A., “Organizational Culture and Leadership”, Jossey-Bass, 1985,

attempt to change the culture.<sup>16</sup> This emphasis on the importance of corporate culture, which is the central theme in this thesis, will be examined in detail under Section 3 by providing case studies and analyzing some data.

It follows from above that corporate culture involves a company creating the organization's core values and structure. From corporate executives' side, culture refers to "a beliefs system", "a coordination mechanism", "an invisible hand", "how employees interact with one another", "a standard of behavior", and "the tone for what type of company this is", and these approaches can be generalized as corporate values and norms.<sup>17</sup> After establishing organizational structures, firms can achieve enhanced communication and collaboration among various stakeholders by creating an open and inclusive culture. Hence, we take governance structures as a starting point for creating corporate culture, and research on the integration of corporate culture in corporate governance is still in a nascent stage. While earlier research has recognized the close relationship between corporate governance and a company's culture,<sup>18</sup> there are relatively few studies that examine employees' perceptions regarding culture and the way that a firm promotes its culture. Even fewer studies have investigated why employees' thoughts and perceptions of a firm's culture are essential for evaluating a company's corporate governance. For instance, in their recent study, Menner and Menninger investigated the impact of enhanced shareholder rights on employee satisfaction. By examining the impact of shareholder proposals, which are related to enhancing shareholder rights and passed during general meetings, their study found that employee satisfaction is decreased when shareholder rights are increased.<sup>19</sup> This sort of academic approach is vital to reveal the relationship between corporate governance and culture from the employees' side,

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<sup>16</sup> Schein, E., Schein, P.A., "Organizational Culture and Leadership", Jossey-Bass, 1985, pp.125

<sup>17</sup> Graham, J.R., et al., "Corporate Culture: Evidence from the Field", NBER Working Paper No. w23255, 26 April 2022, pp.1-2

<sup>18</sup> See: Denison, D., Spreitzer, M., "Organizational Culture and Organizational Development", Research in Organizational Change and Development, Volume 5, 1999, pp.5-11, See Also: Herzog, V. L., "Trust Building On Corporate Collaborative Project Teams", Project Management Journal, 32(1), 2001, pp. 28–37, See Also: Lewis, D., Five Years On – "The Organizational Culture Saga Revisited", Leadership & Organization Development Journal, Vol. 23 No. 5, 2002, pp. 280-287, See Also: Licht, A., "Culture and Law in Corporate Governance", ECGI, Law Working Paper N° 247/2014, See Also: Llopis, J., Gonzalez, M.R., Gasco, J.L., "Corporate Governance And Organizational Culture. The Role Of Ethics Officers", International Journal of Disclosure and Governance, May 2007

<sup>19</sup> Menner, M., Menninger, F., "The Causal Effect of Corporate Governance on Employee Satisfaction", 17 November 2018, accessed 14.08.2022, <<https://ssrn.com/abstract=3249006>>

but also somehow limited due to the narrow focus on a single dimension of corporate governance (i.e., enhanced shareholder rights).

For a long time, the primary purpose of corporate governance was to maximize shareholders' wealth.<sup>20</sup> <sup>21</sup> The board of directors' primary duty was "to act in the best interest of the shareholders", and the board's accountability to the shareholders and the shareholders' control over the board were the main concerns of corporate governance.<sup>22</sup> Nevertheless, the concepts of sustainability, ESG and CSR, and stakeholderism have gained significance, and there has been an effort to make changes in corporate governance. For instance, Business Roundtable refined the purpose of a firm as to create value for all stakeholders.<sup>23</sup> Today, many academics, executives and directors, and business organizations explicitly advocate that a company's purpose should not solely focus on shareholder wealth maximization, but "companies should be managed for the benefit of all stakeholders".<sup>24</sup> However, whether there has been a genuine change in corporate governance practices is arguable, and this issue will be addressed in detail in this thesis. Some academics argue that despite some organizations (such as Business Roundtable, the World Economic Forum etc.) announcing that an alteration in corporate governance is needed, corporate governance practices and purposes of firms have

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<sup>20</sup> Bainbridge, S.M., "In Defense Of The Shareholder Wealth Maximization Norm: A Reply To Professor Green", Washington and Lee Law Review, Vol 50, Issue 4, 1993, pp.1423; *See Also*: OECD, OECD Principles of Corporate Governance, OECD Publication Service, Paris, 1999,

<sup>21</sup> *See Also*: Business Roundtable, "Statement on Corporate Governance", 1997 to 2018 [*Between 1997 – 2018, Business Roundtable endorsed shareholder wealth maximization idea in all of its corporate governance statements*]

<sup>22</sup> OECD, "OECD Principles of Corporate Governance", OECD Publication Service, Paris, 1999, pp.24

<sup>23</sup> Business Roundtable, "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans'", 19 August 2019, Business Roundtable accessed 14.08.2022, <<https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>>

<sup>24</sup> *See*: Business Roundtable, 2019, *See Also*: Schwab, K., "Stakeholder Capitalism : A Global Economy That Works for Progress, People and Planet", John Wiley & Sons: Hoboken, New Jersey, 2021, *See Also*: World Economic Forum, "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation", accessed 21.03.2022, <<https://www.weforum.org/stakeholdercapitalism>>, *See Also*: Fink, L., "2018 Letter to CEOs: A Sense of Purpose", accessed 15.08.2022, <<https://www.blackrock.com/corporate/investor-relations/2018-larry-fink-ceo-lette>>, *See Also*: Lipton, M., "Corporate Purpose: Stakeholders and Long-Term Growth", accessed 15.08.2022, Harvard Law School Forum on Corporate Governance, 29 May 2019, <<https://corpgov.law.harvard.edu/2019/05/29/corporate-purpose-stakeholders-and-long-term-growth/>>, *See Also*: Pollman, E., "Corporate Social Responsibility, ESG, and Compliance", Faculty Scholarship at Penn Carey Law, 2021

not been truly changed, and “stakeholderism should be expected to produce only illusory benefits as well as seriously detrimental effects”.<sup>25</sup>

On the other hand, different forms of businesses and corporate structures have also emerged because of the advancement in digital technologies. Some technology firms and digital platforms have become the world’s largest and most successful companies. Most certainly, these firms are organized differently than the traditional hierarchical organizations, and one of the aims of this thesis is to examine those and determine their characteristics. One of the most distinctive features of digital platforms is that they possess a flatter structure and open and inclusive culture instead of a traditional hierarchical structure and bureaucratic culture, because a platform's success depends on the constant innovation that it provides, which requires a new form of governance.<sup>26</sup> Internal transparency (enhanced communication and collaboration among all internal stakeholders) and external participation (platforms depend on continuous inputs from customers, users, developers, or content creators; stakeholder co-creation) are some of the crucial principles of platforms.<sup>27</sup> As will be argued in detail, the traditional implications of corporate governance have the potential to create a closed and hierarchical organizational structure, and the firms that possess such a structure are often isolated from their external environment.

Nevertheless, the new form of digital business needs the active participation of all stakeholders; therefore, a new form of governance is necessary. However, this does not mean that the characteristics and features that will be provided by examining the most successful firms within the scope of this thesis are only designed for tech companies or digital platforms. Instead, those components are adaptable by any firm that desires to stay relevant in the rapidly changing world, and one of the aims of this thesis is to provide supportive arguments in this regard.

Another significant aim of this thesis is to examine the relationship between culture, governance, and innovation. Indeed, innovation is a major concern for today’s companies.

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<sup>25</sup> Bebchuk, L.A., Tallarita, R., “The Illusory Promise Of Stakeholder Governance”, Discussion Paper No. 2020-1 of the Harvard Law School Program on Corporate Governance, December 2020, pp.3-4

<sup>26</sup> McCahery, J. A., Vermeulen, E., Fenwick, M., “The End of Corporate Governance (Hello Platform Governance)”, Law Working Paper N° 430/2018, EGCI, December 2018, pp.25-26

<sup>27</sup> Parker, G.G, et al., “Platform Revolution : How Networked Markets Are Transforming The Economy-- And How To Make Them Work For You”, Norton & Company, New York, 2016, pp.178

While a large body of research explores the relationship between corporate governance and firm performance, including innovation, relatively few studies investigate the different organizational structures and governance practices (i.e., corporate culture) used by innovative firms.<sup>28</sup> From this perspective, we attempt to answer these questions by examining some of the most innovative companies' board composition, financial performance, and corporate culture. For example, by focusing on these companies, we are able to show the need to elect technical experts, product oriented persons, and digitally conversant board members that allow us more precisely to assess the relationship between governance factors, organization and innovation.

Also, the significant importance of corporate governance regulations cannot be overlooked. Regulations are essential for mandating or at least nudging companies to advance their corporate governance practices. Several newly enacted corporate governance regulations will be examined to understand the current approach of the regulators to corporate governance. Due to the pressures of society, customers, governments, and the media, some concepts such as Environmental, Social, Governance (ESG), Corporate Social Responsibility (CSR), and sustainability have gained significant importance. Even some investors commenced to evaluate potential investee companies as per their ESG ratings, and ESG investment has been seen as an intelligent strategy for long-term sustainable investing.<sup>29</sup> The reason is that some investors feel more secure when the investee firm has good ESG records.<sup>30</sup> As such concepts have become highly popular, and there is a stakeholder demand, new tools and norms have been emerging. Corporate governance codes from various jurisdictions have included ESG

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<sup>28</sup> For instance, in his study, Belloc claimed that innovation capacity of a firm is -among other elements- influenced by internal governance structures (Belloc, F., "Corporate Governance and Innovation: A survey", *Journal of Economic Surveys*, 26, 2012, pp.835). Also, by acknowledging the relationship between corporate governance structures and innovation outcomes, Barker and Chiu investigated to find "*which corporate governance factors affect a company's investment or spend in research and development, and the level of innovation output*", and further argued that "*empirically accepted firm-based factors that promote innovation may however be incompatible with well accepted corporate governance standards that are upheld in major securities markets such as in the US and UK*". (Barker, R., Chiu, I., "Corporate Governance and Firm Innovation - Are Conventional Corporate Governance Standards a Hindrance?", 01 December 2017, available at SSRN: <https://ssrn.com/abstract=3081422>). Furthermore, Sapra et al. investigated the relationship between innovation and corporate governance by examining antitakeover regulations. (Sapra et al., "Corporate Governance and Innovation: Theory and Evidence", *The Journal of Financial and Quantitative Analysis*, Vol. 49, No. 4 (AUGUST 2014), pp. 957-1003)

<sup>29</sup> Stackpole, B., "Why Sustainable Business Needs Better ESG Ratings", accessed 15.08.2022, MIT School of Sloan Management, 06 December 2021, < <https://mitsloan.mit.edu/ideas-made-to-matter/why-sustainable-business-needs-better-esg-ratings>>

<sup>30</sup> Hung, C., "Three Reasons Why CSR And ESG Matter To Businesses", accessed 15.08.2022, Forbes, < <https://www.forbes.com/sites/forbesbusinesscouncil/2021/09/23/three-reasons-why-csr-and-esg-matter-to-businesses/?sh=1419062039b9>>

and CSR matters, and sustainability reporting has become mandatory in some countries. Hence, examining corporate governance regulations is necessary to see how regulators have responded to these changes. However, another aim of such examination is to determine whether the regulators have the necessary understanding of emerging concepts, such as sustainability and stakeholder-centric approaches.

### **1.1. Research Questions and the Aim of the Thesis**

The primary aim of this thesis is to examine the previous and current approaches to corporate governance and corporate culture from both academic, regulatory, and business perspectives. Hence, demonstrate the evolution of both concepts and provide recommendations for the future of corporate governance and corporate culture by evaluating today's realities and altered approaches.

The logic underlying this approach is that although there are certain firms, which have adapted to the changing needs and realities of the digital age by altering their approaches to corporate culture and corporate governance, the aim is to provide a conceptional framework for corporate culture by mapping out various frameworks and guidelines developed in practice. We, therefore, attempt to provide some components of the future's culture and governance by examining today's most successful firms, altered approaches, and expectations of various stakeholders. However, the components that will be presented are not limited or exclusive; there are several more studies, which determined some other components or elements, and naturally, there is no "one-size-fits-all" solution. Nevertheless, our components can be seen as smart business strategies for firms that desire to stay relevant in the future, and correspond to the changing needs of customers, investors, employees, and all other participants of corporate governance.

The other objectives of this thesis are to demonstrate the importance of culture and governance practices for business success and evaluate both concepts' relationship with employee engagement, motivation, performance, corporate leadership, and innovation potential. In this thesis, we are addressing an issue that is high on the agenda of corporate managers, shareholders and policymakers which involves the link between corporate culture, company

actions/policies and corporate performance. As will be discussed in detail, there is a link between culture and employee motivation, engagement, and performance.<sup>31</sup>

Innovation is a must for today's firms, but old and ineffective organizational structures and cultures have the potential to block innovation. By examining the world's most innovative companies, we will attempt to determine some of their essential characteristics. For firms to innovate, those with decision-making power need to have the necessary understanding of the current developments. Therefore, the directors of the world's most innovative companies will be evaluated.

The main research questions of this thesis are as follows;

Research question 1:

- What is the impact of corporate governance and corporate culture on business success?

Sub-questions:

- To what extent are culture and governance related to employee engagement, motivation, performance, and corporate leadership, and whether such concepts can be considered as the human-sided elements of business success?
- What is the role of governance and culture in influencing the innovation potential?

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<sup>31</sup> Several studies demonstrated the link between culture and employee motivation, engagement, and corporate performance. For instance, Deloitte found that "organizations that actively manage their cultures typically have 30% higher levels of innovation and 40% higher levels of retention, and companies with highly engaged workforces outperform their peers by 147% in earnings per share and their employees are 87% less likely to leave". (Deloitte, "Culture vs. engagement", 2016, pp. 3). An article published on Forbes claimed that employee engagement and motivation are increased, when the "current values" of a firm is consistent with the "aspirational values" (MacArthur, H.V., "Ensuring Company Culture And Values Positively Impact Employee Engagement", *Forbes*, 11 July 2019, <<https://www.forbes.com/sites/hvmacarthur/2019/07/11/ensuring-company-culture-and-values-positively-impact-employee-engagement/?sh=343a9413426b>>). Furthermore, since the culture is related to a firm's values, "clearly defined company core values will help drive employee engagement". (O'Boyle, S., "How Company Culture Affects Employee Engagement", *CultureIQ Blog*, 17 September 2020, <<https://cultureiq.com/blog/employee-engagement-company-culture/>>). It has been further argued that a positive and strong corporate culture is related to increased engagement and motivation by creating an environment where "positive working relationships, employee input in decision-making and supporting growth and development with learning opportunities" exist. (Parent, J.D., Lovelace, K.J., "Employee Engagement, Positive Organizational Culture and Individual Adaptability", *On the Horizon*, 2018, Vol 26, No 3, pp.210

Research question 2:

- How and to what extent the traditional approach and applications of corporate governance and corporate culture have been altered, and what is the role of other purposes, beyond attaining shareholder return, within the different corporate governance codes?

Sub-questions:

- What is the traditional approach and how that has been altered by the most successful digital platforms and companies from the tech industry, and what are the basic organizational components those companies?
- How and to what extent do the new corporate governance codes integrate the other purposes, beyond attaining shareholder return, such as sustainability, diversity and stakeholder engagement?

The assertions to be tested are as follows;

- A flatter governance structure backed by an inclusive, open, and the best-idea-wins culture can facilitate enhanced communication, collaboration, and co-creation between a firm and all its stakeholders, which can subsequently lead to better performance for the long-run as well as enhanced innovation potential.
- Focus on sustainability, stakeholder-centric approaches, and sustainable value creation for the long-term can benefit all stakeholders, including shareholders.
- Companies with digitally savvy, technically expert and product-oriented boards can perform better in terms of innovation potential.



### 1.2. Research Methods and Data

This thesis is written on the basis of desk research, and case and literature study. Furthermore, structured interviews conducted by other studies are tested, compared, and correlated with the collected data (*interview results of "Great Place to Work", "Fortune's 100 Best Companies to Work For"*<sup>32</sup> and *Boston Consulting Group's "the World's Most Innovative Companies"*<sup>33</sup> are used within the scope of this thesis. Furthermore, the companies that are included in both lists are chosen for case studies of this thesis).

A problem with some academic studies regarding culture might be that culture is sometimes examined from a narrow point of view. For instance, if we take culture solely as "shared tacit assumptions" and study a firm's culture only by conducting surveys over its employees, such a study may reveal some indications regarding culture, but it will fall short for sure. Because, as will be strongly indicated, culture is not only about employees' perceptions; a complete cultural analysis should also definitely include an examination of organizational structure and the firm's interactions and interrelations with all of its stakeholders (especially with its employees, shareholders and customers). This is, in fact, what we attempt to accomplish in this thesis. However, there are some limitations naturally. First, we rely on publicly available information, but an on-site examination of culture might provide deeper insights. Some of the primary sources of our examination are anecdotal evidences, reports and studies, survey results, and publicly available information (such as annual reports, ESG reports, board

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<sup>32</sup> "Great Place to Work" and Fortune magazine together publish "100 Best Companies to Work For" list every year. "Great Place to Work" surveys more than 870.000 employees to create the list. The methodology of Great Place to Work is explained as follows; "*companies provide organizational data like size, location, industry, demographics, roles, and levels, Great Place to Work measures the differences in survey responses across demographic groups and roles within each organization to assess both the quality and consistency of the employee experience, statements are weighted according to their relevance in describing the most important aspects of an equitable workplace, each company also answers six essay questions that provide greater insight into how and why the organization is great for all people, survey data analysis and essay evaluation results are then factored into a combined score to compare and rank the companies that create the most consistently positive experience for all employees*". (Fortune, "Methodology for 100 Best Companies to Work For", accessed 23.10.2022, <<https://fortune.com/franchise-list-page/best-companies-2022-methodology>> )

<sup>33</sup> Boston Consulting Group surveys more than 1500 executives globally and assesses firms' innovation performance on the following dimensions; "*global mindshare*" ("*the number of votes received from all global innovation executives*"), "*industry peer review*" ("*the number of votes received from executives in a company's own industry*"), "*industry disruption*" ("*the Diversity Index (Herfindahl-Hirschman) of votes across industries*"), and "*value creation*" ("*total shareholder return, including share buybacks from December 31, 2018, through December 31, 2021*"). (Boston Consulting Group, "Overcoming the Innovation Readiness Gap Most Innovative Companies 2021", 15 April 2021, <<https://www.bcg.com/publications/2021/most-innovative-companies-overview>> )

members' biographies and backgrounds from certain firms etc.) about corporate governance and culture. However, such publicly available information will also be tested through some data collected within the scope of this thesis. For instance, the "Fortune's 100 Best Companies to Work For" survey results will be tested through employee reviews on Glassdoor and keywords extracted from firms' websites and reports. Current and former employees of firms can rate their companies on Glassdoor, and considering the high participation volume, Glassdoor provides an extensive dataset. Glassdoor's data has already been used by some research organizations, such as MIT, and according to MIT "employees submit anonymous reviews, which means they can offer candid opinions without fear of reprisal".<sup>34</sup> Hence, the data of Glassdoor can be quite helpful in evaluating a company's culture from the viewpoints of its employees. In fact, such data might be more reliable than survey results, because sometimes surveys are mandated to employees and there is always a risk of "reprisal". Finally, while providing a ranking to a company, Glassdoor gives weight to the latest comments and ratings made by employees. So that the rankings are related to the up to date comments and rates.

On the other hand, employees voluntarily rate their companies and corporate leaders on Glassdoor. Hence, Glassdoor ratings will be mentioned in this thesis whenever the issue concerns employees' perceptions regarding culture.<sup>35</sup> Some digital platforms and tech companies that are among the world's largest firms will be examined to determine the essential organizational components of the most successful digital platforms and companies in the tech industry. Alphabet (Google), Apple, Alibaba, Microsoft, Amazon, Airbnb, Uber, Valve, Cisco, Salesforce, and Netflix are some sample companies selected to be examined. These firms' organizational structure, business strategies, stakeholder engagement activities (and communication channels with all stakeholders), their employees' opinion and

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<sup>34</sup> Sull, D., Sull C., Chamberlain, A., "Measuring Culture in Leading Companies, Introducing the MIT SMR/Glassdoor Culture 500", accessed 23.03.2022, MIT Sloan Management Review, 24 June 2019, <<https://sloanreview.mit.edu/projects/measuring-culture-in-leading-companies/>>

<sup>35</sup> There are several studies that also used Glassdoor's data. For instance, for their study, Graham et al., surveyed 1348 executives regarding the relation between improved corporate culture and increased firm value, and "externally validated their culture measures by using Glassdoor's data", and claimed that their results are associated with Glassdoor's data. (Graham et al., "Corporate Culture: Evidence from the Field, Columbia Business School Research Paper No. 16-49, 28 January 2022"). MIT created a dataset named "The Culture 500" for providing corporate culture views for the selected firms. Hence, scholars and research organizations have already been using Glassdoor's data to measure and evaluate corporate culture. Millions of independent reviews made by employees on Glassdoor constitute a significant dataset especially for corporate culture studies, and therefore we will also widely use the data extracted from Glassdoor in this thesis. One of the most significant reasons is that no survey can reach millions of employees from all over the globe to rate their companies in terms of corporate culture, and Glassdoor.com successfully accomplishes this thanks to the volunteer employees.

understanding regarding corporate culture, and certain reasons behind their success will be examined. These firms' websites, annual reports, employee opinions on Glassdoor, share price performance, and board compositions (including backgrounds of board members), surveys and studies conducted over these firms will be used as primary data sources.

As briefly argued, sustainability issues gained significant importance due to the stakeholder demand, and several newly enacted corporate governance codes integrated such matters. To evaluate "how and to what extent do the new corporate governance codes integrate sustainability, and other purposes, such as diversity and stakeholder engagement", those newly enacted codes will be examined in detail. Furthermore, examining the codes also aims to determine whether the regulators have the necessary understanding of recent developments. It will be investigated to determine whether the codes provide concrete guidance concerning recent developments, such as deploying digital technologies in corporate governance practices, to make a conclusion in this regard. The corporate governance codes chosen to be examined are the ones that are recently updated and published. Geographical spread is also taken into consideration while selecting the sample jurisdictions.

The companies included in the Boston Consulting Group's "the World's Most Innovative Companies" will be evaluated to determine the relationship between governance, culture, and innovation potential. Those firms' share price performance for 10 years, Glassdoor ratings (CEO approval, overall rating, culture and values, diversity, compensation-benefits), social media activities (as a stakeholder communication tool), and board compositions (each board member's background, professional, and educational information) will be collected and a dataset will be created.

To find out "to what extent are culture and governance related to employee engagement, motivation, and performance as well as corporate leadership", several case studies will be provided. Since one of the issues is about employees, their opinion and perception of corporate culture will be evaluated by checking the reviews made on Glassdoor. Furthermore, how some selected firms promote their culture and how employees perceive corporate culture will be compared; Glassdoor ratings and some other survey results (e.g., Great Place to Work) will be compared with how firms promote their culture on their websites and reports to achieve this aim.

### 1.3. Outline Chapters

The traditional and current approaches to corporate culture will be firstly addressed through literature review in **Chapter 2**. Corporate culture was earlier regarded as a research area of human resources, business administration, sociology, and organizational psychology. Especially under Chapter 2, where the traditional approach to the concept will be evaluated, those different disciplines' perspectives will be briefly mentioned. Furthermore, wherever the relationship between financial performance and culture (or governance) is evaluated, the viewpoints of economics and finance disciplines will also be reflected. Nevertheless, as will be explained in detail, corporate culture overlaps with corporate governance, because culture is organizational. Hence, this thesis contains an interdisciplinary approach to corporate governance and corporate culture.

Under **Chapter 3**, the importance of corporate culture and its relationship with employee performance, engagement and motivation, the financial performance of corporations, and corporate leadership will be evaluated. Under Chapter 3, together with some other successful firms, the companies included in "Fortune's 100 Best Companies to Work For list" will be examined. The concept of corporate culture will be examined in more detail from a managerial perspective, and how culture can be used to acknowledge how employees of the firm perceive corporate culture. Since the employees and corporate leaders deal with corporate culture on a daily basis, it is vitally important to evaluate their understanding regarding culture. Sample firms' various types of ratings on Glassdoor will be compared to find out employees' perceptions regarding the corporate culture of their companies. Hence, the main focus of this chapter will be on employees' and corporate leaders' perceptions regarding corporate culture, and the benefits of having strong cultures.

Under **Chapter 4**, the traditional corporate governance, so-called shareholder primacy, will be mentioned together with the main actors of corporate governance, which are the board of directors, shareholders, employees, gatekeepers, and regulatory and supervisory bodies. The roles and duties of the actors within the scope of the traditional application of corporate governance will be briefly mentioned. Stakeholderism and sustainability stand out as relatively new approaches to governance, and there has been a famous debate in academia regarding which approach to corporate governance might be better and more beneficial. Stakeholderism will also be evaluated by reviewing the existing literature and evaluating some stakeholder centric firms' operations. This chapter elaborates on the how corporate

governance is related to the stakeholder oriented approach and how it is applied in practices. Under Chapter 4, the concepts of corporate social responsibility and non-financial reporting will be further presented. Also, a new idea about auditing non-financial reports will be provided. As will be argued, sustainability reporting has become mandatory under several jurisdictions. Also, many firms from other jurisdictions voluntarily draft such reports. However, the question of “who should audit sustainability reports” has not been answered adequately yet. Thus, we will attempt to answer this question by providing a new idea in relation thereto.

After these, the debate between stakeholderism and shareholderism will be addressed through literature review, and a possible solution to such debate will be provided; finding a balance. Hence, this thesis does not try to give weight to one of the approaches. Instead, the goal is to provide a balanced solution by evaluating some sample corporations’ governance practices, cultures, and financial performances. As will be discussed, shareholder primacy has some shortcomings, and a balanced approach may favor both shareholders and other stakeholders; this argument will be the main focus of that Chapter.

**Chapter 5** will provide some suggestions for the future of corporate governance and culture by presenting five vitally important components; digitalization, flatter governance, co-creation – communication – collaboration, communities, and care. Case studies, as well as several examples, will be provided for each of the components. Share and financial performance of sample corporations, governance styles and cultures, strategies, communication styles, as well as social media activities (concerning corporate governance announcements) of those, will be used as evidence. Several companies have already adopted all or some of those components, and as will be demonstrated under Chapter 5, those companies’ financial performances and reputations are inevitable. As the impact of regulatory approaches on corporate governance and culture can be enormous, the current regulatory trends in corporate governance (especially in relation to stakeholderism and sustainability) will be evaluated under **Chapter 6**. Several newly enacted corporate governance codes and recommendations from different jurisdictions will be evaluated and compared to determine whether such regulations serve an actual purpose, whether the regulators have the necessary understanding of the current developments and hot topics, or whether these regulatory efforts are just for window-dressing. As will be presented, the corporate world has been changing its approach, or at least its discourse concerning corporate governance, and some of the regulators also have also begun acknowledging the emerging concepts. Corporate governance codes that will be evaluated

under Chapter are from the following jurisdictions; the UK (2018), Germany (2019), Italy (2020), France (2020), Belgium (2020), Greece (2021), Austria (2021), Finland (2020), Australia (2019), Slovenia (2021), Latvia (2020), Portugal (2020), Malaysia (2021), Singapore (2021), Japan (2021), Vietnam (2019), and Turkey (2014). Furthermore, a conceptual framework for integrating the five components (which will be presented in Chapter 5) in regulatory framework will be provided.

**Chapter 7** will evaluate the “World’s Most Innovative Companies” with the help of a dataset created to determine the relationship between governance, culture, and innovation. This chapter will evaluate the current practices and structures of the listed companies (based on indicators in the database) on the grounds of the conceptual framework developed in Chapter 5. The most innovative companies’ board compositions, board members’ educational and professional backgrounds, ages and genders, and companies’ share performance for ten years will be gathered and evaluated. The companies that are included in Boston Consulting Group’s “the World’s Most Innovative Companies” list are selected to be evaluated under this section. The historical share prices of those companies will be extracted from the websites of “Nasdaq, The New York Stock Exchange, Google Finance, Yahoo Finance, and Macrotrends”. Each board member’s background information will be gathered from the companies’ annual reports, websites, proxy statements, and securities and stock exchange filings. Regarding the evaluation of the corporate cultures of those companies, employee reviews on Glassdoor will be again used within the scope of this section. Furthermore, the differences between sample firms will be examined from the perspective of the corporate culture.

**Chapter 8** can be read as an additional case study. This final case study will further elaborate on the conceptual framework developed in Chapter 5, and examine IsBank’s corporate culture and governance practices by focusing on its norms, values, and operations. Furthermore, information will be provided about how the culture is in a relation with the activities within the firm, and how it relates to other important activities that affect the firm. IsBank, the largest bank in Turkey, has been chosen to be examined due to its unique shareholder structure (at least unique for Turkey), outstanding financial performance for a corporation located in a developing country, stakeholder-centric actions and its approach to digital developments. IsBank’s current and former employees hold the majority of the shares through their association, and the other controlling institutional shareholder does not have any financial interest in the bank (it is because voting rights belong to the institutional shareholder by inheritance, but some other non-profit organizations are entitled to dividend payments).

Therefore, it can be assumed that IsBank does not experience shareholder pressure for short-term financial performance. Hence, the relationship between its unique shareholder structure and outstanding financial performance should be examined academically. However, another reason for this case study is to demonstrate that the components determined by examining today's most successful tech companies can also be deployed by other sorts of firms, even an old bank from a developing country. Furthermore, another reason for such an examination is that IsBank has been included in "Forbes' Global 2000" list since 2004, and also it finds a place in various international lists, such as the "Top Regarded Companies" list and the "World's Best Employers" lists of Forbes, and BrandFinance's most valuable brands list. IsBank's shareholder structure, financial performance, governance and culture, and digitalization activities will be evaluated and compared with some other banking corporations. At the end of Chapter 8, some suggestions about corporate governance for the banking and finance industry will be provided.

Finally, **Chapter 9** will conclude by providing an overview of the results of the previous chapters. This chapter will explain how the research questions are answered and how the central aims of the thesis are accomplished. Chapter 9 will also discuss the limitations, and provide possible suggestions for future research.

# Chapter 2

## **The Basis of Corporate Culture**





## 2. The Basis of Corporate Culture

This chapter examines the foundation and theories of corporate culture and the current approach to the concept, and provides an organizational framework for understanding the concept of corporate culture. Furthermore, to reveal the importance of corporate culture in an academic manner, the relationship between corporate culture and financial performance, employee engagement and motivation, and the link between culture and effective governance in terms of leadership will be demonstrated by providing examples and various data. However, it should be noted that corporate culture is more about how firms are organized and how leaders build their organizations. This is, in fact, where corporate culture and corporate governance overlap. This issue will be examined in this chapter and also in the following chapters. Furthermore, we will discuss that having a well-suited corporate culture can be beneficial for increasing employee engagement and motivation by focusing on granting more autonomy, eliminating strict hierarchies, and creating an open, inclusive and “the-best-idea-wins” culture, instead of using culture as a tool to ensure that employees act in a standardized way.

### 2.1. The Concept of Corporate Culture; General Definitions and Our Approach to the Concept

Culture is a term that is fundamentally used within the scope of anthropology and sociology disciplines. Most anthropological and sociological studies of values and practices adopt definitions of culture. Anthropologists, on the one hand generally define culture as “*a system created by human activity comprising spiritual, organizational, and material items and expanding within the Earth's nature at the expense of this very nature, and people mostly understand human culture in several ways: (1) as an acquired characteristic of human behavior, (2) as a spiritual culture, (3) as a better view of civilization, and (4) as a continuation or refinement of nature.*”<sup>36</sup> In 1952, anthropologists “Alfred Kroeber and Clyde Kluckhohn compiled 164 different definitions of

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<sup>36</sup> Birx, H.J., “Encyclopedia of Anthropology”, SAGE Publications, 2006, available at: <https://dx.doi.org/10.4135/9781412952453>

culture” in their book named “Culture: A Critical Review of Concepts and Definitions”.<sup>37</sup> Later, the difficulty of defining culture is expressed as follows; “*despite a century of efforts to define culture adequately, there was in the early 1990s no agreement among anthropologists regarding its nature*”.<sup>38</sup>

The sociological view, on the other hand, is based on “*the examination of particular meanings, values, and artifacts generated in particular societies (or organizations) and networks, and how social contexts influence each other*”.<sup>39</sup> An important point that should be emphasized about culture is that culture directly influences people, and there is a reciprocal relationship between the culture and the group of people who have created the culture.

The foundation and characteristics of a culture, which has been developed by and within a group over time, is an issue that deserves to be researched in an academic manner. However, what makes culture more valuable is its power and influence over human groups.

Elliott Jaques used the term culture within the organizational context for the first time.<sup>40</sup> With his team, Dr. Elliot has conducted a study regarding the behaviors of employees at a British metal company named Glacier for three years from 1948 to 1950 (“Glacier Project”).<sup>41</sup> Elliot Jaques defined corporate culture in the company as a “*customary and traditional way of thinking and doing of things, which is shared to a greater or lesser degree by all its members, and which new members must learn, and at least partially accept...*”<sup>42</sup> Since the first usage of the term in an organizational context, many scholars have spoken about corporate culture.

As so many different definitions of culture have been made within the scope of anthropology and sociology, the case is similar for the definition of “corporate culture”; academic Steven Ott

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<sup>37</sup> Boroch, R., “A Formal Concept of Culture in the Classification of Alfred L. Kroeber and Clyde Kluckhohn, *Analecta*”, 25 (2), 2016, pp. 62

<sup>38</sup> Apte, M., “Language in Socio-Cultural Context”, 1994, in: Asher, R.E., *The Encyclopedia of Language and Linguistics*, 4, Oxford Pergamon Press, 2000-2010, pp.2001

<sup>39</sup> Ritzer, G., Ryan, M., “*The Concise Encyclopedia of Sociology*”, Wiley-Blackwell, 2011, pp.112

<sup>40</sup> Witzel, M., “*The Encyclopedia of the History of American Management*”, Thoemmes, 2005, pp. 267

<sup>41</sup> Witzel, 2005, pp.267

<sup>42</sup> Jaques, E., “*The Changing Culture of a Factory; Glacier Project Series*”, 1; “Tavistock in collab. with Routledge & Kegan Paul”, London, 1951, pp.251

has gathered 38 distinctive definitions of corporate culture for his study.<sup>43</sup> Academics from the disciplines of management, business administration, organizational sociology, and organizational psychology defined corporate culture, and what is common in their definitions is that culture is explained mainly within the scope of employees' "thoughts, emotions and senses".<sup>44</sup> However, we define and interpret culture from an organizational and structural perspective.

On the one hand, corporate culture is related to the human side of the business; therefore, it can impact on every field of corporate and commercial life where individuals are involved. However, corporate culture is strongly related to how organizations are built, which is, in fact, about their structure. It is because such structure defines a firm's relationship with internal stakeholders, such as employees and shareholders, and its external environment. Nevertheless, the importance and impact of corporate culture had often been underestimated. However, it can be said that the importance of corporate culture has been understood better

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<sup>43</sup> See: Ott, J.S., "The Organizational Culture Perspective", Brooks/Cole Publishing, Pacific Grove, CA, 1989

<sup>44</sup> For instance, following scholars from the said disciplines defined corporate culture: Edgar Shein; "Culture is a pattern of shared tacit assumptions that was learned by a group as it solved problems of external adaptation and integral integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems". (Schein, E., "The Corporate Culture Survival Guide", Jossey-Bass Press, 2009, pp.27)

Vijay Sathe; "Culture is the set of important understandings that members of a community share in common". (Sathe, V., "Culture and Related Corporate Realities: Text, Cases, and Readings on Organizational Entry, Establishment, and Change", Homewood, 1985, pp.6)

O'Reilly, Chatman and Caldwell; "Culture is a set of cognitions shared by a members of a social unit and consists of fundamental assumptions, values, behavioral norms, and expectations". ( O'Reilly, C., Chatman J., Caldwell, D., "People and Organizational Culture: A Profile Comparison Approach to Assessing Person-Organization Fit", Academy Of Management Journal, vol 34, no3, 1991, pp.487-516)

Rousseau; "Culture comprises of cognitive and behavioral elements, from tacit assumptions, values, and behavioral norms to characteristic patterns of behavior related to a work group, department, or organization". (Rousseau, D. M., "Normative Beliefs in Fund-Raising Organizations; Linking Culture to Organizational Performance and Individual Responses", Group & Organization Studies, 15, 4, December 1990, pp.449)

Jermier et al.; "Culture is the basic, taken-for-granted assumptions and deep patterns of meaning shared by organizational participants and manifestations of these assumptions and patterns". ( Jermier, J., Slocum, W. J., Fry, L., Gaines, J., "Organizational Subcultures in a Soft Bureaucracy: Resistance Behind the Myth and facade of and Official Culture", Organization Science, Vol 2. No 2, May 1991, pp.170)

As can be seen from the words used in above definition (such as "understandings, assumptions, cognitions, values") those approaches are more about employees' cognitive perspectives.

recently, and corporations have been trying to establish strong corporate cultures to enhance employee engagement, motivation, productivity, and creativity and boost innovation.

It should be noted that within the scope of this thesis and from the legal point of view, we use the term “corporate culture” from organizational and structural (i.e., corporate governance) perspective. Hence, it can be said that our approach to corporate culture is slightly different from the general approach to the concept because of putting governance and organizational structure at the center. Nevertheless, this does not mean that the “general approach” neglects governance structures or we do not focus on employees’ or others’ perceptions of culture. The issue is that we take organizational structure and corporate governance as a point of departure, and we interpret culture from the organizational point of view.

We define corporate culture as the reflection of governance systems, structures, and strategies, which organize and designate the interrelations and interactions among a firm, its employees, directors, investors, and all other stakeholders. From this perspective, a firm’s approach to and the relationship among its internal and external stakeholders, its internal organization, communication styles within the firm and with its external environment, management practices, and distribution of decision-making powers are all about corporate culture.

Furthermore, it should also be noted that employees’ cognitive and emotional state of perception of corporate culture is also strictly related to a firm’s organization. For instance, “the-best-idea-wins” culture will be often mentioned in this thesis. “The best idea wins” culture can be generally defined as a culture where all employees, regardless of their level, freely share and discuss their ideas through open communication without facing bureaucratic obstacles, and where broadly accepted ideas are actualized and rewarded.<sup>45</sup> At first glance, it can be said that such a culture is about open communication within a firm, and the feeling of inclusion. However, such a culture is more related to a firm’s internal organization. It is because (as will be demonstrated in this thesis) it would be pretty compelling (or almost impossible) to achieve the-best-idea-wins culture, open communication or the feeling of inclusion under strict hierarchical structures due to severe bureaucracies and inflexible procedures. On the other hand, the best-idea-wins culture can be smoothly established under a flat hierarchy, which

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<sup>45</sup> Holt, J., “How To Create A Culture Where The Best Ideas Win”, Forbes, accessed 06/10/2022, <<https://www.forbes.com/sites/forbesbusinessdevelopmentcouncil/2017/10/06/how-to-create-a-culture-where-the-best-ideas-win/>>, See Also: Harper, S., “May The Best Ideas Win”, Forbes, accessed 06/10/2022, <<https://www.forbes.com/sites/theyec/2019/09/19/may-the-best-ideas-win/>>, See Also: Afshar, V., “Creating a Culture Where the Best Ideas Win”, MIT Sloan Management Review, accessed 06/10/2022, <<https://sloanreview.mit.edu/article/creating-a-culture-where-the-best-ideas-win/>>

will provide the necessary “infrastructure” for diluting strict superior-subordinate relationships and creating a collaborative environment.

Corporate culture can potentially steer the behaviors and attitudes of employees and executives. However, most importantly, culture can designate how a firm interacts with its external environment and can accommodate its internal organization. Therefore, understanding, developing, and controlling corporate culture can help enhance the performance of an organization; it can contribute to the phase of strategy formulation, improve governance practices of a corporation, and even it can be used beneficially during the integration process in mergers and acquisitions. More importantly, creating a corporate culture that can meet the necessities and realities of the digital age that we live in is vitally important for firms to stay relevant and survive.

As argued, the importance of corporate culture is now widely acknowledged, and many firms are trying to establish their desired cultures. However, as will be shown, many firms fail to create a strong culture or satisfactorily benefit from their existing corporate culture. The reason might be that the firms attempt to create cultures (or change the existing cultures) before establishing the necessary infrastructure, i.e., governance structure. The above situation can also serve as an example. The question is then whether it would make sense to attempt to establish the-best-idea-wins culture in a highly hierarchical firm where every action of employees is regulated, and internal communication is limited. This question and many more show that culture is about a firm’s organization. In the next section, we turn to consider three classical theories of corporate culture through literature review, and following that, recent developments in the theory of corporate culture will be addressed.

### 2.2. Classical Theories of Organizational Culture

In the previous section, we provided a synthesis of the classical framework of organizational culture.<sup>46</sup> To ensure that our analysis takes account of different relevant perspectives of

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<sup>46</sup> Harris, L. Ogbonna, E., “A Three-Perspective Approach to Understanding Culture in Retail Organizations”, *Personnel Review*, Vol. 27, Issue 2, 1998, pp. 104 – 123

corporate culture, we will provide an overview of the approaches that interpret culture mostly from the perspective of employees' emotions, understandings, and cognitions.<sup>47</sup>

**Integration perspective** interprets culture through values and assumptions which are widely shared among the employees of an organization. In this view, the culture of a corporation is represented by manifestations of culture on which a corporation-wide-consensus has been established, and there is no ambiguity regarding the interpretation of culture; hence, the view consists of three significant characteristics; corporation-wide consensus, consistency, and clarity.<sup>48</sup> The first element of the integration perspective is corporation-wide consensus. According to this view, "people at all levels of organizational hierarchy tend to agree on potentially controversial issues."<sup>49</sup> Employees that work in an organization develop common belief systems by processing information, which covers convictions regarding the purpose and performance of the organization, leadership style, motivations, and manners.<sup>50</sup> Regarding organization-wide consensus, Burton Clark's ideas regarding "organizational sagas" can be seen as a tailor-made approach when it comes to understanding this informal organization behavior pattern. Clark identifies organization-wide consensus through proposing the term of "organizational sagas"<sup>51</sup> ;

*"An organizational saga is a collective understanding of a unique accomplishment based on historical exploits of a formal organization, offering strong normative bonds within and outside the organization. Believers give loyalty to the organization and take pride and identity from it. A saga begins as strong purpose, introduced by a man (or small group) with a mission, and is fulfilled as it is embodied in organizational practices and the values of dominant organizational cadres, usually taking decades to develop."*<sup>52</sup>

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<sup>47</sup> Schein, 2009, Sathe, 1985, O'Reilly et al., 1991, Rousseau, 1990, Jermier, 1991

<sup>48</sup> Smerek, R. E., "Cultural Perspectives of Academia: Toward a Model of Cultural Complexity", Higher Education: Handbook of Theory and Research, 25, New York, 2010, pp.382

<sup>49</sup> Martin, J., "Cultures in Organizations": Three Perspectives, New York, Oxford University Press, 1992, pp.80

<sup>50</sup> Quinn, R.E., McGrath, M.R., "The Transformation of Organizational Cultures: A Competing Values Perspective", 1985, in: Frost, P.J., Moore, L.F., Louis, M.L., Lundberg, C.C., Martin, J., Eds., Organizational Culture, Sage Publications, pp.325

<sup>51</sup> Clark, B.R., "The Organizational Saga in Higher Education", Administrative Science Quarterly, Vol. 17, No. 2 , 1972 pp.178

<sup>52</sup> Clark, 1972, pp. 178

Another point emphasized regarding corporation-wide consensus is that in the integration studies, “consensus is often described through familial terms”.<sup>53</sup> This issue can be observed in the works of Edgar Schein. For instance, Schein evaluates the culture of Digital Equipment Corporation (DEC) in some of his works, and argues regarding the corporate culture of DEC that “there was a feeling of being a tight knit group, a kind of extended family...”.<sup>54</sup> Further, he describes the situation of the employees of DEC as “commitment to each other as a family”.<sup>55</sup> Corporation-wise consensus is reflected profoundly by linking the manifestations with the concept of family, which represents unity, integrity, and loyalty.

Consistency is the second element of the integration perspective. As per this element, organization-wide consensus must be reinforced by manifestations that are congruent with each other, and the integration perspective often includes three sorts of consistency; action, symbolic and content consistencies. In case formal and informal practices of a company are consistent with said manifestations, it can be argued that action consistency is achieved.<sup>56</sup> Symbolic consistency occurs when symbolic indicators of culture such as stories, rites, rituals, shared values, and physical environment, are consistent with manifestations.<sup>57</sup> Finally, content consistency is achieved in case manifestations are consistent.

The last element of the integration perspective is clarity. Manifestations in an organization must be excluded from ambiguity, therefore, sense-making needs to be achieved to control some employees' actions of some employees that may annihilate harmony.<sup>58</sup> Sense-making means that cultural manifestations must be clear, effective, and understandable so that promoting such manifestations would make sense.

It is worth mentioning that senior managers are often assumed as culture developers and culture modifiers in integration studies.<sup>59</sup> In fact, some senior managers are called “corporate

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<sup>53</sup> Martin, 1992, pp.80

<sup>54</sup> Schein, E., “Organizational Culture and Leadership”, Hoboken, New Jersey, John Wiley and Sons, 2017, pp.36

<sup>55</sup> Schein, 2017, pp.40

<sup>56</sup> Meyerson, D., Martin, J., “Cultural Change: An Integration of Three Different Views”, *Journal of Management Studies*, 24, 6, November 1987, pp. 625

<sup>57</sup> Hasse, C., “An Anthropology of Learning : On Nested Frictions in Cultural Ecologies”, Springer, Dordrecht, 2015, pp.48

<sup>58</sup> Martin, 1992, pp.87

<sup>59</sup> Hasse, 2005, pp.46



heroes”, and thus, they are held in high esteem; stories are said about corporate heroes among employees, and in these stories, the extraordinary success or mental agility of the hero is explicitly mentioned. At this point, employees perceive corporate heroes as pathfinders, and such perceptions in employees’ minds are substantial parts of culture. According to integration theory, manifestations intended to be actualized are determined by senior managers as heroes and leaders, and everyone in an organization should interiorize such manifestations.

Nearly all of the prior integration studies focus on managers and executives. From an organization perspective, the results of those studies may not invariably represent the overall culture of a company due to the exclusion of mid-level, and especially lower-level employees during cultural examinations (particularly, in the case of quantitative studies). Moreover, even it is possible to establish company-wide consensus and harmony, it is quite hard to pursue such uniformity always at the desired level during the natural flow of the contemporary business life.<sup>60</sup> Besides not only is there a variety of different types of managers, it is not always clear that senior manager are recognized as leaders by their employees, especially when the differences might not be widely recognized. Hence, it can be said that this traditional perspective of corporate governance has some shortcomings and therefore it might be time to adopt a broader perspective.

**An alternative model, the differentiation perspective** works with cultural manifestations that possess inconsistent reflections. Differentiation studies often focus on subcultures that co-exist in an organization (in some instances, subcultures are in harmony and sometimes in conflict with each other, and it is also possible to observe subcultures that are irrelevant to each other).<sup>61</sup> Therefore, it can be said that subcultural differences, conflicts among subcultures, alignment and harmony between subcultures, and independence of subcultures are the main areas of investigation of the scholars who apply the differentiation perspective of corporate culture.

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<sup>60</sup> Martin, J., “Organizational Culture: Mapping the Terrain”, Foundations for Organizational Science, Sage Publications, 2002, pp.96

<sup>61</sup> Larentis, F., Antonello, C. S., Slongo, L. A., “Organizational Culture and Relationship Marketing: An Interorganizational Perspective”, Review of Business Management, Volume 20, No 1, 2018, pp.39

One concept that cannot be ignored when discussing the differentiation view, however, is the term subculture. As a sociological term, subculture denotes a culture within a culture,<sup>62</sup> “shared by a smaller group or cluster of people who share a common identity due to experiences recognized as unique to that group”.<sup>63</sup> Originating from this sociological definition, subculture can be defined within the organizational context as a culture that a smaller group has within an organization under a dominant culture of such organization and/or co-exist with other subcultures, either coherent with the dominant culture/other subcultures or in conflict with them.

As mentioned above, it is always possible that a subculture might be independent and irrelevant from other subcultures and/or dominant culture, and thus there may not be any conflict between such irrelevant subculture and other cultures. It should be noted that the term dominant culture refers to the integration perspective. Because the integration perspective mainly focuses on top management who are “stronger” regarding decision-making powers, control, and resources, it can be argued that even though subcultures might exist within an organization, a corporate culture that leaders have shaped is a corporate culture that may dominate such subcultures. Hence, the integration view attributes a different meaning to top management than to other employees who are at lower levels in the organization.

However, the differentiation studies criticize the integration perspective due to the hierarchical nature of dichotomous thinking; it can be said that the integration perspective is consistent with the managerial point of view, and the differentiation perspective is congruent with the views of lower-level employees that do not possess the power and status of management. Another point is that integration studies primarily focus on similarities, a wide range of consensus within the organization, consistencies, and unities; however, the differentiation view examines subcultures, hence the more profound levels where things are seen differently.<sup>64</sup>

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<sup>62</sup> Rousseau, N., “Society Explained: An Introduction to Sociology”, Rowman & Littlefield Publishers, 2014, pp. 50

<sup>63</sup> Rousseau, 2014, pp. 42

<sup>64</sup> Holtskog, H., et al., “Organizational Culture: The Differentiated Perspective, in Learning Factories : The Nordic Model of Manufacturing”, Springer International Publishing, 2018, pp. 61–82

Subcultures may emerge, for example, due to an organization's division into different sections/departments or geographical separations.<sup>65</sup> A specific department/unit within an organization may have a subculture that is unique for its members due to unique experiences, values, beliefs, and assumptions that members of such a small group have exclusively shared.

The emergence of subcultures due to the establishment of different sections within a company might be originated from divisional, geographic, ideological, and occupational/background differences. For instance, a bank's legal, anti-money laundering, and compliance departments might have completely different approaches to certain issues than marketing/commercial banking or private banking departments. A commercial banking department of a bank might tend to push the limits and take risks to maximize profitability; on the contrary, a legal department or a risk analysis department may desire to eliminate legal or financial risks. These different approaches to similar issues are -among the other things- caused by occupational/background differences, and such departments may possess distinctive subcultures, which are some of the research objectives of the differentiation perspective.

Differentiation perspective has three features; first, inconsistent interpretations of practices and manifestations; second, opposition to the existence of corporation wide-consensus -even consensus exists to a certain degree (differentiation perspective considers that such consensus lies behind the relationship between different subcultures); and third, ambiguity is something that occurs outside of subcultural boundaries; hence there is clarity within a subculture or subcultures.<sup>66</sup>

The differentiation view of corporate culture has three types of inconsistency; "action, symbolic and ideological"; "action inconsistency occurs when promoted manifestations of a company are inconsistent with actual practices of leaders and employees".<sup>67</sup> These types of inconsistencies might be derived from a conflict of interests between two employees who hold a certain level of managing power, and another reason for inconsistency might be a conflict of interests between the external environment of an organization and a powerful group within

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<sup>65</sup> Selart, M., Schei, V., "Encyclopedia of Creativity", Elsevier, Vol 2, 2011, pp.193-196

<sup>66</sup> Martin, 2002, pp.139

<sup>67</sup> Brusson, N., "Organizing for Inconsistencies: On Organizational Conflict, Depression and Hypocrisy as Substitutes for Action", Scandinavian Journal of Management Studies, Vol 2, Issues 2-3, 1986, pp. 171

the organization.<sup>68</sup> Symbolic inconsistency refers to deviations from official organizational policies, inconsistency between content themes and cultural forms, inconsistent interpretations of stories told in a company, and jargon used by employees that are inconsistent with espoused values and manifestations; such as mismatch between the rhetoric used by management and stories told, or jargon used by employees; and, ideological inconsistency occurs when the cultural manifestations of a company conflict with each other.<sup>69</sup>

**The fragmentation perspective** focuses on the complexities of relationships between cultural manifestations, corporate culture is created by employees with distinctive values, and this perspective sees ambiguity as the core of culture.<sup>70</sup> The fragmentation perspective centers upon manifoldness of interpretation that do not result in corporation-wide consensus, and consistency or clarity in relation to corporate culture is rare.<sup>71</sup> Instead of working on consensus, the fragmentation perspective of corporate culture focuses on inharmonious values.<sup>72</sup> Sources of ambiguity within the scope of the fragmentation perspective can be manifold; ethnic, social, racial, and vocational differences, generation gaps, inequality/ discrepancy in terms of incomes/wages/benefits, and other factors that cause different interpretations of cultural manifestations, and these give rise to ambiguity.<sup>73</sup> For instance, Meyerson argues that ambiguities arise due to the manifold experience of employees, and such ambiguities are embodied by corporate culture.<sup>74</sup>

However, according to the fragmentation viewpoint, ambiguity is not something abnormal or detrimental; in fact, it is the center/core of corporate culture, and the fragmentation

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<sup>68</sup> Martin, 2002, pp. 142

<sup>69</sup> Riley, P., "A Structurationist Account of Political Culture, *Administrative Science Quarterly*", vol. 28, no. 3, 1983, pp.427 , and, Martin, 2002, pp. 145-146

<sup>70</sup> Chandler, N., "Knowledge Management in Large Complex Organizations: The Subcultural Level, *Handbook of Research on Organizational Culture Strategies for Effective Knowledge Management and Performance*", IGI Global, 2021, pp. 118

<sup>71</sup> Jones, M.L.W., "Knowledge Management in Emergent Amateur Organizational Cultures: Observations From Formula SAE Student Engineering Teams", *Handbook of Research on Organizational Culture Strategies for Effective Knowledge Management and Performance*, IGI Global, 2021, pp.77

<sup>72</sup> Jones, pp.77

<sup>73</sup> Martin, pp.211-217

<sup>74</sup> Meyerson, D.E., "'Normal' Ambiguity? A Glimpse of an Occupational Culture, *Reframing Organizational Culture*", Sage Publications, 1991, pp.132-134

perspective tries to evaluate complexity and interaction between subcultures, which can also have conflicts among each other.<sup>75</sup> According to Martin, ambiguity has three aspects; lack of clarity (when things -such as cultural manifestations- are unclear and indistinct), high complexity (comprehension difficulties), and paradox.<sup>76</sup> Furthermore, subcultures are also defined differently from the fragmentation perspective. For instance, the differentiation perspective sees strict boundaries between subcultures and the main focus is on examining distinctive sub-cultures, but the fragmentation perspective interprets subcultural boundaries as fluid.

The below table summarizes and compares the three perspectives of corporate culture.

*Table 1: The Three Perspectives of Corporate Culture Studies*

	INTEGRATION	DIFFERENTIATION	FRAGMENTATION
<b>Consensus</b>	<i>Corporation-wide Consensus</i>	<i>Consensus at subcultural level</i>	<i>No Consensus</i>
<b>Harmony and Stability</b>	<i>Harmony and Stability</i>	<i>Inharmoniousness and Instability</i>	<i>No clear Harmony or Inharmoniousness</i>
<b>Ambiguity</b>	<i>No ambiguity</i>	<i>Ambiguity outside subcultures</i>	<i>Accepted Ambiguity</i>

*Source: Adapted from Table 4.1. in Martin, J., "Organizational Culture: Mapping the Terrain, Foundations for Organizational Science", Sage Publications, 2002, pp.95*

### **2.3. The Current Approach to the Concept and Examination of Sample Corporations**

In the previous sections, we saw that traditional perspective on corporate culture involved empirical research applying existing theories from human resources, sociology, business administration, and organizational psychology to organizational culture. Nevertheless, as the below sub-section "3.4. Interconnection: The Relationship Between Corporate Culture and Corporate Governance" will explain, recent research on corporate culture suggests a closer tie to corporate governance, and in fact, these two concepts are interconnected. Today, corporate culture should be seen as more than "shared beliefs and tacit assumptions"; from

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<sup>75</sup> Selart, pp.108

<sup>76</sup> Martin, pp. 217

communication styles to the distribution of decision-making powers, many concepts of governance and management are closely related to corporate culture.

Although there was a quite focus on corporate culture, and many academic studies were conducted about the concept in the 80s and 90s, some people still thought that “culture was too simple or sloppy to explain financial dynamics.”<sup>77</sup> However, especially in the last couple of decades, the importance of the concept has been understood better, and the concept is widely recognized; “Journal of Economic Literature” has created a code for Cultural Economics which is Z1, and “National Bureau of Economic Research (NBER)” of the U.S. has launched a program on cultural economics.<sup>78</sup> Journal of Economic Literature system was developed by American Economic Association for classification of economic literature<sup>79</sup>, and NBER is “a research organization dedicated to undertaking and disseminating unbiased economic research to public policymakers, business professionals, and the academic community”.<sup>80</sup>

Apart from and in addition to the economic literature, corporate culture has been studied a lot from organizational and governance perspectives. It is because the relationship between organizational structure and culture has been understood better, and in fact, one of the aims of this thesis is to demonstrate that culture is organizational, and the desired corporate culture can only be achieved through establishing the relevant governance structure.

It has been claimed that a corporation can be considered as a micro-society, and such a micro society’s culture can be shaped by hiring and firing employees.<sup>81</sup> Although hiring and firing employees can help change a corporation’s culture, there are more useful and deeper strategies to be applied, which are related to a firm’s structure. For instance, a corporation may alter its hierarchical structures, closed communication styles, and centralized decision-making processes with more open communication, inclusive culture, and flat and fluid structure. Therefore, working on changing, developing, and improving corporate culture makes

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<sup>77</sup> Zingales, L., “The Cultural Revolution in Finance”, Journal of Financial Economics, Vol 117, 2015, pp.1

<sup>78</sup> Zingales, pp.1

<sup>79</sup> American Economic Association, “JEL Classification Codes Guideline”, accessed 26.03.2022, <<https://www.aeaweb.org/jel/guide/jel.php>>

<sup>80</sup> National Bureau of Economic Research, “About NBER”, Standards of Conduct, accessed 26.03.2022 <<https://www.nber.org/about-nber/standards-conduct>>

<sup>81</sup> Zingales, pp.2

excellent sense in terms of corporate and commercial points of view, since there is a possibility of achieving desired culture change and improvement, and the importance of corporate culture for organizational performance has been clearly demonstrated and acknowledged.

A Google search regarding “corporate culture” hits 1,570,000,000 results, and a Google Scholar search hits 3,470,000 results. A vast number of articles regarding corporate culture can be found in quite famous newspapers, scientific and economic journals, consultancy companies’ websites, and universities’ websites; such as Harvard Business Review, Forbes, FastCompany, Inc, Sloan Management Review, BBC, EY, McKinsey, RedHat, Financial Times, Bloomberg, Deloitte, GreatPlacetoWork, McKinley, Boston Consulting Group, NBER, etc., and these examples are just appearing on the first few pages of Google search.

As we have seen, corporate culture is a widely studied concept, and there are a range of conceptual frameworks. Thus, it can be said that the concept of corporate culture has gone far beyond human resources, organizational psychology, economics, and business administration studies, and today, the importance of such a concept is widely acknowledged. Further, almost all companies promote their culture and claim that they have a strong or properly designed corporate culture, irrespective of whether they have been truly working on culture. Therefore, the concept of corporate culture and its importance have also been widely acknowledged by companies, although some do not really value corporate culture and just pretend they have some sort of culture. The following chapter will address corporate culture's importance in financial performance, employee engagement and motivation, and corporate leadership. Some early studies will be addressed below, but the main focus will be on contemporary developments in the following chapters.

Furthermore, Chapter 5 presents some components of the future’s corporate governance and culture. However, these are not predictions; such components are designed by examining today’s altered approaches and realities. Some of the world’s most innovative and successful companies have been examined within the scope of this thesis, such as Alphabet (Google), Apple, Microsoft, Alibaba, Facebook, Amazon, Netflix, Uber, Tesla, etc. Also, organizational structures and corporate cultures of some other successful private tech companies (such as Valve and Squarespace) have been studied. Tech giants, start-ups, and the most innovative companies have some characteristics that significantly impact their success, and there are certain factors are organizational and help firms to find and develop their culture.

Alphabet (Google), Microsoft, Netflix, Apple, Amazon, and others are famous and known by everyone. However, the reason for examining those is not about their fame or recognition. Those firms have particular corporate cultures, and corporate governance structures, and their financial successes are inevitable. These sample corporations operate in the technology sector. Those firms' share price performance will be briefly mentioned below to demonstrate their performance in simple terms. However, when we look at their wealth, it shows us that some of these firms generate more revenues than several countries; it is stated that "companies such as Amazon would be wealthier than 92% of the world".<sup>82</sup> Netflix has around 200 million users, which is higher than so many countries' population.<sup>83</sup> Although all of these firms headquartered in the USA, they operate globally. Due to their success, several scholars have studied and examined these big-tech companies (Google, Amazon, Apple, Facebook, and Microsoft).<sup>84</sup> Case studies can be seen as an important source for academic researches due to "qualitative case study methodology enables researchers to conduct an in-depth exploration of intricate phenomena within some specific context"<sup>85</sup>, "they appear to offer in-depth contextual insights"<sup>86</sup>, and "case-study approach was preferred for its ability to shed light on the multiple contexts that make up the research scene for the project".<sup>87</sup> Therefore, several case studies will be conducted in this thesis to find out the practical implementations of selected firms concerning corporate governance and corporate culture.

Examination of those companies led us to determine vitally essential components, which other firms can significantly deploy, if they desire to stay relevant in the future. However, this does not mean that the said firms fully deploy all of the components. There are still some aspects to

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<sup>82</sup> Dughi, P., "Apple, Amazon Wealthier than More than 90% of the World's Countries", accessed 16.08.2022, <<https://medium.com/stronger-content/apple-amazon-wealthier-than-more-than-90-of-the-worlds-countries-17dbae8b98fe#:~:text=With%20a%20market%20cap%20value,any%20country%20in%20the%20world.>>

<sup>83</sup> Lishchuk, R., "How Large Would Tech Companies Be If They Were Countries?", accessed 16.08.2022, <<https://mackeeper.com/blog/tech-giants-as-countries/>>

<sup>84</sup> Countless articles and pieces have been written about their culture, organizational structure, financial performance, and governance practices. Several books have also been written, for instance; Galloway, S., "The Four: The Hidden DNA of Amazon, Apple, Facebook and Google", Corgi Books, 2018.

<sup>85</sup> Rashid, Y, et al., "Case Study Method: A Step-by-Step Guide for Business Researchers", International Journal of Qualitative Methods, Volume 18, 2019, pp. 1–13

<sup>86</sup> Fletcher, M., Plakoyiannaki, E., "Case Study Selection: An Overview of Key Issues for International Business Researchers", University of Glasgow, Aristotle University of Thessaloniki, 2018

<sup>87</sup> Poulis, K., Poulis, E., Plakoyiannaki, E., "The Role Of Context In Case Study Selection: An International Business Perspective", International Business Review, Volume 22, Issue 1, 2013, pp. 304-314,



be strengthened, which will also be mentioned. The components determined are; digitalization, flatter governance, co-creation-collaboration, communication, communities, and real care.

The components are not just some strategies or governance practices deployed by successful firms, but these are also vitally important for finding a balance between the interests of shareholders and other stakeholders. The debate between shareholder primacy and stakeholderism will be mentioned below. However, it should be noted that the aim of this thesis is not giving weight to either approach. Instead the focus is on finding a balance, and the components may significantly support companies to stay relevant, be successful, and find a balance between the interests of various stakeholders.

Digitalization refers to a couple of things; a new form of business, such as digital platforms, and digitalization in corporate governance. Some firms have already deployed digital technologies for corporate governance activities (such as virtual board meetings). However, the main issue about digitalization is that new technologies have too much to offer and instead of implementing new technologies to old and problematic systems, it might be wiser to embrace what new technologies offer. These issues will be examined in detail in Chapter 5.

A flatter governance structure may enable firms to create an open, inclusive, and “the-best-idea-wins culture”. As argued, culture creation should start with establishing a proper organizational structure. One of the main arguments of this thesis is that strictly hierarchical organizations and highly bureaucratic cultures have the potential to cut off productivity, block innovation, and reduce the quality of communication. Especially, innovation is a must for today’s companies and a flatter governance structure may provide the necessary infrastructure for enhanced communication, collaboration and eventually co-creation with all stakeholders.

Communication-collaboration-co-creation will be presented as vitally important components of the future’s corporate governance and culture. Firms should not create walls among directors, employees, investors, customers and business partners. Instead, a firm should collaborate and co-create with all its stakeholders through active and effective communication. Firms can highly benefit from gathering feedback from all stakeholders and using it during decision-making processes.

Real care means a firm’s stakeholder-centric activities, but it also refers to taking feedback from stakeholders thoughtfully. Gathering feedback can only make sense if it is used or considered during the decision-making process. Firms should demonstrate to all of their stakeholders that

they truly care about the needs and expectations of all stakeholders. This is also related to community-driven corporate governance, which is another component. Firms and corporate leaders can create their own communities on various platforms, and by actively engaging and communicating with them, they can let the community decide on or provide an opinion about certain matters.

Another critical point is that such components and suggestions are not only designed for tech firms but can be deployed by all sorts of firms. For instance, one of the suggestions for firms (within the scope of digitalization) is that they may provide continuously and simultaneously updated financial and other relevant information through their websites, which may replace the traditional reporting obligations. This sort of modern and digital reporting might be better and more useful for everyone, any kind of firm can actualize this. As will be briefly presented in sub-chapter 2.3.7 and examined in detail in Chapter 5, these components are accommodable by any firm which desires to stay relevant in the rapidly changing world.

Nevertheless, it should be noted that the components presented after examining sample corporations are neither limited nor sole. There are some works, which also examined the same or similar firms and determined some elements as business strategies. For instance, Scott Galloway investigated Google, Apple, Amazon and Facebook in his book named "The Four", and stated that "the 8 factors (product differentiation, visionary capital, global reach, likability, vertical integration, AI, accelerant, and geography) provide an algorithm, rules for what it takes to become a trillion-dollar company".<sup>88</sup> Galloway presented his elements as the success factors of the four big-tech companies.

On the other hand, traditional view of corporate governance provides three main elements; transparency, accountability, and security.<sup>89</sup> From the traditional perspective; director independence, effective audit, compensation monitoring, and shareholder protection and relations can be shown as some other components.<sup>90</sup> However, as will be discussed in detail, the traditional idea of corporate governance has some shortcomings, but it does not mean that

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<sup>88</sup> Galloway, S., "The Four: The Hidden DNA of Amazon, Apple, Facebook and Google", Corgi Books, 2018, pp.176-195

<sup>89</sup> Wire, A., "The 3 Pillars of Corporate Governance", accessed 13.07.2022, Onboardmeetings, <<https://www.onboardmeetings.com/blog/the-3-pillars-of-corporate-governance/>>

<sup>90</sup> Forsythe, A.B., "Six Essential Elements of Effective Corporate Governance", accessed 13.07.2022, Cambridge Trust, 24 July 2018 <<https://www.cambridgetrust.com/insights/investing-economy/six-essential-elements-of-effective-corporate-gove>>

all of the “old” components should be brushed aside. For instance, transparency will always be an important element. However, according to our idea, protection of rights and enhanced relations should not be solely limited to shareholders. Corporate governance should protect all stakeholders' interests and enhance communication and collaboration among all stakeholders. Furthermore, the focus should not be solely on accountability and monitoring; instead, modern corporate governance should increase collaboration among all participants. Therefore, it can be said that some of our components are designed more from the stakeholders' perspective, and as will be presented, such an approach will favor all stakeholders in the long run.

Below, first of all, some sample companies will be examined. After that, the components will be briefly introduced, and further detailed explanations will be made in Chapter 5.

### 2.3.1. Microsoft

The first example is Microsoft. Some earlier users of Microsoft's softwares, and also people from my generation, experienced (in fact, highly criticized) that we did not have a chance to freely decide about the products that Microsoft provided; Microsoft created and then imposed the products without hearing any voices of its customers. Microsoft even forced computer producers, as published in Washington Post in 1999; *“the Dells and IBMs--couldn't sell PCs without Windows, Microsoft forced them to favor its browser, Explorer”*.<sup>91</sup>

It is a very well-known fact that when a new computer is bought, Explorer is used only once to download some other web browsers. The reason was that such a product had many shortcomings, and eventually Microsoft also acknowledged that customers honestly did not want to use it; thus, the product was revoked. However, the issue was that Microsoft was imposing its products to customers, and even forcing its “business partners” due to its dominant position in the market.

Microsoft has always had strong financials. However, its yearly average share price decreased from \$43,76 to \$25,87 between 1999 -2005, and from 2005 to 2013 it barely increased to \$32,49.<sup>92</sup> Nonetheless, its average share price has increased enormously since then and reached \$288,35

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<sup>91</sup> Samuelson, R.J., “But Did Microsoft Actually Hurt Consumers?”, Washington Post, 17 November 1999, pp.31

<sup>92</sup> Macrotrends, “Microsoft - 36 Year Stock Price History”, accessed 18.06.2022, <<https://www.macrotrends.net/stocks/charts/MSFT/microsoft/stock-price-history>>

in 2022. Furthermore, when we look at its yearly revenue, it was \$ 86,833 million in 2014, and this number increased to \$168,088 million in 2021.<sup>93</sup> Then the question is; what happened after 2013 and Microsoft started to financially perform better (it should be noted that it was already doing well, but its performance has been significantly enhanced)? The answer is that Satya Nadella was appointed as the new CEO on February 4, 2014.<sup>94</sup>

Satya Nadella's accomplishments at Microsoft will be mentioned in Chapter 3 and Chapter 5, but it should be noted herein that what Nadella did at Microsoft established a more stakeholder-centric and co-creative culture; the company changed its approach to customers by focusing more on providing customers with what they wanted, instead of forcing them to purchase what Microsoft produces.

He had to alter the internal organization and culture of the company to achieve an actual change. Nadella stated the following in his book named *Hit Refresh*; *"the CEO is the curator of an organization's culture; anything is possible for a company when its culture is about listening, learning, and harnessing individual passions and talents to the company's mission; creating that kind of culture is my chief job as CEO; Microsoft's culture had been rigid, each employee had to prove to everyone that he or she was the smartest person in the room; meetings were formal; hierarchy and pecking order had taken control, and spontaneity and creativity had suffered..."*<sup>95</sup>

Nadella's statements are pretty important, and corporate leaders should point a moral from them. It is because he directly criticized the strict hierarchy and formal culture. Nadella, as a corporate leader, tried to create an open communication and collaboration culture. Furthermore, Microsoft has started actively gathering feedback from some stakeholders, including customers and shareholders. These efforts eventually came to fruition; as shown above, Microsoft's share price and annual revenue have increased significantly over the years. Hence, long-term sustained value for shareholders was achieved to a certain extent. For instance, an investor who invested in Microsoft in 2011 experienced a 959,24% increase in his investment in ten years.

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<sup>93</sup> Macrotrends, "Microsoft Financial Statements 2009-2022", accessed 18.06.2022, <<https://www.macrotrends.net/stocks/charts/MSFT/microsoft/financial-statements> >

<sup>94</sup> Microsoft, "Satya Nadella named CEO", accessed on 18.06.2022, Microsoft, 04 February 2014, <<https://news.microsoft.com/announcement/satya-nadella-named-ceo/>>

<sup>95</sup> Nadella, S., "Satya Nadella: The C In CEO Stands for Culture", accessed 25.12.2021, FastCompany, 17 September 2021, <<https://www.fastcompany.com/40457741/satya-nadella-the-c-in-ceo-stands-for-culture>>

Microsoft has started openly and consistently communicating with its stakeholders and trying to co-create with them, contributing to the company's products and financial performance. What Nadella achieved at Microsoft is that customers who had lost their trust in Microsoft started to feel that the company cared about their needs and success.<sup>96</sup> As stated by a former employee of Microsoft *"we had to introduce and to promote new products and business models, we had to drive our employees to interact with new corporate decision-makers – business vs. the original technical ones, we had to scale our employees to master new advanced products, we had to promote and to support learning, and the new culture answered for everyone in the company of different ages and from different countries of the question why are we here?"*.<sup>97</sup>

Co-creation, collaboration, and communication are presented as vitally important components of the future's corporate governance. These components imply effective and bilateral communication and collaboration with all stakeholders. For instance, Microsoft has a consumer co-creation program, in which feedback is gathered from the consumers regarding the products, and inputs are considered during decision-making processes.

However, this is not a traditional consumer satisfaction survey; consumers directly talk to the engineering team and join an online feedback session.<sup>98</sup> The following statement is published on Microsoft's customer co-creation website ; *"Share your thoughts and influence the outcome before a single line of code is written. Play an early role in product and service development by helping Microsoft build and test the features that you need in Cloud and AI services. Our objective is to deeply understand your needs and intentions so that we can drive your feedback into the creation of new service or product offerings to help you achieve your business goals"*.<sup>99</sup>

The world is changing, and customers' expectations and needs are also changing. If companies insist on keeping their closed and strictly hierarchical organizations, it is clear that they cannot stay relevant and meet the expectations of their customers. Closed and strictly hierarchical structures are some results of sole focus on shareholder wealth maximization. However, this

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<sup>96</sup> Gallo, C., "The Real Secret Behind CEO Satya Nadella's Success at Microsoft", accessed 05.02.2022, Inc., 12 February 2019, <<https://www.inc.com/carmine-gallo/the-real-secret-behind-ceo-satya-nadellas-success-at-microsoft.html>>

<sup>97</sup> Cohan, P., "Culture Is The Most Surprising Reason Microsoft Stock Will Keep Rising", accessed 05.02.2022, Forbes, 30 January 2020, <<https://www.forbes.com/sites/petercohan/2020/01/30/culture-is-the-most-surprising-reason-microsoft-stock-will-keep-rising/>>

<sup>98</sup> Microsoft, "Customer Co-creation", accessed 18.06.2022, < <https://customercocreation.microsoft.com/>>

<sup>99</sup> Microsoft

approach often fails to create long-term sustained value for both shareholders as well as other stakeholders. On the other hand, including all stakeholders in corporate governance and actively communicating and collaborating with them will be in favor of companies in the long run.

Microsoft has another program for co-creation; “Windows Customer Connection Program”, which is an engineering program designed to bring Microsoft’s engineers together with information technologies professionals. It is stated by Microsoft that *“Engineers engage customers to better understand user habits, pains, and recommendations for improvement. These engagements often impact the planning and development cycle long before a solution or feature is released”*.<sup>100</sup> Including stakeholders in product development cycle is highly valuable. However, imagine there is a strictly hierarchical company where a highly bureaucratic culture exists. Under this structure, how can such a hierarchical company co-create with its other stakeholders when a low-level employee’s idea cannot easily reach the top due to the strict procedures and policies?

Nadella created a co-creative and open communication culture, which is highly beneficial for the company. Employees and customers became a part of governance, and the company offers a purpose that provides a meaningful experience for both employees and customers. The reason for creating a new culture in Microsoft was the company’s need for a new strategy and mission; Nadella knew that “a product-oriented mission no longer fit the bill” and a more meaningful mission needed to be created,<sup>101</sup> and including employees, customers and business partners into product design, decision-making and governance processes could offer a meaningful experience for those participants.

It is clear from the share price perspective that shareholders enjoy great financial returns. So that shareholders’ financial interests are satisfied, and at the same time, employee and customer satisfaction and engagement have increased. Hence, it can be said that Microsoft and its CEO have found a way to fulfill the needs of all stakeholders in a balanced way. Other relevant information regarding culture and governance of Microsoft will be given below.

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<sup>100</sup> Hochstatter, M., “Join the Windows Customer Connection Program”, accessed 18.06.2022, Microsoft, <<https://techcommunity.microsoft.com/t5/windows-it-pro-blog/join-the-windows-customer-connection-program/>>

<sup>101</sup> Heskett, J., “Win From Within”, Columbia University Press, 2020, pp.160

### 2.3.2. Netflix

The second example is Netflix. Netflix's CEO Reed Hastings' leadership style and corporate culture practices will be mentioned in detail below. However, Netflix's financial performance and some corporate governance practices need to be examined herein. First, if we look at the share performance of Netflix, its price has increased by 1930,6% in ten years (2011-2021).<sup>102</sup> In 2011, the average stock price of Netflix was \$ 27,49; however, the average stock price was \$ 558,21 in 2021. Hence, it is clear that the shareholders of Netflix have been enjoying great returns for their investment in the long run.

Netflix has a flatter and inclusive corporate culture as a digital platform. Platforms, and flat, open and inclusive governance will be examined in detail in Chapter 5. Netflix's culture emphasizes individual initiative and transparent information exchange, and mainly focuses on outcomes instead of processes and procedures.<sup>103</sup>

Netflix's culture and governance style allow its directors to better understand the daily course of business and enhance communication between directors and other insiders. Netflix's board is not isolated from the company. It is important because the traditional hierarchical structure of corporate governance, founded upon shareholderism, does not quite allow the board of directors to have a deep and keen understanding of the daily operations to a certain extent.

When we look at Netflix's ESG Report of 2021, it gives some indications about its approach to corporate governance from its shareholders' perspective. For instance, it is stated that *"Governance, in this context, means finding the right balance of rights and responsibilities among shareholders, the Board, and management" ... "focus is on creating long-term value for our shareholders" ... "our Board and our management team engage directly and regularly with our shareholders, and our Board and its committees consider shareholders' feedback in assessing our governance structure"*.<sup>104</sup>

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<sup>102</sup> Netflix is included in the World's Most Innovative Companies list. Together with Netflix, all other companies' share performances are determined and examined in detail under chapter 7 The Relationship Between Corporate Governance – Corporate Culture and Innovation.

<sup>103</sup> Larcker, D.F., Tayan, B., "Netflix Approach to Governance", Stanford Closer Look Series, 1 May 2018, pp.3

<sup>104</sup> Netflix, "Environmental Social Governance Report 2021", 06 November 2022, pp. 41

Collaboration and effective communication are not only designed to achieve co-creation with customers or business partners. A modern firm should also collaborate and co-create with its internal stakeholders (i.e., shareholders, employees, managers, and directors). From this perspective, shareholders' positions in corporate governance should not be limited to voting at annual meetings. Instead, firms should regularly and bilaterally communicate with their shareholders and gather feedback.

Another important thing about Netflix is that the directors join management meetings as observers and do not intervene in the daily operations; instead, the aim is to get a better insight into it.<sup>105</sup>

As will be mentioned under the foundation of corporate governance below, the board of directors has a fiduciary duty to shareholders. However, a board can make decisions per the information provided by executives or the CEO. Under this hierarchical structure, boards may not be informed well, and this situation may indeed affect the decisions and consequently harm the company and its shareholders.

However, such flat and inclusive culture enabled by the platform model and stakeholderism can provide enhanced communication and collaboration; hence, a better decision-making process can be achieved. Netflix can be considered as proof that there can be better options than traditional shareholder-centric approaches, which eventually causes the emergence of highly bureaucratic and hierarchic governance structures. Most importantly, Netflix's alpha plus share performance provides an example of how a company with a more stakeholder-centric corporate governance can perform very well. So that both shareholders and all stakeholders can benefit from the activities and operations of such a company. If the sole interest and focus of shareholders are to maximize their wealth, no one could be more satisfied than Netflix's shareholders.

A board member of Netflix stated the following about their participation in the management's meetings; *"It's a good opportunity for board members to see the team in action and to meet several layers of the team". ... "You end up with a more committed board, a more knowledgeable board, not people who just drop in for dinner and a meeting" ... "The fact that directors are invited to all those,*

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<sup>105</sup> Larcker, Tayan, 2018, pp.1



*and encouraged to come, and encouraged to meet and mingle with people up and down the organization is unique and shows an immense amount of confidence on the part of the senior leadership".<sup>106</sup>*

Those remarks are valuable and indicate that when a board is not isolated from the daily operations and internal relations of the firm, it can get better informed and get an insight about the firm, subsequently leading to enhanced decision-making. Also, from a shareholder primacy perspective, if the board is the body that rules the firm on behalf and for the benefit of shareholders, what is the point of isolating it from the firm itself?

### 2.3.3. Apple

Everyone today knows about the success of Apple, but the numbers are worth mentioning. Apple had \$7 Billion in revenue in 1997, and in 2021, revenues hit \$365 Billion.<sup>107</sup> When we look at Apple's yearly average share price, it has experienced a 948,46% increase between 2011-2021.

Although it has grown significantly in time, Apple did not switch to a multidivisional structure. Instead, Apple has kept its functional structure to continue to be innovative. It is because such a functional corporate structure enabled Apple to keep its innovation culture. Otherwise, a multidivisional structure might have led to over bureaucratization, and this would have blocked the ways of innovation. The first thing to do for being an innovative company is to establish a flatter culture that would create enough free space for those employees and executives with expertise to lead innovation.

Apple's leadership model suggests cross-functional collaboration because many different teams develop a product, and enhanced collaboration between leaders of teams is vital.<sup>108</sup> Inclusion and diversity are crucial for innovation, and one of Apple's most promoted values on its website is inclusion and diversity.<sup>109</sup>

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<sup>106</sup> Larcker, Tayan, 2018, pp.2

<sup>107</sup> Hansen, M.T., Podolny, J.M., "How Apple Organized for Innovation", Harvard Business Review, November-December 2020, pp.4

<sup>108</sup> Hansen, Podolny, 2020, pp.9

<sup>109</sup> Apple, "Inclusion and Diversity: We are All In", accessed 06.02.2022, Apple, <<https://www.apple.com/diversity/>>

Examining Apple's Environmental Progress Report (2022) also gives us insights into the firm's approach to its stakeholders. It is claimed in Apple's report that *"Through active engagement, we hear from stakeholders who bring different points of view and understanding of the issues we care about" ... "more than a dozen roundtables on environmental topics were conducted with key stakeholders" ... "The voices from within the business community, including our customers, employees, suppliers, industry partners, and investors, also motivate us to find ways we can support one another's environmental goals"*.<sup>110</sup> Stakeholder engagement is vitally important for firms to understand the expectations of various stakeholders, thus a firm can shape its products and services, as well as its governance practices, approaches to ESG matters, and decision making processes.

As mentioned, Apple kept its functional organizational structure, and such structure has several benefits. First, under a functional structure, the teams are led by specialists with the necessary technical knowledge and experience regarding the relevant team's field of activity. Apple's leadership model stipulates extensive knowledge and expertise for team leaders. Thus, a lesson to be taken from this structure is that to be innovative, talent density within the firm is not enough; such talents also need to be led by experts.

On the other hand, when we look at Apple's organizational chart, there are still some layers and the company is not a fully flat company, but it can be said that Apple is not strictly hierarchical. Nevertheless, being "flat" or "flatter" is not only about layers. It is more about having an open and inclusive environment where ideas can be spread freely without facing obstacles of strict procedures.

However, it should be noted that when it comes to flatter governance, there is no one-size-fits-all solution. There are various approaches, and there are some firms that completely remove all layers and hierarchies. For instance, "Holacracy" is an organizational structure where there are no supervisors, managers, and firms are organized as self-managed teams.

One of the most known examples is Zappos, and these sorts of firms can be classified as fully decentralized firms. The question at this point might be whether a firm that is fully decentralized can be successful since there is no one to monitor and supervise employees who may fail to act when necessary. The answer to this sort of question could be again Zappos. Zappos was founded in 1999, and ten years after its establishment, Zappos was acquired by

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<sup>110</sup> Apple, "Environmental Progress Report", 2021, pp.77

Amazon for \$1.2 billion.<sup>111</sup> There are also some firms that try to remove some layers from the hierarchical structure to achieve more effective communication and less bureaucracy.

### 2.3.4. Alphabet (Google)

When Google went public in 2004, it had around 3000 employees, and its revenue was 3.2 billion USD; as of 2021, Google has around 140.000 employees, and its annual revenue for 2020 was 181.69 billion USD.<sup>112</sup> Google's success is inevitable.

Google also benefits from the platform model, enabling it to innovate continuously. Google takes advantage of the platform model by using user feedback to improve its products; according to the firm itself, it first launches a product and then revises such product in line with user feedback so that it does not move away from the wants of the market.<sup>113</sup> Google successfully created an open communication environment and transparency by sharing as much as possible information with its employees; one example of such a transparency culture is that Google organizes a weekly meeting in which news from the industry, upcoming products, and even new mergers are discussed so that enhanced collaboration is achieved which substantially contribute innovation at Google.<sup>114</sup> According to Google's webpage titled "Creating a Culture of Innovation", hiring the right people -thus increasing talent density- is one of Google's tactics to boost innovation. As will be examined below, increased talent density enhances employee engagement and motivation, leading to more innovation. However, it should be noted herein that success is not about individuals but organization and structure. One of the fundamental arguments of this thesis is that innovative, open, and the best-idea-wins cultures can only be established under flatter and inclusive organizational structures. A highly hierarchical firm full of talented employees may not achieve such a culture.

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<sup>111</sup> TechCrunch, "Amazon Closes Zappos Deal, Ends Up Paying \$1.2 Billion", accessed 18.06.2022, 02 November 2019, <<https://techcrunch.com/2009/11/02/amazon-closes-zappos-deal-ends-up-paying-1-2-billion/>>

<sup>112</sup> Johnson, J., "Annual Revenue Of Google from 2002 to 2021", Statista, accessed 12.02.2022, 09 February 2022, <<https://www.statista.com/statistics/266206/googles-annual-global-revenue/>>

<sup>113</sup> Google, "Creating a Culture of Innovation, Eight Ideas That Work at Google", accessed 12.02.2022, Google, <[https://workspace.google.com/intl/en\\_in/learn-more/creating\\_a\\_culture\\_of\\_innovation.html](https://workspace.google.com/intl/en_in/learn-more/creating_a_culture_of_innovation.html)>

<sup>114</sup> Google,

Google uses data-driven methods for decision-making; for instance, Google annually makes an anonymous survey of its employees about its culture, leaders, compensation, work-life balance, diversity, and managers use such data for decision-making processes. Google is not simply a search engine, and it is a data company. From AI to autonomous cars, it carries businesses in various segments. However, the most important power of Google is its mass amount of data. Since it is a data company, data and tech-driven corporate governance are something google can definitely deploy.

Last but not least, one of Google's mottos is "look for ideas everywhere" which suggests that innovative ideas can be found anywhere; for instance, Google enables users to make changes on Google Maps so that missing data can be crowdsourced.<sup>115</sup> It is clear that Google achieves this due to its platform model; user feedback and inputs significantly improve Google's products Hence, it can be said that Google owes its innovation culture clearly to benefiting from the platform model.

### 2.3.5. Amazon

Amazon had 12.000 employees in 2005, and the number of employees increased to 1.298.000 as of 2020, and its annual revenue for 2005 was \$ 8.490 billion and its revenue increased to \$ 443.298 billion in 2020.<sup>116</sup> Amazon is also owing to its success in being a platform that brings producers of goods and consumers together.<sup>117</sup> The organizational structure of Amazon could be considered one of the primary sources of its innovation culture. The internal teams are organized to be small and effective so that better communication within teams, reduced meeting times, accelerated decision-making processes, enhanced autonomy, and deep focus on specific areas are more efficiently and effectively achieved.<sup>118</sup> Enhanced autonomy and rapid decision-making processes are clearly the consequences of Amazon's platform model, which significantly contribute to innovation. One benefit of organizing as a platform is the

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<sup>115</sup> Google,

<sup>116</sup>Macrotrends, "Amazon Revenue 2010 – 2021", accessed 12.02.2022, <<https://www.macrotrends.net/stocks/charts/AMZN/amazon/revenue>>

<sup>117</sup> Vermeulen, E.P.M., McCahery, J.A., Fenwick, M., "The End of "Corporate" Governance (Hello "Platform" Governance)", Law Working Paper N° 430/2018, 2018, pp.6

<sup>118</sup> "AWS Worldwide Public Sector Digital Innovation Team", "Building a Culture of Innovation to Better Serve Citizens", accessed 12.02.2022, AWS, 09 November 2020, <<https://aws.amazon.com/tr/blogs/publicsector/building-culture-innovation-better-serve-citizens/>>

invaluable preciousness of customer feedback; as is the case for other platforms, Amazon also benefits from its platform model in terms of customer/used feedback.

Innovation requires long-term thinking, and short-term focus on financials can be detrimental to being innovative. However, long-term thinking contains risks of failure which are highly accepted at Amazon as per the statements on its website; it is stated that to be innovative, boundaries should be pushed, and risks shall be taken.<sup>119</sup> Amazon defines this as an experimentation culture; an experiment is needed to invent something, and suffering from failures is also an inevitable part of experiments, but failures can teach a lot and create new opportunities for new ideas and products.<sup>120</sup>

Diversity, inclusion, and equity are demonstrated as some of Amazon's core values on its website; it is claimed that diverse viewpoints at Amazon derive from diversity in terms of gender, age, race, culture, education, professional experience, sexual orientation, and nationality.<sup>121</sup> Diversity and inclusion enable companies to be more innovative and productive. When we look at employee reviews at Glassdoor.com regarding Amazon, the rating for diversity and inclusion is 4.0/5 which is in favor of Amazon's statement.

### 2.5.6. *Domino's Pizza*

Another sample firm is a food-chain company, Domino's Pizza. Domino's is chosen to be included here because this company has a stakeholder-centric approach to corporate governance and corporate culture. When we look at its stock price performance, the average stock price for 2011 was \$24.34, and for 2021 \$453.03. Hence Domino's Pizza's share price has experienced a 1788% increase in 10 years.<sup>122</sup> Domino's has created a data-driven food delivery

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<sup>119</sup> Amazon Staff, "6 Things That Make Amazon a "Best Workplace for Innovators"", accessed 12.02.2022, Amazon, 06 August 2019, <<https://www.aboutamazon.com/news/workplace/6-things-that-make-amazon-a-best-workplace-for-innovators>>

<sup>120</sup> Amazon Staff,

<sup>121</sup> Amazon, "Our Workplace, Diversity, Equity, and Inclusion", accessed 12.02.2022, Amazon, <<https://www.aboutamazon.com/workplace/diversity-inclusion>>

<sup>122</sup> Macrotrends, "Domino's Pizza Inc - Stock Price History", accessed 05.02.2022, <<https://www.macrotrends.net/stocks/charts/DPZ/dominos-pizza-inc/stock-price-history>>

ecosystem and highly benefited from digital technologies.<sup>123</sup> However, this is not the only factor behind its financial success; Domino's is also known as a stakeholder-centric company. It is stated by Domino's in its annual report (2021) that the company sees all stakeholders as integral to long-term success, and it engages and actively communicates with all stakeholders through panels, events, meetings, surveys, conferences and periodic commercial reviews.<sup>124</sup> Further, it is stated by Domino's CEO that today, attaching the right talent, taking advantage of new technologies, and building partnerships and ecosystems are vitally important for a business's success.<sup>125</sup>

### *2.5.7. A Brief Introduction to the Components of the Future's Governance & Culture*

**Flatter Governance Structures:** There are several lessons to be taken from Apple, Google, Microsoft, Netflix, and Amazon. First of all, these three tech giants benefit from a flatter governance structure. Hence, it can be clearly said that such an approach is highly suitable for companies that desire to be innovative. Increased talent density, enhanced leadership, and autonomy within a firm are vital for being innovative. Especially, autonomy is something that can be fully achieved with a flatter governance. Multidivisional structures and bureaucratic cultures may prevent autonomy as well as innovation. Also, the flatter structures enable companies to benefit from stakeholders' feedback, which is highly valuable for answering the demands of the customers, employees, and investors and being innovative. On the other hand, strict hierarchies create borders within firms as well as between firms and their external environment. It is also quite compelling to achieve transparency and accelerated decision-making processes under strictly hierarchical corporate structures, and flatter governance can provide the necessary infrastructure for transparency and rapid decision-making processes within a firm. Most innovative companies today promote the best-idea-wins culture, and this sort of culture requires less hierarchy and a flatter governance model which depends on

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<sup>123</sup> Denning, S., "How Data Creates Trillion Dollar Firms: The Case Of Domino's Pizza" , accessed 05.02.2022 ,Forbes, 23 July 2021, <<https://www.forbes.com/sites/stevedenning/2021/07/23/how-data-creates-trillion-dollar-firms-the-case-of-dominos-pizza/>>

<sup>124</sup> Domino's Pizza, "Annual Report 2021", pp.46-47, accessed 05.02.2022, <<https://investors.dominos.co.uk/system/files/uploads/financialdocs/2020-annual-report-web-edition.pdf>>

<sup>125</sup> Denning, 2021,

collaborative participation of every individual in a firm.<sup>126</sup> Further explanation and more examples regarding flatter governance are given under Chapter 5.

**Co-Creation-Collaboration-Communication:** Open communication and transparency, rapid decision-making processes, and enhanced collaboration between different teams within a firm are proven beneficial. All companies mentioned above adopted different approaches to corporate governance rather than merely applying the traditional meaning of corporate governance (i.e., closed and strictly hierarchical organization). Strong communication, co-creation, and collaboration seemed to be the main contributors to their success. Co-creation and collaboration fundamentally mean co-creation and collaboration with all stakeholders through open, transparent, and effective communication. However, when there are solid walls between different business units, departments, etc., and every action of employees is regulated by strict and bureaucratic procedures, a firm cannot even co-create and collaborate with its employees. Instead, inclusive and fluid cultures must be created to achieve active, bilateral, and effective communication with all stakeholders.

**Digitalization:** Digital technologies have been changing the world dramatically. There are new ways of communication and socializing due to the emergence of social media. There are new forms of business structures, such as digital platforms. It is effortless to reach any information, and consumer habits have also changed. It is clear that digital technologies have a significant impact on our lives. Digital technologies have also been used for corporate governance activities, but to a limited extent. The usage is limited because there are so many potentials that digital technologies and emerging concepts can provide, but companies just deploy a few numbers of them. For instance, companies publish their reports on websites, board meetings are being virtually held, and even annual shareholder meetings are conducted online. As will be examined below, blockchain technology and smart contracts also have too much to offer regarding technology's implementation in corporate governance.

Nevertheless, the main question is whether inserting new technologies into the old structures to solve organic problems of corporate governance makes sense. Instead, the focus should be on accepting the new technologies' advancements and substantially changing the fundamental approaches. This issue will be examined in detail under Chapter 5.

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<sup>126</sup> Vermeulen, E.P.M., Fenwick, M., "Technology and Corporate Governance: Blockchain, Crypto, and Artificial Intelligence", Texas Journal of Business Law, Vol 48, Issue 1, Spring 2019, pp.5

**Community and Tech-Driven Corporate Governance:** Those successful firms can also do more. When we look at their CEOs, Tim Cook (Apple), Sundar Pichai (Alphabet), Jeff Bezos (Amazon), Satya Nadella (Microsoft), and Reed Hastings (Netflix), all five have millions of followers on Twitter, and they actively use social media. Corporate leaders can create their communities on social media platforms and also actively engage with customers, investors, and other stakeholders.

Nevertheless, a creative idea could be that those companies can create their internal social platforms to facilitate bilateral and effective communication with all stakeholders. As mentioned just above, technology and digital solutions have been applied by firms for better governance, but the scope of such applications is quite limited. All of the firms mentioned above claim that they value the feedback gathered from their stakeholders, and try to engage with them actively. Nevertheless, it is clear that there are more effective and smooth ways to do so.

Innovative and stakeholder-centric firms can create online platforms where real-time information regarding several subjects can be shared with all stakeholders. Through such platforms, they can gather direct feedback from their stakeholders. Simultaneous information to be shared on such platforms might be related to financials, ESG matters, various corporate announcements, new products or services, etc.

Communicating with shareholders through annual reports and yearly letters or during annual meetings should be seen as old-school and ineffective. The main idea behind such reporting obligation was to protect the interests of shareholders. Very basically, investors could check the reports and evaluate whether the investee was adequately managed or not. However, it is highly arguable whether drafting several hundred pages long reports serves the interests of shareholders. Imagine an individual investor who invests in six or seven public companies has to read a few thousand pages to evaluate his investments. Most certainly, this is not an effective way. Instead, providing shareholders with real-time information through a digital platform would better suit this age.

Creating a platform where customers and business partners can provide feedback and ideas can be quite helpful in enhancing collaboration and achieving co-creation with various stakeholders.

The main idea is that corporate governance practices cannot be seen only as an internal issue anymore, and firms cannot isolate themselves from their external environment. At least, if they



desire to stay relevant and survive, firms should act in accordance with the necessities of the contemporary age. It is because from purchasing goods to reaching information, everything in people's life becomes faster and more effective due to digital technologies and rapid developments. Therefore, as time, consumer habits, society, and life's itself is changing rapidly, corporate governance practices should also evolve in a way to be more effective and better suited to the digital age. Data is everything in this age, and firms can gather a significant amount of data through a firm-specific digital platform. Thus, firms can better understand what various stakeholders demand, and stakeholders can actively and continuously find out about firms' operations. Nevertheless, what is meant here is not about monitoring the directors or the firm itself. The fundamental aim is to create a modern information-sharing system that would serve all stakeholders' interests and meet the digital age's necessities.

**Real Care:** Real care as a component of the future's corporate governance implies a few things. First of all, all of the components mentioned here are related to each other. Firms must emphasize feedback gathered from their stakeholders to achieve co-creation and collaboration. Co-creation and collaboration are more than just conducting surveys. Firms should demonstrate that they value and attach importance to the opinions and ideas of various stakeholders. For instance, customer satisfaction surveys have been in our lives for a long time. Due to digital technologies and online shopping, such surveys have become even more common. When customers purchase a product, they immediately receive a small survey about the product and the seller. However, whether firms improve, after evaluating such surveys is not certain.<sup>127</sup> Firms should find better ways to collect the opinions of all stakeholders including customers, but more importantly, they should value the feedback gathered and act accordingly. Such better ways<sup>128</sup> for collecting feedback and opinions and implementing those in the decision making process depend on organizational structure. Such a structure should be suitable.

Another implication of real care is CSR, ESG, sustainability reporting, and stakeholder-centric actions in general. Sustainability concepts have gained importance because after the economic,

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<sup>127</sup> Quora/Forbes, "Are Customer Service Surveys Effective?", accessed 19.06.2022, Forbes, <<https://www.forbes.com/sites/quora/2019/12/13/are-customer-service-surveys-effective/>>

<sup>128</sup> For instance, instead of conducting yearly surveys (over employees, customers, etc.), firms should actively engage with their stakeholders by deploying digital technologies. As argued, social media can be used as a better way to gather feedback. The sample corporations mentioned above deploy various methods for engaging with stakeholders. For example, Microsoft has "Windows Customer Connection Program", and Google uses data provided by its users. Hence, digital technologies offer various communication channels. However, what is more important than gathering feedback is taking such feedback into account during the decision-making process.

social, and environmental crises, customers, investors, societies, academics, media, and governments started to demand more responsible business models from corporations. As will be examined in detail, a large group of investors highly value ESG scores of firms. The following statement is about the financial benefits of sustainability benefits;

*“Sustainability initiatives can contribute to an organization’s overall success. It may seem counterintuitive that spending more money on sustainable business practices can boost a company’s profitability, but studies show that the most sustainable companies are also the most profitable.”<sup>129</sup>*

Nevertheless, it should be noted that when it comes to ESG, “greenwashing” can be seen as the dark side of it. “Greenwashing” can be defined as a company’s misleading activities, which are aimed to make stakeholders believe that the company is acting responsibly or having positive impacts in relation to ESG matters.<sup>130</sup> Greenwashing is one of the most important reasons for including “real care” in the components. From this perspective, firms should avoid greenwashing and clearly demonstrate that they “really care”, because it is questionable whether stakeholders buy such misleading activities. For instance, Coca-Cola, a major producer of plastics, became the sponsor of the United Nations’ Climate Change Conference of 2022, and this event is highly criticized by activists.<sup>131</sup> So, the question is whether Coca-Cola can make people believe that it really cares about the environment by becoming the sponsor of a climate-change event; clearly not. Hence, “real care” is the component that distinguishes “greenwashing” from actual ESG activities.

Detailed explanations regarding CSR and ESG will be provided below. However, it should be noted here that many companies today claim that they create sustained long-term value, focus on environmental and social issues with high degree of care, and either voluntarily or mandatorily, they publish sustainability reports. Nevertheless, one problem with those reports is that many are stereotyped, and some firms publish those reports for formality. At this point, real care steps in as the last components of the future’s corporate governance. It is not entirely compelling to understand when a firm publishes a sustainability report in a stereotyped and superficial way, which can eliminate the trust of stakeholders. Instead, firms should

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<sup>129</sup> Chladek, N., “Why You Need Sustainability In Your Business Strategy?”, accessed 20.06.2022, Harvard Business School, 06 November 2019, < <https://online.hbs.edu/blog/post/business-sustainability-strategies> >

<sup>130</sup> Peterdy, K., “Greenwashing, Corporate Finance Institute”, accessed 06.10.2022, <<https://corporatefinanceinstitute.com/resources/knowledge/other/greenwashing/>>

<sup>131</sup> BBC News, “COP27: Activists 'baffled' that Coca-Cola will be sponsor”, accessed 06.10.2022, <<https://www.bbc.com/news/science-environment-63096760>>

demonstrate that they genuinely value those concepts and act for the benefit of all stakeholders, including customers, employees and the environment. Further explanations will be given below.

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As argued above, the main components (“flatter governance, digitalization, collaboration, communication, co-creation, communities, and real care”) are determined by the examining various successful companies. Those companies are not just successful in terms of their financials, but they take the correct steps to stay relevant in the rapidly changing world. The components mentioned above will be further presented below, under Chapter 5, and more case studies and sample firms’ implementations will be provided.

### **2.4. Conclusion: Interconnection of Corporate Culture and Corporate Governance**

The aim of Chapter 2 was to present the basis of corporate culture, examine the classical approaches to the concept, and compare sociological, anthropological, and organizational definitions of culture with our definition, which puts governance in the center. Furthermore, by briefly examining some successful firms’ culture, governance, and business practices, we introduced the components of the future’s corporate governance and culture, which will be examined in detail in Chapter 5.

Flatter governance structures, digitalization, co-creation, communication, collaboration, community and tech-driven corporate governance, and real care are illustrated as the main components. Technological developments have disrupted the traditional business models, governance structures, and cultures. This can be observed from the operations and organizations of some of the world’s most successful firms. Examination of the sample firms’ business plans, governance structures and corporate governance implementations, communication and engagement ways with various groups of stakeholders, and their approach to sustainability and stakeholder-centric issues supported us to determine the mentioned components.

Although there is no “one size fits all” implementation of a flatter governance, we determined that those successful firms possess a flatter governance (or at least do not have the traditional strictly hierarchical structures where highly bureaucratic culture exists). However, as strongly

indicated, being flatter is not about “layers” but more about having less bureaucracies and boundaries, which allow firms to actively communicate and collaborate with various stakeholders. Possessing a flatter governance is strictly related to open and inclusive cultures in which ideas asserted by anyone is esteemed valuable. Active and bilateral communication, collaboration and co-creation with stakeholders are closely knit concepts. The sample firms’ implementations let us determine that those firms actively engage with their customers, shareholders, business partners and employees by deploying digital tools.

Most of the sample firms operate in the technology sector. Nevertheless, digitalization is not solely related to their industry, products or services. Otherwise, implementations such a concept would be limited to tech firms. Digitalization refers to deploying digital technologies in corporate governance activities, business plans and strategies, marketing and communication ways, and operations of firms. For instance, community and tech-driven corporate governance is designed for all types of companies. A mass producer of goods can also create its own digital community, and by actively engaging with such a community and gathering feedback, it can include various external stakeholders into corporate governance.

As argued, all components are connected. Those sample firms actively engage with their stakeholders. However, gathering feedback would only make sense if such feedback were taken into account during the decision-making process. When a firm shapes its products and services in line with the expectations of the stakeholders, then we can argue about real care, which is one of the components of the future’s corporate governance and culture. Nevertheless, as discussed, real care is also about the firms’ sustainability activities that are not fall into “greenwashing”. Further examinations and explanations regarding the components will be provided in Chapter 5 in detail.

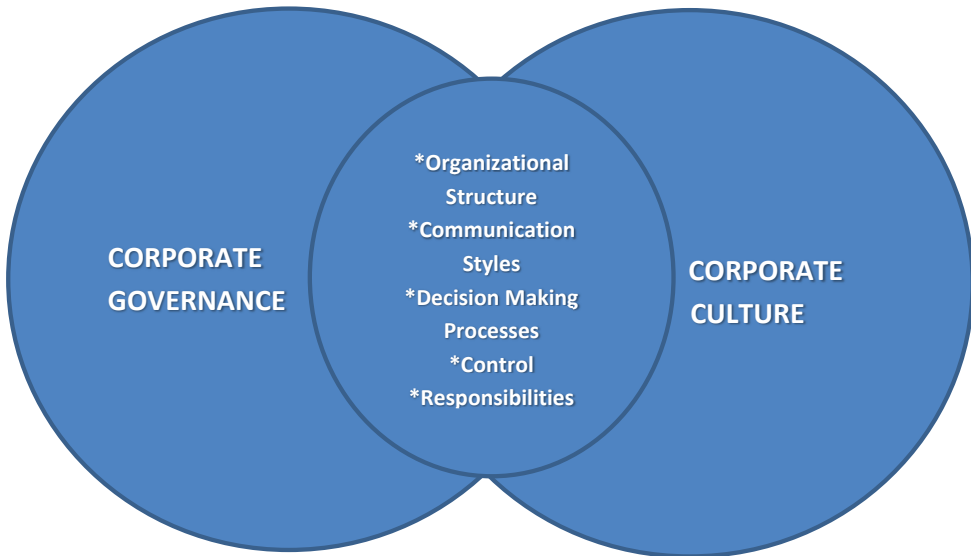
On the other hand, Chapter 2 also is aimed to demonstrate the interconnection between corporate governance and culture. As argued in the Introduction, corporate culture and corporate governance are two highly related, in fact, overlapped concepts. As a matter of fact, culture starts with a company’s corporate governance structure and practices, and it is because such governance structure defines internal roles and responsibilities as well as communication styles both within a firm and with the outside environment. Hence, evaluation of a firm’s culture cannot be done separately from its governance, and vice-versa.

The board of directors and executive teams often create a company’s strategies, purposes, visions, and missions. It is often attributed to the board of directors and the CEO that one of

their duties is to manage successfully and, where necessary, change corporate culture. Also, founders and leaders are creators of corporate cultures in the first place, and such culture is affected by their leadership practices. Therefore, there is a strong relationship between a company's culture and its board and executive teams. Section 7 below will examine how a board's composition (in terms of educational and professional background, age, gender, etc.) can affect a company's culture as well as innovation activities. However, it should also be noted here that the relationship between culture and governance first emerges at the board and management level. For instance, if a board of directors includes a significant number of technical experts, such as engineers, or product-oriented members, such a company might be more focused on innovations.

However, as it will be strongly indicated, the organizational structure of the firm should be suitable. Similarly, if a board mainly consists of market-oriented members, such a company might focus more on expanding its share in a targeted market. If so many accountants and lawyers are on the board, such a company may become highly focused on procedures and compliance issues. Further, if a company adopts a flat and horizontal corporate structure without adhering to strict bureaucratic procedures and internal processes, open communication or best-idea-wins cultures can be emerged. However, if a company has a hierarchical structure with strong superior-subordinate relationships and strict processes and procedures, it is likely that it will develop a bureaucratic culture; actually, it will be quite compelling or impossible to establish open communication and inclusive culture. Many more similar examples can be given.

The below figure attempts to demonstrate the intersection of culture and governance.



*Figure 1: The Relationship Between Culture and Governance*

As the figure demonstrates, organizational structure, communication styles within a company and with outsiders, decision-making processes, control and accountability, roles and responsibilities, and management practices are some areas where governance and culture overlap. As further examples, under a hierarchical culture, top executives often hold decision-making powers, control goes downwards from shareholders through the board of directors to lower levels, accountability goes upwards, and roles are clearly defined. However, under a flatter and more open culture, decision-making power might be distributed horizontally, and an inclusive environment can be created in which open communication among all stakeholders can be achieved. In a nutshell, governance practices and corporate culture reciprocally affect each other, and when the matter comes to culture and governance, what people talk about often overlaps.



# Chapter 3

## **What is the Significance of Corporate Culture?**





### 3. What is the Significance of Corporate Culture?

In the previous chapter, we provided a synthesis of the literature to build theoretical framework of corporate culture and governance. This framework covers employees' perceptions about culture, and evaluation of culture from governance and structural point of views. Furthermore, by briefly examining some of today's most successful and innovative companies, we presented the components of the future's corporate governance and culture. Detailed examination and explanation regarding the components will be made in Chapter 5. On the other hand, Chapter 3 will pay particular attention to importance of corporate culture by examining its influence over employees (in terms of engagement, motivation and retention), corporate leaders, performance, and internal activities of the firms. A theory of organizational studies suggests that there is a link between culture and corporate effectiveness; this theory emphasizes the correspondent interaction between management ways and culture.<sup>132</sup> Another widely asserted idea is that corporate culture is closely related to leadership, and in fact, "culture and leadership are two sides of the same coin".<sup>133</sup>

As argued, the importance of culture has been understood better, and so many companies today claim that they have proper or strong cultures. The fundamental issue is that although there is no "one-size-fits-all" solution to corporate culture, there are unobjectionably good examples, and the firms that desire to be successful and stay relevant in the contemporary age can take lessons from them.

The problem with some firms' approaches to culture is that they attempt to establish cultures without fundamentally changing the organizational structures. For instance, nobody would refuse the importance of open communication or collaboration among stakeholders. However, attempting to achieve open communication at a strictly hierarchical organization where a highly bureaucratic culture exists does not make much sense. It is because such a culture and structure have the potential to put up walls among employees, managers, and directors. Most importantly, as will be discussed in detail, firms are isolated from their external environment due to such hierarchical structures. As will be presented, many executives, directors, and

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<sup>132</sup> Denison, D. R., "Corporate Culture and Organizational Effectiveness", Wiley Series on Organizational Assessment and Change; Wiley: New York, NY etc., 1990, pp.4

<sup>133</sup> Schein, 2017, pp.3

CEOs today think that culture is vitally important for business success. However, the infrastructure (i.e., governance structure) should be suitable first to create well-functioning cultures. Imagine a CEO who knows the value of diversity of opinions and tries to establish “the best-idea-wins-culture”. He/she first needs to establish a flatter organizational structure, which is not only about extinguishing the vertical layers; strict procedures and policies need to be reduced/eliminated. It is because, under a bureaucratic culture where every action of employees is regulated and employees’ communication with their peers and superiors is limited, “the best-idea-wins-culture” cannot be established. Hence, acknowledging the importance of culture, providing various cultural statements, or putting labels on the walls about culture is not enough; a more profound and structural approach is needed.

However, it does not mean that statements are not important. On the contrary, cultural statements or manifestations reflect how a firm announces and promotes its culture. However, what is more important is how employees perceive and interpret the firm’s culture. If the interpretation of employees and promotion of a firm are compatible with each other, then we can say that such a firm is in the right direction. It is because employees are the ones who deal with the culture on a daily basis.

In sub-section 3.1. where the relationship between culture and employee engagement, motivation and retention will be studied, and some examples from “Fortune’s 100 Best Companies to Work For list” will be provided. Employees’ responses to the survey will be tested by extracting keywords concerning culture from sample firms’ websites and reports. It can be mentioned in advance that those sample firms’ (Cisco, Salesforce, and Hilton) cultural statements and how they promote their culture are quite compatible with how their employees see and interpret the corporate cultures of those. As argued a few times, many firms claim that they have strong or proper cultures. However, such a claim will only become true if the stakeholders, most importantly employees, affirm such a claim.

The importance of corporate culture shows itself in particular points. As it will be examined in detail, culture is strongly related to employee performance, motivation, and, most importantly, retention. Corporate culture can have a direct impact on employee performance by increasing the level of employee engagement and motivation, enhancing communication and collaboration among various stakeholders, and there is a direct relationship between corporate leadership, organizational structure, and culture. Furthermore, several studies claimed that there is a positive relationship between corporate culture and financial performance in the long run. Some of those will be mentioned below; also, some sample firms’

stock performance will be provided to simply demonstrate that those who have strong and proper cultures can financially perform well.

According to O'Reilly, culture matters because every action, choice, and judgement of employees cannot be fully regulated and administered; at some point, employees will have to take initiatives.<sup>134</sup> Deal and Kennedy argue that companies with a strong corporate culture are more successful because the shared values and beliefs lead employees to behave in a standardizing way.<sup>135</sup> Strong culture is defined as "a set of informal and implicit rules that direct employees' behaviors most of the time".<sup>136</sup>

However, it should be noted that these approaches presume that a company is a hierarchical and closed organization (maybe the reason is that such studies were conducted more than three decades ago). Nevertheless, as will be mentioned in several chapters of this thesis, the emergence of new digital technologies and different forms of organizations have also shown that flatter and more inclusive corporate governance is possible; in fact, it might be better. Hence, today, culture cannot be solely seen as a tool for managing the areas where rules, regulations, and procedures cannot reach or mandating employees to act in a certain way. Instead, modern corporate governance can be seen as a device to create more autonomy and an open environment for employees to innovate by establishing more open and flatter governance structures. Standardized behaviors do not suit this digital age, and this era requires innovative and out of box thinking. Nevertheless, the studies mentioned above can be considered as some earlier attempts to demonstrate the benefits of strong cultures during the times when the economy was driven by large, closed, and hierarchical corporations. On the other hand, this chapter will discuss the prior empirical studies to show the existing gaps in the research. Hence, the earlier studies that were aimed to demonstrate the importance of culture will be mentioned but the shortcomings will also be discussed.

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<sup>134</sup> O'Reilly, C., "Corporations, Culture, and Commitment: Motivation and Social Control in Organizations", *California Management Review*, Volume 31, No 4, 1989, pp.12

<sup>135</sup> Deal, T.E., Kennedy, A.A., "Corporate Cultures: Rites and Rituals of Corporate Life", Perseus Book Publishing, 2000 pp.15

<sup>136</sup> Deal, Kennedy, pp.14

### 3.1. Corporate Culture and Employees: Engagement, Performance, and Retention

One of the propositions of this thesis is that “corporate culture directly or indirectly influences the perceptions, behaviors, and actions of employees and executives, therefore corporate culture direct impact the performance and productivity of those, hence, on the performance of the company.” This proposition implies that corporate culture exists in (and has an influence on) corporate life wherever individuals are involved. People, especially corporate leaders, create corporate culture during the time they built their company, and also such culture is shaped, developed, or transformed by altering the organizational structure and governance practices during the life of a company.

The first thing that should be accepted and interiorized for better governance is that each actor of corporate governance has unique and indispensable roles in governance, and each of them occupies vital positions in the equation. One might assert that only the shareholders who provide the necessary capital are irreplaceable, and any other actor, such as employees, can be easily replaced. This assertion could be seen as correct to a certain extent. There are many graduates outside, and the unemployment rate has never been zero. Hence, there are always people who are in need to be employed. If a talented employee quits, the new one will be employed. However, this viewpoint can be considered one of the structural problems of the shareholder-centric approach, which will be further examined in Chapter 4.

Employing talents who would fit in the company’s culture through enhanced recruitment, increasing talent density, and, most importantly, retaining those talents are vitally important for productivity and performance.

Something called “great resignation” has been happening in the United States and other countries. 4,4 million in September 2021, 4,2 million in October 2021, and 4,5 million people quit their jobs voluntarily in November 2021, which was a record number.<sup>137</sup> The resignation percentages in the E.U. in 2021 were; 6% of all of the employees in Germany, 4.7% in the U.K., 2.9% in the Netherlands, 2.3% in France, and 1.9% in Belgium, and the leading five reasons are

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<sup>137</sup> Tappe, A., “A Record 4.5 Million Americans Quit Their Jobs In November”, accessed 23.01.2022, CNN Business, 04 January 2022, <<https://edition.cnn.com/2022/01/04/economy/us-job-openings-november/index.html>>

shown as lack of flexibility and job security, hostile work atmosphere, salary and benefits, location and accessibility.<sup>138</sup>

However, Microsoft also predicted massive resignations in March 2021, which found that 41% of the workforce intended to leave their jobs.<sup>139</sup> Further, according to an analysis, millennials and generation Z'ers were leading the great resignation in the U.S., and 62% of Gen Z'ers and 60% of millennials stated that flexibility is the top priority for them.<sup>140</sup>

The desired flexibility and respect for millennials, Gen Z'ers, and all other employees from different generations can only be achieved through creating a flatter governance model, which will elude strict hierarchies, bureaucracies, and severe procedures and establish an inclusive corporate culture and meaningful corporate purpose. As mentioned, companies will always employ new people to replace the previous ones. However, those millennials and Gen Z'ers have something different to offer, and companies need these "misfits" more than any time now, because those employees will ensure companies deal with today's disruptions.<sup>141</sup>

Retaining talents, creating flexibility and a certain degree of autonomy are of great importance, which can be achieved through establishing a flatter, open and inclusive governance structure. It is worth mentioning again that the most talented employees are not satisfied with spending their potential as anonymous gear in the hierarchal wheel; instead, they are looking for an environment where they can maximize their potential and do something meaningful.<sup>142</sup>

Although the concept of corporate culture has gained popularity, especially starting from the 1980s, several academic studies had been conducted previously regarding the relation

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<sup>138</sup> LLB Stuff Reporter, "Pandemic Fuels 'Great Resignation' In UK Job Market As Workforce Rethinks Career Priorities", accessed 23.01.2021 London Business, 11 August 2021, <<https://londonlovesbusiness.com/pandemic-fuels-great-resignation-in-uk-job-market-as-workforce-rethinks-career-priorities/>>

<sup>139</sup> Paulise, L., "The Great Resignation: Microsoft Predicts 41% Attrition", accessed 23.01.2022, Forbes, <<https://www.forbes.com/sites/lucianapaulise/2021/07/21/the-great-resignation-microsoft-predicts-41-attrition>>

<sup>140</sup> Smith, M., "Gen Z And Millennial Workers Are Leading The Latest Quitting Spree—Here's Why", accessed 23.01.2022, CNBC, 03 September 2021, <<https://www.cnbc.com/2021/09/03/gen-z-and-millennial-workers-are-leading-the-latest-quitting-spre.html>>

<sup>141</sup> Vermeulen, E.P.M., "Why Happy Workers Leave Big Companies: Haven't You Seen It? It's Everywhere!", accessed on 23.01.2022, Medium, 14 January 2022, <<https://medium.com/age-of-awareness/why-happy-workers-leave-big-companies-b1a04d5ebcde>>

<sup>142</sup> Vermeulen, Fenwick, 2019, pp.13

between job satisfaction and employee performance. Kornhauser and Sharp conducted the very first research in 1932,<sup>143</sup> and it is stated that “more than thirty studies were conducted until the end of the 1960s about job satisfaction and performance in which the researchers assumed that there is a positive relationship between job satisfaction and performance”.<sup>144</sup>

However, in 1967, Lawler and Porter criticized the previous studies and claimed that “scholars did not make an effort to understand why job satisfaction should cause higher performance, and some studies failed to provide necessary data, or the data was not satisfactory to reveal the relationship between job satisfaction and employee performance”.<sup>145</sup> For their research, Lawler and Porter gathered two sorts of data from 148 middle and lower level of managers from 5 different corporations; “the first type of data was related to how hard a manager is worked, and the second was about how well a manager executed his/her tasks (as also rated by superiors and peers of the respondents), and a questionnaire was made to measure the level of job satisfaction”.<sup>146</sup> Results of their study demonstrated that degree of satisfaction of an employee is related to job performance, and this relationship is stronger for executives than non-executive employees.<sup>147</sup>

Nevertheless, the earlier studies were not quite able to find out the relationship between corporate culture and employee performance, since these studies were mainly focused on job satisfaction from human resources point of view, and corporate culture is a quite wider concept, which is strictly related to organizational structure.

In 2011, Alex Edmans from the University of Pennsylvania examined the relationship between employee satisfaction and equity prices. Unlike some others, Edmans chose to examine long term stock prices rather than profit; according to Edmans, “it is because stock returns are more linked to shareholder value, long term stock prices experience less reverse causality than profits or valuation ratios, and profits or valuation ratios may underestimate such a

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<sup>143</sup> Kornhauser, A, Sharp, A, “Employee Attitudes: Suggestions from a Study in a Factory”, *Personnel Journal*, 10, 1932, pp. 392-401

<sup>144</sup> Lawler, E, Porter L. W., “The Effect of Performance on Job Satisfaction”, 1967, *Industrial Relations*, 7, pp.20-21

<sup>145</sup> Lawler, Porter, pp.21.

<sup>146</sup> Lawler, Porter, pp.24-25.

<sup>147</sup> Lawler, Porter, pp.26.

relationship between job satisfaction and performance given that market fails to completely incorporate intangible assets (intangibles are not fully incorporated due to the market does not possess complete information regarding their value, according to lack of information hypothesis)".<sup>148</sup> Edmans' study demonstrated that companies that achieve increased employee satisfaction generate strong long-term stock returns, and a corporation can benefit from corporate culture through boosted employee motivation, which will positively affect financials in the long-term.<sup>149</sup>

At this point, it might be beneficial to mention the concepts of employee engagement and job satisfaction. It has been suggested that "job satisfaction is one of the most examined variables in behavioral sciences studies".<sup>150</sup> Job satisfaction can be generally defined as "how people feel about their jobs, the extent to which people like it"<sup>151</sup> or "positive emotional state reflecting an effective response to job situation".<sup>152</sup>

According to William Kahn, employee engagement refers to "the harnessing of organization members' selves to their work roles; in engagement, people channelize and express themselves physically, cognitively, and emotionally during the role performances".<sup>153</sup> Nonetheless, some scholars expanded this definition of engagement to cover both job/work engagement and engagement with the organization's itself.<sup>154</sup> Accordingly, engagement can be defined as a state comprising a high level of involvement in the work, and in the organization through

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<sup>148</sup> Edmans, A, "Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices", *Journal of Financial Economics*, 101, 2011, pp. 622

<sup>149</sup> Edmans, pp. 625

<sup>150</sup> Spector, P.E., "Job Satisfaction : Application, Assessment, Causes, and Consequences", 1997, pp.1

<sup>151</sup> Spector, pp.2

<sup>152</sup> Brooke, P., Russell P., Price J., "Discriminant Validation of Measures of Job Satisfaction, Job Involvement and Organizational Commitment", *Journal of Applied Psychology*, Vol 73, 1988, pp.139

<sup>153</sup> Kahn, W.A., "Psychological Conditions of Personal Engagement and Disengagement at Work", *Academy of Management Journal*, Vol 33, No 4, 1990, pp.694

<sup>154</sup> Meyer, J.P., "Employee Commitment, Motivation and Engagement: Exploring the Links", *The Oxford Handbook of Work Engagement, Motivation, and Self-Determination Theory*, 2014, pp.42



adaptive actions (taken in positive and energetic ways) intended to serve the organization's goals.<sup>155</sup>

Many academic studies have been conducted to determine the consequences of engagement, and enhanced employee engagement is positively associated with better employee behavior, attitude, and organizational performance.<sup>156</sup> It has been argued that "improved employee engagement may create competitive advantage for companies by increasing employee productivity, establishing an organizational citizenship understanding, and increasing overall employee performance".<sup>157</sup>

According to a survey conducted by Glassdoor in 2019 (Mission & Culture Survey 2019), a strong culture and mission are quite critical for attracting top talents; %77 of the respondents to this survey stated that they would consider a company's culture before applying for a job.<sup>158</sup>

Netflix and its co-founder-CEO Reed Hastings have a particular experience regarding enhanced employee satisfaction and motivation (in fact, about talents). It is widely known that Netflix values its culture and talent management very much. When Hastings published a slide deck regarding their culture and talent management strategies in 2009, it went viral (it was viewed more than 5 million times on the web, in fact, it was an internal document, but Hastings decided to share it with the public in 2009).<sup>159</sup> The slide show became very popular because Netflix was a quite successful company (for instance, in 2013 Netflix's stock price tripled, it won three Emmy awards and got more than 29 million U.S based subscribers; further, as of 2020, Netflix had more than 200 million subscribers worldwide, and its average stock price for

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<sup>155</sup> Macey, W. H., Schneider, B., "The Meaning of Employee Engagement, Industrial and Organizational Psychology", 2008, pp. 14- 21; and Schaufeli W.B., Salanova, B., Gonzalez Roma V., Bakker, A. B., "The Measurement of Engagement and Burnout; A Two Sample Confirmatory Factor Analytic Approach", Journal of Happiness Studies, 3, 2018, pp. 18

<sup>156</sup> Imperatori, B., "Engagement and Disengagement at Work: Drivers and Organizational Practices to Sustain Employee Passion and Performance", Springer, 2017, pp. 33

<sup>157</sup> Shuck, B., Reio, T., Rocco, T., "Employee Engagement: An Examination of Antecedent and Outcome Variables", Human Resource Development International, Vol. 14, No. 4, 2011, pp. 428

<sup>158</sup> Glassdoor, "Mission & Culture Survey 2019", accessed on 21.08.2021, <<https://www.glassdoor.com/about-us/app/uploads/sites/2/2019/07/Mission-Culture-Survey-Supplement.pdf>>

<sup>159</sup> McCord, P., "How Netflix Reinvented HR", accessed 25.08.2021, Harvard Business Review, 2014, <<https://hbr.org/2014/01/how-netflix-reinvented-hr>>

2020 was \$ 513; the stock price was \$52.50 at the end of 2013), but the main reason for this wide attention was that the culture of Netflix is innovational and very influential.<sup>160</sup>

Hastings took such publication a step further and wrote a book (together with Erin Meyer) about the culture of Netflix. In his book named “No Rules Rules: Netflix and the Culture of Reinvention”, Hastings explains the way he found how employee motivation and satisfaction have been enhanced by increasing the talent density. Hastings says that after the 2001’s crisis (“the dot-com bubble burst”) they were unable to raise additional funds, and in order to run the business, they had to fire several employees, and Netflix decided to keep two-thirds of its employees; the choices were made based on performance, creativeness, and collaboration; thus, the company intended to keep its most talented employees.<sup>161</sup> Hastings was anxious about these layoffs because he thought that the motivation of the remained employees would be reduced.<sup>162</sup> On the contrary, individual motivation and satisfaction of the employees of Netflix have substantially increased; the reason was that, after the layoffs, the talent density was scaled up; Hastings found out that “high performers thrive in environments where overall talent density is high”, and talented people make one another more effective.<sup>163</sup> According to this idea, performance is infectious; one “problem child” who is an underperformer in a group of people has the potential to reduce creativity, and demotivate the entire group.<sup>164</sup>

The idea of Netflix is that an innovative and rapid work environment can be achieved with highly talented people who are creative and collaborative, and who have diverse backgrounds and viewpoints.<sup>165</sup> However, just being talented is not enough to be a team member. First of all, a team member should be able to receive negative feedback; when a talent is used to receive praises all the time, it might be challenging to digest negative feedback, and an ego-tripper might be harmful to the team (considering the fact that one “problem-child might bring the entire team down, as explained above). Hence, the term talent here should not be interpreted

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<sup>160</sup> McCord, 2014,

<sup>161</sup> Hastings, R., Meyer, E., “No Rules Rules: Netflix and the Culture of Reinvention”, Penguin Random House UK, 2020, pp.7

<sup>162</sup> Hastings, Meyer, pp.7

<sup>163</sup> Hastings, Meyer, pp.7

<sup>164</sup> Kislik, L., “Managing an Underperformer Who Thinks They’re Doing Great”, accessed 26.08.2021, Harvard Business Review, 02 December 2020, <<https://hbr.org/2020/12/managing-an-underperformer-who-thinks-theyre-doing-great>>

<sup>165</sup> Netflix, “Netflix Culture”, accessed 26.08.2021, <<https://jobs.netflix.com/culture>>

only as someone with excellent education/experience and the capability to apply these accomplishments to the daily course of business.

Employee engagement is closely linked with components like communication styles within a company, coworkers, and the work environment. What Hastings and Netflix accomplished was creating a perfect work environment, and for Netflix's employees perfect work environment is not about "cozy recreation rooms or free meals", but being surrounded by talented and collaborative associates.<sup>166</sup> As a matter of fact, I have also personally experienced the correctness of this idea. When I was employed at a law firm named Gün+Partners (which is an institutional and international law firm located in Istanbul/Turkey, and one of the biggest in terms of the number of employees, and both local and international client portfolio<sup>167</sup>), I was fascinated by its corporate culture, and especially working together with the most talented lawyers of the country was one of the most significant motivation sources for myself. Although it is not still legally allowed for Turkish law firms to be established as a legal corporation (Turkish law firms should be formed as law office/ bureau), the founding partner Mehmet Gün created a corporate work environment that values each employee (for instance, the firm organizes birthday parties for each employee, and there is a vast amount of motivation events all the year-round). Most importantly, only the most talented lawyers/staffs are employed. Accordingly, being surrounded by talented people, both in terms of background and collaborative characters, made the work more fun and was a great motivation and satisfaction source.

At the end of this section, data will be presented about some employees' responses to a survey. Such employees who made their companies be included in "Fortune's 100 Best Companies to Work For" list by their responses to a survey, have a common pattern. For each company in the list, the most common word used by employees during the survey was "people". As will be discussed below, employees tend to feel more engaged with their companies when they are surrounded by people whom they admire and approve of, and such argument supports ideas of Hastings regarding increased talent density. However, as mentioned at the beginning of this sub-chapter, employing and retaining talents are now about creating a flexible and inclusive corporate environment through eliminating bureaucracies and diluting strict

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<sup>166</sup> Hastings, Meyer, pp.8

<sup>167</sup> Legal 500, "The Legal 500 Ranking – Gün+Partners", accessed 19.09.2021, <<https://www.legal500.com/firms/10998-gun-partners/11375-istanbul-turkey/>>

boundaries within firms. Hence, increasing the volume of talent density within a firm, creating the the-best-idea-wins culture and a collaborative environment in which such talents can realize their potential, depends on establishing the necessary governance structure.

According to the story of Netflix, the first thing to achieve enhanced employee engagement is to create a strong team of highly talented employees. Of course, creating such talent density requires enhanced recruitment, which is also related to corporate culture. However, after employing a team of coherent and talented employees, they need to be in an environment where they can freely apply their skills.

The traditional applications of corporate governance do not leave a space for talented employees to innovate. At this point autonomy acquires currency. Autonomy here means the freedom of undertaking the tasks in the most proper way that a talented employee sees fit, because such freedom means much trust, and in this way an employee can feel supported.<sup>168</sup> Autonomy will lead employees to feel more belonging; because participating opportunities will give them a sense of ownership, and being a stakeholder.<sup>169</sup> However, providing such autonomy under a strictly hierarchical and overly bureaucratized environment will be compelling. A company's cultural environment, as well as governance structure, should be suitable for granting such autonomy. A flatter corporate governance model can properly provide such a suitable cultural environment for autonomy. Flatter governance will be explained below under Section 5 (The Future of Corporate Governance and Corporate Culture); however, it needs to be explained to a certain extent here. As per the classical approach of corporate governance, control and authority in a company flow downwards from shareholders to the board of directors and respectively to management and employees, and liability goes upwards.<sup>170</sup> This sort of governance model stipulates closed and static business structures and cautious and hierarchy-driven decision-making forms<sup>171</sup>, and under this model, desired autonomy cannot be fully achieved. On the other hand, flatter hierarchies enable

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<sup>168</sup>Krapivin, P., "5 Ways To Boost Employee Engagement", accessed 21.09.2021, Forbes, 3 December 2020, <<https://www.forbes.com/sites/pavelkrapivin/2020/12/03/5-ways-to-boost-employee-engagement/>>

<sup>169</sup> Mathis, T. L., "3 Strategies for Employee Engagement", Industry Week, Penton Publishing, November 2013, p.35

<sup>170</sup> Vermeulen, E., Fenwick, M., "A Sustainable Platform Economy & the Future of Corporate Governance", Law Working Paper N° 441/2019, ECGI, March 2019, pp.24

<sup>171</sup> Vermeulen, Fenwick, pp.25

companies to internally operate in an inclusive way to allow various stakeholders to collaborate.<sup>172</sup>

As noted earlier, some of the world's biggest tech companies operate as platforms, such as Facebook, Amazon, Alibaba, Netflix, Uber, Airbnb...<sup>173</sup> The importance and promises of the platform governance model will be explained in detail below, but for a company to create a healthy cultural environment for autonomy (which is also important for innovations as well as more robust employee engagement, this will also be addressed below) first of all a structural and operational ground for such culture needs to be created by enacting a suitable corporate governance model. For instance, in his book Hastings talks about how removing vacation policy and travel and expense approvals helped them to increase engagement level and trust among the team. Further, Netflix managed to distribute the decision-making power successfully to different levels and did not keep it according to hierarchical status so that a faster and more innovative decision-making process was established.<sup>174</sup> Clearly, these were possible because Netflix is organized as a platform company; otherwise, a closed and hierarchical corporate structure would not enable it to enact such innovative and rapid ways of processes.

It should be noted that giving autonomy does not mean complete freedom. A framework needs to be provided to employees, and they shall act within the framework. Such a framework could be determined through values, organizational structure, and purpose of a company, hence by corporate culture. Strategies should be clearly defined and provided by leaders.<sup>175</sup> So that employees can autonomously undertake their tasks to actualize the strategies. A strong corporate culture can function as a guideline for employees, and an employee can act autonomously by understanding the core values and purposes of his company. Nevertheless, strategic goals need to be clearly provided to employees to achieve the desired goal by giving such autonomy to employees.

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<sup>172</sup> McCahery, J. A., Vermeulen, E., Fenwick, M., "The End of Corporate Governance (Hello Platform Governance)", Law Working Paper N° 430/2018, EGCI, December 2018, pp.3

<sup>173</sup> McCahery, Vermeulen, Fenwick, pp.6

<sup>174</sup> Hastings, Meyer, pp.160

<sup>175</sup> London Business School, "Leading From Afar: Giving Autonomy Without Losing Control", accessed 29.09.2021, Forbes, 12 March 2021, <<https://www.forbes.com/sites/lbsbusinessstrategyreview/2021/03/12/leading-from-afar-giving-autonomy-without-losing-control/>>

## What is the Significance of Corporate Culture?

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Since the subject matter of this section is about employees, thus human beings, it is even worth mentioning how autonomy affects humans psychologically. Academic studies found out that the ability to make choices feels like a reward to the brain; people enjoy a perceived sense of control over their environment when they are in the opinion that they make meaningful choices; autonomy in work contributes to improved cognitive performance, and even better health; and motivational power is added an employee's enjoyment in case she gets the chance to make an unexpected choice.<sup>176</sup>

Highly engaged companies have a common value as open and consistent communication.<sup>177</sup> There are various corporate communication styles, such as formal, written, informal, open, and so on. However, when we look at business magazines or quotations from business leaders, it can be seen that open communication is highly promoted. But what is open communication? Open communication can be defined as communication between a sender and receiver by exchanging all necessary information without any hidden agenda or intention of misrepresentation, and effective communication styles facilitate such open communication.<sup>178</sup> It has been argued that "productivity is erased, and business growth is obstructed when vital information is not exchanged between leaders, employees or teams in an effective way".<sup>179</sup> Open communication culture can be achieved by creating a transparent workplace by sharing as much as possible information from leaders to employees.<sup>180</sup> As Hastings stated in his book, "opening up the company secrets to his teams has enhanced the feelings of ownership among employees, and companies also can take symbolic actions such as getting rid of closed offices, which may give symbolic messages to employees about transparency culture".<sup>181</sup>

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<sup>176</sup> Guthridge, L., "Why Autonomy Matters And How You Can Use It To Your Advantage", accessed 29.09.2021, Forbes, 21 June 2021, <<https://www.forbes.com/sites/forbescoachescouncil/2021/06/21/why-autonomy-matters-and-how-you-can-use-it-to-your-advantage/>>

<sup>177</sup> Harter, J., "The Right Culture: Not Just About Employee Satisfaction", accessed 29.09.2021, Gallup, 12 April 2017, <<https://www.gallup.com/workplace/236366/right-culture-not-employee-satisfaction.aspx>>

<sup>178</sup> Skulmoski, G.,J., Hartman, T., F., "The Progression Towards Project Management Competence", IGI Global, 2009, pp.21

<sup>179</sup> Young Entrepreneur Council, "Four Steps For Building A Culture Of Open Communication", accessed 29.09.2021, Forbes, 03 October 2014, <<https://www.forbes.com/sites/theyec/2014/10/03/4-steps-for-building-a-culture-of-open-communication/>>

<sup>180</sup> Young Entrepreneur Council,

<sup>181</sup> Hastings, Meyer, pp.126

If a company has a traditional hierarchical structure, it is inevitable that distinctness between different departments can grow up, considering that each business unit, department, or division might have various sub-cultures due to their members' backgrounds, responsibilities, and sizes. Nevertheless, a flatter governance structure can dilute the strict distinctions between different units. Of course, the backgrounds and responsibilities of different employees can still cause various approaches. However, with the help of a suitable structure, open communication, enhanced collaboration, and co-creation culture can be created.

On the other hand, there is one reality that such open communication may not be completely achieved under the traditional corporate structure. It is worth mentioning again here that the classic application of corporate governance has the potential to dispose of the benefits of open communication since it requires a downwards flow of control and authority which is because of the hierarchy-driven decision-making process. The ultimate goal of maximizing shareholder value, which is the center of classic corporate governance models, might be therefore harmful to companies because it takes the focus to short-term profit and creates obstacles to long-term success and innovation.<sup>182</sup>

The idea is that a flatter governance model, which is based on constant collaboration among various stakeholders, can provide open and entrepreneurial interactions between employees, leaders, and communities, and such a governance model can enable the creation of open communication culture.

Open communication will also likely improve collaboration within a team or between different teams, which will subsequently enhance productivity.<sup>183</sup>

When it comes to engagement, "corporate purpose" also needs to be mentioned. A company's mission, vision, and strategies are about its "purpose". However, from governance perspective, the purpose is more than just a mission and vision. Earlier, when the dominant idea was shareholder primacy, the purpose of a corporation was to maximize shareholder value; therefore, the main goal was to provide more financial returns for investors at all

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<sup>182</sup> Vermeulen, E., Fenwick, M., "A Sustainable Platform Economy & the Future of Corporate Governance", Law Working Paper N° 441/2019, ECGI, March 2019, pp.26

<sup>183</sup> Young Entrepreneur Council, "Six Ways To Improve Team Collaboration And Enhance Productivity", accessed 30.09.2021, Forbes, 14 June 2018, < <https://www.forbes.com/sites/theyec/2018/06/14/six-ways-to-improve-team-collaboration-and-enhance-productivity/>>

hazards. Shareholder primacy norm has caused rigidification of hierarchical structures, and firms have become more isolated from their external environment.

Nevertheless, the purpose has been redefined due to the rise of stakeholderism, CSR (corporate social responsibility), and ESG (environment, social, and governance). These issues and the debate between shareholder wealth maximization and stakeholderism will be addressed in detail below. However, it shall be mentioned here that focusing on balancing the interests of shareholders, and other stakeholders might significantly increase engagement when it comes to employee engagement. It is because when the sole focus is on maximizing shareholder value at all costs, directors may concentrate on meeting the short-term financial goals (i.e., short-termism), and it was common to announce huge layoffs, in order to reach such goals. It is clear that this sort of pressure may decrease the level of engagement and motivation. However, taking employees' interests into consideration while making a decision is vital for retaining the most talented employee as well as increasing the level of engagement and motivation.

Since the subject matter of this section is about employees, the opinions of employees from selected corporations will be presented in order to support the main idea that claims when a company has a strong culture, employees feel more engaged and satisfied, and this lead to increased motivation, better performance, and increased innovation output. In order to achieve this, some data from "Great Place to Work" and "Fortune's 100 Best Companies to Work For list" are extracted. The survey results of Great Place to Work are tested by checking employee reviews made on Glassdoor. "Fortune's 100 Best Companies to Work For list" is based on the survey results of Great Place to Work which is a multinational consultancy company that surveyed more than half a million employees in 2021 about employees' opinions regarding their leaders, managers, companies, and corporate culture.<sup>184</sup>

Cisco Systems is the first company in 2021's list. Cisco is an information technologies firm established in 1984 and headquartered in California/U.S. Cisco found a place on the list in 2016 with a ranking of 82 (in 2017, its ranking was 67, 48<sup>th</sup> in 2018, 6<sup>th</sup> in 2019, and 4<sup>th</sup> in 2020).<sup>185</sup> According to the survey of Great Place to Work, 97% of the employees of Cisco stated that the

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<sup>184</sup> Fortune, "Methodology for 100 Best Companies to Work For (2021)", accessed 30.10.2021, <<https://fortune.com/franchise-list-page/best-companies-2021-methodology>>

<sup>185</sup> Great Place to Work, "Cisco Company Overview", accessed 30.10.2021, August 2021, <<https://www.greatplacetowork.com/certified-company/1000064>>



company is a great place to work, 98% of them said that they are made to feel welcome when they joined the company, 98% of the employees stated that they are proud to tell others that they work at Cisco.<sup>186</sup>

When we look at Cisco's organizational structure, it reveals some indications. Earlier, Cisco's organization was based on a "silo-based organizational structure", which caused strict distinctions between business units and duplication of tasks; however, Cisco has altered its organizational structure to a "lifecycle-based model". The most important benefit of such organizational change at Cisco was to enhance internal communication and collaboration. It can be argued that a "silo-based organizational structure" is a sort of flatter structure compared to the traditional hierarchical organizations.<sup>187</sup> Nevertheless, as mentioned above, various applications of flattening the organization's structure exist. Again, above mentioned components of the future's corporate governance are related to each other. By flattening the structure, the aim should be to enhance communication among all stakeholders, and achieve collaboration and co-creation among all. Otherwise, separating business units will not solve the problems. The most common words used during the survey are determined to check the perception of Cisco's employees about its corporate culture; team, people, community, family, leadership, executives, and CEO. Common words like people, team, and community support the idea; people feel more engaged with their company when they admire their colleagues and surroundings. However, it should be noted that the success of Cisco in the list of 2021 is also about the company's approach to employees during the COVID-19 pandemic; during the crisis, "Cisco delayed already announced layoffs and extended pay and benefits for affected workers".<sup>188</sup> Nevertheless, Cisco was already on the list due to its strong culture before 2021.

The reviews on Glassdoor were also checked to test the survey results. Over 24.500 reviews were made on Glassdoor regarding Cisco, and the results are as follows; 87% of the employees of Cisco would recommend it to their friends, 93% of them approve the CEO of Cisco, and the overall point of Cisco is 4.3 out of 5 (the point for Culture is 4.4/5, for Diversity 4.4/5, for

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<sup>186</sup> Great Place to Work,

<sup>187</sup> See: Cisco, "How Cisco IT Implemented Organizational Change and Advanced Services for Operational Success", Cisco IT Case Study, 2008

<sup>188</sup> Fortune, "Cisco Systems Company Profile 100 Best Companies To Work For # 1", accessed 30.10.2021, <<https://fortune.com/company/cisco-systems/best-companies/>>

## What is the Significance of Corporate Culture?

Work/Life balance 4.3/5).<sup>189</sup> Accordingly, the reviews on Glassdoor's website favor the survey results of Great Place to Work.

Cultural statements are important because such statements give messages about a company's approach to culture. However, it should be noted that culture is way more than labels; it lives in daily business life, not on walls. Nevertheless, cultural statements may demonstrate examples of how a company sees and presents its culture. Hence, cultural statements should not be entirely brushed aside. From this perspective, the webpage of Cisco regarding its culture and Cisco's Corporate Social Responsibility Impact Report of 2020 were checked, and the keywords indicated on the website, and the report were compared with the most common words used by Cisco's employees during the survey. The below table shows the comparison between the webpage, the report and the most common words used during the survey.

### CISCO

<i>Common words used during the survey<sup>190</sup></i>	<i>Keywords from the webpage<sup>191</sup> and the report<sup>192</sup></i>
People- Team - Culture - Leadership	Environment-Characteristics-Experience
Time - Feel - Working - Care - Support	Inclusive - People - Conscious Culture
Best - Inclusive - Executive - Flexibility	Employee Engagement - Health - Diversity
Social - Help - Love - Diverse - Health	Teams - Care - Society - Leadership - Colleagues
Leaders - World	Community - World

*Table 2: Survey results and the keywords extracted from Cisco's website*

The words mentioned in the above table also provide some indications about Cisco's governance. Especially the words flexibility, inclusive, diversity, society, community, and world are directly related to corporate governance, and some of them especially give us some indications regarding the company's approach to corporate social responsibility. Nevertheless, words and statements will only make sense when the actions and real structures are compatible with such statements. The above table shows that the way the employees of Cisco consider their company and its culture is compatible with how Cisco sees and promotes itself

<sup>189</sup> Glassdoor, "Cisco Systems", accessed 30.10.2021, <<https://www.glassdoor.com/Reviews/Cisco-Systems-Reviews-E1425.htm>>

<sup>190</sup> Great Place to Work,

<sup>191</sup> Cisco, "Embracing a Conscious Culture", accessed 30.10.2021 <<https://www.cisco.com/c/en/us/about/careers/we-are-cisco/conscious-culture.html>>

<sup>192</sup> Cisco, "Powering an Inclusive Future for All: Corporate Social Responsibility Impact Report of 2020", accessed 30.10.2021, <[https://www.cisco.com/c/dam/m/en\\_us/about/csr/esg-hub/\\_pdf/csr-report-2020.pdf](https://www.cisco.com/c/dam/m/en_us/about/csr/esg-hub/_pdf/csr-report-2020.pdf)>

and its culture. From this perspective, it can be said that Cisco created a culture clearly defined and promoted by the company, and understood, interiorized, and cherished by its employees.

On the other hand, when we look at Cisco's share price performance for a decade, such performance indicates that having a strong culture is also beneficial from the financial point of view. Cisco's average share price in 2011 was \$ 17,36, but in 2021 it was \$53,27. Hence, the share price of Cisco experienced a 206,85% increase. Although such financial performance cannot be solely linked to its culture, it can be clearly said that Cisco, as a company that has strong culture, has been doing quite well in terms of financials.

The second company in "Fortune's 100 Best Companies to Work For list" is Salesforce. Salesforce is an information technology firm established in 1999 and headquartered in California/U.S. Salesforce was ranked 23rd in 2016, 8<sup>th</sup> in 2017, 1<sup>st</sup> in 2018, 2<sup>nd</sup> in 2019, 6<sup>th</sup> in 2020, and 2<sup>nd</sup> in 2021.<sup>193</sup>

The reviews at Glassdoor were checked to test the survey results regarding Salesforce. As per more than 10.000 reviews made on Glassdoor; 90% of the employees of Salesforce would recommend it to their friends, 97% of them approve the CEO of Salesforce, and the overall point of Salesforce is 4.4 out of 5 (the point for Culture is 4.5/5, for Diversity 4.5/5, for Work/Life balance 4.1/5).<sup>194</sup> Accordingly, it can be said that the reviews made on Glassdoor's website are in favor of the survey results of Great Place to Work.

A former employee's statements about Salesforces' internal organization reveals some important points; *"At Salesforce, Marc and the leadership team used platforms like Chatter and video to communicate where the company was going, and then let teams self-organize to achieve those goals – regardless of where people sat in the org structure"*.<sup>195</sup> When we look at Salesforce's share price performance between 2011-2021, such performance also reveals that having a proper corporate culture is highly beneficial. Salesforce's average share price in 2011 was \$ 32,93, and in 2021 it was \$ 247,36. Thus, the share price of Salesforce experienced a 651,17% increase in 10 years.

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<sup>193</sup>Great Place to Work, "Salesforce Company Overview", August 2021 , accessed 30.10.2021, <<https://www.greatplacetowork.com/certified-company/1000226>>

<sup>194</sup>Glassdoor, Salesforce, accessed 30.10.2021, <<https://www.glassdoor.com/Reviews/Salesforce-Reviews-E11159.htm>>

<sup>195</sup> Bradfort, L., "Former Salesforce Execs Explain How They Rose To The Top On Their Own", accessed 19.06.2021, Forbes, 31 May 2017, <<https://www.forbes.com/sites/laurencebradford/2017/05/31/former-salesforce-execs-explain-how-they-rose-to-the-top-on-their-own/>>

## What is the Significance of Corporate Culture?

The below table shows the comparison between the webpage and the most common words used during the survey.

SALESFORCE	
<i>Common words used during the survey<sup>196</sup></i>	<i>Keywords from the webpage<sup>197</sup></i>
People – Benefits – Culture	Trust – Customer Success – Innovation
Time - Values – Community - Care	Equality - Culture – Integrity – Transparency
Wellness – Team – Equality – Feel - Amazing	Alignment – Accountability - Values
Wellbeing – Leadership – Customers	VTO – Community – Customers – Opportunities
Balance - Focus – Trust – Support	Ohana – Family – Open Communication
Opportunities - Innovation - World	Compassion – Products – Courage – Talent
Ohana – Family - VTO	

*Table 3: Survey results and keywords extracted from Salesforce's website*

It can be said that the most common words used during the survey are compatible with the keywords extracted from the website of Salesforce. For instance, Salesforce aimed to employ at least 50% of its employees from underrepresented groups, such as women, black, multiracial, and LGBTQ+ employees (and the current state is 47%); also, Salesforce targeted to achieve equal pay for equal work<sup>198</sup>. Correspondingly, equality was one of the most used words by its employees during the survey.

Furthermore, “culture” is one of the most used words, showing that the employees highly admire the corporate culture of Salesforce. Considering the fact that the words used during the survey and keywords extracted from the website are compatible (also considering the accommodativeness between the survey results and Glassdoor reviews), it can be asserted that Salesforce has a strong corporate culture which is priceless to the good of the company.

The third example from Fortune’s “100 Best Companies to Work For” list is Hilton Worldwide Inc. Although the first two companies are from the technology sector, the third company on the list is a hospitality company. Hilton was founded in 1919 and is headquartered in Virginia,

<sup>196</sup>Great Place to Work,

<sup>197</sup> Salesforce, Our Story, accessed 08.11.2021, <<https://www.salesforce.com/company/our-story/>>

<sup>198</sup>Salesforce, “We Believe in Equality for All”, accessed 08.11.2021, <<https://www.salesforce.com/company/equality/#eq-sf-data>>

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U.S. In 2021, it ranked as the third company in the list (it was ranked 56th in 2016, 26th in 2017, 33rd in 2018, 1st in 2019, and in 2020).<sup>199</sup> Reviews on Glassdoor are checked to test the results of the survey. More than 7000 reviews are done on Glassdoor, and the results are as follows; 82% of the employees would recommend it to a friend, the approval rate of the CEO is 92%, the overall score of Hilton is 4.1./5, point for culture is 4.1/5, point for diversity is 4.2/5, point for work/life balance is 3.7/5.<sup>200</sup> Accordingly, Great Place to Work's survey results are compatible with the reviews made on Glassdoor. Similar to the above examples, the most common words used during the survey and keywords extracted from the website of Hilton are compared. The comparison is shown in the below table;

### HILTON

<i>Common words used during the survey</i> <sup>201</sup>	<i>Keywords from the webpage</i> <sup>202</sup>
Team – People – Members – Family	People – Opportunities – Pride – Connection
Benefits – Hotel – Love – Working – Feel	Team – Fun – Diversity – Career
Best – Culture Life – Unique Leaders	Work Environment – Inclusion – Benefits
Everyone – Proud – Balance – Support	Wellbeing – Family – Opportunities – Leaders
Career– Home – Help – Leadership	Accountability – Talent – Leadership
Wordgood	Hospitality

*Table 4: Survey results and the keywords extracted from Hilton's website*

As per the table, it can be said that the keywords extracted from the website of Hilton regarding corporate culture are compatible with the most common words used by employees during the survey of Great Place to Work. Such compatibility demonstrates that the way that Hilton promotes its culture and Hilton's employees' perceptions concerning the corporate culture is in accordance with each other. From this perspective, it is also possible for Hilton to say it has created a strong corporate culture that is interiorized and appreciated by its

<sup>199</sup> Great Place to Work, "Hilton Company Overview", August 2021, accessed 09.11.2021, <<https://www.greatplacetowork.com/certified-company/1000367>>

<sup>200</sup> Glassdoor, Hilton, accessed 09.11.2021, <<https://www.glassdoor.com/Reviews/Hilton-Reviews-E330.htm>>

<sup>201</sup> Great Place to Work,

<sup>202</sup> Hilton, "Our Culture: A Business of People Serving People", accessed 09.11.2021, <<https://jobs.hilton.com/us/en/culture>>

employees. Hilton's average share price for 2013 was \$65,42, and for 2021 it was \$127,87. Hence, the stock price of Hilton experienced a 94,6% increase in 10 years.

After taking the first three companies on Fortune's list as sample corporations, another matter shall be mentioned regarding the survey of Great Place to Work. As mentioned with the sample companies above, Great Place to Work provided common words used by employees during the survey. Around 40 words are provided for each company. Among those common words, the most used ones are mentioned with bold letters and bigger font sizes, and lesser ones are written with smaller font sizes. To evaluate the common words (hence, the comments made by employees during the survey of Great Place to Work), the most used words mentioned with bold letters and bigger font sizes are extracted from the website of Great Place to Work evaluated. Five to seven most common words (with bold letters and bigger font sizes) are taken for each company.

Accordingly, "people" is the most common word used by employees. In fact, "people" is the only word mentioned as a common word with bold letters for each company by Great Place to Work. Furthermore, "team" is the second most used word by employees; for sixty-nine companies, "team" is mentioned with bold letters. Other words used together with "people", which have similar meanings are "colleagues", "associates", and "coworkers". Because "people" is the most common word for the employees of all 100 companies, and "teams" is the second most used one; it can be said that in order to create a strong corporate culture, having coherent employees that can form functioning teams is one of the first things to be done.

This matter is a piece of supportive evidence for the idea that employees feel more engaged with their companies when they admire their colleagues and surroundings, and increased motivation can be achieved through increased talent density. Furthermore, from this information, it is also possible to say that for employees to define their workplaces as a great place to work, coworkers are the number one determinant.

After "people" and "team", "culture" is the third most common word used. It should be noted that what makes a great team is culture, which holds the team together, guide it during the ordinary course of business, and makes people comfortable about what they do they do. Culture is mentioned as one of the most common words with bold letters for 62 companies, and for many more it is also mentioned as a common word.

Many employees also used “Flexibility” during the survey. Flexibility may refer to several concepts, such as working from home or remote working, part-time or flextime working, and job autonomy.<sup>203</sup> It has been suggested that flexible working conditions may benefit both employees and employers, since such conditions may enable companies to retain the talents, therefore recruitment costs can also be decreased, and these conditions may increase the engagement level and motivation of employees.<sup>204</sup> Further, it has also been suggested that flexibility can contribute to the financial performance of corporations by creating a competitive and contemporary working environment, attracting and retaining skilled employees, improving the work-life balance of employees, thus increasing motivation and performance, enhancing job satisfaction and commitment.<sup>205</sup> However, the importance of flexibility has become more prominent during the coronavirus pandemic; many companies switched to remote working, and for the majority of employees, flexibility has become the top priority.<sup>206</sup> Nevertheless, flexibility is more about an organization’s structure. Under strict hierarchies and bureaucratic cultures, the desired flexibility cannot be achieved.

“Leadership” is mentioned with bold letters for 32 companies (for many more companies as a common word), and there are also some similar words such as “leaders”, “executives”, “executive”, and “CEO”. As will be discussed in detail in the below section about the relationship between leadership and culture, leaders and founders are culture creators and changers; their influence on corporate culture and employees is enormous. When we look at history, winners or losers of wars are almost always mentioned as commanders, kings, and leaders. Successes and failures are always attributed to leaders.

A leader may increase the level of employee engagement by being transparent, having a good communication style, and being a coach to his employees.<sup>207</sup> Communication with employees

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<sup>203</sup> Whyman, P.B., Baimbridge, M.J., Buraimo, B.A., Petrescu, A.I., “Workplace Flexibility Practices and Corporate Performance: Evidence from the British Private Sector”, *British Journal of Management*, Vol. 26, 2015, p.348

<sup>204</sup> Fleetwood, S., “Why Work-Life Balance Now”, *International Journal of Human Resource Management*, 18:3 March 2007, pp.395

<sup>205</sup> Whyman, et al., 2007, pp.348-349

<sup>206</sup> Smith, M., “Gen Z And Millennial Workers Are Leading The Latest Quitting Spree—Here’s Why”, accessed 16.11.2021, CNBC, 3 September 2021, <<https://www.cnbc.com/2021/09/03/gen-z-and-millennial-workers-are-leading-the-latest-quitting-spree.html>>

<sup>207</sup> Rains, A., “How Leaders Can Improve Employee Engagement — Even During Challenging Times”, accessed 14.11.2021, Forbes, 11 September 2020,

should be transparent, but such communication should also be bilateral; a leader should be a good listener, and humble.<sup>208</sup> A good leader should act as a mentor for his/her employees, and s/he should first understand his/her team's dynamics, appreciate his/her employees' achievements (even minor ones), and promote personal advancement.<sup>209</sup> However, a leader's success depends on how s/he builds and structures his/her firm. For instance, if the corporate leader desires to create autonomy within the teams, a "the-best-idea-wins" and innovative culture or an open and inclusive culture, s/he needs to establish a proper "infrastructure" (i.e., organizational structure). For instance, if the leaders establish a highly hierarchical organization where bureaucratic processes regulate every action of employees through strict procedures, then they should not expect their employees to innovate.

As a short conclusion for this sub-chapter, creating coherent and well-functioning teams is of great importance; one of the most important things for employees is their team members and colleagues. Such a situation also shows the importance of enhanced recruitment; companies need to be very careful while employing people. It is not only about recruiting talents, but such talents should be team players and also fit in the culture. Corporate culture is the key to retaining talents, which is even more important than employing those. It is also clear that today's employees, especially new generations, desire more autonomy and flexibility so that they can realize themselves and unveil their true potential. By granting more autonomy and flexibility to talents and creating a suitable corporate environment for those, companies can significantly increase the level of engagement and motivation as well as unlock innovation. Nevertheless, it should be noted that success is not about individuals; it is about the structure and organization.

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<<https://www.forbes.com/sites/forbesbusinessdevelopmentcouncil/2020/09/11/how-leaders-can-improve-employee-engagement---even-during-challenging-times/>>

<sup>208</sup> Rains,

<sup>209</sup> Rains,



### 3.2. Culture and Organizational Performance: The Relationship between Corporate Culture and Financial Performance of Corporations

As mentioned above, especially starting from the early 1980s, there was quite an attention to corporate culture. Since then, so many academics who work on organizational culture have suggested that there is a link between the culture of a company and its financial performance. The initial discussions about the relationship between culture and performance were somehow limited to corporate stories and anecdotes; there was a lack of academic evidence.<sup>210</sup> However, over the last 40 years, several academic studies have revealed the link between culture and performance. Some academics compared the strong and weak cultures from various industries<sup>211</sup>, and tried attributing the success to strong cultures. In contrast, some of them focused on particular industries and researched companies that operate in a specific industry.<sup>212</sup> Moreover, some studies have been conducted on single entities to determine whether the culture of such an entity impacts its financial performance.<sup>213</sup>

Under this sub-chapter, some of the initial and early studies that have tried to reveal the link between culture and performance and some recent studies will be mentioned. After that, some sample corporations' financial performance will be provided. It should be noted that most of the below-mentioned early literature focuses mainly on the traditional meaning of culture (i.e., employees' perceptions). Nevertheless, our samples and the data are more focused on the organizational and structural side of corporate culture. As mentioned above, some of the earlier studies tend to promote the importance of culture for creating behavioral consistency

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<sup>210</sup> Denison, D., "Corporate Culture and Organizational Effectiveness", Wiley Series on Organizational Assessment and Change, 1990, pp.2-3

<sup>211</sup> For instance; Kotter, J.P., Heskett, J.L., "Corporate Culture and Performance", The Free Press, New York, 1992

<sup>212</sup> In the academic paper named "The Relationship among Corporate Culture, Strategic Orientation, and Financial Performance" which is published on Cornell Hospitality Quarterly (53(3) p.207–219), Hyun Jeong Han examined the Korean hotels and revealed the direct effect of culture on the financial performance. Similarly, Avcı, Madanoğlu, and Okumuş ("2010 - Strategic Orientation and Performance of Tourism Firms: Evidence from a Developing Country, Tourism Management 31 (5) p. 1-11.") studied Turkish tourism companies and found out that company specific factors affect tourism companies' strategic orientation as well as their financial performance. Another sample in which the direct effect of culture on the firms' performance are examined might be the paper of Doran, Haddad, and Chow ("The Relationship Between Corporate Culture and Performance in Bahrain Hotels: Findings and Management Implications, International Journal of Hospitality & Tourism Administration, 4:3, 65-80, 2003").

<sup>213</sup> See; Flamholtz, E., "Corporate Culture and the Bottom Line", European Management Journal Vol. 19, No. 3, 2001, pp. 268–275

and control mechanisms. This might be due to the hierarchical corporate structures were the sole option or the most promoted ones. However, it must be strongly indicated here that the results of a strong culture as behavioral consistency and control mechanism might have been the benefits of culture during the times when large, closed, and hierarchical corporations were the main drivers of the economy. Since strict hierarchies and bureaucratic structures require enhanced consistency and control mechanisms, corporate culture was indeed a tool for achieving those aims.

Nevertheless, today, technology companies and digital platforms have become the world's most successful and prominent companies. The main difference between those and the previous traditional ones is their organizational structure and altered approaches to corporate governance. As mentioned above, innovation and out-of-box thinking are vital for many who require a flatter, open and inclusive culture. In fact, those tech companies' and platforms' success was because of innovations and rapid developments that they have provided. Hence, the digital age we live in now requires contrarian, divergent and unusual approaches. These "new" approaches or any other approaches that the business life or economy currently needs, can be established by creating the correct culture. This issue will also be revisited in detail under Section 5 "The Future of Corporate Governance and Corporate Culture".

Earlier, some academics have attributed the success of companies to strong corporate cultures. According to Deal & Kennedy, a strong culture is a set of informal rules that steer people's behavior, and it enables employees to feel better about what they do; thus, a strong culture is shown as a tool to manage behaviors and to support people to do their jobs in a better way.<sup>214</sup>

One of the most important results of having a strong corporate culture was presented by earlier studies as that a strong culture enhances behavioral consistency in a company, and thereby improves organizational performance; as it is stated "culture defines a normative order that serves as a source of consistent behavior within the company, and corporate culture also serves a social control mechanism".<sup>215</sup> Burt et al. claimed that shared beliefs and practices, which take part in creating corporate culture, present informal control mechanisms that coordinate

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<sup>214</sup> Deal, Kennedy, pp.14-18

<sup>215</sup> Sorensen, J., "The Strength of Corporate Culture and the Reliability of Firm Performance", *Administrative Science Quarterly*, Vol. 47, No. 1, March 2002, pp. 72

employees' actions, and strong cultures clarify a company's goals and practices.<sup>216</sup> When goals and practices are transparent and shared, employee motivation and morale should be higher, and accordingly, a strong culture should enhance a company's financial performance.<sup>217</sup>

It should be noted that the academics' theoretical perspective also affects the studies conducted about culture and performance in assessing culture. For instance, advocates of the integration perspective tend to reveal the relation by evaluating management practices, values, assumptions, norms, and symbols.<sup>218</sup> Because they believe that culture lies under values and manifestations of values which are the top executives' management practices.

Daniel Denison conducted one of the first extensive quantitative research regarding financial performance and culture.<sup>219</sup> He based his research on the perceptions of a total of 43,747 respondents and the evaluation of performance data of 34 companies from 25 different industries. The data was received from Institute for Social Research of University of Michigan's the Survey of Organizations which is a 125 item questionnaire on leadership, organizational climate, peer relations, group process, work design and satisfaction.<sup>220</sup> Financial performance (which was measured for the 5 years following the questionnaire) evaluation was based on return on investment, sales and equity; and financial data was drawn from COMPUSTAT, which is the statistical service of Standard & Poor's; his research demonstrated that well organized workplaces, and participative corporate culture are positively related to financial performance, and "cultural and behavioral aspects of corporations are clearly linked to short term performance and long term survival".<sup>221</sup> However, this research was criticized due to the questionnaire did not cover all of the possible

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<sup>216</sup> Burt S. R., Gabbay M. S., Holt G., Moran P., "Contingent Organization as a Network Theory: The Culture Performance Contingency Function", 1994, *Acta Sociologica*, 37, pp. 345

<sup>217</sup> Burt, et al., pp. 345

<sup>218</sup> Calori, R., Sarnin, P., "Corporate Culture and Economic Performance: A French Study", *Organization Studies*, 1991, 12/1:049-074, pp. 52

<sup>219</sup> Calori, Sarnin, pp. 50-51

<sup>220</sup> Denison, D., "Bringing Corporate Culture to the Bottom Line", *Organizational Dynamics*, Volume 13, Issue 2, Autumn 1984, pp. 9

<sup>221</sup> Denison, pp. 6

aspects of corporate culture, and in fact, it was not initially prepared for assessment of corporate cultures.<sup>222</sup>

After Denison's study, several more academic research was conducted to demonstrate the relationship between corporate culture and financial performance. Although their study could not provide significant support for the argument, Siehl and Martin found in 1988 that the companies that are socially responsible provided significantly stronger financial performance.<sup>223</sup>

Sarnin and Calori examined a few French companies from mature industries to show the relationship between culture and economic performance. For this research, Sarnin and Calori first presented a tool for assessing corporate cultures, so their research started by evaluating the existing cultures, and then generating hypotheses on the relationship between values, management practices and economic performance, and between the strength of culture and economic performance.<sup>224</sup> After the assessment of cultures, relative economic performances are measured. Sarnin and Calori chose three measures; return on investment, return on sales, and annual variation of the net turnover, and the averages of each indicator are calculated for three years; as a result of such research, Sarnin and Calori found out that a clear culture profile ("the intensity and homogeneity of the company's culture") is positively associated with a company's growth; some cultural values and management practices ("personal fulfillment, team spirit, listening to the others, responsibility, trust, adaptation, anticipation, entrepreneurship, quality, and consistency") could be linked with high growth over a short period of time; and some values and relevant management practices ("openness to the environment, participation in local activities, societal contribution and solidarity") are positively associated with return on investment and return on sales.<sup>225</sup>

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<sup>222</sup> Calori, Sarnin, pp. 53

<sup>223</sup> Shiel, C., Martin, J., "Organizational Culture: A Key to Financial Performance", CEO Publication, 90-3, 1989, pp.15

<sup>224</sup> Calori, Sarnin, pp. 49

<sup>225</sup> Calori, Sarnin, pp. 68-72

## What is the Significance of Corporate Culture?

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Research conducted found that “employee satisfaction and organizational citizenship behaviors” positively impact the financial performance of firms from industries where customers and employees have direct contact.<sup>226</sup>

Kotter and Heskett conducted a macro-level study of 207 companies from 22 industries in the U.S. and compared the strong cultures with weak ones.<sup>227</sup> Kotter and Heskett made a questionnaire on top executives of the selected firms, and respondents were requested to evaluate the strength of cultures by assessing the levels at which the executives were influenced during the decision-making process by corporate culture.<sup>228</sup> The research conducted by Kotter and Heskett demonstrated that companies with strong cultures outperform the others, and companies with strong cultures have a better rate of return on investment, net income growth, and change in share price advantage.<sup>229</sup>

A study found that “teamwork and organizational culture were significantly related to organizational performance, and if organizational culture could be integrated into the reward system, organizational performance might be increased”.<sup>230</sup> Another research concluded that culture might have an impact on organizational effectiveness and positive association with organizational performance.<sup>231</sup>

Jesper Sorensen from MIT has used the data of Kotter and Heskett to evaluate how strong cultures affect performance variability; but also, Sorensen has criticized the previous studies for only focusing on the results of strong cultures for performance levels, but not examining the reliability of company performance and performance variability.<sup>232</sup> So Sorensen claimed that the variability of a company’s performance depends on the company’s capacity to adapt

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<sup>226</sup> Koys, D.J., “The Effects of Employee Satisfaction, Organizational Citizenship Behavior, and Turnover on Organizational Effectiveness”, *Personnel Psychology*, 51, 2001, pp.110-112

<sup>227</sup> Kotter, J.P. and Heskett, J.L., “Corporate Culture and Performance”, The Free Press, New York, 1992, pp.19

<sup>228</sup> Kotter, Heskett, pp.161

<sup>229</sup> Sorensen, pp. 70-73

<sup>230</sup> Petty, M., Beadles, N.A., Connell, D.W., “Relationships between Organizational Culture and Organizational Performance”, *Psychological Reports*, 01 April 1995, pp.1

<sup>231</sup> Mishra, A.K., Denison, D., “Toward a Theory of Organizational Culture and Effectiveness”, *Organization Science*, Vol 6, No 2, 1995, pp.220

<sup>232</sup> Sorensen, pp. 70

to external changes, therefore, working on the performance variability may clarify that companies with strong cultures adapt to the changes, and in relatively stable environments, companies with strong culture should provide more reliable performance than the companies with weak cultures.<sup>233</sup>

As a result of his research, Sorensen concluded that the strength of corporate culture affects the variability of company performance which is possible on the level of industry volatility; companies perceived to have genuine and coherent cultures have less variable performance compared the other companies in the same industry, and strong cultures contribute to more reliable performance.<sup>234</sup>

For their recent research, Schuldt and Gomes focused on a specific sector and tried to find the relationship between the textile companies' performance and corporate culture. They also tested the impact of innovation on culture and performance and used an intersectional survey's results as the primary data.<sup>235</sup> Their study showed that corporate culture has a positive impact on the organizational performance of textile companies, and innovation is vitally important for companies' performance during difficult times.<sup>236</sup>

Unlike the previous scholars who used cross-sectional data, Eric Flamholtz conducted his research regarding the effects of corporate culture on financial performance over a single entity; the company was the U.S. based, mid-sized industrial enterprise which consisted of several stand-alone individual companies/divisions, in which such individual companies operate autonomously and maintain separate cultures.<sup>237</sup> Flamholtz conducted his research as a part of an implementation of a new corporate strategy that aimed to create a common culture among all divisions through a cultural management process.<sup>238</sup> According to his cultural management process model, the fundamental starting point for creating a new culture should

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<sup>233</sup> Sorensen, pp. 71

<sup>234</sup> Sorensen, pp. 84-89

<sup>235</sup> Schuldt, K.S., Gomes, G., "Influence Of Organizational Culture On The Environments Of Innovation And Organizational Performance", *Gestão & Produção*, 27(3), 2020, pp.9

<sup>236</sup> Schuldt, Gomes, pp.18

<sup>237</sup> Flamholtz, E., "Corporate Culture and the Bottom Line", *European Management Journal* Vol. 19, No. 3, 2001, pp. 270

<sup>238</sup> Flamholtz, pp. 270

be defining/determining the existing culture (or the statement of the core values that are designed to guide the development and functioning within the organization), and then describing the desired culture.<sup>239</sup> The importance of Framholtz's study is that he conducted his research during an actual cultural management process, so that he was able to observe the theory's implementations in practice. Others have also suggested that a corporate leader should consider its firm's current position in terms of culture, and define the desired cultural values, and behaviors expected from employees.<sup>240</sup> Therefore, it is essential to keep in mind that before attempting to alter a firm's culture, the roadmap should start with determining the existing culture and then defining the desired culture to understand the gap between the desired one and the existing one.

Recently, Graham et al. surveyed more than 1300 executives from North America, and accordingly, 92% of the executives stated that they believe that improving corporate culture would increase firm value, and 84% of them believe that their company needs to enhance its culture.<sup>241</sup>

An article published in 2018 argued that companies that can demonstrate their purpose financially perform well, mainly when corporate purposes are acknowledged and shared by mid-level employees.<sup>242</sup>

Glassdoor evaluated the financial performance of the companies included in Fortune's Best Companies to Work For list in 2015, and found that such companies outperformed other S&P 500 companies by 84.2% in terms of stock performance.<sup>243</sup> Further, the study of Glassdoor also found out after an examination of companies with the lowest employee ratings on Glassdoor

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<sup>239</sup> Flamholtz, pp. 270

<sup>240</sup> Hollister, R., Tecosky, K., Watkins, M., Wolpert, C., "Why Every Executive Should Be Focusing on Culture Change Now", accessed 29.11.2021, MIT Sloan Management Review, 10 August 2021, <<https://sloanreview.mit.edu/article/why-every-executive-should-be-focusing-on-culture-change-now/>>

<sup>241</sup> Graham, J.R., Grennan, J., Harvey, C.R., Rajgopal, S., "Corporate Culture: Evidence from the Field", Columbia Business School Research Paper No. 16-49, 28 January 2022, pp.1

<sup>242</sup> Gartenberg, C., Prat, A., Serafeim, G., "Corporate Purpose and Financial Performance", *Organization Science* 30(1), 2019, pp.14

<sup>243</sup> Chamberlain, A., "Does Company Culture Pay Off? Analyzing Stock Performance of "Best Places to Work" Companies", Glassdoor Research Report, March 2015, p.2

that those lowest rated companies significantly underperformed the market.<sup>244</sup> The study of Glassdoor concluded that there is a relationship between corporate culture and stock market performance, and engaged employees are potentially valuable for companies.<sup>245</sup>

Another study published in 2014 by Chatman et al. argued that the advantages of corporate culture depend on the strength and content of such culture, consensus on culture, contents of norms and values, and intensity of culture.<sup>246</sup> Furthermore, such a study found that companies that had achieved high level of consensus on culture financially performed better for a short term period (the study collected data from the respondent companies from 2009 to 2012, and the companies were operating in the information technologies industry).<sup>247</sup>

As can be seen, some of the above studies and literature focus on corporate values, norms, consensus, etc., and those are some of the reflections of corporate culture. For instance, Deal & Kennedy focused on informal rules that steer employees behaviors, Burt et al. argued about shared beliefs and practices that coordinate employees' actions and present informal control mechanisms, Denison found that "behavioral aspects of corporations are linked to performance", and Kottler and Heskett discussed the influence of culture on executives. Evaluating the relationship between cognitive side of culture and firm performance is of course important and beneficial. Nevertheless, corporate culture is a broader concept that needs to be evaluated from organizational and structural perspective. For instance, organizational structure of a firm determines its communication styles and relationship with its internal and external environment; hierarchical structures create walls within the firm, and between the firm and its external environment, and flatter structures can enable firms to better communicate with all stakeholders. Therefore, the relationship between performance and culture also needs to be examined from organizational and structural perspective, which can fill the gap in cultural studies.

One of the main arguments of this thesis is that hierarchical and closed organizational structures cause the creation of bureaucratic and procedure-oriented cultures. As will be seen

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<sup>244</sup> Chamberlain, pp.2

<sup>245</sup> Chamberlain, pp.18

<sup>246</sup> Chatman, J.A., Caldwell, D.F., O'Reilly, C.A., Doerr, B., "Parsing Organizational Culture: How The Norm For Adaptability Influences The Relationship Between Culture Consensus And Financial Performance In High-Technology Firms", *Journal of Organizational Behavior*, 35, 2014, pp.805

<sup>247</sup> Chatman et al., pp.805



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below, this is mainly the consequence of the traditional idea of corporate governance (i.e., shareholder primacy norm). However, open, flat and fluid cultures are beneficial not only for retaining talents and enhancing employee motivation and engagement, but also from a financial perspective. Under Section 7 “Governance, Culture and Innovation”, the relationship between corporate culture, innovation, and financial performance will be further demonstrated by examining the “World’s Most Innovative Companies”. As will be presented, the most innovative companies have strong corporate cultures, and outstanding financial performance.

Furthermore, many are either organized as platforms or benefit from other platforms. Platform governance will also be addressed below, but it should be noted here that such a model provides an open, inclusive, and flatter culture that significantly contributes to those companies' financial success and innovation outcomes. Hence, those companies and their culture can also be considered as pieces of evidence that corporate culture has the potential to significantly contribute to the financial success of companies, and this issue will be re-visited.

The below table contains information about the sample firms’ share price performance, market capitalization, and revenue. Those firms are presented as the ones that have strong cultures, and different approaches to corporate governance.

Company	Share Price (2011) \$	Share Price (2021) \$	% Change (share)	Revenue (2011) million \$	Revenue (2021) million \$	Market Capitalization (2011) \$	Market Capitalization (2021) \$
<b>Apple</b>	12,3	140,98	984,46%	108,249	365,817	377.51B	2.901 T
<b>Alphabet</b>	16,1	144,85	783,17%	37,905	257,637	417.60B	1.917 T
<b>Amazon</b>	8,6	166,3	1600,24%	48,077	469,822	78.71 B	1.691 T
<b>Cisco</b>	17,36	53,27	206,85%	43,218	49,818	97.19 B	179.67B
<b>Microsoft</b>	26,05	275,94	959,27%	69,943	168,088	218.38B	2.522 T
<b>Netflix</b>	27,49	558,21	1930,59%	3,205	29,698	3.63 B	267.46B
<b>Salesforce</b>	32,93	247,36	651,17%	1,657	26,492	13.79 B	162.44B

**Table 5: Financial Performance of Sample Corporations**

*Source: The financial information mentioned in above table are extracted from Macrotrends, Yahoo Finance and the firms’ websites*

As the table explicitly demonstrates, those companies have been financially performing exceptionally well. If a firm desires to perform well, create a strong culture and enhance its governance practices, there are many lessons to be taken from those mentioned companies.

As a short conclusion for this sub-chapter, companies with strong cultures can have enhanced employee engagement and motivation, which will subsequently lead to better performance and increased innovation output. Companies with stronger cultures can outperform their peers. Hence, it can be said that a better culture may lead to better financial performance. Nevertheless, what a better culture looked like when the economy was driven by large corporations and what a better culture looks like under today's tech and platform-driven economy also needs to be argued, which will be done below.

### 3.3. Corporate Culture and Leadership

Different perspectives of corporate culture have different approaches to the relationship between corporate culture and leadership. According to scholars who observe corporate culture through the traditional viewpoint, leadership is one of the most important sources of corporate culture. As stated by Schein, "the strength and depth of an organization's culture reflect the strength and clarity of the founder of the organization."<sup>248</sup>

However, this does not mean that the other perspectives neglect or ignore corporate leaders' impact on culture, it is just that the traditional perspective primarily focuses on leadership while examining a company's corporate culture.

Especially for start-ups, corporate culture is mostly a reflection of founders' own values, beliefs, and personalities.<sup>249</sup> A reason or catalyzer for this situation is that in start-ups, leaders can quickly assess all of the necessary information within their organization, supporting leaders in culture creation and daily management activities.

When a young company grows in time, the number of employees may increase significantly, and differentiation between departments/units might become evident. Accordingly, such

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<sup>248</sup> Schein, E., "The Corporate Culture Survival Guide", Jossey-Bass Press, 2009, pp. 217

<sup>249</sup> Schein, pp. 16

units may create their sub-cultures. The argument is that it would become quite compelling for top management to possess all the information and control and to manage all the distinctive units/departments, so companies decide to create multidivisional structures.<sup>250</sup>

Considering that corporate leaders hold the decision-making power, which enables them to shape the culture through establishing or changing the organizational structure, it is clear that leaders create culture. However, although they create culture, participation and adaptation from the lower levels are naturally important.

In corporations where distinctions between departments are evident, managers of each division are likely also to impact the sub-cultures of such divisions. Nevertheless, such impact on sub-cultures is limited. It is because managers or executives do not have the power to alter the organizational structure, and they can only act within the borders of the organizational structure designed by the leaders.

The creation of significantly distinctive sub-cultures due to the establishment of more complex corporate structures is not the only option or reality for companies anymore. It was a fact earlier; it was often the case that when a company grows in time, it becomes a hierarchical and closed organization. As will be presented below under section 5 “The Future of Corporate Governance and Corporate Culture”, companies today can (in fact, should) decide to keep their functional or flatter structure to maintain their agile and innovative characteristics. Especially platforms are organized as open and flat organizations at the beginning of their establishment, but becoming closed and hierarchical organizations in time might be detrimental for platforms. These issues will be re-visited.

When a company is formed, leaders will choose their first employees in accordance with their values, strategies, and visions; hence such a group of people will have common goals for survival and growth, but most importantly, they will have shared values and beliefs that founders implement.<sup>251</sup> Shared beliefs and values will hold a company together, and the company's identity will be established around shared beliefs, values, and assumptions.<sup>252</sup>

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<sup>250</sup> Hansen, M.T., Podolny, J.M., “How Apple Organized for Innovation”, Harvard Business Review, November-December 2020, pp.4

<sup>251</sup> Schein, pp. 123

<sup>252</sup> Schein, pp. 123

Nonetheless, since culture is twofold, it should be noted that each employee also contributes to the culture of a young company during the growth period (we chose the word “contribute”, because, as mentioned, the culture of a start-up will be the reflection of founders’ values and personalities; however, each individual can lend assistance for the creation or development of culture by performing the right actions that founders expect in accordance with the organizational structure and governance practices).

Leaders, especially in start-ups, act as arbitrators in case of internal conflicts by deciding on how to solve internal disputes and imposing sanctions where necessary; leaders act as experts since the new company is founded and established through their ideas, and they are the “masters” and the company will survive and eventually grow thanks to their ideas; leaders coordinate and lead employees; leaders are the symbols, since visions and ideals of the company are embodied on their personal existence- in other words- leaders present coefficient examples for other employees.<sup>253</sup> Most importantly, values and beliefs of leaders become values of the company and its employees. It has been suggested that when a visionary leader’s visions are accepted and followed by employees and the leader guides the daily operations, such a “vision-based leadership can have positive effects on organizational performance”.<sup>254</sup> Furthermore, scholars also widely suggested that performance and effectiveness increase when employees trust their leaders.<sup>255</sup>

However, some of the functions mentioned here (e.g., judiciary role of the leaders or mastership) are neither limited nor quite strict in every company. Many start-ups today try to establish an open communication environment and best idea wins culture. Hence, for the companies which established the best idea wins culture, mastership might be shared by an extensive group of people, or at least everyone in the new company can freely assert their ideas on certain matters. However, this also depends on how the founders initially build their company.

During the growth period, a leader needs to be an example to employees by giving them correct messages. Giving messages here means that a leader must be aware that his actions

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<sup>253</sup> Hermlin, B., “Leadership and Corporate Culture, The Handbook of Organizational Economics”, Princeton University Press, 2013, pp. 437

<sup>254</sup> Jing, F.F., Avery, G.C., “Where Have The Mediating Variables In Leadership-Performance Research Gone?”, Journal of Business & Economics Research, Volume 6, Number 10, 2008, pp.74

<sup>255</sup> Jing, Avery, pp. 77

and reactions to certain matters/situations will create a basis for his employees' common understanding of how to act and how not to act. It is because actions mean a lot more than speeches. Messages that a leader will provide to his employees by his actions/reactions must be consistent and clear; if such messages are mixed and misleading, this will create confusion, and culture will not survive; in a start-up, personal behaviors of a leader is the most important determinant of corporate culture.<sup>256</sup> Establishing a strong and unfluctuating culture is a vitally important contribution that leaders can make to their companies, and creating, understanding, and developing culture is one of the primary duties of a CEO or top management, which should not be fully delegated to other units.<sup>257</sup>

The story of Netflix is presented above under Section 3.1. However, it is again worth mentioning Netflix's founder-CEO Reed Hastings' remarks regarding leadership herein. According to Hastings, the number one goal of a leader is to develop a work environment particularly comprised of "stunning colleagues" who will accomplish a remarkable amount of significant work and who are creative and will provide a high-level of performance; underperformers or pessimists will bring down the performance of the others as well.<sup>258</sup> When a founder employs her first employees, she should act with the idea that higher talent density will lead her company to survival and success. Nonetheless, vital for mature organizations to create and maintain a work environment that consists of top talents. However, as mentioned above, success is not about individuals; it depends on the governance structure and organization. One of the main arguments of this thesis is that strict hierarchies and bureaucratic cultures risk erasing the talents' potential and blocking innovation. Therefore, governance structure and organization should be suitable for most talented employees to entail their true potential.

Brian Chesky, the founder-CEO of Airbnb, and Alfred Lin,, who is the former Chief Culture Officer of Zappos, attended a lecture at Stanford University, which was uploaded to YouTube.<sup>259</sup> In the video, Chesky talks about some of the core values of Airbnb and the importance of culture for business success. In line with the above explanations, Chesky argues

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<sup>256</sup> Schein, pp. 130

<sup>257</sup> Dawson, C., "Leading Culture Change", Stanford Business Books, 2010, pp.3-4

<sup>258</sup> Hastings, Meyer, pp. 90

<sup>259</sup> Chesky, B., Lin, A., Lecture 10 – Culture, accessed 29.11.2021, <<https://www.youtube.com/watch?v=RfWgVWGEuGE&t=873s>>

that the founders of a firm are culture creators and maintainers. Chesky states that founders can be seen as parents and a start-up as their child, and the start-up will manifest the behaviors of the founders, as is the case for a family. This metaphor is important because it reflects the reality that a firm's initial culture is created by its founders through their behaviors, actions, and reactions.

Chesky further talks about how they employed their first employees. He states that it took hundreds of interviews to employ their first engineer because they were trying to find a person who would fit the desired culture. He believed that the first employee would affect the subsequent thousands of employees. This assertion is completely correct because employing the very first employees can be seen as putting the first bricks to build a wall. If the first bricks are unstable or broken, it will be compelling to putting up a solid wall, and the same can be said for a start-up that desires to survive and grow. Chesky also states, similarly to Reed Hastings, that hiring and firing should be based on core values; companies should hire people by evaluating whether they would fit in the culture and possess the core values and ideas. According to Chesky, "culture is simply a shared way of doing something with a passion."<sup>260</sup>

More than 2000 reviews are done regarding Airbnb by its current and former employees on Glassdoor, and its overall rating is 4.4/5, its culture & values rating is 4.4/5, and the CEO approval rate is 93%.<sup>261</sup> Reviews on Glassdoor indicate that Airbnb has a strong culture, and its CEO is highly approved and admired by his employees.

When we look at the financials and shareholder letters of Airbnb; it has more than \$13 billion in total assets, around 6000 employees, and more than 4 million global hosts as business partners.<sup>262</sup> Considering that Airbnb was founded 14 years ago and spent the first few years trying to be survived, the financial success of Airbnb is highly admirable. Hence, it can be said that its founder-CEO has created a successful company in terms of financials as well as corporate culture. However, as will be examined in several chapters of this thesis, Airbnb, as a digital platform, has a flat structure and inclusive culture, which are the most important

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<sup>260</sup> Osmer, N., "Want To Create A Great Culture? Your Operating Principles Hold The Key", accessed on 29.11.2021, Forbes, 20 April 2020, <<https://www.forbes.com/sites/forbesagencycouncil/2020/04/20/want-to-create-a-great-culture-your-operating-principles-hold-the-key/>>

<sup>261</sup> Glassdoor, Airbnb Reviews, accessed 29.11.2021, <<https://www.glassdoor.com/Reviews/Airbnb-Reviews-E391850.htm>>

<sup>262</sup> Airbnb, "Shareholder Letter Q3 2021", accessed 03.12.2021, pp.18-25, <<https://investors.airbnb.com/home/default.aspx>>

contributors to its success. Hence, again, the matter is strictly about organizational structure and governance practices.

Above mentioned leaders, Chesky and Hastings, are presented as culture creators. Nevertheless, there are some corporate leaders who can be considered culture changers. Establishing a culture of a young company is relatively easier than changing corporate culture of a mature and complex corporation. When corporate leaders decide to change an existing culture, one of the most significant problems they may face is resistance to change.

The main reason employees resist change is that the new behavior or implementation to be learned and internalized requires unlearning previous habits, and employees may be unable to or unwilling to unlearn.<sup>263</sup> Nevertheless, corporate leaders may use some strategies to overcome resistance. First of all, executives should understand the true nature of resistance, and instead of mandating a change, leaders can get employees to participate in the change.<sup>264</sup> If the company subject to culture change has a hierarchal structure, senior management should be involved in the change in culture process and understand what will be changed before communicating with lower levels.<sup>265</sup>

Including employees in the cultural transformation process requires a high level of open communication and exchange of ideas. There is not much difference between mandating a change or informing employees beforehand about the nature of change. Such communication should be bilateral; corporate leaders should gather feedback and ideas from all employees. It must be considered that employees are the ones who face and live in corporate culture during the ordinary course of business. Hence, the success of culture change depends on employees' attitudes regarding the new culture.

Satya Nadella, CEO of Microsoft, is a pretty good example of a culture changer leader. His accomplishments and the new culture of Microsoft are addressed in Chapter 2, and will be further discussed under Section 5. However, Microsoft and its leader Nadella should also be mentioned here since this chapter is about leaders. The first thing Nadella did at Microsoft

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<sup>263</sup> Shein, pp.105

<sup>264</sup> Lawrance, P.R., "How to Deal With Resistance to Change", Harvard Business Review, January 1969, accessed 29.11.2021, <<https://hbr.org/1969/01/how-to-deal-with-resistance-to-change>>

<sup>265</sup> Kogan, V., "Three Tips For Managing Resistance To Change", accessed 29.11.2021, Forbes, 15 June 2020, <<https://www.forbes.com/sites/forbescoachescouncil/2020/06/15/three-tips-for-managing-resistance-to-change>>

after his appointment as the new CEO in 2014 was to request top executives to study effective communication and collaboration by using compassion and understanding instead of competition and ruling.<sup>266</sup>

Nadella defined three ways for culture change; curiosity and meeting customers' needs by effectively communicating with them, increasing diversity and inclusion by including a wide range of opinions and perspectives through open communication, and establishing an environment where everyone can work together.<sup>267</sup> Nadella stated in his book that the most crucial point regarding culture change was individual empowerment; culture should not be seen as the CEO's thing but should belong to each employee.<sup>268</sup>

It is also essential to discuss a leader's strategy to change a culture or a company's mindset. As argued above, the process of changing a firm's culture should start with evaluating the existing culture and determining the desired culture. Once the gap between the desired one and the existing one is identified, a strategy for changing the culture can be drawn up. An essential point regarding changing a firm's culture is creating new missions, values, or strategies.<sup>269</sup> Naturally, creating new missions, values, or strategies is the duty of a leader. What is even more important is to incorporate all employees into the cultural change process; from top to down and bottom to up, employees from all layers should actively participate.<sup>270</sup> However, it is clear that such a large scaled participation requires a highly transparent and bilateral communication. Otherwise, a sudden and unexpected implementations might create confusions and a detrimental situation; resisting to change. It can be said that Nadella successfully managed changing the culture of Microsoft by involving employees into the process and providing them with "passion and excitement".<sup>271</sup>

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<sup>266</sup> Wadhwa, V., Amla, I., Salkever, A., "How Microsoft Made the Stunning Transformation from Evil Empire to Cool Kid", accessed 25.12.2021, Fortune, 21 December 2021, <<https://fortune.com/2021/12/21/microsoft-cultural-transformation-book-excerpt-satya-nadella/>>

<sup>267</sup> Nadella,

<sup>268</sup> Nadella,

<sup>269</sup> Heskett, J.L., Kotter, J.P., "Win from Within : Build Organizational Culture for Competitive Advantage", Columbia University Press, 2022, pp. 160

<sup>270</sup> Heskett, Kotter, pp. 156

<sup>271</sup> Heskett, Kotter, pp. 160



## What is the Significance of Corporate Culture?

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Employees' opinion regarding their leaders is critical. Under sub-section 3.2. , the first three companies from Fortune's "100 Best Companies to Work For" list of 2021 are presented as examples of corporations that have strong corporate cultures. Employee reviews on Glassdoor are further checked to test the survey results. Employee reviews on Glassdoor provide strong evidence for the relationship between strong corporate cultures and leadership. For instance, %93 of the employees of Cisco (which is the 1<sup>st</sup> company on the list) stated that they approve their CEO, %97 of the employees of Salesforce (which is the 2<sup>nd</sup> on the list) approve their CEO, approval rate of the CEO is %92 for Hilton (which is the 3<sup>rd</sup> company on the list). These companies were chosen as good examples of strong corporate cultures due to their position on Fortune's 100 Best Companies to Work For list, and positive reviews on Glassdoor. The high approval rate of CEOs for these five companies and their top position on the list can be seen as evidence of the positive relationship between leadership and culture.

At this point, the idea is that when employees approve and admire their CEO, the perception of employees regarding the corporate culture of their companies evolves positively, and vice versa; in cases where a company has a strong culture, its CEO is more likely to be approved by employees. Thus, a positive relationship exists between CEO approval, strong corporate culture, and employees' viewpoints regarding their companies' corporate culture.

CEO approval rates and corporate culture ratings on Glassdoor for all companies in the 100 Best Companies to Work For list have been checked to test this. Glassdoor anonymously collects CEO approval rating data through review surveys from current or previous employees.<sup>272</sup> Former or current employees can rate their CEO as approved, disapproved or provide no opinion, and Glassdoor calculates the rating as follows; approval rating is the ratio of approval votes to total votes.<sup>273</sup> Culture points of companies are calculated through employee ratings on a five-point scale.

The survey data regarding CEO approval rates and culture points for 100 companies -which compose Fortune's "100 Best Companies to Work For" list for 2021- are extracted from Glassdoor and evaluated. According to the data, the average approval rate for 100 CEOs is 90%. There are only 11 companies whose CEO's approval rate is below %80 (the lowest is Wellstar Health System's CEO with 68% approval rate), and 66 CEOs are approved by more

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<sup>272</sup> Chamberlain, A., Huang, R., "What Makes a Great CEO?", Glassdoor Research Report, Glassdoor, August 2016, pp.4

<sup>273</sup> Chamberlain, Huang, pp.4

than 90% of their employees. Furthermore, the average culture rate of such 100 companies on Glassdoor is calculated as 4,14/5. When we look closer at the data, it provides some indications. For instance, the average culture point of those 11 companies -whose CEO approval rates are below 80%- is 3,69, which is quite below the average culture point (4,14) of 100 companies. Furthermore, the average culture point of the companies whose CEOs' approval ratings are higher than 90% is 4,27, which is higher than the average. These numbers show that when perceptions of employees regarding culture are more positive, their tendency to approve their CEO is higher, and vice versa.

There are six companies whose CEOs are approved by 99% of their employees on Glassdoor. These companies are Camden Property Trust (culture point on Glassdoor is 4,8 and its place on Fortune's list is 8), NVIDIA Corporation (culture point on Glassdoor is 4,6 and its place on Fortune's list is 12), Veterans United Home Loans (culture point on Glassdoor is 4,8 and its place on Fortune's list is 33), Allianz Life Insurance (culture point on Glassdoor is 4,3 and its place on Fortune's list is 52), Ryan Inc. (culture point on Glassdoor is 4,7 and its place on Fortune's list is 66), and Alston & Bird (culture point on Glassdoor is 4,8 and its place on Fortune's list is 97). At this point, one might think why these six companies -whose CEOs' approval rates are the highest and have quite good culture points- are not on the top of Fortune's "100 Best Companies to Work For". The answer is simple; Fortune's list is based on a survey conducted in 2021 (in which the impact of COVID 19 pandemic was enormous and responses of the companies to such crisis were quite determinative, further, Great Place to Work also particularly focused on how the companies were fair and caring during the time of crisis), but the ratings on Glassdoor are gathered within a long period of time and are not renewed each year. Furthermore, the methodologies of both surveys are different. Nevertheless, the data from Glassdoor shows that the companies in Fortune's "100 Best Companies to Work For" list for 2021 have a quite high CEO approval rates and high average culture scores.

CEO approval rates and overall ratings of the lowest rated seventeen companies on Glassdoor were also checked to have a better picture regarding CEO approval and corporate culture, and, in fact, these seventeen companies are shown as the worst companies to work for.<sup>274</sup> The CEO approval rate of those companies ranges from 11% to 78%, and the average approval rate is 44%. For twelve companies, the CEO approval rate is below 50%. Further, the overall rating of

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<sup>274</sup> Louis, S., "These are the 17 Worst Companies to Work for in America", accessed 26.12.2021, Yahoo Finance, 20 December 2020, <<https://finance.yahoo.com/news/17-worst-companies-america-170000191.html>>

## What is the Significance of Corporate Culture?

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those seventeen companies ranges between 2,2/5 to 3,6/5, and the average rate is calculated as 2,87/5. Accordingly, the CEO approval rates of these seventeen companies with the lowest ratings on Glassdoor are pretty low. This situation also supports the idea that corporate culture and leadership are directly proportional, and when employees approve and admire their CEO, the perception of employees regarding corporate culture of their companies evolves positively.

As a short conclusion, the above-mentioned simple information is in favor of the assertion that there is a positive relationship between approved and admired leadership and strong corporate cultures (the 100 companies in the list are considered to have strong cultures as per the survey results of Great Place to Work). Almost every company today claims that it has a strong or well-designed corporate culture, or its leadership practices favor its employees. Nevertheless, this claim comes true when it is affirmed by employees who get affected, live in, and deal with corporate culture and leadership practices daily. Therefore, it is highly advisable for companies to evaluate their employees' opinions regarding their culture and leadership to find out whether implementations of corporate leaders make sense among employees where things are considered more concrete and seen differently. However, this does not mean conducting surveys or yearly performance reviews. This is more about creating an environment where employees' can participate in governance by providing their active feedback and opinions. As mentioned, corporate leaders are culture creators and changers. However, a leader should be aware that his actions and reactions will be more influential than his mere speeches. Also, to achieve a successful culture change, a leader should listen to his employees; this is especially vital for mature organizations. Further, hiring and firing should be seen as a key to creating and maintaining a homogeneous culture within an organization, and hiring and firing should be based on culture.

# Chapter 4

## **Corporate Governance**



## 4. Corporate Governance

To develop a framework of corporate culture and governance, chapter 2 and 3 provided a synthesis of the literature on culture and firm performance, and analyzed several sample firms. In this section, first, the foundation and traditional approach to corporate governance (shareholder primacy norm), and a relatively new approach to the concept (stakeholder theory) will be presented and compared. Furthermore, sustainability reporting and a new idea regarding audit of those will be discussed.

Both theories of corporate governance have advocates in academia and the business world. In fact, the current debate about corporate governance nowadays circles around the comparison of these two theories. After presenting the two theories, a possible solution to today's corporate world will also be suggested: achieving a balance between shareholder primacy and stakeholders' interest. Hence, the main goal of this section is not to give weight to one of the theories but to provide a balanced solution.

Section 4.1. will briefly review the existing literature and traditional idea of corporate governance. The foundation and evolution of the concept of corporate governance will be shortly reviewed, and the main actors of corporate governance will be mentioned. Section 4.2. will firstly examine the concept of stakeholderism, and then the famous debate on corporate governance; shareholder primacy vs. stakeholderism will be addressed.

Corporate social responsibility (CSR) and Environment, Social, and Governance (ESG) have gained significant importance, and "the new firm" should be seen as the firm that substantially embraces sustainability. It can be said that ESG and CSR are deeply connected to stakeholderism; therefore, those concepts will be addressed within the scope of sub-section 4.2. Another matter is that sustainability reporting has become quite popular, and many jurisdictions now mandate certain firms to disclose information in relation to sustainability matters, and many firms from various jurisdictions voluntarily publish sustainability reports. The basic reason is that there is a strong stakeholder demand in relation to enhanced sustainability activities; people would like to see more responsible companies and business forms. However, the issue regarding non-financial reporting is about who should audit such reports. In practice, we see that accounting firms attempt to conduct independent audits over non-financial reports, which might not be the correct option. Accordingly, 4.2.4 will provide a new idea regarding the audit of non-financial reports, especially in relation to who should

audit such reports. Although the famous debate of shareholder primacy vs. stakeholderism might not be seen as a topic that is in the spotlight anymore (it is because there have been so many academic articles published about such a debate for a long time), the debate still somehow continues. Therefore, our possible solution to the debate, which is about finding a balance between the interests of all stakeholders, will be briefly provided.

### 4.1. The Foundation of Corporate Governance and Shareholder Primacy Norm

There are several approaches to the traditional meaning of corporate governance. OECD defines corporate governance as “a set of relations between a company’s shareholders, board of directors, managers, and all other stakeholders”.<sup>275</sup> Governance institution of Australia uses the following definition of corporate governance “the system by which an organization is controlled and operates, and the mechanisms by which it, and its people, are held to account.”<sup>276</sup>

Chartered Governance Institution of UK & Ireland defines it as the way in which companies are governed and to what purpose.<sup>277</sup> For lawyers, corporate governance traditionally means a company's internal structures and set of processes that assure the people responsible for managing a company act in the best interest of the company's owners.<sup>278</sup> The foundation of corporate governance will be addressed below. Following that, the main actors of corporate governance will be mentioned; the board, shareholders, employees, gatekeepers, and supervisory and regulatory bodies.

The foundation of corporate governance is about, so-called, agent-principal problem (agency theory); a conflict between shareholders and directors that has been a challenge since the

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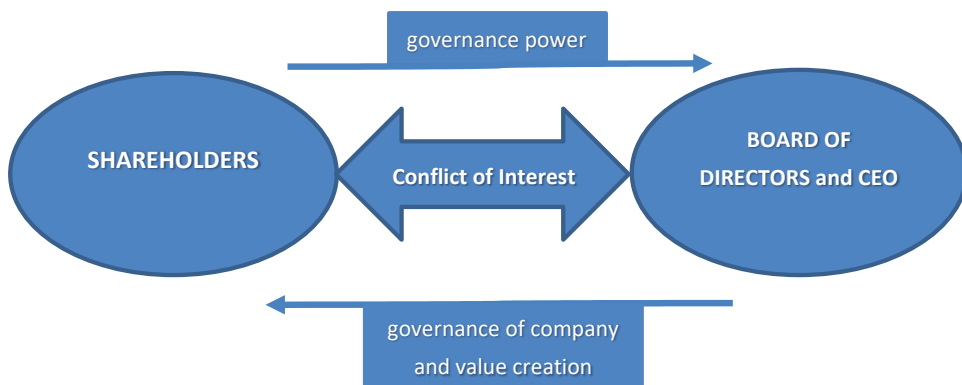
<sup>275</sup> OECD, “G20/OECD Principles of Corporate Governance”, OECD Publishing, Paris, 2015, pp.9

<sup>276</sup> Governance Institute of Australia, “What is Governance?”, accessed 08.11.2021, <<https://www.governanceinstitute.com.au/resources/what-is-governance/>>

<sup>277</sup> Chartered Governance Institution of UK & Ireland, “What is Corporate Governance?”, accessed 08.11.2021, <<https://www.cgi.org.uk/about-us/policy/what-is-corporate-governance>>

<sup>278</sup> MacLeod, S. , Elias, J. , Parkinson, J. E., Dine, J., , Griffin, S.M. , Villiers, C. , Birkenshaw, P. , Campbell, C. , Foster, N. , and Sakkas, Y., “Global Governance and the Quest for Justice - Volume II : Corporate Governance”, Bloomsbury Publishing Plc, 2006, pp.2

foundation of modern corporations.<sup>279</sup> Owners of a company, i.e., shareholders, often do not govern the company. Instead, a management team who is educated in managing companies undertakes the governance. Shareholders of a company elect directors, and directors have a fiduciary duty to act in the best interest of shareholders.<sup>280</sup> However, directors might act in their own interest instead of protecting the interests of shareholders, also, since directors govern a company, they are more likely to possess more information than shareholders; this is defined as information asymmetry.<sup>281</sup> Hence, the agent-principal problem arises due to the risk of not acting in the best interests of shareholders by directors, and due to information asymmetry.<sup>282</sup> The below figure demonstrates the agent-principal problem:



**Figure 2: Conflict Interests Between Shareholders and Management**

Source: Adapted from Corporate Finance Institute;

<https://corporatefinanceinstitute.com/resources/knowledge/other/principal-agent-problem/>

However, the agency theory is not the only theory of corporate governance. The stewardship theory argues that it is necessary to create management structure and authority in order to enable companies to react and act quickly to market opportunities since people can be trusted,

<sup>279</sup> Fleckner, A. M., Hopt, K. J., "Comparative Corporate Governance A Functional and International Analysis", Cambridge University Press, 2013, pp.7

<sup>280</sup> Kluyver, C.A., "A Primer on Corporate Governance", Second Edition, Business Expert Press, 2013, pp.4

<sup>281</sup> Corporate Finance Institute, "Principal-Agent Problem: The Conflict of Interest between the Agent and the Principal", accessed 08.11.2021, <<https://corporatefinanceinstitute.com/resources/knowledge/other/principal-agent-problem/>>

<sup>282</sup> Kluyver, pp.5



that they will act in the interests of shareholders, as well as the general public interests.<sup>283</sup> On the other hand, the market theory advocates that it does not matter whether managers consider themselves agents or stewards due to shareholders may sell their shares if the managers do not work on generating sufficient returns for shareholders' investments.<sup>284</sup> As per the traditional corporate governance idea, "control and power flow downwards from shareholders through the board of directors to managers and to employees, and responsibility and accountability flow upwards".<sup>285</sup>

The main goal of such a governance structure is to protect the interests of shareholders, and it is clear from the purpose and definition of traditional corporate governance that this model provides a closed and centralized authority, and the hierarchy within a company is clearly defined.<sup>286</sup> The central aim of traditional corporate governance is to ensure that everyone in a company act as if they are the investors, therefore it can be said that the impact of "shareholder primacy norm" is enormous on the development and evolution of traditional corporate governance.<sup>287</sup> From this perspective, a company's financial performance is measured by its share price.<sup>288</sup>

The below figure demonstrates the structure of traditional corporate governance;

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<sup>283</sup> Calder, A., "Corporate Governance : a Practical Guide to the Legal Frameworks and International Codes of Practice", Kogan Page, 2008, pp.10

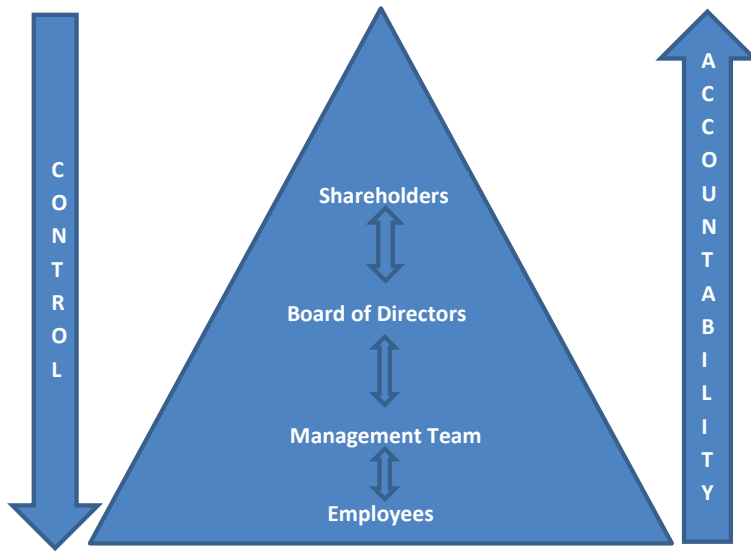
<sup>284</sup> Calder, pp.11

<sup>285</sup> McCahery, J.A., Vermeulen, E.P.M., Fenwick, M., "The End of "Corporate" Governance (Hello "Platform" Governance)", Law Working Paper N° 430/2018, ECGI, 2018, pp.9

<sup>286</sup> McCahery, Vermeulen, Fenwick, pp.9

<sup>287</sup> Weinstein, O., "Understanding The Roots Of Shareholder Primacy: The Meaning Of Agency Theory, And The Conditions Of Its Contagion", The Oxford Handbook of the Corporation, Oxford : Oxford University Press ,February 2019, DOI: 10.1093/oxfordhb/9780198737063.013.8

<sup>288</sup> Stout, L. A., "The Toxic Side Effects Of Shareholder Primacy", University of Pennsylvania Law Review, 161(7), June 2003, pp.2004



**Figure 3: Traditional Corporate Governance**

Source: McCahery, J.A., Vermeulen, E.P.M., Fenwick, M., "The End of "Corporate" Governance (Hello "Platform" Governance)", *Law Working Paper* N° 430/2018, ECGI, 2018

It has been argued that the roots of shareholder primacy norm stem from the idea that shareholders are owners of a company; due to they possess property rights, their ownership rights are absolute.<sup>289</sup> Within the scope of civil law (as per Romano-Germanic legal systems), property rights grant to the owner(s) of a "thing" to use (in Latin "usus"), to get benefit from its fruits (in Latin "fructus"), and to alienate/dispose (in Latin "abusus") of the thing.<sup>290</sup> However, this approach to shareholder primacy norm is heavily criticized due to there are significant differences between classic property rights and ownership rights regarding shares; such as ownership of shares does not give shareholders to directly and freely dispose assets of a company, shareholders also cannot directly govern a company (they do it indirectly through board of directors and executives by electing them and granting decision making power to them, but the source of decision making powers of executives is statutory to a significant extent and therefore executives are not absolutely "controlled" by shareholders), a company has

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<sup>289</sup> Fisch, J.E., "Measuring Efficiency in Corporate Law: The Role of Shareholder Primacy", *The Journal of Corporation Law*, Springer, 2006, pp.649

<sup>290</sup> Oguzman, M. K., Barlas, N., *Civil Law*, 17th Edition, Vedat Publishing, Istanbul 2011, pp.139

several legal and contractual obligations to other stakeholders such as creditors, managers, and employees which limit rights of shareholders to a certain extent.<sup>291</sup>

Ownership rights of shareholders are limited or differ from traditional property rights due to the practice of corporate laws, basic characteristics of a company such as legal personality – being a separate legal entity, and due to general legal rule that provisions of special laws take precedence of the provisions of general laws. First of all, having a legal personality is one of the most important distinctive features of corporations. Due to its legal personality, a corporation forms a separate legal entity that has the legal capacity to have rights and obligations, i.e., purchase and sale of assets in its name, sue or be sued, employ people, enter into contracts with third parties, etc., and a corporation executes its juridical capacity through its bodies. From this perspective, shareholders of a company cannot freely dispose of assets of the company due to such assets are legally under the possession of the company with a separate legal personality. Similarly, a shareholder cannot incur a debt in the name of the company, a company can become indebted by decisions of the body that has the power of representation. Hence, the right of “abusus” is limited, however, of course shareholders can sell or transfer their shares to another persons, and a company can be acquired by another one. Nevertheless, even such acquisition transaction could be prevented by competition law due to anti-competition rules, or transfer of some sort of shares could be limited by contracts or law (for example, restricted stocks), or internal regulations or contractual obligations of a company may obstruct such share transfers. Thus, it is not quite possible to talk about the absolute right of “abusus” in terms of stock ownership.

The right of “fructus” is also not a fully absolute right when it comes to shareholders’ ownership rights. Fructus means fruit in Latin. Simply, under Roman Law, fructus meant that the owner of a tree is entitled to possess the fruits of the tree.<sup>292</sup> Within the scope of corporate law, dividend payments can be considered as one of the “fructus”. If a company makes profits, it distributes such profit to its shareholders (after all other claimants’ payments are made) as a benefit of share ownership. However, dividend payments can be limited, postponed, or restricted by law (for example, due to COVID 19 crisis, a provisional article was added to the Turkish Code of Commerce, which prohibited companies from distributing at least 75%

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<sup>291</sup> Fisch, pp.649-650

<sup>292</sup> Justinian, “Institutes”, (translated by J.B. Moyle, Oxford, 1911), accessed 09.11.2021, pp.21, <<https://amesfoundation.law.harvard.edu/digital/CJCiv/Inst.pdf>>

percent of the net profit for the year of 2019), or regulatory and supervisory bodies may officially recommend to companies to not to make dividend payments (for example, on 23 July 2021 European Central Bank recommended to credit institutions to not to make any dividend payments at least until 1 October, due to COVID 19 pandemic<sup>293</sup>), or companies' itself may be abstained from making dividend payments under some circumstances (e.g., board decides to keep the profits for company's operations or investments, if both internal regulations and law's itself allowed so). Several more pieces of evidence and examples can be presented to defend the idea that the ownership rights of shareholders are not entirely equal to traditional property rights. Nevertheless, at the end of the day, these do not change the reality that shareholders are economic, legal, and moral owners of a company, and traditional corporate governance circles around the primacy of shareholders.<sup>294</sup> Shareholders exercise their ownership power on a few occasions; during general assemblies of shareholders as voting on several major matters such as electing members of the board of directors or approving a merger or liquidation, or in cases where companies' constitution is going to be changed. Further explanations regarding shareholders as well as protective devices for shareholders' interests are provided below.

As is the case for all areas of Law, corporate governance has been developed through experience. Corporate scandals, as well as financial crises, have led to the enactment of various corporate governance regulations or alterations in approaches to corporate governance. The main idea was that good corporate governance could be used to reduce managerial misbehavior, and accordingly, shareholder value would be maximized.<sup>295</sup> Managerial misbehavior could be any action taken by boards, executives, and managers which would negatively affect shareholder value in any terms; such as "an action that increases the

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<sup>293</sup> European Central Bank, "Recommendation of the European Central Bank of 23 July 2021", Repealing Recommendation, ECB/2020/62, (ECB/2021/31), accessed 09.11.2021, <[https://www.bankingsupervision.europa.eu/ecb/pub/pdf/EN\\_SSM\\_2021\\_31\\_f\\_sign~74fb552000..pdf](https://www.bankingsupervision.europa.eu/ecb/pub/pdf/EN_SSM_2021_31_f_sign~74fb552000..pdf)>

<sup>294</sup> McCahery, Vermeulen, Fenwick, pp.3

<sup>295</sup> McCahery, Vermeulen, Fenwick, p.10, *see also*; Baker, H.K., Edelman, R.B., Powell, G.E., "The Effect of Announcements of Corporate Misconduct and Insider Trading on Shareholder Returns", *Business & Professional Ethics Journal*, Vol 18, No 1, 1999, *see also*; Bainbridge, S.M., "In Defense Of The Shareholder Wealth Maximization Norm: A Reply To Professor Green", *Washington and Lee Law Review*, Vol 50, Issue 4, 1993

contractible profit signal that the directors' bonus is based on, but is still not in the shareholders' interest".<sup>296</sup>

When it comes to corporate scandals that caused important changes and developments in corporate governance, Enron, Tyco, and WorldCom's Scandals are some of the most used examples, which led to the enactment of the Sarbanes-Oxley Act of 2002 in the U.S..<sup>297</sup>

Enron was an energy, commodities, and service company that was founded through a merger between Houston Natural Gas and InterNorth in 1985, which became one of the world's largest energy companies; "by the end of 2001 Enron held %25 of all of the world's energy trading contracts".<sup>298</sup> Enron was promoted as the most innovative company on the U.S. by Fortune magazine, and it was the 7<sup>th</sup> company in Fortune's 500 list with more than \$ 100 billion in annual revenue.<sup>299</sup> However, Enron filed for bankruptcy in 2001, which was the largest bankruptcy in the financial history at that time.<sup>300</sup> The events that have led to Enron's bankruptcy can be summarized as follows. In the late 1990s, Enron changed its structure and became a highly leveraged hedge fund dealer, and no one was alarmed because hedge funds had very little disclosure requirements at that time.<sup>301</sup> The Financial Accounting Standards Board had some rules that enabled Enron to become a hedge fund without major disclosures; direct disclosures about special purposed entities on financial statements were not required, if those entities were organized in a certain way (Enron had many of them, and used those special purposed entities to transfer its problematic transactions/assets, so that its financials were seemed better than as it was), and future earnings that will originate from already entered contracts could be presented in the financial statements which enabled Enron to create

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<sup>296</sup> Siegert, C., "Bonuses and Managerial Misbehavior", *European Economic Review*, 68, 2014, pp.93

<sup>297</sup> MacLeod, S. , Elias, J. , Parkinson, J. E., Dine, J., , Griffin, S.M. , Villiers, C. , Birkenshaw, P. , Campbell, C. , Foster, N. , and Sakkas, Y.," *Global Governance and the Quest for Justice - Volume II : Corporate Governance*", Bloomsbury Publishing Plc, 2006, pp.47

<sup>298</sup> Jennings, M., M., "A Primer on Enron: Lessons From A Perfect Storm Of Financial Reporting, Corporate Governance And Ethical Culture Failures", *California Western Law Review*, Vol 39, N 2, Spring 2003, pp.168-169

<sup>299</sup> Jennings, pp.169

<sup>300</sup> Chediak, M., Farrell, G., Malik, N.S., "Enron's Cast of Characters: Where They Are 20 Years After the Fall", accessed 09.11.2021, Bloomberg, 02 December 2021, <<https://www.bloomberg.com/news/articles/2021-12-02/enron-scandal-executives-20-years-later-where-are-they-now>>

<sup>301</sup> Jennings, pp.173

a bright financial picture.<sup>302</sup> However, when the financial statements were questioned, and the company announced massive losses, the U.S. Securities and Exchange Commission started an investigation and eventually the accounting frauds were revealed which ended up with Enron's announcement of bankruptcy.<sup>303</sup> Some of the main consequences of Enron's scandal can be summarized as strengthening shareholder rights, enactment of new accounting regulations, and enhancing the surveillance over board of directors.<sup>304</sup>

Tyco International Ltd was a producer of electronic components known for its CEO's and some other c level executives' frauds that caused \$600 million of loss to the company in 2002.<sup>305</sup> However, according to an executive, Tyco's case differed slightly from Enron's because Tyco had a good business outlook and operations, and the company seemed like a profitable manufacturer.<sup>306</sup> Tyco's CEO and some other executives were using the company's money for their account, limiting the scope of internal audits, and altering the disclosure documents to be reported to the SEC.<sup>307</sup> When their "greedy" actions were revealed, the CEO and CFO were sentenced up to 25 years in prison for defalcating the company's funds; however, the company continued to operate and did not declare bankruptcy as Enron.<sup>308</sup>

The last example is WorldCom whose case was another accounting scandal.<sup>309</sup> WorldCom overstated its earnings and committed frauds in terms of disclosure documentation such as

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<sup>302</sup> Jennings, pp.175

<sup>303</sup> Bondarenko, P., "Enron Scandal, the United States History", accessed 09.11.2021, Britannica, <<https://www.britannica.com/event/Enron-scandal>>

<sup>304</sup> See, McCahery, J.A., Armour, J., "After Enron: Improving Corporate Law and Modernising Securities Regulation in Europe and the US", Amsterdam Center for Law & Economics Working Paper No. 2006-07, June 2006

<sup>305</sup> Sorkin, A.R., "Two Top Tyco Executives Charged With \$600 Million Fraud Scheme", accessed 09.11.2021, the New York Times, 13 September 2002, <<https://www.nytimes.com/2002/09/13/business/2-top-tyco-executives-charged-with-600-million-fraud-scheme.html>>

<sup>306</sup> Pillmore, E.M., "How We're Fixing Up Tyco", accessed 09.11.2021, Harvard Business Review, December 2003, < <https://hbr.org/2003/12/how-were-fixing-up-tyco>>

<sup>307</sup> Sorkin,

<sup>308</sup> NBC News, "Ex-Tyco Executives Get Up to 25 Years in Prison", accessed 09.11.2021, NBC, 19 September 2005, <<https://www.nbcnews.com/id/wbna9399803>>

<sup>309</sup> Giroux, G., "What Went Wrong? Accounting Fraud and Lessons from the Recent Scandals", Social Research, Vol. 75, Issue 4, 2008, pp.1226

income statements, balance sheets, and 10K annual fillings; WorldCom's scandal was classified as the biggest accounting scandal in the U.S. history.<sup>310</sup> The misstated amount was determined as nearly \$4 billion and later rose to \$11 billion.<sup>311</sup> Eventually, the CEO was sentenced to 25 years, and CFO for 5 years in prison.<sup>312</sup>

The main consequence of Enron and WorldCom's scandals for corporate governance was the enactment of the Sarbanes-Oxley Act of 2002. Such scandals significantly damaged shareholders and the economy, and were seen as examples of how executives can harm shareholders' interests by focusing on their unethical interests. As these scandals occurred as accounting frauds, Sarbanes-Oxley Act was enacted to improve public disclosures and auditing.<sup>313</sup> The Sarbanes-Oxley Act is aimed to prevent executives from intervening independent financial audits, ensuring the accuracy of financial statements, extending disclosure requirements (such as off-balance sheet transactions), encouraging whistleblowing and protecting whistleblowers, enhancing auditing standards, and making CEOs and CFOs directly responsible for the correctness and submission of the disclosure documentation.<sup>314</sup> However, the Sarbanes-Oxley Act was criticized for causing heavy bureaucratic form fillings and preventing executives from taking entrepreneurial risks.<sup>315</sup> The Sarbanes-Oxley Act changed corporate governance significantly; after the enactment of the Act, companies would either comply with it or face with financial sanctions as well as criminal charges for their executives.<sup>316</sup>

After the financial crisis of 2007-2008, another act was enacted in the U.S. in relation to corporate governance; the Dodd Frank Act of 2010; however, this act was mainly focused on

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<sup>310</sup> International Banker, "The WorldCom Scandal (2002)", 29 September 2021, accessed 09.11.2021, <<https://internationalbanker.com/history-of-financial-crises/the-worldcom-scandal-2002/>>

<sup>311</sup> Giroux, pp.1226

<sup>312</sup> International Banker,

<sup>313</sup> Cornell Law School, "Sarbanes-Oxley Act", accessed 09.11.2021, <[https://www.law.cornell.edu/wex/sarbanes-oxley\\_act](https://www.law.cornell.edu/wex/sarbanes-oxley_act)>

<sup>314</sup> Cornell Law School,

<sup>315</sup> Constable, S., "How the Enron Scandal Changed American Business Forever", accessed 09.11.2021, Times, 2 December 2021, <<https://time.com/6125253/enron-scandal-changed-american-business-forever/>>

<sup>316</sup> Calder, pp.15

the financial services sector due to banks' and other financial service providers actions (such as creating highly risky investment tools) was seen as one of the main reasons for the crisis.<sup>317</sup> Other than provisions in relation to the banking and financial service industry, Dodd-Frank Act strengthened the Sarbanes Oxley Act by entitling whistleblowers to 10% to 30% of the proceeds from successful litigation settlements and extending the statute of limitations for an employee to submit a claim against his employer.<sup>318</sup> Also, hedge funds became required to be registered with the SEC and disclose their transactions and portfolios.<sup>319</sup> After the enactment of the act, the SEC enacted some rules, such as it required from companies to disclose information regarding whether they have decided to split or combine the roles of CEO and chairman, the SEC also adopted rules regarding shareholder advisory votes for executive compensation, and decided that small companies (whose market cap is between \$75 - \$250 million) will not be required independent audit report regarding internal controls over financial reporting.<sup>320</sup> Hence, the Dodd-Frank Act granted the SEC with authority for enhancing shareholder engagement.<sup>321</sup>

### *4.1.1. The Main Actors of Corporate Governance*

Above, the foundation and basic issues regarding traditional corporate governance and some events that have led to the development of corporate governance are mentioned. After this point, the key parties of corporate governance, and their roles, positions, and duties will be addressed: the board of directors, shareholders, employees, gatekeepers, and supervisory and regulatory bodies. It should be noted that all explanations and concepts mentioned herein are made within the scope of shareholder primacy norm; the concept of stakeholder-centric corporate governance will be examined after this chapter.

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<sup>317</sup> Kluyver, C.A., "A Primer on Corporate Governance", Second Edition, Business Expert Press, 2013, pp.85

<sup>318</sup> Smith, K.A., "How The Dodd-Frank Act Protects Your Money", accessed 09.11.2021, Forbes, 20 July 2020, <<https://www.forbes.com/advisor/investing/dodd-frank-act/>>

<sup>319</sup> Smith,

<sup>320</sup> Kluyver, pp.86

<sup>321</sup> White, M.J., "Remarks at the 10th Annual Transatlantic Corporate Governance Dialogue", accessed 09.11.2021, U.S. Securities and Exchange Commission, 03 December 2013, <<https://www.sec.gov/news/speech/2013-spch110313mjw>>



### *4.1.1.1. Board of Directors*

When it comes to the main actors of corporate governance, the first thing coming to mind is the board of directors, which could be formed as a one-tier or two-tier institution.<sup>322</sup> Members of a one-tier board are appointed by the general meeting of shareholders, and if a company has a two-tier board structure (which comprises of a “supervisory board” whose members again elected by shareholders, and a “management board”), members of the second board are generally elected by the supervisory board.<sup>323</sup> However, it should be noted that the responsibilities and authorities of supervisory boards and management boards are distinctive.

In the Netherlands, Germany, Austria, Portugal, Poland, and China having a two-tier board structure is a requirement, while the predominant structure is one-tier in the United States, Switzerland, and the United Kingdom.<sup>324</sup> In this chapter, board of directors and supervisory board will be collectively referred as “the board”, where relevant.

For the companies that have a two-tier structure, either because of applicable law or voluntarily, the supervisory board elects the management board, and the supervisory board oversees and advises the latter. On the other hand, a management board is responsible for the administration of a company, i.e., it manages the daily operations of such a company. Therefore, a management board’s meetings take place more often, while a supervisory board’s meetings could be held just a few times per year. The supervisory board not only elects the management board but also decides about the management’s compensations, approves some sort of decisions of the management board, and evaluates its performance. The powers of the supervisory board over the management board could be different depending on internal regulations or jurisdiction. However, most of the time, the management board has the representation power against third parties.

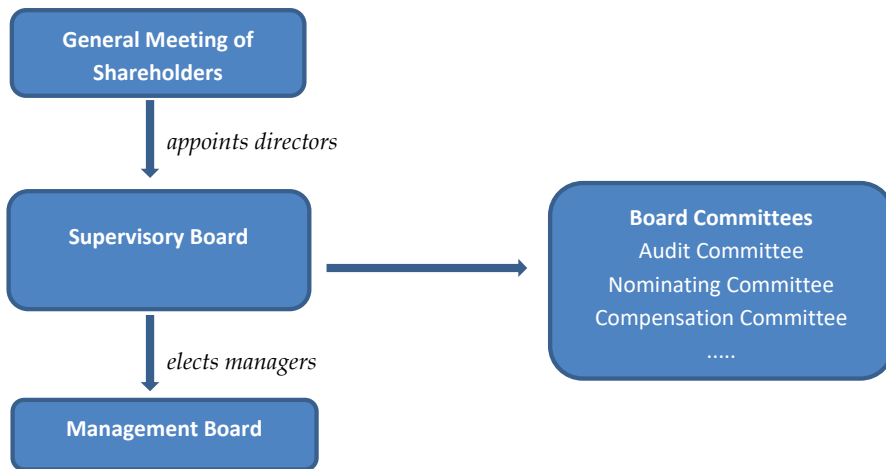
The below figure demonstrates the structure of two-tier boards;

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<sup>322</sup> Fleckner, A. M., Hopt, K. J., “Comparative Corporate Governance A Functional and International Analysis”, Cambridge University Press, 2013, pp.28-29

<sup>323</sup> Netherlands Chamber of Commerce (KVK) , “One-Tier or Two-Tier Board as a Governance Model”, accessed 09.11.2021, <<https://business.gov.nl/running-your-business/business-management/governance/one-tier-or-two-tier-board-as-a-governance-model/>>

<sup>324</sup> Fleckner, Hopt, pp.30-31



**Figure 4 : Structure of two-tier board**

Source: Adopted from “Aluchna, M., Two-Tier Board ; [https://doi.org/10.1007/978-3-642-28036-8\\_297](https://doi.org/10.1007/978-3-642-28036-8_297)”

The main responsibility of the one-tier board of directors or supervisory board in a two-tier structure is to oversee managers and operations of the company with the main purpose of protecting and maximizing shareholder value (since they are elected by shareholders).<sup>325</sup> Usually, the board does not participate in the daily operations of the company, and the board does not directly interfere with management’s daily tasks. Instead, the board is more of an advisory and supervisory body for management’s daily operations. Tasks and functions of the board could be various depending on the size of the company, business practice, the sector that the company operates in, or jurisdiction, however, generally, the board is responsible for discussing corporate strategy and business plan, electing CEO and managers, deciding on dividend and compensation policy, reviewing risk policy and annual plans, overseeing the performance of the company, resolving conflicts among internal stakeholders, monitoring capital expenditures, and ensuring the effectiveness of both internal and independent audits.<sup>326</sup> According to OECD’s Principles of Corporate Governance, “board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders; where board decisions may affect different

<sup>325</sup> Aluchna, M., “Board of Directors, in: Idowu S.O., Capaldi N., Zu L., Gupta A.D. (eds) Encyclopedia of Corporate Social Responsibility”, accessed 09.11.2021, Springer, Berlin, Heidelberg, 2013, <[https://doi.org/10.1007/978-3-642-28036-8\\_180](https://doi.org/10.1007/978-3-642-28036-8_180)>

<sup>326</sup> Aluchna,

shareholder groups differently, the board should treat all shareholders fairly; and, the board should apply high ethical standards, it should take into account the interests of stakeholders.”<sup>327</sup>

Recently in 2020, American Bar Association published the seventh edition of its Corporate Director’s Guidebook. In this book, the legal obligations of the members of the board are expressed as the duty of care, the duty of loyalty, the duty of disclosure, and duty of confidentiality.<sup>328</sup>

- *Duty of Care*: The duty of care of a director reflects that a director should be properly prepared for board meetings and regularly participate in board meetings so that he/she can be informed and conscientious in the decision-making processes and oversee management’s actions, and take necessary actions to receive all the relevant information.
- *Duty of Loyalty*: The duty of loyalty mandates a director to act in good faith, meaning that he/she should act with the belief that his/her actions are for the benefit of the company. For instance, if the director sees a business opportunity that could be beneficial for the company, even if such an opportunity might weigh against his personal gains, he should bring forward such an idea to the board. Director should abstain from any sort of actions that could be advantageous for himself but could harm the company economically, so he should not put himself in a situation that could create a conflict of interests between him and the company.
- *Duty of Disclosure*: Director is obliged to disclose any relevant information that he possesses to shareholders.
- *Duty of Confidentiality*: Any confidential information that is not disclosed publicly (or must be disclosed due to laws), should be kept confidential by directors. The duty of confidentiality can also be seen as a part of duties of loyalty and care.

The board establishes committees to undertake some of its duties, and the type and functions of committees may be varied depending on the size of the company, jurisdiction, sector,

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<sup>327</sup> OECD, “Principles of Corporate Governance”, OECD Publications Service, Paris, 2004, pp.24

<sup>328</sup> American Bar Association, “Corporate Laws Committee, Corporate Director’s Guidebook-Seventh Edition”, Business Lawyer, Fall 2020, Vol. 75 Issue 4, pp.2741-2838

operational risks, and internal regulations of the company. The most common committees could be demonstrated as the audit committee, remuneration committee, nomination committee, compliance committee, competition committee, and risk management committee. Under some jurisdictions, having a specific sort of committee is mandatory. For instance, European listed companies should have an audit committee as per Article 41 of European Directive 2006/43 EC, which was enacted on 17 May 2006. In general, the audit committee undertakes the evaluation of financial reports of the company as well as monitors the internal auditing process, the remuneration committee examines and counsels about compensations of the chief executive officer and other managers, nomination committee deals with the evaluation of persons who could be nominated as a new board member, competition committee is responsible for company's compliance with competition rules.

Under many jurisdictions, the size and composition of the board is determined by commercial law or corporate law, or capital market law. Local laws determine how many directors (minimum and maximum seat numbers) will be appointed and how long a director will serve. Laws also regulate matters in relation to independent directors, which are important actors of corporate governance. Independent director can be defined as a board member who has not have any direct or indirect relation with the company, its subsidiaries, its directors or shareholders. For instance, an independent director could be a person who has never worked at that company or who has never (or for the last 5-7 years) held a significant share of it or has not any relation with any of shareholders or directors. The importance of independent directors has a close relationship with the shareholder primacy norm; the idea is that a person who has no direct or indirect financial interests in the company may better serve the interests of shareholders since the likelihood of having a conflict of interest between an independent director and shareholders are quite low. Especially after corporate scandals, regulators enacted several legislations to ensure that independent directors are present on the boards to provide more accountable, reliable, and effective governance. For instance, as per the listing rules of the New York Stock Exchange, "majority of board members of the listed must be independent, and audit committees, compensation committees, and nomination committees must be entirely comprised of independent directors."<sup>329</sup> However, the efficiency of having independent director(s) in the board in terms of financial performance is not something that is

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<sup>329</sup> U.S. Securities and Exchange Commission, "NYSE Rule Making, Release No. 34-47672, File No. SR-NYSE-2002-33", 11 April 2003, accessed 09.11.2021, < <https://www.sec.gov/rules/sro/34-47672.htm>>

empirically proven.<sup>330</sup> Also, there are some concrete examples that having independent directors was not enough to prevent corporate scandals. For instance, Enron's board was mainly comprised of qualified independent directors, and those independent directors found out the scandal when it was present in the financial press, due to such independent directors had not had the necessary information and know-how to prevent such scandal.<sup>331</sup> As stated, having independent directors in the board as well as in the board committees are mandatory or recommended under several jurisdictions. Nevertheless, another issue arises when we consider the responsibility of independent directors; whether they have the necessary knowledge to function as a controlling body in terms of, for instance, auditing. Such an independent director who is a member of the audit committee should have the necessary knowledge regarding financial auditing. Laws and regulations require having such independent directors on the boards and committees, but laws also should foresee the framework standards for the necessary background or knowledge of independent directors.

### ***4.1.1.2. Shareholders***

As explained above, shareholders are economic, moral and legal owners of company but their ownership power is limited by comparison with the powers arising from traditional property rights. Shareholders can be classified as minority shareholders who do not have controlling power over the company because they hold relatively small numbers of shares, thus lesser voting rights, and controlling shareholders who hold a significant number of shares therefore can have more voting rights in general meetings of shareholders. Shareholders can also be classified as per their share types; most of the shares come with voting rights, such as common shares, while some sort of shares does not give their holder voting rights, such as preferred shares. Therefore, preferred shareholders cannot participate in decision-making processes because they do not possess voting rights.

Considering that some shareholders have more decision-making power than others, it can be said that there is a likelihood of having a conflict of interest between minority shareholders and controlling shareholders. An important goal of corporate governance is to protect the rights of minority shareholders in case of such a conflict of interests because their financial

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<sup>330</sup> Fleckner, Hopt, pp.39

<sup>331</sup> Fleckner, Hopt, pp.52

interests could be harmed due to the decisions of controlling shareholders. According to OECD's Principles for Corporate Governance, one of the most important ways to protect the interests of minority shareholders is to establish effective national legal standards that can ensure the board's duty of loyalty to all shareholders, and national corporate governance frameworks should ensure equitable treatment of all shareholders including minor ones.<sup>332</sup> However, it has been suggested that independent directors and the general duty of loyalty of the board is not sufficient, it is because most of the time, the board, including independent directors, is appointed by controlling shareholders; therefore, sufficient protection for minority shareholders cannot be fully achieved.<sup>333</sup> Granting minority shareholders with a preemptive right which entitles them to purchase the shares to be issued before offering those shares to the public, determining high majority thresholds for significant shareholder decisions or using cumulative voting instead of straight voting for elections of the board's members could protect the rights of minority shareholders.<sup>334</sup> Additionally, an enhanced protection way for minority shareholders could be giving them veto rights in relation to certain transactions.<sup>335</sup>

There are several devices to protect the rights of shareholders as well as minor shareholders. Annual reports, prospectus disclosure, ad hoc disclosure of share price-related occasions and reports regarding corporate governance could be shown as devices that are aimed to ensure that shareholders receive the necessary information about their company so that they can better evaluate the board and its performance and can make better decisions. Through annual reports, companies inform their shareholder as well as other stakeholders regarding the operations, activities, and financial performance of the company for a year. Annual reports generally start with a letter of the chairman or the CEO to shareholders and other stakeholders and include overall information about the company, audit reports, financial reports, accounting information, projections for future activities, plans, strategies, and information in relation to corporate governance matters. The format and information that must be disclosed through annual reports are regulated by law. Further, quarterly un-audited financial

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<sup>332</sup> OECD, "Principles of Corporate Governance", OECD Publishing, Paris, 2015, pp.18

<sup>333</sup> Fried, J. M., Kamar, E., Yafeh, Y., "The Effect of Minority Veto Rights on Controller Pay Tunneling", ECGI, Law Working Paper N° 385/2018, April 2020, pp.3

<sup>334</sup> OECD, pp.27

<sup>335</sup> Fried et al., pp.3

statements of listed companies are also disclosed, and quarterly reports are also mandatory under several jurisdictions. Recently, non-financial reporting or sustainability reporting has gained importance due to the rise of Stakeholderism; however, this sort of reporting will be mentioned below. The prospectus is also a disclosure document that aims to inform potential investors about security, for instance, before an initial public offering takes place. The format and information to be disclosed on a prospectus are also regulated by law; for instance, European Union Regulation 2017/1129 regulates prospectus to be published when offering securities to the public or admitting to trading on a regulated market.<sup>336</sup> If any situation or changes in financials has the potential to strongly impact share prices, business activities, or the financial situation of a company, such information should be disclosed, and this is defined as ad hoc disclosure. All of these disclosure mechanisms are designated to protect the interests of shareholders by providing them with the necessary information in a timely manner.

Institutional shareholders are another group with a significant place in investor groups. Institutional shareholders are formed as legal entities that are aimed to pool funds to invest in securities, and mutual funds, hedge funds, private equity firms, sovereign wealth funds, closed-end investment companies, pension funds, credit unions and insurers can be shown as examples of institutional shareholders.<sup>337</sup> The importance of institutional shareholders for corporate governance stems from their incremental ownership share in listed companies. For instance, according to OECD, institutional investors held 41% of the shares of the 10.000 largest listed companies in the world in 2017, whose market capitalization is equal to 90% of the total global market capitalization of all (41.000) listed companies.<sup>338</sup> Consequently, it can be said that institutional shareholders' voting capacity is relatively high; therefore, their influence on companies could be pretty significant. Nevertheless, conventionally, institutional shareholders focused on short-term investment strategies and did not actively participate in voting at general assemblies of shareholders<sup>339</sup>; they sold their shares when companies were

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<sup>336</sup> "Regulation (EU) 2017/1129 of the European Parliament and of the Council 14 June 2017, Official Journal of the European Union", 30 June 2017, pp.1

<sup>337</sup> Celik, S., Isaksson, M., "Institutional Investors and Ownership Engagement", OECD Journal: Financial MarketTrends, Volume 2013/2, OECD, 2014, pp.96

<sup>338</sup> De La Cruz, A., Medina, A., Tang, Y., "Owners of the World's Listed Companies", OECD Capital Market Series, Paris, 2019, pp.5

<sup>339</sup> Van der Elst, C., "Shareholder Engagement and Shareholder Voting Modes: Two of a Different Kind", Law Working Paper N° 435/2019, ECGI, January 2019, pp.3

not satisfactory to them or when they saw a profit opportunity in the short term.<sup>340</sup> However, this trend has been changing with the help of the enactment of new regulations. For instance, The UK Corporate Governance Code Principle 3 states “Institutional shareholders have a responsibility to make considered use of their votes, institutional shareholders should take steps to ensure their voting intentions are being translated into practice.”<sup>341</sup> On the other hand, the voting behavior of hedge funds is different, so-called “activist hedge funds” had a significant impact on some companies.<sup>342</sup> Activist hedge funds challenge management teams by making direct interventions in corporate governance by speaking out against business strategies and governance related matters.<sup>343</sup> By doing so, hedge funds caused several mergers and corporate restructurings, dividend recapitalizations, and changes in management teams and boards.<sup>344</sup>

### 4.1.1.3. *Employees*

Employees, thus the labor force, are the building blocks of companies. From blue-collar workers to white-collar employees, they undertake basic daily operations and create value day by day. There is a lot to talk about employees’ roles in relation to operations and success of companies as well as their functions in relation to business economics. However, since the subject matter here is about corporate governance, employees’ participation in governance will be the central theme of this sub-chapter. On the other hand, there is a significant relationship between a company’s governance, corporate culture, and employee performance. This issue is addressed under the sub-chapter titled “Corporate Culture and Employees: Engagement, Motivation and Employee Performance”.

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<sup>340</sup> See; Lakonishok, J., Shleifer, A., Vishny, R.W., “The Impact of Institutional Trading on Stock Prices”, *Journal of Financial Economics*, Vol 32, 1992, *see also*; Borges, E., Martelanc, R., “The Institutional Investor Impact on Stock Prices”, *Review of Business Management*, Vol 21(2), 2019

<sup>341</sup> “The UK Corporate Governance Code, Financial Reporting Council”, London, June 2010, pp.37

<sup>342</sup> Fleckner, Hopt, pp.73

<sup>343</sup> Vermeulen, E.P.M., Fenwick, M., Skultetyova, I., Bajulaiye, O., “Digital Transformation in the Hedge Fund and Private Equity Industry”, ECGI, Law Working Paper N° 504/2020, March 2020, pp.12

<sup>344</sup> Vermeulen et al., pp.12



One aspect of employees' participation in corporate governance is labor codetermination. In some countries, it is mandatory to have labor representatives on the board. Germany takes the lead in relation to labor codetermination; German law mandates representation of labor and shareholders on the board at parity.<sup>345</sup> Codetermination Act 1976 (in German "Mitbestimmungsgesetz") regulates that all companies with more than 2000 employees should have an equal number of board members from labor and shareholder' behalf in the board, also, 1952 Works Constitution Act of Germany mandates the companies with 500 to 1999 employees to reserve one third of seats of the board to employee representatives.<sup>346</sup> However, codetermination comes with larger board rooms, for instance, under German law, companies with more than 2000 employees are required to have twelve, sixteen or twenty seats sized boards.<sup>347</sup>

One of the arguments against codetermination rules from the point of shareholders could be that such strict codetermination rules can significantly reduce the decision-making power of shareholders who count themselves as the owners of companies. On the other hand, employee codetermination can be seen as very favorable and useful within the scope of stakeholder centric approaches to corporate governance. Additionally, companies can benefit from employee codetermination by achieving mutual understanding and enhanced collaboration between employees and shareholders. Furthermore, it has been argued that having employee representatives on the board may bring more control over management, since such representatives would want to prevent some activities of management that can be risky for the company, thus the labor, or intervene in decisions regarding excessive compensations.<sup>348</sup> However, employee codetermination has not prevented corporate scandals.<sup>349</sup>

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<sup>345</sup> Jager, S., Schoefer, B., Heining J., "Labor in the Boardroom", Working Paper Series, Vol. 26519, 2019, pp.5

<sup>346</sup> Eurofound, "700 Companies Covered by 1976 Co-determination Act", accessed 14.11.2021, <<https://www.eurofound.europa.eu/publications/article/1998/700-companies-covered-by-1976-co-determination-act>>

<sup>347</sup> Deloitte, "The German Supervisory Board: A Practical Introduction for US Public Company Directors", Deloitte, 2021, pp.5

<sup>348</sup> Fleckner, Hopt, pp.78

<sup>349</sup> The New York Times, "Germany Rethinks Board Structure After Corruption Scandals", 05 April 2007, accessed 14.11.2021, <<https://www.nytimes.com/2007/04/05/business/worldbusiness/05iht-board.4.5163074.html>>

Another aspect of employees' participation in corporate governance could be employee stock options. Employee share ownership has been seen as a way to increase commitment and motivation of labor, increase productivity, and reduce tensions between some stakeholders.<sup>350</sup> Employee stock options which are components of compensation packages, can be defined as rights granted to employees to purchase a certain number of shares at a pre-determined price over a certain period of time.<sup>351</sup> Nevertheless, employee share ownership would make sense regarding employees' participation in corporate governance, if the shares granted to employees are not restricted in terms of voting rights. Otherwise, the benefit of employee stock options would be that an employee may sell his shares to make a profit if the share price is higher in comparison with the pre-determined price at the end of the time period. On the other hand, if a company's share price is lower than the pre-determined price on the specified date, and the financial performance of the company is quite poor, an employee with the stock option may face two risks; financial loss regarding his investment in stock and chance of losing his job.

#### **4.1.1.4. Gatekeepers**

Gatekeepers are the experts, such as lawyers, auditors, accountants, investment bankers, credit rating agencies, that are responsible for reviewing corporate transactions and evaluating whether disclosures of companies are accurate, and determining any wrongdoings by monitoring or controlling the transactions.<sup>352</sup> For instance, when auditors make an audit of annual financial statements, they either certify the accuracy of the information and its compliance with generally accepted accounting principles or refuse to certify if they determine any wrongdoings or incompliance; this is a basic gatekeeping activity. Another example could be that an investment banker may refuse to underwrite a company's securities, if it determines any deficiency in disclosures, or a corporate lawyer may not provide a positive opinion regarding a merger after his due diligence regarding the target company, if he sees any unlawful issues. Especially when a transaction's closing depends on audits or legal opinion,

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<sup>350</sup> European Commission, "The EU Corporate Governance Framework Green Paper", European Commission, Brussels, 05 April 2011, pp.17

<sup>351</sup> CNN Money, "Employee Stock Options", 24 March 2017, accessed 15.11.2021, <<https://money.cnn.com/pf/money-essentials-employee-stock-options/index.html>>

<sup>352</sup> Tuch, A., "Multiple Gatekeepers", Virginia Law Review, Vol 96(7), 2010, pp.1589

the gatekeeping role of accountants and lawyers is inevitable. Hence, the function of gatekeepers is to prevent any event, transaction, or situation that could be detrimental to the company, thus for shareholders and all stakeholders. Gatekeepers' activities are aimed at enhancing market transparency by reducing information asymmetries and minimizing the cost of capital; a decrease in reliable information can increase the cost of capital, it is because if new investors are not convinced that they are receiving accurate information, the market may not raise money from such new investors.<sup>353</sup> The role of supervisory and regulatory bodies will be mentioned in below, however their activities can also be seen as external gatekeeping activities. For instance, the US Securities and Exchange Commission defines its mission as "protecting investors by vigorously enforcing the federal securities laws to hold wrongdoers accountable and deter future misconduct, maintaining fair, orderly, and efficient markets by monitoring the activities of more than 28,000 entities in the securities industry, and facilitating capital formation."<sup>354</sup> Hence, among other duties and tasks of the SEC, it acts as a gatekeeper by collecting and checking corporate reports, conducting inspections, and monitoring the activities of companies. Sanctions are imposed on gatekeepers in cases of misconduct or negligence in order to ensure the accuracy of the information disclosed, and evaluations made. The main reason behind sanctions is to protect the interests of shareholders, prospective investors as well as all other stakeholders. However, liabilities of gatekeepers in relation to misconduct may be divergent for different types of gatekeepers; also, different jurisdictions have various approaches to the liability of gatekeepers. For instance, as per Section 323 of the German Commercial Code, a listed company can sue its auditor with a compensation claim of up to 4 million Euro<sup>355</sup>, but in the Netherlands there is no statutory compensation cap.<sup>356</sup>

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<sup>353</sup> Coffee Jr., J. C., *Gatekeepers, "The Professionals and Corporate Governance"*, Oxford University Press, 2006, pp.371

<sup>354</sup> U.S. Securities and Exchange Commission, *What We Do*, accessed 15.11.2021, <<https://www.sec.gov/about/what-we-do>>

<sup>355</sup> Oehm, M., "Unlimited Liability for Auditors in Germany?", accessed 15.11.2021, Baker McKenzie, 21 October 2020, <<https://globalitigationnews.bakermckenzie.com/2020/10/21/unlimited-liability-for-auditors-in-germany/>>

<sup>356</sup> Fleckner, Hopt, pp.81

### 4.1.1.5. Supervisory and Regulatory Bodies

Under several jurisdictions, enforcement of corporate governance regulations and supervision of corporations are undertaken by capital market authorities, such as Securities and Exchange Commission in the US, the Federal Financial Supervisory Authority (*in German: "Bundesanstalt für Finanzdienstleistungsaufsicht": BaFin*) in Germany, Capital Markets Board (*in Turkish: "Sermaye Piyasası Kurulu":SPK*) in Turkey, Financial Services Authority in the UK etc. Responsibilities and statutory powers of capital market authorities are various under different jurisdictions. However, such authorities are generally responsible for monitoring activities of corporations, regulating securities issuance, licensing and evaluating whether a company fulfills listing requirements, imposing sanctions, and supervising and enforcing corporate governance rules. As mentioned above, in order to protect investors and stakeholders supervisory bodies function as gatekeepers.

The most important relationship between corporate governance and capital market authorities is that such authorities may enact rules or issue guidelines regarding corporate governance which can have an impact on the governance of corporations. Deciding on listing requirements, monitoring insider trading arrangements, mandating disclosure and compliance rules, and protecting the interests of minority shareholders can be seen as capital market authorities' direct impacts on corporate governance.<sup>357</sup> However, it has been argued that the influence of capital market authorities on corporate governance could be less significant for developing countries because in such countries markets may be dominated by a few number of large corporations, there may be lack of institutional shareholders or low trading volumes and liquidity.<sup>358</sup>

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<sup>357</sup> Haque, F., Arun, T., Kirkpatrick, C., "Corporate Governance and Capital Markets: A Conceptual Framework", *Corporate Ownership and Control* 5 (2), 2008, pp.4

<sup>358</sup> Haque, et al, pp.2

## 4.2. Illustrious Debate on Corporate Governance: Shareholder Primacy vs Stakeholderism

The above section explained the foundation of traditional corporate governance, which is based on shareholder primacy norm. However, there has been a debate on corporate governance regarding whether the shareholder primacy norm is the sole option and whether the purpose of a company is solely to maximize its shareholders' value. Under this sub-chapter, the concept of stakeholder centric corporate governance, its implications, some of the related concepts such as corporate social responsibility, non-financial reporting as well as an idea for auditing of non-financial reports, and the debate that has been occupying the field of corporate governance will be addressed, and a possible solution to the debate will be provided.

### 4.2.1. Stakeholderism

Shareholder primacy norm has been criticized<sup>359</sup> due to it causes short term focus on share prices instead of long-term financial sustainability, causes augmentation in income inequality,<sup>360</sup> focuses only on shareholder wealth maximation but neglects value creation for the rest of stakeholders,<sup>361</sup> causes macroeconomic fluctuations, damages environment, and negatively contributes to climate change.<sup>362</sup> The list of critics can be extended, and each of them will be examined below. First of all, it is worth to explain the concept of stakeholders. Stakeholder is a framework notion which also contains shareholders, but together with shareholders it also includes employees, managers, suppliers, governments, society/communities, creditors, customers, and environment.<sup>363</sup> Stakeholders are directly or

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<sup>359</sup> Vermeulen, E.P.M., Fenwick, M., "New Models of Intelligent Investing for the Post-Crisis Economy", Working Paper N° 534/2020, ECGI, 2020, pp.3

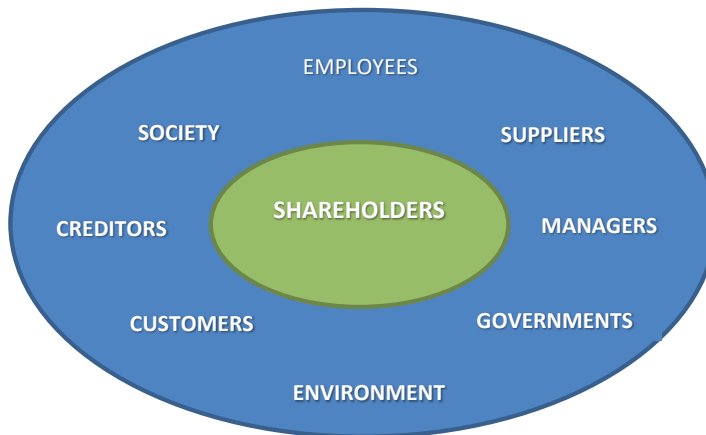
<sup>360</sup> Denis, D., "Corporate Governance and the Goal of the Firm: In Defense of Shareholder Wealth Maximation", The Financial Review 51, 2016, pp. 468

<sup>361</sup> Vermeulen, Fenwick, pp.3

<sup>362</sup> Enriques, L., Romano, A., "Rewiring Corporate Law for an Interconnected World", Law Working Paper N° 572/2021, ECGI, 2021, pp.6

<sup>363</sup> Licht, A. N., "Varieties of Shareholderism: Three Views of the Corporate Purpose Cathedral", Law Working Paper N 547/2020, ECGI, 2020, pp.1

indirectly get affected by a company's business activities. Below figure demonstrates the relationship between shareholders and stakeholders.



*Figure 5 : Stakeholders of a company*

From this perspective, stakeholders can be classified as internal stakeholders -which are employees, shareholders, and managers- and external stakeholders -which are customers, suppliers, creditors, communities, and the environment.

Basically, stakeholder theory redefines the purpose of a company as functioning as a tool to enrich the interests of all stakeholders instead of solely focusing on shareholder value maximization.<sup>364</sup> This definition focuses on the redistribution of values created by a company; a company should not only act to increase the financial benefits of its shareholders but should preserve the interests of all its stakeholders. By the interests of all stakeholders, it should be understood that a company should serve the financial interests of all stakeholders, increase the wellbeing of those, but also protect the environment- prevent any sort of environmental damages, decrease its carbon footprint- support communities and the entire society. However, the stakeholder model also implies the redistribution of decision-making power,<sup>365</sup> and in fact, such redistribution of decision-making power is indeed the redefinition of corporate governance. As shown above, traditional corporate governance, which bases on the

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<sup>364</sup> Smith, R., Ronnegard, D., "Shareholder Primacy, Corporate Social Responsibility, and the Role of Business Schools", *Journal of Business Ethics*, 134, 2016, pp.463

<sup>365</sup> Stieb, J.A., "Assessing Freeman's Stakeholder Theory", *Journal of Business Ethics*, 87, 2009, pp.405

shareholder primacy norm, imposes a vertical and highly hierarchical model for decision-making and governance power; control and power flow downwards from shareholders through the board of directors to managers and to employees.<sup>366</sup> However, stakeholder centric corporate governance might bring more flatter and less hierarchical governance systems to the corporate world, which could be better suited to today's rapidly evolving, tech-based or backed business life.

It is claimed that the stakeholder-centric corporate governance may solve many corporate problems as well as societal problems.<sup>367</sup> Academics suggested that companies that apply the stakeholder model may engage in more corporate social responsibility activities, they may become more innovative, have enhanced customer and employee relations, and lower risk.<sup>368</sup> Further, companies that adopt stakeholder centric strategy have better financial performance than their peers.<sup>369</sup> One might ask how a company would have better financial performance if it did not solely focus on its stock prices or shareholder wealth maximation but invested in more corporate social responsibility activities and increasing the wellbeing of all stakeholders. The answer could be that a company that applies stakeholder centric model can enhance its relationships with its employees as well as customers; hence better employee performance and better sales can be achieved, increased trust and enhanced collaboration between various stakeholders can consequently raise revenues, at the end of the day, a positive corporate image can provide more competitive advantage.

Business Roundtable, a US based association of chief executive officers, published an announcement on 19 August 2019, which was signed by 181 CEOs<sup>370</sup> (as per the website of Business Roundtable, "the member companies employ more than 20 million people, generate

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<sup>366</sup> McCahery, Vermeulen, Fenwick, pp.9

<sup>367</sup> Karpoff, J.M., "On a Stakeholder Model of Corporate Governance, European Corporate Governance Institute", Finance Working Paper No. 749/2021, pp.1

<sup>368</sup> Karpoff, pp.2

<sup>369</sup> Vermeulen, Fenwick, pp.3

<sup>370</sup> Business Roundtable, "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans'", accessed 17.11.2021, 19 August 2019, <<https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>>





documentations.<sup>376</sup> In short, it was claimed that Facebook had known its applications caused spread of the divisive content, some young users' mental health were damaged and the company have not had enough language experts to detect detrimental contents that are related to less developed countries.<sup>377</sup> However, this was not the first corporate scandal of Facebook, Mark Zuckerberg had to defend himself due to the accusations regarding Facebook's lack of precautions in relation to the spread of fake news that could have affected political elections and increased extremist expressions.<sup>378</sup>

Facebook's whistleblower "incident" was interpreted as another corporate scandal, and somehow showed that the statements did not match with the actions of the company. Further, -unfortunately- the revolutionary announcement of Business Roundtable did not cause much change in the corporate world. As indicated by Vermeulen and Fenwick; "empirical research (of Bebchuck and Tallarita) indicated that the companies associated to Business Roundtable have not amended their ways of working, and it appears that the financial model of the corporation as a shareholder-oriented organization remains hugely influential, leading most companies to continue to focus on shareholder value and short-term financial performance".<sup>379</sup> However, it is further argued that this situation does not necessarily mean that the "corporation" will remain the same as it has been. It should be considered that the concept of corporation is not solely comprised of executives and shareholders. A corporation is a huge and complex ecosystem comprised of employees, managers, customers, investors, and other related organizations/groups of people,<sup>380</sup> which would only make sense if all stakeholders collaborate, even though they have different motivations and goals. Neglecting the existence of any component of such an ecosystem would be misleading and detrimental.

During the COVID-19 crisis which has been having huge impacts on societies and economies, promising events for the rise of stakeholder capitalism has also occurred. Some example of the

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<sup>376</sup> Dang, S., "Facebook Whistleblower Says Transparency Needed to Fix Social Media Ills", Reuters, 4 December 2021, available online at: <https://www.reuters.com/technology/facebook-whistleblower-says-transparency-needed-fix-social-media-ills-2021-12-03/>, (accessed on 19.12.2021)

<sup>377</sup> Dang, S.,

<sup>378</sup> The Economist, "Why is Mark Zuckerberg Testifying in Congress?", 10 April 2018, accessed 19.12.2021, <<https://www.economist.com/the-economist-explains/2018/04/09/why-is-mark-zuckerberg-testifying-in-congress>>

<sup>379</sup> Vermeulen, Fenwick, pp.6

<sup>380</sup> Vermeulen, Fenwick, pp.9

impact of the crisis on economies could be that the US economy experienced a nearly %7 inflation rate in 2021, which was its highest point since 1982, and as per the White House, this was due to the pandemic.<sup>381</sup> Similarly, the average inflation rate within the European Union was nearly %5, which was a record inflation rate for the last 25 years.<sup>382</sup> However, during the crisis, companies took lots of initiatives to support their employees, customers and communities, for example; “top managers’ salaries are cut, dividend distributions are postponed, share buyback programs are delayed to retain customers and avoid layoffs.”<sup>383</sup> There were many more initiatives taken by companies that can be interpreted as stakeholder-centric actions. As was the case for Business Roundtable’s announcement and actions of its members, these initiatives do not necessarily mean a revolution in the corporate world. But, considering all of these developments (as well as the ones that will be mentioned below), it can be said that these efforts for a change in corporate world could be considered as parts of the evolution in corporate governance. At the end of the day, neither 181 CEOs from Business Roundtable nor the society or academia were expecting (or maybe willing to) that everything would be changed within a single day; evolution takes time.

Some other organizations cherished stakeholder capitalism during the COVID-19 crisis. For instance, in April 2020, World Economic Forum -an international non-governmental organization that has more than 1000 companies as members- published an announcement in which it was declared that they “will continue to embody stakeholder capitalism and the priority is to win the war against COVID-19”, and the following stakeholder principles are mentioned in the announcement: the first principle is to keep employees safe and support them in terms of adapting to the new working conditions; another principle is to secure the business continuity with suppliers and customers; regarding the end customers, the principle is to retain fair prices; for shareholders, the principle is to create sustained and long-term value; and for governments and societies, the principle is to provide full support through the know-

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<sup>381</sup> Aratani, L., The Guardian, “US Inflation Rate Rose to 6.8% In 2021, Its Highest Since 1982”, 10 December 2021, accessed 17.11.2021, <<https://www.theguardian.com/business/2021/dec/10/us-inflation-rate-rise-2021-highest-increase-since-1982>>

<sup>382</sup> Amaro, S., “Euro Zone Inflation Rate Hits a Record 4.9% for November”, accessed 17.11.2021, CNBC, 30 November 2021, <<https://www.cnbc.com/2021/11/30/inflation-euro-zone-november-2021.html>>

<sup>383</sup> Vermeulen, Fenwick, pp.8

how, resources and capabilities that the companies have.<sup>384</sup> Furthermore, before this announcement, World Economic Forum published another announcement in January 2020, in which it was stated that the next annual meeting would center upon creating shareholder capitalism by scrutinizing income inequality that causes societal divisions, climate change and political polarization.<sup>385</sup> Even before, in December 2019, World Economic Forum's Founder and Executive Chairman Klaus Schwab stated that the purpose of a company is not solely to serve its shareholders but creating value for all stakeholders.<sup>386</sup> World Economic Forum also published a report regarding stakeholder capitalism that includes key themes for sustainable corporate governance. One of the themes is governing purpose; as quoted from the British Academy "the purpose of business is to solve the problems of people and planet profitably, and not profit from causing problems", this theme indicates that the purpose of a corporation is to create value for all stakeholders, including shareholders.<sup>387</sup> Another theme is the quality of governing body; the composition and function of the governing body shall be aligned with long-term value creation, and members of the governing body shall have the necessary background and abilities to create long-term success in economic, social, and environmental matters since members of the governing body have decision making and supervision power.<sup>388</sup> The stakeholder engagement theme addresses the key needs of stakeholders and especially the impact of corporations' activities on stakeholders, and ethical behavior is defined as another theme that indicates that a corporation shall act in compliance with regulations as well as generally accepted ethical norms.<sup>389</sup> Finally, risk management is presented as another

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<sup>384</sup> Schwab, K., Moynihan, B., Sijbesma, F., Snabe, J., "Stakeholder Principles in the COVID Era", World Economic Forum, April 2020, pp.1

<sup>385</sup> World Economic Forum, "Stakeholder Capitalism: A Manifesto for a Cohesive and Sustainable World", 14 January 2020, accessed 18.11.2021, <<https://www.weforum.org/press/2020/01/stakeholder-capitalism-a-manifesto-for-a-cohesive-and-sustainable-world/>>

<sup>386</sup> Schwab, K., "Davos Manifesto 2020: The Universal Purpose of a Company in the Fourth Industrial Revolution", accessed 18.11.2021, World Economic Forum, 02 December 2019, <<https://www.weforum.org/agenda/2019/12/davos-manifesto-2020-the-universal-purpose-of-a-company-in-the-fourth-industrial-revolution/>>

<sup>387</sup> World Economic Forum, "Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation", World Economic Forum White Paper, September 2020, pp.21-22

<sup>388</sup> World Economic Forum, pp.21-22

<sup>389</sup> World Economic Forum, pp.21-22

important theme for sustainable corporate governance; the governance body shall effectively recognize and manage strategic risks and opportunities.<sup>390</sup>

All of the approaches, reports, white papers, and announcements of World Economic Forum can be interpreted as considerable contributions to the concept of stakeholder capitalism. Nevertheless, again, these initiatives would only make sense if the actions and operations of corporations were undertaken in accordance with the announcements.

The following sub-chapter will address the concept of corporate social responsibility, and after that, non-financial reporting, as well as auditing of those, will be mentioned together with some new ideas, especially for governments to achieve more effective stakeholder-centric approaches if the governments' tendency is to strictly oblige non-financial reporting. However, it should be noted here that a better reporting scheme is possible. Instead of publishing the reports annually, companies can provide more interactive and constantly updated information on their website or platforms, if they have one, regularly. This reporting scheme might be more efficient and engaging. Nevertheless, as mentioned, if the governments would desire to mandate companies to publish reports annually, below mentioned ideas regarding non-financial reporting as well as auditing of those can be useful.

### ***4.2.2. Corporate Social Responsibility (CSR), and Environmental, Social and Governance (ESG)***

When it comes to stakeholder theory, the concept of corporate social responsibility is often argued, and some see stakeholderism as a part of corporate social responsibility.<sup>391</sup> However, stakeholderism is not merely equal to corporate social responsibility; "stakeholderism should be seen as a strategy for companies to stay relevant in a rapidly changing world".<sup>392</sup> In fact, corporate social responsibility can be seen as a reflection of stakeholderism.

European Commission defines corporate social responsibility as "accountable, transparent and responsible business behavior and sustainable growth, and promoting society's interests

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<sup>390</sup> World Economic Forum, pp.21-22

<sup>391</sup> Hung, J., "Shareholder Primacy Theory vs. Stakeholder Theory", 31 March 2020, pp.1, SSRN: <<https://ssrn.com/abstract=3564804>>

<sup>392</sup> Vermeulen, Fenwick, pp.9

and a route to sustainable and inclusive recovery”.<sup>393</sup> The concept of corporate social responsibility is often used to describe a company’s stakeholder-based activities, which can be exemplified as providing employee benefits, investing in environmentally friendly production processes<sup>394</sup> (such as effective use of natural resources or reducing carbon emissions to decrease greenhouse effects), producing safe and good quality products to increase customer protection and satisfaction, enhancing diversity and inclusion among employees as well as in terms of management and board compositions, providing training and development programs to employees, and ensuring that those have a healthy and safe working environment.<sup>395</sup>

Corporate social responsibility occurs when a company acts to enhance the well-being of those who are directly or indirectly affected by the company’s business activities.<sup>396</sup> In fact, the core business activities also are in relation to the wellbeing of the society at large; production of products and services for customers, job creation for employees, profits for shareholders, commercial activities for capital movement and economic system, etc. However, such business activities may also harm customers, employees, the society and environment; customer abuses, layoffs and unhealthy working environments for employees, and environmental damages can be shown as some of the possible negative effects. At this point, corporate social responsibility gains importance for minimizing such negative effects. Some basic examples of socially responsible activities can be shown as making safer and better products, avoiding water and air pollution, promoting ethical and responsible behaviors towards employees, and committing to safe workplace policies.<sup>397</sup>

Companies have legal and contractual obligations to their stakeholders. For instance, consumer laws aim to protect customers, employment laws may prohibit termination of employment contracts without a valid reason or workplace mobbing or give employees a right

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<sup>393</sup> “Directive 2014/95/Eu Of The European Parliament And Of The Council of 22 October 2014, Official Journal of the European Union”, 2014, pp.2

<sup>394</sup> Liang, H., Renneboog, L., “On the Foundations of Corporate Social Responsibility”, Working Paper No 394/2013, ECGI, 2016, pp.1

<sup>395</sup> Liang, Renneboog, pp.2

<sup>396</sup> Frederick, W.C., “Corporate Social Responsibility: From Founders to Millennials”, Business and Society 360, 3-38, Emerald Publishing, 2018, pp.4

<sup>397</sup> Carroll, A.B., Brown, J.A., “Corporate Social Responsibility: A Review of Current Concepts”, Research, and Issues, Business and Society 360, 39-69, Emerald Publishing, 2018, pp.46

to compensation in cases of termination without a valid reason, or determine minimum wages, and environment protection laws may regulate minimum standards that a company should fulfill. However, corporate social responsibility occurs when a company undertakes more than its legal and contractual obligations; fulfilling such legal obligations cannot be defined as corporate social responsibility activities.

What happens if a company does not desire to do anything more than its legal and contractual obligations? A research found that 75% of the customers in the U.S. stated that they would take negative actions against irresponsible companies, those companies may lose 39% of their potential customers, and 83% of professional investors tend to invest in more socially responsible companies.<sup>398</sup>

Nevertheless, stakeholderism is more than social responsibility; as mentioned above, it should be seen as a business strategy. It is not only because customers or shareholders might punish irresponsible companies. However, it is because stakeholderism, as will be demonstrated in the following chapters, has the potential to increase employee, customer, and shareholder engagement by creating an open and inclusive environment between a company and all of its stakeholders. Stakeholderism covers corporate social responsibility, but also includes several more components. For instance, producing safer products for customers can be seen as a CSR, but producing such products both safer and cheaper through open communication and collaboration backed innovation is closer to stakeholderism. Companies can benefit from their stakeholder centric approaches by actively and openly communicating with all stakeholders, and collaborating and co-creating with them. These issues will be mentioned below with the help of some sample companies' strategies and governance models.

On the other hand, Environmental, Social, and Governance (ESG) is an assessment criterion that refers to a set of standards in relation to sustainability matters which will also be taken into account by potential concerned investors before investing in a firm.<sup>399</sup> One of the components of ESG is the environment, which refers to the evaluation of a firm's activities' impact on the environment; the other one is social, which refers to a firm's improvements and

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<sup>398</sup> Holmes Report, "Investors See Benefits Of Corporate Social Responsibility", 18 December 2016, accessed 18.11.202, <<https://www.provokemedia.com/research/article/investors-see-benefits-of-corporate-social-responsibility>>

<sup>399</sup> Cook, J., "What is the Difference between ESG and CSR?", (accessed 31.05.2022, Business Leader, 2 September 2021, <<https://www.businessleader.co.uk/what-is-the-difference-between-esg-and-csr>>

activities in relation to social issues, and the last one is corporate governance, which refers to the measurement of governance activities that drive positive change both within a firm and a firm's relationship with its ecosystem.<sup>400</sup>

However, the concepts of CSR and ESG might be confused with each other since both concepts are related to a firm's socially and environmentally responsible activities to a significant extent. Nonetheless, the main difference between CSR and ESG is that -as mentioned- CSR is a business strategy and business model deployed by a firm, while ESG is a criterion used by investors and stakeholders for evaluating a firm.<sup>401</sup> Financial, social, and environmental crises have created pressure on companies to deal more fairly with social and environmental issues; also, the media has played an essential role in nudging companies to be more transparent and sensitive about such issues.<sup>402</sup> It can be said that due to such awareness and pressure from society, investors have also started to demand that firms become more socially and environmentally responsible.

There are various ESG rating firms/organizations around the globe that create metrics and provide scores for firms in order for investors to compare the companies and decide on their investments.<sup>403</sup> It has been suggested that many investors today value ESG information in relation to listed companies.<sup>404</sup> Thus, ESG investing has become quite popular. ESG investing is defined by OECD as "the process of considering environmental, social and governance factors when making investment decisions, leading to increased longer-term investments into sustainable economic activities and projects whose growth has been driven by the desire of investors to have an environmental and social impact, along with the economic performance

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<sup>400</sup> Napoletano, E., Curry, B., "Environmental, Social And Governance: What Is ESG Investing?", accessed 31.05.2022, Forbes, 24 February 2022, <<https://www.forbes.com/advisor/investing/esg-investing/>>

<sup>401</sup> Cook,

<sup>402</sup> Cek, K., Eyupoglu, S., "Does Environmental, Social And Governance Performance Influence Economic Performance?", *Journal of Business Economics and Management*, 2020, Vol 21, Issue 4, pp.1165

<sup>403</sup> For instance, European Commission enacted a directive about "corporate sustainability reporting (CSRD)" that provides "sustainability reporting standards". "Global Reporting Initiative", a non-profit international organization, has universal, sector-specific, and topic-specific standards for sustainability reporting. "International Sustainability Standards Board (ISSB)" is another organization that drafts standards for ESG reporting.

<sup>404</sup> Deloitte, "What is ESG rating?", accessed 01.06.2022, <<https://www2.deloitte.com/cn/en/pages/risk/articles/what-is-esg-rating.html>>

of investing.”<sup>405</sup> According to the Global Sustainable Investment Alliance, ESG investing reached \$ 35.3 trillion in 2020 globally.<sup>406</sup> Just this number is more than enough to demonstrate to what extent sustainable investing has gained popularity and importance. Furthermore, a recent study by McCahery, Silanes, and Pudschedl demonstrated that “institutional investors have a strong preference for investing in firms with strong ESG rankings relative to other financial metrics and proxies for financial performance”.<sup>407</sup>

It has also been suggested that ESG points of companies are also important for decisions in relation to mergers & acquisitions and divestitures, and the reason is that the research demonstrates that there is a positive relationship between ESG performance and financial performance.<sup>408</sup> An article published on Nasdaq Stock Exchange’s website “strong ESG programs can increase stock liquidity, ESG initiatives can unlock competitive value, a proactive stance on ESG issues can keep activists at bay, and companies that espouse strong ESG values tend to attract and retain the best talent.”<sup>409</sup>

Below, shareholderism and stakeholderism will be compared, and it will be shown that stakeholderism has been criticized because it might reduce the expected financial return for shareholders. On the contrary, higher ESG points and enhanced CSR activities may lead to better financial performance and stronger corporate cultures, which will be in favor of the shareholders at the end of the day. This issue will be revised below.

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<sup>405</sup> Boffo, R., Patalano, R., “ESG Investing: Practices, Progress and Challenges”, 2020, OECD Paris, pp.11

<sup>406</sup> World Economic Forum, “How Sustainable Investing Will Become The Norm”, 2 February 2022, accessed 01.06.2022, <<https://www.weforum.org/agenda/2022/02/sustainable-investing-esg-finance-future-norm/>>

<sup>407</sup> McCahery, J.A., Silanes, F.L., Pudschedl, P.C., “Institutional Investors and ESG Preferences”, ESGI, Law Working Paper N° 631/2022, March 2022, pp.26

<sup>408</sup> Bernow, S., Nuttall, R., “Why ESG is Here to Stay”, accessed 01.06.2022, McKinsey & Company, 26 May 2020, <<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/why-esg-is-here-to-stay>>

<sup>409</sup> Atkins, B., “Strong ESG Practices Can Benefit Companies and Investors: Here’s How”, accessed 01.06.2022, Nasdaq, 05 June 2018, <<https://www.nasdaq.com/articles/strong-esg-practices-can-benefit-companies-and-investors-2019-03-13>>



### 4.2.3. Non-Financial Corporate Reporting

As it is known, listed companies from almost all jurisdictions are obliged to publish their financial reports annually. The very first annual report was prepared by U.S. Steel Corporation, which was “audited” by Price, Waterhouse & Co. in 1903; after 1929’s financial crisis accounting principles were regulated in the United States, and over the time -due to crises and corporate scandals (such as Enron’s case) financial reporting rules have taken its current forms.<sup>410</sup>

On the other hand, although it is not the case for the United States today, non-financial reporting (CSR, ESG, sustainability, or integrated or stakeholder reporting) is also becoming mandatory, and in fact, several jurisdictions already require some companies to publish their non-financial reports. For instance, European Parliament enacted Directive 2014/95 (Non-Financial Reporting Directive), which mandates listed companies, banks, insurance companies and “other companies designated by national authorities as public-interest entities” with more than 500 employees to disclose information in relation to social matters, environmental matters, treatment of employees, respect for human rights, anti-corruption and bribery, and diversity on company boards.<sup>411</sup> According to European Commission, around 12.000 large companies within EU are obliged to publish a non-financial report on an annual basis.<sup>412</sup>

India’s Corporate Act 2013, Section 135 mandates certain companies (that exceed the thresholds determined by law) to establish corporate social responsibility committees under their board of directors, spend at least %2 of their average net profit on corporate social responsibility activities, create social responsibility policies and disclose such policies in their annual reports and websites.<sup>413</sup> Another example could be South Africa’s King Code of Governance and Johannesburg Stock Exchange’s requirement for listed companies to publish

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<sup>410</sup> The Wall Street Journal, “When Standards Are Unacceptable”, 07 February 2022, accessed 20.11.2021, <<https://www.wsj.com/articles/SB1013031072961249880>>

<sup>411</sup> European Commission, “Corporate Sustainability Reporting”, accessed 20.11.2021, <[https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting\\_en](https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en)>

<sup>412</sup> European Commission,

<sup>413</sup> The Ministry of Corporate Affairs of India, “Invitation For Public Comments For High Level Committee On Corporate Social Responsibility”, 2018, accessed 20.11.2021, <[https://www.mca.gov.in/Ministry/pdf/InvitationOfPublicCommentsHLC\\_18012019.pdf](https://www.mca.gov.in/Ministry/pdf/InvitationOfPublicCommentsHLC_18012019.pdf)>

an integrated annual report which should contain sustainability information (or at least include information regarding why a company could not provide sustainability information for that reporting year).<sup>414</sup> There are several more jurisdictions that either has mandatory non-financial reporting provisions or working on drafting such provisions.<sup>415</sup>

Although the U.S. currently does not have such mandatory non-financial reporting, many U.S. companies publish either integrated reports containing non-financial/corporate social responsibility or sustainability information, or provide a separate report containing such information and it is claimed that this is because of stakeholder pressure (including shareholders) and recognition among those that transparent non-financial information disclosure can create stronger relationships between companies and all stakeholders.<sup>416</sup>

According to research conducted by The Conference Board -which is a non-profit research group organization founded in 1916- the U.S. companies subject to the research have the second highest level of non-financial information disclosure transparency (the Japanese companies have the first highest level for non-financial transparency as per the research).<sup>417</sup> On the other hand, since non-financial reporting is not mandatory and there is no set of standards, many U.S. companies are criticized for publishing generic and stereotyped information concerning non-financial matters.<sup>418</sup>

In order to talk about non-financial reporting, the concept of non-financial information should be explained. At first sight, the term non-financial information seems easy to define, however the reality is slightly different. Erkens et al. analyzed 787 articles published in 53 different journals in between 1973 to 2013 to find out how academics have defined and explained the term non-financial information, and the result is that so many articles did not define clearly

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<sup>414</sup> Roberts, L.G., "Integrated Reporting: The South African Experience", accessed 20.11.2021, The CPA Journal, July 2017, <<https://www.cpajournal.com/2017/07/28/integrated-reporting-south-african-experience/>>

<sup>415</sup> Carrots & Sticks (Global Reporting Initiative), "Sustainability Reporting Policy: Global Trends In Disclosure Is The ESG Agenda Goes Mainstream", July 2020, accessed 20.11.2021, <<https://www.carrotsandsticks.net/media/zirbzabv/carrots-and-sticks-2020-june2020.pdf>>

<sup>416</sup> Singer, T., "Large U.S. Companies Are Among The Most Active In Sustainability Reporting", accessed 20.11.2021, Conference Board, 23 January 2019, <<https://www.conference-board.org/blog/sustainability/Sustainability-Reporting-Large-US-Companies>>

<sup>417</sup> Singer,

<sup>418</sup> Christensen, H. B., Hail, L., Leuz, C., "Mandatory CSR and Sustainability Reporting: Economic Analysis and Literature Review", ECGI, Finance Working Paper N° 623/2019, May 2021, pp.1

what non-financial information is, and the remaining proposed various approaches to the concept.<sup>419</sup> Erkens et al. classified the definitions of and approaches to non-financial information into two groups; the first group sees non-financial information as a performance measure that is not limited to conventional financial performance criteria, and the second group interprets non-financial information as a part of financial performance disclosures but published outside the traditional financial reporting ways.<sup>420</sup>

One of the main aims of traditional financial reporting is to serve the interests of shareholders (hence insiders); people who invest in a company would desire to evaluate whether the investee was appropriately managed, has an excellent financial performance, and check whether their investment made sense from the commercial point of view, since the main interest of investors would be to receive sufficient dividends and/or sale of shares purchased to a higher price to make profits.

However, non-financial reporting might have a broader purpose and target audiences, such as employees, managers, shareholders (altogether “insiders”) and suppliers, governments, society/communities, creditors, and customers (altogether “outsiders”). Non-financial reporting should be aimed at disclosing information that is not directly related to financial performance but more bounded to social, environmental, employee and customer-related information. Thus, non-financial information could be defined as any information regarding governance, stakeholder centric initiatives, operations, and activities of a company that is not directly related to accounting matters and does not find a place in traditional financial reporting instruments (e.g., balance sheets), and that is aimed at disclosing information to all stakeholders.

If non-financial reporting becomes mandatory under a certain jurisdiction, such a jurisdiction should have adequate laws regarding the protection of environment, labor rights, and consumers. Before obliging companies to fulfill corporate social responsibility activities and reporting about those, governments should have concrete and effective policies regarding such matters. If a government does not have any plan and budget to protect the environment and fight against climate change, or income inequality, it should not expect such care from corporations. Otherwise, the enactment of regulations that mandates non-financial reporting

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<sup>419</sup> Erkens, M., Paugam, L., Stolowy, H., “Non-Financial Information: State of Art and Research Perspectives Based on a Bibliometric Study”, *Comptabilité –Contrôle –Audit*, 21 (3), pp.18

<sup>420</sup> Erkens, Paugam, Stolowy, pp.24

would be just copying international trends. For instance, as mentioned above, Indian law requires certain companies to spend at least %2 of their average net profit on corporate social responsibility activities and establish corporate social responsibility policies. However, according to international bodies and analysts, India is the third most polluted country in the world and its government does very little to reduce the pollution or switch to clean energy.<sup>421</sup>

#### ***4.2.4. An Idea for the Audit of Non-Financial Reports***

As mentioned above, mandatory non-financial reporting is becoming popular in several jurisdictions, and many companies voluntarily publish such information in other countries. However, it is a relatively new concept, and non-financial reporting needs to be developed to satisfy the expectations of stakeholders better and serve a purpose truly, and the purpose of such reporting should not be just window-dressing.

First of all, non-financial reporting should not become another box-ticking bureaucratic activity. Otherwise, it will just be seen as a burdensome and time-consuming obligation without any purpose. In order to avoid this and to ensure the accuracy of non-financial information disclosed, proper independent auditing regarding non-financial reporting could be stipulated, which can be helpful.

However, this is only suggested under the condition that governments oblige companies to publish social responsibility reports annually. Otherwise, interactive and continuously updated information regarding such matters, which shall be disclosed on companies' websites or platforms regularly might be more effective. It is because, under such an interactive and continuously updated reporting scheme, all stakeholders can regularly track and evaluate the related information. Further, if companies can create feedback channels for all stakeholders regarding this sort of reporting, the effectiveness and purpose of non-financial reporting may be enhanced with the input of various stakeholders.

Many local laws worldwide require independent auditing for public companies' annual financial statements, and a set of standards exist, such as Generally Accepted Accounting Principles (GAAP). Independent auditors examine the compliance of information stated in

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<sup>421</sup> Vohra, A., "Does India Want to Solve Its Pollution Problem?", accessed 28.11.2021, Foreign Policy, 10 December 2021, <<https://foreignpolicy.com/2021/12/10/does-india-want-to-solve-its-pollution-problem/>>

annual financial statements with standardized accounting rules and evaluate the accuracy of financial information disclosed. Similarly, a set of standards in relation to non-financial reporting can be determined. However, such standards should be more of a framework on certain matters, such as the protection of the environment, due to the nature of non-financial information. It is way easier to put strict rules about accounting, but social matters may require a bit more case-specific examination.

When it comes to auditing, the expense of independent audits is often argued by companies. As per the research of The Financial Education & Research Foundation, the average audit expenses for public companies in the U.S. is around \$ 2.52 million.<sup>422</sup> As will be presented below, the opponents of Stakeholderism often propose and argue that corporate social responsibility activities and stakeholder centric approaches have the potential to reduce the expected financial returns for shareholders. If an independent audit of non-financial reporting is mandated, this could be also criticized, since this situation has the potential to create more audit expenses for companies. However, we propose a potential solution for this situation:

Governments may take initiatives not to create any extra financial burden for companies in terms of non-financial auditing (as well as to achieve more effective stakeholder centric approaches). Independent governmental bodies could conduct such audits of non-financial information. A non-financial/social auditing and supervising body could be established by law, but such a body should be entirely independent of other governmental bodies, such as ministries. So that in case of any change in the government, the independent social auditing and supervising body would not be directly affected by such political change.

The independence and effectiveness of such a body could be achieved by the following formula; a council that would govern the body can be comprised of the representatives of all sorts of stakeholders, for example, representatives from labor unions, employer's unions, universities, hedge funds, stock exchange commissions, angel investor groups, hedge funds, governmental bodies (such as ministries of finance, commerce, employment, environment, etc.), banking associations, regulatory and supervisory agencies, businessman associations, environment protection associations, consumer protection associations and any other related associations, foundations and charitable institutions. So that all stakeholders - employees,

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<sup>422</sup>Financial Executives, "FERF'S 12th Annual Public Company Audit Fee Study Report Reveals Acquisitions and Economic Uncertainty as Primary Contributors to Increased Audit Scope and Fees", 11 February 2021, accessed 29.11.2021, <<https://www.financialexecutives.org/About-FEI/For-the-Press/2021/FERF-12th-Annual-Public-Company-Audit-Fee-Study.aspx>>

shareholders, managers, suppliers, governments, society/communities, creditors, customers, and the environment- could be represented at the body.

The number of representatives to be appointed to the body by a stakeholder group can depend on the size of the organization. For instance, labor unions that have 1000 to 10.000 members may be entitled to appoint one representative, a labor union that has 10.000 to 50.000 members could appoint two representatives; an investment fund whose portfolio amounts to up to \$100 million for the previous fiscal year can appoint one representative, a fund that manages \$100 million to \$1 billion can appoint two representatives, etc.

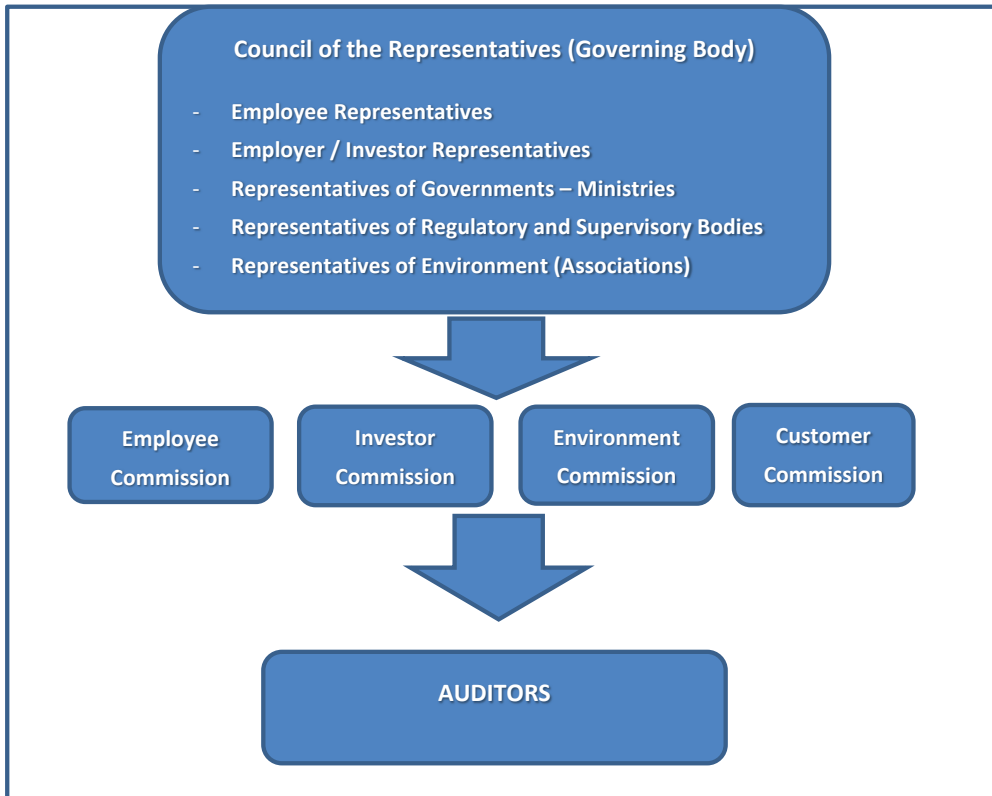
Different formulas can be created; the important point is to achieve a balanced representation powers for all of the stakeholder groups.

However, another significant matter is to educate all representatives about technical matters such as corporate social responsibility, stakeholderism, non-financial reporting etc. Once such governing council of the body is established, commissions can be created by different stakeholder groups, such as employee commission, environment commission, customer commission, and investor commission.

Commissions -with the support of universities and academics- could be responsible for creating framework standards for non-financial reporting which shall be advisory in nature, auditing certain companies' (e.g., listed companies, companies that employ more than a certain number of people or companies that operate in certain industries) non-financial information by employing qualified auditors to make audits.

Nevertheless, audits should not be limited to examining non-financial reports of corporations. For instance, the employee commission of the body can conduct annual surveys over employees or create feedback channels with employees, examine legal actions commenced against companies by employees, and create necessary channels for receiving complaints of employees to check the accuracy of employee related information stated in non-financial reports. The customer commission may similarly examine customer complaints, surveys or lawsuits commenced by customers against companies. The environment commission may evaluate the actual or probable environmental consequences of companies' operations. Further, each commission can conduct researches regarding the areas that they are responsible for.

The below figure demonstrates the idea of social auditing and supervising body:



**Figure 6: The Structure of Social Auditing and Supervising Body**

*Source: Candidate's own idea*

However, such a body can also act as an advisory body to governments, regulators, and companies on matters that are related to stakeholders. After the examinations by the commissions, the body can provide advice to companies regarding environmental, social, investor-related, or employee-centric matters.

The purpose of social auditing and supervising body should be clearly defined as defending the interests of all stakeholders, without ignoring any single stakeholder group. Achieving a high level of collaboration between different groups must be the goal.

Nevertheless, the powers and capacity of such a body is something that can be determined by governments. Will the body have any sanctioning authority, or will it be just an advisory body? What would be the consequences of not fulfilling non-financial reporting requirements or corporate social responsibility advice by a company? At the end of the day, there are laws that

prohibit companies from damaging the environment (e.g., anti-pollution and clean-water laws), protect consumer rights or employee rights to a certain extent, and violation of such laws are punished. However, such social auditing and supervising body could serve the interests of stakeholders in the areas where current regulations do not cover. For example, a chemical component producer company may not diffuse its wastes to a river next to its factory in order to comply with laws and to avoid penalties but can decrease its carbon-footprint to not to increase the possible effects of climate change with the advice of such body, and negative public opinion could be the biggest sanction considering its possible competitive effects.

One question regarding the idea of social auditing and supervising body could be why governments should be responsible for establishing and funding such a body. The answer is that non-financial reporting as well as all stakeholder centric actions are related to the interests of a quite broad group: all stakeholders. As mentioned, traditional financial reporting obligations are designed to serve the interests of shareholders, and therefore it is natural that companies -thus shareholders- bear the costs of independent external auditing of financial reports. However, since non-financial reporting, corporate social responsibility or stakeholder centric actions serve the interests of all stakeholders - including governments, society, and environment- governments can take such initiative to protect all stakeholders and to fulfill its legal and moral obligations against the entire society.

As a conclusion for this sub-chapter, an effective non-financial reporting scheme could be beneficial to protect the interests of shareholders. A framework standard for corporate social responsibility reporting should be created, but there has to be enough free space for case specific matters; therefore, the term of “framework standards” is chosen. An independent auditing and supervising body that is governed by all of the representatives of different groups of stakeholders could audit companies in terms of their non-financial reports and stakeholder centric approaches and provide advice on certain matters. Nevertheless, this sort of approach would be beneficial under the legal regime that mandates the disclosure of annual non-financial reports. A more interactive and continuously updated information disclosure on websites and platforms could also create a more effective and responsible reporting scheme. As a matter of fact, this sort of approach might be better suited the digital era that we are living in. Nevertheless, if the policymakers are in the opinion to continue to have traditional reporting, they at least need to focus on achieving more effective and meaningful solutions.



### *4.2.5. The Debate: Shareholderism vs Stakeholderism, and the Solution: Balance*

The idea of stakeholder centric corporate governance has been criticized widely. Some argued that focusing on stakeholders will decrease the financial return for shareholders, and some asserted that Stakeholderism is nothing more than enlightened shareholderism.

A few papers argued that “since shareholders’ claim on corporate cash flows are the last in the line, governing a company to maximize employee compensation would leave nothing to shareholders, and consequently investors would not invest in a such firm, so that this sort of company will not be able to survive”.<sup>423</sup>

Further, it is stated that since managers are incentivized to maximize shareholder value, other “stakeholders’ risk of expropriation is low” because they are at the front of the line; hence, shareholderism creates incentives to pay all stakeholders.<sup>424</sup> Also, one argument was that critics of shareholder wealth maximization are reluctant to understand the position of shareholders on the cash flow claimants’ line.<sup>425</sup>

An argument to these statements could be that stakeholderism is not merely focused on maximizing the compensation of employees, and degrading stakeholderism to employee compensation might be an unfair approach to the concept. Instead, stakeholder capitalism advocates that instead of solely focusing on shareholder wealth maximization, companies shall build the capacities of employees, avoid any action that would harm the environment, support local communities in which companies operate, deal fairly with all of their business partners, and deliver value to customers; furthermore, evidence suggests that companies that adopt stakeholder centric approaches outperform their peers in terms of stock market returns.<sup>426</sup> Consequently, those companies’ shareholders enjoy increased market returns, and stakeholders also benefit from the activities of those companies.

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<sup>423</sup> Karpoff, J. M., “On a Stakeholder Model of Corporate Governance, European Corporate Governance Institute” , Finance Working Paper No. 749/2021, 2021, p.16 , Denis, D.K., “Corporate Governance and the Goal of the Firm: In Defense of Shareholder Wealth Maximization”, Financial Review, Vol. 51, Issue 4, pp. 467-480, 2016, pp.469

<sup>424</sup> Karpoff, pp.16

<sup>425</sup> Denis, pp.469

<sup>426</sup> Vermeulen, Fenwick, pp.9

A finance professor from London Business School, Alex Edmans, proposed that by investing in stakeholders, a company does not necessarily have to decrease shareholder value, but by “growing the pie” it may benefit both its shareholders and other stakeholders.<sup>427</sup> For instance, an improved working environment and a stakeholder-centric culture may increase employee engagement and performance, or acting highly responsibly regarding the environment and society may enhance brand image and customer loyalty. According to Edmans, a company needs to serve the interests of the society rather than shareholders, which will subsequently increase shareholder returns, and Edmans found that companies with enhanced employee satisfaction outperformed their rivals over a long term period, and customer satisfaction, sustainability and environmental stewardship are associated with higher returns in the long term.<sup>428</sup>

However, another research claimed that stakeholderism offers an inadequate and counterproductive approach; stakeholderism cannot create value for stakeholders; stakeholderism has the potential to harm the society by making corporate leaders less accountable, which will increase agency costs, and stakeholder welfare would be reduced if individual leaders will focus on stakeholderism, it is because such focus may delay material legal and regulatory developments.<sup>429</sup>

When it comes to the comparison between shareholder primacy norm and stakeholderism, one of the most cited works belongs to Milton Friedman. In his article dated 13 September 1970, Friedman famously stated that “the social responsibility of business is to increase its profit”.<sup>430</sup> According to Friedman, the essential matter is that managers are solely the agents of shareholders, and they are responsible to such owners of the business.<sup>431</sup> Further, engaging with more corporate social responsibility will decrease the expected financial return for

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<sup>427</sup> Edmans, A., “Company Purpose and Profit Need not be in Conflict If We Grow the Pie”, *Economic Affairs*, 40, Wiley, 2020, pp.288

<sup>428</sup> Edmans, pp.290

<sup>429</sup> Bebchuck, L.A., Tallarita, R., “The Illusory Promise of Stakeholder Governance”, Discussion Paper No 2020-1, Harvard Law School Program on Corporate Governance, December 2020, pp.76

<sup>430</sup> Friedman, M., “The Social Responsibility of Business is to Increase its Profits”, *The New York Times Magazine*, 13 September 1970, pp.1

<sup>431</sup> Friedman, pp.1

shareholders, and in fact “the managers would be spending shareholders’/someone else’s money for general social interest”.<sup>432</sup>

Nevertheless, one argument regarding his statements could be that such statements might be correct for short term financial returns or during the times that this essay was written. Now, we live in the digital age in which the traditional meaning of corporate governance is changing as “the boundaries of old corporate structures becoming more fluid and porous”.<sup>433</sup> Further, traditional corporate governance, which emphasizes shareholder wealth maximization, suited well to corporations during times of mass production and when economic growth’s initial propelling force was those large size corporations.<sup>434</sup> Nevertheless, due to experiencing several crises, and rapid and multifarious digital developments, the realities of tech driven businesses and today’s society now demand something different. The main issue with shareholder primacy norm is that it creates hierarchical relationships among stakeholders within the internal organization of a company, causes an unhealthy focus on short-term returns, and since directors need to satisfy investors, they try to draw a financial picture that looks very well from outside.<sup>435</sup>

However, creating long term sustainable value for shareholders as well as other stakeholders is something that everyone can benefit from, which can be achieved through altering the hierarchical structures with a flatter and more functional model. In fact, the matter is not about how bad or good the shareholder primacy norm is, but the side effects of it. From this perspective, the shareholderism vs stakeholderism debate is not useful, in fact it might be considered irrelevant.

As noted above, it is argued that shareholders are at the end of the line of the claimants of corporate cash flow; furthermore, it is suggested the financial capital provided by shareholders is essential for the production of products and services, and shareholders can rapidly declare off their capitals from a publicly traded company and invest to somewhere else so that

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<sup>432</sup> Friedman, pp.1

<sup>433</sup> Vermeulen, E.P.M., Fenwick, M., “The End of the Corporation”, Law Working Paper No 482, ECGI, November 2019, pp.10

<sup>434</sup> McCahery, Vermeulen, Fenwick, pp.3

<sup>435</sup> See; Millon, D., “Radical Shareholder Primacy”, University of St. Thomas Law Journal, Vol 10, Issue 4, 2013, pp.1040, see also; Stout, *ibid.*, pp.2006, see also; Vermeulen, Fenwick, *ibid.*, pp.11

shareholders have a greater bargaining power than other stakeholders.<sup>436</sup> This statement is correct to a certain extent. This statement is correct to a certain extent. Indeed, without the capital provided by investors, no company can survive or even exist in the first place.

However, this sort of argument may lead to the assertion of some hostile counterarguments and take the debate somewhere else. For instance, if shareholders' bargaining power derives from their discretion to sell the shares and invest somewhere else, then labor's bargaining power could be strikes, or customers' may commence customer boycotts which will also harm the company and its stock prices. Studies found that labor strikes and customer boycotts may negatively affect share prices. For instance, a study that analyzed labour strikes that occurred between 1962-1982, found that the average decrease in shareholders' equity was around 4%.<sup>437</sup> Another study found that if longer a strike goes, its negative effects on stock prices also increases.<sup>438</sup> Further, a research found that consumer boycott announcements can have significant negative impacts on stock prices,<sup>439</sup> and another one argued that customer boycotting may have an important impact on the sales volume of the targeted firms.<sup>440</sup> However, opposite results were also reported.

Nevertheless, it is clear that nature has the strongest bargaining power as a nonhuman stakeholder; if you harm nature, it will harm you more. As deeply known, because of insusceptible actions of individuals, corporations and governments for the last century, the world is in great danger right now.

According to European Union, since climate change causes melting of polar ice sheets and glaciers which subsequently causes in flooding and erosion, floods has caused direct economic

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<sup>436</sup> Denis, pp. 472

<sup>437</sup> Olson, C.A., Becker, B., E., "The Impact of Strikes on Shareholder Equity", *ILR Review*, Vol 39, No.3, 1986, pp.425

<sup>438</sup> Greer, C. R., Martin, S. A., R., T.A., "The Effect of Strikes on Shareholder Returns", *Journal of Labor Research*, Vol I, Number II, 1980, pp.226

<sup>439</sup> Pruitt, W. S., Friedman, M., "Determining the Effectiveness of Consumer Boycotts: A Stock Price Analysis of Their Impact on Corporate Targets", *Journal of Consumer Policy*, 9, 1986, pp.377

<sup>440</sup> Leslie, P., Chavis, L., "Consumer Boycotts: The Impact of the Iraq War on French Wine Sales in the U.S.", *Quant Mark Econ*, 2009, p.65

losses of more than €90 billion.<sup>441</sup> Also, climate change causes extreme weather changes and increase in average heat which causes other natural disasters such as wildfires and decreasing water quality.<sup>442</sup> There are many more strong negative effects of climate change on nature, wildlife, and human health, and there will be more. Furthermore, it has been suggested that without the private sector taking responsibility on limiting the negative effects of climate change, governments cannot properly fight against climate change.<sup>443</sup> Business leaders also acknowledge the negative effect of climate change on the operation of their businesses. According to a study, business leaders indicated during a survey that climate change and its side effects can have a direct impact on operations because of natural disasters; cost of resources as well as insurance costs would be increased, supply chain disruptions may occur, regulatory costs may increase (such as carbon tax), and mental and psychical health of employees may be strongly impacted.<sup>444</sup>

However, the main argument here is that the main focus should not be on whose interest should be prioritized, which stakeholder has the most significant bargaining power, or “who would win the fight among stakeholders”. Instead, the fundamental point should be focusing on how to serve all stakeholders’ interests, how to create value for all stakeholders, and most importantly; how to find a balance between shareholders’ interests and others’. At the end of the day, it should be accepted that the primary purpose of a business is still to make money and main goal of an investor is still to receive sufficient economic returns for his investments. However, enhanced collaboration among all stakeholders may bring increased financial returns for shareholders and more value can be created for all other stakeholders.

There was a pretty famous expression in the aviation industry; “aviation regulations are written in blood”. The root of this expression was that so many aviation regulations had been drafted after aircraft accidents over time. The same can be applied to corporate governance, as shown above, corporate scandals and crises which have caused substantial economic losses

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<sup>441</sup> European Commission, “Climate Change Consequences”, accessed 30.11.2021, <[https://ec.europa.eu/clima/climate-change/climate-change-consequences\\_en](https://ec.europa.eu/clima/climate-change/climate-change-consequences_en)>

<sup>442</sup> European Commission,

<sup>443</sup> Segal, E., “Here’s How Climate Change Crisis Could Impact Business Operations And Policies In 2022”, accessed 09.01.2022, Forbes, 01 January 2022, <<https://www.forbes.com/sites/edwardsegal/2022/01/01/heres-how-climate-change-crisis-could-impact-business-operations-and-policies-in-2022/?sh=38bcc98d1568>>

<sup>444</sup> Deloitte, “2021 Climate Check: Business' Views on Environmental Sustainability”, accessed 05.02.2022, <<https://www2.deloitte.com/global/en/pages/risk/articles/2021-climate-check-business-views-on-environmental-sustainability.html>>

led enactment of several laws and developments or changes in corporate governance. However, to advance and change the governance, we do not need to experience more crises or scandals.

There are respectably good examples to show that a different sort of corporate governance is possible, which can create value for both shareholders and other stakeholders. Some of them are presented in Chapter 3. Microsoft, Netflix, and Domino's Pizza now deploy a more balanced approach. All three have outstanding financial performance. Therefore, their shareholders experience great financial returns. Meanwhile, those firms focus on creating value for all stakeholders. Active communication and gathering feedback from shareholders, customers and employees enables them to provide unique experiences to those participants. Also, this enhanced communication and collaboration let them co-create with their stakeholders. Rather than isolating themselves from their internal and external environment and providing imposed products and services, those firms value the feedback gathered and provide what customers want.

In the following chapter, the components of the future's corporate governance will be further examined. The components are determined by examining some of the most successful companies. The components are also reflections of the idea of achieving a balanced approach to corporate governance. For instance, the importance and benefits of co-creation and collaboration with all stakeholders will be addressed by arguing that firms, investors and all stakeholders can highly benefit from these approaches. Clearly, the point is that such approaches will serve the purpose of finding a balance between the interests of all stakeholders, but also firms will financially benefit from them. Hence, shareholders will enjoy long-term sustained value creation.



# **Chapter 5**

## **The Future of Corporate Governance and Corporate Culture**





## 5. The Future of Corporate Governance and Corporate Culture

### 5.1. Introduction

As discussed above, the shareholder-primacy norm has shortcomings and side effects. Otherwise, all those economic crises and corporate scandals would not have been experienced under a “perfect” model. Furthermore, there is mistrust about corporations, and many people have ambivalent feelings about the corporate world.<sup>445</sup> However, as strongly indicated, the issue is not about which approach to corporate governance is better. Instead, the fundamental point is about how to eliminate the shortcomings and side effects of shareholderism and how to how to balance shareholders’ interests and others’ expectations, and most importantly, how to embrace the future, which is already here. This section will provide suggestions about the future of corporate governance and corporate culture by examining today’s realities and altered approaches. In order for companies to stay relevant in this digital age, the following components are presented as intelligent and vital strategies; digitalization, a flatter governance structure, co-creation-communication-collaboration, real care, and communities.

It will be discussed how the components mentioned above have been applied by certain firms in practice, and how the other companies can deploy them to manage corporate culture issues and governance considerations. To highlight the existing research gaps regarding the subject matter, this chapter will also examine the prior studies in relation thereto.

### 5.2. Digitalization

As indicated, the traditional approach of corporate governance was designed for large corporations, which had strictly centralized hierarchical organizational structures, and this sort of regulatory approach to corporate governance made sense when the economy was driven by such large corporations.<sup>446</sup> These corporations’ business model was successful when the main goal was minimizing transaction costs, delivering static products or services, and

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<sup>445</sup> Vermeulen, Fenwick, pp.5

<sup>446</sup> McCahery, Vermeulen, Fenwick, pp.9

eliminating information asymmetries.<sup>447</sup> However, today, these sort of “traditional” corporations’ organizational structures and business models are disrupted by networked technologies.<sup>448</sup>

Furthermore, the main goal of traditional corporate governance, which aims to maximize shareholder value, causes a focus on short-term profit, conservative decision making, and formalistic compliance procedures; therefore, such a model also causes the creation of an underproductive environment, unhealthy short-term focus on financials, and it blocks innovation.<sup>449</sup>

Nevertheless, the digital age requires being highly innovative and agile, and the traditional closed structure cannot provide the desired outcomes. Digital transformation has been changing the world dramatically, especially during the last few decades; smartphones, the internet, social media, AI, Big Data, and other developments in computer science and technology have been having huge impacts on societies, economies, and businesses.<sup>450</sup> Further, the speed of innovations today is accelerated enormously, and innovation cycles are shortened; therefore, it is clear that digital transformation in both business and societies will continue.<sup>451</sup>

The networked and digital age has created a phenomenon; platforms. Platforms bring a different group of users together by using digital technologies.<sup>452</sup> Users may sell, purchase, and exchange goods or services, socialize and interact or exchange information on digital

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<sup>447</sup> Vermeulen, E., Fenwick, M., “A Sustainable Platform Economy & the Future of Corporate Governance”, Law Working Paper N° 441/2019, March 2019, pp.11

<sup>448</sup> Vermeulen, Fenwick, pp.11

<sup>449</sup> McCahery, Vermeulen, Fenwick, pp.9

<sup>450</sup> See: World Economic Forum, “Understanding The Impact Of Digitalization On Society”, accessed 27.01.2022, <<https://reports.weforum.org/digital-transformation/understanding-the-impact-of-digitalization-on-society/>> See also: World Economic Forum, “How Digital Transformation Is Driving Economic Change”, accessed 27.01.202, <<https://www.weforum.org/agenda/2022/01/digital-transformation-economic-change-technology/>> , See also: European Central Bank, “Digitalization And Its Impact On The Economy: Insights From A Survey Of Large Companies”, <<https://www.ecb.europa.eu/pub/economic-bulletin/focus/2018/>> (accessed on 27.01.2022)>

<sup>451</sup> Vermeulen, E.P.M., Fenwick, M., “Future Lawyers: A Roadmap for Living & Working with Artificial Intelligence”, 07 August 2020, pp.11, accessed 27.01.2022, < <https://ssrn.com/abstract=3668907> or <http://dx.doi.org/10.2139/ssrn.3668907>>

<sup>452</sup> Reuver, M., Sorensen, C., Basole, R.C., “The Digital Platform: A Research Agenda, Journal of Information Technology”, 33, 2017, pp.1247

platforms. Digital platforms are defined as “ a set of digital resources ,including services and content, that enable value-creating interactions between external producers and consumers”.<sup>453</sup> Today, a pretty significant size of the economy is organized around software-driven platforms.<sup>454</sup>

Some of the World’s largest tech companies are now either platforms or tech giants that have their own platforms, and their success is inevitable. Today, Amazon, Facebook, Google, and Apple’s yearly revenues are larger than so many countries; each of them generates more income than 134 countries around the World.<sup>455</sup> Amazon and Facebook are organized as platforms, and Apple (iOS) and Google (YouTube and Android) have their own platforms to create value.<sup>456</sup> Just for example, when we look at Google’s (Alphabet) annual report from 2020, it states that Alphabet just earned from YouTube around \$16 billion in 2019 and \$20 billion in 2020.<sup>457</sup> In 2020, the total revenue of Amazon was around \$386 billion, and Facebook’s around \$85 billion.<sup>458</sup> Further, Alibaba, Uber, Netflix, and Airbnb as some of the World’s largest tech companies are also platforms.<sup>459</sup>

Section 7 will examine the World’s Most Innovative Companies by looking into their historical share prices, governance practices, corporate cultures, and board compositions. However, it is worth mentioning here that Apple, Alphabet, Amazon, Facebook, Alibaba, Microsoft, Netflix, Uber, and several more companies that benefit from platform model are at the top of the World’s Most Innovative Companies list, and their share performances are also alpha plus. These matters will be examined below in detail, but some example needs to be given herein to demonstrate the platforms' success. For instance, Amazon’s share price increased by more than 1600%, and Netflix’s by more than 1930% in 10 years (2011-2021). In 2012, when Facebook went public, its average share price for 2012 was around \$24, but in 2021 the average share

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<sup>453</sup> Parker, G.G., Constantinides, P., Henfridsson, O., “Platforms and Infrastructures in the Digital Age, Information Systems Research”, Vol. 29, No. 2, June 2018, pp.381

<sup>454</sup> Vermeulen, Fenwick, pp.7

<sup>455</sup> Ridley, M., “Five Big Tech Firms Including Facebook & Amazon Now Richer Than Most Countries On Earth”, accessed 27.01.2022, The Sun, 30 July 2021, < <https://www.thesun.co.uk/tech/15741046/big-tech-richer-than-most-countries/>>

<sup>457</sup> Alphabet, “Alphabet 2020 Annual Report”, 2020, p.27, available online at: <https://abc.xyz/investor/> (accessed on 27.01.2022)

<sup>458</sup> Macro Trends, Amazon Revenue 2006-2021, accessed 27.01.2022, <<https://www.macrotrends.net/stocks/charts/AMZN/amazon/revenue>>

price of Facebook increased to \$321; hence, more than 1200% increase in 9 years. Accordingly, considering their revenues, sizes, and stock performances, platforms' financial success is inevitable.

However, platforms are also established in several other countries, such as Alibaba in China and GoJek in Indonesia, so this business model is universally adaptable.<sup>460</sup> Some further examples from developing countries could be Turkish platforms. The first example could be a food delivery platform that brings more than 18 million users and more than 35000 restaurants together; “Yemeksepeti” (direct translation to English is “food box”) was founded in 2001 and acquired by German Deliver Hero in 2015 for \$589 million, which was the biggest deal for an acquisition of internet based company in the region at that time.<sup>461</sup> Later, an online gaming company named Peak Games (which was the third biggest online gaming company in the EU<sup>462</sup>) that develops puzzle games for iOS and Android platforms was sold to the U.S based company Zynga for more than \$ 1.8 billion, which was the biggest deal in the M&A history of Turkey.<sup>463</sup> This latter case is a clear demonstration of how platforms create value; a content creator was not only operating on and providing its services through digital platforms, but made a huge success and completed the biggest M&A deal for its developing country. Without such platforms to operate on, this success would not have been achieved. Another successful platform is “Trendyol” which is an e-commerce platform whose significant number of shares were acquired by Alibaba in 2018 for \$728 million, and according to Alibaba, Trendyol is the biggest e-commerce platform in Turkey, with a more than \$11 billion valuation.<sup>464</sup> Previously in 2011, another e-commerce company, “gittigidiyor” was acquired by eBay, and there are

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<sup>460</sup> Vermeulen, E.P.M., Fenwick, M., “A Sustainable Platform Economy & the Future of Corporate Governance”, Law Working Paper N 441/2019, ECGI, March 2019, pp.5

<sup>461</sup> Milliyet, “Yemeksepeti was sold for \$ 589 Million”, accessed 27.01.2022, <<https://www.milliyet.com.tr/yemek/bilgi/yemeksepeti-589-milyon-dolara-satildi-2054297>>

<sup>462</sup> Kerr, W.R., Yucaoglu, G., “Peak Games: Hiring Priorities in Times of Rapid Growth”, Harvard Business School Case 818-083, January 2018, p.1

<sup>463</sup> Financial Times, “Zynga Acquires Turkey’s Peak Games For \$1.8bn”, 01 June 2020, accessed 28.01.2022) <<https://www.ft.com/content/3c42eeb0-8b0f-4659-9eea-9cd11b4ac452>>

<sup>464</sup> Alibaba, Form 20-F, accessed 27.01.2022, <<https://www.sec.gov/Archives/edgar/data/1577552/000104746918005257/a2235254z20-f.htm>> ; see also, Alibaba September Quarter 2021 Results, accessed 27.01.2022) <[https://www.alibabagroup.com/en/news/press\\_pdf/p211118.pdf](https://www.alibabagroup.com/en/news/press_pdf/p211118.pdf)>; see also; Taylor, D., Turkey’s E-Commerce Platform Trendyol Receives \$330 Million Additional Investment From Alibaba, 21 April 2021, accessed 27.01.2022, <<https://tech.eu/brief/turkeys-e-commerce-platform-trendyol-receives-330-million-additional-investment-from-alibaba/>>

several more e-commerce platforms and other types of digital platforms that serve different needs of their users in Turkey. Several successful tech start-ups in Turkey also operate in several different countries now.<sup>465</sup> With the help of these platforms and tech start-ups, developing countries like Turkey may directly jump into the digital age and may be able to redress their missed opportunities in terms of industrialization.<sup>466</sup>

Platforms organize themselves to facilitate collaboration among both internal and external stakeholders; therefore, platforms provide continuous innovation, and the main issue regarding the governance of these most successful companies is about establishing a flat, inclusive, and open organizational environment.<sup>467</sup> A flatter corporate governance and its promises will be examined below as an essential component of the future's corporate governance. On the other hand, the traditional, closed, hierarchical, and overly bureaucratized corporate governance model might be considered as a threat to platforms and any other business models that aim to innovate and stay relevant in the rapidly evolving World. Implementation of strictly hierarchical organizational structures to platforms may destroy the lifeblood of platforms, which is rapid and continuous innovation, and such constant innovation is nourished by above mentioned open and inclusive corporate culture.

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Digital technologies have been used by some companies in relation to corporate governance activities; for instance, virtual board meetings. However, the COVID-19 pandemic has forced almost all companies to adopt digital solutions for both daily corporate activities and board meetings. According to the survey conducted by Tricor and Financial Times Board Director Programme, 95% of the board meetings were held virtually during the pandemic, but the percentage of virtual board meetings before the pandemic was just 5%, and 50% of the boards were intended to continue to have a hybrid model for board meetings for the post-pandemic period.<sup>468</sup> Further, the survey found out that most of the boards use general applications such

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<sup>465</sup> Srivastava, A., "Getir To Launch In 15 Cities In UK With 100 Dark Stores By 2021-End", accessed 27.01.2021, UKTech, 08 July 2021, <<https://www.uktech.news/featured/getir-to-launch-in-15-cities-in-uk-in-2021-20210708>>

<sup>466</sup> Vermeulen, Fenwick, pp.5

<sup>467</sup> Vermeulen, Fenwick, pp.7-8

<sup>468</sup> David, D.W., Farzan, S., "Boards Are Undergoing Their Own Digital Transformation", accessed 28.01.2022, Harvard Business Review, 09 July 2021, <<https://hbr.org/2021/07/boards-are-undergoing-their-own-digital-transformation>>

as Google Meet, Zoom, or WeChat for virtual board meetings.<sup>469</sup> Although these applications provide a certain degree of cybersecurity, these applications are not solely designed for board meetings and it might be questionable whether such cybersecurity provided is enough for exchanging highly confidential documentation, having such meetings, and voting processes for larger meetings, i.e., annual general shareholder meetings. This might be a question for IT specialists to answer, but one possible solution -especially for the voting process- could be using block-chain-based technologies to ensure security and increase participation rate. Blockchain and its possible implementations to corporate governance will be mentioned just below, but it will also be discussed whether just adding new technologies to old systems is the correct or sole solution, or there are other options to be deployed.

Blockchain is a peer-to-peer distributed digital ledger that maintains continuously growing blocks by adding another block (after it is verified and validated) to the ledger, which are linked to the previous blocks, and a block can contain any sort of information.<sup>470</sup> Blockchain technology is based on cryptography, decentralization, and consensus, and these features ensure the security of transactions.<sup>471</sup> IBM mentions the security of blockchain as; *“Each new block connects to all the blocks before it in a cryptographic chain in such a way that it's nearly impossible to tamper with, all transactions within the blocks are validated and agreed upon by a consensus mechanism, ensuring that each transaction is true and correct”*.<sup>472</sup> There are also some concerns, such as what if the user forgets the password or if the key is stolen, or what if the computer or smart-phone used is hacked?<sup>473</sup> However, it is possible to consider that these concerns are applicable to all other digital solutions. On the other hand, there are blockchain specific concerns, such stolen or lost passwords or programming bugs will be permanent and irrevocable due to the decentralized system of blockchain technology.<sup>474</sup> Further, blockchain technology is open to Sybil attacks, and if a group of miner can procure more than 50% of a

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<sup>469</sup> David, Farzan,

<sup>470</sup> Vermeulen, E.P.M., Fenwick, M., Kaal, W.A., “Why Blockchain Will Disrupt Corporate Organizations”, TILEC Discussion Paper, October 2018, p.6

<sup>471</sup> IBM, “What is Blockchain Security?”, accessed 28.01.2002, <<https://www.ibm.com/topics/blockchainsecurity>>

<sup>472</sup> IBM,

<sup>473</sup> IBM,

<sup>474</sup> Vermeulen, Fenwick, Kaal, pp.9

blockchain network's mining power, then they can manipulate the ledger.<sup>475</sup> Nevertheless, blockchain technology has too much to offer, and in the near future we may witness blockchain based corporate governance practices all over the Globe.

Lawmakers have also been arguing whether blockchain technology can be used for general elections. For instance, European Parliament's Research Services claimed that e-voting through blockchain technology may speed up, simplify and reduce election expenses as well as may lead to higher participation rates.<sup>476</sup> Similarly, there have been discussions about whether blockchain technology can bring higher participation rates and enhanced security for shareholders' voting process. It has been suggested that if the concerns and shortcomings in relation to blockchain will be mitigated, such technology has the potential to revolutionize the shareholder voting process by providing accuracy, transparency, and trust as well as increased participation and lesser costs.<sup>477</sup>

Nevertheless, possible usage of blockchain technology is not limited to the voting process. For instance, blockchain may eliminate intermediaries in the stock exchanges and therefore expedite trade executions and settlement arrangements, and consequently increase liquidity.<sup>478</sup> Furthermore, due to the increased transparency that blockchain can provide, it may prevent corruption by obstructing stock option backdating, or enable shareholders to examine and verify ownership structures arrangements of publicly listed companies.<sup>479</sup>

Implementing blockchain as well as other emerging technologies into corporate governance may offer some opportunities. Undoubtedly, technology plays a vital role in connecting people, accelerating decision-making processes, saving time and money, and exchanging information. However, the important point is to acknowledge that adding new technologies to existing old models may not result in a sustainable solution, because such emerging

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<sup>475</sup> IBM,

<sup>476</sup> Boucher, P., "What if blockchain technology revolutionized voting?" , European Parliamentary Research Service, Scientific Foresight Unit, September 2016, pp.2

<sup>477</sup> Daniels, A., "Blockchain & Shareholder Voting: A Hard Fork for 21<sup>st</sup> Century Corporate Governance", University of Pennsylvania Journal of Business Law, 21 J. Bus. L. 405, 2018, pp.440

<sup>478</sup> Vermeulen, E.P.M., Fenwick, M., "Technology and Corporate Governance Blockchain, Crypto, and Artificial Intelligence" , EGCI, Law Working Paper N 424/2018, November 2018, pp.8

<sup>479</sup> Yermack, D., "Corporate Governance and Blockchains, Review of Finance (Forthcoming)" ,08 December 2015, pp.3 , See also; Vermeulen, Fenwick, pp.9



technologies have too much more to offer than just to be considered as a solution to old problems.<sup>480</sup> Emerging technologies such as blockchain, smart contracts, the internet of things, and artificial intelligence can be used as a basis for different sorts of businesses, such as decentralized autonomous organizations. This issue will also be mentioned below. However, it should be noted here that it might be a more brilliant and better option to focus on what these new technologies can bring “new”, rather than trying to eliminate the shortcomings of traditional businesses with the help of such emerging technologies.

A recent study that aimed to demonstrate the necessity for companies to digitally transform concluded that “firms aiming to transform digitally not only need to have digital assets, but also acquire or develop capabilities related to digital agility, digital networking and big data analytics, and organizations need to develop agile structures with low levels of hierarchy, and internalize IT and functional analytical skills within the firm”.<sup>481</sup>

As a matter of fact, digitalization or digital transformation is much more than just acquiring some digital assets or as mentioned above, adding new technologies to old structures. As explained below, today’s agile firms have flatter governance structures that allow them to innovate continuously.

Finally, there is also another issue that needs to be addressed. Above mentioned study of Tricor and Financial Times found that there is a lack of digitally savvy and relevant training regarding emerging digital technologies and business models among board members; the study revealed that 94% of surveyed directors need more training, but only 54% of them receives such necessary training.<sup>482</sup> On one side, emerging technologies have been dramatically changing peoples’ life, society, way of doing business, advertising and marketing activities, communication styles, and even the form of corporations, i.e., platforms. On the other side, a significant number of board members fall short of understanding emerging technologies. As mentioned, Section 6 will examine the World’s Most Innovative Companies, and it is determined that other than just a few exceptions, all of the boards of the World’s most innovative companies are digitally conversant. It is further determined within the scope of this

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<sup>480</sup> Vermeulen, Fenwick, pp.9

<sup>481</sup> Verhoef, P., Broekhuizen, T., Bart, Y., Bhattacharya, A., Dong, J.Q., Fabian, N., Haenlein, M., “Digital Transformation: A Multidisciplinary Reflection And Research Agenda”, *Journal of Business Research*, 122, 2021, pp. 894-895

<sup>482</sup> David, Farzan,

thesis that the average increase in those most innovative companies' share prices was more than 600% between 2011-2021. Further, a study conducted at MIT in 2019 demonstrated that companies whose board of directors are digitally conversant outperform companies whose boards lack it, in terms of financial performance.<sup>483</sup> Hence, in order for companies to innovate, stay relevant, and financially perform well, more and more digitally savvy board members need to be presented in board rooms. It should be noted that electing more technical experts and digitally conversant board members should be the number one strategy for every firm.

### *Metaverse*

The tech world has been keeping its ears to the ground about the next big digital advancement, the famous "metaverse". Although metaverse is not a new concept, especially after Facebook's CEO Mark Zuckerberg's letter dated 28 October 2021, in which he announced that the company's name now changed to "Meta", the attention to the concept of metaverse increased significantly. Zuckerberg claimed that metaverse is the beginning of the next chapter of the Internet, and in the near future, people will be able to "teleport" in this fictional world "as a hologram to be at the office (or anywhere else) without a commute".<sup>484</sup> The term "metaverse" was used first time in Neal Stephenson's novel named Snow Crash published in 1992, and presented as a fully realized digital world.<sup>485</sup> A metaverse can be thought of as a digital parallel universe created by computer codes, which will be connected through special devices, i.e., virtual reality headsets.

Microsoft is also one of the tech companies that focused on metaverse. Microsoft has an online communication platform named Teams, which especially has been used widely by business professionals during the coronavirus pandemic. Microsoft also built a holographic communications program developed on Microsoft Teams ("Mesh"), and according to Microsoft, *"Mesh enables people to connect with a holographic presence, share across space, and collaborate from anywhere in the world; you can enhance virtual meetings, conduct virtual design*

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<sup>483</sup> Weill, P., Apel, T., Woerner, S., Banner, J., "It Pays to Have a Digitally Savvy Board", MIT Sloan Management Review, 2019, pp.41

<sup>484</sup> Meta, "Founder's Letter 2021", 28 October 2021, accessed 02.02.2022, <<https://about.fb.com/news/2021/10/founders-letter/>>

<sup>485</sup> Vermeulen, E.P.M., "Don't Fear the Future. It Will Be Fantastic, If...", accessed 02.02.2022, Medium, 30 July 2021, <<https://medium.com/predict/dont-fear-the-future-it-will-be-fantastic-if->>

sessions, help others remotely, host immersive virtual meet-ups to boost productivity, and Mesh provides a natural collaboration experience in mixed reality, with 3D avatars representing people in a shared space".<sup>486</sup> Although Facebook brings its metaverse's social features to the fore, it seems that Microsoft concentrates more on the business side of metaverse. For instance, it is stated that Microsoft's metaverse will bring colleagues together to share experiences, training and learnings can be done through the platform, it will host virtual meetings, designing will be more feasible, and connection and collaboration will be significantly enhanced.<sup>487</sup>

Metaverse might be the next big technological development that may have significant impacts on business life. However, instead of adding this new technology to the old corporate world, it might be better to focus on the innovations that it will bring together. Metaverse might also create new business areas such as a digital marketplace or online shopping through metaverse (most probably cryptocurrencies will be used for these features). Time will show whether it will be successful or not, but it should be noted again that instead of adding new technologies to the old corporate world, the strategy should acknowledge the emerging models and developments as the new ways of doing business in the digital age.

### 5.3. A Flatter Governance Structure

As has been explained above, many companies are still organized as hierarchies, such an organization creates the above mentioned problems, and it is getting more compelling for them to compete against flatter companies that adopt the best-idea-wins culture.<sup>488</sup> But what a flatter governance structure exactly is? Very basically, a flatter governance structure or "flat hierarchy" is the opposite of strict traditional hierarchies that provide a long chain of command, clear boundaries between different departments or units, inflexible internal rules and procedures, a highly centralized decision making process, and strict superior-subordinate relationship and communication.

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<sup>486</sup>Microsoft, "Microsoft Mesh (Preview) Overview", 17.01.2022, accessed 02.02.2022, <<https://docs.microsoft.com/en-us/mesh/overview>>

<sup>487</sup> Microsoft,

<sup>488</sup> Vermeulen, E.P.M., "We Are Already Living in the Future: Why Everyone Must Understand the Digital Age Now", Medium, 10 September 2017, accessed 23.01.2022, <<https://medium.com/hackernoon/we-are-already-living-in-the-future-c69443606805>>

However, there is no one-size-fits-all implementation of a fully flat or flatter governance as an organizational structure. For instance, Valve -a video game company- has a completely flat structure that does not have any managers, and even the founder of the company indicates that he is not a manager.<sup>489</sup> Further, at Valve, an employee can choose which project he will be participated in, there are self-organized teams, everyone can join the decision making process directly, and one quite interesting thing is that employees' desks have wheels so that they can just move closer to their colleagues whom they are working on a certain project together with.<sup>490</sup> Hence, it is clear that Valve has a fully flat organizational structure. Another flat company is Basecamp -a U.S.-based software company- which is internally organized as working teams without managers and vertical hierarchies.<sup>491</sup>

In 2018, Tesla's CEO Elon Musk sent an email to his employees and stated that Tesla is undergoing a reorganization to improve communication and enhance innovation by flattening the management structure, which happened by removing the middle management.<sup>492</sup> Apple also has a flatter structure; instead of having separate profit and loss statements for different departments, Apple has a single profit and loss statement, and different units are combined into a functional organizational structure since Steve Jobs' second time at Apple-1997.<sup>493</sup> So that, the degree of flatness is various and depending on the expectations and implementations of companies.

Nevertheless, it should be noted that the matter is not solely comprised of shortening or extinguishing the chain of command. The main issue is creating an environment where employees can openly communicate and collaborate without stumbling against strict boundaries or bureaucracies. Under an open communication and collaboration environment,

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<sup>489</sup> Valve, "Handbook for New Employees, A Fearless Adventure In Knowing What To Do When No One's There Telling You What To Do", accessed 28.01.2022, Valve Press, 2012, pp.4 <[https://cdn.cloudflare.com/apps/valve/Valve\\_NewEmployeeHandbook.pdf](https://cdn.cloudflare.com/apps/valve/Valve_NewEmployeeHandbook.pdf)>

<sup>490</sup> Valve,

<sup>491</sup> Fried, J., "Why I Run a Flat Company", accessed 28.01.2022, INC, 01 April 2011, <<https://www.inc.com/magazine/20110401/jason-fried-why-i-run-a-flat-company.html>>

<sup>492</sup> Walker, S., "There's a War on Middle Management and Tesla Just Joined It", accessed 28.01.2022, The Wall Street Journal, 18 May 2018, <<https://www.wsj.com/articles/theres-a-war-on-middle-management-and-tesla-just-joined-it-1526648400>>

<sup>493</sup> Podolny, J.M., Hansen, M.T., "How Apple Is Organized for Innovation : It is about Experts Leading Experts", accessed 28.01.2022, Harvard Business Review, November/December 2020, <<https://hbr.org/2020/11/how-apple-is-organized-for-innovation>>

the best-idea-wins culture can be established, and the true meaning of co-creation can be revealed. Co-creation, collaboration, and communication will be examined in detail in the following sub-chapter. However, it should be noted here that these vital components can only be effectively and successfully managed under a flatter governance structure. As a matter of fact, flat hierarchy is more about creating an open and inclusive corporate culture rather than merely focusing on reorganizing the internal hierarchical structures.

The platform model may provide the desired flat hierarchy in a good manner. An ecosystem that is comprised of a platform, its users, content creators, and all other stakeholders removes the boundaries between inside and outside of the business as well as restructures internal texture by erasing the variance between vertical divisions, and horizontal layers.<sup>494</sup> The traditional roles as superior and subordinate are disrupted in such an ecosystem; more fluid and dynamic roles have emerged, and a culture of entrepreneurship as the main driver of high-performance teams comes to the forefront.<sup>495</sup>

However, when a platform grows over time, it may likely develop a hierarchical structure, and separations between different units and teams may take place, which will be vitally dangerous for such a platform since the building block of a platform is constant innovation which can be achieved through a flat structure, and open and inclusive culture.

It has been suggested that a hierarchical structure is the only option for managing a large number of employees and maintaining unambiguous accountability.<sup>496</sup> However, there are examples that prove the opposite. Chinese home appliance company Haier has more than 16.000 employees.<sup>497</sup> However, the company is divided into more than 4.000 micro-enterprises, and procedures and processes are replaced by innovation and creativity.<sup>498</sup> Haier has a flat

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<sup>494</sup> Vermeulen, E.P.M., Fenwick, M., "The End of the Corporation", Law Working Paper N 482/2019, EGCI, November 2019, pp.18

<sup>495</sup> Vermeulen, Fenwick, ipp.18

<sup>496</sup> Jaques, E., "In Praise of Hierarchy", accessed 29.01.2022, Harvard Business Review, January/February 1990, <<https://hbr.org/1990/01/in-praise-of-hierarchy>>

<sup>497</sup> Slotta, D., "Number of Employees at Haier Electronics Group Co., Ltd. from 2010 to 2019", accessed 29.01.2022, Statista, 31 May 2021, <<https://www.statista.com/statistics/427102/employee-number-of-haier-electronics-group/>>

<sup>498</sup> Vermeulen, Fenwick, pp.19

structure that consists of self-management teams.<sup>499</sup> Netflix has around 10.000 employees and its culture and flatter governance are explained above.

It has also been suggested that flat organizations completely lack accountability due to much collaboration means that the decisions are owned by no one.<sup>500</sup> If the goal is to find someone to blame when a decision fails, this assertion might be correct. On the contrary, a flat, fluid, and open culture provides more transparency. In the 20th century, low risk was about minimizing mistakes and failures, however, in the 21st-century mistakes and failures are embraced since they come with learning opportunities.<sup>501</sup> The failure of a collective decision that is made through the enhanced collaboration of both internal teams and external inputs might be considered an experiment that will demonstrate its value in future's decision-making processes. It also should be noted that the tech, data, and community-driven decision-making style of flat structured platforms might provide better and well-suited decisions. Perhaps the problematic issue is about observing the digital age from an old perspective. However, digital technologies and flat structure will not create a lack of accountability; instead, technology has the potential to enhance and ensure accountability.<sup>502</sup>

### 5.4. Co-creation – Collaboration – Communication

One of the components of tomorrow's governance and culture will be presented as "co-creation" in this sub-chapter, which requires continuous collaboration and communication among the company, its shareholders, employees, business partners, and customers.

Employees are presented as a vital part of the corporate governance equation above. However, another vitally important constituent of the equation is customers. The main point is to consider customers more than just "someone to sell something" but as business partners, and benefit from them by learning from them through actively communicating with them. Hence,

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<sup>499</sup> Haier, Company Overview, accessed 29.01.2022, <<https://www.haier.com/global/about-haier/intro/>>

<sup>500</sup> Diamond Leadership, "How Flat Organizations Become Toxic", accessed 02.02.2022, <<https://diamondleadership.com/challenges-of-flat-organizations/>>

<sup>501</sup> Vermeulen, Fenwick, pp.19

<sup>502</sup> Vermeulen, E.P.M., Fenwick, M., "Technology and Corporate Governance Blockchain, Crypto, and Artificial Intelligence", Law Working Paper N 424/2018, ECGI, November 2018, pp.13

including customers into governance. However, what is meant here is not about traditional customer surveys; a more direct and effective way of communication and collaboration.

Herein, it is worth talking about the evolution of “customers” briefly. The history of commerce is old as human history; it started with basic exchanges during the times of hunter and collector tribes and developed after the agricultural revolution and invention of “money”,<sup>503</sup> since ancient times, marketplaces have always been hosted merchants and their customers.<sup>504</sup> But things have started to significantly change after the industrial revolution and commencement of mass-production of goods, and eventually at the beginning of the twentieth century, companies started to teach customers about “how to use” and “for what reason to use” the products.<sup>505</sup>

As Cochoy cited from Strasser; at the beginning of the twentieth century “Kodak began selling its cameras with sample photo albums illustrating all possible uses of them, and Colgate disseminated brochures on dental hygiene to create a need for toothpaste”.<sup>506</sup> Ever since, the issue has been more or less the same. Companies advertised their products on billboards, newspapers, radios, and eventually on the TV, and directed customers on what to buy and why to buy. Over time, the concept of brand loyalty has emerged. Basically, brand loyalty means customers’ positive attitude regarding a brand by purchasing continuously such brand’s products without considering buying its rivals’ products.

However, something has happened recently, and customers have become smarter. What happened was digitalization and technological developments. Internet, smartphones, and fast computers have connected everyone including companies and customers. Due to such advancements, brand loyalty became less critical than consumer reviews on online platforms and its combination with software rating algorithms, in terms of creating trust for customers.<sup>507</sup> For instance, an exchange platform enables manufacturers to put its products on the block

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<sup>503</sup> Harari, Y. N. , “Sapiens : a Brief History of Humankind”, New York, Harper, 2015, pp. 179-184

<sup>504</sup> Cochoy, F., “A Brief History of Customers or the Gradual Standardization of Markets and Organizations”, *Sociologie du Travail*, 47, Elsevier, 2005, pp.36

<sup>505</sup> Cochoy, pp.38

<sup>506</sup> Cochoy, pp.38

<sup>507</sup> Vermeulen, E.P.M., “We Are Already Living in the Future: Why Everyone Must Understand the Digital Age Now”, accessed 02.02.2022, Medium, 10 September 2017, <<https://medium.com/hackernoon/we-are-already-living-in-the-future-c69443606805>>

online, then customers can purchase the products through the platform. However, most importantly, customers can rate and write comments about the products. So that the next customer may judge the product by its ratings and such comments. Hence, technological developments have significantly changed the nature of consumption and the customer behavior.<sup>508</sup>

However, something else also has changed other than customer behavior. As mentioned, digital platforms enabled users and customers to provide direct feedback to content creators as well as to companies. Before, the communication between companies and their customers was unilateral. The only party that was allowed to deliver messages was companies by way of advertisements. Of course, there were consumer surveys conducted, and a customer could provide his feedback to a company by writing a complaint letter, making a phone call, or even filing a lawsuit against the company. However, it is clear that due to the platforms and the internet, communication between customers and companies has now truly become bilateral. Hence, it might be the time for companies to learn from customers.

At this point, the concept of co-creation becomes prominent. Stakeholder co-creation is defined as collaborative activities conducted with interdependent external stakeholders during a firm's innovation process.<sup>509</sup> However, within the scope of this sub-chapter, co-creation should also include internal stakeholders, such as investors and employees. Thus, the definition of co-creation might be a firm's innovation activities that are nourished by both internal and external stakeholders' inputs through open communication, and active and constant collaboration.

When it comes to co-creation, stakeholder engagement also needs to be defined and understood. Stakeholder engagement is a state where a mutual commitment of a firm and its stakeholders is reached for creating sustained value and long term relationships through cooperation and reciprocal understanding of each other's interests.<sup>510</sup>

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<sup>508</sup> Malter, M.S., Holbrook M.B., Kahn, B.E., Parker, J.R., Lehmann, D.R., "The Past, Present, and Future of Consumer Research", *Marketing Letters*, 31, 137–149, Springer, 2020, pp.143-144

<sup>509</sup> Kazadi, K., Lievens, A., Mahr, D., "Stakeholder Co-creation During the Innovation Process: Identifying Capabilities for Knowledge Creation Among Multiple Stakeholders", *Journal of Business Research*, 69, 525-540, Elsevier, 2016, pp.525

<sup>510</sup> Loureiro, S.M.C., Romero, J., Bilro, R.G., "Stakeholder Engagement in Co-creation Process for Innovation: A Systematic Literature Review and Case Study", *Journal of Business Research*, 119, Elsevier, 2020, pp.310-311



Stakeholder engagement activities of companies are various. For platforms, it is easier to engage with stakeholders, since the model is designed, and in fact, based on continuous collaboration and communication among interdependent groups. However, there are also other companies that value stakeholder engagement and attempt to co-create with stakeholders. Danish toy producer company Lego might be an excellent example of a company that successfully engages with its customers. In 2008, Lego entered into a partnership with a Japan crowdsourcing platform Cuusoo, and since then, it has been actualizing the product ideas of its members (according to the information provided at Lego's website, it has more than 1 million members and more than 26000 product ideas were submitted by those).<sup>511</sup> The system is simple, the members submit their ideas and designs for a new product through the platform, and other members rate and comment about the designs. If a design gets a certain number of "likes", then Lego produces such a model. This sort of co-creation with customers is beneficial for a couple of reasons. First of all, no company can employ one million designers; therefore, crowdsourcing may offer various and vast numbers of ideas and resources. Second, through such platforms, a firm can test whether the next product will be found desirable by the customers and sold. What Lego has been doing is a basic customer co-creation activity, but what makes it possible is again a platform that brings together the company and customers where customers can provide their ideas as well as comments and ratings.

According to Microsoft, the tech giant actively engages with all of its stakeholders, including customers. Through online feedback, research forums, surveys, communities as well as customer service representatives, Microsoft actively engages with its customers and accordingly shapes its existing products, and develops new products.<sup>512</sup> For instance, it is stated that Microsoft reached more than fifteen million users and developers to get their feedback in relation to Windows 10, and improved the operating system in line with the feedback.<sup>513</sup>

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<sup>511</sup> Lego, "Celebrating 10 Years of Crowdsourcing and Co-creation with LEGO Fans", accessed 03.02.2022, 08 November 2018, <<https://www.lego.com/da-dk/aboutus/news/2019/october/ideas-10th-anniversary/>>

<sup>512</sup> Microsoft, "Microsoft Stakeholder Engagement in the Governance of Corporate Social Responsibility", accessed 03.02.2022, <<https://query.prod.cms.rt.microsoft.com/cms/api/am/binary/RE2FHO4>>

<sup>513</sup> Microsoft,

Furthermore, Microsoft has a customer co-creation program that offers surveys, focus groups and most importantly one on one conversations between customers and engineers.<sup>514</sup> It is stated that this program is not solely focused on receiving customers' feedback after a product is produced, but it enables customers to join the early stage of development process, so that such customers may influence the product beforehand.<sup>515</sup> Especially creating an opportunity for customers to communicate with engineers directly is a pretty logical strategy, which will create more trust, engagement, and an improved customer experience.

Socios.com and its mobile application can be considered as a good example of a platform that enables stakeholder engagement and co-creation. Through Socios, football clubs' fans can engage with the clubs they support. Socios is a blockchain-based application that is powered by a cryptocurrency named Chiliz; fans can purchase or earn Chiliz tokens from their football clubs which grant a certain degree of decision-making power in relation to a few numbers of matters.<sup>516</sup> There are currently 49 sport clubs joined Socios platform, and AC Milan, Arsenal, Barcelona, Manchester City, Paris Saint-Germain, Napoli, AC Roma, and Valencia are some of the major participant clubs.<sup>517</sup> If we consider the football clubs' fans as customers, Socios platform creates a base for such customers to vote on certain matters ranging from deciding on the design of clubs' autobuses to determining on which songs will be played at the stadiums.<sup>518</sup> Further, through the application, fans are entitled to receive certain rewards which are aimed at creating an enhanced engagement between the clubs and their fans.<sup>519</sup> Several more platforms like Socios operate through their cryptocurrencies, which can be considered as "loyalty" coins that may provide access to "products, services, discounts, and other benefits and offer liquidity through selling or exchanging such coins on crypto exchange platforms".<sup>520</sup> These cryptocurrency based platforms are also good examples of community

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<sup>514</sup> Microsoft, "Customer Co-creation, Lend Your Voice To The Next Generation Of Microsoft Products", accessed 03.02.2022, <<https://customercocreation.microsoft.com/Home/Index>>

<sup>515</sup> Microsoft,

<sup>516</sup> Socios, "How It Works", accessed 02.02.2022, <<https://www.socios.com/the-app/>>

<sup>517</sup> Socios, "Fan Tokens", accessed 02.02.2022, <<https://www.socios.com/fan-tokens/>>

<sup>518</sup> Socios, Polls, accessed 02.02.2022, <<https://www.socios.com/socios-polls/>>

<sup>519</sup> Socios, Rewards, accessed 02.02.2022, <<https://www.socios.com/socios-rewards/>>

<sup>520</sup> Vermeulen, Fenwick, Kaal, pp.13

owned and driven platforms.<sup>521</sup> Communities will be examined below as another vital component of the future's corporate governance.

Until this point, co-creation with customers is mentioned; however, as stated, the strategy of co-creation should also include employees as a group of internal stakeholders. One might assert that employees are paid for creating value, and they have contractual duties to do so. Nevertheless, this assertion may not be correct for companies that have strict hierarchic structures and bureaucratic corporate cultures. Under this traditional structure, roles and responsibilities are clearly defined, employees are obliged to do as instructed, and they may not act outside of their "job description" or internal procedures. Accordingly, the traditional company cannot fully co-create with its employees, it may only mandate its employees to undertake pre-defined works. For instance, let us assume that an employee has an idea regarding a process or product. He needs to share his idea with his department manager, then the department manager might need to check the procedures whether it is possible to actualize such idea. Then, if the department manager likes the idea, he/she will direct it to unit manager. Only if the unit manager likes the idea, he/she might direct it to management board or CEO, and then maybe the idea will be transmitted to and discussed by the supervisory board. Hence, the entrepreneur employee's idea needs to pass through four or five layers to reach the correct "authority". Another problem is that the department manager or unit manager has the "liberum veto", but do not have the power to actualize the idea.<sup>522</sup> Further, only the creator of such an entrepreneurial idea may possess a complete understanding of the idea, and through the layers, the authenticity and effectiveness of the idea might be lost.<sup>523</sup> There is an idiom "lost in translation" describing a situation where the true meaning of something cannot be completely reflected when it is translated into another language. Similarly, the above mentioned situation can be defined as "lost in the hierarchy".

On the other hand, a flatter governance structure, open communication, and best-idea-wins culture can clearly provide the necessary environment for employees to innovate, and for companies to co-create with employees.

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<sup>521</sup> Vermeulen, Fenwick, pp.14

<sup>522</sup> Barkus, D., "Why Hierarchy Stifles Creativity", accessed 02.02.2022, Psychology Today, 23 March 2014, <<https://www.psychologytoday.com/us/blog/creative-leadership/201403/why-hierarchy-stifles-creativity>>

<sup>523</sup> Barkus,

Flatter governance does not mean that the roles and responsibilities of employees will not be defined at all. For instance, the most basic responsibilities of marketing employees, accountants or lawyers would be the same for both traditional company and flatter company. However, a flatter governance structure has the potential to provide more flexibility and autonomy through promoting innovative and best-idea-wins cultures by facilitating an environment for open communication and enhanced collaboration between all the participants.

Another internal stakeholder group is shareholders. Under the traditional corporate governance structure, shareholders participate in governance by exercising their voting rights during annual general assemblies or communicating with the executives during such general meetings or earnings calls. Shareholders do not have any direct involvement in the daily course of business as well as decision making processes. Typically, shareholders receive information from companies on a quarterly and annual basis through reports, or through news or other informative articles and materials published on their company's websites. Hence, if a company does not take any creative initiatives to better engage with its shareholders, it is compelling to talk about shareholder engagement or shareholder co-creation under the traditional structure of corporate governance.

However, there can be some cases where shareholders are included in the board of directors. For instance, an angel investor of a start-up might likely take part in the board to provide insight and guidance since the founders of such a start-up may not have the relevant experience for administering a firm. Nevertheless, what is meant by shareholder engagement and co-creation under this sub-chapter differs from shareholders' direct involvement in the board. It is more about a firm's co-creation with shareholders through active and direct communication and collaboration. For instance, Tesla's CEO Elon Musk actively engages with the shareholders of Tesla through social media settings in which shareholders directly interact with the ideas of the CEO.<sup>524</sup>

According to Microsoft, in addition to traditional investor communication channels, the company communicates with its shareholders through director video interview series, independent members of the board also directly communicate with shareholders, and the

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<sup>524</sup> Kennedy, E.L., "Firm Motivations for Shareholder Co-creation", *Journal of Creating Value*, 5(1), Sage Publications, 2019, pp.54

company actively reaches to institutional shareholders and gathers their feedback which are then reported to the board.<sup>525</sup>

It has been suggested that extended shareholder engagement activities, in addition to annual meetings and earning calls, are important for investors because these activities can ensure that shareholders can check whether the companies that they invest in have adequate corporate governance practices.<sup>526</sup> However, this is not what we refer to as shareholder co-creation or shareholder engagement. This is a typical monitoring and inspection activity that builds a wall between executives and shareholders, and it is a sole reflection of shareholder wealth maximization idea. Of course, shareholder engagement activities shall include open communication and the exchange of information in a highly transparent way, but the main purpose is not to create a ground for shareholders to inspect executives. Instead, the main purpose is to create an environment for exchanging ideas and improving collaboration among all stakeholders. Such collaboration and communication should be aimed at achieving more and more innovation. Nevertheless, this can be only possible if shareholders have an aligned understanding and goal with the firm. Otherwise, the efforts of directors to achieve enhanced communication and collaboration may be unavailing.

There are several benefits of actively engaging and co-creating with shareholders. Shareholders can have an understanding of the market and industry; therefore, shareholders may provide different views and expertise as well as increase intellectual property resources.<sup>527</sup> Furthermore, better decisions can be made by a board by connecting with institutional shareholders and discussing certain matters with them, and since the same institutional investors might be attracted by peers and competitors, companies may identify opportunities and get a better sense of their rivals.<sup>528</sup>

A firm can also co-create with its business partners as well as other companies through open communication and constant collaboration. A firm's business partners might be its suppliers, creditors, manufacturers, agents, distributors, and even external law or accounting firms that

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<sup>525</sup> Microsoft,

<sup>526</sup> Mehta, T., "Shareholder Engagement: Maximizing the Shareholder Relationship", *Executive Compensation Insights*, Vol 13.3, ISS Corporate Services, 2013, pp.1-6

<sup>527</sup> Kennedy, p.61

<sup>528</sup> McCahery, J., Vermeulen, E.P.M., "Six Components of Corporate Governance that cannot be Ignored", *Tilburg Law School Legal Studies Research Paper Series No 08*, 2014, pp.25

a company receives professional services externally. But more importantly, technical experts, such as software developers. As mentioned above, customers need also be considered as business partners rather than just consumers.

A company can also collaborate with other firms, even with its competitors. Companies have been establishing strategic partnerships among themselves for a long time. For instance, many joint ventures are established by two or more companies to gain access to a foreign market or more resources, such as technical expertise, or focus on certain projects or minimize risks. For example, Microsoft and General Electric established a joint venture named Caradigm in 2012 in order for healthcare professionals' to use "organization-wide intelligence to improve healthcare quality and the patient experience".<sup>529</sup> Turkish Airlines and Lufthansa created a joint venture named Sunexpress in 1989, which is headquartered in İzmir (a metropolitan city located next to the Aegean coast of Turkey), so that both companies gained more access to foreign markets especially in terms of holiday flights.<sup>530</sup> In 2014, Uber and Spotify entered into a strategic partnership; people who have Spotify premium accounts could be able to listen to their own music while having a Uber ride.<sup>531</sup> Such a partnership was aimed to improve the user experience of both applications.

However, what we are referring to by co-creation with business partners is slightly different from these examples of joint ventures and strategic partnerships. It is more about innovating and improving together, for instance, software developers' inputs to a platform's open-source software. In fact, open source software presents a quite good example of co-creation. Open source software is a computer software whose source code can be modified and enhanced by anyone, and it is suggested that the open development model ensures the creation of more stable, innovative, and secure technologies.<sup>532</sup>

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<sup>529</sup> Microsoft, "Microsoft and GE Healthcare Complete Joint Venture Agreement", 06 June 2012, accessed 03.02.2022, <<https://news.microsoft.com/2012/06/06/microsoft-and-ge-healthcare-complete-joint-venture-agreement/>>

<sup>530</sup> Sunexpress, "New Strategic Positioning For Sunexpress: Clear Focus On Tourism In Turkey", 23 June 2020, accessed 03.02.2022, <<https://www.sunexpress.com/en/company/media-center/press-releases/new-strategic-positioning-for-sunexpress>>

<sup>531</sup> Kleinman, Z., "Uber And Spotify Launch Car Music Playlist Partnership", BBC News, 17 November 2014, accessed 03.02.2022, <<https://www.bbc.com/news/technology-30080974>>

<sup>532</sup> RedHat, "Open Source: Creating Better Technology with Open Source", accessed 03.02.2022, <<https://www.redhat.com/en/about/open-source>>

For instance, Linux is an open-source operating system that can be run and modified by anyone, and such modifiers may also sell the modified code.<sup>533</sup> Although, Linux's operating system global market share in relation to personal computers, smartphones, and tablets are just around 1%<sup>534</sup>, Linux is the most common operating system used in supercomputers.<sup>535</sup> However, Android OS has the biggest market share in relation to personal computers, smartphones and tablets,<sup>536</sup> and Android OS operating system based on Linux and some other open-source softwares, and the developer of Android OS is an international alliance group comprised of 84 tech companies including Google, Vodafone, Acer, Dell, Huawei, LG, Toshiba, Intel, NVIDIA, eBay, and Huawei.<sup>537</sup>

As argued, platforms operate on the basis of continuous collaboration between different groups. Collaboration and co-creation are in the nature of platforms. For instance, Amazon partners with external producers to sell their products, and Amazon offers such producers an online store, an algorithm-driven search engine, an online payment system and a distribution channel.<sup>538</sup> Thus, such a collaboration between a producer and Amazon decreases the producer's expenses, such as rent or labor expenses, and provides an expanded market that millions of customers can reach in seconds. For the customers, product ratings and user comments, as well as algorithm-driven search engines, support them in finding products they want and evaluating such products with the help of previous customers' comments.<sup>539</sup> The inputs and feedback of multiple stakeholders are used to improve customers' and users' engagement with the products and services provided as well as platform's itself.<sup>540</sup> Platforms

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<sup>533</sup> RedHat, "What is Linux?", 27 February 2019, accessed 03.02.2022, <<https://www.redhat.com/en/topics/linux/what-is-linux>>

<sup>534</sup> Stat Counter, "Operating System Market Share Worldwide", Jan 2021-Jan 2022, accessed 03.02.2022, <<https://gs.statcounter.com/os-market-share>>

<sup>535</sup> Stack Scale, "The 500 Most Powerful Supercomputers Use Linux", 25 November 2021, accessed 03.02.2022, <<https://www.stackscale.com/blog/most-powerful-supercomputers-linux/>>

<sup>536</sup> Stat Counter,

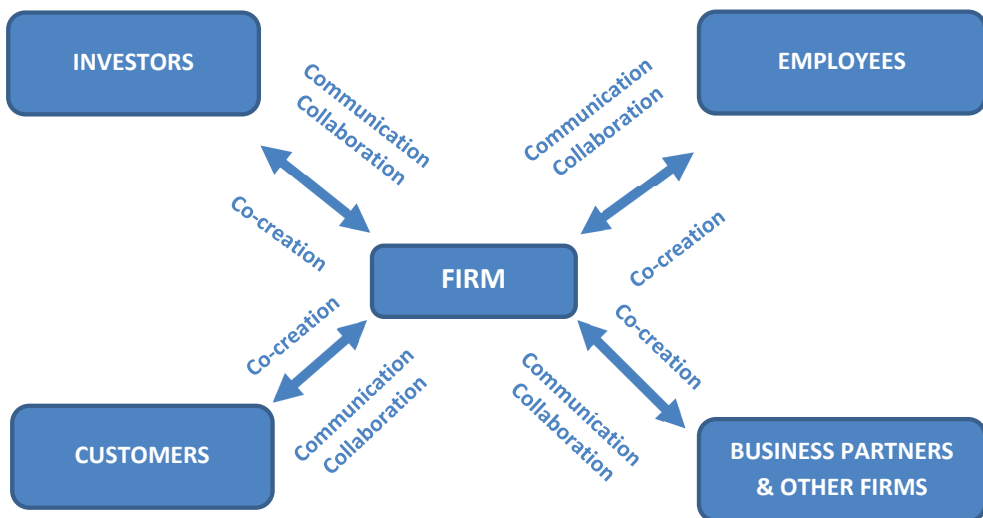
<sup>537</sup> Open Handset Alliance, Alliance, accessed 03.02.2022, <<https://www.openhandsetalliance.com/index.html>>

<sup>538</sup> Vermeulen, Fenwick, pp.8

<sup>539</sup> Sorokina, D., Cantu-Paz, E., "Amazon Search: The Joy of Ranking Products", accessed 03.02.2022, Amazon, 2016, <<https://www.amazon.science/publications/amazon-search-the-joy-of-ranking-products>>

<sup>540</sup> See: Amazon, "Customer Engagement on AWS: Engage Your Customers Throughout Their Lifecycle", accessed 03.02.2022, <<https://aws.amazon.com/tr/products/customer-engagement/>>, see also: Theogene, D., AMZ

enable collaboration among internal stakeholders, such as employees and investors, and external stakeholders, such as customers, developers, other companies, non-profits and governments, and such collaboration is the main driver of constant innovation that platforms provide.<sup>541</sup> Digital platforms provide an environment and architecture that can offer open, and flexible collaboration among the said stakeholders.<sup>542</sup> Hence, from every aspect, co-creation with different groups of stakeholders is significantly important and beneficial for both the firm and its all stakeholders. The below figure demonstrates the idea of co-creation with all stakeholders:



**Figure 7 : Stakeholder Co-creation**

*Source: Own idea*

As shown, co-creation with both internal and external stakeholders has too much to offer. Through active communication and collaboration, companies may innovate constantly, and this situation will serve the interests of everyone. Customers may have a better experience by

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Advisers, "Amazon's New Customer Engagement Tool Is Here For You", 13 May 2021, accessed 03.02.2022, <<https://amzadvisers.com/amazons-new-customer-engagement-tool-is-here-for-you/>>, see also; Vermeulen, Fenwick, pp.8

<sup>541</sup> Vermeulen, Fenwick, pp.7

<sup>542</sup> Aulkemeier, F., Iacob, M.E., Hillegersberg, J.V., "Platform Based Collaboration in Digital Ecosystems", Electronic Markets, 29, 2019, pp.598



actively participating in such processes, which can also increase customer trust and loyalty. Similarly, employees' engagement and motivation levels might be significantly increased since they will be doing something meaningful in an autonomous and flexible way. However, these can only be possible in an open communication environment, which will ensure that companies will make better decisions, internal know-how will increase, and problems will be dealt with more effectively.<sup>543</sup> Furthermore, companies may establish a broader and more profound network with their stakeholders and procure more information that is necessary for strategic planning.<sup>544</sup> Finally, it should be noted that the platform model may provide all of the required infrastructures by enabling open communication, the best-idea-wins culture, and a flatter governance structure for achieving enhanced collaboration, communication and co-creation.

### 5.5. Communities

As strongly indicated above, gathering feedback and actively communicating with stakeholders is of great importance. The main idea of this chapter is that creating a community and actively engaging with the participants of such a community can be highly beneficial for corporations. Nevertheless, the most important point is to include such community's participants in corporate governance. Basically, companies can do this by considering the feedback and inputs received from the community members while decision-making processes. This is one aspect; however, as will be mentioned below, there are also fully community-driven forms of organizations that exist in this digital age. In this age, companies do not need to remain closed and isolated organizations instead, they can significantly benefit from the emerging technologies and altered approaches. Companies can receive feedback from their stakeholders through several different channels. However, social media and other digital platforms can facilitate rapid and frequent interaction between firms and multiple stakeholders. Rapid technological developments, mainly social media platforms, changed the way information sharing, communication, marketing styles, and consumer behaviors and accelerated them enormously.

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<sup>543</sup> McCahery, Vermeulen, Fenwick, pp.25

<sup>544</sup> McCahery, Vermeulen, Fenwick, pp.25

## The Future of Corporate Governance and Corporate Culture

Social media is the new communication and marketing channel for companies. Companies can reach millions of people without paying any fees through social media. Social media also allows bilateral interaction between content creators and users, which is one of the most significant differences between social media and traditional media. Companies and their leaders, especially CEOs can directly and instantly communicate with their stakeholders, and create their own social media communities by actively using, and especially posting personalized content. The following table can be seen as an example:

Company	CEO	CEO's Followers on Twitter	Number of Tweets (CEO)	Company's Followers on Twitter	Number of Tweets (Company)
Apple	Tim Cook	13.2M	1280	7.4M	0 <sup>545</sup>
Alphabet	Sundar Pichai	4.2M	1700	24.5M	151.5K
Amazon	Jeff Bezos	3.5M	285	4.1M	41.7K
Microsoft	Satya Nadella	2.7M	1450	10.1M	26K
IBM	Arvind Krishna	35.4K	140	665K	22.3K
Tesla	Elon Musk	72.2M	16700	12.8M	7.7K
Cisco	Chuck Robbins	62.2K	2.200	727.6K	20.8K
HP Inc.	Enrique Lores	2.5K	149	1.1M	49.8K
Netflix	Reed Hastings	104.4K	171	15.7M	42.6K
Dell	Michael Dell	661.2K	50052	778.4K	67.2K
Siemens	Joe Kaeser	41K	649	202.5K	11.7K
Xiaomi	Lei Jun	93.4K	168	3.5M	9.1K
Oracle	Larry Ellison	113.5K	1	790.3K	23.2K
SAP	Christian Klein	25.5K	1100	292.1K	28.1K
Airbus	Guillaume Faury	15K	385	746.7K	11.6K
Salesforce	Marc Benioff	1M	34700	564.9K	96.9K
Uber	Dara Khosrowshahi	121.1K	865	1M	30.5K
Nestle	Peter Brabeck-Letombe	2K	460	278.7K	16.2K
Unilever	Alan Jope	11.8K	617	223.3K	13K
Novartis	Vasant Narasimhan	17.2K	596	298.2K	12.6K
Volvo	Håkan Samuelsson	5.6K	188	227.4K	13.7K
Volkswagen	Herbert Diess	44.1K	284	649.7K	31.7K
Intel	Pat Gelsinger	58.7K	2971	4.8M	16.9K

*Table 6: CEO's and their companies on Twitter (as of February 2022)*

*Source: Own data*

<sup>545</sup> Apple's corporate account does not post any content, however, the other accounts of Apple, such as Apple Music, Apple TV, Apple Podcasts, and Apple Support have posted thousands of tweets and have millions of followers.

The companies mentioned in the above table are some of the companies that are included in the World's Most Innovative Companies list. In fact, all of the companies on the list have social media accounts. However, those companies in the table are chosen due to their CEOs also have Twitter accounts. As the table demonstrates, companies indeed reach millions of people through social media. For instance, Google (Alphabet) is followed by more than 24.5 million, Netflix has more than 15.7 million, and Microsoft has more than 10.1 million followers on Twitter. Companies often use their social media accounts for advertising, such as announcing a new product or news and facts about existing products. Hence, social media has created a new marketing channel. However, companies' social media usage is not limited to advertising. They also post things about social and environmental matters. Even entertaining content and "memes" are shared by companies to be able to correspond to contemporary trends. In fact, the content other than mere advertising is more related to active communication with stakeholders. However, posting about corporate governance matters is also quite common. For instance, companies and CEOs tweet about their financials, appointments of executives, announcements regarding strategic partnerships and even M&As, and information about annual general meetings. Hence, it is clear that companies can use social media as a communication tool, primarily to communicate with shareholders but also with all stakeholders instantly.

A closer look at CEOs' tweets reveals that the ones that actively use Twitter and post more personalized content may attract more people and get more followers. For instance, Elon Musk's follower numbers are the highest by far. He does not use social media solely for publishing issues about his companies; from tech news to memes, he is one of the most active CEOs on social media. Salesforce's CEO Marc Benioff has almost two times more tweets than Elon Musk. However, a closer look at Benioff's account reveals that he also does a lot of re-tweeting (re-posting other accounts' tweets). Apple's CEO Tim Cook has more than 13.2 million followers and he also posts many personalized contents. In addition to Apple's products and company news, from human rights issues to environment and sustainability, Tim Cook actively uses Twitter to engage with stakeholders. Hence, it can be said that personalized contents are important to attract more users as well as a better way for CEOs to communicate with their social media communities.

Twitter is just one of the social media platforms, and companies and corporate leaders are also actively using other social media platforms. LinkedIn -a platform for business professionals- is used by many more CEOs. For instance, Nike's CEO John Donahoe, Philips's CEO Frans

van Houten, Johnson&Johnson's CEO Alex Gorsky, Volkswagen's CEO Herbert Diess, Bayer's CEO Werner Baumann, Royal Dutch Shell's CEO Ben van Beurden, and Novartis's CEO Vasant Narasimhan are just some CEOs who do not use Twitter, but engages with their professional community through LinkedIn. These CEOs also post about their companies, products as well as sustainability issues. Nevertheless, none have more than 100.000 connections/followers on LinkedIn since such platform is more about business professionals and employees. Hence, social media platforms -such as Twitter- are more practical for companies and CEOs to engage with a broader community.

Social media platforms are not the only platforms that enable creating a community and engaging with it. In fact, each digital platform has such a feature. For instance, users can rate and comment regarding applications available on Apple iOS application store or Android's Google Play store. There are around 5.5 million mobile applications available at Apple and Google's mobile app stores.<sup>546</sup> A mobile application developer can transmit its application through such platforms, which will then be rated by users and may be judged by other users by its ratings; as it is the case for the platform model. An application's success may depend on how it reacts to the ratings and comments of its users. An application developer may choose to improve its application in accordance with users' feedback which may bring more success as well as better engaged users. A similar comment can be made about every company that intends to sell their products or services through either their own platforms or other digital platforms.

Therefore, platforms need to get more and more users as well as retain such users, because a platform depends on its users' feedback and inputs for improving the user experience; in fact, in order for a platform to be successful, it needs to gather feedback from its community and integrate the interests and concerns of its users into its operations.<sup>547</sup> Hence, such a community can directly be involved in decision-making by providing feedback. It is then up to platforms or firms that use platforms to consider users' feedback during decision-making processes. In short, having a social media or digital platform community is not only about advertising or delivering messages regarding a firm's social and environmental activities, corporate

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<sup>546</sup> Hart, R., "Mobile App Spending Soars To Record-Breaking \$34 Billion As Demand For Travel Apps Signal Wider Pandemic Recovery", Forbes, 29 June 2021, accessed 04.02.2022, <https://www.forbes.com/sites/roberthart/2021/06/29/mobile-app-spending-soars-to-record-breaking-34-billion-as-demand-for-travel-apps-signal-wider-pandemic-recovery/>

<sup>547</sup> Vermeulen, Fenwick, pp.15

announcements, and business activities, but most importantly, such a community's feedback can be used for better decision-making.

### *Decentralized Autonomous Organization*

A more community-driven organization is also possible, whose governance can be undertaken by a community of users without having a centralized authority.<sup>548</sup> Decentralized autonomous organization (DAO) is based on the idea of creating a corporate type of organization by using computer code which has a flat structure without any directors or managers.<sup>549</sup> A DAO is owned and governed by all of its users, and decisions are made through proposals and voting so that every member's opinions are ensured.<sup>550</sup> The governance structure and the rules of DAO can be designed with smart contracts that run on a blockchain platform.<sup>551</sup> Smart contracts are computer programs that are archived on a blockchain, and run when predetermined conditions are actualized.<sup>552</sup>

The working principles of Smart Contract are explained by IBM as, *"Smart contracts work by following simple if/when...then... statements that are written into code on a blockchain, a network of computers executes the actions when predetermined conditions have been met and verified"*.<sup>553</sup> In terms of DAO, smart contracts can function as articles of association or bylaws of DAOs, and a series of smart contracts give voting rights to token holders (tokens or cryptocurrencies can be considered as ownership shares).<sup>554</sup> By issuing tokens, the DAO can raise funds (such as

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<sup>548</sup> Bove, T., "What a DAO is, and How it Could Change the Future of Business?", accessed 29.03.2022, Forbes, 15 February 2022, <<https://fortune.com/2022/02/15/what-is-a-dao-explaining-decentralized-autonomous-organizations/>>

<sup>549</sup> See: Bove, ibid., See also: Vermeulen, E.P.M., Fenwick, M., "The Lawyer of the Future as "Transaction Engineer": Digital Technologies and the Disruption of the Legal Profession", Legal Tech, Smart Contracts and Blockchain, Perspectives in Law, Business and Innovation, Springer, Singapore, 2019, pp.253-272

<sup>550</sup> Ethereum, "Decentralized Autonomous Organizations (DAOs)", accessed 04.02.2022, <<https://ethereum.org/en/dao/>>

<sup>551</sup> Coin Telegraph, "What is a Decentralized Autonomous Organization, and How does A DAO Work?", accessed 04.02.2022, <<https://cointelegraph.com/ethereum-for-beginners/what-is-a-decentralized-autonomous-organization-and-how-does-a-dao-work>>

<sup>552</sup> IBM, "What are smart contracts on blockchain?", available online at <https://www.ibm.com/topics/smart-contracts>, (accessed on 04.02.2022)

<sup>553</sup> IBM,

<sup>554</sup> Vermeulen, E.P.M., Fenwick, M., "Technology and Corporate Governance: Blockchain, Crypto, and Artificial Intelligence", Law Working Paper N 424/2018, ECGI, November 2018, pp.12

share issuance), tokens grant to its holders voting rights (such as voting rights attached to shares) but also offers liquidity through selling or transferring such tokens on cryptocurrency exchange markets.<sup>555</sup>

The first DAO was built on Ethereum (a famous blockchain) in 2016, which was intended to operate as a venture capital fund, but by using cryptocurrencies instead of traditional currencies.<sup>556</sup> Unfortunately, there was a hacking incident, and a significant amount of its funds were drained.<sup>557</sup> Nevertheless, such an incident did not mean that the idea collapsed. There are currently some other DAOs operating, such as cryptocurrency exchange platform Uniswap.<sup>558</sup>

DAO has the potential to replace many organizations that do not possess the incentives and efficiencies that a DAO can have.<sup>559</sup> Such a decentralized model is promising because it creates a base for collaboration and governance by a large community. The first DAO can be considered as an experiment, and as the technology evolves, the possible shortcomings will be mitigated, and in the near future, we may experience more and more community driven decentralized autonomous organizations.

### 5.6. Real Care

It has been stated by a scholar that even the entertainment industry vilifies large corporations and portrays that “evil corporations run by a despotic leader who bent on world domination”.<sup>560</sup> This statement brings some recent movies and series to mind that are available

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<sup>555</sup> Vermeulen, Fenwick, pp.14

<sup>556</sup> The Economist, “What are DAOs, or Decentralized Autonomous Organizations?”, 22 January 2022, <<https://www.economist.com/the-economist-explains/2022/01/26/what-are-daos-or-decentralised-autonomous-organisations>>

<sup>557</sup> The Economist,

<sup>558</sup> Uniswap, “V0 — Uniswap is Born”, accessed 02.02.2022, <<https://uniswap.org/blog/uniswap-history>>

<sup>559</sup> Quiroz-Gutierrez, M., “What’s a DAO and could one replace a traditional corporate board?”, accessed 02.02.2022, Forbes, 20 November 2021, <<https://fortune.com/2021/11/19/dao-decentralized-autonomous-organization-consititutiondao/>>

<sup>560</sup> Denis, D., “Corporate Governance and the Goal of the Firm: In Defense of Shareholder Wealth Maximation”, The Financial Review, 51, 2016, p468

on Netflix. In the movie named “Don’t Look Up” a couple of scientists try to save the world from a meteor hit, however there is a CEO that desires to benefit from the meteor by space-mining, who then restrains NASA from stepping in and eventually the world is destroyed by the meteor hit. In a Norwegian series “Ragnarök”, the devilish mythological monsters are portrayed as the controlling shareholders of a large publicly traded company, which causes environmental damages, and such controlling shareholders are trying to actualize the “doomsday”. There are many more examples.

However, it is arguable whether the entertainment industry, some academics, politicians, or the popular press are trying to demonize the corporate world, or the sole focus on shareholder wealth maximization and irresponsible actions of such large corporations regarding the environment have caused such an image. As stated, it is arguable but there is this reality that above mentioned CEOs and companies as well as many more of them are trying very hard to change such an image. Social media provides them with a platform on which they can share about their socially and environmentally beneficial activities. For instance, when we look at Royal Dutch Shell’s tweets -as an energy company mainly known with oil and gas operations- it shows that around 90% of the tweets are about green energy, sustainability, low carbon, and electric cars. The remaining tweets are about company’s financials, general shareholders’ meetings and other corporate governance matters. Similarly, a closer look at Nestle’s tweets reveals that the company posts a lot of contents about preventing child labor, providing education, plans about local farmers in Africa, plans for lowering plastic wastes, and so many tweets about their products. Petroleum companies have been criticized a lot in relation to their environmentally harmful activities. Nestle has also been criticized in relation to child labor, price fixing, pollution, and water bottling operations.<sup>561</sup> A documentary named “The Dark Side of Chocolate” revealed that children were used, in fact, enslaved for cocoa farming in Africa.<sup>562</sup> Some lawsuits were commenced, and chocolate producer companies claim that they were not aware of such situation, and they are now actively fighting against child labor.<sup>563</sup>

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<sup>561</sup> Andrei, M., “Why Nestle is One of the Most Hated Companies in the World”, accessed 05.02.2022, ZME Science, 1 February 2021, <<https://www.zmescience.com/science/nestle-company-pollution-children/>>

<sup>562</sup> Teichert, T., “Human Rights; The Easter Bunny is a Slave?”, accessed 05.02.2022, FAWCO, 03 January 2022, <<https://www.fawco.org/global-issues/human-rights/ending-violence-against-women-a-children/3008-the-dark-side-of-chocolate-child-labor-in-the-chocolate-industry>>

<sup>563</sup> The Guardian, “Mars, Nestlé and Hershey to face child slavery lawsuit in US”, accessed 05.02.2022, <<https://www.theguardian.com/global-development/2021/feb/12/mars-nestle-and-hershey-to-face-landmark-child-slavery-lawsuit-in-us>>

According to Nestle, the company provides African children with access to education, engages with the families through Child Labor Monitoring and Remediation System, which aims to provide tailored solutions to African children and their families, and fights against extreme poverty.<sup>564</sup> Whether the companies can be held accountable due to such scandals and problems that occurred in the supply chain might be a subject of another discussion. However, it is clear that this sort of news has the potential to harm the brand image. So, companies are trying to demonstrate, especially through social media, that such a negative image is wrong and that they are socially responsible. It is also a subject for another discussion whether the social activities and social media contents are just for window-dressing or whether such companies are truly socially responsible. However, companies should exercise their best efforts to prevent any sort of scandal, because it might be more expensive for companies to fix their harmed images later on. At this point, real care becomes prominent as the last strategy for future's governance. What we attempt to express by real care is that every decision to be made by a company needs to be evaluated also from its possible social and environmental impacts rather than solely focusing on whether it will be profitable or not. Nonetheless, this approach's itself might be profitable, a positive corporate image may bring more competitive advantage or at least may prevent significant expenses necessary for ameliorating a damaged brand image. Nevertheless, real care is not only about being socially and environmentally responsible. The above sub-sections explained the importance of co-creation, collaboration, and communication. These three dimensions of corporate governance require the real care of companies towards their stakeholders, meaning that a company needs to show that they value the feedback received from its stakeholders, so that the communication between a firm and its stakeholders would make sense, and enhanced collaboration and co-creation can be achieved. In terms of customers, real care is more than traditional customer satisfaction surveys, it is more about establishing an environment for active and bilateral communication as addressed above. However, it seems that real care can be introduced by adopting platform model, since such model is the most suitable for a flatter, fluid, and inclusive governance which will extinguish the strict boundaries between a firm and outside world. So that an active and constant communication among all stakeholders can be achieved.

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<sup>564</sup> Nestle, "How Is Nestlé Tackling Child Labor Risk?", accessed 05.02.2022, <<https://www.nestle.com/ask-nestle/human-rights/answers/nestle-child-labour-supply-chains>>



### 5.7. Conclusion

In this chapter, we have discussed the main components and strategies for flexible, inclusive, and innovative companies. Based on a review of the changing market realities, and companies' desire to stay relevant in the future, we conclude that they may need to capture the benefits of the platform model as the success of platforms is inevitable. Platform model that possesses a flatter governance structure can provide businesses with more open and inclusive cultures, which will enable them to get enhanced collaboration, communication, and co-creation among all stakeholders. In this way, productivity can be significantly enhanced, and innovation outcomes can be considerably boosted. The following sections will provide the new regulatory trends and the relationship between governance, culture, and innovation. In this era, innovation is everything, and every company today needs to become an innovation machine. Above mentioned strategies are also vital for being innovative. As will be seen below, many of the most innovative companies are either organized as platforms or benefit from other platforms. However, it is not just about deploying the platform business model, it is more about considering and seeing the platform within its ecosystem.

On the other hand, being an open and inclusive firm or having a co-creation, flexible, and best-idea-wins culture is vitally essential for retaining talents. Hence, companies need to adopt the abovementioned strategies to attract and retain talents today and in the future. As the above-mentioned examples and below mentioned data clearly show, adopting a flatter structure and having open, inclusive, innovative, flexible, and co-creation cultures are highly beneficial and profitable. Hence, from shareholders' perspective, companies can financially benefit from these sorts of cultures. Today's firm should consider all stakeholders as business partners and endeavor to collaborate and co-create with them through enhanced communication. Firms cannot isolate themselves from their external environment. It should be noted that all of the components of the equation are equally important, and all of them should be included in corporate governance. Furthermore, today's firm should acknowledge the importance of all stakeholders and its ecosystem.

# **Chapter 6**

## **The New Regulatory Trends**



## 6. The New Regulatory Trends

### 6.1. Introduction

As explained in Chapter 4, a number of regulatory initiatives have been introduced that have influenced corporate disclosure and sustainability issues about shareholder primacy. Stakeholderism, ESG, stakeholder engagement, and sustainability have gained significant importance. However, it is also highly essential to evaluate how the regulators around the world have been dealing with the developments in corporate governance, especially with sustainability and stakeholder-centric approaches. Regulations are important due to firms accommodate their activities to legal obligations mandatorily but also follow and deploy non-compulsory recommendations.<sup>565</sup>

Corporate governance codes are aimed to improve corporate governance practices by providing a set of principles, best governance practices, and standards.<sup>566</sup> Studies found that the enactment of a national corporate governance code can have a positive impact on corporate governance practices.<sup>567</sup> The reason behind issue this might be that by enacting corporate governance codes, regulators can guide and, in fact, nudge companies to improve their corporate governance practices. The success of corporate governance codes is also attributed to market mechanisms that pressure companies to enhance their governance practices.<sup>568</sup>

Recently, several regulators published new versions of their corporate governance codes or corporate governance recommendations. Some of the codes and recommendations published in 2018, 2019, 2020, and 2021 have been checked to determine the new regulatory trends in relation to sustainability and stakeholderism in general. The codes and recommendations evaluated for this chapter include the codes and regulations from the UK, Germany, Italy,

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<sup>565</sup> Vermeulen, E.P.M., Fenwick, M., “The New Firm: Staying Relevant, Unique & Competitive”, *Corporate Law & Economics*, 5, 2015, pp.27

<sup>566</sup> Onica, M.C., “Corporate Governance Codes – Examples of Good Practice”, *International Conference “Risk in Contemporary Economy”*, 6th Edition, 2013, pp. 2

<sup>567</sup> Cuomo, F., Mallin, C., Zattoni, A., “Corporate Governance Codes: A Review and Research Agenda”, *Corporate Governance: An International Review*, 2016, 24(3), pp.34

<sup>568</sup> Nowland, J., “The Effect of National Governance Codes on Firm Disclosure Practices: Evidence from Analyst Earnings Forecasts”, *Corporate Governance: An International Review*, 16 (6), 2008, pp.477

France, Belgium, Greece, Austria, Finland, Australia, Slovenia, Latvia, Portugal, Malaysia, Singapore, Japan, and Vietnam.

Although the Turkish Corporate Governance Code was published in 2014, it will also be examined due to its specific focus on stakeholders.

This chapter aims to provide an understanding of the new regulatory trends in relation to sustainability and stakeholder-centric issues, but also to evaluate whether regulators have an understanding regarding the recent developments. The above section explains the future of corporate governance and culture by examining today's realities and developments, and several components are presented. The business world has been witnessing different approaches to and applications of corporate governance. There are different forms of practices that emerged due to technological advancements, altered customer expectations, and contemporary stakeholder demands. These developments, especially stakeholder demands and pressures, have also urged regulators to change their approaches to corporate governance. Public opinion, the media, customers (and stakeholders in general) now demand companies to operate in a more responsible way. It can be said that the reasons behind such demands are because of economic, social and environmental problems and crises, and many blame companies for their irresponsible actions. Due to such demands and pressures, regulators have also been taking some steps to nudge companies to behave responsibly, and ESG matters have been included in several codes and regulations. For instance, under several jurisdictions, such as European Union, ESG reporting became mandatory. Germany, Italy, France, Belgium, Greece, Austria and many more jurisdictions now require companies to disclose information regarding their environmental, social and governance activities. Although it is not mandatory under the laws of the United States, many firms from the U.S. also regularly publish information in relation to ESG matters. Some corporate governance codes recommend firms to disclose ESG information, but do not mandate them (such as Australian Code) and some codes do not talk about ESG disclosures at all (such as Vietnamese Code).

Furthermore, as it will be demonstrated, some of the codes clearly state that the concepts of sustainability and sustained value creation are added to the codes to follow the international trends. It is clear that these sorts of approaches are fruitless. Rather than just following the trends, including such concepts to corporate governance codes should serve a true purpose.

As argued, the foundation of corporate governance is based on the shareholder wealth maximization idea; directors are obliged to act in the best interest of shareholders. Nevertheless,

the examination of several corporate governance codes revealed that many codes and regulations state that directors should act in the best interest of the company, and also consider the consequences of their actions on all stakeholders. Whether such an approach will cause a fundamental change in corporate governance is arguable, but what is clear is that regulators have not ignored the demands of various stakeholders. On the other hand, what should be understood by “acting in the best interest of the company” is also arguable. As will be discussed below, some believe that acting in the best interest of the company still means acting for the benefit of shareholders, but there are also opposite views. Nevertheless, if a true change is desired, regulators’ focus and aim should be on finding a balance between the interests of all stakeholders. This issue will be revisited.

Regulatory frameworks are significantly crucial for nudging companies to have better approaches regarding corporate governance. However, in order for regulators to guide companies in relation to the recent developments and emerging concepts, first of all, they must have the necessary understanding, and then take the required actions. The main question of this section is whether the recent regulatory developments are truly aimed to change the approaches and achieve high-level stakeholder engagement and sustainability, or these are just window-dressing activities. It is because, regulatory efforts should serve a true purpose, otherwise a fundamental change cannot be achieved and the rising demands of stakeholders cannot be satisfied. The below sub-section will evaluate the recently published codes and recommendations from several different jurisdictions, and following that, a conclusion will be provided.

### **6.2. Investigation of the Recent Regulatory Activities**

Under this sub-section, it will be investigated to find out the general approach of the codes and how the recent codes and recommendations deal with the concepts of stakeholderism and sustainability.

**The Australian Corporate Governance Principles and Recommendations** published in 2019 starts with the board’s roles and responsibilities, composition, and structure and continues with a section dedicated to corporate culture. Within the scope of such section, it is stated that a company needs to publish its core values, create a code of conduct, and whistleblower, anti-corruption, and anti-bribery policies. Hence, it seems that corporate culture is compressed into

those codes and policies. Of course, it is important to possess such policies. However, it can be suggested that when the subject matter is about culture, a wider and deeper approach shall be deployed. Nevertheless, an important remark about this code could be that while recommending defining and disclosing the core values, the Australian Code indicates that corporate culture is vital for creating long term sustained value.<sup>569</sup> Another point about the Australian Code is that it requires companies to develop a shareholder program which can facilitate bilateral communication between the company and its shareholders.<sup>570</sup> Furthermore, and more importantly, the Australian Code states that the shareholder program may also cover all other stakeholders so that engagement with all stakeholders can be achieved.<sup>571</sup> Such recommendation for extending the bilateral communication channels with all stakeholders is important and valuable. Nevertheless, there is no legal rule in the laws of Australia in relation to enhanced shareholder or stakeholder engagement.<sup>572</sup> Regarding social and environmental matters; the Australian Code recommends companies to disclose their environmental and social risks, if they have any. Nevertheless, there is no mandatory legal rule for CSR reporting in the laws of Australia.<sup>573</sup> However, sustainability reporting is recommended to companies, and sustainability risks and climate change are shown as some of the emerging risks that need to be carefully dealt with.

**The Austrian Code of Corporate Governance** published in 2021 claims that the Code is drafted to enhance the transparency between companies and all of their stakeholders.<sup>574</sup> However, it seems that the Code mainly focuses on accountability and control, hence it can be said that it is mainly designed from shareholder primacy perspective. The Austrian Code just mentions sustainability for few times but only in relation to financial matters such as remuneration or stock options. Social and environmental issues are just addressed within the

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<sup>569</sup> ASX Corporate Governance Council, "Corporate Governance Principles and Recommendations", 4th Edition, February 2019, pp.16

<sup>570</sup> ASX Corporate Governance Council, pp.24

<sup>571</sup> ASX Corporate Governance Council, pp.24

<sup>572</sup> "Richardson, H., Wightman, D., In Gregory, H.J. (Eds.), Corporate Governance: Australia, Brazil, China, France and 16 More, Lexology, 2006 - 2022 Law Business Research, 24 February 2022", pp.310

<sup>573</sup> Richardson, Wightman, pp.317

<sup>574</sup> Austrian Working Group for Corporate Governance, "Austrian Code of Corporate Governance", January 2021, pp.9

scope of non-financial reporting that is mandated by European Union regulations. Hence, it can be said that the Austrian Code neglects stakeholderism to a significant extent.

Communication with stakeholders seems also limited under this Code; it is just stated that companies shall create channels for communication with the external environment through their websites. The Austrian Code neither addresses culture nor talks about feedback or social media (or any other platforms or tools that can facilitate more effective communication). Instead, the Austrian Code focuses on the traditional matters such as the composition or duties and responsibilities of management boards and supervisory boards, auditing, and shareholder protection. It can be said that the Austrian Code considers companies as closed and hierarchical entities.

**The Belgian Code on Corporate Governance** published in 2020 claims that the Code emphasizes sustainable value creation, long term focus, responsible behavior towards all stakeholders, and diversity.<sup>575</sup> The Belgian Code provides ten main principles, and these mostly consist of matters related to board composition and effectiveness, the election of board members, equal treatment of shareholders, board committees, remuneration issues, and reporting. Also, it is indicated that all “board members should act in the best interest of the company”, and it is specifically indicated that board members should guard the interest of all shareholders.<sup>576</sup> There are not many topics and recommendations in relation to stakeholders other than some general statements, and environmental and social matters are almost completely neglected. However, it is also stated that a board of directors of a Belgian company should create an inclusive approach that should find a balance between the interest of shareholders and the expectations of other stakeholders.<sup>577</sup> Therefore, it has been argued that the Belgian Code balances the interests of different stakeholders.<sup>578</sup>

However, communication of a Belgian company with its stakeholders is only mentioned from the shareholders’ perspective, and communication with shareholders is mostly limited to annual general meetings. Hence, the Belgian Code does not provide a continuous communication and collaboration scheme. Corporate culture is only mentioned within the

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<sup>575</sup> Corporate Governance Committee of Belgium, “The 2020 Belgian Code on Corporate Governance”, 2020, pp.3

<sup>576</sup> Corporate Governance Committee of Belgium, pp.20

<sup>577</sup> Corporate Governance Committee of Belgium, pp.8

<sup>578</sup> Van der Elst, C., “The 2020 Belgian Code On Corporate Governance And The External Auditor”, Tax, Audit & Accountancy, 2020, pp.65



scope of its relationship with corporate strategies and ethical behavior. It can be said that the Belgian Code also considers companies as hierarchical entities.

**The Finnish Corporate Governance Code** published in 2020 is one of the longest codes among the recently published codes and recommendations. However, neither stakeholders nor social and environmental matters are not addressed in the Finnish Code. The Finnish Code entirely mentions the traditional matters such as general meeting of shareholders, the board's composition, duties, and independence, remuneration matters, internal control and audit, and reporting issues. Hence, it can be said that the Finnish Code interprets corporate governance from shareholder primacy perspective, and stakeholderism is almost completely neglected. There is also nothing about culture and corporate social responsibility in the Finnish Code.

The main duty of the board of directors is presented as to act in the best interest of the company as well as all its shareholders.<sup>579</sup> Almost all other recently published codes state that the board should act in the best interest of the company, but the Finnish Code includes shareholders' interest while defining the duties of the board. From this perspective, it seems that the Finnish Regulator does not tend to consider the emergence of stakeholderism. Also, it can be said that the Finnish Code considers corporations as closed and hierarchical organizations.

As mentioned by Mähönen from University of Oslo, "the purpose of a company is to generate profits for the shareholders, unless otherwise provided in the articles of association (section 1:5 of the Companies Act)".<sup>580</sup> Since the directors are obliged to act in the best interest of the company, and the purpose of a Finnish company is to generate profits for its shareholders, it can be said that the shareholder primacy norm is highly dominant in Finnish corporate governance regulations. Furthermore, in his lecture presentations Mähönen argues that the Finnish Code does not follow the international trends, and there is nothing about stakeholder centric approaches or long-term sustainable value creation in the Finnish Corporate Governance Code.<sup>581</sup>

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<sup>579</sup> Securities Market Association, "Finnish Corporate Governance Code", 2020, pp.22

<sup>580</sup> Mähönen, J., "Finland: Corporate Governance: Nordic Tradition With American Spices", University of Oslo Faculty of Law Legal Studies Research Paper Series, No. 2020-19, 2020, pp.397

<sup>581</sup> Mähönen, J., "Finnish Company Law And Corporate Governance –Lost Case For Sustainability?", University of Oslo Faculty of Law, 07 October 2020, pp.9-10

**The French Corporate Governance Code of Listed Corporations** published in 2020 is another code that mostly focuses on the traditional aspects of corporate governance. However, it is stated that the board of directors is obliged to act in the best interest of the corporation but also consider the social and environmental consequences of its activities.<sup>582</sup> Communication is only mentioned within the context of communication with shareholders through general meetings, annual reports, and other disclosures. Hence, there is nothing about communication with other stakeholders. However, it has been claimed that the French companies have been increasingly engaging with their shareholders in addition to their legal obligations to do so during general meetings.<sup>583</sup> The board's composition, traditional tasks, board committees, general meetings, remuneration matters, auditing, accountability, and control form the majority of the French Code. The French Code is another code that sees companies as hierarchical organizations. Nevertheless, it is worth mentioning here that in line with the European Union regulations, some French companies are required to disclose CSR information.<sup>584</sup>

**The German Corporate Governance Code** published in 2019 covers the traditional matters of corporate governance, such as remuneration, general meeting, reporting, the election of the board members, and the board's composition and independence. It is explicitly stated that the board should act in the best interest of the company, all stakeholders' interests should be considered, and the impact of a company on the entire society should be acknowledged.<sup>585</sup> However, control and accountability issues are also highly indicated in the German Code.

The traditional power relationship among shareholders, the board, and the management is clearly reflected in the Code. Social and environmental issues as well as the matters related to stakeholders are just briefly mentioned in the foreword section, but no further recommendation is provided. Communication with stakeholders, feedback, matters related to digitalization or technological developments, and corporate culture are not truly addressed in the German Code. However, it has been suggested that the chair of the supervisory board shall communicate with shareholders in relation to supervisory board subjects, but it is claimed that

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<sup>582</sup> MEDEF, AFEP, "Corporate Governance Code of Listed Corporations", January 2020, pp.3

<sup>583</sup> Chahid-Nourai, A., "In Gregory, H.J. (Eds.), Corporate Governance: Australia, Brazil, China, France and 16 More, Lexology, 2006 - 2022 Law Business Research", 24 February 2022, pp. 331

<sup>584</sup> Chahid-Nourai, pp.318

<sup>585</sup> Regierungskommission, "German Corporate Governance Code", 16 December 2019, pp.2

engagement with shareholders by German companies is quite limited.<sup>586</sup> It can be said that the German Code mostly interprets corporate governance from shareholder primacy perspective, and corporations are considered as hierarchical organizations. Finally, it shall be indicated here that in line with the European Union regulations, some German companies are also required to disclose CSR information.<sup>587</sup>

Finally, as mentioned above, German labor codetermination rule, which mandates some companies to elect labor representatives in the board of directors, is an important element of German corporate governance rules in relation to stakeholder rights from employees' perspective.

**The Hellenic Corporate Governance Code of Greece** published in 2021 includes shareholders, suppliers, customers, public administration, employees, and customers into the stakeholder category, and it has a specific section in relation to sustainability. One important note is that the Hellenic Code sees stakeholders as interconnected components of companies, or at least it is stated in this way. Sustainability is defined just in general terms, and it is stated that the board is obliged to protect the interests of all stakeholders. Also, Greek companies are obliged to adopt and implement environmental, social, and governance policies and policies regarding sustainable development. However, these are just generally stated, and no specific guidance is provided. It is also stated that annual non-financial reporting in relation to sustainability matters is also required as per Hellenic Corporate Governance Code and Athens Stock Exchange published guidance regarding non-financial reporting in 2019.<sup>588</sup> Most importantly, this Code recommends Greek companies to communicate with stakeholders (among other recommendations in relation to communication) through social media and other technological tools.

The Hellenic Code also indicates that the board of directors should ensure that values defined and strategies made are in line with culture.<sup>589</sup> It is valuable that a regulation indicates the importance of corporate culture. However, the real question here is whether such regulators

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<sup>586</sup> Nase, E., "In Gregory, H.J. (Eds.), *Corporate Governance: Australia, Brazil, China, France and 16 More*, Lexology, 2006 - 2022 Law Business Research", 24 February 2022, pp.311

<sup>587</sup> Nase, pp.318

<sup>588</sup> Hellenic Corporate Governance Council, "Hellenic Corporate Governance Code", June 2021, pp.29

<sup>589</sup> Hellenic Corporate Governance Council, pp.11

have the necessary understanding of culture, or it is just for the sake of following the recent trends. It is indicated in the Hellenic Code that the board of directors should act in the best interest of the company. However, it is also addressed that the board should ensure an effective internal control system and create policies and procedures regarding it. Furthermore, the traditional power relationship between shareholders, the board, and the company is fully reflected. Accordingly, despite the above-mentioned developments regarding sustainability and stakeholderism, it can be said that the general approach of the Hellenic Code is from the traditional perspective of corporate governance; a company is considered as a strictly hierarchical entity.

**The Italian Corporate Governance Code** published in 2020 is another corporate governance code that is mostly focused on the traditional role, composition, responsibilities, and performance evaluation of the board of directors, remuneration matters, and control and accountability. One of the responsibilities of the board of directors is addressed as ensuring the creation of long-term value for shareholders, but also considering the interests of stakeholders.<sup>590</sup> The board is also recommended to promote communication with shareholders and stakeholders.<sup>591</sup> There is nothing about social and environmental matters in the Italian Code. However, in line with the European Union regulations, some Italian companies are also required to disclose CSR information.<sup>592</sup> The Italian Code widely deals with remuneration matters, the board's composition and duties, and internal control and risk management issues. The traditional relationship between shareholders, the board, and the others are preserved, and it can be said that the Italian Code considers corporations as closed hierarchical organizations.

**The Japanese Corporate Governance Code** published in 2021 has a promising title; "Seeking Sustainable Corporate Growth and Increased Corporate Value over the Mid- to Long-Term".<sup>593</sup> The second article of the Code states that "a company's sustainable growth and long-term value can only be created with the contributions of all stakeholders including employees,

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<sup>590</sup> The Italian Corporate Governance Committee, Corporate Governance Code, January 2020, pp.9

<sup>591</sup> Ricci, F., Coco, G., Leccese, R., „In Gregory, H.J. (Eds.), Corporate Governance: Australia, Brazil, China, France and 16 More, Lexology, 2006 - 2022 Law Business Research", 24 February 2022, pp.312

<sup>592</sup> Ricci, Coco, Leccese, pp.319

<sup>593</sup> Tokyo Stock Exchange, "Japan's Corporate Governance Code Seeking Sustainable Corporate Growth and Increased Corporate Value over the Mid- to Long-Term", 11 June 2021, pp.1

customers, business partners, creditors, and local communities, and Japanese companies should seek ways to collaborate with all stakeholders appropriately”.<sup>594</sup> Furthermore, it is stated that disclosures should go beyond the legal obligations, hence transparency should be increased. Nevertheless, the Japanese Code also clearly states that a board’s primary responsibility is against shareholders due to its fiduciary duties, and accountability is highly promoted. Hence, the significant influence of shareholder primacy is still widely reflected.

On the other hand, the Japanese Code indicates the importance of collaboration with all stakeholders for long-term success and for creating sustainable value. It is stated that acknowledging the responsibilities towards stakeholders by companies can benefit the entire society and the entire economy, and the board should create a code of conduct that will ensure cooperation among stakeholders.<sup>595</sup> However, it has been claimed that engagement with especially shareholders is limited for Japanese companies.<sup>596</sup> Also, the Japanese board is obliged to ensure that the code of conduct is effective and implemented. Furthermore, the Japanese board is mandated to effectively deal with climate change and other environmental concerns, human rights issues and treatment of employees, and honest transactions with suppliers.<sup>597</sup> The Code requires Japanese companies to include management policies in relation to such CSR matters into their public disclosures.<sup>598</sup>

Another important point regarding the Japanese Code is that the board is also obliged to create a corporate culture that respects the rights and positions of all stakeholders.<sup>599</sup> From these points, it can be said that the Japanese regulators take stakeholderism and sustainability seriously. The Japanese Code has detailed explanations and recommendations for social, environmental, and governance matters. However, the Japanese Code also sees a company as a closed and hierarchical organization, and as mentioned, it seems that shareholder primacy has a significant impact on the Code. Hence, it can be said that the Japanese Code attempts to

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<sup>594</sup> Tokyo Stock Exchange, pp.2

<sup>595</sup> Tokyo Stock Exchange, pp.9-10

<sup>596</sup> Watanabe, T., “In Gregory, H.J. (Eds.), *Corporate Governance: Australia, Brazil, China, France and 16 More*, Lexology, 2006 - 2022 Law Business Research”, 24 February 2022, pp.312

<sup>597</sup> Tokyo Stock Exchange, pp.10

<sup>598</sup> Watanabe, pp.319

<sup>599</sup> Tokyo Stock Exchange, pp.9

cover the matters related to stakeholderism within the context of shareholder primacy, but it is also possible to argue that the Code somehow tries to find a balance between stakeholderism and shareholder primacy.

**The Latvian Corporate Governance Code** published in 2020 indicates from its beginning the importance of long-term value creation and environmental, social, and sustainability concerns. The Latvian Code starts with recommendations regarding developing strategies for long-term value and corporate culture creation. It should be noted that corporate culture is deemed as a vital component for long-term value creation. However, after such introduction, most of the remaining sections of the Code address the matters related to internal control, auditing, remuneration, and shareholders' meeting.

An important point of the Latvian Code is that it promotes communication with stakeholders through communication channels in addition to the traditional ones, such as social media and webinars. The importance of gathering feedback from the internal stakeholders is also indicated in the Latvian Code. From these points, it can be said that the Latvian Regulator values the recent developments and has an understanding of the evolution of corporate governance to some extent. Nevertheless, it should also be noted that the Latvian Code also considers corporations as hierarchical organizations, and it is arguable whether such feedback and communication through technological tools will significantly impact the decision making process under the traditional and hierarchical structure of corporate governance. This last comment is also applicable to the Greek and Malaysian codes, which promote the usage of the new tools for communication but also consider companies as closed and hierarchical organizations.

**The Malaysian Code of Corporate Governance** published in 2021 clearly states that corporate governance should not only focus on shareholders' interests but also deal with other stakeholders' needs and find a balanced approach. From this perspective, the Malaysian Code deploys stakeholder-centric approaches. However, this Code also includes rules and recommendations from shareholder primacy perspective to a significant extent. The board's responsibilities, compositions, remuneration matters, auditing, internal control, and accountability issues are just some topics that are addressed from the traditional corporate governance perspective, and these topics constitute a significant part of the Code. It has been

argued that the Malaysian regulator has been making an endeavor to improve corporate governance practices in Malaysia.<sup>600</sup>

It is also indicated in the Code that trust needs to be created between a company and its stakeholders through establishing an open, transparent, and mutual respect culture. It should be noted that promoting trust, transparency, and open and respectful culture is highly valuable. Environmental, social, and governance matters are shown as vital components for sustainable long-term performance. One quite important thing about the Malaysian Code is that it considers all stakeholders as the components of the corporate ecosystem. Another important issue is that the Malaysian Code defines the obligations of companies mostly towards all stakeholders, hence it does not solely focus on shareholder primacy. For instance, it is stated that the responsibility of a board of directors of a Malaysian company is to provide sustainable value to all stakeholders.<sup>601</sup> Another quite important point of this code is that it requires companies to define their values and standards. From this point, it can be considered valuable and purposeful that a corporate governance code requires companies to define their culture. However, this sort of approach will only make sense if companies have the necessary understanding of corporate culture. As several times indicated in this thesis, just stating some core values does not mean that such a company has a strong culture. Corporate culture is a much deeper concept; just stating or determining some values is not enough; action is needed. Hence, it can also be argued whether Malaysian regulators have the necessary deep understanding regarding culture. The Malaysian Code also indicates the importance of effective and continuous communication with stakeholders, and it states that decisions should be made after understanding the needs of stakeholders through transparent communication. Among other recommendations regarding communication with stakeholders, the Malaysian Code also suggests communication through social media, websites, and mobile applications. The Code further indicates the importance of feedback when it comes to stakeholder engagement. In line with the above sections, the importance of feedback and continuous communication with stakeholders is enormous. On the other hand, the Malaysian Code also sees companies as hierarchical organizations considering its approach to traditional power, control, and accountability relationships.

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<sup>600</sup> Khatib, S.F.A., et al., "The Development Of Corporate Governance Literature In Malaysia: A Systematic Literature Review And Research Agenda", Emerald Publishing Limited, 2022, pp.19

<sup>601</sup> Security Commission Malaysia, "Malaysian Code on Corporate Governance", 28 April 2021, pp.15

**The Portuguese Corporate Governance Code** published in 2020 also mostly focuses on monitoring, remuneration, performance measurement, control, and auditing issues. Hence, the Portuguese Code also reflects the elements of shareholder primacy to a significant extent. The Portuguese Code does not directly mention stakeholders, and social and environmental matters. However, it is claimed that while drafting the Code, attention was paid to international developments in corporate governance, such as sustainability and a company's contribution to the community.<sup>602</sup>

It is stated as a general principle that corporate governance should enhance the trust among the company, its shareholders, employees, and the entire society.<sup>603</sup> Nevertheless, sustainability is mostly addressed within the scope of remuneration matters and financial performance. It seems that feedback and communication with stakeholders, impacts and possible roles of technological developments in corporate governance, and corporate culture are neglected, and the Portuguese Code has been drafted from the traditional perspective of corporate governance. Equal treatment of shareholders, transparent information disclosure, and including shareholders into corporate governance are some of the other matters promoted in the Portuguese Code. The Code also considers companies as closed and hierarchical entities.

**The Singaporean Guideline** published in 2021 is designed to provide guidance to financial institutions in relation to corporate governance matters. However, it is noted that the Singaporean Guideline also covers the rules and recommendations published under the Singaporean Corporate Governance Code published in 2018, therefore the Singaporean Guideline is deemed suitable to be examined under this section.

The Singaporean Guideline states that the board of directors should act in the best interest of the company, and ensure that the interests of stakeholders are protected by adopting an inclusive approach.<sup>604</sup> The board is obliged to engage with stakeholders but no specific guideline or strategy for enhanced stakeholder engagement provided. Environmental and social matters are not quite mentioned under the Singaporean Guideline, and it does not talk about the concept of sustainability at all. Shareholder engagement and active communication

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<sup>602</sup> Portuguese Institute of Corporate Governance, Corporate Governance Code, 2020, pp.6

<sup>603</sup> Portuguese Institute of Corporate Governance, pp.9

<sup>604</sup> Monetary Authority of Singapore, "Guidelines On Corporate Governance For Designated Financial Holding Companies, Banks, Direct Insurers, Reinsurers And Captive Insurers Which Are Incorporated In Singapore", 9 November 2021, pp.30



with shareholders are promoted by the Guideline, but there is not much about the communication especially with external stakeholders. The Singaporean Guideline mostly consists of the matters related to roles, responsibilities, performance measurement, and composition of the board of directors, remuneration matters, accountability, auditing, and shareholders' rights from the traditional perspective. Hence, it can be said that the Singaporean Guideline also considers companies as hierarchical organizations.

**The Slovenian Corporate Governance Code for Listed Companies** published in 2021 considers corporate governance as a set of authority and responsibility relationships.<sup>605</sup> However, the Slovenian Code explicitly mentions that a company needs to ensure that the interests of different groups of stakeholders are protected, and sustainable value is created. An important point addressed is that the Code recommends companies find a balance between economic, social, and environmental objectives.<sup>606</sup>

The Slovenian Code also indicates the importance of considering the interests of all stakeholders while making a decision, and a company is recommended to share all of the related information with stakeholders. The traditional issues such as remuneration, the board's composition, general meeting, audit, and internal control are also widely addressed in the Slovenian Code. Communication with all stakeholders is expressed as an important obligation of the board. It is stated that the board should act in the best interest of the company, irrespective of the interests or demands of shareholders.<sup>607</sup> From all of these perspectives, it can be said that the Slovenian Code tries to find a balance and promote sustainability to a certain extent. Nevertheless, as is the case for all of the codes, the traditional power relationships between shareholders and the board remain the same, and the Code considers companies as hierarchical organizations.

**The UK Corporate Governance Code** published in 2018 starts with the following statement *"a successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to*

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<sup>605</sup> Ljubljana Stock Exchange, "Slovenian Corporate Governance Code for Listed Companies", December 2021, pp.3

<sup>606</sup> Ljubljana Stock Exchange, pp.3

<sup>607</sup> Ljubljana Stock Exchange, pp.15

*wider society*".<sup>608</sup> The importance of alignment of a company's purpose and corporate culture as well as a director's duty as a culture creator are directly indicated under the first section of the Code. Engagement with both shareholders and other stakeholders is also promoted within the scope of the first section. In the second section of the Code, the board is obliged to promote an open culture. The Code continues with the board's composition and evaluation, audit, risk and internal control matters, and remuneration issues.

However, although various corporate governance codes and guidelines are examined under this section, it is also essential to mention the UK Companies Act 2006. Chapter 2 of the Act defines the general duties of directors, and Section 172 of Chapter 2 states that *"A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to; the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and, the need to act fairly as between members of the company."*<sup>609</sup> This rule of law is quite important, because it directly mandates directors to acknowledge the impacts of their decisions on all stakeholders. It seems that the lawmaker desires to achieve a balance between the interests of all stakeholders by explicitly mentioning employees, suppliers, customers, community and environment, and investors.<sup>610</sup> From this perspective, it can be said that a concrete step has been taken to achieve a balance between the interests of shareholders and other stakeholders.

It has been argued that the UK Companies Act has implemented the "enlightened shareholder value" approach by enacting the above mentioned rule.<sup>611</sup> Enlightened shareholder value is defined as *"an explicit focus on long-term shareholder value as the goal of the corporation; a requirement that corporate directors and officers consider the effects of their decisions on —extended*

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<sup>608</sup> Financial Reporting Council, "The UK Corporate Governance Code", July 2018, pp.4

<sup>609</sup> "The UK Companies Act 2006, Part 10, Chapter 2, Section 172", accessed 04.06.2022, <<https://www.legislation.gov.uk/ukpga/2006/46/section/172>>

<sup>610</sup> Clark, G.L., Knight, E.R.W., "Implications of the U.K. Companies Act 2006 for Institutional Investors and the Market for Corporate Social Responsibility", University of Pennsylvania Journal of Business Law 259, 2009, pp.277-278

<sup>611</sup> Bebchuk, L.A., Kastiel, K., Tallarita, R., "Does Enlightened Shareholder Value Add Value?", ECGI Law Working Paper N° 643/2022, May 2022, pp.5

*stakeholder constituencies, financial and non-financial; and a rejection of changes to the corporate decision-maker (i.e., the board with shareholder oversight) or the rules that give shareholders monitoring and enforcement rights not afforded to other stakeholders.”*<sup>612</sup> Ho further argues that directors shall “justify their decisions in terms of stakeholder interests and disclose risks impacting stakeholders; and the Act endorses a multi-stakeholder decision-making rule and makes management at least indirectly accountable to stakeholders.”<sup>613</sup> It has been argued that the main consideration of the lawmaker was to retain the accountability of companies’ financial performance to shareholders, but in the meantime direct companies to pay regard to interests of various stakeholders.<sup>614</sup>

**The Vietnamese Corporate Governance Code of Best Practices** published in 2019 is the first edition of the Vietnamese Codes in relation to corporate governance. From the beginning of the Vietnamese Code, the board’s accountability to the shareholders and its fiduciary role is directly indicated, and more importantly, the board is obliged to increase the shareholder value continuously.<sup>615</sup> The Vietnamese Code is the only recent Code that explicitly obliges the board to maximize the shareholder value. However, it is also stated that the board’s primary responsibility is towards the company. Thus, it may be said that the Vietnamese Code is not quite clear about a company’s purpose.

There are two sections specifically dedicated to creating an ethical corporate culture and effectively engaging with all stakeholders. However, corporate culture is limited to the implementation of code of conduct and code of ethics and defining the core values in these codes. From this point, it can be said that the Vietnamese Regulator needs to develop a deeper understanding of corporate culture. It is stated that the board should also protect the interests of all stakeholders. However, it is arguable whether indicating the shareholder wealth maximation principle and matters related to stakeholder protection at the same time make much sense. The board is further obliged to actively communicate with all stakeholders and gather feedback from them which can be considered as positive approaches, but whether there will be any impact of such feedback while making decisions is highly arguable, considering

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<sup>612</sup> Ho, H. V., ““Enlightened Shareholder Value”: Corporate Governance Beyond the Shareholder-Stakeholder Divide”, *Journal of Corporation Law*, Vol. 36, Issue 1, 2010, pp.79

<sup>613</sup> Ho, pp.79

<sup>614</sup> Williams, C. A., Conley, J. M., “An Emerging Third Way The Erosion Of The Anglo-American Shareholder Value Construct”, *Cornell International Law Journal*, 38(2),2005, pp.500

<sup>615</sup> State Securities Commission of Vietnam, “Vietnam Corporate Governance Code of Best Practices”, August 2019, pp.21

the general approach of the Vietnamese Code. Finally, it is not required under Vietnamese regulations to disclose CSR information.<sup>616</sup>

**The Turkish Corporate Governance Code** published in 2014 is the only “old” code examined within the scope of this section. Although it is not a recently published code, it has a specific section dedicated to stakeholders. Considering the fact that some of the above mentioned and recently published codes neglect stakeholderism and ESG matters, it is important that the Turkish Code covered such concepts a while ago. Nevertheless, the main focus of the Turkish Code is still on shareholder primacy and traditional matters of corporate governance. On the other hand, it is indicated that the interests of the stakeholders such as employees, suppliers, customers, clients, and non-profit organizations should be protected. It is also mentioned that governance models for the participation of stakeholders, especially employees, to corporate governance should be developed by companies. Nevertheless, clearly, more detailed guidance is needed in order to nudge companies and enhance such participation. The European Union’s directive regarding the disclosure of non-financial information was enacted in October 2014, and just a few months after, the Turkish Regulator also recommended companies to publish information about corporate social responsibility and environmental matters. However, such disclosure of non-financial information is not mandated under Turkish law.

Since the latest version of the Turkish Code was published a while ago, it can be recommended to the Turkish Regulators to renew the Code in line with the recent developments. Especially, enhanced communication with all stakeholders through social media platforms and other means of digital tools might be promoted. Also, the importance of gathering feedback from all stakeholders needs to be indicated. It can also be recommended that companies should take into consideration the feedback gathered during the decision making process. Engagement and communication with shareholders are limited to general meetings under Turkish Law.<sup>617</sup> However, as long as the traditional hierarchical structures are promoted, it will be compelling to include all stakeholders in decision-making process. Most importantly, in order to truly achieve sustained value for both shareholders and stakeholders, the true principles of stakeholderism, sustainability, and ESG matters must be understood by the regulators. The Regulator’s focus should not be solely on shareholders’ primacy, but the interests and

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<sup>616</sup> Oguchi, H., Hirowasa, T., Bang, V.L., “In Gregory, H.J. (Eds.), *Corporate Governance: Australia, Brazil, China, France and 16 More*, Lexology, 2006 - 2022 Law Business Research”, 24 February 2022, pp.323

<sup>617</sup> Bilgin, G., Atli, E., “In Gregory, H.J. (Eds.), *Corporate Governance: Australia, Brazil, China, France and 16 More*, Lexology, 2006 - 2022 Law Business Research”, 24 February 2022, pp.315

expectations of all other stakeholders should be guarded. Furthermore, it seems that the Turkish Regulator tends to follow the trends and developments occurring especially in the European Union in relation to corporate governance, which is a positive thing to a certain extent.

Nevertheless, developing a deep understanding regarding the emerging concepts before enacting rules about those and measuring the possible effects of the implementation of such concepts might be more beneficial. All regulators worldwide must consider the existing legal rules of their countries and commercial traditions before adopting the emerging concepts. Otherwise, just following the international trends would not make sense, or the desired effects would not be achieved. Corporate governance codes, guidelines, and recommendations cannot be solely effective by themselves, if the commercial traditions and existing laws do not complement the codes and recommendations. However, most importantly, unless the mentality and conception of shareholders, directors, and regulators are not developed and changed, it will be quite compelling to reform the existing approach to corporate governance. The following sub-section will conclude, but also further examinations and recommendations will be provided.

### 6.3. Conclusion

As argued various times in this thesis, the aim of the thesis is not to give weight to one of the approaches of corporate governance. Instead, the main focus is to find a balance between those and demonstrate that positive, vital, functional, and valuable aspects of both approaches can be deployed, which would be the best option for long-term sustained value creation. From this perspective, it can be said that the regulators of some of the codes mentioned above, which fully neglect the rise of stakeholderism and sustainability, completely lack an understanding of the recent developments. On the other hand, some of the regulators include sustainability issues and protection of the interests of all stakeholders in their codes to a certain extent. Since the main argument is to find a balance between shareholder primacy and stakeholderism, these developments in the codes may be deemed positive and promising. However, the crucial point is whether including a sentence like “the board’s other responsibility is to consider the interests of other stakeholders” will bring any alteration or improvement; it can be said that more concrete strategies and guidelines need to be created.

It should be noted that irrespective of their approach to stakeholderism and sustainability, the codes see corporations from the traditional perspective and as hierarchical organizations. An important note might be that most of the codes oblige the board to protect the interests of the company. However, as will be discussed below, the true meaning of acting in the best interest of the company is not quite clear. Also, it is highly arguable whether this approach will make any difference since the main hierarchical structure of corporations and some traditional principles, such as accountability to shareholders, remain the same. From this perspective, and for the sake of providing something new and more suitable for this digital age, regulators may also consider including more open and flatter corporate structures into corporate governance codes and guidelines. However, as long as the main issue is about accountability, reporting, and top to bottom flow of control, it seems that such an altered approach might not be available in the near future unless the necessary understating is developed by the regulators.

As the above mentioned sample corporate governance codes demonstrate, the issue is still mostly about maintaining the hierarchical structures and power relationships, which are the reflections of the agency theory. Protection of the interests of the shareholders is definitely important; however, the sole focus on protection of the shareholder value has been creating a disconnection between the realities of the current corporate ecosystem and regulatory scheme.<sup>618</sup> Furthermore, it is a fact that over-regulation, which is backed by the main goal of protecting the interests of investors, creates short-term focus on financials and box-ticking culture, and blocks innovation culture that can be established under a flatter and inclusive structure.<sup>619</sup>

Several corporate governance codes state that the board should act in the best interest of the company. However, what should be understood by “the best interest of the company” is unclear to a certain extent. Some academics argue that the interests of a wide group of stakeholders collectively form the interests of the company.<sup>620</sup> However, it has also been argued that the best interest of the company still refers to acting for the benefit of

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<sup>618</sup> Vermeulen, Fenwick, pp.28

<sup>619</sup> Vermeulen, Fenwick, pp.29

<sup>620</sup> Plesis, J.J., “Directors’ Duty To Act In Best Interests Of The Corporation: ‘Hard Cases Make Bad Law’”, Deakin Law School Legal Studies Research Paper No. 19-08, 2001, pp.6

shareholders.<sup>621</sup> It can be said that what is meant by acting in the best interest of the company might depend on the jurisdiction and the case law. Nevertheless, if what is meant by “the best interest of the company” is to maximize the financial benefits of the company, this can be indirectly interpreted as maximizing the shareholder value.

However, within the scope of corporate governance codes, what is meant by the best interest of the company can also be determined by the general approach of the codes, and by examining the other rules and recommendations presented. Nevertheless, defining the board’s obligation as acting in the best interests of all stakeholders would solve the issue in an easy way, if the fundamental aim is to change the traditional idea, which obliges the board to act to maximize shareholder value. Nevertheless, as mentioned a couple of times in this thesis, evolution takes time, and there has been an effort to change. Many Regulators around the Globe commenced to include sustainability issues and some principles of stakeholderism in their corporate governance codes. However, they need to better understand the rapid developments and emerging matters such as the rise and inevitable success of platforms, and the impact of technological advancements on the business life and corporate governance.

Very interestingly, it seems that the Malaysian Regulator has a good understanding of the recent developments. For instance, the Malaysian Code not only promotes enhanced communication with all stakeholders but also provides a guidance about it by way of employing technological tools and social media for improved and continuous communication. The Malaysian Code also promotes establishing an open, transparent, and mutual respect culture, and clearly states that the focus should not be solely on maximizing the shareholder value, but the interests of the stakeholders should be protected. Most importantly, considering all stakeholders as vital components of an ecosystem is the most significant development that the Malaysian Regulator presented in the Code. From these points, it can be said that the Malaysian Regulator is in the right direction. Nevertheless, to reach a conclusive verdict, implementations and applications of the Code by corporations should also be observed, and the laws that regulate corporate and commercial life should also be evaluated. Also, it should be noted that the Malaysian Code still considers corporations as closed and hierarchical organizations. However, the Malaysian Regulators’ efforts for change deserve to be appreciated.

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<sup>621</sup> Cooper, P., “What Does the Duty to Act in Good Faith Really Mean?”, accessed 17.03.2022, Legal Vision, 13 October 2021, <<https://legalvision.com.au/what-is-the-duty-to-act-in-good-faith-in-the-best-interests-of-the-company/>>

The Hellenic Code and the Latvian Code are the other codes that recommend companies strengthen communication with stakeholders by using technological tools and social media. All of the other recently published codes either neglect communication with stakeholders other than shareholders or did not provide any specific guidance, such as using social media or any other technological tools. On the other hand, it can be argued that some firms from developed countries already acknowledge the importance of enhanced communication with all stakeholders and deployed technological tools. Nevertheless, as mentioned, the guidance of the regulators is essential to nudge firms.

The importance of collaboration and co-creation with all stakeholders through enhanced communication is strongly mentioned above. Furthermore, creating a community, actively gathering feedback and benefiting from those, and including all stakeholders in corporate governance processes are presented as some of the vital components of the future of corporate governance and culture. However, it seems that the Regulators worldwide either do not have an understanding of the emerging concepts and developments, or it is somehow compelling for them to unlearn what they have already learned. It is because it might not be quite effective to promote sustained value creation for the long term and at the same time vigorously defend shareholder primacy and performance evaluation of the board of directors, which causes short-term focus on financials, limits productivity and provides constant innovation. This situation can be considered one of the structural problems of some of the codes; they attempt to include sustainability and protection of stakeholders for the sake of long-term value creation but also mostly focus on shareholder primacy through foreseeing closed and hierarchical organizations. At this point, it should be noted that finding a balance between the two approaches does not mean spontaneously mixing the two concepts or just merely addressing the emerging concepts to a limited extent. Although their practice has not been significantly changed yet, business leaders and their organizations (such as Business Roundtable or World Economic Forum) have been promoting stakeholder capitalism and sustainability for a while, and there has been a regulatory effort to include such concepts in corporate governance regulations to a certain extent. However, true change will only be achieved when all components of the corporation ecosystem (shareholders, directors, employees, customers, regulators, and others) develop the necessary understanding. It seems that the most important part belongs to investors, and unless investors acknowledge that establishing a flatter, fluid, and inclusive corporate culture will also be in their favor in the long-term, the other's efforts will not be entirely sufficient for a fundamental alteration in corporate governance.





# **Chapter 7**

## **Governance, Culture and Innovation Potential**



## 7. Governance, Culture and Innovation Potential

### 7.1. Introduction

This chapter focuses on the relationship between corporate governance, culture and innovation. We discussed the significance of culture and governance in chapters 2, 3, 4 and 5. Nevertheless, Chapter 7 aims to provide a deeper insight by specifically focusing on innovation.

To evaluate the relation between culture, governance and innovation, the companies that are included in Boston Consulting Group's (BCG) the "World's Most Innovative Companies" list are examined within the scope of this chapter. BCG has published its list for 16 years.<sup>622</sup> BCG -founded in 1963- is a global consulting firm that operates in more than 90 countries, and has more than 22.000 employees.<sup>623</sup> Amazon, Microsoft, IBM, World Economic Forum, Google, Facebook, and Salesforce are some of the business partners of BCG.<sup>624</sup>

The relationship between culture and innovation is a topic that received a significant attention from academics, and empirical evidence demonstrated the link between culture and innovation.<sup>625</sup> The relationship between culture and innovation is often described from the viewpoint of values and norms. For instance, it is argued by Hartmann that *"culture plays a critical role in motivating innovative behavior, as it can create commitment among members of an organization in terms of believing in innovation as an organizational value and accepting innovation-related norms prevalent within the organization"*.<sup>626</sup> However, it is vitally essential to evaluate the link between culture and innovation from employees perspective, and such an evaluation is often overlooked. Therefore, in this chapter, we will examine the perspectives of employees in relation to corporate cultures of the most innovative companies. The underlying logic is that

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<sup>622</sup> Boston Consulting Group, "15 Years of The Most Innovative Companies", accessed 04.02.2022, BCG, 2022, <<https://www.bcg.com/publications/most-innovative-companies-historical-rankings>>

<sup>623</sup> Boston Consulting Group, "About BCG", accessed 05.02.2022, <<https://www.bcg.com/about/overview>>

<sup>624</sup> Boston Consulting Group,

<sup>625</sup> Büschgens, T., Bausch, A., Balkin, D., "Organizational Culture and Innovation: A Meta- Analytic Review", Journal of Product Innovation Management, 30(4)

<sup>626</sup> Hartmann, A., "The Role Of Organizational Culture In Motivating Innovative Behaviour In Construction Firms", Construction Innovation, Vol. 6 No. 3, pp. 159-172

employees are those who innovate and create value day by day. Most importantly, as argued many times in this thesis, employees deal with corporate culture on a daily basis and they can have better judgement regarding culture more than anyone. Hence, it is essential to evaluate the most innovative companies' cultures from their employees' perspectives to determine the basic characteristics of those.

Furthermore, the relationship between corporate governance and innovation is also academically studied a lot. Such a relationship is often separately examined from shareholders and board of directors' perspective. Many scholars tried to demonstrate the link between ownership structures and innovation outcomes. For instance, Kochhar and David associated bank-ownership with lower R&D activities and innovation<sup>627</sup>, and Choi et al. argued that having foreign investors can increase innovation activities since they may provide firms with advanced knowledge and resources.<sup>628</sup>

On the other hand, the relationship between the board of directors and innovation is examined within the scope of "board characteristics"<sup>629</sup>, "board composition",<sup>630</sup> "board meeting frequency",<sup>631</sup> "CEO duality"<sup>632</sup>, "presence of independent or external directors"<sup>633</sup>, and "size"<sup>634</sup>. Additionally, the link between the educational level of the board members and

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<sup>627</sup> Kochhar, R., David, P., "Institutional investors and firm innovation: a test of competing hypotheses", *Strategic Management Journal*, 1996, Vol17, No 1, pp. 73-84

<sup>628</sup> Choi, S., Park, B.I., Hong, P., "Does ownership structure matter for firm technological innovation performance? The case of Korean firms", *Corporate Governance: An International Review*, 2021, Vol20, No 3, pp. 267-288

<sup>629</sup> Baysinger, B.D., Kosnik, R.D., Turk, T.A., "Effects of board and ownership structure on corporate R&D strategy", *Academy of Management Journal*, 1991, Vol 34, No 1, pp. 205-214

<sup>630</sup> Hoskisson, R.E., Hitt, M.A., Johnson, R.A., Grossman, W., "Conflicting voices: the effects of institutional ownership heterogeneity and internal governance on corporate innovation strategies", *Academy of Management Journal*, 2002, Vol45, No4, pp. 697-716.

<sup>631</sup> Chen, H.L., Hsu, W.T., "Family ownership, board independence, and R&D investment", *Family Business Review*, 2009, Vol22, No4, pp. 347-362

<sup>632</sup> Lhuillery, S., "The impact of corporate governance practices on R&D efforts: a look at shareholders' rights, cross-listing, and control pyramid", *Industrial and Corporate Change*, 2011, Vol20, No5, pp. 1475-1513

<sup>633</sup> Yoo, T., Sung, T., "How outside directors facilitate corporate R&D investment? evidence from large Korean firms", *Journal of Business Research*, 2015, Vol68, No6, pp. 1251-1260

<sup>634</sup> Amason, A.C., Sapienza, H.J., "The effects of top management team size and interaction norms on cognitive and affective conflict", *Journal of Management*, 1997, Vol23, No4, pp. 495-516

innovation activities of firms is also examined by scholars.<sup>635</sup> Within the scope of this chapter, we also focus on the relationship between the board and innovation but provide a different perspective. In order to provide a relatively different perspective, backgrounds (both educational and professional), duration of service and age of the members of the boards of the most innovative companies will be examined. Gender diversity at the board level will also be evaluated. Our examination differs from the studies that focused on the educational level of the board members because we focus on the education fields and, moreover, the professional experiences of the board members. The underlying logic is to find whether the most innovative companies have more product-oriented and technically expert boards or whether they possess compliance, marketing, or business-oriented boards. The idea is to determine whether the boards of the most innovative companies have common characteristics. The following chapter will show the type of data and data collection method for examining the points mentioned above. However, it is also essential to briefly mention the concept of innovation and its importance.

Innovation is defined by the Government of New Zealand as *“the creation, development and implementation of a new product, process or service, with the aim of improving efficiency, effectiveness or competitive advantage.”*<sup>636</sup> This definition is chosen for this section because it reflects the expected commercial outcome from a new product, service, or process; “efficiency, effectiveness or competitive advantage”. Especially, competitive advantage is one of the most important benefits of innovation, especially when it comes to long term performance. Let us take Nokia as an example (which is -most probably- one of the most used examples of a company that could not keep up with rapid developments). Nokia was the market leader in the cellphones industry until the first years of the 2000s; however, it was not able to compete with Apple’s iPhone, and Nokia’s profits decreased by %30 in 2008; in 2009 and 2010, Nokia announced huge layoffs, and admitted that it was quite slow with keeping up with the emergence of new technologies.<sup>637</sup> The reason behind the success of Apple was innovation,

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<sup>635</sup> Barroso, C., Villegas, M.M., Pérez-Calero, L. “Board influence on a firm’s internationalization”, *Corporate Governance: An International Review*, 2011, Vol19, No4, pp. 351-367

<sup>636</sup> Sydney Local Health District, “What Is Meant By Innovation?”, 26 September 2019, accessed 04.02.2022, <<https://www.slhd.nsw.gov.au/innovation/about.html>>

<sup>637</sup> The Guardian, “Nokia: The Rise And Fall Of A Mobile Phone Giant”, 03 September 2013, accessed 04.02.2022, <<https://www.theguardian.com/technology/2013/sep/03/nokia-rise-fall-mobile-phone-giant>>

and the main reason for Nokia's failure was the lack of innovation. The basic lesson that should be learned from Nokia is that being on the top is never enough; innovation must go on.

According to Harvard Business Review, 52% of Fortune 500 companies have gone bankrupt since 2000, and 75% of them will be replaced by 2027.<sup>638</sup> Especially for this digital era that we are living in, companies have to innovate a lot, in order to survive and stay relevant. Furthermore, in this era, customer needs also change rapidly, therefore the companies that desire to keep up with such changes must focus on becoming innovation machines.<sup>639</sup>

Innovation is essential for survival and competitive advantage but also enables companies to grow in markets rapidly and may create more significant opportunities by providing an enhanced connection to developing markets.<sup>640</sup>

However, innovation is not solely about producing a new product or introducing a new service. Finding a new, enhanced, and cheaper way to produce a product or provide a service can also be considered as innovation. In addition to companies, society also benefits from innovation by having a chance to reach cheaper and better products and services since an innovation may enable a company to produce a product in a cheaper or better way.<sup>641</sup>

If today's successful platforms are taken into account, the true meaning of innovation as well as its results can be understood better. Platforms have disrupted existing businesses by providing constant innovation. If we think about Uber, it has changed the meaning of local transportation. Facebook, its subsidiaries Instagram and WhatsApp, and other social media platforms have changed how people and organizations socialize, interact, and communicate. Netflix has changed the entertainment ways, Amazon and Alibaba altered the consumption habits and customer behaviors, and Airbnb has been providing more affordable and homelike accommodation chance. The list can be extended. Also, the benefits and promises of platforms

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<sup>638</sup> Rafi, T., "How Business Model Innovation Boosts Corporate Growth", accessed 04.02.2022, Forbes, 22 September 2022, <<https://www.forbes.com/sites/forbesbusinesscouncil/2020/09/22/how-business-model-innovation-boosts-corporate-growth/>>

<sup>639</sup> Rafi,

<sup>640</sup> Henderson, T., "Why Innovation Is Crucial To Your Organization's Long-Term Success", accessed 04.02.2022, Forbes, 08 May 2017, <<https://www.forbes.com/sites/forbescoachescouncil/2017/05/08/why-innovation-is-crucial-to-your-organizations-long-term-success/>>

<sup>641</sup> Conerly, B., "Innovation Benefits Society, Not Just The Rich", accessed 04.02.2022, Forbes, 21 October 2018, <<https://www.forbes.com/sites/billconerly/2018/10/21/innovation-benefits-beyond-the-filthy-rich/>>

are explained above. However, it should be noted here again that some platforms became the largest and most successful companies in the world by disrupting existing businesses through providing continuous innovation. Nevertheless, in order for such platforms to maintain their strong positions as well as stay relevant in the future, they also need to continue to innovate.

Below section 7.2. will mention the data collection method and the types of data collected. Section 7.3. will examine the educational and professional backgrounds of the board members of the companies included in the list. The aim of 7.3. is to find the background characteristics of the board members and to determine whether the board members of the sample firms have common patterns. In section 7.4., the historical share performance of the sample firms will be provided to demonstrate that these most innovative companies also financially perform well. Section 7.5. will examine the age and duration of service of all board members. As will be argued, shareholders tend to elect experienced members to the boards and section 7.5. will check this issue. Section 7.6. will evaluate the board members in terms of gender diversity. Section 7.7. will examine the relationship between corporate culture and innovation by checking each company's various types of Glassdoor ratings; once again, the cultural examination will be made from the viewpoints of employees to find the perceptions of employees regarding the most innovative companies. Finally, a conclusion regarding the relationship between corporate governance, corporate culture and innovation will be provided.

### 7.2. Data Collection

For this chapter, the companies that are included in BCG's list are examined. To create the list of the most innovative companies, BCG conducts global surveys with the participation of more than 1600 executives, and evaluates firms from four dimensions: "global mindshare (the number of votes received from executives), industry peer review (the number of votes received from executives in a company's own industry), industry disruption (the Diversity Index - Herfindahl Hirschman- of votes across industries) and value creation (total shareholder return for the period of three years)".<sup>642</sup> BCG has published the list since 2003 by "assessing the

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<sup>642</sup> Boston Consulting Group, "Most Innovative Companies 2021: Overcoming the Innovation Readiness Gap", April 2021, pp. 23



overall state of corporate innovation and examining how top performers organize, direct, and fuel their innovation engines”.<sup>643</sup> According to Forbes, BCG’s list is based on its annual surveys of high-level executives regarding innovation trends, and BCG’s innovation performance database that covers more than 1000 companies globally.<sup>644</sup> Not quite surprisingly, technology companies form the majority of the list, but there are also companies from various industries, such as consumer goods, pharmaceuticals & medtech, transportation, energy, financial services, industrial conglomerates, manufacturing, and food/restaurant industry.

Within the scope of this chapter, each company’s share price performance for ten years (2011-2021), board structures, each board member’s educational and professional background information, each board member’s age, duration of service as a board member and gender, and each company’s different type of Glassdoor ratings (CEO approval rate, overall rating, culture, diversity, senior management, and compensation & benefits ratings) have been collected.

Share prices of the companies are extracted from the websites of Nasdaq, The New York Stock Exchange, Google Finance, Yahoo Finance, and Macrotrends.<sup>645</sup> For each company, their yearly average share prices for ten years (2011-2021) are calculated; the annual average share price is calculated by dividing the sum of the average share prices for each month of the respective year by twelve. For each company, percentage changes in share prices over ten years were also calculated.

Information in relation to each company’s board of directors, and each board member’s background information is gathered from the companies’ annual reports, websites, proxy statements, and securities and stock exchange filings. Some of the information regarding some board members (e.g., age or educational background) is not available on the mentioned

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<sup>643</sup> Boston Consulting Group, “16 Years of the Most Innovative Companies”, accessed 15.10.2022, <<https://www.bcg.com/publications/most-innovative-companies-historical-rankings>>

<sup>644</sup> Columbus, L., “The Most Innovative Companies Of 2020 According To BCG”, accessed 05.02.2022, Forbes, 28 June 2020, <<https://www.forbes.com/sites/louiscolumbus/2020/06/28/the-most-innovative-companies-of-2020-according-to-bcg>>

<sup>645</sup> Nasdaq, Historical Data, accessed 10.02.2022, <<https://www.nasdaq.com/market-activity/quotes/historical>>  
The New York Stock Exchange, Data products: Historical Data, accessed 10.02.2022, <<https://www.nyse.com/market-data/historical>>

Google Finance, accessed 10.02.2022, <<https://www.google.com/finance/>>

Yahoo Finance, accessed 10.02.2022, <<https://finance.yahoo.com/>>

Macrotrends, Stock Research, accessed 10.02.2022, <<https://www.macrotrends.net/stocks/research>>

sources. For these board members; their personal websites, verified LinkedIn profiles, and other companies' websites and corporate reports (in which such board members also serve as directors/executives) are checked, and the data has been completed accordingly.

There are fifty companies on the list, and those fifty companies have 596 board members in total. Each company's above mentioned types of ratings that are related to corporate culture are extracted from the respective company's Glassdoor webpage.

### 7.3. Educational and Professional Background of the Board Members

A study conducted at MIT in 2019 demonstrated that companies whose board of directors are digitally conversant outperform companies whose boards lack it, in terms of financial performance.<sup>646</sup> The study defines digitally savvy as *"an understanding, developed through experience and education, of the impact that emerging technologies will have on business' success over the next decade"*.<sup>647</sup> The results of this research show that %24 of the companies that are subject to this study have digitally savvy board of directors, and those companies outperform the others on revenue growth, return on assets and market cap growth.<sup>648</sup>

As per this research, a board can be defined as digitally savvy if it has more than three digitally board members, and this element can be tested with the educational background of board members, and time spent in the tech industry such as software or telecom (it has been found that it takes at least three digitally conversant board members to impact on the decisions of the board).<sup>649</sup> Such study was focused on financial benefits of having a digitally savvy board. Nevertheless, having a digitally savvy board can also be beneficial for enhancing innovation outcomes. Since such board can have a deep understanding of the recent developments.

After the above-mentioned study of MIT, Deloitte also conducted a research to find whether there is a relationship between having a tech-savvy board and financial performance. Similar

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<sup>646</sup> Weill, P., Apel, T., Woerner, S., Banner, J., "It Pays to Have a Digitally Savvy Board", MIT Sloan Management Review, 2019, pp.41

<sup>647</sup> Weill et al., pp.41

<sup>648</sup> Weill et al., pp.42

<sup>649</sup> Weill et al., pp.43

to MIT's "digitally-savvy" criteria, Deloitte used the following indicators to determine whether a board can be considered as "tech-savvy"; 1- *"the percentage of directors who had been a technology executive—for example, a chief information officer (CIO) at any company"*, 2- *"the percentage of directors holding a degree in an area of technology (such as computer science) or in a technology-related field"*, 3- *"the percentage of directors with a technology role at the company in question or any other company"*.<sup>650</sup> Deloitte investigated the 100 largest firms (in terms of market capitalization), and found that companies with a "tech-savvy" boards outperform others in terms of revenue growth and share-price performance.<sup>651</sup>

Taking the studies of MIT and Deloitte into account, we have evaluated the board members of companies included in Boston Consulting Group's "World's Most Innovative Companies" to find the ratio of "digitally-savvy" boards. Each board member's bios are checked to determine whether they are educated to be digitally savvy and/or have enough experience in the high-tech industry.

Accordingly, it has been determined that 90% of the companies included in the list have three or more digitally conversant board members in terms of educational background and time-spend in the technology industry. Since 90% of the "World's Most Innovative Companies" have "digitally-savvy" boards, it can be argued that companies need digitally savvy board members who have an understanding of contemporary developments as well as a vision to embrace the future by having relevant knowledge to appreciate innovative ideas.

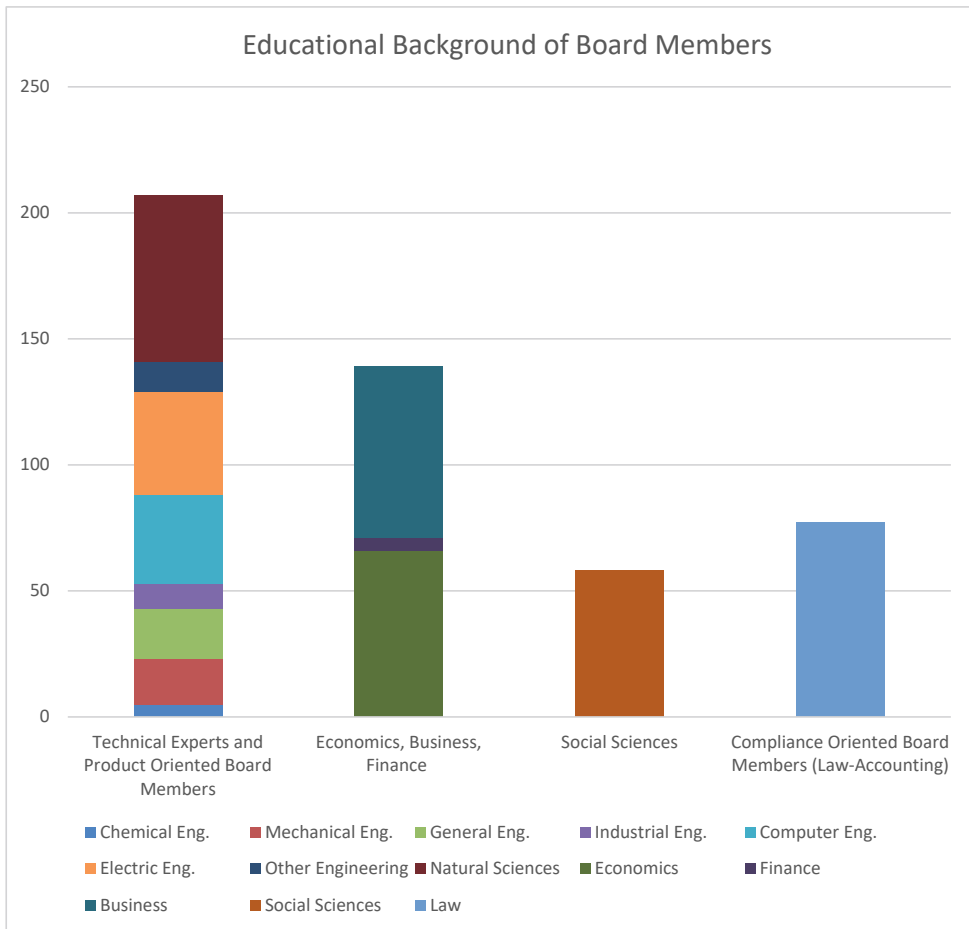
Nevertheless, board compositions and educational and professional background information of the board members provided some findings, which are addressed below.

The below chart demonstrates the educational background of the board members of the companies that are included in the World's Most Innovative Companies list.

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<sup>650</sup> Saif, I. et al., "Tech-savvy board members: A common language for transformation and the impact on performance On the board's agenda", Deloitte US, February 2022

<sup>651</sup> Saif et al.,



**Chart 3: Educational Background of Board Members**

Source: Own data

In order to make a comparison, technical experts such as computer, electric, mechanical engineers, and other engineers, product oriented board members (such as chemists, molecular biologists, medical doctors), and those that studied other applied sciences such as applied mathematics, psychics, and design are shown under one column; the ones that studied economics, business & management, and finance under one column; the board members that studied social sciences such as sociology, literature, history, linguistics, political science, philosophy, and government under one column; and compliance-oriented (law and accounting) board members are shown under a separate column.

Evaluation of total 596 board members' educational backgrounds has revealed important findings. First of all, the number of board members who are technical experts, natural scientists, and those who have deep knowledge and understanding regarding the products is higher than those who studied economics, marketing, finance, business, and management. Furthermore, the number of technical experts and product oriented board members is also higher than compliance oriented board members.

24% of all board members studied one of the following; computer science, computer engineering, electrical engineering, electronic engineering, industrial engineering, mechanical engineering, aerospace engineering, chemical engineering, civil engineering, production engineering, metallurgy, and general engineering. Together with biologists, molecular biologists, medical doctors, pharmacists, mathematicians, physicists, designers, and chemists, the percentage increases to 34%.

However, there are also some board members who do not have educational background for being a technical expert or digitally savvy but spent a long time in the tech industry. For instance, one of Facebook's board members, Peggy Alford, who studied accounting and business administration, has been serving on the board of Facebook for more than 3 years but has also been a vice president at PayPal for a long time. Or Peter A. Thiel, who co-founded PayPal, has been on the board of Facebook for 17 years, but he studied philosophy and law. Another example can be Michael D. Capellas, who studied business administration but has been serving on Cisco Systems' board for more than 16 years; he was also the CEO of First Data Corporation, Serena Software, and Compaq Computer. Amy E. Hood, a board member of 3M, studied economics and business administration, and she has been serving as a vice president at Microsoft since 2013. There are many more similar examples on the list. Hence, it is clear that the significant majority of the board members of the world's most innovative companies are technical experts, digitally savvy people who either have educational or professional relevant backgrounds, and people who have a substantial understanding of products and product cycle. Thus, it can be said that today, a significant number of the board members of the most innovative companies are digitally savvy, technical experts, and people who have a deep understanding and knowledge regarding products. The number of compliance-oriented (lawyers-accountants) and marketing-economics oriented board members is lower than those. Therefore, it can be suggested that corporations that desire to become more innovative should start electing more digitally savvy, technical expert, and product oriented board members.

## 7.4. Innovation and Share Performance

Share performances of the companies that are included in the World's Most Innovative Companies list for the period between 2011-2021 have been determined. Examination of historical share prices revealed that other than three exceptions, all companies performed very well in terms of share prices. The underperformed shares belong to Royal Dutch Shell (-32%), IBM (-21%), and Bayer (-1,3%). However, all other companies' shares' have increased significantly, and the increment percentage for ten years ranges between +59% to +14452%. The average increase rate for all companies is calculated as +607,92%. On the other hand, S&P Global 1200 Index has increased 148,99%, and S&P 500 Index has increased 237,12% in 10 years (2011-2021). The below table demonstrates the yearly performance of the best ten shares that are included in the list of BCG and compares those shares with mentioned indexes.

Company	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	%Change
<b>Nike (\$)</b>	21,68	25,22	32,39	40,43	55,12	56,24	55,7	72,93	86,73	106,45	150,59	<b>594,60%</b>
<b>Salesforce (\$)</b>	32,93	35,72	45,94	57,25	70,65	74,55	90,25	132,20	155,10	200,86	247,36	<b>651,17%</b>
<b>Alphabet (\$)</b>	16,1	17,7	28,1	26,5	38,9	39,6	52,7	52,3	66,96	87,6	144,85	<b>783,17%</b>
<b>Microsoft (\$)</b>	26,05	29,82	32,49	42,45	46,71	55,25	71,98	101,03	130,38	193,02	275,94	<b>959,27%</b>
<b>Apple (\$)</b>	13,00	20,57	16,87	23,06	30,00	26,15	37,63	47,26	52,06	95,34	140,98	<b>984,46%</b>
<b>Facebook (\$)</b>	n/a	24,67	35,48	68,76	88,77	117,03	156,57	171,51	181,63	234,55	321,16	<b>1201,82%</b>
<b>Tencent (hk\$)</b>	38,164	46,678	61,8	116,3	144,9	178,08	296,1	366,5	346,333	479,92	538,71	<b>1311,58%</b>
<b>Amazon (\$)</b>	8,7	12,5	19,9	20,3	33,7	37,4	58,3	74,9	92,1	162,4	166,3	<b>1600,24%</b>
<b>Netflix (\$)</b>	27,49	11,85	35,27	57,49	91,89	102,03	165,4	319,29	328,87	446,82	558,21	<b>1930,59%</b>
<b>Tesla (\$)</b>	2,3	2,53	10,02	14,8	16,07	17,6	20,7	22,18	27,8	235,2	352,26	<b>14452,05%</b>
<b>S&amp;P 1200</b>	1324,5	1426,5	1670	1882	1902	1845,3	2153	2341,8	2395,04	2540,8	3297,8	<b>148,99%</b>
<b>S&amp;P 500</b>	1267,6	1379,6	1,643.80	1,931.38	2,061.07	2,094.65	2,449.08	2,746.21	2,913.36	3,217.86	4273,4	<b>237,12%</b>

*Table7.: Top 10 Performed Shares from the World's Most Innovative Companies*

*Source: Own data*

As the above table clearly shows, those ten companies performed alpha plus in terms of share prices. The table also demonstrates that most of the best-performed shares belong to platforms

or corporations that benefit from their own platforms, and it is clear from the table that being or having a platform is rewardful. Furthermore, the other platforms or the corporations that have their own platforms have also performed quite well in terms of share prices. Uber, Alibaba, Xiaomi, Oracle, Cisco, and Costco can be demonstrated as examples of such cases. Since there are many platforms included in the list, and the financial performances of those companies are outstanding, it can be said that being a platform is beneficial for being innovative but also beneficial in terms of financial performance. However, this does not mean that the mentioned firms' financial success is only because they are organized as platforms or benefit from other platforms. Their corporate culture, innovation activities, business models and reputations, disruptive characteristics, market conditions, and investors' cognitive perceptions significantly affect the share price performance. Ordinary investors take public disclosures of firms into account while investing in stocks and keep an eye on the news regarding firms, while "privileged investors" also have access to some "hidden variables" and can evaluate firms from different angles.<sup>652</sup> Furthermore, macroeconomic factors also have significant impacts on share price performance of the firms. These macroeconomic factors can be summarized as interest rates, inflation rates, gross domestic product, unemployment rate, international conflicts ("trade wars" or even armed conflicts), and political impacts.<sup>653</sup> Therefore, it can be argued that there are many internal and external factors exist that can significantly affect the share price performance of the firms.

### 7.5. Age and Duration of Service

The ages of the total 596 board members range between 37 to 98. The youngest board members are Facebook's board members Mark Zuckerberg and Tony Xu (37), and the oldest is Costco's board member Charles T. Munger (98). The average age of all board members is calculated as 61,2. Facebook has the youngest board with the average age of 51,2, and Oracle's board is the oldest in terms of its members' average age, which is 72,2.

It might be expected that younger boards would have been more innovative; in other words, the most innovative companies would have younger boards. However, information about age

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<sup>652</sup> Petroni, F., Serva, M., "Investment Strategies and Hidden Variables", *Eur. Phys. Journal*, 2006, vol 51, pp.601

<sup>653</sup> Marquit, M., "5 Economic Factors That Influence Stocks", accessed 10.10.2022, <<https://money.usnews.com/money/blogs/the-smarter-mutual-fund-investor/slideshows/economic-factors-that-influence-stocks?slide=10>>

and calculations clearly reflects that there is no direct relationship between innovation and age, at least in terms of the board of directors. Broader research is needed in order to reach a definitive conclusion. However, it seems that shareholders and companies tend to elect highly experienced people for the board of directors, and this is not only about age.

515 board members out of 596 also serve (or has served) as board members/executives of several other companies, and this is also in favor of the assertion that experienced people are elected as board members by shareholders. 81 board members do not have (or have not had) seats at other companies' boards, but it should be noted here that employee representatives (due to codetermination rules, such as in Germany) also causes an increase in this number.

It has also been checked to determine how long board members have been serving at the boards. Philip H. Knight from Nike is the longest served board member with 54 years, and Oracle's founder Lawrence Ellison has been at the board of directors for 45 years. However, the average duration of service ranges from 1,6 to 16,3 years for all companies' boards, and the average number for all is 7,6 years.

### 7.6. Gender Diversity

Gender diversity in the board of directors of those companies that are included in BCG' list has also been checked. Accordingly, there are 189 female board members (out of 596), which is equal to 32%. According to a research conducted by Deloitte in 2021, women's presence in boardrooms in North America was 24.3%, in Europe was 30.7%, in Asia was 11.7%, and in Australasia was 29.9% in 2021.<sup>654</sup> Hence, the proportion of women board members of the most innovative companies is higher than that of companies from mentioned continents. Nevertheless, this data is not enough to attribute the innovative characters of the most innovative companies to gender diversity in the board room. On the other hand, the below sub-section will also address diversity's importance in relation to innovation outcome. There are several studies demonstrated that diverse teams are more innovative than others. Hence, together with diversity in terms of race, age, background, and education, gender diversity can also be seen as an important contributor to innovation outcomes.

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<sup>654</sup> Deloitte, "Progress At A Snail's Pace: Women In The Boardroom: A Global Perspective", accessed 06.02.2022, Deloitte, Seventh Edition, 2021, <<https://www2.deloitte.com/content/dam/Deloitte/global/Documents/gx-women-in-the-boardroom-seventh-edition.pdf>>



A study conducted by The Wall Street Journal found that diverse and inclusive cultures enable companies to be more innovative and productive, and diverse teams outperform others when it comes to unlocking innovation.<sup>655</sup> Further, an article published in Harvard Business Review claims that diverse teams are performed better in terms of financial outputs.<sup>656</sup> Additionally, a research conducted by Boston Consulting Group demonstrated that companies with diverse management teams are more innovative and have a better financial performance.<sup>657</sup> It is because diverse teams have the potential to provide different viewpoints on certain matters. Innovation requires nonlinear thinking and adaptability, which can be enabled by diversity.<sup>658</sup>

### 7.7. Employees' Perspective about the Most Innovative Companies

To check the employees' perspectives about their companies, reviews regarding the 50 companies that are included in the World's Most Innovative Companies of 2021 list of Boston Consulting Group are checked on Glassdoor. Since the methodology of Boston Consulting Group is explained above, it will not be mentioned in detail again here, and further explanation for the methodology of Glassdoor is provided below.

The following ratings are extracted from Glassdoor for each company.

- CEO Approval Rate: As discussed above, the place of leadership in culture is enormous; employees feel more engaged and motivated when they approve and admire their leaders, and leaders are the reflections of corporate cultures. Since the approval of a CEO is related to employee engagement, and increased engagement might be related to innovation, CEO approval rates for each company are extracted from Glassdoor. During the company review on Glassdoor, employees have the option

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<sup>655</sup> Holger, D., "The Business Case for More Diversity", accessed 06.02.2022, The Wall Street Journal, 26 October 2019, <<https://www.wsj.com/articles/the-business-case-for-more-diversity-11572091200>>

<sup>656</sup> Gompers, P., Kovvali, S., "The Other Diversity Dividend", accessed 06.02.2022, Harvard Business Review, July – August 2018, <<https://hbr.org/2018/07/the-other-diversity-dividend>>

<sup>657</sup> Lorenzo, R., Voigt, N., Tsusaka, M., Krentz, M., Abouzahr, K., "How Diverse Leadership Teams Boost Innovation", accessed 06.02.2022, BCG, 23 January 2018, <<https://www.bcg.com/publications/2018/how-diverse-leadership-teams-boost-innovation>>

<sup>658</sup> Levine, S. R., Thought Leaders, "Diversity Confirmed To Boost Innovation And Financial Results", accessed 06.02.2022, Forbes, 15 January 2020, <<https://www.forbes.com/sites/forbesinsights/2020/01/15/diversity-confirmed-to-boost-innovation-and-financial-results/>>

to rate their CEO, and the rating is based on the percentage of employees who choose to approve their CEO.<sup>659</sup>

- Culture Rating: Current or former employees can provide ratings to evaluate a company's culture on Glassdoor. Since employees are directly affected by, and in fact, live in a company's culture, their opinion regarding culture is quite important for any sort of evaluation regarding corporate culture. According to the idea, a strong and proper culture can lead to innovation, and there is strong evidence regarding the relationship between strong cultures and innovation output. Therefore, the ratings on Glassdoor regarding the culture of the fifty most innovative companies are extracted. Ratings on Glassdoor are based on a five-point scale, which is as follows; 0.00-1.50 is very dissatisfied, 1.51-2.50 dissatisfied, 2.51-3.50 is average/OK, 3.51-4.00 is satisfied, and 4.01-5.00 is very satisfied.<sup>660</sup>
- Diversity & Inclusion: As explained above in this section, studies suggested that diverse teams outperform others in terms of innovation output. Therefore, diversity and inclusion ratings of such fifty companies are extracted from Glassdoor since the anonymous rating of employees could be strong evidence. Again, the rating regarding diversity and inclusion is based on a five-point scale.
- Senior Management: Senior management is important as a CEO, since subcultures come into life in different levels of companies where senior management is in charge, and senior management is in a closer relationship with employees than CEOs. Therefore, the ratings about senior management are extracted from Glassdoor. Similarly, the rating of Senior Management is based on a five-point scale on Glassdoor.
- Compensation & Benefits: As mentioned above in detail, benefits have an important place in employee satisfaction and engagement. "Benefits" was the fourth most common word used by employees during the survey of Great Place to Work; therefore, "Compensation & Benefits" ratings are extracted from Glassdoor to evaluate its place

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<sup>659</sup> Glassdoor, Ratings on Glassdoor, "How Ratings Are Calculated", accessed 06.02.2022, Glassdoor, <[https://help.glassdoor.com/s/article/Ratings-on-Glassdoor?language=en\\_US](https://help.glassdoor.com/s/article/Ratings-on-Glassdoor?language=en_US)>

<sup>660</sup> Glassdoor,

in the cultures of the most innovative companies. This rating is also based on a five-point scale.

- Overall Company Ratings: Finally, overall company points of such fifty companies are also extracted from Glassdoor, due to such points are also reflections of the opinions of current or former employees regarding their companies.

There are ten companies from Asia (5 Chinese, 3 Japan, and 2 South Korean), 15 companies from Europe (6 German, 3 Dutch, 3 Swiss, 2 the U.K., and 1 Swedish), and 25 companies from the U.S. in the list of Boston Consulting Group. Various numbers of reviews are made for each company on Glassdoor, the lowest reviews are done for JD.com (only 255 reviews made for this Chinese consumer goods company, and its ranking on BCG's list is 31), and the most reviews are done for Amazon (more than 89.000, and its ranking on BCG's list is 3). The average number of reviews for 50 companies is 16.152, and the total review number for 50 companies is 807.620. There are only two companies whose review numbers are below 1000, one is JD.com, and the other one is Xiaomi which is another Chinese tech company.

Walmart's CEO Doug McMillon has the lowest approval rate with %69, and Intel's CEO Patrick Gelsinger has the highest approval rate with %97. CEOs of 46 companies in the list are approved by more than %75 of their current or former employees, and the average CEO approval rate of 50 companies is %87 (there is no data for 2 companies' CEOs which are Xiaomi and Toyota). The average approval rate of the CEOs of U.S. companies is %88, European companies are also %88, and Asian companies are %82. The average rate and overall picture regarding the approval rates of 50 CEOs are positive.

When we look at the data regarding culture; the average culture point of 50 companies is 3,90/5, which is equal to "satisfied" as per the methodology of Glassdoor. The average culture point of the U.S. companies is higher than the average with 3.99/5 (which is equal to "satisfied" and very close to "very satisfied" as per the methodology). The average culture point of European companies is also higher than the average with 3,98/5 (which is equal to "satisfied" and very close to "very satisfied" as per the methodology), and the companies from Asia have the lowest culture point average with 3,56/5 (as per the rating methodology 3,56 is just equal to "satisfied"). As per a total of 807.620 reviews regarding 50 companies, it can be said that their current and former employees' opinion regarding the culture of their companies are positive, especially for those 40 companies from the U.S. and Europe.

The average point for “Diversity & Inclusion” for 50 companies is 4,02/5, which is equal to “very satisfied” as per the methodology of Glassdoor. The average point for diversity and inclusion of U.S. companies is higher than the average with 4,17/5 (as per the rating methodology 4,17 is equal to “very satisfied”). The average diversity and inclusion point of European companies is also higher than the average with 4,09/5 (which is equal to “very satisfied”), and the companies from Asia have the lowest diversity and inclusion point average with 3,56/5 (as per the rating methodology 3,56 is just equal to “satisfied”). Accordingly, the average point, and especially the points of the 40 U.S. and European companies are quite good in terms of diversity and inclusion.

When it comes to Compensation & Benefits, the average point of 50 companies is 3,87, which is equal to “satisfied” as per the methodology of Glassdoor. The average point for compensation and benefits of U.S. companies is higher than the average with 3,95/5 (which is equal to “satisfied”). The average compensation and benefits point of European companies is slightly lower than the average with 3,86/5 (which is equal to “satisfied”), and the companies from Asia have the lowest compensation and benefits point average with 3,68/5 (which is equal to “satisfied”).

“Senior Management” has the lowest average point among the rating types extracted from Glassdoor. The average point of 50 companies for senior management is 3,51/5, which is just equal to satisfied. However, it is still within the boundaries of “satisfied,” which is relatively positive. The average point for senior management of U.S. companies is slightly higher than the average with 3,60/5 (which is equal to “satisfied”). The average senior management point of European companies is just the same as the average with 3,51/5 (which is equal to “satisfied”), and the companies from Asia have the senior management point average of 3,33/5 (as per the rating methodology 3,33 is “average/OK”).

The last rating type extracted is the overall company ratings. Accordingly, the average point for 50 companies is 4,01, which is just equal to “very satisfied.” For U.S. companies, the average is 4,05, which is again higher than the average of all and equal to “very satisfied.” For the European companies, the average overall point is 4,07, which is again than the average of all and equal to “very satisfied.” For the Asian companies, the average overall point is 3,81/5, which is below the average of all and equal to “satisfied”.

The reviews show that the CEO approval rate is higher for companies with relatively higher culture points. For instance, the U.S. companies’ average culture points and points for all other

rating types are higher than the averages of other companies from Europe and Asia, and the approval rate of the CEOs of the U.S. companies is also higher. This issue is also in favor of the hypothesis stated under the above chapter about leadership ("the hypothesis is that when employees approve and admire their CEO, the perception of employees regarding corporate culture of their companies evolves positively, vice versa, in cases where corporations have strong cultures, CEO is more likely to be approved by their employees").

### 7.8. Conclusion

Within the scope of this chapter, the relationship between corporate governance, culture and innovation is investigated. From the governance perspective, board compositions and directors' background information have been gathered to determine the characteristics of the boards of the "World's Most Innovative Companies". It was essential to evaluate the educational and professional backgrounds of the persons who hold decision-making power of the sample firms. Educational and professional background information, age, duration of service, and the gender of the directors have gathered from the websites of the firms, annual reports, proxy statements, and securities and stock exchange filings. The percentage of technical experts, product-oriented, compliance-oriented, and business/marketing oriented directors have been classified and compared.

The perceptions of the employees of the "World's Most Innovative Companies" are examined to find basic cultural characteristics of the cultures of those. The following ratings are extracted from Glassdoor for each firms; CEO approval, culture, diversity & inclusion, senior management, compensation and benefits, and overall company rate.

As the above-mentioned data demonstrates, the most innovative companies today are mostly governed by technical experts and product oriented board members (total percentage of technical experts and product oriented board members is 34%). The majority of the boards are digitally savvy (90%). Moreover, most of them benefit from platform business model, and the most innovative companies' financial success is inevitable. Hence, it can be said that if a company desires to become more innovative, the first thing to do is to create a board of directors and management teams that mostly consist of digitally savvy people, technical experts, and people who have the necessary deep understanding of products and product cycles.

As per the data, there is no relationship between the ages of the board members with innovation potential. The average age of all directors is 61,2, but the ages of the directors range between 37 to 92. However, it seems that shareholders tend to elect highly experienced people as members of the board of directors, considering the fact that 515 board members out of 596 also serve (or has served) as board members/executives of several other companies.

Other than a very few exceptions, all companies that are included in the most innovative companies list have performed very well in terms of share prices.

The importance of innovations for corporations in terms of financial and business success is explained above. An argument is that a well-managed corporate culture can be a strong tool for boosting innovation which will subsequently bring competitive advantage and financial success. However, there are many types of corporate culture and some of them have the potential to block innovation instead of boosting it. For instance, in a “dinosaur” company where a bureaucratic culture exists (so the hierarchy levels exist in a bureaucratic order, every action is regulated, power is only held by “C” level executives etc.) innovation would not be an expected outcome. On the other hand, corporations that promote innovative culture or creative culture with the help of flatter governance models, transparency and open communication, diverse teams, and the best-idea-wins cultures can outperform others when it comes to innovation.

In today’s rapidly changing and developing business environment, financial success depends on innovation to a significant extent, and in order for companies to boost innovation, they should create strong and convenient corporate cultures. As important factors for enhanced innovation output; employee engagement, satisfaction, and motivation are strongly bounded to corporate culture. Furthermore, in order to be innovative, companies should expand the diversity in their teams. Establishing an open, inclusive, and the best-idea-wins culture by creating a flatter governance structure that will allow firms to effectively communicate, cooperate, and co-create with all stakeholders is vitally important for financial success and being highly innovative. The data evaluated within the scope of this chapter shows that the most innovative companies elect significant number of technical experts and product-oriented persons as directors. Hence, other firms that desire to become more innovative shall commence to consider electing more technical experts, product-oriented persons and more importantly digitally savvy directors.



# **Chapter 8**

## **Examination of a Sample Corporation from a Developing Country: IsBank**





## 8. Examination of a Sample Corporation from a Developing Country: IsBank

A few years ago, I moved to Vienna/Austria in order to work at an international subsidiary of a Turkish corporation. As soon as I arrived in Vienna, I needed to open a bank account at an Austrian bank. A colleague suggested to me to open a bank account at “X” Bank, and he exactly told me that “you can consider “X” bank as the IsBank of Austria, so it is the best around here”. This story and what my colleague told me are quite short but give a lot of indication of Turkish people’s perception regarding IsBank.<sup>661</sup>

As will be shown, IsBank is an internationally recognized financial institution, which has an outstanding financial performance for a company located in a developing country. However, the reason of drafting this chapter is not only about IsBank’s financial performance or recognition. In the earlier chapters, some case studies are provided, and most of the sample firms are selected from technology industry. Nevertheless, the aim of this chapter is to show that the components determined in chapter 2 and 5 are not solely designated for tech firms, but any firm can deploy those to a significant extent. As a matter of fact, some of the components have already been implemented by IsBank. However, this does not mean that IsBank has already deployed all of the components. Sub-section 8.7 will provide some suggestions for a better corporate governance, and the points to be straightened will be mentioned. On the other hand, it can be clearly said that IsBank is a stakeholder-centric company. Most probably, the main reason is that IsBank’s current and former employees hold the majority of the bank’s shares.

Another reason of drafting this chapter is to further answer the research question mentioned in chapter 1, which is about determination of culture and governance’s impact on business success, their roles on employee engagement and satisfaction, and the importance of innovation. As will be discussed IsBank’s unique shareholder structure directly affects its governance practices, its strong culture is highly admired by employees, and its financial success is inevitable. Therefore, this chapter aims to further answer the research questions and show that stakeholder-centric approaches to corporate governance is highly beneficial.

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<sup>661</sup> It should be noted that neither me nor any relative of mine have (or had anytime) any business, commercial, employment or any other relationship with IsBank, other than having basic cash deposit accounts.

As will be shown, IsBank truly cares about its stakeholders, including employees, its digitalization activities make it the pioneer of the Turkish banking sector, and it has a strong corporate culture. Nevertheless, as a bank, IsBank does not possess a flatter structure, which is one of the aspects that need to be enhanced. It is because, having a hierarchical structure should not be the sole option for traditional banks anymore.

IsBank's shareholder structure enables it to prevent short-term focus on financials. As it will be shown, the second large shareholder of the bank is an institutional shareholder, which does not have any financial interest in the bank (it is because voting rights belong to the institutional shareholder by inheritance, but some other non-profit organizations are entitled to dividend payments). As strongly indicated and argued, one of the most negative side-effects of shareholder primacy is the short-term focus on financials.

IsBank (original full commercial title in Turkish: "*Türkiye İş Bankası Anonim Şirketi*") was founded on 26 August 1924 as the first Turkish bank<sup>662</sup> as per the order of Mustafa Kemal Atatürk<sup>663</sup> who directly provided %25 of the Bank's initial capital.<sup>664</sup> IsBank is chosen to be examined as a successful corporation in this thesis, due to its financial performance as well as quite interesting shareholder structure, its culture and corporate governance practices, and both national and international recognition. IsBank was ranked as the 673rd largest public

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<sup>662</sup> Before IsBank, there were a few number of banks established in the last century of the Ottoman Empire, such as Banque de Constantinople and Imperial Ottoman Bank. There were also some small establishments, but major banks were mainly foreign funded. IsBank was established as a first nationally funded bank of the modern Turkish Republic.

<sup>663</sup> Mustafa Kemal Atatürk (1881-1938) is the founding father of modern Turkey. After winning the war of independence (1919-1923), in which he was the lead field marshal and president of the national assembly, Atatürk created a modern, secular and independent republic. UNESCO stated about Atatürk the following; "Atatürk is: An outstanding person who devoted himself for the development of international understanding, cooperation and peace, a revolutionist who realized extraordinary reforms, the first Leader who fought against imperialism and colonialism. A unique Statesman, respectful to human rights, pioneer of worldwide peace who never discriminated people according to their color, religion, or race throughout his life, founder of Turkish Republic" (The UNESCO Courier, November 1981). It is impossible to mention his accomplishments here, but some examples can be given; creation of a modern secular republic, educational reforms (the estimated literacy rate was around 7-11% when he founded modern Turkey, but it is also estimated that this rate increased to around %30 during his 15 years of governance), the entrenchment of western attire, enactment of positive legal rules (including western-style civil, criminal and obligations laws) and the abolition of religious courts. Under his governance in 1930, Turkey accomplished the enfranchisement of women, which was quite earlier than so many countries. It is also estimated that during his governance, around 700 industrial enterprises were established, the average yearly growth rate for the Turkish economy was around 9%, considering the country was completely ruined after World War I, and the impacts of the great depression, 9% growth rate is quite successful. Atatürk wrote six books, including a book about Geometry. The detailed explanations about his accomplishments between 1919-1927 can be found in his legendary book named "Nutuk" (the Speech).

<sup>664</sup> Türkiye İş Bankası, Our History, accessed 14.02.2022, "<<https://www.isbank.com.tr/en/about-us/our-history>>"

corporation on the World as per Forbes' Global 2000 list of 2021 with \$94 billion total assets (in terms of its assets, IsBank is ranked as 398<sup>th</sup>) and \$13 billion sales.<sup>665</sup> The rank of 673<sup>rd</sup> may not seem quite remarkable at first sight, however, considering that there are only nine companies from Turkey in the list, and IsBank's striking culture, innovations, and performance for a company located in a developing country which has been suffering from a structural economic crisis for a while, it is worth to examine this corporation.

IsBank was also ranked as the 236<sup>th</sup> on Top Regarded Companies list of Forbes in 2019, and as 332<sup>nd</sup> in World's Best Employers list of Forbes in 2019.<sup>666</sup> Further, according to BrandFinance, IsBank is the most valuable banking brand (there are 54 Banks in Turkey) and the 3<sup>rd</sup> most valuable brand in Turkey.<sup>667</sup> As per IsBank's 2020 annual report, IsBank was the largest bank in Turkey in terms of assets and equity.<sup>668</sup> In 2020, it had around 24000 employees, 1205 branches (both national and international), TRY 345 billion credit volume, and 9.2 million "digital" customers (customers who make banking transactions through digital platforms) as per 2020 annual report.

The number of 9.2 million digital customers is remarkable; Turkey's total population was around 83 million in 2020, and there was around 24 million under-aged population, meaning that around %16 of the adults in the country were the digital customers of IsBank in 2020. IsBank's digital transformation and its technological initiatives had an important contribution to this number, which will be examined below, however before that, IsBank's financial performance, its performance comparison with some other banks, as well as IsBank's shareholder and governance structure, and corporate culture will be addressed.

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<sup>665</sup> Murphy, A., Haverstock, E., Gara, A., Helman, C., Vardi, N., "Global 2000 How The World's Biggest Public Companies Endured The Pandemic", accessed 14.02.2022, Forbes, 13 May 2021, <<https://www.forbes.com/lists/global2000/#2046aea5ac04>>

<sup>666</sup> Forbes, IsBank, accessed 14.02.2022, Forbes, <<https://www.forbes.com/companies/isbank/>>

<sup>667</sup> BrandFinance, "Turkey 100 – 2021", accessed 14.02.2022, BrandFinance, June 2021, pp.12, <<https://brandirectory.com/download-report/brand-finance-turkey-100-2020-full-report.pdf>>

<sup>668</sup> IsBank's all Annual Reports are available online at (in English), accessed 14.02.2022, "<<https://www.isbank.com.tr/en/about-us/annual-reports>>"

## 8.1. The Financial Data

The below table demonstrates IsBank's financial performance for two decades. The financial data mentioned below are extracted from IsBank's consolidated financial statements that are provided within the scope of its annual reports between 2000-2020.

IsBank	ASSETS (£ billion)	EQUITY (£ billion)	NET INCOME (£ billion)
2020	593,902	67,8	6,810
2019	468,059	58,9	6,067
2018	416,388	49,8	6,769
2017	362,353	43,1	5,307
2016	311,626	35,9	4,701
2015	275,718	32,1	3,083
2014	237,772	29,3	3,382
2013	210,500	23,5	3,163
2012	175,444	22,7	3,310
2011	161,669	17,9	2,667
2010	131,796	17,0	2,982
2009	113,223	13,4	2,372
2008	97,552	9,5	1,509
2007	80,181	10,6	1,702
2006	75,205	9,4	1,109
2005	63,755	9,2	1,162
2004	38,513	7,6	0,635
2003	35,361	6,3	0,498
2002	23,731	4,3	0,310
2001	21,639	3,9	0,997
2000	7,795	1,3	0,255

Table 8: IsBank's Financials between 2000-2020

Source: IsBank's annual reports from 2000 to 2020

According to above mentioned data, assets of IsBank increased from ₺ 131 billion to ₺ 593 billion (+352,67%), its equity increased from ₺ 17 billion to ₺67 billion (+294,12%), and its yearly net income increased from ₺ 2,9 billion to ₺ 6,8 billion (+134,48%) from 2010 to 2020. These numbers demonstrate that IsBank showed a significant financial performance over a decade. However, IsBank also performed very well before, its assets increased from ₺7,7 billion to ₺131 billion, and its equity increased from ₺1,3 billion to ₺17 billion from 2000 to 2010.<sup>669</sup>

<sup>669</sup> IsBank's all Annual Reports are available online at (in English), accessed 14.02.2022, "<<https://www.isbank.com.tr/en/about-us/annual-reports>>"

In order to provide a better picture of IsBank's performance, its financial numbers will be compared with some other Turkish banks. Another four Turkish banks are included in the Forbes' Global 2000 list of 2021; VakifBank (rank: 804, Assets: \$80,4 billion, Sales: \$7,4 billion), GarantiBBVA (rank:871, Assets: \$72,9 billion, Sales: \$7,2 billion), HalkBank (rank:971, Assets:\$93,7 billion, Sales:\$7,7 billion), and AkBank (rank:1006, Assets:\$64,4 billion, Sales: \$5,7 billion).<sup>670</sup><sup>671</sup> Considering the rankings, assets, and sales numbers, IsBank is in the leading position among Turkish banks that are included in the list, and this was also the case for the previous year's list. Nevertheless, in order to have a bigger picture, IsBank's performance over the last decade will be compared by providing other banks' financials. However, VakifBank and HalkBank are state-owned corporations and only a small portion of their shares are publicly and privately held; %73,44 of the shares of VakifBank and 75,3% of the shares of HalkBank are owned by the state. Therefore, instead of these two state owned banks, some other private banks are chosen, considering their market share. Below tables and charts contain information in relation to the assets, equities, net incomes, credit and deposit portfolios of IsBank (market share:11,1%), GarantiBBVA (market share:9,3%), AkBank (market share:8,5%), YapıKredi (market share:9,2%), QNB FinansBank (market share:4,3%), and DenizBank (market share:3,7%). All of the financial data, shareholder structures and any other related information mentioned herein and on the tables and charts regarding these six banks are extracted from their annual reports from 2010 to 2020.<sup>672</sup>

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<sup>670</sup> Murphy, A., Haverstock, E., Gara, A., Helman, C., Vardi, N., "Global 2000 How The World's Biggest Public Companies Endured The Pandemic", accessed 14.02.2022, Forbes, 13 May 2021, <<https://www.forbes.com/lists/global2000/#2046aea5ac04>>

<sup>671</sup> These four banks could not find a place in World's Best Employers list of Forbes or Top Regarded Companies list of Forbes. IsBank was the only one that was included in World's Best Employers and Top Regarded Companies lists of Forbes.

<sup>672</sup> IsBank's all Annual Reports are available online at (in English), accessed 14.02.2022, "<<https://www.isbank.com.tr/en/about-us/annual-reports>>"

GarantiBBVA's all Annual Reports are available online at (in English) , accessed 14.02.2022, "<<https://www.garantibbvainvestorrelations.com/en/financial-information/annual-reports/Annual-Reports/69/0/0>>"

AkBank's all Annual Reports are available online at (in English) , accessed 14.02.2022, "<<https://www.akbankinvestorrelations.com/en/publications/year-list/Annual-reports/54/0/0>>"

YapıKredi's all Annual Reports are available online at (in English) , accessed 14.02.2022, "<<https://www.yapikrediinvestorrelations.com/en/financial-information/financial-information-reports-year-document-list/Annual-Reports/50/0/0>>"

## Examination of a Sample Corporation from a Developing Country: IsBank

However, before mentioning the financial data, it is also worth indicating shareholder structures of all six banks herein briefly in order to provide a better understanding in relation to IsBank beforehand (IsBank's shareholder structure will also be examined in detail below). DenizBank is 100% subsidiary of by Emirates NBD (Forbes Global 2000 - 2021 rank:391, Assets:\$190,1 billion), QNB FinansBank is 99,38% owned by Qatar National Bank (2021 rank:221, Assets:\$286,3 billion), YapıKredi; 49,99% Koç Group (2021 rank:589, Assets:\$84,8billion), 18% UniCredit (2021 rank:548, Assets:\$26,6), 30,03% publicly traded, AkBank is 49% owned by Sabanci Holding (2021 rank: 891, Assets:\$67,4 billion) and 51% publicly traded, and GarantiBBVA is 49,85% owned by BBVA (2021 rank:191, Assets:\$900billion), and 50,15% of the shares are publicly traded.<sup>673</sup> On the other hand, IsBank is %37,08 owned by its employees, %28,09 of the shares are Atatürk's shares (this issue will be examined below<sup>674</sup>), and %34,83 of the shares are publicly traded. Hence, except IsBank, all of the other banks are backed and supported by strong groups and international banks/investors.

ASSETS (\$ billion)	IsBank	AkBank	GarantiBBVA	YapıKredi	QNBFinans	DenizBank
2010	131,7	120,0	136,8	92,8	38	33,8
2011	161,6	139,9	163,5	117,4	46,1	44,75
2012	175,4	163,4	179,8	131,4	54,4	56,4
2013	210,5	195,4	217,3	160,3	66	79,6
2014	237,7	218,6	241,1	195	75,2	94,4
2015	275,7	252,4	279,6	235,3	85,7	112,8
2016	311,6	294,5	312,1	271,1	101,5	135,5
2017	362,3	341,6	356,3	320,1	125,8	160,4
2018	416,3	354,6	399,2	373,4	157,4	197,3
2019	468,0	387,1	428,6	411	181,6	217,3
2020	593,9	478,3	540,9	486	227,2	263,9

*Table 9: Total Assets of IsBank and other banks between 2010-2020*

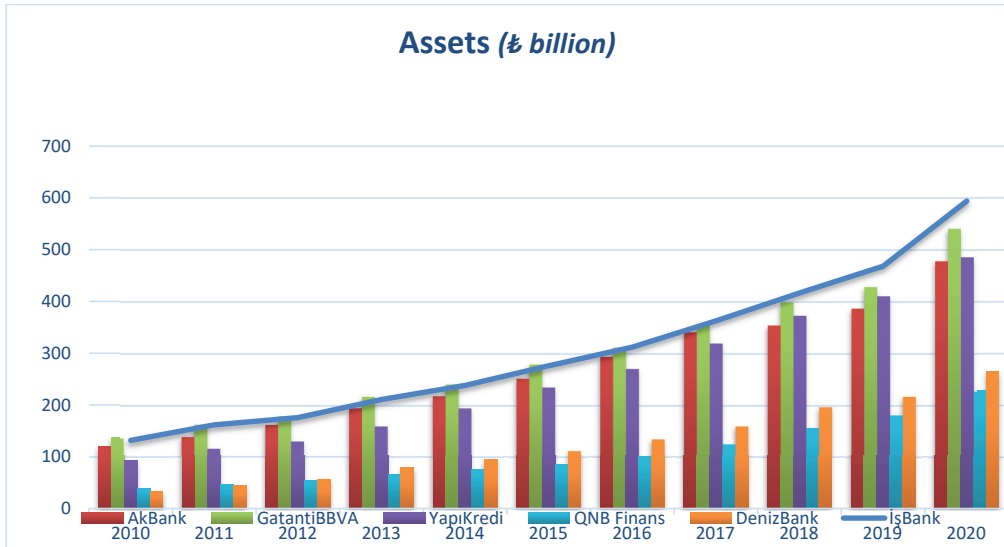
Source: IsBank's annual reports from 2000 to 2020

QNB FinansBank's all Annual Reports can be reached online at (available in English); , accessed 14.02.2022, <<https://www.qnbfinansbank.com/en/investor-relations/financial-information>>

DenizBank's all Annual Reports can be reached online at (available in English), , accessed 14.02.2022, <<https://www.denizbank.com/en/investor-relations/annual-reports>>

<sup>673</sup> Shareholder structures of the banks are extracted from their 2020 annual reports. The rankings of parent companies and international investors are taken from Forbes Global 2000 list 2021, accessed 14.02.2022, <<https://www.forbes.com/lists/global2000/#1deb6ed25ac0>>

<sup>674</sup> Atatürk's shares on IsBank are not state-owned and voting rights and financial rights of those shares are separated.



**Chart 4: Total Assets of IsBank and other banks between 2010-2020**

Source: The Banks' annual reports between 2010-2020

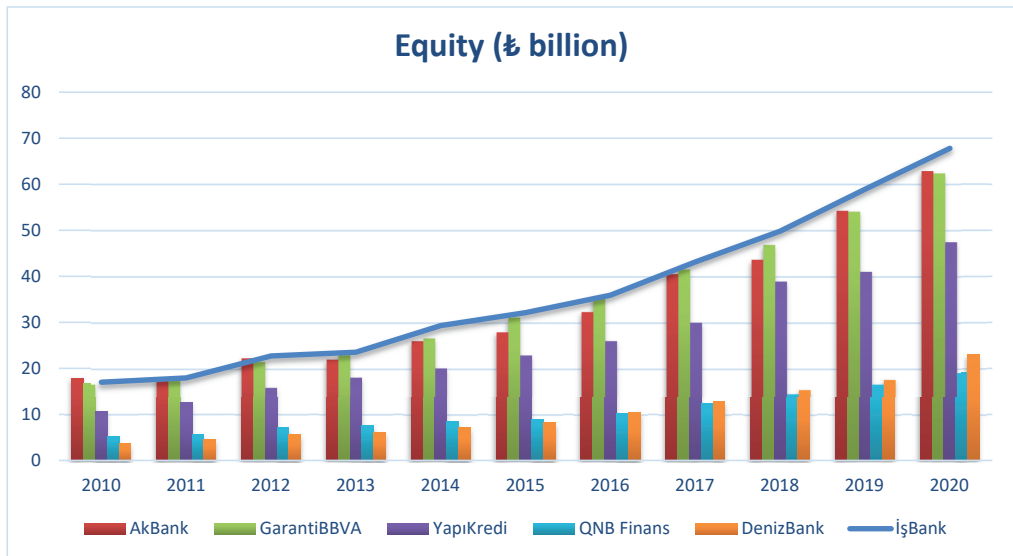
The above table and figure regarding the assets of six Turkish banks give a clear picture of IsBank's success and position in the Turkish banking sector. GarantiBBVA's total assets were slightly higher between 2010 and 2016, but IsBank has come to the leading position in the last four years, and since 2017, IsBank has been the largest private bank in Turkey. The gap between IsBank's total assets and GarantiBBVA's -and others- have been increasing since 2017. However, as the above and below data strongly indicate, GarantiBBVA is also a quite successful and well performing bank which is the second largest private bank in Turkey.

Equity (₺ billion)	IsBank	AkBank	GarantiBBVA	YapıKredi	QNB Finans	DenizBank
2010	17,0	17,9	16,7	10,7	5,2	3,6
2011	17,9	18,1	17,9	12,6	5,6	4,6
2012	22,7	22,4	21,6	16,0	7,2	5,6
2013	23,5	22,1	23,1	18,2	7,6	6,0
2014	29,3	26,1	26,7	20,2	8,5	7,1
2015	32,1	28,0	31,2	23,0	9,0	8,2
2016	35,9	32,4	35,8	26,1	10,3	10,5
2017	43,1	40,6	41,6	30,1	12,4	12,8
2018	49,8	43,7	46,9	39,0	14,6	15,5
2019	58,9	54,3	54,1	41,1	16,7	17,7
2020	67,8	62,9	62,4	47,5	19,2	23,0

**Table 10: Total Equity of IsBank and other banks between 2010-2020**



Source: The Banks' annual reports between 2010-2020



**Chart 5: Total Equity of IsBank and other banks between 2010-2020**

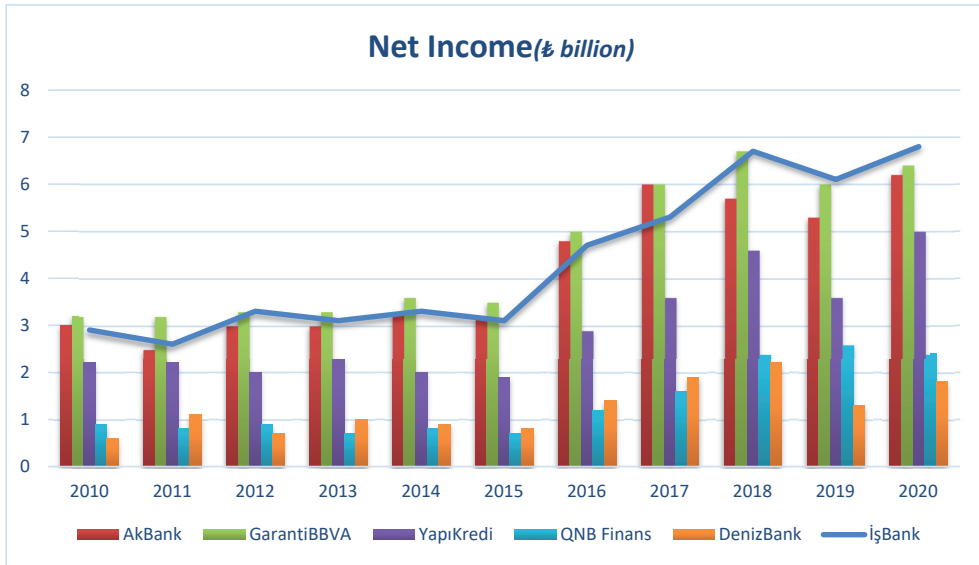
Source: The Banks annual reports between 2010-2020

According to Table 10 and Chart 5, IsBank's total equity was higher than all other banks since 2012, and the gap between IsBank's total equity and others' have been increasing, especially during the last years.

Net Income (₺ billion)	IsBank	AkBank	Garanti BBVA	YapıKredi	QNB Finans	DenizBank
2010	2,90	3,00	3,20	2,20	0,90	0,60
2011	2,60	2,50	3,20	2,20	0,80	1,10
2012	3,30	3,00	3,30	2,00	0,90	0,70
2013	3,10	3,00	3,30	2,30	0,70	1,00
2014	3,30	3,30	3,60	2,00	0,80	0,90
2015	3,10	3,20	3,50	1,90	0,70	0,80
2016	4,70	4,80	5,00	2,90	1,20	1,40
2017	5,30	6,00	6,00	3,60	1,60	1,90
2018	6,70	5,70	6,70	4,60	2,40	2,20
2019	6,10	5,30	6,00	3,60	2,60	1,30
2020	6,80	6,20	6,40	5,00	2,40	1,80

**Table 11: Net Yearly Income of IsBank and other banks between 2010-2020**

Source: The Banks' annual reports between 2010-2020



**Chart 6: Net Yearly Income of IsBank and other banks between 2010-2020**

Source: The Banks' annual reports between 2010-2020

IsBank's yearly net income amount fell behind GarantiBBVA and AkBank in 2010 and 2011. Between 2012 and 2018, IsBank's and GarantiBBVA's yearly net incomes were head-to-head or GarantiBBVA was slightly ahead; however, IsBank got the lead mildly in 2019, and increased the gap slightly in 2020.

The below table demonstrates loan and deposit amounts of IsBank and other five Turkish banks between 2010 and 2020.

Loan - Deposit* (₺ billion)	IsBank		AkBank		Garanti BBVA		YapıKredi		QNBFinans		DenizBank	
	Loan-Deposit		Loan-Deposit		Loan-Deposit		Loan-Deposit		Loan-Deposit		Loan-Deposit	
2010	64	88	57	71	70	79	54	55	19	23	23	19
2011	91	98	74	80	90	93	69	66	25	28	30	26
2012	106	105	92	90	99	97	77	71	36	31	38	34
2013	134	120	118	112	128	119	99	88	42	36	56	49
2014	155	133	136	122	142	133	125	170	50	40	64	61
2015	177	153	153	149	170	156	152	130	57	47	77	71
2016	203	177	178	173	200	178	176	157	66	53	95	90
2017	239	203	209	201	228	200	199	173	88	67	114	107
2018	260	245	213	208	243	245	220	210	100	86	138	137
2019	270	295	226	244	259	277	229	226	116	105	142	154
2020	345	368	279	292	335	358	282	259	146	130	167	167

**Table 12: Loan and deposit amounts of the six Turkish banks between 2010-2020**

Source: The Banks' annual reports between 2010-2020

**\*Important note regarding the above loan-deposit table:** The numbers indicated in the loan-deposit table are mentioned to provide a general picture of banks' cash loan portfolios and cash deposit capacities as commercial activities. The table might give the impression that some banks' loan-to-deposit ratio (LDR)<sup>675</sup> is negative, however, the table should not be interpreted in that way and should not give an indication that some banks are suffering from liquidity shortages. First of all, negative LDR is forbidden by law, banks should always maintain a positive LDP. All six banks' financial statements are checked, and all of them have positive loan-to-deposit ratios – some of them with the contribution of high-quality liquid assets<sup>676</sup>, such as cash deposits at Central Bank. So that all banks meet the liquidity standards set in Basel III<sup>677</sup> and national regulations enacted in line with Basel III.

In Table 12, the left columns under each bank contain loan amounts, and the right columns under each bank contain deposit amounts. The loan amounts mentioned in the table are only the cash loans; non-cash loans, such as bank guarantees or letters of credits are not included. The deposit amounts mentioned in the table are the sum of total deposit accounts held at those six banks in the respective year.

Today's modern banks provide various financial products to their customers, from cash loans to non-cash loans, term deposit accounts to derivative transactions, foreign exchange services to credit cards etc. However, traditionally, loans can be considered as the primary products and income sources of private banks. Also, loans to be granted and deposit accounts held at banks are in a close relationship, because deposit amounts determine the loan capacity of banks to a certain extent (thus, as explained above and in the footnotes, banks should maintain

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<sup>675</sup> Loan-to-Deposit Ratio (LDR) is the ratio that is calculated by dividing a bank's total amount of loans by the total amount of deposits. Basically, loan amounts should not be higher than deposit amounts held at a bank, if LDR is negative (meaning that higher than 100%), it means that the loan amounts granted are higher than deposit amounts received.

<sup>676</sup> Financial statements of banks sometimes include high quality liquid assets which compensate liquidity shortages. High quality liquid assets are cash, cheques, government bonds, demand deposits and so on. However, an asset should meet some criterions to be considered as a high-quality liquid asset, for instance, as per Basel III, an asset should not be given as a collateral, hence it should be free from any limitation so that such asset could be freely and effectively used in case of liquidity needs. Hence, high-quality liquid assets can be considered as liquid assets that are held in somewhere else which can be used in case of needs.

<sup>677</sup> "Basel III is a regulatory framework created by Basel Committee on Banking Supervision after the 2008's financial crisis". Detailed information; accessed 18.01.2022, <<https://www.bis.org/bcbs/basel3.htm>>

a positive loan-to-deposit ratio). Therefore, in addition to assets, equity and net income, loan and deposit amounts are chosen to be compared between IsBank and others.

Table 12 shows that IsBank is not only the market leader in terms of assets, equity, and net incomes, but also have been having the leading position regarding loan and deposit amounts. IsBank's loan amounts were higher than all other banks between 2011-2020, and except for 2015 and 2016, the cash amount of deposit accounts held at IsBank was higher than the deposit accounts held at all other banks between 2010-2020.

In addition to above mentioned data and comparisons, it is also worth mentioning IsBank's performance during a financial crisis. In 2001, Turkey experienced a very strong economic crisis which caused bankruptcy of 24 banks and vast number of companies and SMEs, 9,5% shrinking in Turkish economy, and huge layoffs.<sup>678</sup> In 2001 and before, the Turkish economy experienced significant macroeconomic imbalances, and Turkish banking system was highly fragile because banking sector was not regulated properly, was highly dependent on treasury bills and foreign funds, banks exposed to a large structural maturity mismatch i.e., banks granted loans to the private sector and government with long maturities, but could only get loans for short-term.<sup>679</sup> Although the reasons and consequences of the crisis were enormous for Turkish economy and private sector, IsBank was able to survive the crises successfully, and even its assets increased from ₺21 billion to ₺23 billion, its equity increased from ₺3,9 billion to ₺4,2 billion from 2001 to 2002, however, IsBank just closed 3 branches (branch number decreased from 841 to 838) according to IsBank's 2002 annual report. Nevertheless, since the Turkish economic crisis of 2001, IsBank opened 400 new branches and its employee number increased from 14000 to 24000 as per its annual reports. Hence, IsBank's employee numbers, and its assets, equities, loan and deposit amounts have been consistently increasing for two decades.

The main argument of this case study of the thesis is that IsBank's shareholder structure and corporate culture are some of the main reasons behind its financial performance and leading position among both Turkish banks and corporations. However, there are also some aspects to be strengthened. From this perspective, IsBank's annual reports, minutes of general meetings, corporate governance compliance reports, articles of association, ethical code,

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<sup>678</sup> Yigitoglu, A.I., "Assessment of Turkish Economy and Banking Sector After the Period of the 2001 Crisis", *Sosyo Ekonomi*, 2005, pp.121

<sup>679</sup> Brinke, K., Rabobank, The Turkish 2000-01 Banking Crisis, accessed 17.01.2022, <<https://economics.rabobank.com/publications/2013/september/the-turkish-2000-01-banking-crisis/>>

shareholder and governance structures, its ratings and employee comments on Glassdoor.com, and news published on national-international media regarding IsBank are examined to evaluate corporate governance and corporate culture of IsBank.

## 8.2. Shareholder Structure and General Meetings

As stated above, IsBank has a very interesting shareholder structure. In fact, IsBank's shareholder structure is completely unique in Turkey. According to IsBank's 2020 annual report, the shareholder structure is as follows; %37,08 "Türkiye İş Bankası A.Ş. Members Cumulative Social Security and Assistance Foundation", %28,09 Atatürk's shares (represented by Republic and People Party – "RRP", in Turkish; "*Cumhuriyet Halk Partisi*" which was founded by Atatürk in 1923 as the first political party of modern Turkey), and %34,83 publicly traded shares. Other than publicly held shares, the remaining shares seem to be held by institutional shareholders. However, these institutional shareholders are quite different from traditional institutional shareholders, such as hedge funds or other types of common institutional investors. First of all, as mentioned above, Atatürk held shares in IsBank when the bank was founded. However, Atatürk has transmitted the control of his shares to his political party, i.e., RRP, but he has transmitted all monetary rights deriving from his shares to "Turkish Linguistic Society" and "Turkish Historical Society" (both of them were also founded by Atatürk as research associations) through his testamentary disposition.<sup>680</sup> Hence, the situation regarding Atatürk's shares is that the political party owns the shares and possesses the voting rights without having any financial interests, and dividend payments are made to the aforementioned associations, which do not have any control or decision making power over the company. Both associations have public legal personalities, and their umbrella organization is Atatürk Supreme Council for Culture, Language and History, which is a governmental body established by Article 134 of the Constitution of the Turkish Republic.<sup>681</sup>

On the other hand, the political party has been an opposition party since 2002; hence, does not have any effect on, or power upon any governmental bodies. Therefore, Atatürk's shares in

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<sup>680</sup> IsBank, "Bankamız Açıklaması" Press Release, 17 September 2018, available online at (in Turkish), accessed 19.01.2022, "<<https://www.isbank.com.tr/bankamizi-taniyin/bankamiz-aciklamasi>>"

<sup>681</sup> Article 134, Constitution of the Turkish Republic, English full version of the constitution can be reached through, accessed 19.01.2022, <[https://global.tbmm.gov.tr/docs/constitution\\_en.pdf](https://global.tbmm.gov.tr/docs/constitution_en.pdf)>

IsBank set a quite interesting example for corporate governance; the ownership of shares as possession of voting rights, and financial benefits deriving from the shares are completely separated. As it was addressed under section 4.1. “The Foundation of Corporate Governance and Shareholder Primacy Norm”, shareholders elect board members by using their voting rights, traditionally primary interest of shareholders is financial, i.e., making profits, earning money, and the roots of traditional corporate governance derive from conflict of interests between shareholders and directors. Nevertheless, it seems that there is no conflict of interests between the political party and the board or executives of the company due to the lack of any financial returns for the party.

This issue is also reflected in the general meeting minutes of IsBank to a certain extent. Examination of the general meeting minutes of IsBank will be addressed just below; however, it shall be noted here that no conflict was determined between the political party, other institutional shareholders, and the board. Furthermore, as it will also be addressed below, the board members elected by the party in the last meeting do not have any affiliation with the party (but earlier, the party tended to appoint affiliated people as the members).

The other institutional shareholder of IsBank is also quite interesting. “Türkiye İş Bankası A.Ş. Members Cumulative Social Security and Assistance Foundation” which holds the largest portion of the shares, %37,08, is a nonprofit foundation established in 1974.<sup>682</sup> According to the 2020 annual report<sup>683</sup> and the website of IsBank<sup>684</sup>, the members of the foundation are the current and former/retired employees of IsBank (the members’ number is indicated as “around 50.000”).

It is indicated, in fact highly promoted, on the website and annual reports of the bank that the employees own and govern the bank, and the majority of members of the board of directors are elected by the foundation, thus the employees. Under Section 4.1., employees’ role and participation in corporate governance were addressed through mentioning codetermination rules and employee stock options. However, IsBank’s employees hold the majority of shares

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<sup>682</sup> “Türkiye İş Bankası A.Ş. Members Cumulative Social Security and Assistance Foundation”, About Us, accessed 19.01.2022, “<<https://www.tibasvakfi.org.tr/TR/Sayfalar/default.aspx>>”

<sup>683</sup> IsBank, 2020 Annual Report, IsBank, 2020, pp.3, accessed 19.01.2022, “<<https://www.isbank.com.tr/en/about-us/annual-reports>>”

<sup>684</sup> IsBank,

and therefore can directly participate in governance of IsBank without any labor codetermination rule.

Annual general meetings' minutes of IsBank from 2010 to 2020 were examined.<sup>685</sup> The below table summarizes participation levels of shareholders to general meetings (participation rate is calculated by dividing participated share numbers by total share numbers) and approval rates of certain agenda items (approval rate is calculated by dividing positive votes numbers to total participated share numbers).

	Participation Level	Approval & Acquittal of BoD	Dividend Payments	Election of BoD Member	Board's Allowance
2010	70,89%	99,84%	100%	98,47%	99,78%
2011	71,07%	99,08%	100%	99,08%	99,22%
2012	84,91%	98,35%	99,63%	n/a	99,60%
2013	86,80%	99,77%	99,99%	86,63%	99,43%
2014	86%	99,99%	99,99%	n/a	99,99%
2015	82,80%	98,24%	99,99%	86,45%	99,02%
2016	88,62%	97,79%	99,99%	80,67%	98,34%
2017	87,63%	97,87%	99,99%	n/a	87,33%
2018	88,67%	97,30%	99,99%	82,02%	83,57%
2019	86,68%	85,10%	99,99%	82,10%	84,31%
2020	81,72%	88,40%	99,99%	97,30%	86,90%
Average	83,25%	96,52%	99,99%	89,09%	94,32%

**Table 13: Participation Levels and Approvals of Items by General Assemblies of IsBank between 2010-2020**

*Source: The IsBank's annual reports and minutes of shareholder meetings*

According to Table 13, the average participation level to the general meetings by shareholders is 83,25% which is quite high. According to supplementary documentation of meeting minutes, both institutional shareholders participated in all annual general meetings, so that 64,17% of the shares were always represented. Hence, the participation level of other minority shareholders (both individual and funds) is ranged from 6,83% to 24,50% for the last ten annual meetings of shareholders. Considering that 34,83% of the shares are publicly traded, it

<sup>685</sup> IsBank's Annual General Meeting of Shareholders Minutes, accessed 19.01.2022, "<<https://www.isbank.com.tr/en/about-us/corporate-governance>>"

can be said that more than 70% of the minority shareholders have been represented during the last eight annual meetings, which is a significantly high representation rate for publicly traded shares.

The approval rates show us that there is a high consensus between two institutional shareholders as well as minority shareholders who hold publicly traded shares; all items were approved by more than %80 of the participated shareholders for all years, and all approval rates are quite high. Especially, approval rates for dividend payments were extraordinarily high; 99,99%.

It can be assumed that since the political party does not receive any payments, it may not interfere the issues regarding dividend payments. However, as mentioned, the participation rate of minority shareholders was also quite high, and they could have used negative votes if there was anything that would harm their interests. The approval rate for dividend payments (regarding its amount, time of payment etc.) was 99,99%, which clearly demonstrates that all shareholders were satisfied with the financial return for their investments.

The rate for approval of the board's activities', and the board's acquittal of the previous year's obligations was also quite high for each year. It can be again assumed that both institutional shareholders who elected the members of the board, would always approve the activities of the board. Nevertheless, the rate for board's approval by other minority shareholders is also quite high. For instance, if we take 2018's general meeting as an example due to the highest participation rate (88,67%), and consider that two institutional shareholders fully participated (64,17%), this will mean that the remaining 24,50% were the other minority shareholders. Board's approval rate was 97,30% in 2018's meeting. Considering that both institutional shareholders approved their board members, this will lead us to conclude that the board's approval rate by other minority shareholders was 90,20% in 2018, which is still quite high.

Additionally, no agenda item suggested by the board was disapproved during the last ten years' annual general meetings. As per article 51 of articles of association of IsBank, basic decisions are made by the absolute majority of the votes of those represented at the general meeting. Hence, as long as the two major institutional shareholders act together, they may pass any item. However, Turkish Commercial Law also provides some protection for minority shareholders. For instance, minority shareholders of publicly traded companies (alone or together with other shareholders) that hold at least 5% of the shares, may call for an extraordinary shareholders meeting, request from courts to appoint special auditors to re-



evaluate the financial records, or request postponement of the general meeting. However, no class action has been commenced against IsBank. On the other hand, regardless of share percentage, a shareholder can file a lawsuit against an approved item during the general meeting, on the condition that such shareholder used a negative vote and added an annotation on the general meeting's minutes regarding such item.

One important note regarding the annual general meetings of shareholders is that in 2018, the banking supervision agency prevented banks from making dividend payments; however, IsBank's supervisory board suggested to the general meeting that a premium payment to all employees shall be made amounting to 10.000 Turkish Lira + 1 salary as a replacement of 2018's dividend payments, which was approved with 99,99% of the votes.<sup>686</sup>

As per the regulations of the Turkish capital market authority, publicly traded companies need to publish corporate governance compliance reports. IsBank's report published on the public disclosure platform states that the bank publishes all relevant information for shareholders on its website and ensures that each shareholder receives sufficient information before the general meeting, there is no privileged shareholder, the board ensures that both the company's and shareholders' interests are taken into consideration when determining on dividend payments scheme.<sup>687</sup>

As a conclusion for this sub-chapter, IsBank has a quite different shareholder structure, and such structure allows IsBank to avoid conflicts between various stakeholders. Without the pressure of shareholders who solely focus on short-term return for their investment, boards and executives may act better and achieve long term success, and as per the above data and minutes of general meetings, there has been no shareholder pressure on the board and executives of IsBank which has been performing well financially.

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<sup>686</sup> IsBank,

<sup>687</sup> IsBank's Corporate Governance Compliance Reports, "<<https://www.isbank.com.tr/en/about-us/corporate-governance>>"

### 8.3. The Board and Organizational Structure

IsBank has a two-tier board structure. According to the 2020 annual report of IsBank, the company's supervisory board consists of eleven members, and the management board of the company consists of thirteen members. The CEO is a member of both the supervisory board and management board.

Four members of the supervisory board are elected by the political party in 2020's general meeting; however, these members do not have any affiliation with the party. Since those four directors do not have any affiliation with the party, and the party does not have financial interests in the company, it can be assumed or expected that those four supervisory board members may function as independent directors, additionally, there are three more independent directors in the supervisory board. According to the 2020 annual report, all of the four members elected by the party completed postgraduate studies regarding economics in the U.S. and had relevant backgrounds in management<sup>688</sup>, hence, it can be said that those members are capable of undertaking such roles and responsibilities as board members. The other members are also highly competent for being members of the supervisory board of a bank as per their highly relevant background, remarkable education and longtime experience in the banking and finance industry.<sup>689</sup>

It should be noted that the board members elected by the foundation have worked for IsBank for several years; hence, employees have elected employees as board members. This can be interpreted as a highly beneficial matter for IsBank because such board members know the company from inside very well, and their alliance would be with the employees naturally. As mentioned above, the supervisory board defends the financial interests of the employees, in case dividend payments cannot be made, the supervisory board takes initiatives and provide satisfactory premium payments to employees.

According to the latest general meeting of shareholders held in March 2021, it was decided that each supervisory board member shall be entitled to receive monthly TRY 41,300- (approximately USD 5,300-, as per TRY/USD currency rate for March 2021) as allowance.<sup>690</sup>

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<sup>688</sup> 2020 Annual Report, IsBank, 2020, pp.95, accessed 19.01.2022, "<<https://www.isbank.com.tr/en/about-us/annual-reports>>"

<sup>689</sup> IsBank, pp.95

<sup>690</sup> IsBank,

The allowance amount approved by 87% of the shareholders (total participation level of all shareholders to the general meeting was 81,72%).

As per the 2020 annual report, the supervisory board met 14 times during the year, took 195 resolutions during the meetings, and additionally 502 board resolutions were taken remotely without having physical meetings. Hence, the board of IsBank was quite active.

Regarding the diversity in the board, in terms of education and background, six board members studied economy and finance, two board members' undergraduates are linguistic, one member studied business administration, there is a chemical engineer and a computer engineer on the board. Also, six board members have master's degrees, four of them from U.S. universities. Six of the board members were also board members of some other companies. Three board members worked as high-level bureaucrats at governmental bodies and as senior diplomats at Turkish embassies in some countries. There is only one woman on the board so that it is not a diverse board in terms of gender diversity. The youngest board member is 54 and the oldest is 79 years old, and the average age of the board is 63. Some suggestions regarding the board are given in below, but it should be noted here diversity in the board should be increased to achieve more innovation and to have different perspectives. The board of IsBank cannot be considered as a digitally savvy board, but it is somewhat close to that concept. As mentioned under Section 7, according to a study conducted at MIT, companies with digitally conversant boards outperform other companies whose boards lack it.<sup>691</sup> The chief executive officer of IsBank -Hakan Aran- (who is also a member of the Supervisory Board) is a computer engineer; his career started at IsBank as a software specialist in 1995, he was appointed as the division manager of software development department in 2005, and in 2008 he promoted to deputy general manager responsible for digital banking and technology in which he led the digital transformation of the bank.<sup>692</sup> After successful thirteen years, he was appointed as the CEO in 2021. A computer engineer CEO for a bank is not quite common, but it definitely is an intelligent move in the age of digitalization and technology. The chairman of the supervisory board of IsBank had his undergraduates about economics, but he has also been the chairman of Softtech Ventures, which is a subsidiary of a software company named

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<sup>691</sup> Weill, P., Apel, T., Woerner, S., Banner, J., "It Pays to Have a Digitally Savvy Board", MIT Sloan Management Review, 2019, pp.41

<sup>692</sup> IsBank, "Hakan Aran ; The biographies of each supervisory board members are available online at (in English)", accessed on 20.01.2022, "<<https://www.isbank.com.tr/en/about-us/board-of-directors>>"

Softtech (which is also a subsidiary of IsBank).<sup>693</sup> However, in line with the article of MIT, he needs more time in the high-technology industry to be classified as a digitally savvy board member. There is another supervisory board member of IsBank who could be classified as a digitally savvy board member due to his background. He had been employed as a systems analyst at a couple of different companies before IsBank, and after he has started to work as a software development manager at IsBank until 1999.<sup>694</sup> Between 1999-2003, he worked as the general manager of IsNet, a subsidiary of IsBank, which is a technology company mainly focused on creating internet infrastructure and internet banking systems, and currently operates on satellite services, telecommunication and data services, VPN services, commercial software, e-invoice, and virtual storage platforms.<sup>695</sup> Hence, he can be considered as a digitally conversant board member. Thus, two out of eleven supervisory board members of IsBank are digitally conversant. However, this number is not enough to influence the decisions of the board, and IsBank's shareholders should consider electing more digitally conversant persons to the board. When we look at the organizational structure of IsBank, it reflects the features of traditional hierarchical corporate structure, in fact, almost all traditional banks around the globe have the same or similar hierarchical structure.

The below figure summarizes the organizational structure of IsBank;

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<sup>693</sup> IsBank, Adnan Bali, The biographies of each supervisory board members are available online at (in English), accessed 20.01.2022, "<<https://www.isbank.com.tr/en/about-us/board-of-directors>>"

<sup>694</sup> IsBank, A. G. Sungur; The biographies of each supervisory board members are available online at (in English), accessed 20.01.2022, "<<https://www.isbank.com.tr/en/about-us/board-of-directors>>"

<sup>695</sup> IsNet, About Us, accessed 20.01.2022, "<<https://www.isnet.net.tr/Default.aspx?cul=en>>"

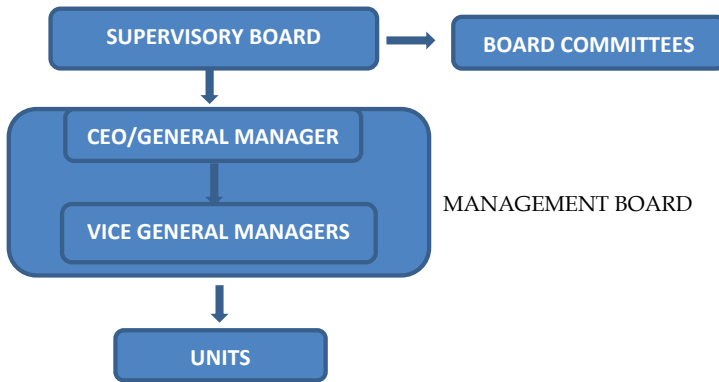


Figure 8: Organizational structure of IsBank<sup>696</sup>

## 8.4. Corporate Culture

The corporate culture of IsBank is well-known in Turkey. As mentioned above, IsBank is regarded as one of “the Best Employers in the World by Forbes in 2019”. Regarding the culture of IsBank, the ratings and reviews on Glassdoor.com are checked to find out the opinions of its employees regarding the company. Also, the ratings of some other banks in Turkey are checked, and the below table shows the comparison of IsBank with others.

<i>Glassdoor</i>	Overall Rating	Culture & Values	CEO Approval Rate	Benefits & Compensation	Would Recommend to a Friend
<b>IsBank</b>	4.0	4.3	90 %	3.9	82%
<b>YapıKredi</b>	4.1	4.3	81%	3.6	79%
<b>GarantiBBVA</b>	3.7	3.3	85%	3.3	65%
<b>T.E.B</b>	3.5	3.7	72%	2.9	79%
<b>AkBank</b>	3.5	3.0	85%	3.2	53%
<b>SekerBank</b>	3.3	3.2	71%	2.8	49%
<b>DenizBank</b>	3.6	3.5	65%	3.1	59%
<b>VakifBank*</b>	3.2	3.3	n/a	3.9	51%
<b>ZiraatBank*</b>	3.5	3.1	n/a	3.2	67%
<b>HalkBank*</b>	3.8	4.0	n/a	4.0	75%

Table 14: Comparison of IsBank and other banks as per reviews made on Glassdoor.com

Source: Glassdoor

\* state-owned banks

<sup>696</sup> IsBank, pp.98-99

The reviews made on Glassdoor reflect the perceptions of employees regarding their companies. According to the above table, ratings made by the employees of IsBank on Glassdoor.com are quite positive, which gives the indication that IsBank has a strong corporate culture. Culture & Values rating is the highest rating made for IsBank, and the approval rate of its CEO is quite high, which indicates that the leadership style of the CEO is highly accepted and admired by IsBank's employees. Further examination is made through checking the website and annual reports of IsBank regarding human resources policies and corporate culture.

Like many other companies, IsBank also publishes its core values, visions, strategic goals, and missions on its website. Accordingly, innovation, solidarity, common sense, reliability, sincerity, and transparency are demonstrated as IsBank's core values, and becoming the bank of the future is indicated as its vision.<sup>697</sup> Also, in its annual reports, being "agile" and "dynamic" is often mentioned as its characteristics.

According to the human resources website of IsBank, 51% of its employees are female, and 53% of employees are millennials.<sup>698</sup> IsBank's human resources department organizes some events, such as AI, cyber security, software development, and machine learning courses, a workshop named "agile" that is aimed to create a working framework that may support teams to provide quicker responses to the feedback they receive on their projects, and sport, sightseeing, and other social events that aimed to strengthen the relationships among employees.<sup>699</sup>

Further, IsBank's HR website mentioned that they have been transforming their work styles and processes to a more agile model. The reason behind this approach mentioned as due to the digitalization and rapid technological developments, customer expectations and needs have been changing and increasing, and companies' old-style processes could not respond to this change, also employees became unhappy and unmotivated since the majority of them cannot understand their individual role under complex systems and changing environment. Hence, the agile work style is suggested as a solution to these two problems. It is further

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<sup>697</sup> IsBank, Our Vision, Values, Strategic Goals and Strategy, accessed 20.01.2022, "<<https://www.isbank.com.tr/en/about-us/our-vision-and-strategy>>"

<sup>698</sup> Human Resources of IsBank, accessed 20.01.2022, "<<https://ik.isbank.com.tr/>>"

<sup>699</sup> Human Resources of IsBank,

mentioned that the agile work style requires flexibility, unceasing development, learning by trial and error, transparency, and competent teams' collective efforts that are aimed at a common goal.<sup>700</sup> First of all, these statements are quite valuable. As mentioned, almost all companies post about culture, values, missions, and visions on their websites. However, just mentioning customary words is one thing, but providing detailed explanations and addressing the methods used regarding such concepts are completely different things. The below sub-chapter will mention IsBank's digital achievements and efforts. Such efforts and achievements could be considered as a piece of evidence that IsBank truly values innovation and has an agile work style to a certain extent. Nevertheless, culture and governance are two interconnected concepts. Strict hierarchy and bureaucracy are the enemies of innovation and responding to rapid developments. Hence, governance structure should be seen as the infrastructure of corporate culture. Therefore, flatter and more functional corporate governance structures shall be implemented to truly achieve agile and innovative work styles and processes. This issue will be further addressed below.

### 8.5. Stakeholder Centric Approaches

As mentioned above, under the shareholder structure of IsBank, the largest group of shareholders of IsBank is its employees through employees' non-profit foundation. Due to this structure, employees of IsBank yearly receive dividend payments through such foundation. In cases where dividend payments cannot be made, for instance, due to the decision of banking and supervision agency, IsBank's employees still receive some amount under the name of premium payments with the initiatives of the supervisory board whose majority members have worked as IsBank's employees. When a person is employed at IsBank, on the first working day such employee directly becomes a member of the non-profit foundation to receive benefits, and such benefits are not limited to dividend payments, there are several more benefits such as pension plans, holiday payments, and special insurance offerings.<sup>701</sup>

In addition to financial benefits, IsBank granted administrative leave for employees who have infants at home or chronic illnesses during the first months of COVID-19 pandemic, also

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<sup>700</sup> Human Resources of IsBank,

<sup>701</sup> IsBank,

switched to homeworking and flexible working hours, and provided psychological and medical support to its employees throughout the pandemic.<sup>702</sup>

There are three main categories mentioned on IsBank's website that is dedicated to its corporate social responsibility activities, these are education, environment, culture, and art.<sup>703</sup> From establishing chess classes for public schools to giving scholarships to students, IsBank has 19 different active projects in relation to education. Regarding culture and art, IsBank has a publishing house and 26 bookstores, it organizes concerts, establishes museums and art galleries, provides sponsorships to archaeological excavations (for a total of five different quite important excavations until today), the bank also has a rich art collection that is exhibited at the bank's museum.<sup>704</sup> It should be noted that these sort of cultural, educational and aesthetic activities are especially quite valuable for a developing country. IsBank's publishing house also publishes some rare books for Turkey, for instance, I was only able to find some international books at the bank's bookstores. IsBank and Koç Holding established together with an artificial intelligence application and research center, and during the COVID-19 pandemic, they established an infectious diseases application and research center.<sup>705</sup>

IsBank also invests in sustainability; it has a sustainability committee that is directly responsible to the board of directors. Although it is not legally mandatory under Turkish law, IsBank's sustainability reports are published within the scope of its annual reports. According to its annual reports, IsBank has anti-bribery, corruption, environmental and social impact, and human rights policies, and its compliance with those policies is ensured by the sustainability committee. Further, IsBank is a member of the "United Nations Environment Programme Finance Initiative", "Carbon Disclosure Project (CDP)", the "United Nations Global Compact", the "Women's Empowerment Principles", and the "Science-Based Targets"

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<sup>702</sup> IsBank, pp.107

<sup>703</sup> IsBank, Sustainability, accessed 20.01.2022, "<<https://www.isbank.com.tr/en/about-us/sustainability>>"

<sup>704</sup> IsBank,

<sup>705</sup> IsBank, pp.81



initiative.<sup>706</sup> It is stated on the bank's website that its CDP Climate Change Program score was C in 2019, but they achieve to increase it to A- in 2020.<sup>707</sup>

## 8.6. Digitalization of IsBank

IsBank launched its internet banking services through its website in 1997, which made IsBank the first Turkish bank for online banking, however, this was not the first "first" of IsBank regarding digitalization; the first ATM machine (which is a FinTech in nature) in 1984, first telephone banking possibility for customers in 1994, and the first mobile banking application in 2007 were also launched by IsBank first time in Turkey.<sup>708</sup> In fact, the first ATM machine was named as "bankamatik" by IsBank, and now the Turkish word for ATM is used as "bankamatik". These examples show that IsBank truly values innovation and has always invested in technologies.

Another example could be that the word "digital" is used 197 times, "technology" is used 98 times, "innovation-innovative" is used 60 times, "agile" 28 times, "internet" is used 55 times, "mobile" is used 50 times, "application-app" is used 121 times in 2020 annual report of IsBank. Further, "blockchain" is used 8 times in the annual report, and it is indicated on the website of IsBank that it is the first Turkish bank that offers payment commitment in foreign trade transactions through blockchain technology.<sup>709</sup> However, it must be noted that adding the new technologies to old businesses may not bring the desired effectiveness and innovation, as addressed under Section 5. Therefore, corporations like IsBank need to acknowledge that they might need to adopt more radical approaches and fundamental changes in order to stay relevant. Further and detailed suggestions will be provided below.

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<sup>706</sup> IsBank,

<sup>707</sup> IsBank, Sustainability, Ratings and Indices, accessed on 21.01.2022) <<https://www.isbank.com.tr/en/about-us/ratings-and-indices>>

<sup>708</sup> IsBank,

<sup>709</sup> IsBank, "Another Transaction From IsBank Utilizing Blockchain Technology", 11 November 2020, accessed on 21.01.2022), <<https://www.isbank.com.tr/en/about-us/another-transaction-from-isbank-utilising-blockchain-technology>>

According to the 2020 annual report, 96% of all banking transactions were conducted through IsBank's mobile and internet banking applications; its mobile application offers 392, and website offers 509 different transactions.<sup>710</sup> IsBank's mobile application is rated by 1.3 million users on Apple's AppStore, and its rating is 4,6/5.<sup>711</sup>

In addition to the digital activities of IsBank, it also creates and invests in technologies through its subsidiaries. As mentioned above, IsBank has a software company named Softtech. According to the website of Softtech, it employs more than 1600 people, and Softtech owns subsidiaries located in San Francisco (named Maxitech), Shanghai (named Softtech China) and Germany (named Maxi Digital).<sup>712</sup>

Softtech Ventures has been investing in B2Bs at the seed level, and it owns some investee start-ups and FinTechs that provide various services and products including terminal operating systems for cargo carriers, a human resources platform, an application for real estate brokers, a digital agriculture platform which is used by more than 139.000 farmers in Turkey, an application that enables SMEs and artisans to manage all of their financial activities on a single application including their bank accounts held at other banks or swiping machine transactions, and it has been claimed that accessing to and managing all different bank accounts through a single app is only provided by Softtech.<sup>713</sup> As mentioned above, IsNet is also another subsidiary of IsBank, which provides digital services to its customers regarding telecommunication, satellite services, and internet and cloud related products.

### 8.7. Some Suggestions for Better Corporate Governance

There are some strengths of IsBank deriving from its shareholder structure, employee and other stakeholder centric actions, brand quality, financial position, and its approach to innovation and technological developments. However, there are also some aspects that can be seen as weaknesses, such as lack of diversity in the board or hierarchical organizational

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<sup>710</sup> IsBank, pp.64

<sup>711</sup> This rating was checked on Apple Iphone's AppStore application on 21.01.2022

<sup>712</sup> SoftTech Ventures, About Us, accessed 21.01.2022), <<https://softtech.com.tr/en/homepage/>>

<sup>713</sup> SoftTech Ventures,

structure. Suggestions made under this sub-chapter are not only for IsBank but for all corporations that desire to stay relevant in the rapidly changing and evolving business world.

As mentioned above, in order to achieve and maintain innovations, stay relevant, and continue to financially perform well, IsBank needs to appoint more digitally savvy persons to its supervisory board. Since the political party's latest tendency is to appoint non-affiliated, neutral and capable board members, executives – CEO or supervisory board members or representative of the employee shareholders can communicate with the political party (as an institutional shareholder which would desire to bring honor to Atatürk's legacy who is the founder of their party) that the party may consider electing more digitally conversant members to the board. Since the political party does not have any financial interests in the bank, such communication would not be interpreted as an intervention. On the contrary, enhanced communication between different groups of stakeholders may be quite beneficial for the bank. However, the other institutional shareholder, IsBank's Members Cumulative Social Security and Assistance Foundation, shall take more initiatives to increase the digitally savvy board members number, since such foundation holds the largest amount of the shares and appoints the majority of board members. Nevertheless, as mentioned, this suggestion applies to all banks, in order to innovate and financially perform well, they should employ at least three digitally conversant board members.

Furthermore, the diversity within the board of IsBank should also be expanded. Before, there were more women board members, but currently, only one woman serves as a board member; hence gender diversity needs to be increased in the board of IsBank. The majority of board members' educational background in economics and finance, of course, it can be seen as quite usual for a bank; however, a couple of more digitally savvy board members, whose backgrounds are related to computer science, software development, or similar tech-related fields, may significantly contribute to the innovations. Additionally, some internationals may bring different viewpoints to the board room; hence diversity in terms of nationality and/or international experience shall be extended in the board room. It seems that only the banks whose significant portion of shareholders are foreign corporations tend to elect board members from other nationalities. However, following international trends or developments is not enough; different viewpoints of internationals need to be present at the board rooms of all major Turkish companies.

The Chairman of IsBank mentioned in one of his interviews that all relevant ideas and projects that come out of the bank will be transmitted to IsBank's subsidiary Softtech and Softtech

Ventures.<sup>714</sup> The rationale behind this idea could be that a software company or a venture capital company may act faster when utilizing the opportunities, and the idea of creating more technology and investing in new ideas, start-ups and FinTechs is quite valuable. Further, as mentioned above, Softtech Ventures is already investing in B2B Start-ups and FinTech at seed level.

Earlier researchers, such as Vermeulen and Fenwick, argue that in order for banks to stay relevant in rapidly changing world and transform themselves into innovation ecosystems, among other things, banks can establish internal corporate venturing capital unit which shall be independent and invest in start-ups directly from the company's balance sheet.<sup>715</sup> Therefore, it can be said that what IsBank has been doing is quite logical. However, another strategy would be indirectly investing in start-ups through an independent and separately managed venture capital fund.<sup>716</sup> The logic behind this idea is that there is the apprehension of start-ups that large corporations as direct investors may not support the investment in the future and indirect investment eases such fear of start-ups, and the results of investment can be more easily assessed since mission and scope of venture capital funds can be made clearer; furthermore, a corporation which does not have a deep understanding or relevant experience in venture capital investment can benefit from the experience and knowledge of separately managed venture capital funds by making such start-up investment through it.<sup>717</sup>

When a start-up is acquired through corporate venturing capital, the most important thing is to retain its founders since they are the source of the new and valuable idea. However, instead of absorbing the start-up which will most probably cause the leave of the founders<sup>718</sup>, the acquiring large corporation may let the start-up preserve its own identity, so that it can benefit

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<sup>714</sup> Webrazzi, Adnan Bali: ""Digitalization Will Never Slow Down After The Pandemic Experience", 21 October 2020, accessed 21.01.2022, <<https://webrazzi.com/2020/10/21/adnan-bali-dijitallesme-pandemi-deneyimden-sonra-asla-hiz-kesmeyecek/>>

<sup>715</sup> Vermeulen, E.P. M., Fenwick, M., "Banking and Regulatory Responses to Fintech Revisited – Building the Sustainable Financial Service "Ecosystems" of Tomorrow", Singapore Journal of Legal Studies, 2020, pp.176

<sup>716</sup> Vermeulen, Fenwick, pp.178

<sup>717</sup> Vermeulen, Fenwick, pp.178

<sup>718</sup> Somers, M., "Your Acquired Hires are Leaving. Here is Why", accessed 21.01.2022, MIT Sloan School of Management, 08 January 2019, < <https://mitsloan.mit.edu/ideas-made-to-matter/your-acquired-hires-are-leaving-heres-why>>

from being a part of a larger company but can also keep what makes it valuable, and in this way, the start-up may have an impact on the culture of the acquiring corporation.<sup>719</sup>

Furthermore, putting start-up workers and acquirer corporation's employees in a co-working place where they can work together and collaborate with each other with a certain degree of flexibility and autonomy may significantly support the transformation of the culture as well as the creation of new ideas; in fact, the main goal of the acquiring company should be making corporate venturing into the main driver of its culture.<sup>720</sup>

According to the 2020 annual report of IsBank, IsBank has an intrapreneurship program in which its employees can provide their ideas and selected ideas will be supported by training and mentorship programs, and ideas will be actualized.<sup>721</sup> In the report, it is stated that 181 employees provided 261 new ideas in 2020, and 6 of them are selected on which teams are currently working to actualize the ideas. This is an important strategy and makes IsBank more prone to transforming itself into an innovation ecosystem.

If IsBank or any other company desires to be truly agile and innovative, they need to adopt the strategies mentioned here so that they can transform themselves and develop sustainable ecosystems. As shown, IsBank has already commenced a couple of the strategies. Hence, what should be done is that IsBank should continue to invest in start-ups and encourage and support its employees for becoming entrepreneurs, but also should create co-working places and mix its employees with the employees of start-ups so that IsBank's employees may be influenced by start-up employees, and one quite important thing is that it should not destroy the original identity of the start-ups and retain its founders.

IsBank, with 24.000 employees, several subsidiaries, more than 1200 branches, is a quite complex and large-sized company that possesses hierarchical structure to a certain extent, due to the bank is a traditional – 98 years old company at the end of the day (although the bank has led all sort of technological developments in the Turkish banking sector, and performing satisfactorily in terms of financials). Nevertheless, this hierarchical structure can be changed. If the bank can continue to do what it has commenced and additionally follow the above-

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<sup>719</sup> Vermeulen, Fenwick, pp.181

<sup>720</sup> Vermeulen, Fenwick, pp.182-183

<sup>721</sup> IsBank, pp.68

mentioned strategies, it may transform itself into a sustainable ecosystem that can continuously and rapidly innovate and stay relevant.

It should not be the sole option for banks to possess strictly hierarchical structures. Otherwise, they will not be able to compete with more agile forms of financial institutions. It is clear that fin-tech firms are more agile due to their start-up mentality, and banks need to transform themselves to be able to stay relevant in the future. As a result, banks can create more inclusive and open cultures by altering their structures with flatter ones. However, banking sector is highly regulated. It is because of the financial crises experienced; regulators and governments know that if a large financial institutions fails, the whole system will be shaken (consider financial crises of 2008-09). Therefore, banks also have so many internal procedures. Hence, it might be a bit compelling for a bank to alter its structure and organization with a flatter one easily. Nevertheless, as strongly indicated, there is no “one-size-fits-all” solution, and implementations can be varied, but as also argued above, by investing in start-ups and fin-techs, and merging those fin-techs’ employees with banks’ employees, banks may create more agile and out-of-box thinking cultures. By enhancing the communication channels, banks can collaborate with various stakeholders. Having an open and inclusive culture is highly important for enhanced communication and collaboration among all stakeholders, and banks should focus on creating such cultures.

Digitalization is another component that no one can escape from. As shown above, IsBank has many initiatives in relation to digitalization. For instance, using blockchain technology for international money transfers. Nevertheless, as strongly indicated in Chapter 5.1., adopting new technologies into old businesses is not the sole option. Firms should also consider to fundamentally alter their models and fully accept what the new technologies bring.

So many banking customers today use mobile applications, and as shown above, IsBank has millions of digital customers. Hence, millions of customers can reach to so many banking products and services quickly. However, such applications’ usage areas can go beyond products and services. Banks can create their own “customer communities” through such applications. The importance of communities on businesses and corporate governance is explained above in detail, and accordingly, feedback on various matters can be easily gathered from customers through such mobile applications. However, the most important point is about what to do with all those feedback provided. As strongly indicated, firms should show to customers and all other stakeholders that they value and care the feedback provided. From this perspective, banks can also create their own communities and by taking into account the

feedback gathered during decision-making processes, they can show that they value their customers' opinions.

As a result, it can be said that IsBank, as a financially successful and stakeholder-centric bank, has many positive applications and approaches. On the other hand, there are also many aspects to be strengthened. Nevertheless, it should also be noted herein that IsBank operates in a developing country that faces macroeconomic problems and crises. Business life and corporations have also been developing to reach the standards of the companies from developed countries, and still, there is too much work to be done. But IsBank serves as a model for both banks and all other corporations in Turkey and has the potential to achieve more since there is no significant shareholder who solely focused on short-term returns, to prevent the company from any sort of transformation and entrepreneurial breakthroughs.

# **Chapter 9**

## **Conclusion**





## 9. Conclusion

This chapter will present the conclusion of this thesis, recommendations, and provide answer to the main research question. In the conclusion of this thesis, each chapter will be briefly summarized, main results will be provided, and recommendations that arise from the results and suggestions for future research will be argued.

Today, there is no doubt that the importance of corporate culture has been acknowledged widely by academics and business leaders. However, nowadays, the central question circles around the question of what type of culture is the most beneficial for firms. As expressed in Chapter 2, earlier, the issue was about creating a culture that would ensure that employees of a firm follow the pre-defined patterns unquestioningly and act in a standardized way. Nevertheless, the digital age that we live in demands out-of-box thinking, continuous innovation, and open, inclusive, responsible, and transparent corporate cultures. In order to create such corporate cultures, the "infrastructure" (i.e., governance structure) should be suitable. It is because, corporate culture and corporate governance are overlapped concepts, which cannot be considered and evaluated separately. It should be noted that culture is organizational and its strictly about how an organization is built; culture is not only about individuals, but more about the structure.

In Chapter 3, we attempted to answer the research question, "*to what extent are culture and governance related to employee engagement, motivation, performance, and corporate leadership, and whether such concepts can be considered as the human-sided elements of business success?*" The importance of culture in terms of employee engagement, motivation, performance, and corporate leadership is evaluated by conducting desk research and a literature study. Examining the employees' perspectives regarding the corporate cultures of the sample firms included in "Fortune's 100 Best Companies to Work For list" revealed the relationship between culture and employee engagement, motivation, and performance. Employees' opinions and perceptions regarding the selected firms are compared with the survey results and how firms publicly promote their cultures. Accordingly, we found that the employees of those firms, which claim that they have strong cultures, have highly positive opinions regarding their companies. Hence, those firms' way of promoting their cultures (in fact, their claims regarding their cultures) and the survey results were compatible with employees' perceptions (that are checked on Glassdoor) regarding those firms.

In Chapter 4, we discussed the foundation of corporate governance, the main actors of corporate governance, shareholder primacy norm, and presented stakeholder-centric idea of corporate governance. In this chapter, the aim was to answer the question of “*how and to what extent the traditional approach and applications of corporate governance have been altered, and what is the role of other purposes beyond attaining shareholder return?*” As argued, the traditional idea of corporate governance, which is based on shareholder-primacy norm, creates strict hierarchies within a firm, and this situation leads to the emergence of bureaucratic cultures and severe procedures. As several studies and this thesis’ itself demonstrate, it is quite compelling -in fact, almost impossible- to achieve constant innovation and establish the-best-idea-wins culture under the traditional approach. Strict hierarchies have the potential to dilute innovation, and innovation is a “must” for today’s companies. We define this situation as “lost in hierarchy”. Also, employees, especially from the new generations, do not want to “become anonymous cogs in a larger corporate machine”.<sup>722</sup> Retaining talents becomes more and more difficult for firms. Nonetheless, flat-hierarchies and open and the best-idea-wins cultures “step into the breach”. Corporate leaders, as culture creators, make it possible to establish flat-hierarchies, but such a model’s success is also bounded to “the active bottom-up participation of everyone inside the firm”.<sup>723</sup>

“Corporate governance” should see “problems” as opportunities to fix its short-comings and side effects. As it is known, financial and social crises, and corporate scandals (“problems”) have led enactment of new corporate governance rules and alteration in approaches and practices. Today’s social, environmental, and economical problems should also be seen as chances to improve corporate governance practices. Accordingly, some business leaders and their organizations (e.g., Business Roundtable, World Economic Forum), academics, the media, society, regulators, and politicians have been manifesting a change in corporate governance to a certain extent for a while.

Although some academics tend to think that there has not been a true change in corporate governance practices, and advocating stakeholderism does not make much sense or solve any problems from financial point of view (*these arguments are mentioned in detail under Chapter 4*);

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<sup>722</sup> Vermeulen, E.P.M., “How the Next Generation is Building Our (Artificial Intelligent) Future”, accessed 08.06.2022, <<https://medium.com/hackernoon/how-the-next-generation-is-building-our-artificial-intelligent-future-260c7f67f1ee>>

<sup>723</sup> Vermeulen, E.P.M., Fenwick, M., “The New Firm: Staying Relevant, Unique & Competitive”, *Corporate Law & Economics*, 5, 2015, pp.18

it is clear that stakeholderism, CSR, ESG or sustainability issues and related discussions are going to stay for good. As stated; “ESG is a journey, not a destination”<sup>724</sup>, and such journey has just commenced for many firms. One quite strong argument to support this idea could be that ESG investing is becoming more and more popular and some investors truly value ESG records of probable investee firms; because ESG records reduce future risks, but also -at the end of the day- investors are also humans who may associate their personal values with ESG records.<sup>725</sup> Although shareholder primacy norm still has a quite significant influence on businesses and governance practices, the norm is “challenged when shareholders/investors start demanding companies to serve other stakeholders as well”.<sup>726</sup>

It can be suggested that the purpose of the business needs to be redefined as acting in the best interests of all stakeholders. However, rather than just being a window-dressing statement, such redefinition must serve a true purpose. It should also be noted that naturally, the fundamental purpose of a business is to make profits, as it has always been. Nevertheless, if firms cannot acknowledge today’s realities, it is clear that they will be replaced by those who embrace the emerging concepts. Thus, redefining a company’s purpose from stakeholders’ perspective can also serve the long-term interest of investors. The corporate graveyard hosts many giant corporations, and many of them did not expect their lives to be ended. Hence, today’s firms should not be deceived by their current strong positions, but should take the necessary steps to stay relevant in the future.

It is indicated in this thesis that a fundamental change in corporate governance can be possible with the contribution and collaboration of various stakeholders, and one of the most important elements of the equation is investors. When investors also lend countenance to an idea, it can be clearly said that such an idea is going to abide.

The components presented in Chapter 5 (“digitalization, flatter governance, co-creation-collaboration-communication, communities, and real care”) are demonstrated as vitally important strategies for firms to stay relevant in the rapidly changing world. In this chapter,

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<sup>724</sup> GRESB, “The rise of the “S” in ESG Reporting”, 30 April 2021, accessed 09.06.2022, <<https://www.gresb.com/nl-en/the-rise-of-the-s-in-esg-reporting/>>

<sup>725</sup> Goldman Sachs Asset Management, “Measuring the Immeasurable: Scoring ESG Factors”, accessed 09.06.2022, <<https://www.gsam.com/content/gsam/global/en/market-insights/gsam-insights/gsam-perspectives/2015/esg/qis-article.html>>

<sup>726</sup> Vermeulen, E.P.M., Fenwick, M., Joubert, T., Van Wyk, S., “ESG as a Business Model for SMEs”, ECGI, Law Working Paper N 624/2022, May 2022, pp.4

we answered the research question of *“how the traditional approach has been altered by the most successful digital platforms and companies from the tech industry, and what are the basic organizational components those companies?”* The components determined are not just defined as strategies or business plans; these are strictly related to a company’s organizational structure and purpose.

The components have been determined by examining some of the world’s most successful firms. We have seen that digitalization has been significantly altering the business strategies, governance structures, communication and marketing ways, customer habits and cultures of companies. Digital platforms have disrupted existing business models; “Netflix has changed the entertainment ways, Amazon and Alibaba altered the consumption habits and customer behaviors, and Airbnb has been providing more affordable and homelike accommodation chance”. However, digitalization also refers to deploying digital technologies in corporate governance practices, such as virtual board meetings and annual shareholder meetings or creating digital communities where ideas between various stakeholders can be shared.

As argued, the shareholder-primacy norm forces firms to establish hierarchical organizational structures. Also, earlier, when a company grew over time, the only option was seen as creating vertical hierarchies. Nevertheless, several platforms and technology companies have shown that a different option is also possible. Examination of the sample firms showed us that a flatter organizational structure can be highly beneficial. However, as argued, the matter is not only about shortening or extinguishing the chain of command. The main issue is about creating an environment in which employees can openly communicate and collaborate without stumbling against strict boundaries or bureaucracies. Under an open communication and collaboration environment, the best-idea-wins culture can be established, and the true meaning of co-creation can be revealed. The underlying logic is that in this digital age, firms should not isolate themselves from their external environment. For instance, customers should not be seen only as people to sell something but business partners to create value together. From this perspective, we demonstrated the importance of communication, collaboration and co-creation with all stakeholders. We argued that communication with stakeholders should be bilateral. Hence, it can be said that gathering feedback from all stakeholders is highly essential. However, what is more essential is to take such feedback gathered into decision-making processes. Our suggestion for firms is to create communities in which customers, employees, shareholders and other stakeholders can actively engage with the company. Digital technologies can provide the necessary infrastructure for firms to create stakeholder communities, and to actively communicate, collaborate and co-create with all stakeholders.

Hence, it can be said that all components provided are interconnected. We showed that adopting a flatter structure and having open, inclusive, innovative, flexible, and co-creation cultures are highly beneficial and profitable for firms. Furthermore, these are also vitally important for retaining the talents, which is an essential trouble for today's firms.

It should be noted that all of the emerging concepts mentioned in this thesis (which are presented as the components of the future's corporate governance, culture, business models and strategies) are correlated. Basically, the idea is that the future's firm shall have an open, transparent, innovative, and the best-idea-wins culture that is facilitated by a flatter and inclusive governance structure, which forms a basis for effective and mutual communication, collaboration among and co-creation with all stakeholders. The fundamental purpose of such a firm shall be finding a balance between the interests of shareholders and other stakeholders, and it shall have an excellent ESG record.

These statements may sound idealistic or utopian. Also, there can always be a situation where the interests of various stakeholders contradict each other, and this may not necessarily occur between shareholders and others; other stakeholders may also have a conflict of interests among themselves. So that directors may find themselves in a situation where they need to make difficult decisions. Nonetheless, as long as the main point is about finding a balance between the interests and to protect all, this model will come to fruition over the long run. Nevertheless, this is not a prediction or naive wish. There are already some good examples that exist. Some of the most successful companies acknowledge that everyone in a firm can have excellent ideas, and the-best-idea-wins culture is something that firms highly benefit from.<sup>727</sup> There are also many lessons to be taken from digital platforms and tech start-ups. It is clear that strict hierarchies and bureaucratic cultures put up nonpermeable walls between the firm and its stakeholders and even within a firm. However, digital platforms and, more importantly "ecosystems" remove the borders and pull down the walls both within firms and between firms and all stakeholders.<sup>728</sup>

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<sup>727</sup> Holt, J., "How To Create A Culture Where The Best Ideas Win", accessed 10.06.2022, Forbes, 06 October 2017, <<https://www.forbes.com/sites/forbesbusinessdevelopmentcouncil/2017/10/06/how-to-create-a-culture-where-the-best-ideas-win/?sh=1c8886ca19c6>>

<sup>728</sup> Vermeulen, E.P.M., "Do You Love or Hate Platforms?", 25 August 2019, accessed 10.06.2022, <<https://www.linkedin.com/pulse/do-you-love-hate-platforms-erik-p-m-vermeulen/>>

In Chapter 6, we investigated the recent regulatory activities, and attempted to answer the research question of *“how and to what extent do the new corporate governance codes integrate the other purposes, beyond attaining shareholder return, such as sustainability, diversity and stakeholder engagement?”* Regulators’ approach, understanding, and ideas regarding corporate governance are as important as the discussions and opinions of academics and practices and discourse of business leaders. Moreover, when it comes to the enactment of mandatory legal rules, legislatures, regulators, and governments are much more influential, powerful, and magisterial. Therefore, any study regarding corporate governance should include regulatory activities and their possible impacts. As argued *“The regulatory environment is an important element of the corporate eco-system as companies adapt their operations to both the formal obligations and informal signals that are demanded or communicated by legal rules and regulations”*.<sup>729</sup> The general approach of many recently published corporate governance codes and guidelines is that the board of directors should act in the best interest of the company. Furthermore, several codes indicate that directors should consider the social and environmental consequences of their actions while taking decisions. This situation can be seen as a development and a slight switch to a more balanced approach. The importance of sustained long-term value is indicated as a goal under some corporate governance codes and guidelines. However, in order to achieve a true change, regulators should create more concrete and straightforward principles for corporate governance. As long as the traditional hierarchical structure is prevented, and the main focus remains on control and accountability, the true change might not be achieved soon.

There are several regulators that integrated sustainability issues into their corporate governance codes to an extent, such as Australian and Japanese codes. Also, some regulators from the European Union mention the mandatory sustainability reporting obligations. Nevertheless, as argued, such codes just generally touch upon such concepts and a more concrete guidance is necessary in this regard. Furthermore, there are some codes that promotes an active engagement with all stakeholders by deploying technological tools. However, these codes are mostly from developing countries (such as Malaysia, Greece or Latvia), and the actual practices of the firms from those countries need to be observed to reach a conclusion regarding whether those codes make sense in practice.

It should be noted that innovation is a “must” for firms to stay relevant and financially perform well. Examination of the world’s most innovative companies revealed that they elect more and

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<sup>729</sup> Vermeulen, Fenwick, pp.27

more technical experts, product-oriented, and digitally savvy people as board members. In chapter 7, we seek the answer for the question of *“what is the role of governance and culture in influencing the innovation potential?”* We determined that innovation is strictly related to organizational structure because such structure will define the communication and collaboration schemes. However, creating a flat organization with the-best-idea-wins culture is not enough. Such a firm should also have a board that has the necessary understanding of products, product cycles, and recent developments. The board’s composition and organizational structure complement each other. Our data and examination of the world’s most innovative companies are in favor of this statement.

In relation to culture, the argument is that a well-managed corporate culture can be a strong tool for boosting innovation which will subsequently bring competitive advantage and financial success. Examination of the employees’ perceptions regarding the world’s most innovative companies revealed that those companies have strong cultures and proper leadership styles that are acknowledged and admired by the employees. As argued, innovation is the key for business success in today’s rapidly changing world. Creating an open, inclusive, and the best-idea-wins culture by establishing a flatter governance structure that will allow firms to effectively communicate, cooperate, and co-create with all stakeholders is vitally important for being innovative. The main result of Chapter 7 is that in order firms to be innovative, those who hold decision-making power should have the necessary understanding regarding the recent developments and product-cycles. Furthermore, organizational structure and corporate culture should also be suitable for creating an environment where innovative ideas are freely shared and “the-best-idea-wins”.

Finally, earlier, corporate culture was seen as “too sloppy” to explain financial dynamics. However, especially in the last couple of decades, the importance of culture has been understood better, and many academics, business leaders, organizations, and regulators puzzle their brains on how to enhance and benefit from culture. Nevertheless, it should be accepted that culture cannot be thought of separately from corporate governance and organizational structures. Creating or changing the corporate culture of a firm should start with establishing the necessary infrastructure, i.e., governance structure. Because culture and governance are the two sides of the same coin.





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