

**IMPERFECT INFORMATION AND CORPORATE GOVERNANCE:
SOME POLICY IMPLICATIONS (*)**

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ABSTRACT

We examine the implications of imperfect information for corporate governance quality and stakeholder loyalty. We establish that imperfect information is conducive to lower levels of corporate governance quality and/or stakeholder loyalty compared to the benchmark of perfect information. Under imperfect information, stakeholders (shareholders, consumers, suppliers, creditors, employees, etc.) are motivated to minimise loyalty to the firm as they are uncertain about the probability of the firm's commitment to high quality corporate governance. The firm is motivated to minimise the probability of commitment to high quality corporate governance as it is uncertain about the probability of the stakeholders' loyalty. To avoid such outcomes, public policy must provide the right incentive/sanction structure that would affect both corporate and stakeholder behaviour.