Does Macroeconomic Performance Affect Corporate Governance? Evidence from Turkey

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Recent work on corporate governance has highlighted the effects of corporate governance quality on macroeconomic crises, especially in the context of South-East Asian economies. However, the possibility of reverse causation from macroeconomic performance to corporate governance has been overlooked. This paper aims to address this issue by examining the relationship between macroeconomic stabilisation and corporate governance reforms in Turkey since the 1999 and 2001 crises. We demonstrate that the prospect of macroeconomic stability has led to extensive corporate governance reforms for two reasons. First, recent return to macroeconomic stability has been underpinned by public governance reforms, which spilled over to the area of corporate governance. We call this the statutory reform effect. Second, macroeconomic stability tended to have a positive effect on firms' investment in corporate governance quality. We call this the voluntary reform effect. To substantiate these findings, we examine the post-1999 developments in the following areas: (i) the effectiveness of regulatory authorities; (ii) disclosure and transparency rules; and (iii) the quality of the enforcement regime.

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