

Transparency and Disclosure Scores and their Determinants in the Istanbul Stock Exchange

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Recent financial reporting and auditing scandals on both sides of the Atlantic have led to a global realisation of the importance of sound corporate governance (CG) practices in alleviating the agency problems in the corporate form of business and for efficient allocation of capital in international markets. Transparency and disclosure (T&D) practices followed by firms are an important component and a leading indicator of CG quality. Transparent and full-disclosure of information is especially vital for Turkey where external capital is necessary to sustain the high growth rate and the biggest agency problem centres on asymmetric information and expropriation by majority shareholders.

We collaborate with Standard & Poor's (S&P) and base our survey on their scoring methodology, a customised version of the 98 desirable T&D attributes they used in several other countries, and their classification of the attributes into three categories: ownership structure and investor relations, financial transparency and information disclosure, and board and management structures and processes. We evaluate the T&D practices of the 52 largest and most liquid firms in the Istanbul Stock Exchange (ISE), based on their English and local language annual reports and websites. Our rankings provide a first time, objective assessment of the corporate disclosure practices of ISE firms and uncover that they are, at best, moderate and vary with respect to the three sub-categories of T&D.

We also consider a simple model that sequentially links agency problems to CG/T&D mechanisms in place, which in turn impact firm-level and economy-wide financial performance. Concentrating on the causal side of the model – *the determinants of T&D scores* – we provide out-of-sample evidence that firm size, financial performance and market-to-book equity best explain the variation in T&D scores in the ISE. While our results provide considerable support for prior findings in developed markets, they also shed light on how specific agency problems faced by ISE firms impact their T&D scores.

Keywords: Corporate governance, transparency and disclosure index, Istanbul Stock Exchange, agency conflicts