Chapter 4

The Role of Institutionalized Corporate Communication Function on Good Governance:
An Empirical Analysis on Turkey

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ABSTRACT

Corporate communication practice contributes to the good governance of the corporations only if it is used as a strategic management tool. This requires an institutionalized and consistent communication management function in corporations. In this context the study empirically tests the influence of institutionalized corporate communication function on the good governance of firms listed at Borsa Istanbul 100 Index (BIST100). The study also explores the role of institutionalized corporate communication function on identifying the stakeholders of the firms. Findings reveal that there is statistical association not only between institutionalized corporate communication function and good governance but also between institutionalized corporate communication function and stakeholder identification process at BIST100 listed firms. This research is important in the sense that it is the first research that empirically exhibits the association between institutionalized corporate communication function and good governance in Turkey.

INTRODUCTION

Globalization has increased the mutual dependencies all around the world. International investment opportunities increasing at an unprecedented rate along with globalization have made the companies unquestionably the most important actors of both the social and economic lives (Scherer and Palazzo, 2008).

DOI: 10.4018/978-1-5225-2668-1.ch004

Responsibilities of the companies, which became global actors, became globalized as well. Hence, the pressure on companies by public institutions and financial markets to meet the demands of their stakeholders and to adopt good corporate governance practices has increased. As the power of private sector grows, it is now widely accepted businesses have responsibilities beyond making profit (OECD, 2004).

These developments made communication a vital management tool for corporations. Communication is a process and its purpose is to commune with rather than just to persuade or command. It is therefore more meaningful to say that a person engages in communication and becomes part of the communication system (Rogers and Agarwala-Rogers, 1976). A well managed corporate communication practice will contribute to the good governance of the corporations by stimulating a healthy dialogue with stakeholders (Gutierrez-Garcia, 2008). The dialogue with stakeholders is a two way process where stakeholders are not only listened to, but the company makes a sincere attempt to respond to stakeholder concerns. In order for a company to avoid paralysis, stakeholders interests must be prioritized (Zollinger, 2009).

There is a scarcity of literature and empirical research, but recently there has been a significant effort in both academic and professional fields to study of the configuration of the profession, and how it is organized. In this context the study intends to empirically explore the influence of institutionalized corporate communication function on the good governance of BIST100 firms and the way these firms identify and define their stakeholders.

The study is composed of eight sections. Introduction (Section 1) is followed by Background (Section 2) where theoretical background of corporate governance and corporate communications are defined and discussed. The third and the forth sections describe and detail the recent developments in corporate governance and corporate communication in Turkey. The fifth section defines the variables and explains the methodology used in the study. Section six lists and briefly explains the two hypotheses tested in the study. Section seven details and analyses the results of the study. This section is followed by the Conclusion (Section 8) of the study where the concluding remarks are made and implications of the findings are discussed.

BACKGROUND

Corporate governance is one of the key concepts that gained popularity via globalization. Although the roots of the concept is traced back to Adam Smith's seminal book *Wealth of Nations,* it has gained popularity especially after 1990s, parallel to increasing dominance of globalization. The term corporate governance refers to the systems by which companies are directed and controlled (King Report, 2002). From a strictly financial perspective, corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment and the term basically represents a set of mechanisms by which small investors protect themselves against expropriation by both managers and controlling shareholders (Shleifer and Vishny, 1996; LaPorta et. al., 2000).

The concept serves a broader purpose in today's world. Sir Adrian Cadbury defines corporate governance as: *Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, of corporations, and of society* (Claessens, 2003).

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