
Corporate Governance: Leadership Effectiveness or Financial Innovations

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ABSTRACT

This paper briefly overview results of a survey conducted in 2015 in North Cyprus on thirteen firms randomly selected from different sectors of the economy based on a comprehensive eight elements corporate governance model.

The previous study revealed that, (1) firms in North Cyprus on average had lower governance rankings due to inefficient legal framework; (2) at firm level internal and external governance positively correlated with the corporate culture and corporate legality elements but negatively correlated with average corporate governance rankings which implied that firm level corporate governance mechanism need to improve. (3) Proper corporate governance was positively associated with internal and external governance behaviour of firms. (4) There was internal country level financial market inefficiency and the negative incorporation between internal and external governance implied that there is a need for enforcement to improve the capital market in North Cyprus. The study aims to corroborate all the results with banking sector in North Cyprus and stress the importance of the elements in the proposed model to address the dilemma about 1) leadership effectiveness; and 2) financial innovations for better running companies in the banking sector.

The new research evidence revealed that, improvements in the corporate market culture and corporate legality elements provisions and enforcement and improvement in the overall legal framework of capital market increased the overall mean corporate governance score leading to better leadership effectiveness and financial innovations in the banking sector which opens up new ways of conducting further research.

Keywords: Corporate Governance; Corporate Culture; Corporate Legality; Leadership effectiveness; financial innovations

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1. INTRODUCTION

Corporate governance has been related to agency costs and forms of ownership (Jensen and Meckling, 1976) and to board formation and minority shareholder rights (Black et al., 2012) and to rules, regulations and legislation that regulate the operations of a company (Gillan and Starks, 1998). On the other hand, has been linked to separation of ownership and control (Fama and Jensen, 1983). Also, has been linked to national culture that demonstrates a strong influence on the company's rules and regulations and on decision makers in running the company (Licht et al., 2005:231). Furthermore, has been linked to a *management orientation, organization form (culture type), consistent corporate market culture (MC) (internal governance) behaviour and corporate capital market culture (CMC) (external governance) behaviour* (Avcin & Balçioğlu, 2017: 199). Moreover, has been referred to a *system of directing and controlling via management orientation, organization form (culture type) that, organizations may deviate by using the right value drivers in order to do things together, do things right, first and fast by embedding effective and consistent corporate market culture (internal governance) and corporate capital market culture (external governance) behaviour subject to laws and regulations with the aim to create social value and financial value*, (Avcin & Balçioğlu, 2017: 207).

Vast amount of studies linked corporate governance practices to firm level performance such as, *management discipline, transparency, independence, accountability, responsibility, fairness and social awareness* (Klapper and Love, 2004). Also, for example, (Bebchuk et al., 2004) linked corporate governance to six legality elements; *staggered boards, limits to shareholder bylaw amendments, poison pills, golden parachutes, and supermajority requirements for mergers and charter amendments* and found that the provisions of these elements were negatively

correlated with firms' performance. Other researchers contributed to almost every component regarding corporate governance for example, debt and agency costs, board structure, director and officer, labour markets, fraud, lawsuits, ownership structure and regulation, culture, leadership and developed models of corporate governance framework (Gillan, 2006). Moreover, according to the UK an approach to corporate governance has been linked to an effective board of directors to provide leadership, accountability, remuneration and relations with shareholders, (Financial Reporting Council FRC, 2014). However, the study stresses the importance of the key elements in the model that matters more in corporate governance that would help firms to build the right leadership effectiveness prior to any financial innovations in the financial markets.

On the other hand, *leadership* has been referred to the skill or competence to persuade individuals or groups in order to accomplish an aim or set of targets. Moreover, has been linked to the ability to influence a group toward the achievement of a vision or set of goals. Hence, leadership is about coping with change and create a way by developing a vision of the future and inspire people, (Robbins & Judge 2009:419-420). Leadership has also been linked to the setting a purpose and direction which inspires people to work willingly; help progress towards the aim; maintain group unity and individual effectiveness throughout. Moreover, leadership defines what the future should look like, aligns people with that vision and inspires them to make it happen, (John Kotter, from leading Change <http://www.kotterinternational.com/our-principles/changesteps>, (Retrieved 15 Oct. 2013).

However, *leadership effectiveness* is linked to a set of organisational effectiveness indicators (criteria) that help create value in organizations which is useful for identifying the major changes needed within and outside the organisation. It is useful in organising Total Quality Management (TQM) and identifies the changing roles of the Human Resources Management (HRM), (Cameron & Quinn, 2006: 31-32). Furthermore, innovation regarding finance, may relate to a new product that absolutely takes away the existing product that does not help to solve current crisis or help improve efficiency in the financial markets anymore. It could be a new product that is introduced into the system that did not exist before. Most financial innovations were created to stimulate the economy and help to create efficient outcomes in financial markets.

This paper argues that, corporate governance consist of the key elements of corporate culture (Collaborate, Control, Create, Compete) that is linked to the theory of Competing Values Framework (CVF) for example (Cameron & Quinn, 2006; Cameron *et al.*, 2006; Crim *et al.*, 2011), and to the key elements of corporate legality (Board of Directors and Managerial Incentives, Corporate Structure Provisions and Control Systems, Law and Regulations and Capital Market) that is referred to the theory of Corporate Legality Framework (CLF) for example (Jensen, 2001; Bebchuk *et al.*, 2004; Gillan, 2006; Gupta *et al.*, 2013:107-109) that leads the overall power of an organization. Improvement in the provisions of corporate culture elements collectively generate output and value is created when 'every stakeholder is made better off' (Cameron *et al.*, 2006:29). Hence, incorporating the corporate legality elements into corporate governance structures will help organizations to manage external environment about governance issues (Gillan, 2006:383).

The investigation revealed that, there was positive and significant association between corporate market culture and corporate legality elements and the need for adoption of better corporate governance practices. Therefore, the new evidence suggests that, improvements in the provisions of the elements will add value to corporate governance performance leading to the creation of better leadership effectiveness and financial innovations at firm level.

The hypotheses of the previous study were established on the constructed model of corporate governance and the survey questions were formed around the elements consisting of 89 questions. Therefore, the embeddedness of these elements was fundamental for creating better corporate governance mechanism.

Especially, the key elements of corporate legality (Board of Directors and Managerial Incentives, Corporate Structure, Provisions and Control Systems, Law and Regulations and Capital Market) provisions were seen as a central aspect of corporate governance and were strongly correlated with firms' external governance behaviour than the key elements of corporate culture (Collaborate, Control, Create, Compete). The legality index had been higher than corporate culture index in the overall composite index computed and all key elements were significantly correlated with firms' internal and external governance behaviour.

The paper advances with the case of North Cyprus explaining the economy by referring to the private and public sector contributions to the overall GDP. Secondly, there will be an explanation of the key elements involved in the proposed model. Next in this study a corporate legality index (external governance) and corporate culture index (internal governance) and the overall corporate governance index results discussed.

The study seeks to contribute to corporate governance literature that, governance is a system that provides direction for firms to implement the right leadership effectiveness orientation and culture type formation. Overall the paper exhibits some mutual ideas and underlines what really matters for corporate governance in the banking sector in North Cyprus. The paper advances with the discussion of the empirical results and theoretical background of the new research evidence. Lastly, the paper concludes.

Why leadership and leadership effectiveness in Banking sector?

This paper seeks to provide direction for firms in banking sector that prior to creating financial products in financial markets, it is most important to develop a corporate governance mechanism that provide the right leadership effectiveness prior to any financial innovations to satisfy all stakeholders concerned.

From the survey it was noted that, most of the participants have answered NO to the regarding the provisions of the key elements of corporate culture and corporate legality. (*For a more comprehensive and detailed information please see Appendix*).

Therefore, accommodating these provisions will improve corporate performance of firms and hence, will lead to better leadership effectiveness and financial innovations in the banking sector.

Why innovation and financial innovation in Banking sector?

Many scholars and educators and economists defined innovation as follow; Innovation refers to as the first commercialization of an idea for a new product (Storey and Green 2010). Innovation refers to the successfully exploited of a new idea (Stokes and Wilson 2010). However, as the technology is fully developed, in which the earliest adopters of innovation are the most knowledgeable, then it is likely to be used by many with an inadequate grasp of the product's risk, that turn out to create so many problems, existing product not being safe anymore. Furthermore, the existing laws and the current transaction taxes and other costs and the recent economic and financial crisis made banks and financial institutions (investors) to think twice what to do in order to keep up with their current liabilities. What they trade must add up to the same value against their liabilities. Therefore, they tempt to demand the right product or types of products or must divert to such mixture of products if they exist. If they do not exist, then the market may imply that there should be a room for opening up new investment opportunities.

Therefore, this study seeks to provide some insights into the dilemma in banking sector in North Cyprus and clarify which arguments are best supported by empirical outcome using in-depth hand collected data from a conducted survey in 2015 on corporate governance practices that would have a positive impact and influence on the banking sector in North Cyprus.

The proposed model in the study for example, (Avcin & Balcioğlu, 2017) represents *the value dimensions aligned with the elements of legality that leads to higher levels of organisation performance* and a useful guide for enhancing organisational effectiveness as well as for facilitating culture change, (Cameron & Quinn, 2006: 60-61). Hence, effective leaders create value by identifying those that best fit their circumstances, and the set of organisational effectiveness indicators (criteria) helps them know how to approach that task, (Cameron *et al.*, 2006:155).

2. THE CASE OF NORTH CYPRUS

In North Cyprus most of businesses are family businesses as in the ownership type of limited company (LTD). Northern Cyprus has a Stock Exchange and is inactive and has only one Member Company which is the Turkish Bank. Recently, there have been some debates about privatizing of some businesses owned and controlled by the state and by individuals but yet there is no consensus, to whether Privatization should go on or not. All family businesses in Cyprus are registered by the Company House and are members of the Turkish Cypriot Chamber of Commerce.

2.1 ECONOMY IN NORTH CYPRUS

According to devplan.org (2015) in 2000, the Gross National Product has been 1,039.39 US\$ million. Four most important sectors that contributed to the GNP were the Public services; trade and tourism, transport and communication and industry and the shares have been 16, 4%, 16, 4%, 12, 3% and 12, 2% respectively. Also, the share of agriculture was 7, 9%. On the other hand, North Cyprus has been in the middle income category where in 2000 income per person (GNP per capita) has been 4,978 US\$.

In North Cyprus there have been huge developments in the Economy since 2000 and the following data imply that there are potential opportunities for further development especially in the private sector of the economy. Table 1 on page 5 illustrates the average percentage contribution of sectors to GDP from 2008 and 2013. Table 2 shows the sectors that contributed to GDP and GNP from 2010 to 2012 at 1977 prices and the increase of GNP per capita to 15037.9US\$ from 4,978 US\$ since year 2000. Figure 1 illustrates the average percentage contribution of sectors to GDP from 2008 to 2013.

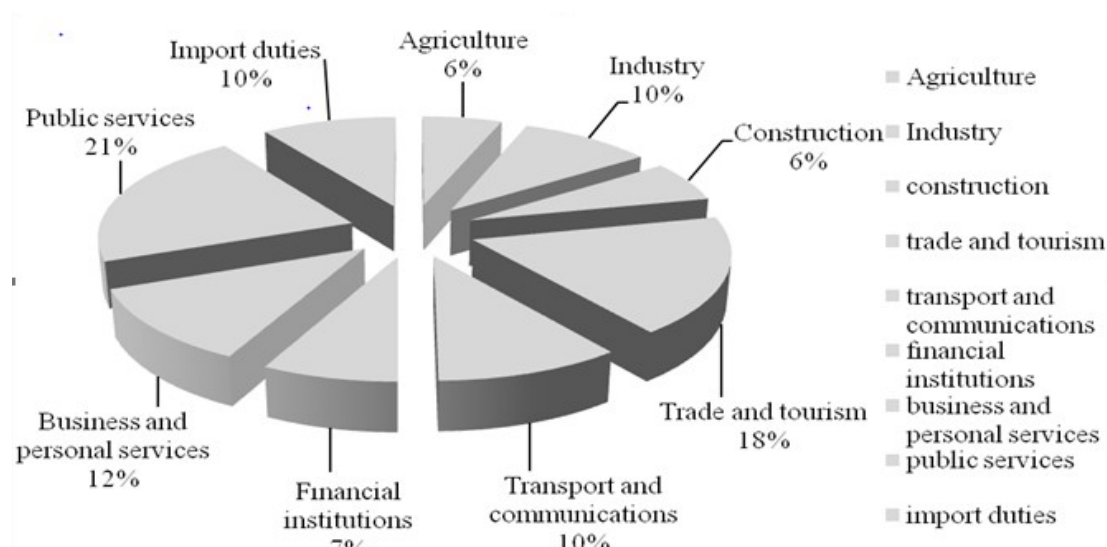
Companies in North Cyprus are members of the Turkish Cypriot Chamber of Commerce. Every year the Chamber publishes a Competitiveness report on the North Cyprus economy. Most of the companies in private sector have family ownership and have limited liability. Family ownership companies are in common and are significantly effective in helping to improve efficiency and effectiveness in the Turkish Cypriot economy.

Table 1. Average Percentage Contribution of Sectors to GDP from 2008 and 2013

Sectors of the economy							Average	%cont.
	2008	2009	2010	2011	2012	2013	score	to GDP
Agriculture	5.1	5.6	5.9	5.6	5.6	5.3	5.52	5.50
Industry	10.7	9.6	9.8	8.6	8.4	8.4	9.25	9.2
Construction	7.1	6.5	5.6	6.3	4.8	4.9	5.87	5.9
Trade and Tourism	14.2	14.3	16	18.7	19.9	20.1	17.2	17.2
Transport and communications	12.1	11.1	9.4	8.5	9.3	9.4	9.97	9.9
Financial institutions	7.1	7.2	7.2	7.2	7.3	7.6	7.27	7.2
Business and personal services	10.3	11.3	11.6	11.2	11.5	11.7	11.27	11.2
Public services	21.7	22.3	21	19.9	18.6	17.7	20.2	20.2
Import duties	8.2	8.3	9.6	9.8	10.2	10.2	9.38	9.3

Source: Adapted from TRNC State Planning Organization.
<http://www.devplan.org/Frame-eng.html> (Retrieved March 20, 2015)

Figure 1. Contribution of Sectors to GDP in North Cyprus from 2008 to 2013



Source: Authors own. Adapted from TRNC State Planning Organization <http://www.devplan.org/Frame-eng.html> (Retrieved March 20, 2015)

Table 2. Sectoral Distribution of GDP and GNP from 2010 to 2012

Agriculture	330,292,725.00	366,385,942.10	10.7	386,521,999.60	3.7
Livestock Production	137,399,163.30	158,379,428.80	9.7	169,582,597.10	4
Forestry	897,839.60	955,694.40	-7.2	1,051,486.50	6.2
Fishing	22,046,616.20	24,811,022.00	17.9	28,899,639.80	0.6
Industry	552,836,167.30	558,480,243.80	3.4	587,060,602.70	-0.7
Quarrying	35,628,354.30	46,499,012.40	2.8	42,610,280.70	-8.9
Manufacturing	130,888,723.80	165,797,310.50	0.7	192,323,577.40	0.9
Electricity - Water	386,319,089.20	346,183,920.90	12	352,126,744.70	-4.1
Construction	312,118,707.40	408,495,970.90	3.3	335,779,569.40	-16
Trade-Tourism	900,033,652.90	1,216,786,131.20	6	1,385,288,666.	6.1
Hotels & Restaurants	302,003,628.50	494,536,215.50	23.3	591,065,133.90	14.7
Transport & Comm.	525,213,182.40	553,109,188.90	-4.3	642,862,532.90	5.7
Financial Institutions	404,370,969.70	472,603,396.40	1.4	506,016,653.50	8.1
Business	333,304,042.40	391,291,342.80	4	423,289,826.60	0.7
Universities	319,013,226.60	336,207,643.60	4.4	378,483,252.50	2
Public Services	1,180,064,551.90	1,294,282,251.10	2.8	1,294,895,632.	1.9
Import Duties	536,308,506.40	636,982,661.10	3.9	709,117,362.80	8.9
GDP	5,614,136,886.00	6,508,996,348.70	3.9	6,955,084,709.	1.8
Net Factor Income	35,398,050.00	50,178,180.00	27	-39,253,080.00	-174.5
GNP	5,649,534,936.00	6,559,174,528.7	4	6,915,831,629.	0.5
GNP Per Capita (\$)		15,403.50		15,037.90	

Source: Adapted from TRNC State Planning Organization. <http://www.devplan.org/Frame-eng.html> (Retrieved March 20, 2015)

The above table imply that, average growth rate of the financial institutions in relation to GDP and GNP has been 1.4% from 2010 to 2012 and table 3 below shows the sectoral development in GDP from 2014 to 2018.

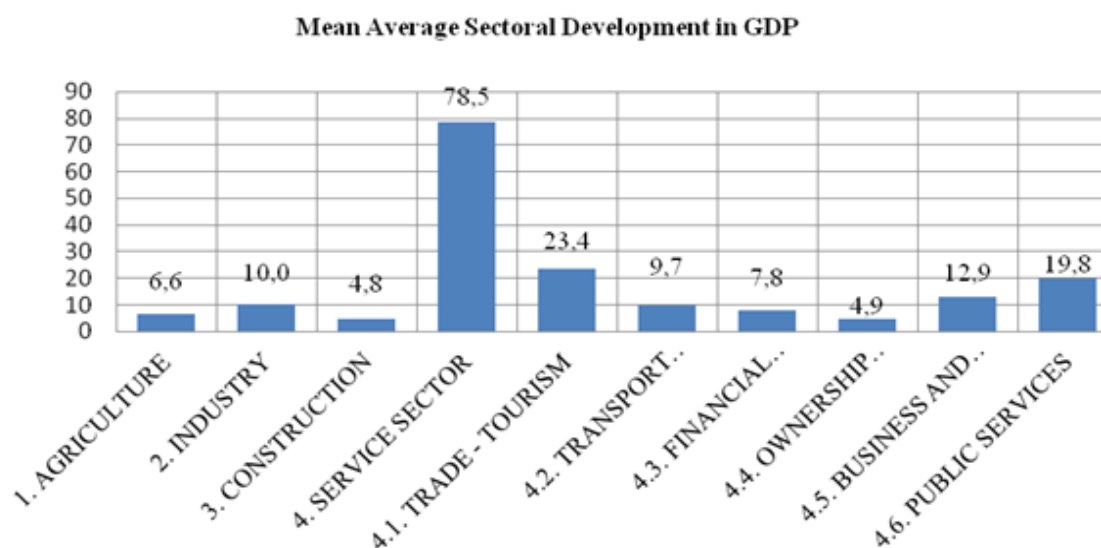
Table 3. Sectoral Developments in GDP from 2014 to 2018

	2014	2015	2016	2017	2018	Average
1. AGRICULTURE	6,2	6,4	6,6	6,8	7,0	6,6
2. INDUSTRY	9,8	9,8	9,9	10,2	10,4	10,0
3. CONSTRUCTION	4,7	5,0	4,9	4,8	4,8	4,8
4. SERVICE SECTOR	79,3	78,9	78,6	78,1	77,8	78,5
4.1. TRADE - TOURISM	23,1	23,1	23,4	23,6	23,9	23,4
4.2. TRANSPORT AND COMMUNICATION	9,9	9,8	9,7	9,6	9,6	9,7
4.3. FINANCIAL INSTITUTIONS	8,0	7,9	7,7	7,6	7,5	7,8
4.4. OWNERSHIP AND DWELLINGS	5,0	4,9	4,8	4,8	4,7	4,9
4.5. BUSINESS AND PERSONAL SERV.	13,0	12,8	12,8	13,0	13,1	12,9
4.6. PUBLIC SERVICES	20,2	20,3	20,1	19,5	19,0	19,8

Source: Authors own. Adapted from TRNC State Planning Organization <http://www.devplan.org/Frame-eng.html> (Retrieved December 10. 2017)

Figure 2 below shows the mean average sectoral developments in GDP.

Figure 2. The mean average sectoral developments in GDP.



Source: Authors own. Adapted from TRNC State Planning Organization <http://www.devplan.org/Frame-eng.html> (Retrieved December 10. 2017)

2.2 BANKING SECTOR IN NORTH CYPRUS

The banking system consists of 21 commercial banks and 8 international banks so called International Banking Unit (IBU) in addition to the Central Bank in North Cyprus. Banks are free to keep foreign currency, act as intermediary in import and export transactions, accept foreign currency savings, engage in purchase and sale of foreign currency, deal in bonds required to be paid in foreign currency, give foreign currency loans, engage actively in money and foreign currency markets and in compliance with international banking usage, to deal in every kind of foreign currency transactions, (devplan.org, 2017), retrieved at 10 December 2017.

It is argued that the following factors for example, weak internal control systems and risk evaluation, availability of capital, lending procedures, bad management and governance, (Safaklı, 2003: 225) were associated with the inefficient running of the banking sector in North Cyprus. Above all what really matters for banking sector in North Cyprus is the way that the banks should be prepared to interact with the complexities of the internal and external environment in order to deliver acceptable and effective provisions to face these complexities of the human capital management and financial market management. For the inclusion of the provisions that will help to overcome such management complexities there is a need for good leadership practice in the banking sector that will help to establish the right vision and effectiveness for social value and financial value creation. Therefore, prior to any financial innovation it is inevitable to bring about good leadership effectiveness first internally and then externally. Leadership is about coping with change and create a way by developing a vision of the future and inspire people. Leadership is a social process and being able to understand how others feel is critical to successful leadership, (Robbins & Judge 2009:419-420). On the other hand, managers create effective leadership based on the value drivers and the cultural orientation of the organisation. (Cameron *et al.* 2003:16). According to Cameron & Quinn, (2006:47-49), managers are rated as most effective depending on the organization's cultural change and on the circumstances of the internal and external environment. However, effective leaders create value by identifying those that best fit their circumstances (Cameron *et al.*, 2006:155). So the real argument is to see whether we need good managers or good leaders to be able to create the right corporate culture for the foreseen future in the banking sector. Table 4 below exhibits the distinguished difference between a manager and a leader adapted from (Simpson, 2012: 7-8).

Table 4. Leadership and Management Comparison

Leadership and Management	
Manager does things right	Leader- does the right thing
<ul style="list-style-type: none"> ▪ Manages change ▪ Control ▪ Focused on rules ▪ Transactional ▪ Execution ▪ Concerned with stability ▪ Coordinates ▪ Follows orders ▪ Tells ▪ Results focus ▪ Uses established path ▪ Organizes people ▪ Initiates 	<ul style="list-style-type: none"> ▪ Creates change ▪ Commitment ▪ Focused on outcomes ▪ Transformational ▪ Ideas ▪ Concerned with energizing ▪ Inspires ▪ People follow them ▪ Sells ▪ Achievement focus ▪ Creates new paths ▪ Aligns people ▪ Originates

Source: Authors own. Adapted from (Simpson, 2012)

The proposed modern and comprehensive corporate governance model in the study provide the right attributes for all organisations to establish the right corporate mechanism to face the issues arise internally and externally.

According to (Safaklı, 2003: 217), the banking sector organisations and the policy makers did not have the right institutional gratitude for taking preventative measures in advance. Hence, they were unable to resolve the negative impacts and the complexities of the external environment.

This paper aims to address above issue by presenting previous research results and corroborate these results with the new empirical hypothesis and outcomes that improvement in the “NO” answers as “YES” answers will add value to the organisational value of creating effective corporate governance mechanism to deal with the negative impacts of the internal and external environment.

3. THEORETICAL BACKGROUND DEVELOPMENT OF HYPOTHESES AND DATA

3.1 CORPORATE CULTURE, CORPORATE LEGALITY FIRM PERFORMANCE AND VALUE CREATION

The previous study stressed the importance of corporate culture and corporate legality mattered more for establishing the right value creation and hypotheses and use of the data.

During the examination of theoretical background, it was noted that, there were many contrasting opinions about Competing Values Framework (CVF), and Corporate Legality Framework (CLF) in predicting financial performance and value creation. Some school of thoughts from the extant literature opposed and some argued about the validity of Competing Values Framework (CVF) in explaining company performance, for example (Cameron *et al.*, 2006) have found out that, there was high correlation between the elements of Competing Values Framework (CVF) and corporate performance. Furthermore, the Competing Values Framework (CVF) help predict future values of companies in the market and explains what the capital market takes into account of value in pricing companies. If the capital market is efficient it could be true to state that, the market sees beyond firm’s financial performance and looks into its strengths to deliver better financial innovations and better future performance.

On the other hand, various researchers had taken different approaches measuring corporate performance such as return on assets, return on equity, but eventually none of these measures have been successful in explaining the fundamentals of value creation for example (Sengur, 2011; Coşkun & Sayılır, 2012) found that there was a negative relationship between return on assets, return on equity with financial profitability. However, the Competing Values Framework (CVF) shows a broad in scope representation for predicting and measuring corporate value (Cameron *et al.*, 2006).

This new research paper exhibits that, a firm can create the right market culture when showing decent orientation in collaboration, control and creativity with the internal environment leading to better leadership effectiveness and a firm will establish the right capital market culture if it can compete with the external environment leading to better financial innovations. Therefore, the capital market element with capital market culture will be influenced by establishing the right board of directors and managerial incentives, capital structure provisions and control systems, law and regulations. Moreover, the investigation into these provisions and into the existing literature and plus the empirical results of the 2015 survey have helped to develop new propositions and hypotheses that the overall study rests.

3.2 HYPOTHESES

The hypotheses tested were as follow:

Hypothesis 1a Collaboration exhibits a positive relationship with firm market culture behaviour and firm performance.

Hypothesis 1b Board of directors and managerial incentives is positively associated with firm capital markets culture behaviour and firm performance.

Hypothesis 2a Control has a positive impact on firm market culture behaviour that leads to better firm performance.

Hypothesis 2b Capital structure provisions and control system has a positive impact on firm capital markets culture behaviour that leads to a better corporate performance.

Hypothesis 3a Creativity exhibits a positive relationship with firm market culture behaviour that leads to better corporate governance.

Hypothesis 3b Law and regulations have a positive impact on firm capital markets culture behaviour and corporate performance.

Hypothesis 4 Collaboration, control, and creativity are positively associated with firm market culture behaviour and performance.

Hypothesis 5 Board of directors and managerial incentives, capital structure provision and control systems, law and regulations have a positive relationship with firm capital market culture behaviour and performance.

Hypothesis 6 there is positive relationship between firm market culture (internal governance) and firm capital market culture (external governance).

3.3 DATA

A survey was carried out to examine and determine the level of corporate governance based on the eight elements explained in the study. The survey questions consisted of two sections and, the first set of 44 questions (*see appendix*) were distributed to the employees and the second set of 45 questions (*see appendix*) were distributed to the employers and members of the board of directors for completion. The questionnaire was a composite of 89 qualitative Yes/No questions. A ‘Yes’ answer adds one point to the score. For example, if a firm received a ‘Yes’ for corporate culture first set of 24 out of 44 questions the rating for that firm’s corporate culture would be 55% and ‘Yes’ for corporate legality second set of 20 out of 45 questions the rating for the firm’s legality would be 44% respectively. The main governance index, further referred to as CGOV, was the average of the eight elements. Out of the 380 questionnaires sent, 320 were completed in total. The sample size was determined by the *sample size calculator* with a confidence level of 95%. Cumulative Yes’ for corporate legality (external governance) and corporate culture (internal governance) for each firm was calculated using the Standard & Poor’s (S&P) methodology, as follow;

$$CGOV = \frac{\sum_{xi} \sum_{yi} S_{xiyi}}{TPY'S}$$

Where;

x_i = total number of categories

y_i = total number of questions (attributes)

S_{xiyi} = Total answered Yes’s

$TPY'S$ = Maximum possible yes’s

The constructed panel data of cumulative Yes’s are presented in Table 5 and 6.

Table 5.

A panel data of cumulative “Yes” answers of the survey for corporate capital market culture (external governance) of 13 firms (F) in North Cyprus

Table 5 shows the cumulative “Yes” answers of the survey for corporate capital market culture (external governance). During the survey 10 employers from each firm have contributed to the survey and were expected to answer maximum “Yes” answers of 450. Total expected “Yes” answers were 5940 (450 × 13) + 90. Total expected yes answers per firm were 450 except for firms 2 and 3 maximum possible “Yes” answers was 90. The last row in the table shows the total cumulative “Yes” answers obtained from the survey for each firm. *Firms 2 and 3, 11 employers have completed the survey and expected to answer 495 (11×45) Yes answers.

F1	F2*	F3*	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13
17	39	16	38	16	17	39	27	16	39	37	27	16
20	25	38	28	23	26	37	38	23	17	28	16	17
23	26	27	37	20	25	28	27	20	25	38	38	23
16	17	38	39	17	39	38	38	17	26	25	38	20
38	20	27	25	38	27	23	16	38	16	26	27	27
27	23	38	26	27	38	20	40	27	23	39	40	38
38	16	40	17	38	16	17	25	38	20	23	26	27
27	38	25	20	27	23	26	38	27	27	17	25	27
38	27	26	23	38	20	25	26	38	38	20	38	38
17	20	23	16	38	27	38	27	38	39	25	26	17
	39	25										
261	290	323	269	282	258	291	302	282	270	278	301	250

Table 6.

A panel data of cumulative Yes answers of the survey for corporate market culture (internal governance) of 13 firms (F) in North Cyprus

During the survey 15 employees from each firm have contributed and the expected Yes answers in total was $8272 (660 \times 12) + 352$. Total 44 questions have been asked to each employee. The last row in the table shows the total cumulative Yes answers obtained from the survey for each firm. *Firm 13 only 8 employees have completed the survey.

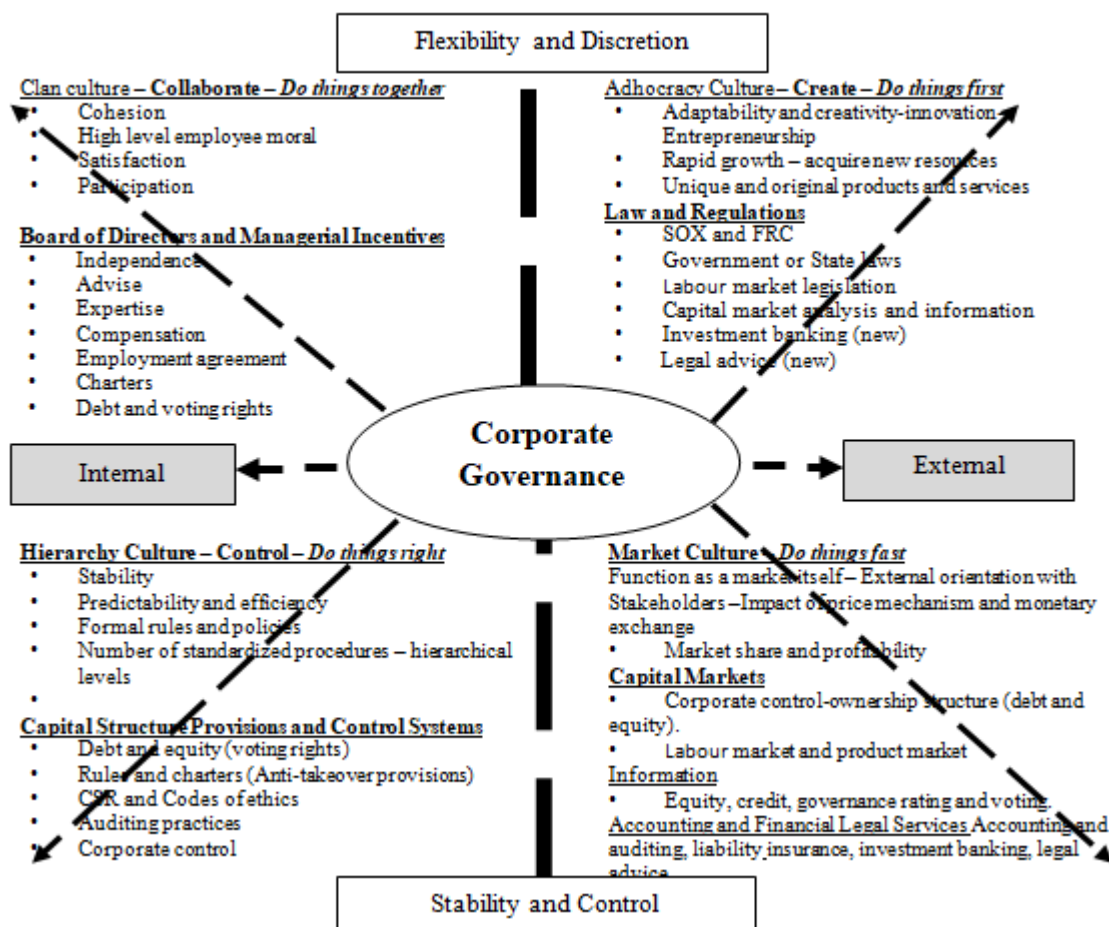
F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13*
32	30	35	19	14	31	28	16	23	19	40	40	6
42	33	34	19	6	22	27	21	23	35	24	41	6
28	34	28	19	6	25	33	31	24	21	9	35	34
28	37	23	19	14	40	39	30	9	8	16	36	8
27	25	24	35	21	41	33	35	20	26	22	24	20
33	31	24	21	25	35	34	40	32	31	24	24	10
39	30	24	8	16	36	33	40	17	24	27	20	8
28	34	20	28	22	17	36	40	17	33	43	19	10
33	34	32	32	24	18	35	17	24	26	40	28	
33	19	17	24	27	20	32	14	27	21	39	19	
36	17	17	33	43	19	29	6	30	16	41	18	
35	18	24	26	40	27	39	24	15	13	31	18	
31	25	27	21	39	32	30	35	19	15	31	25	
28	33	30	16	41	42	34	34	19	22	22	33	
38	27	15	13	31	28	8	28	19	24	24	14	
491	427	374	333	369	433	470	411	318	334	433	394	102

4. A NEW LOOK: THE PROPOSED MODEL AND THE DETERMINANTS OF CORPORATE GOVERNANCE

There have been many models of corporate governance provisions that have been reviewed by many scholars and researchers for example, Berkowitz *et al.*, (2003); Bebchuk *et al.*, (2004); Klapper and Love (2004); Licht *et al.*, (2005); Gillan, L. S. (2006); Gupta *et al.*, (2013). The proposed model in the study covers almost every attribute that firms may practice to create the right and efficient corporate governance mechanism.

The constructed model of Modern CG Framework in Figure 3 shows the core elements of the CVF which are, Collaborate, Control, Create, and Compete for establishing the right corporate culture to create social value (leadership effectiveness) and the core elements of Corporate Legality which are, Board of Directors and Managerial Incentives, Capital Structure Provisions and Control Systems, Laws and Regulations, and Capital Markets to create financial value (financial innovations). The quality of the CSR and codes of ethics, auditing practices are assessed under the Capital Structure Provisions and Control System of a company and is complementary with the Control core element of the CVF, (Avcin & Balcioglu 2017: 212).

Figure 3: Corporate Governance: A More Comprehensive Model



Source: Authors own. Adapted from (Cameron & Quinn, 2006: 31-32) and Gillan, (2006:384)

4.1 DETERMINANTS OF GOVERNANCE

4.1.1 Element 1: Collaborate

With reference to model of corporate governance in the study, collaboration is the orientation and the leadership type is a facilitator, mentor and team builder. The value drivers are commitment, communication, and development to produce effectiveness. There is loyalty, tradition and high commitment with long-term benefit of individual development and leaders are thought as parent figures. It involves: Teamwork, Quality circles and employee involvement. Collaboration helps develop a human work environment, empower employees and facilitate the participation that places a premium on teamwork, participation and consensus. Also, help to enable issues regarding financial position, remuneration, recruitment and training and social welfare, (Cameron & Quinn, 2006:41-42). Hence, it refers to the working conditions of the employees that should be safe and secure and measures should be taken to protect them and prevent discrimination in terms of race, religion, language and gender (Capital Markets Board of Turkey, 2003:38). It is vital that, companies should carry out their operations and activities ethically and responsibly (Capital Markets Board of Turkey, 2003: 39-40).

Corporate culture creates a difference, helps identify organizations from each other, facilitates to greater commitment than self-interest, and helps achieve stability of the social system, Robins and Judge (2012).

On the other hand, strong leadership regularly exchanges information regarding common targets. This is when the variables of the CLF are to be associated with corporate culture that integrating Board of Directors and Managerial Incentives, Capital Structure Provisions and Control Systems, Law and Regulations, and Capital Markets into the CVF will lead to a better corporate culture and firm performance. Therefore, under Collaboration quadrant, Board of Directors and Managers as representatives of all the stakeholders including all shareholders,

have to run and control the company effectively by acting in collaboration (Avcin & Balcioglu, 2017: 214) *and not for self-interest* (Jensen and Meckling, 1976; Jensen, 1986); hence, act in favour of the organization than in their self-interest (Donaldson & Davis, 1991; 1993). According to Davis *et al.*, (1997), collaborative attitude brings higher return than self-interest attitude, boosting up moral, and encourage the employees to interact in line with the culture of the organization.

4.1.2 Element 2: Control

The Control element involves long term concerns of the organization in terms of stability, predictability and efficiency at workplace. It helps to create and apply formal rules and policies and a number of standardised procedures to maintain effective directing and governing. Formal rules and policies hold organization together. Prototypical examples of hierarchy culture are McDonald, Ford Motor Company and Government agencies evidenced by large number of standardized procedures and hierarchical levels (Cameron & Quinn, 2006, 37-38).

Therefore, integrating Capital Structure Provisions and Control Systems with Control quadrant, organizers and administrators pay attention to solve problems, follow instructions with technical knowledge and methodology, and there is right for the employees to question their managers (Cameron *et al.*, 2006-34).

4.1.3 Element 3: Create

The major goal of creativity is adaptability, flexibility and creativity during uncertainty and ambiguity. There is commitment to innovation. The organization's long-term aim is to achieve rapid growth and acquiring new resources. Success means producing unique and original products and services.

By integrating Law and Regulations with Creativity quadrant, the leaders and the directors are well skilled and have tendency toward risk (Avcin & Balcioglu, 2017) and are not afraid during uncertainty and follow up the law and regulations when undertaking actions (Cameron *et al.*, 2006 : 36).

4.1.4 Element 4: Compete (Market culture)

It is about competitiveness and productivity, impact of price mechanism, and monetary exchange. Competitive advantage, niche in the market, market share, and profitability are targets, and the emphasis is on winning. Therefore, integrating Capital Market with Market Culture (Compete), individual leaders tend to be aggressive and are expected to create the highest value by managing financial portfolios and make fast decisions and are judged by results but not with activity, (Cameron & Quinn, 2006, 39 - 40).

It can be deduced that, the Create and the Compete quadrants use value creating activities and strategies that help to create a strong and reliable relationship with investors, which may lead to an excellent financial efficiency. Furthermore, this will help leaders and the directors of the organizations to use assertive behaviour to increase capital; contract out some of the factors used in productivity; wanting to buy other firms, and establish strong competitive edge and customer base externally that may increase profits for shareholders (Avcin & Balcioglu, 2017: 215).

4.1.5 Element 5: Board of Directors and Managerial Incentives

Corporate governance system of a single firm is divided into internal governance and external governance. A separation between capital investors and the management of the capital in a firm opened to the public, for example (Gillan, 2006:382) suggests that, this separation have increased the need for corporate governance regulations and the need to develop a more comprehensive corporate governance framework. Gillan, (2006: 384) have constructed a framework explaining the key elements involved with internal and external governance of a firm. The Board of Directors and Managerial Incentives in the proposed corporate governance model is linked to the Clan culture of an organization of doing things together in accordance to Competing Values Framework (Cameron *et al.*, 2003, 2006). It involves independence, advice, expertise, compensation, employment agreement, charters, dept and voting rights, Gillan, (2006). The Board of Directors should revise the targets in accordance with international standards for example (Capital Markets Board of Turkey, 2003:44) states that, organizations' Board of Directors should take necessary steps closely to control and advise the operations in line with laws.

4.1.6 Element 6: Capital Structure Provisions and Control Systems provisions

Capital structure provisions and control systems refer to debt instruments and corporate equities that the organization provides to the equity market and debt market in terms of creating capital for investment. It also includes, its anti-takeover provisions relating to its voting system and stock incentive plans adapted with the shareholder's approval. It also includes organization's CSR and Codes of ethics standards and auditing practices it uses to maintain effective control, (Gillan, 2006:388-389).

4.1.7 Element 7: Law and regulations provisions

Law and regulations refer to the current government or state laws, Labour market legislation, Capital market analysis, investment banking and legal advice regarding the organization. The organization should abide with the current market laws and regulations and has to be able to analyse capital markets, use investment banking and take necessary legal advice in order to establish good corporate practice (Gillan, 2006:389-390).

4.1.8 Element 8: Capital Markets provisions

According to the Capital Markets Board of Turkey (2003; 2005) for proper functioning and operation of the capital markets it refers to better regulation of capital market, regulation liquidity, the number of investors in the population, implementation of international standards and accounting standards. Also capital market provisions are linked to proper operation of company practices where, disclosing information, the treatment of shareholders, the structure of the board of directors, shareholders' involvement in the process, the discretion of the company towards the external environment and their social responsibility approach are considered as essential. Capital markets refer to corporate control-ownership structure, labour and product markets, equity, credit and governing ratings (Gillan, 2006:390:395). (See Appendix for all the provisions regarding all elements)

5. EVIDENCE: EMPIRICAL RESULTS AND DISCUSSION OF THE PREVIOUS RESEARCH ON NORTH CYPRUS FIRMS

Empirical results of Tables 7 and 8 indicate that all the correlations were in the range of 0.001-0.795 which was within the acceptable range.

Table 7

Correlation of cultural elements and corporate governance					
Correlation	Corporate Governance (CGOV)	Collaborate (CL)	Control (CT)	Create (CR)	Compete (CO)
Corporate Governance (CGOV)	1				
Collaborate (CL)	-.134(.663)	1			
Control (CT)	.000(.999)	.519 ** (.000)	1		
Create (CR)	-.332(.268)	.460 ** (.000)	.441** (.000)	1	
Compete (CO)	-.243(.423)	.573 ** (.000)	.595** (.000)	.543** (.000)	1

** p .01

Notes: The negative linear correlation between the firms' average corporate governance indices CGOV with the corporate cultural elements; CL; CT; CR; CO; implied that there was a relationship between the variables but the relative strength was significantly weak. Therefore, any decrease in the provisions of the cultural elements was associated with a decrease in the average corporate governance performance of firms in the market or vice versa.

Table 8

Correlation of legality elements and corporate governance					
Correlation	Corporate Governance	Board of Directors Managerial Incentives	Capital Structure Provisions Control Systems	Law and Regulations	Capital Markets
	(CGOV)	(BDMI)	(CSCS)	(LR)	(CM)
Corporate governance (CGOV)	1				
Board of Directors Managerial Incentives (BDMI)	-.171(.576)	1			
Capital Structure Provisions Control Systems (CSCS)	-.136(.658)	.719** (.000)	1		
Law and Regulation (LR)	-.129(.675)	.483** (.000)	.550** (.000)	1	
Capital Markets (CM)	-.094(.759)	.795** (.000)	.895** (.000)	.616** (.000)	1

**** p .01**

Notes: The negative linear correlation between the firms' average corporate governance indices CGOV with the corporate legality elements; BDMI; CSCS; LR; CM; implied that there was a connection between the variables but the relative strength was insignificantly strong. Therefore, any decrease in the provisions of the legality elements was associated with a decrease in the average corporate governance performance of firms or vice versa.

Tables 7 presents correlation matrix between firm average corporate governance indices based on 13 firm level observations with corporate cultural elements. The correlations of average corporate governance indices with cultural elements were insignificantly negative and *p* values were significant at 1%.

Tables 8 presents correlation matrix between firm average corporate governance indices based on 13 firm level observations with the corporate legality elements. The correlations of average corporate governance indices with legal elements were insignificantly negative and *p* values were significant at 1%.

In the next step there was a more in depth formal examination where table 9 presents the estimated corporate cultural elements on corporate market culture- internal governance that all signs were consistent with Hypotheses 1a; 2a; and 3a. The results confirmed that, Collaboration, Control and Creativity had a positive impact on corporate market culture – internal governance and any significant change in these independent variables have indicated a positive change in the dependent variable corporate market culture of the firm respectively.

In table 10 the estimated regression results were presented for corporate capital market culture – external governance where firm level corporate legality elements were positive and strongly significant and all signs were consistent with Hypotheses 1b; 2b; and 3b. The responsiveness of Collaboration to Market Culture – internal governance was valued at a 50.20% value rating from the results. Results revealed that, Collaboration, Control and Creativity are positively associated with firm market culture behaviour and performance which H4 was confirmed. The responsiveness of Board of Directors and Managerial Incentives were positively significant. The strength of the regression model in explaining the impact between the dependent variable and independent variables was by 86.20% that H5 was confirmed. For hypothesis 6, the responsiveness of firm's Capital Market Culture (external governance) to Corporate Market Culture (internal governance) was by 01.20%, positive but strongly insignificant and the change or variation in Capital Market Culture was predicted in relation to the dependent variable Market Culture which implied that there was positive relationship between internal and external governance but very strongly insignificant. This has led to the conclusion that, corporate governance becomes more important incorporating firms' internal and external governance since the value of unstandardized beta coefficient value has been -.109 with *p* value higher than .05. This implied a need for better corporate mechanism and the current state of the capital market in North Cyprus to be improved.

Table 9

Regression results (Two factors)							
The dependent variable in the regression model is Market Culture (MC) – internal governance. Firm level data was constructed from a survey for 13 firms in year 2015							
Dependent variable: Market Culture (MC) – internal governance							
	Hyp.	Intercept	R ²	F stat.	t	p-value	Unstandardized Coefficients β
Collaboration (CL)	H1a	0.489	0.324	90.343	9.505	0.000	0.625
Control (CT)	H2a	0.667	0.354	101.578	10.078	0.000	0.606
Creativity (CR)	H3a	0.822	0.295	77.324	8.793	0.000	0.410
Capital Market (CM)	H6	1.572	0.012	1.459	-1.208	0.230	-0.109
Number of observations 188							
Notes: Internal governance was determined by the cultural elements (independent variables); Collaboration, Control and Creativity. Firm data was obtained from the survey results in 2015 for 13 firms total sample of 188. Results implied that Collaboration, Control and Creativity had a positive impact on firm's Market Culture – internal governance behaviour and performance. For Hypothesis 6 the change or variation in Capital Market Culture variable was predicted in relation to the dependent variable Market Culture. The weights were as follows: Market Culture = 0,489 (constant term) + 0,625 (Unstandardized Betas Collaboration) × Collaboration + 0,166 (error term). Market Culture = 0,667 (constant term) + 0,606 (Unstandardized Betas Control) × Control + 0,137 (error term). Market Culture = 0,822 (constant term) + 0,410 (Unstandardized Betas Creativity) × Creativity + 0,118 (error term). Market Culture = 1,572 (constant term) - 0,109 (Unstandardized Betas Capital Market Culture) × Capital Market Culture + 0,220 (error term). The p values were significant at 10%, 5%, and 1% respectively.							

Table 10

Regression results (Two factors)							
The dependent variable in the regression is Capital Market Culture (CMC) – external governance. Firm level data was constructed from a survey for 13 firms in year 2015.							
Dependent variable: Capital Market Culture (CMC) – external governance							
	Hyp.	Intercept	R ²	F stat.	t	p-value	Unstandardized Coefficient β
Board of Directors and Managerial Incentives (BDMI)	H1b	0.104	0.631	222.597	14.920	0.000	0.945
Capital Structure Provisions Control System (CSCS)	H2b	-0.312	0.801	523.046	22.870	0.000	1.220
Law and Regulations (LR)	H3b	0.282	0.379	79.468	8.914	0.000	1.005
Number of observations 132							
Notes: External governance was determined by the legality elements (independent variables); Board of Directors and Managerial Incentives, Capital Structure Provision and Control Systems, Law and Regulations. Firm data was obtained from the survey results in 2015 for 13 firms total sample of 132. Results implied that independent variables had a positive impact on firm's Capital Market Culture – internal governance behaviour and performance. The weights were as follows: Capital Market Culture = 0,104 (constant term) + 0,945 ((Unstandardized Betas for Board of Directors and Managerial Incentives) + 0,155 (error term). Capital Market Culture = -0,312 (constant term) + 1,220 ((Unstandardized Betas for Capital Structure Provision and Control Systems) + 0,131 (error term). Capital Market Culture = 0,282 (constant term) + 1,005 (Unstandardized Betas Law and Regulations) × Law and Regulations + 0,247 (error term). The p values were significance at 10%, 5%, and 1% respectively.							

Table 11

Regression results (Multiple factors)							
The dependent variables in the multiple factors regressions were Market Culture (MC) – internal governance and Capital Market Culture (CMC) – external governance.							
Dependent variable: Market Culture (MC) – internal governance							
	Hyp.	Intercept	R ²	F.stat.	t	p-value	Unstandardized Coefficients β
Collaboration (CL)					4.289		0.300
Control (CT)	H4	0.251	0.502	61.501	5.279	0.000	0.340
Creativity (CR)					4.393		0.203
<i>Number of observations 188</i>							
Dependent variable: Capital Market Culture (CMC) – external governance							
	Hyp.	Intercept	R ²	F.stat.	t	p-value	Unstandardized Coefficient β
Board of Directors and Managerial Incentives (BDMI)					5.991		0.341
Capital Structure Control Systems (CSCS)	H5	-0.510	0.862	265.557	12.162	0.000	0.833
Law and Regulations (LR)					3.541		0.230
<i>Number of observations 132</i>							
<i>Notes: The strength of the regression model in explaining the impact between the dependent variable and independent variables was by 86.20% which was positively significant. The weights were as follows: Market Culture = 0,251 (constant term) + 0,300 + 0,340 + 0,203 ((Unstandardized Betas for Collaboration, Control and Creativity) + 0,180 (error term). Capital Market Culture = -0,510 (constant term) + 0,230 + 0,833 + 0,341 ((Unstandardized Betas for Law and Regulations, Capital Structure Provisions and Control Systems and Board of Directors and Managerial Incentives) + 0,190 (error term). The p values were significant at 10%, 5%, and 1% respectively.</i>							

The results showed that, firms had not really established the necessary provisions which implied that the legal system was weak and there was a need for enforcement in regulatory framework to improve capital markets and corporate governance provisions in relation to the key elements of corporate legality. Hence, firms had not really established the necessary provisions which implied a need for improvement in their corporate governance mechanism with greater enforcement in the regulatory framework in relation to the key elements of corporate culture. Results are illustrated in Table 12 and 13 respectively.

Table 12. Summary statistics

Summary statistics						
Panel A: Firm level corporate governance index - firm level corporate legality (external governance) indices						
FIRMS	No. of Observations	Mean	Median	Minimum	Maximum	Standard deviation
All sample	132	27.70	26.08	16.15	38.92	8.36
1	10	26.10	25.00	16.00	38.00	9.07
2*	11	26.36	25.00	16.00	39.00	8.62
3*	11	29.36	27.00	16.00	40.00	7.85
4	10	26.90	25.50	16.00	39.00	8.54
5	10	28.20	27.00	16.00	38.00	9.16
6	10	25.80	25.50	16.00	39.00	7.75
7	10	29.10	27.00	17.00	39.00	8.25
8	10	30.20	27.00	16.00	40.00	7.85
9	10	28.20	27.00	16.00	38.00	9.16
10	10	27.00	25.50	16.00	39.00	8.81
11	10	27.80	25.50	17.00	39.00	7.69
12	10	30.10	27.00	16.00	40.00	7.90
13	10	25.00	25.00	16.00	38.00	8.08

**Firms 2 and 3, 11 employers have completed the survey questionnaire (Appendix presents those questions that participants in the survey have answered NO).*

Table 13. Summary statistics

Summary statistics						
Panel B: Firm level corporate governance index - firm level corporate culture (internal governance) indices						
FIRMS	No. of Observations	Mean	Median	Minimum	Maximum	Standard deviation
All sample	188	25.73	25.07	11.53	38.53	8.30
1	15	32.73	33.00	27.00	42.00	4.58
2	15	28.46	30.00	17.00	37.00	6.40
3	15	24.93	24.00	15.00	35.00	6.14
4	15	22.20	21.00	8.00	35.00	7.54
5	15	24.60	24.00	6.00	43.00	12.27
6	15	28.86	28.00	17.00	42.00	8.65
7	15	31.33	33.00	8.00	39.00	7.35
8	15	27.40	30.00	6.00	40.00	10.63
9	15	21.20	20.00	9.00	32.00	5.90
10	15	22.26	22.00	8.00	35.00	7.47
11	15	28.86	27.00	9.00	43.00	10.12
12	15	26.26	24.00	14.00	41.00	8.73
13*	8	15.44	10.00	6.00	37.00	12.13

**Firm 13 only 8 employees have completed the survey questionnaire (Appendix presents those questions that participants in the survey have answered NO).*

The distribution of CGOV index across firms in North Cyprus is shown in Table 14, Panel C. Similar studies have been carried out for example (Klapper and Love, 2004) have found out that the average firm level governance index in 14 countries was 54.11% and at country level for example in Pakistan was 31.85% and in South Africa was 66.53% when compared to North Cyprus.

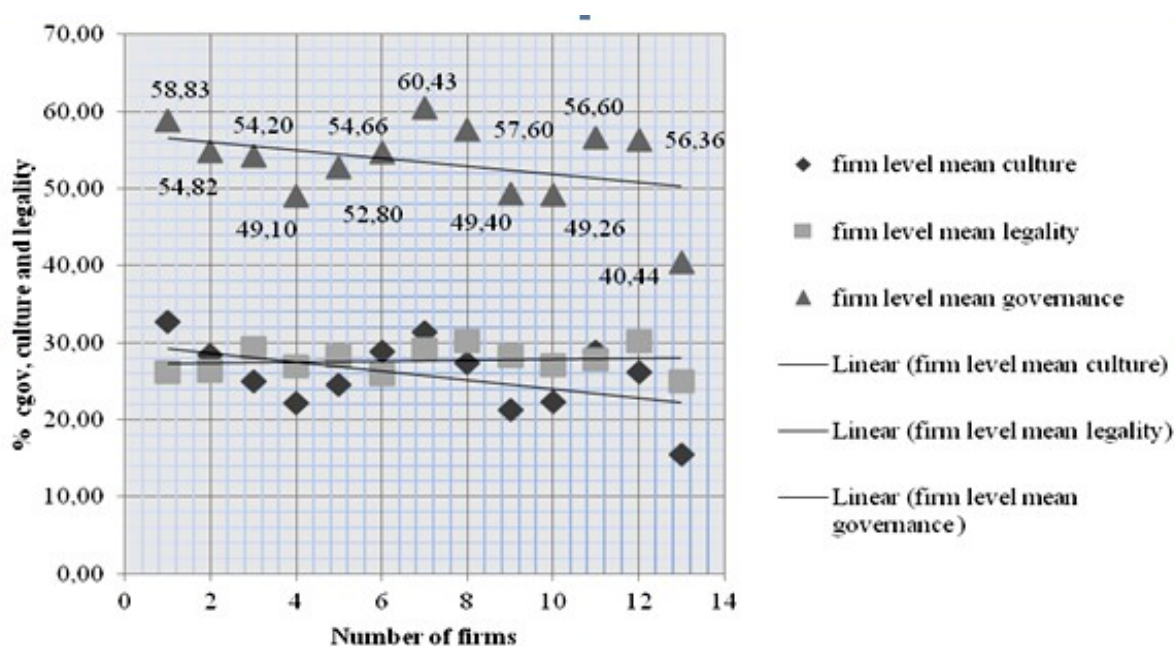
Table 14. Overall Summary Statistics

For legality elements 132 and for cultural elements 188 observations were been obtained. The overall mean CGOV rankings were 53.43% and varied from a firm average of 40.44% to 60.43%. The corporate governance ranking varied from 22.00% to 82% respectively.

Panel C: Firm level corporate governance indices (CGOV)						
FIRMS	No. of Observations	Mean	Median	Minimum	Maximum	Standard deviation
All sample	320	53.43	51.15	27.68	77.45	16.60
1	25	58.83	58.00	43.00	80.00	13.65
2*	26	54.82	55.00	33.00	76.00	15.02
3*	26	54.29	51.00	31.00	75.00	13.99
4	25	49.10	46.50	24.00	74.00	16.08
5	25	52.80	51.00	22.00	81.00	21.43
6	25	54.66	53.50	33.00	81.00	16.40
7	25	60.43	60.00	25.00	78.00	15.60
8	25	57.60	57.00	22.00	80.00	18.48
9	25	49.40	47.00	25.00	70.00	15.06
10	25	49.26	47.50	24.00	74.00	16.28
11	25	56.66	52.50	26.00	82.00	17.81
12	25	56.36	51.00	30.00	81.00	16.63
13*	18	40.44	35.00	22.00	75.00	20.21

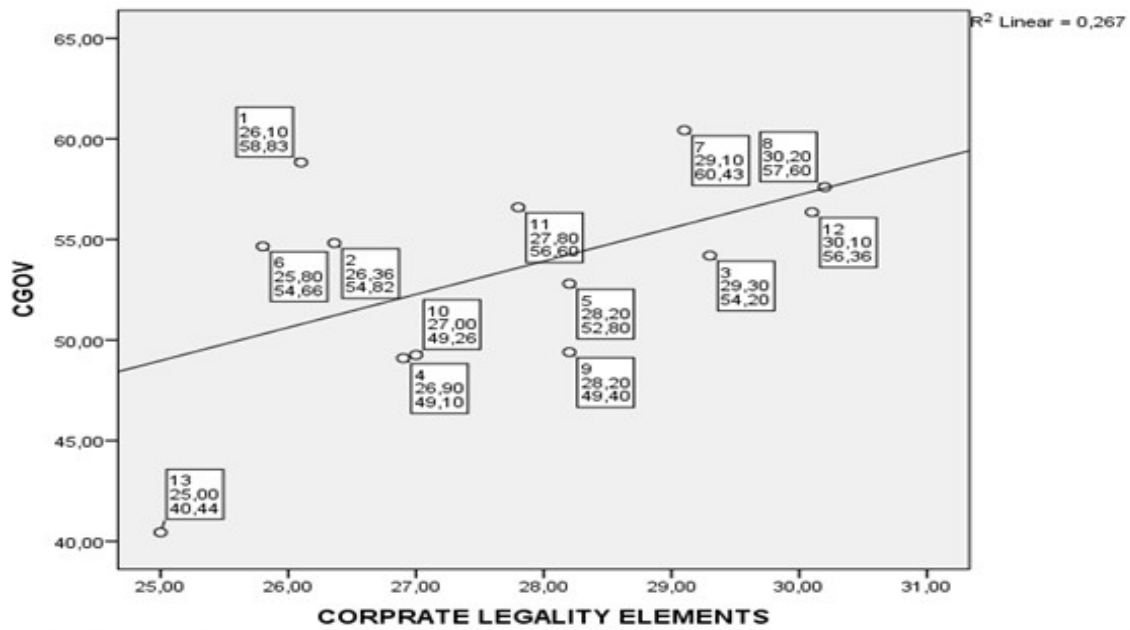
Notes: The distribution of CGOV index across firms in North Cyprus had been 53.43% and the sample almost was equally distributed across firms. These summary statistics pointed out that firm corporate governance practices varied which implied that firms in North Cyprus on average had lower governance rankings because the overall legal framework was inefficient.

Figure 4. Scatter plot of firm level corporate governance indices (CGOV)



Source: Authors own as at 17 June, 2017.

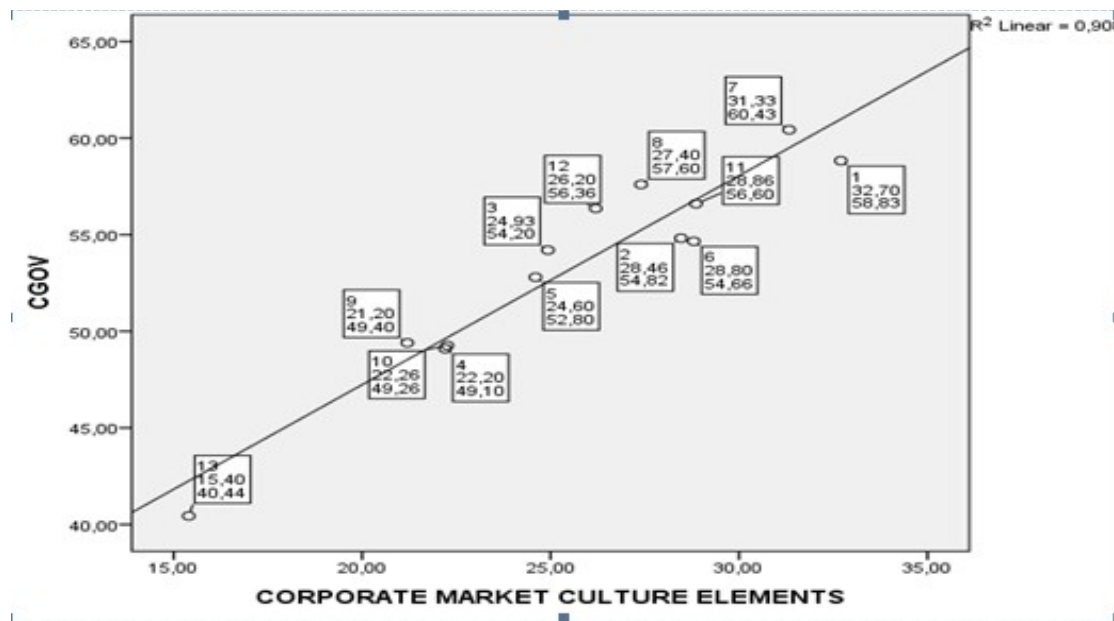
Figure 5. Firm level corporate governance index - firm level corporate legality (external governance) indices



Notes: The scatter diagram shows firm numbers, corporate legality indices and corporate governance indices respectively.

Source: Authors own as at 17 June, 2017

Figure 6. Firm level corporate governance index - firm level corporate market culture (internal governance) indices



The scatter diagram shows firm numbers, corporate market culture indices and corporate gov respectively.

Source: Authors own as at 17 June, 2017

6. IMPLICATIONS OF THE PREVIOUS EMPIRICAL RESULTS FOR NORTH CYPRUS

The previous study revealed the following: (1) the overall mean Corporate Governance (CGOV) rankings were 53.43% and varied from a firm average of 40.44% to 60.43% indicating a weak legal system and a need for enforcement in the regulatory framework to improve financial markets. (2) There was a significant variation within firms; for example, the corporate governance ranking varied from 22.00% to 82% which implied that on average firm rankings had been low. (3) Corporate legality elements were correlated with firms' external governance behaviour, and corporate market culture elements were correlated with firms' internal governance behaviour which exhibited that, any change in the elements will be positively associated with internal and external governance behaviour. (4) There was internal country level financial market inefficiency and the negative incorporation between internal and external governance implied that the capital market in North Cyprus has to be improved. Hence, on average firms in North Cyprus had obtained a score under 60% which was below international standards. There is a need for the financial regulatory framework to improve in North Cyprus in order to influence firms' internal governance and external governance to improve and go beyond the average score of 53.43% and above (See Table 14).

6.1 NEW EVIDENCE: HYPOTHESES AND RESEARCH RESULTS

Finally, the study aims to explore that, the firm level governance mechanism matters more influencing leadership effectiveness and financial innovations in the banking sector. Secondly, it is assumed that, prior to any financial innovations, leadership effectiveness will be established when firms in banking sector improve their internal and external governance provisions.

To proceed with the investigation about the validity of the improvements in the cultural and legality elements it was necessary to assume that "NO" answers will be "YES" answers for the following questions as illustrated in Panel D in table 15 below. The contribution of the "YES" answers to the internal and external governance is the weighted average of the mean values of the questions representing the "NO" answers indicated as a value added to the CGOV score index respectively.

Table 15. Firm level corporate governance – frequencies of ‘NO’ answers

Summary Statistics

Panel D: Firm level corporate governance – frequencies of ‘NO’ answers obtained from the previous research for corporate market culture (internal governance) and corporate legality (external governance) provisions.

Values are in percentages for each question in rows.

	Collaboration	Control	Creativity	Compete	Board of Directors and Managerial Incentives	Capital Structure and Control Systems	Law and Regulation	Capital Markets
1	Q5 70,70	Q8 36,20	Q5 52,60	Q7 59,90	Q1 67,70	Q1 83,30	Q8 50,00	Q7 58,30
2	Q6 54,30	Q9 45,20	Q6 58,50	Q8 69,60	Q2 59,30	Q2 91,70	Q11 41,70	Q8 67,70
3	Q8 77,70	.	Q8 62,70	Q9 52,60	Q4 59,30	Q9 58,30	.	Q9 75,00
4	Q10 50,50	.	Q9 52,60	Q10 79,20	Q8 91,70	.	.	Q10 59,30
5	Q11 93,10	.	Q10 58,00	Q11. 89,80	Q12 67,70	.	.	Q11 91,70
Mean	69,26	40,70	56,88	70,22	69,14	77,76	45,85	70,40
Sum	346,30	81,40	284,40	351,10	345,70	233,30	91,70	352,00

N 320

Notes: The average value added that would contribute to the internal governance is the weighted average of the mean values of (69, 26% + 40, 70 % + 56, 88% + 70, 22% / 4) = 59, 27% representing Collaboration, Control, Creativity and Compete elements. Thus, the average value added that would contribute to the external governance is the weighted average of the mean values of (69,14% + 77,76% + 45,85% + 70,40% / 4) = 65,79% representing Board of Directors and Managerial Incentives, Capital Structure and Control Systems, Law and regulations and Capital markets. The weighted average values have been value added to the CGOV score index illustrating the impact of ‘YES’ answers respectively. Results are presented in Panel E and F.

Therefore, the following propositions and hypotheses were formed.

Proposition 1: Corporate Market Culture (internal governance) and Corporate Capital Market Culture (external governance) provisions help firms to create the right corporate governance mechanism leading to better corporate performance. Therefore, any improvement in the provisions will positively impact on leadership effectiveness and financial innovations.

Hypothesis 1: Corporate Market Culture (internal governance) and Corporate Capital Market Culture (external governance) elements are complementary and positively associated with corporate performance and any improvements in the provisions will lead to a better corporate performance.

Table 16. Results for hypothesis 1.

Dependent variable: Corporate Market Culture – internal governance							
	Hyp	Intercept	R ²	F stat	t	p-value	Unstandardized Coefficients β
Corporate Capital							
Market Culture	<i>H1</i>	0.539	0.74	379.558	19.482	0.000	0.621
(External governance)							
<i>Number of observations 320</i>							

Notes: The dependent variable in all regressions is Corporate Market Culture- Internal governance which is determined by the cultural elements Collaboration, Control and Creativity. Corporate Capital Market Culture- External governance is determined by the legality elements Board of Directors and Managerial Incentives; Capital Structure Provisions and Control Systems; and Law and regulations. Firm data is obtained from the survey results in 2015 for 13 firms total sample of 320. The change or variation in Corporate Capital Market Culture variable will be predicted in relation to the dependent variable Corporate Market Culture and there is a positive relationship. The weights are as follows Corporate Market Culture = 0.539 (constant term) + 0.621 (Unstandardized Betas Corporate Capital Market Culture) × Corporate Capital Market Culture + 0.032 (error term). The p value below 0.05 indicates significance at 10%, 5%, and 1% respectively.

Proposition 2: Improvements in the overall provisions that in the previous study have not been provided will add value to the corporate performance in a positive way leading to better running companies.

Hypothesis 2 Improvements in corporate market culture and corporate capital market culture behaviour have a positive impact on the overall corporate governance performance and leads to better running companies.

Table 17. Results for hypothesis 2.

Dependent variable: Corporate Governance Score (CGOV)							
	Hyp.	Intercept	R ²	Fstat.	t	p-value	Unstandardized Coefficients β
Corporate Market Culture Elements	<i>H2</i>	3.21	0.93	146.32	12.09	0.000	0.110
Corporate Capital Market Culture Elements		1.06	0.25	3.76	1.93	0.079	0.179
<i>Number of observations 320</i>							

Notes: All sample mean corporate governance score has been determined by the corporate market culture elements and corporate capital market elements. The weights are as follows: Average Corporate Governance Score = 3.217 (constant term) + 0.110 ((Unstandardized Betas for corporate market culture elements) + 0.236 (error term). Average Corporate Governance Score = 1.068 (constant term) + 0.179 ((Unstandardized Betas for corporate capital market culture elements) + 2.557 (error term). The p values below 0.05 indicate significance at 10%, 5%, and 1% respectively.

Proposition 3: Therefore, based on the outcome of hypotheses 1 and 2 improvements in corporate governance mechanism of financial institutions in the financial markets will lead to better leadership and innovations.

H3: The yes answers to the no answers of related provisions will have positive impact on financial institutions leading to better leadership effectiveness and financial innovations.

Table 18, Panel E and table 19 Panel F illustrates the results regarding improvement in the provisions of the internal governance and external governance elements. Thus, Table 20, Panel G represents the overall value added CGOV scores for firms after adding the weighted mean average values that positively contributed to the improvement of corporate governance performance of firms.

Table 18. Summary statistics**Panel E: Firm level corporate governance index - firm level corporate culture (internal governance) value added indices**

FIRMS	No. of Observations	Mean	Median	Minimum	Maximum	Standard deviation
All sample	188	40,66	39,82	18,38	61,01	12,93
1	15	52,13	52,56	43,00	66,89	7,31
2	15	45,34	47,78	27,07	58,93	10,20
3	15	39,71	38,22	23,89	55,74	9,79
4	15	35,36	33,44	12,74	55,74	12,01
5	15	39,18	38,22	9,56	68,48	19,55
6	15	45,97	44,59	27,07	66,89	13,78
7	15	49,90	52,56	12,74	62,11	11,71
8	15	43,64	47,78	9,56	63,70	16,94
9	15	33,76	31,85	14,33	50,96	9,41
10	15	35,46	35,04	12,74	55,74	11,91
11	15	45,97	43,00	14,33	68,48	16,13
12	15	41,83	38,22	22,30	65,30	13,92
13*	8	20,31	14,33	9,56	54,15	15,41

Notes: The mean rankings of firms for corporate culture elements (internal governance) overall are 40,66% and vary from firm to firm which is satisfactory. Hence, the empirical results show that there is a significant improvement between the key elements of corporate culture and corporate performance in the majority of firms in all samples respectively.

Table 19. Summary statistics**Panel F: Firm level corporate governance index - firm level corporate legality (external governance) value added indices**

FIRMS	No. of Observations	Mean	Median	Minimum	Maximum	Standard deviation
All sample	132	45,93	43,23	26,78	64,53	13,87
1	10	43,27	41,45	26,52	63,00	15,04
2*	11	43,71	41,45	26,52	64,65	14,30
3*	11	48,68	44,76	26,52	66,31	13,02
4	10	44,59	42,27	26,52	64,65	14,16
5	10	46,75	44,76	26,52	63,00	15,19
6	10	42,77	42,27	26,52	64,65	12,86
7	10	48,24	44,76	28,18	64,65	13,68
8	10	50,07	44,76	26,52	66,31	13,03
9	10	46,75	44,76	26,52	63,00	15,19
10	10	44,76	42,27	26,52	64,65	14,62
11	10	46,09	42,27	28,18	64,65	12,76
12	10	49,90	44,76	26,52	66,31	13,11
13	10	41,45	41,45	26,52	63,00	13,40

Notes: The mean rankings of firms for corporate legality elements (external governance) overall are 45,93% and vary from firm to which is satisfactory. Thus, the empirical results show that there is a significant improvement between the key elements of corporate legality and corporate performance in the majority of firms in all samples respectively.

Table 20. Overall Summary statistics

For legality elements 132 and for cultural elements 188 observations have been obtained. The overall mean CGOV value added rankings are 86.58% and vary from a firm average of 61.75% to 98.14%. The corporate governance ranking varies from 36.08% to 133.13% respectively.

Panel G: Firm level corporate governance indices (CGOV) value added						
FIRMS	No. of Observations	Mean	Median	Minimum	Maximum	Standard deviation
All sample	320	86,58	83,05	45,15	125,53	26,80
1	25	95,40	94,00	69,52	129,89	7,31
2*	26	89,05	89,22	53,59	123,58	10,20
3*	26	88,39	82,98	50,41	122,05	9,79
4	25	79,95	75,72	39,26	120,39	12,01
5	25	85,93	82,98	36,08	131,48	19,55
6	25	88,74	86,87	53,59	131,54	13,78
7	25	98,14	97,32	40,92	126,76	11,71
8	25	93,71	92,54	36,08	130,01	16,94
9	25	80,51	76,61	40,85	113,96	9,41
10	25	80,22	77,31	39,26	120,39	11,91
11	25	92,06	85,27	42,51	133,13	16,13
12	25	91,73	82,98	48,82	131,61	13,92
13*	18	61,76	55,78	36,08	117,15	15,41

Notes: The distribution of CGOV value added index across firms in North Cyprus has been 86, 58% and the sample almost is equally distributed across firms. These summary statistics points out that firm corporate governance practices in North Cyprus on average have better governance rankings because the overall legal framework has improved.

6.2 DISCUSSION AND CONTRIBUTION OF THE STUDY TO CORPORATE GOVERNANCE THEORY AND PRACTICE

The study exhibits that, the provisions of the key elements of internal governance and external governance influences the overall corporate behaviour. Therefore, firms with a demonstrable corporate governance practices will benefit from the confidence that are instilled in their stakeholders. Especially, in banking sector in North Cyprus it would be to see managers and most probably leaders equipped on ethical grounds and in favour of one greater benefit to society as well as the firm by rejecting the most unethical solutions.

Implicit in the implementation of a revised system of corporate behaviour is the need to recognize that model's key elements (Figure 3) are consistent with the cultural and legality approach (Cameron *et al.*, 2006; Gillan, 2006) which in turn are likely to lead to efficiency in corporate behaviour that meet the principles laid down in Sarbanes–Oxley Act (SOX, 2002) and Financial Reporting Council (FRC, 2014).

The paper also explores the issue of correct corporate behaviour based governance and how it provides opportunities for improvement and acknowledges that, proper corporate behaviour helps to curb and preclude corporate activity which requires specific provisions on governance in banks in North Cyprus.

The previous evidence outlined that, there was internal country level capital market inefficiency and the negative incorporation between internal and external governance implied that there was a need for enforcement to improve the capital market in North Cyprus. Hence, there was a need for better a corporate governance mechanism for proper management and investment strategies at firm level in North Cyprus.

7. CONCLUSION

The new research evidence revealed that, improvements in the corporate culture and corporate legality elements' provisions will help firms to create better leadership effectiveness and financial innovations in banking sector in North Cyprus leading to higher corporate governance performance and profitability. (See table 19 and Appendix)

The new empirical results exhibit that; (1) the core variables of cultural approach and legal approach of the proposed corporate governance model helped assess firm level corporate behaviour and performance and are statistically significant. (2) the inclusion of the above provisions by firms in North Cyprus on average improved the average corporate governance score depending on the improvement in parallel with the overall legal framework (3) the proposed model of corporate governance in the study contains the right value drivers for orientation in the concerned provisions that firms able to implement and do the necessary deviation when issues and complexities arise during interaction with financial markets. (4) Improvement in the capital market and current legal framework firms can establish their internal and external governance provisions leading to improvement in corporate governance mechanism to create financial portfolios and innovative products in capital market. The value of 74.00% indicates that the strength of the change or variation in market culture variable in relation to the independent variable capital market culture has risen from 01.20% (See *table 9 H6*) and the responsiveness of Market Culture (internal governance) on Capital Market Culture (external governance) is positive ($\beta = .621$, $p.00$) (See *table 16 H1*) indicating that, firms in North Cyprus are able to make long-term investments and financial innovations.

Finally, and perhaps most generally, (1) the model in the study exhibits the corporate cultural and legality provisions that firms must provide for establishing strong leadership effectiveness (2) the new research evidence revealed that, the need for the capital market and the financial regulatory framework to improve is inevitable in order for firms to create better corporate governance mechanism, financial innovations and make long – term investments in local financial market and (3) the results have policy implications in terms of improving and reforming corporate governance mechanism and the capital market is a possible target.

8. LIMITATIONS OF THE STUDY

This new research paper addresses the importance of the provisions needed for firms to have in place prior to interaction with the external and internal environment and does not attempt to explain external economic influences that may impact on firms. However, it states ethical considerations in terms of dealing with all stakeholders and the value drivers that can help firms to establish the right leadership effectiveness for better running companies in the banking sector and most generally in the world. Hence, the constructed model of corporate governance in Figure 3 do not attempt to address political issues that may influence firms' activities but instead help firms to embed the right cultural orientation in dealing with issues and complexities of internal and external environment. Also, the study does not attempt to explain the impacts of poor corporate governance but, tries to explain the complementarity of corporate culture and legality elements for better running companies leading to better leadership effectiveness and financial innovations for firms in banking sector which opens up new further research.

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APPENDIX

From the survey it was noted that, most of the participants have answered NO to the following questions regarding the provisions of the key elements of corporate culture.

A.2.1 Collaboration provisions; refer to Questionnaire Table 1.

5. In the organization departments provide employees with right information about ownership interests and profit sharing rights. 70.70% answered NO

6. All employees are given the right to negotiate power and openly reach collaborative decisions. 54.30% answered NO.

8. Employees in departments are assigned to work on a project. 77.70% answered NO.

10. Employees are happy with the way the reward system and the modes of conduct provisions are implemented in the organization. 50.50% answered NO.

11. Employees are allowed to own shares within their company. 93.10% answered NO.

A.2.2 Control provisions; refer to Questionnaire Table 2.

8. Your organization has a management strategy (Mission Statement) to help maintain competitive edge within the environment. 36.20% answered NO.

9. Your organization have a Customer Charter (CC) policy (number of standardized rules) to establish excellent customer service. 45.20% answered NO.

A.2.3 Creativity provisions; refer to Questionnaire Table 3.

5. Your organization currently is working on a new innovation. 52.60% answered NO.

6. Your organization recently launched a new product. 58.50% answered NO.

8. Your organization acquires new resources in order to establish new product uniqueness. 62.70% answered NO.

9. Your organization maintains a management strategy of doing things first to maintain external discretion. 52.60% answered NO.

10. Your organization has a team of Market Research (MR) to help find information about product innovation. 58.00% answered NO.

A2.4 Compete (Market Culture) provisions; refer to Questionnaire Table 4.

7. Your organization provides feedback forms to customers. 59.90% answered NO.

8. Your organization received a market award in last decade. 69.60% answered NO.

9. Your organization follows international trading and quality standards (e.g. ISO 9000). 52.60% answered NO.

10. Your organization is a member of a trading bloc such as the European Union (EU). 79.20% answered NO.

11. You have received a share of profit from your organization in the last decade. 89.80% answered NO.

From the survey it was noted that, most of the participants have answered NO to the following questions regarding the provisions of the key elements of corporate legality.

A2.5 Board of Directors and Managerial Incentives provisions; refer to Questionnaire Table 5.

1. Your organization has independent board members that are actively involved with the provisions of directing and controlling. 67.70% answered NO.

2. Your organization maintains a system of advice to investors and all stakeholders consistent with the current situation regarding the financial position and investment targets. 59.30% answered NO.

4. Your company has compensation regulations actively used. 59.30% answered NO.

8. Your organization allows more shareholders and employees involvement in terms of dept and voting rights. 91.70% answered NO.

12. Shareholders have cumulative voting rights to increase and decrease board size and amend charter/bylaws. 67.70% answered NO.

A2.6 the Capital Structure Provisions and Control System provisions; refer to Questionnaire Table 6.

1. Your company has an outstanding debt instruments at present in the dept market. 83.30% answered NO

2. Your company has outstanding corporate equities in the equity market. 91.70% answered NO.

9. Your company has a strategy investment finance committee. 58.30% answered NO.

A2.7 Law and Regulations provisions; refer to Questionnaire Table 7.

8. Your organization has a reward system. 50.00% answered NO.

11. Your company has its own teams and executives that gather information from external sources and analyse current market situations in order to do things first and fast. 41.70% answered NO.

A2.8 Capital Markets provisions; refer to Questionnaire Table 8.

7. Your company has a dividend and public information policy. 58.30% answered NO.

8. Your organization has an information policy that informs the public about its way of implementing and use of new developments regarding capital market instruments (financial innovations) in accordance with the current law. 67.70% answered NO.

9. Your company clearly discloses with evidence of any used capital market instruments abroad, such as in a foreign securities exchange results and financial status of its operations. 75.00% answered NO.

10. Your company provides information about its total share capital and voting rights under current laws. 59.30% answered NO.

11. All transactions performed by the Board are disclosed to the public. 91.70% answered NO.