Estimating the Effects of Political Connections

on Large Turkish Corporations (2007 – 2021)

Abstract

Based on free-access reported data, this study documents the rise of political connections on the executive boards of large Turkish corporations over the 2007-2021 period. From a pool of 22 large corporations traded under the BIST-30 stock index, the average Board Connection Rate rose from 0.27 in 2011 to 0.57 in 2021. The annualized rate of market value growth of corporations with unconnected boards has averaged at 27% while that for corporations with connected boards was at 63%. Using OLS estimation methods, this study shows that an additional increase of 10% in the Board Connection Rate is associated with a 13% increase in annual market value growth of the corporations, observed in a 2-year time horizon. Such financial-political connections may create a financial and political elite that prevails over the financial markets leading to asymmetric information and overall investor distrust.

April 18, 2023

Contents

1. Introduction

Economic performance in Turkey has been deteriorating and the Turkish Lira has been depreciating over the last few years. During this economic turbulence, the Turkish government has been ruled by the Adalet ve Kalkınma Partisi (AKP) since the general elections of 2002 when Recep Tayyip Erdogan was elected as the Prime Minister and appointed as the President of Turkey. Since the economic turbulence has coincided with the current government, inevitably one asks whether there is a relationship between the political and the economic cycles in Turkey. Previous literature has found that, especially in emerging markets, governments tend to form political connections with private and public companies and use their prevalence to their benefit[1]. Turkey has experienced a decline in economic performance which has been accounted by previous literature to be a consequence of the lack of establishing democratic values as quantified by the World Bank in the "Worldwide Governance Indicators"[2] and is the primary motivation for this research to be conducted. This thesis examines whether the political connections formed between AKP and the top 22 largest corporations that are publicly traded in Turkey have an impact on financial performance and market value. Besides, this study aims to provide empirical evidence on the corrupted connections between the incumbent political party in Turkey and the largest publicly listed corporations through the effects on economic performance. Such connections might be the reason behind the disruption of the stock market, the reduction of investor incentives, and the lightening of societal trust in the system. This research will dive deeper into the consequences of such corruption by looking into the presence of politically

[1] Khwaja, A. I., & Mian, A. "Do lenders favor politically connected firms? Rent provision in an emerging financial market." The Quarterly Journal of Economics 120, no. 4 (2005): 1371-1411 (for Pakistan); Wang, Yuan, Cheng-Yi Yao, and Donghui Kang. "Political connections and firm performance: Evidence from government officials' site visits." Pacific-Basin Finance Journal 57 (2019): 101021(for China); Johnson, S., & Mitton, T. "Cronyism and capital controls: evidence from Malaysia." Journal of Financial Economics 67, no. 2 (2003): 351-382; Dombrovsky, V. "Do political connections matter? Firm-level evidence from Latvia." Firm-Level Evidence from Latvia (April 12, 2011).

[2] Thomas, Melvin A. "What do the worldwide governance indicators measure?" The European Journal of Development Research 22, no. 1 (2010): 31-54.

connected members on the executive boards. The empirical analysis aims to quantify possible financial gains from these political connections.

2. The Turkish Economy (2000 - 2022)

Turkey (official name The Republic of Türkiye) is a free-market economy classified as an emerging market by the OECD and regarded as one of the most dynamic economies among other emerging markets[3]. The Turkish economy is classified as a developing or emerging market economy by various sources and is the 19th largest economy with a GDP of roughly US$720 billion, as stated by the World Bank. As a member of the OECD and the G20, OECD officials have worked together with a prominent businesspeople association in Turkey (TUSIAD) to work on suggestions for structural reforms to further develop the economy. The OECD has suggested that Turkey is in need of substantial structural reforms in order to avoid the negative economic outlook by primarily investing in businesses to improve productivity and innovative capacity to better match the competition from lower-cost and weak-currency countries. Secondly, OECD officials have advised that quality education should be accessible to all to increase human capital accumulation, third encouraging financial transparency for all corporations and institutions in order to increase productivity, competitiveness, and innovation. Lastly, they have underscored the importance of establishing environmental policies to fight global warming and climate change[4]. These suggested structural reforms could be considered a mere assessment of the obstacles the Turkish economy is facing. In recent years, Turkey has experienced significant economic growth but has also faced several economic challenges rooted in a lack of transparency, meritocracy, and competition which could be attributed to corruption within the state.

---

[3] Gurría, A. "The Global Economy and Turkey: An OECD Perspective." In *Remarks by Angel Gurría, OECD Secretary-General, at a joint conference organised by the Turkish Industrialists' and Businessmen's Association (TÜSIAD), the Foreign Economic Relations Board (DEIK) and the Istanbul Stock Exchange Market (IMKB). http://www. oecd. org/document/4/0*, vol. 3343. 2008.

[4] Gurría, "The Global Economy and Turkey: An OECD Perspective," vol. 3343, 2008, accessed from http://www.oecd.org/document/4/0.

One major factor challenging the Turkish economy is its dependence on imported energy while exports are a major source fueling the economy. Turkey's top exports mostly include textiles machinery, and automotive products[5]. Turkey has significant trade relationships with countries in Europe, Asia, and the Middle East[6]. It is important to note that, fluctuations in global demand for these products have had a significant impact on the Turkish economy as Turkey has faced economic challenges related to its current account. For example, both in 2010, and very recently in 2021, current account deficits have reached values close to 10% of GDP (see Figure 1) leading to a depletion of foreign assets reserve and raising the value of the financial debt with the rest of the world. Real GDP growth has also experienced large fluctuations during the 2000-2022 period displayed in Figure 1. Inflation is another significant challenge for the Turkish economy as it has been affecting the export-reliant businesses that are among the largest corporations in Turkey and are observed in this study. The Turkish economy has a history of high inflation, which can erode the purchasing power of its citizens and thwart the long-term business plans of corporations. Inflation in Turkey has been on the rise during recent years, reaching over 20% in 2018 and climbing to levels close to 100% annual rates at the time this thesis is being written.

---

[5] Halife, H. "Competitiveness Analysis of Textile Industry of Turkey: Revealed Comparative Advantage Approach." International Journal of Global Business and Competitiveness 1-6 (2022).
[6] Avci, A. "The New Regime of Free Trade and Transnational Capital in Turkey." Journal of Balkan and Near Eastern Studies 24, no. 1 (2022): 78-96.

Figure 1. Selected Macroeconomic Time Series in Turkey (2000-2022)

Years
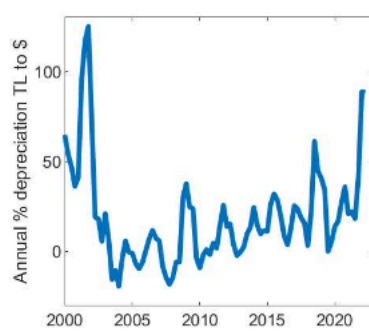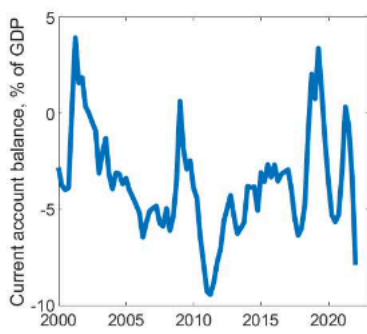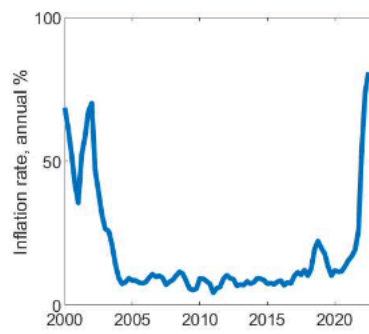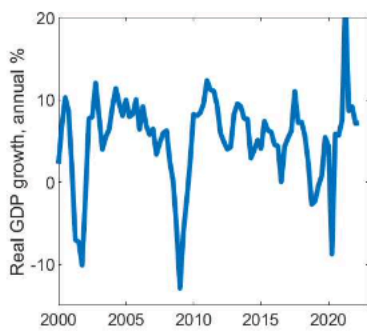
Source: FRED, Federal Reserve Bank of St. Louis[7]

In Figure 1 real GDP growth in Turkey depicts deep declines during the global recessions such as in 2001, 2008, and 2020. Yet, after the pandemic there has been a peak in growth, Figure 1 shows that it is returning to levels around 5%. The recent inflation rate surge has been concerning since the Covid-19 pandemic as the accelerating rates have been moving dangerously towards 3-digit values. Inflation was low during the 2005-2018 period which might lead one to assume that the current government had been successful, yet the economic program designed in the early 2000s by Kemal Derviş, from the IMF, had been the safety net of the Turkish economy[8]. A similar pattern for the annual depreciation of the Turkish Lira (TL) to US Dollars ($) can be observed in Figure 1. Income inequality measured by the Gini index increases possibly due to the inflationary episode Turkey is going through along with the rapid depreciation of the TL which also could explain the slightly increasing poverty rate during recent years.

Despite these challenges, the Turkish economy has shown strong growth in recent years, with a GDP growth rate of over 5% in 2017 and 2018 that averaged 4.8% for the 2000-2022 period with an all-time high of 22.2% in the second quarter of 2021 and a record low of -14.5%in the first quarter of 2009[9]. The government has implemented a number of economic reforms in an effort to address these challenges and promote sustainable economic growth in the long term. However, after 2018 Turkey experienced a decline in economic performance which might have been related to the poor economic policy design. In order to assess the effective governance within a country the ranking system created by the World

---

[7] Federal Reserve Bank of St. Louis. "FRED: Economic Data - Turkey." Available at: https://fred.stlouisfed.org/tags/series?t=gdp%3Bquarterly%3Bturkey

[8] Derviş, K., Emerson, M., Gros, D., & Ülgen, S. The European transformation of modern Turkey. CEPS, 2004.
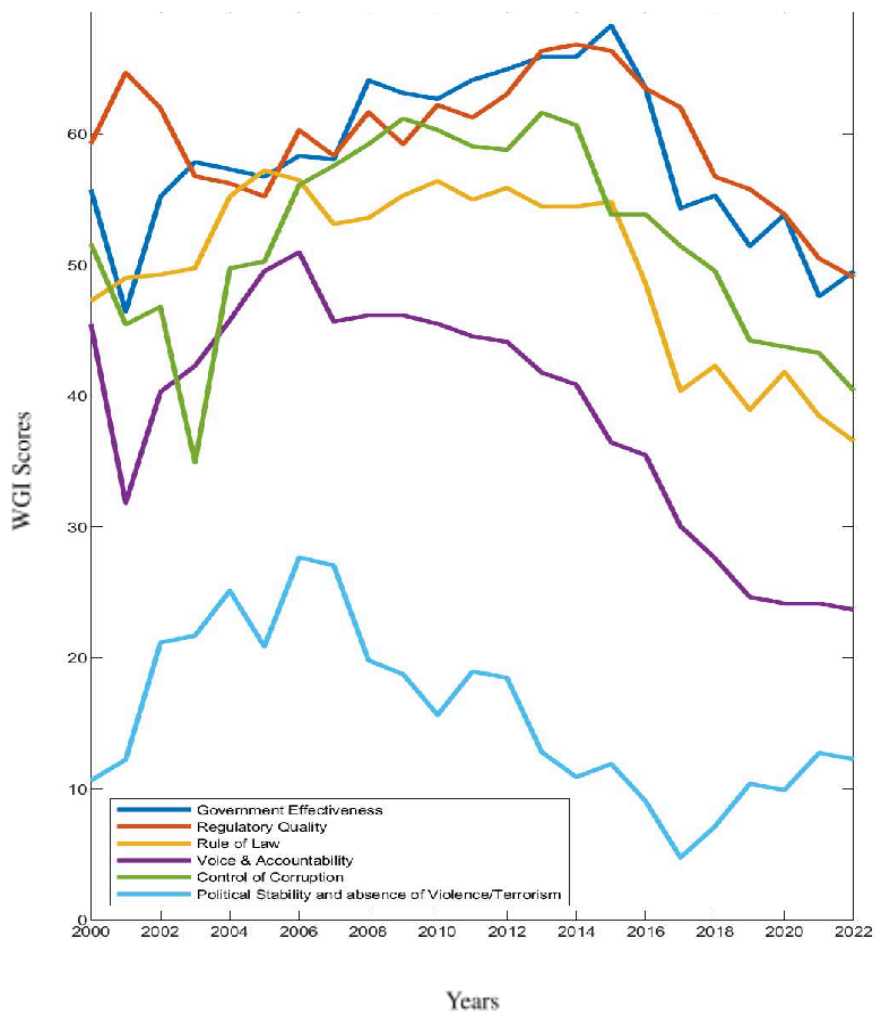[9] Federal Reserve Bank of St. Louis. "FRED: Economic Data - Turkey."

Bank called the "Worldwide Governance Indicators (WGI)"[10] could be utilized. It is also crucial to observe the WGI rankings to identify the overlapping periods of economic deterioration and sharp reductions in rankings which could be potential ramifications of the turbulent periods. The World Bank evaluates a country's governance performance through six subcategories which are also highly indicative of the economic performance of the country since the indicators are a presumable representation of how global investors perceive Turkey. The "Worldwide Governance Indicators" rank countries and assign a score, at most 100, in six categories: Government Effectiveness, Regulatory Quality, Rule of Law, Voice & Accountability, Control of Corruption, and Political Stability and Absence of Violence/Terrorism[11].

---

[10] Kaufmann, D., Kraay, A., & Mastruzzi, M. "Response to 'What do the worldwide governance indicators measure?'" The European Journal of Development Research 22 (2010): 55-58.

[11] *The first category is Government Effectiveness which is "measuring the quality of public services, the civil service and its independence from political pressures, the policy formulation and implementation, and the credibility of the government's commitment to its stated policies". Regulatory Quality, which is the second subcategory, focuses on the "ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development". In addition to regulation, it is also important to rank by Rule of Law which assesses the "extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence". To assess the social values that should be under legal protection the World Bank also ranks for Voice and Accountability which is addressing the level of freedom in speech and mediators like the media along with the credibility of the circulated news and arguments. In order to quantify how meritocracy is sustained within the government Control of Corruption signals the ability of a company to operate in a country regarding the legal or regulatory penalties and reputational damage a company can receive if they don't abide by the law. The last category focuses on the effect of governance on social daily life as it is called Political Stability and Absence of Violence/Terrorism which is an indicator that "measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism, see Figure 2 (Kaufmann, D. "The worldwide governance indicators project: answering the critics" (Vol. 4149). World Bank Publications, 2007).*

Figure 2. World Governance Indicators for Turkey (2000-2022)

Source: World Bank[12]

All these indicators have been in serious deterioration since 2013. This was an important year for Turkey, as the country experienced by nationwide protests, which is evaluated in detail in section 4.2. Apart from the general decline observed, Voice and Accountability has been decreasing since 2006 from 50 to less than 25 in 2022. This constant decrease is implying that the level of freedom of speech and the freedom of the media has been under control by the AKP as they have been increasing their prevalence over media outlets. Similarly, the Rule of Law indicator has a downward trend from 60 in 2004 to 35 in 2022 indicating that law-making hasn't been impartial as the AKP has been able to intervene with the ruling of the court. Such deterioration of these measures set a motive for this study to delve deeper into the effects of the major shift in governance practices and its potential effects on the financial market in Turkey.

To better understand the measurement of Turkish WGI ratings, it is crucial to note that high-income OECD countries have received average scores above 80 out of a max of 100 for all the indicators for the 2011 - 2021 period implying that they have mostly satisfied the governance criteria for these categories. Countries from the Middle East and North Africa (MENA) region have performed worse as they have received an average of 25 for Voice & Accountability and 30 for Political Stability and Absence of Violence/Terrorism during the 2011 - 2021 period while they have received an average score of 40 for the other 4 indicators. The United States has had averages above 80 for all categories except Political Stability and Absence of Violence/Terrorism which was averaged between 55-60 during the 2011-2021 period[13].

---

[13] Kaufmann, D., Kraay, A., & Mastruzzi, M. "The worldwide governance indicators: Methodology and analytical issues1." Hague Journal on the Rule of Law 3, no. 2 (2011): 220-246.

3. The Turkish Political Cycle (2002-2018)

Turkey is a democratic country located in the Middle East and Southeast Europe with a population of about 84 million people in 2022. Turkey is surrounded by three major seas: the Mediterranean, the Aegean, and the Black Sea which increases the importance of Turkey's global geopolitical location as a key player in regional politics. Politically, Turkey is a presidential democratic republic. The President of Turkey, Recep Tayyip Erdogan (R.T. Erdogan), is both the head of state and the head of government and holds significant executive power. Turkey has a multi-party system, with several political parties elected by Turkish citizens to represent themselves in the Turkish parliament called the Türkiye Büyük Millet Meclisi (TBMM). In terms of international relations, Turkey is a member of the United Nations, the Council of Europe, and the Organization for Economic Cooperation and Development (OECD), among other influential international organizations.

The democratic regime in Turkey has been maintained through general elections every four years until the new constitutional regime, the presidential system, was voted in the referendum of 2017[14]. The elections for the presidential system are now held every 5 years with an imminent and critical election coming up on May 2023. In order to better grasp the political background and transformation into the new system it is crucial to first evaluate the previous general elections from 2002 until today. This period is highly significant for modern Turkey as it is representing the political evolution of the current government with the initial emergence of president R. T. Erdogan who started his prominent political career in 1994 as the mayor of Istanbul, the most prolific and wealthy city in Turkey. He ascended to the prime

---

[14] Esen, B., & Gümüşçü, Ş. "A small yes for presidentialism: The Turkish constitutional referendum of April 2017." South European Society and Politics 22, no. 3 (2017): 303-326.

minister role in 2003 as also head of AKP, after his predecessor Abdullah Gül, and since then he has been the most powerful figure in Turkish politics[15].

The election cycle between 2002 - 2018 provides a wholesome picture of Turkey's recent political tendencies in light of income inequality. The AKP had the majority share of votes in the past general elections of 2007, 2011, 2015, and 2018 (see Figure 3) yet the upcoming election in 2023 is anticipated to change the prevalent electoral attitude as voters are showing larger support for the opposition[16]. Researchers, breakdown the popularity of AKP by analyzing the changing demographics of Turkey that has led to the inevitable increase in support of the Islamic politics established during Erdogan's presidency[17]. Figure 3 also provides information on the Turkish opposition which has been traditionally represented by 3 political parties: Cumhuriyet Halk Partisi (CHP), Milliyetçi Hareket Partisi (MHP), and Halkların Demokratik Partisi (HDP) with a new party that joined the opposition with significantly high vote percentage in 2018 which is called İnsanlık, Yenilik, İyilik Partisi (IYI). AKP is R.T. Erdogan's party and they have been receiving the majority of the votes in all the elections subject to this study. AKP has a center-right political stance which is also called "Liberal Islam" by politicians who wish to adopt Islamic politics along with a free-market economy[18]. CHP is the political party of the founder of the Turkish Republic, Mustafa Kemal Ataturk. CHP has a center-left stance as its members have been fighting for secularism since the republic has been founded. During the early years of the republic, 1923 - 1945, CHP established extreme measures to "maintain" the secular transition in Turkey by banning religious, mainly Islamic, outfits and practices in schools, universities, public

[15] Patton, Marc J. "The economic policies of Turkey's AKP government: Rabbits from a hat?" The Middle East Journal 60, no. 3 (2006): 513-536.

[16] Oksijen, Gazete. "Bloomberg: 2023'te dünyanın en önemli seçimi Türkiye'de yapılacak." (2023). Available at: https://gazeteoksijen.com/turkiye/bloomberg-2023te-dunyanin-en-onemli-secimi-turkiyede-yapilacak-168169.

[17] Luca, D. "National elections, sub-national growth: the politics of Turkey's provincial economic dynamics under AKP rule." Journal of Economic Geography 22, no. 4 (2022): 829-851; Yeldan, Erinç A., and Burç Tuna Ünüvar. "An assessment of the Turkish economy in the AKP era." Research and Policy on Turkey 1, no. 1 (2016): 11-28; Öniş, Ziya. "Turkey under the challenge of state capitalism: The political economy of the late AKP era." Southeast European and Black Sea Studies 19, no. 2 (2019): 201-225.

[18] Patton, "The economic policies of Turkey's AKP government," 513-536.

companies, and government agencies that discriminated against the large population practicing Islam[19]. MHP is a Turkish nationalist party that has sometimes expressed discriminating policies against other ethnic groups living in Turkey, such as the Kurds and Armenians, its political stance could be classified as center-right[20]. HDP is a relatively new party that was founded to represent the Kurdish population and advocate for equality among all ethnic groups in Turkey as they have a more left-wing political stance[21]. The newest party is IYI Parti, which was founded by a member of parliament (MP) from MHP during the elections in 2007, 2011, and 2015. After the coalition of MHP and AKP, she parted ways with MHP and founded IYI Parti[22] to be able to secure the majority votes during the presidential elections shown in Figure 5. IYI members have been aiming to build up on the MHP legacy of Turkish nationalism along with a more modern approach to social and economic policies. The rest of the votes in Figure 3 are distributed to a small pool indicated as others consisting of majorly right-wing parties along with some extreme left, communists, like the Türkiye Komünist Partisi (TKP). The parliamentary system before the presidential system had a cap of 10%, which has been 7% since 2022, for parties to be represented in the Parliament thus besides these 3 major parties elected MPs that aren't independent haven't been able to represent their parties[23].

In order to better comprehend the elections and their aftermath in Turkey, the WGI (Figure 2) and the election result statistics tables and graphs depict a holistic picture. Figure 3 shows the MP seats in parliament for each general election while Figure 4 shows the popular

---

[19] Zürcher, Erik Jan. Turkey: A modern history. Bloomsbury Publishing, 2017.

[20] Furkan, A., & Taş, I. E. "Türkiye'de 2002-2020 Döneminde Siyasi Partilerin Programlarında Yer Alan Kamu Yönetimi Anlayışının Karşılaştırmalı Analizi." Pamukkale Journal of Eurasian Socioeconomic Studies 8, no. 1 (2021): 68-89.

[21] Aytaç, S. E. "Türkiye'de Siyasi Partilerin Seçim Beyannamelerindeki Politika Öncelikleri, 2002–2015." Siyasal: Journal of Political Sciences 26, no. 2 (2017): 7-26.

[22] Furkan and Taş, "Türkiye'de 2002-2020 Döneminde Siyasi Partilerin Programlarında Yer Alan Kamu Yönetimi Anlayışının Karşılaştırmalı Analizi," 68-89.

[23] Taş, Hakan. "Turkey–from tutelary to delegative democracy." Third World Quarterly 36, no. 4 (2015): 776-791.

vote percentages. Figure 5 indicates the percentage of votes each presidential candidate and his or her party got during the first elections for the presidential system. Looking at the election statistics over time it is worthwhile to report that the Turkish people have been politically active with an average participation rate of around 84% for the 2007, 2011, 2015, and 2018 elections while this rate was lower in the 2002 elections at 79% (see Figure 6). This disparity in the participation rate and the total increase in votes indicate that the young population is as proactive as the senior population in terms of voting and they tend to support AKP. There has been an increase in participation rate that reached 86% in 2018 (see Figure 6) which could be hinting an unease in public opinion which has translated into political action of voting as the number of MP seats for AKP has decreased along with the popular vote percentage they have been receiving despite the increase in election participation.

2015 is a significant year in the election cycle as Turkey accommodated two general elections that were followed by a coup attempt in July 2016. In June 2015, AKP couldn't get the majority of the votes to form the government on its own. The legislation mandated a coalition between AKP and other willing parties to be able to rule yet AKP couldn't agree with any of the parties, so in November of 2015, Turkey had to re-elect its prime minister and government[24]. In November of 2015 people voted for AKP again with hopes of establishing political stability. The aftermath effects of this election period can be visualized in the WGI plots shifting downwards rapidly during the 2015-2016 time period as all indicators' decline accelerates (see Figure 2). As an exception, only Political Stability and the Absence of Violence and Terrorism are increasing, implying an improvement, after 2017 yet Figure 2 shows that it had already hit a record low in 2016 due to the coup attempt. The data proves the political instability and provides concrete grounds to assume that this could have strong implications for the economy and the financial markets.

---

[24] Bardakçi, M. "2015 parliamentary elections in Turkey: demise and revival of AKP's single-party rule." Turkish Studies 17, no. 1 (2016): 4-18.

Figure 3. MP Seats in Parliament
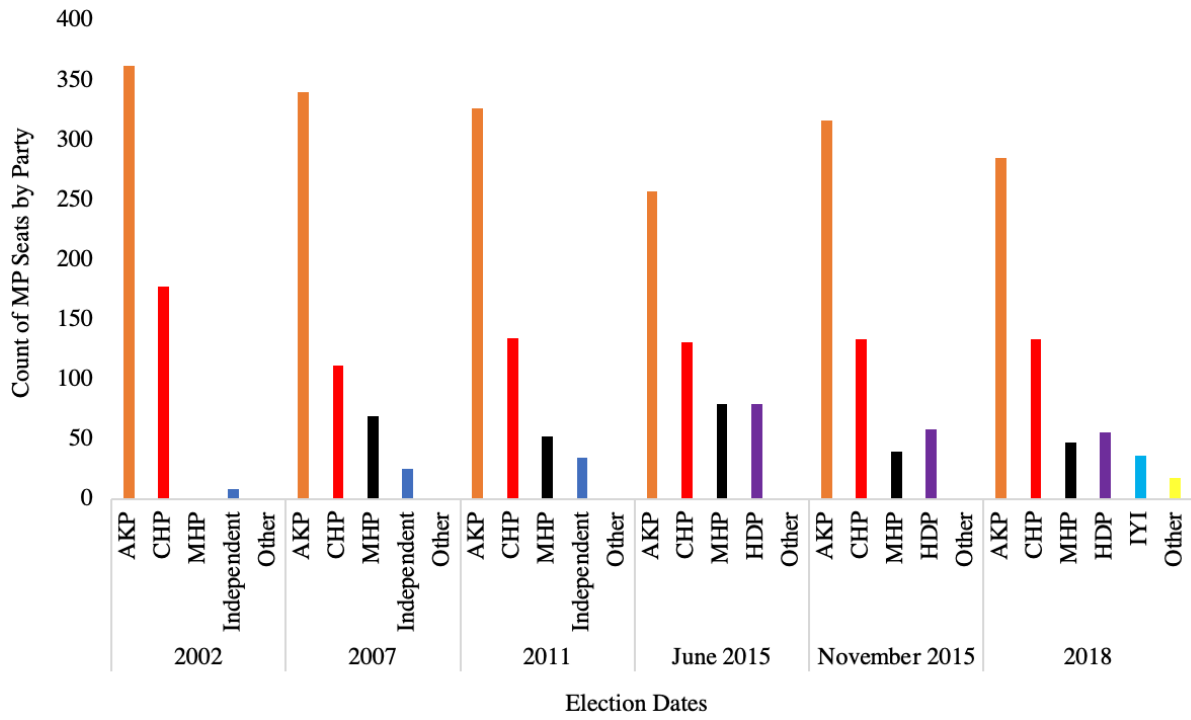
Source: Turkey Supreme Election Council[25]

Figure 4. Popular Vote %

[25]   Milletvekili   Genel   Seçim   Arşivi,   Yüksek   Seçim   Kurulu   (YSK),
https://www.ysk.gov.tr/tr/milletvekili-genel-secim-arsivi/2644.

Election Years
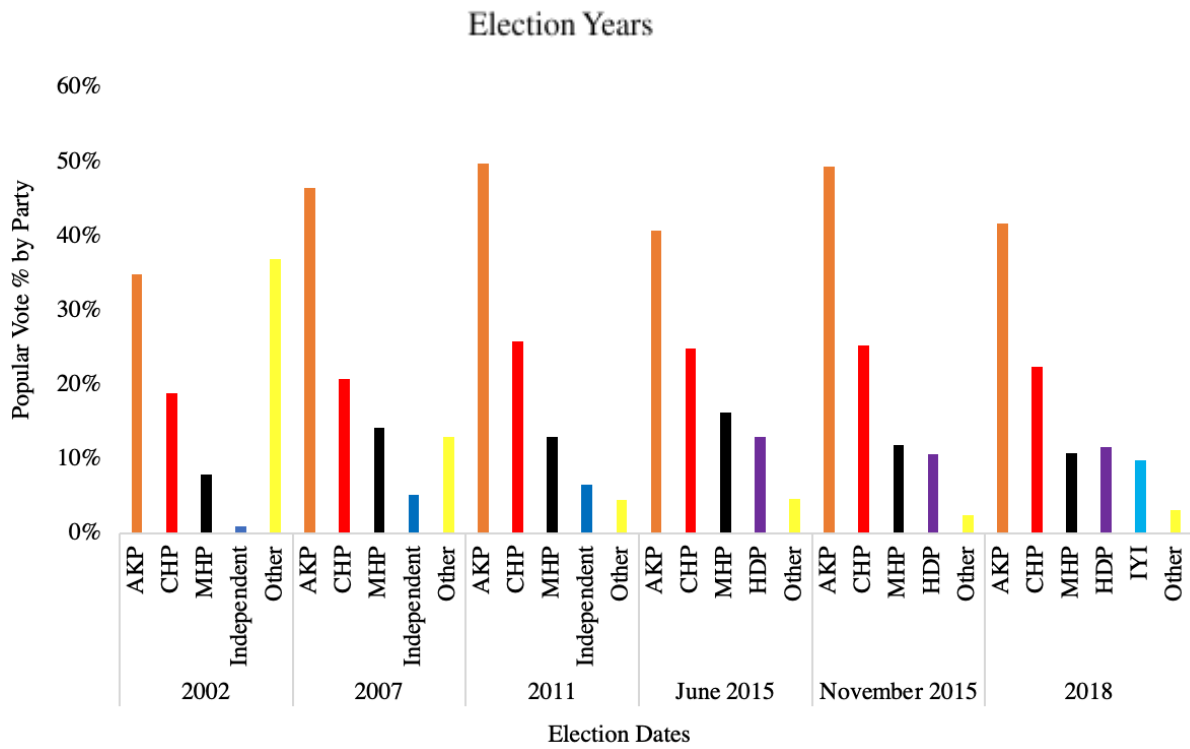
Source: Turkey Supreme Election Council[26]

Figure 5. 2018 Presidential Elections Results - Popular Vote %

[26]   Milletvekili   Genel   Seçim   Arşivi,   Yüksek   Seçim   Kurulu   (YSK), https://www.ysk.gov.tr/tr/milletvekili-genel-secim-arsivi/2644.
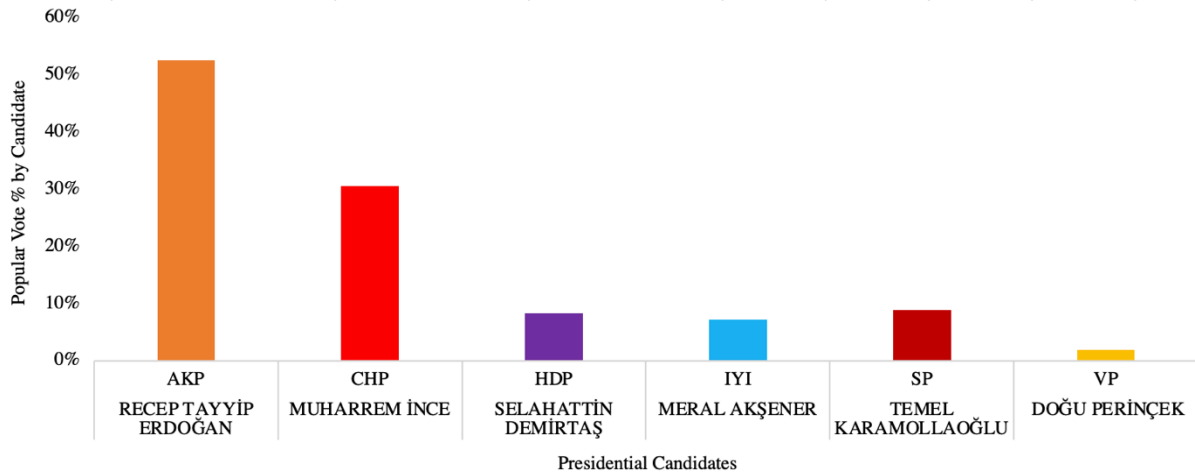
Source: Turkey Supreme Election Council[27]

Figure 6. Election Statistics on Participation
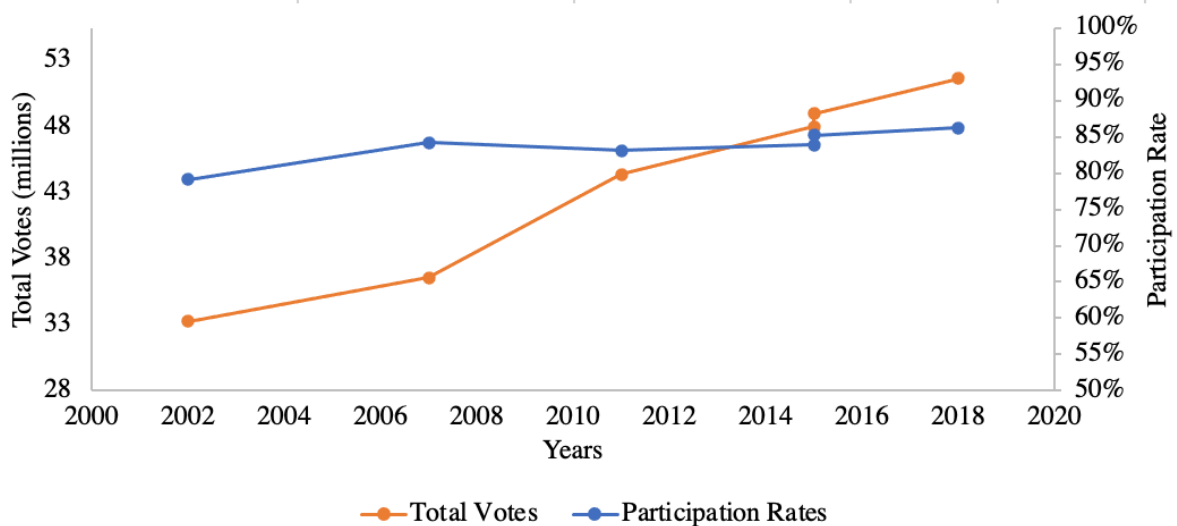
Source: Turkey Supreme Election Council[28]

4. Political Connections Observed in Large Turkish Corporations (2007 – 2021)

This section evaluates some empirical evidence on the effects of the participation of

AKP-related members in the executive boards of the 22 largest Turkish corporations to assess

whether there have been financial benefits that are significantly observable via the market

---

[27]   Milletvekili   Genel   Seçim   Arşivi,   Yüksek   Seçim   Kurulu   (YSK),
https://www.ysk.gov.tr/tr/milletvekili-genel-secim-arsivi/2644.
[28]   Milletvekili   Genel   Seçim   Arşivi,   Yüksek   Seçim   Kurulu   (YSK),
https://www.ysk.gov.tr/tr/milletvekili-genel-secim-arsivi/2644.

value growth of the companies. Previous literature that focuses on the relationship between firm valuation and executive power in the US has found that board member connections with the government in the US have a significant effect on the financial performance of private corporations[29]. Another study focusing on Indonesian companies[30] has shown that political dependence in countries that have leaders who are adopting undemocratic actions tends to form inorganic connections with corporations' executive boards, shareholders, and management. In this mentioned study, news on Indonesian President Suharto's health is even observed to evaluate the effect of bad news on company performance, and its stock price, which proves how dependent connected companies are to the incumbent party with both potential advantages and disadvantages[31]. Domadenik et al. (2014)[32] have focused on the effect of political connections in Slovenian companies as they have also studied a much wider spectrum and attempted to address corporate governance issues along with firm performance. They have found that political board and shareholder connections exist mostly in emerging market economies since they are in an economic transition period with weaker democratic institutions that can't prevent such corrupted behavior[33]. Yet, there is a controversial discussion on whether or not to refer to these connections and transactions as corruption. The WGI by the World Bank for Turkey provides noteworthy background to look into the effects of these connections. Similar studies have been conducted for other emerging market economies[34] with different data collection methods since most connections were not publicly

---

[29] Goldman, E., Rocholl, J., & So, J. "Do politically connected boards affect firm value?" The Review of Financial Studies 22, no. 6 (2009): 2331-2360.

[30] Fisman, R. "Estimating the value of political connections." American Economic Review 91, no. 4 (2001): 1095-1102.

[31] Fisman, "Estimating the value of political connections," 1095.

[32] Domadenik, Polona., Prašnikar, Janez., and Svejnar, Jan. "Legal Corruption, Politically Connected Corporate Governance and Firm Performance," IZA Discussion Paper No. 8321 (2014), available at SSRN: https://ssrn.com/abstract=2468497

[33] Domadenik, P., Prašnikar, J., & Svejnar, J. "Legal Corruption, Politically Connected Corporate Governance and Firm Performance." IZA Discussion Paper No. 8321 (2014)

[34] Khwaja, A. I., & Mian, A. "Do lenders favor politically connected firms? Rent provision in an emerging financial market." The Quarterly Journal of Economics 120, no. 4 (2005): 1371-1411 (for Pakistan); Wang, Yuan, Cheng-Yi Yao, and Donghui Kang. "Political connections and firm performance: Evidence from government officials' site visits." Pacific-Basin Finance Journal 57 (2019): 101021(for China); Johnson, S., &

transparent. For example, researchers in China have recorded government officials' company site visits to determine the existence of political connections. Given this common pattern among transition markets that experience political and economic turmoil, this study is critical to explore the effects of corporate-level political connections in Turkey. This study tests whether the ratio of each firm's board connectedness will have any positive impact on the market value growth of a given firm. In order to test this hypothesis this paper is only focusing on certain general election years that are significant due to their nature of having political uncertainty to some extent that will enable the model to account for politically unstable periods. During these years the same government has been re-elected continuously.

4.1 Methodology

Traditionally, Turkish electors have been significantly responsive to the economic conditions prevailing during the incumbent party's tenure causing fluctuations in the electoral outcome[35]. The scientific literature focusing on recent voting behavior in Turkey has also found that, although ideology is a strong determinant of electors' behavior, economic policy has also been imperative for the Turkish electors during the 2000s and this tendency has been

---

Mitton, T. "Cronyism and capital controls: evidence from Malaysia." Journal of Financial Economics 67, no. 2 (2003): 351-382; Dombrovsky, V. "Do political connections matter? Firm-level evidence from Latvia." Firm-Level Evidence from Latvia (April 12, 2011).

[35] Çarkoğlu, A. "Macro Economic Determinants of Electoral Support for Incumbents in Turkey, 1950–1995." New Perspectives on Turkey 17 (1997): 75-96.

underscored as "economic voting"[36] . Since the election years are important for voters as they get to decide whether the economic performance of the government was satisfactory, focusing on election years might provide political insights into the regression analysis. This study will be able to account for the turbulences the AKP experiences during the election years and the response from the financial markets, by looking at the stock prices, and by utilizing the Board Connection Rates for these years.

The Board Connection Rates of the publicly traded largest 22 companies in the Istanbul Stock Exchange (BIST) will be measured by retrieving the participation of AKP members on the executive boards of these companies. Data will be gathered from the investor relations pages, annual reports, or Kamu Aydınlatma Platformu (KAP) reports provided by the Istanbul Stock Exchange that are similar to Securities and Exchange Commission (SEC) filings in the US. After documenting the board members' backgrounds, the data will enable this study to determine the ratio of members for each company that has had any kind of connection with the ruling party (AKP) previously or that has currently (membership, affiliation, or appointments). The dataset for each company will be based on the annual board member data and will account for resignations only if the annual reports have documented it for the years of interest (2007, 2011, 2015, 2018, and 2021) which are the general election years in Turkey. For the sake of this study and to account for the political turmoil experienced by the AKP government, board members' data for the election years will be utilized. The study includes 2021 to account for the elections that are coming up in 2023 since in 2021 there haven't been elections. For each of the selected years, the Board Connection Rate will be calculated by counting the members that have any kind of political connection with AKP, the incumbent party, as a member of parliament (MP), minister, party member/representative,

---

[36] Başlevent, C., Kirmanoğlu, H., & Şenatalar, B. "Party preferences and economic voting in Turkey (now that the crisis is over)." Party Politics 15, no. 3 (2009): 377-391.; Çarkoğlu, A. "Economic evaluations vs. ideology: Diagnosing the sources of electoral change in Turkey, 2002–2011." Electoral Studies 31, no. 3 (2012): 513-521.

or having had a significant role within the party such as administrative work. This ratio will be deduced based on the curriculum vitae included in the annual reports for the specified years. Board members with previous or current connections to the ruling party will be the numerator and the denominator will be the total number of board members. This ratio is the "Board Connection Rate". For the second part of the dataset, the study will get the average stock price of the corporations of interest for the specified years from Yahoo Finance's historical data page. The growth rates for each firm across all time horizons will be calculated after converting the Turkish Lira average annual market values to the Euro (EUR) utilizing each year's average annual EUR/TL exchange rate. This conversion will enable the analysis to account for the volatility in the financial markets domestically and globally. Although there are multiple methods to account for the inflation effects like utilizing the implicit price deflator with annual market values in TL, this analysis wasn't able to carry out such calculations since it created huge variations. Inflationary effect will be added to the model analysis to evaluate the effect. This data will then be analyzed using an OLS regression where the dependent variable will be the market value growth of the corporations and the independent variable will be the Board Connection Rate. The regression will account for other control variables that might have an effect on the stock price growth: the GDP per Capita in EUR; CPI Based Real Effective Exchange Rate; fixed year effects of 2007, 2011, 2015, 2018, and 2021; domestic inflation; and corporation-specific fixed effects for the firms that are categorized as connected corporations. A statistical summary of all variables can be found in Appendix A along with the table identifying the variables that were utilized in each model in Appendix B. In order to select the best set of explanatory variables the study will utilize the Best Subset Selection method[37].

---

[37] Tamura, Ryuichi, Koji Kobayashi, Yasufumi Takano, Ryohei Miyashiro, Kazuki Nakata, and Tatsuya Matsui. "Best subset selection for eliminating multicollinearity." Journal of the Operations Research Society of Japan 60, no. 3 (2017): 321-336.

Depending on the findings of politically connected boards this study is aiming to qualitatively look into the effects of corrupted relations on firm performance and deduce conclusions on consequences along with further potential research recommendations. The research will attempt to answer questions on the implications of the tenable political connections and the consequences or benefits of being politically connected. A potential analysis to uncover the causal relationship between financial gains and political connectedness could be via a case study on specific incidents like the lawsuit against Halkbank in the US due to its illegal transactions evading the sanctions on Iran and money laundering with the implicit support of the Turkish government with the assistance of the connected board members[38].

4.2 Univariate Analysis of Political Connections and Market Value of Turkish Corporations

The aim of this study is to observe the hypothesized relationship between the top 22 largest publicly traded corporations and the current Turkish government under the AKP term. The key metric of this study is the Board Connection Rate, it was obtained through the meticulous calculation of the rate of the connected members for each corporation's board over the years. Instead of utilizing the raw number of connected members, the rate was obtained to account for the differences in the composition of the executive boards at the end of each election year. Figure 7 provides the data points of these Board Connection Rates over the years. The corporations that weren't connected have a rate of zero and usually, the corporations that have a rate of zero were either privately owned by the Koc Group, which is a secular and affluent family business that started in the early years of the Republic, or corporations that were previously founded by people related to the leaders of the secular

---

[38] Scott, Benjamin Fraser. "Halkbank and OFAC: a sanctions evasion case study." Journal of Money Laundering Control (2019).

opposition party[39] (CHP). It was observed that companies that have political connections with the AKP in their executive boards are concentrated in a few sectors: finance, defense, manufacturing, energy, and mining.

Figure 7. Board Connection Rates to AKP
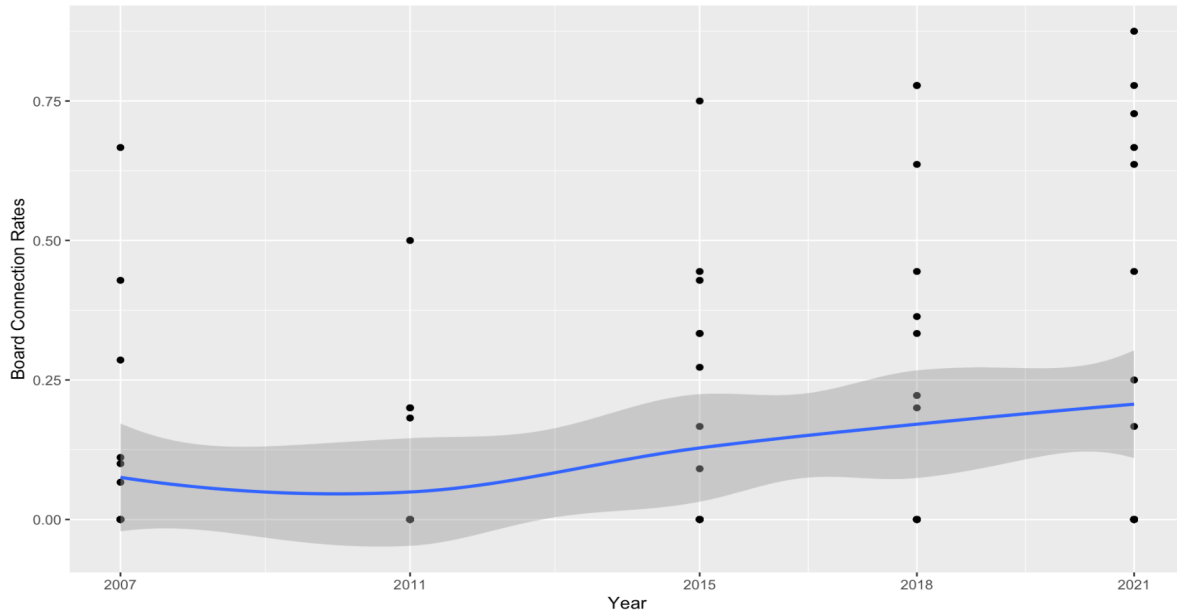
Source: Corporate Annual Reports

The politically connected boards have increased over the years. In 2007 there were 6 politically connected corporations from a pool of 22 corporations with an average Board Connection Rate of 0.28. In 2011, the number of connected corporations decreased to 4 with an average Board Connection Rate of 0.27, which is similar to the average in 2007 indicating that although political presence wasn't prevalent in multiple corporations, the connectedness level has been similar due to higher intensity. After 2011, the number of connected corporations increased to 8 for all years (2015, 2018, and 2021) and the average Board Connection Rates for connected corporations were rising from 0.35 in 2015 to 0.47 in 2018 and reached the highest value of 0.57 in 2021. Although the number of connected corporations was 8 out of 22 for the most recent 3 years of interest, the average of the rates

---

[39] Buğra, Ayşe. *Devlet ve işadamları*. İletişim Yayınları, 2017.

among politically connected corporations has increased drastically, hinting that the political

influence has increased in the designated corporations and industries. After an initial drop in

2011, the upwards trend of the non-linear fit corresponding to the increase in political

connections is depicted in Figure 7. The decline in board connection rates and the number of

connected corporations for 2011 could be due to the diminishing popularity of the AKP

which had led to the nationwide protests that challenged the AKP regime, these political riots

were called the Gezi Parkı Protests between May 28, 2013 - August 20, 2013[40]. Although

Erdogan, the Prime Minister in 2013 and leader of AKP, was able to suppress the protests, his

team took various actions to make sure that they would confront no such turmoil on the

streets again. The oppressive measures enacted after 2013 enabled the incumbent party to

accumulate political and economic power leading to higher board connections through the

financial markets. These connections might have been established to either protect the

financial position of the corporations that have been going through financial challenges or to

channel the profit streams of prolific corporations. Similar hypotheses have been tested in

different countries like China or emerging markets as the connected firms have been found to

receive preferential treatment from state-owned banks[41], lighter taxation, concessions with

government contracts, or financial aid from the government during turbulent times[42]. Such

connected firms have had privileges to access lower borrowing costs and equity injections[43]

which is expected to have a positive effect on profitability. Yet some other literature has

found that apart from the financial support such companies receive, politically connected

---

[40] Taştan, Ceyda. "The Gezi Park protests in Turkey: A qualitative field research." Insight Turkey 15, no. 3 (2013): 27-38.

[41] Dinç, I. S. "Politicians and banks: Political influences on government-owned banks in emerging markets." Journal of Financial Economics 77, no. 2 (2005): 453-479.

[42] Chizema, A., Liu, X., Lu, J., & Gao, L. "Politically connected boards and top executive pay in Chinese listed firms." Strategic Management Journal 36, no. 6 (2015): 890-906.

[43] Joni, J., Ahmed, K., & Hamilton, J. "Politically connected boards, family and business group affiliations, and cost of capital: Evidence from Indonesia." The British Accounting Review 52, no. 3 (2020): 100878.

boards that don't undergo meritocratic appointments eventually suffer from bad governance, and lower productivity[44].

Figure 8 shows data points of combinations of the Board Connection Rates and the annualized growth rates of their market value observed over three different time horizons (1 year, 2 years, and 3 years). The linear fit for only these two variables is depicted in Figure 8 for all corporations. While some corporations might have benefited from the anticipated preferential treatment, the presumable lack of meritocracy might have led some corporations to underperform compared to the corporations that weren't politically connected. In accordance with the cases in other emerging markets, the growth rates in Figure 8 puts forth that some connected corporations like GUBRF[45] and HALKB[46] have been overperformers across all time windows. There is an outlier corporation, TAVHL[47], which has underperformed with negative growth rates of -37%, -24%, and -5%, respectively overall three-time horizons for 2007's growth analysis. The only year TAVHL had political connections on its executive board was 2007, and it experienced negative growth for all time horizons as the growth rate for 2007's executive board was calculated. TAVHL has reported positive growth over all time horizons analyzed for the years where the executive board connection rate was 0. It is plausible that in 2007 many corporations incurred negative growth due to the financial crisis, yet having a connected board could have stimulated a small growth as it has for other corporations in other countries. This outlier implies that politically connected boards, even though it has the potential to instigate financial gains, might also

---

[44] Domadenik, P., Prašnikar, J., & Svejnar, J. "Political connectedness, corporate governance, and firm performance." Journal of Business Ethics 139 (2016): 411-428.

[45] A fertilizer manufacturing company that privatized Iranian state-owned petroleum and nuclear fuel producer for $656 million in 2013 has led many opposition researchers to question this perplexing transaction that implicated Turkish senior officials as this transaction was subject to a probe that was focusing on the illegal relations of Iran and Turkish officials (Bozkurt, 2017).

[46] Previously referred as "Halkbank", a state-owned bank that was out on trial in the US for its illegal transactions evading the sanctions on Iran and money laundering with the implicit support of the Turkish government (Scott, 2019).

[47] TAV Airport Group, an airport operator company owned by a French airport operator company (Rikhy et al., 2014).

jeopardize the well-being of corporations. There also has been connected corporations that experienced negative growth rates like THYAO[48] which has had the lowest rate at -23% for 1-year growth from 2015 while it had a Board Connection Rate of 0.33 but has also experienced 666% growth for 1-year growth for 2021 as its Board Connection Rate was at an all-time high of 0.44. The volatility in THYAO growth over different time horizons and Board Connection Rates can be visualized in Figure 8 for other corporations too. This bewildering matter has been a phenomenon tested in previous literature for different countries to uncover if political connections statistically support financial gains or thwart market value growth due to a lack of business acumen in executive boards.

Figure 8. Growth of Market Value and Board Connection Rates to AKP

---

[48] Turkish Airlines, semi-state-owned aviation company. (Dursun et al., 2014)
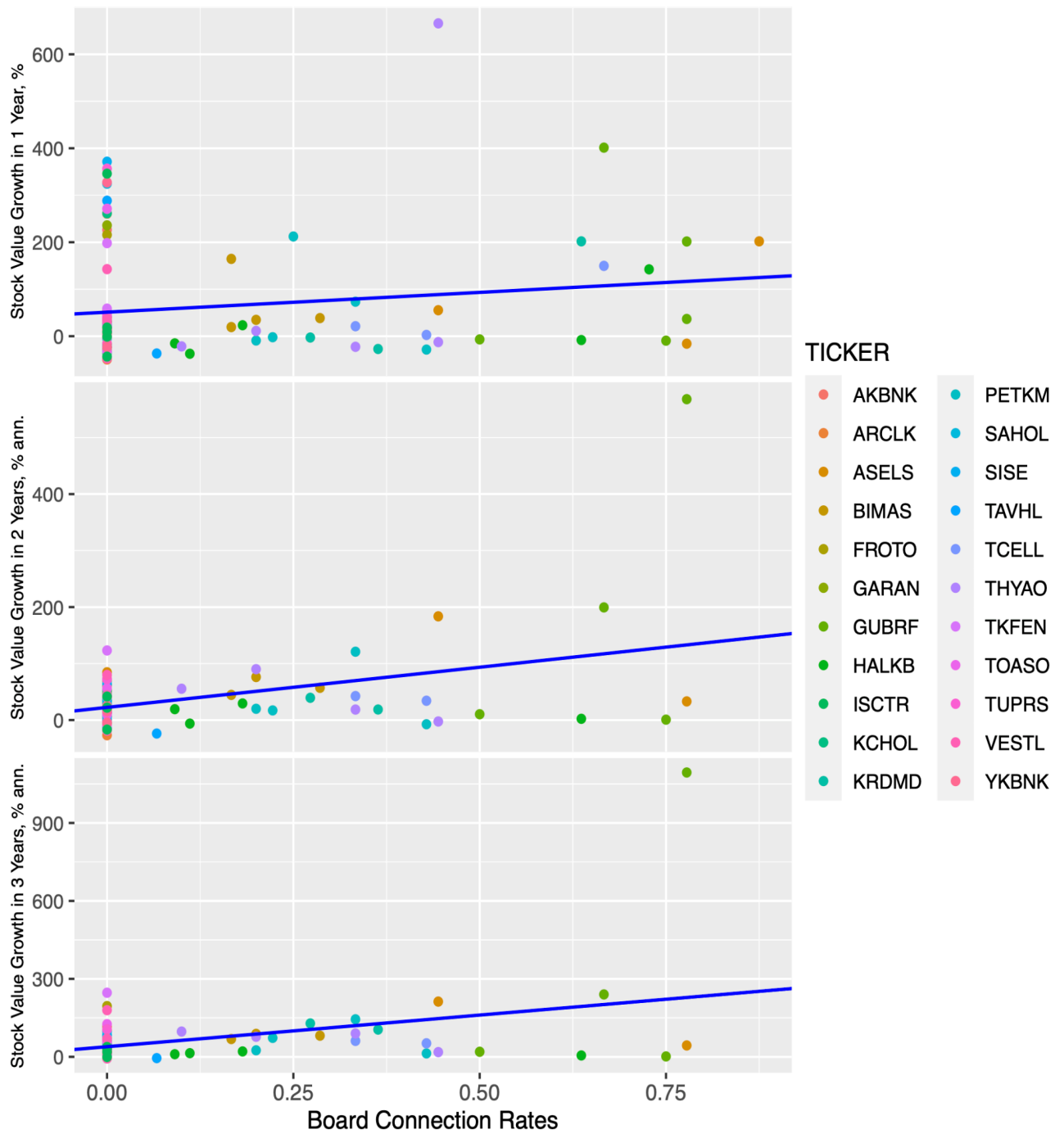
Source: Corporate Annual Reports, Yahoo Finance

4.3 Multivariate Analysis of Political Connections and Market Value of Turkish Corporations

The OLS linear regressions in this study estimate the statistical effects of board connections on growth rates of stock prices for the largest 22 Turkish corporations in three

different time horizons (1, 2, and 3 years). The multivariate OLS regression will provide more information on the coefficient of the effect of political connections and their significance. To better capture the effect of political connections on firms' market value growth the study has compared the adjusted R-square values of the linear fits in Figure 8 which are 0.02, 0.16, and 0.15 respectively for growth rates in 1, 2, and 3 years. Since the adjusted R-square is highest for the OLS regression with a 2-year annualized growth rate, the most explanatory effect of the Board Connection Rate on firm market value is observed in the 2-year time horizon. In other words, the political connections have effects that financially materialize in 2 years. It is important to additionally note that the growth rates after 2 and 3 years cannot account for as many observations as those of the 1-year window since information after 2021 wasn't available during the data collection period of this study.

To better evaluate the relationships, three different models have been tested with the three different time horizons, indicated as Model 1, Model 2, and Model 3. The initial model selection has included a set of control variables and fixed effects: the GDP per Capita in EUR, CPI-Based Real Effective Exchange Rate, domestic inflation, year fixed effect, and corporation fixed effects. In order to determine the best set of control variables and fixed effects this study utilized the Best Subset Selection Algorithm. See Appendix A and B for summary statistics. This methodology is highly efficient in dealing with multicollinearity[49] which was an issue that came up as this study has been running linear regression on all control variables and fixed effects. Based on the trials of the best subset selection algorithm the combination of control variables and fixed effects that best explained the dependent variable was deduced by selecting the best set of features that had the highest R-square value which is a statistical metric indicating the best-fit model.

---

[49] Tamura, R., Kobayashi, K., Takano, Y., Miyashiro, R., Nakata, K., & Matsui, T. "Best subset selection for eliminating multicollinearity." J. Oper. Res. Soc. Jpn. 60, no. 3 (2017): 321-336.

Table 1 shows the regression results for the first model using the growth rate for the 1-year time horizon as the dependent variable. According to the best subset selection algorithm, the growth in 1 year is best explained by the Board Connection Rate independent variable and 2007- and 2021-year fixed effects. As visualized in the linear fits in Figure 8 and based on the results in Table 1 growth in 1-year is not as indicative of the relationship between board connection effects on market value growth. The highest R-square, which indicates the best-fit model, is achieved when the fixed effect of the year 2021 is included in the model. This implies that the 1-year growth rate data is best explained by the economic incidents that took place in 2021 specifically with a positive 245% boost to the market value of Turkish corporations in 2021 as it was the end of lockdowns and the economy experienced looser economic restrictions after Covid-19. There isn't a statistically significant relationship with the board connection rate. It is crucial to also look into the relationship between the 2-year annualized growth rate and board connection rate as in the linear fit in Figure 8 the R-square was largest for the relationship between growth in 2 years and board connection rate indicating that the growth data for 2 years is explaining the board connection data the best.

Model 1

$$Y_{it}(1) \ = \ \beta_0 \ + \ \beta_1(X_{it}) \ + \ \beta_2(X_{2007}) \ + \ \beta_3(X_{2021}) \ + \ \varepsilon_{it}$$

where

$Y_{it}(1)$ is the growth rate after one year in market value (in EUR) of firm i in year t

X_{it} is the Board Connection Rate of firm i at the end of year t

X_{2007} captures the year 2007 fixed effects

X_{2021} captures the year 2021 fixed effects

ε_{it} is the error term of firm i in year t

and β_0, β_1, β_2, β_3 are the regression coefficients to be estimated in Model 1.

Table 1. Model 1 OLS Regression Results

Dependent variable: 1-year growth rate of firm market value (%), $Y_{it}(1)$

	A	B	C
Constant	51.14*** (13.02)	67.92*** (14.13)	15.405 (8.925)
X_{it}, Board Connection Rate	84.31 (49.68)	69.98 (48.61)	6.104 (28.452)
X_{2007}, 2007 fixed effect		-74.83** (27.94)	-17.500 (16.624)
X_{2021}, 2021 fixed effect			245.466*** (16.783)
R-squared	0.02597	0.08718	0.6976
Adjusted R-squared	0.01695	0.07012	0.689

Standard errors are reported in parentheses. *, **, *** indicates significance at the 90%, 95%, and 99% level, respectively.

Table 2 is providing the regression results for Model 2 which was obtained from the best subset selection algorithm since the R-square value was the highest for the explanatory variables of Board Connection Rate as the independent variable and the fixed year effect of 2007 to best explain the annualized growth rate in 2 years. Including the year fixed effect to the regression has enabled this study to account for the imminent 2008 crisis, inflation, GDP per capita, and many more macro-economic factors that were significant to 2007 that could have had an effect on the growth rate. In Table 2, the results indicate that although the R-square of the model is not as high as Model 1, the board connection rate is highly correlated with the annualized growth in 2 years while the fixed year effect of 2007 is also significant. Model 2 indicates that a 10% additional AKP participation in the board would have an effect on the annualized rate of growth by increasing the market value annually for 2 years by 13.6%. This effect is highly significant and large since the annualized average

growth rate in 2 years for unconnected corporations has been 27%. This implies that on average two additional connected members on each corporation's board would contribute additionally by as much as the average growth of an unconnected corporation. The average annual growth rate in 2 years of all connected corporations was 63% which is more than twice the average growth of unconnected corporations.

Model 2

$$Y_{it}(2) = \beta_0 + \beta_1(X_{it}) + \beta_2(X_{2007}) + \varepsilon_{it}$$

where

$Y_{it}(2)$ is the annualized growth rate after 2 years in market value (in EUR) of firm i in year t

X_{it} is the Board Connection Rate of firm i at the end of year t

X_{2007} captures the year 2007 fixed effects

ε_{it} is the error term of firm i in year t

and β_0, β_1, β_2 are the regression coefficients to be estimated in Model 2.

Table 2. Model 2 OLS Regression Results

Dependent variable: 2-year growth rate of firm market value (%, annualized), $Y_{it}(2)$

	A	B
Constant	22.451** (7.623)	31.459*** (8.529)
X_{it}, Board Connection Rate	142.410*** (33.630)	136.085*** (33.047)
X_{2007}, 2007 fixed effect		-33.353* (15.296)
R-squared	0.1725	0.2164
Adjusted R-squared	0.1629	0.1979

Standard errors are reported in parentheses. *, **, *** indicates significance at the 90%, 95%, and 99% level, respectively.

Model 3

$$Y_{it}(3) = \beta_0 + \beta_1(X_{it}) + \beta_2(X_{Qt}) + \varepsilon_{it}$$

where

$Y_{it}(3)$ is the annualized growth rate after 3 years in market value (in EUR) of firm i in year t

X_{it} is the Board Connection Rate of firm i at the end of year t

X_{Qt} is the Real Effective Exchange Rate observed in year t

ε_{it} is the error term of firm i in year t

and β_0, β_1, β_2 are the regression coefficients to be estimated in Model 3.

Table 3. Model 3 OLS Regression Results

Dependent variable: 3-year growth rate of firm market value (%, annualized), $Y_{it}(3)$

	A	B
Constant	38.93** (13.64)	197.7191* (82.1252)
X_{it}, Board Connection Rate	244.04*** (60.19)	220.1825*** (60.4602)
X_{Qt}, Real Effective Exchange Rate		-1.5465 (0.7891)
R-squared	0.1605	0.1968
Adjusted R-squared	0.1507	0.1779

Standard errors are reported in parentheses. *, **, *** indicates significance at the 90%, 95%, and 99% level, respectively.

Table 3 provides the regression results for Model 3 which was obtained from the best subset selection algorithm as the R-square value was the highest for the explanatory variables of Board Connection Rate as the independent variable and the CPI-Based Real Effective Exchange Rate as the control variable to best explain the annualized growth rate in 3 years. In Table 3, the results indicate that the R-square of the model is not as high as Model 1 or Model 2, the board connection rate is highly correlated with the growth in 3 years while the real effective exchange rate is not as significant with a p-value of 0.05 exactly. Based on the third model a 10% additional AKP participation in the board would have an effect on the annualized rate of growth by increasing the market value by 22% for 3 years annually. This effect is highly significant and large since the annualized average growth rate in 3 years for unconnected corporations has been 47%. This implies that on average two additional connected members on each corporation's board would contribute additionally by as much as the average growth of an unconnected corporation. The average growth rate in 3 years of all

connected corporations was 107% which is more than twice the average growth of unconnected corporations.

In Model 3 the CPI-based Real Effective Exchange Rate has a negative relationship with the annualized 3-year growth rate which is possibly due to the accelerating rate of inflation in Turkey since 2015. Over the period from 2007 to 2021, the real effective exchange rate has been drastically decreasing, which has a consequence in a larger depreciation of the Turkish Lira than the inflation differential with foreign countries. This negative impact of the depreciation of the Turkish Lira erodes the purchasing power of consumers and might be resulting in less revenue from sales and a lower profit impacting the growth negatively. It is also important to note that consequently there also has been an increase in the cost of imported capital goods, intermediate goods, raw materials, and energy.

5. Conclusion

The Turkish Republic has experienced various financial crises and has managed to survive all with the help of its market-oriented institutions and foreign aid. Foreign aid during crises has mostly been received from the IMF, US, and EU programs and they have demanded transparent financial practices in order to move forward with the aid programs. Rapidly the ruling party, AKP, has been more inclined to make business deals with corporations that are politically connected. As a consequence, there might have been increased concerns of foreign and domestic investors about the transparency of the public-private sector relationships in Turkey. In a free-market economy and under the democratic regime in Turkey, the corrupted relations between the government and the corporations are a threat to the overall well-being of the corporations and economic prosperity. The existence of political connections at high-level decision-making of top-performing corporations in Turkey, explicitly and implicitly, has jeopardized the

trustworthiness of company governance which inevitably affects the corporations' financial performance. Foreign and domestic investors typically buy stocks with the purpose of gaining high returns, but with the noise generated by the intertwined board and political connections, making sound investment decisions has been a challenge. This distrust in the Turkish markets might lead to economic destruction starting with a plunge in foreign direct investment. The depreciation of the Turkish Lira, and the rapidly rising domestic inflation might be signals of this market distrust hypothesized in this study.

This study has found that although politically connected corporations have statistically gained financial benefits through board-level connections with the government, the lack of meritocracy has also led some companies to incur losses due to poor management. The regression models were able to address the association between board connections and growth rates of market value yet identifying a causal relationship is out of this study's scope. Given the financial and political situation of other emerging markets, the scene in Turkey doesn't come as a surprise. Since 2002, AKP has been in office shifting the politics of Turkey with immense support from the electors. Although the economic performance of Turkey hasn't been as prosperous as the previous years, electors tend to support AKP's ideology despite the increase in poverty. Democratic values such as freedom of speech, rule of law, and control of corruption have been declining drastically. Along with these, unsurprisingly, income inequality has been increasing. While Turkey has an average of 5% annual Real GDP growth, the current account deficit has been decreasing to about -10% of GDP. Including the findings of this study which has been implying an accumulation of wealth by a certain group of people connected with the government, Turkey is facing a huge threat of income inequality and rising poverty. This group which has close relations with the government disrupts the performance of the financial markets as they introduce a huge issue regarding asymmetric information, which can even lead to market failure in a free-market economy. The

financial-political connections allow a certain group to not only prevail financially but also politically they are able to control the media, lifestyle, and expectations of the electors. For years the Turkish government has silenced the media which is accounted for in the Voice & Accountability index provided by the World Bank yet it is important to also study if this prevalence will be enough in the upcoming elections as the electors are now living in a sinking ship as the ruling class is gaining 13% more by just appointing one more connected board member to a large profitable corporation. It is crucial to recall that in Model 2, the 2-year time horizon suggested the strongest effect of the Board Connection Rate on growth in market value by estimating that, an increase of 10% in the Board Connection Rate, which more or less corresponds to an additional connected board member, is associated with an additional annual 13% increase in growth of firm market value in a 2-year time horizon.

This study has concluded that board connection and market value growth have a positive association and despite the outlier corporations that have incurred losses, it is fueling the connected parties involved in all the transactions. In the long-run such political connections prove to cause collateral damage as the incompetence of the board members increases, it first jeopardizes the corporation and then the financial markets. It is imperative to understand that governments relying on such profits can only rely on financial gains for a limited period in democracies. Further research is needed to evaluate whether there is a direct causal relationship utilizing a larger dataset of corporations and board members including other parties that have been in office in Turkey.

References

Avci, A. "The New Regime of Free Trade and Transnational Capital in Turkey." Journal of Balkan and Near Eastern Studies 24, no. 1 (2022): 78-96.

Aytaç, S. E. "Türkiye'de Siyasi Partilerin Seçim Beyannamelerindeki Politika Öncelikleri, 2002–2015." Siyasal: Journal of Political Sciences 26, no. 2 (2017): 7-26.

Bardakçi, M. "2015 parliamentary elections in Turkey: demise and revival of AKP's single-party rule." Turkish Studies 17, no. 1 (2016): 4-18.

Başlevent, C., Kirmanoğlu, H., & Şenatalar, B. "Party preferences and economic voting in Turkey (now that the crisis is over)." Party Politics 15, no. 3 (2009): 377-391.

Bozkurt, A. "Turkey's rather lackluster economic ties with Iran." Journal for Iranian Studies 28-41 (2017).

Buğra, Ayşe. *Devlet ve işadamları*. İletişim Yayınları, 2017.

Chizema, A., Liu, X., Lu, J., & Gao, L. "Politically connected boards and top executive pay in Chinese listed firms." Strategic Management Journal 36, no. 6 (2015): 890-906.

Çarkoğlu, A. "Macro Economic Determinants of Electoral Support for Incumbents in Turkey, 1950–1995." New Perspectives on Turkey 17 (1997): 75-96.

Çarkoğlu, A. "Economic evaluations vs. ideology: Diagnosing the sources of electoral change in Turkey, 2002–2011." Electoral Studies 31, no. 3 (2012): 513-521.

Derviş, K., Emerson, M., Gros, D., & Ülgen, S. The European transformation of modern Turkey. CEPS, 2004.

Dinç, I. S. "Politicians and banks: Political influences on government-owned banks in emerging markets." Journal of Financial Economics 77, no. 2 (2005): 453-479.

Domadenik, Polona., Prašnikar, Janez., and Svejnar, Jan. "Legal Corruption, Politically Connected Corporate Governance and Firm Performance," IZA Discussion Paper No. 8321 (2014), available at SSRN: https://ssrn.com/abstract=2468497

Domadenik, P., Prašnikar, J., & Svejnar, J. "Political connectedness, corporate governance, and firm performance." Journal of Business Ethics 139 (2016): 411-428.

Dombrovsky, V. "Do political connections matter? Firm-level evidence from Latvia." Firm-Level Evidence from Latvia (April 12, 2011).

Dursun, M. E., O'Connell, J. F., Lei, Z., & Warnock-Smith, D. "The transformation of a legacy carrier–A case study of Turkish Airlines." Journal of Air Transport Management 40 (2014): 106-118.

Esen, B., & Gümüşçü, Ş. "A small yes for presidentialism: The Turkish constitutional referendum of April 2017." South European Society and Politics 22, no. 3 (2017): 303-326.

Fisman, R. "Estimating the value of political connections." American Economic Review 91, no. 4 (2001): 1095-1102.

Federal Reserve Bank of St. Louis. "FRED: Economic Data - Turkey." Available at: https://fred.stlouisfed.org/tags/series?t=gdp%3Bquarterly%3Bturkey

Furkan, A., & Taş, I. E. "Türkiye'de 2002-2020 Döneminde Siyasi Partilerin Programlarında Yer Alan Kamu Yönetimi Anlayışının Karşılaştırmalı Analizi." Pamukkale Journal of Eurasian Socioeconomic Studies 8, no. 1 (2021): 68-89.

Goldman, E., Rocholl, J., & So, J. "Do politically connected boards affect firm value?" The Review of Financial Studies 22, no. 6 (2009): 2331-2360.

Gurría, A. "The Global Economy and Turkey: An OECD Perspective." In *Remarks by Angel Gurría, OECD Secretary-General, at a joint conference organised by the Turkish Industrialists' and Businessmen's Association (TÜSIAD), the Foreign Economic Relations Board (DEIK) and the Istanbul Stock Exchange Market (IMKB). http://www. oecd. org/document/4/0*, vol. 3343. 2008.

Halife, H. "Competitiveness Analysis of Textile Industry of Turkey: Revealed Comparative Advantage Approach." International Journal of Global Business and Competitiveness 1-6 (2022).

Johnson, S., & Mitton, T. "Cronyism and capital controls: evidence from Malaysia." Journal of Financial Economics 67, no. 2 (2003): 351-382.

Joni, J., Ahmed, K., & Hamilton, J. "Politically connected boards, family and business group affiliations, and cost of capital: Evidence from Indonesia." The British Accounting Review 52, no. 3 (2020): 100878.

Kaufmann, D. "The worldwide governance indicators project: answering the critics" (Vol. 4149). World Bank Publications, 2007.

Kaufmann, D., Kraay, A., & Mastruzzi, M. "Response to 'What do the worldwide governance indicators measure?'" The European Journal of Development Research 22 (2010): 55-58.

Kaufmann, D., Kraay, A., & Mastruzzi, M. "The worldwide governance indicators: Methodology and analytical issues1." Hague Journal on the Rule of Law 3, no. 2 (2011): 220-246.

Khwaja, A. I., & Mian, A. "Do lenders favor politically connected firms? Rent provision in an emerging financial market." The Quarterly Journal of Economics 120, no. 4 (2005): 1371-1411.

Luca, D. "National elections, sub-national growth: the politics of Turkey's provincial economic dynamics under AKP rule." Journal of Economic Geography 22, no. 4 (2022): 829-851.

Oksijen, Gazete. "Bloomberg: 2023'te dünyanın en önemli seçimi Türkiye'de yapılacak." (2023). Available at: https://gazeteoksijen.com/turkiye/bloomberg-2023te-dunyanin-en-onemli-secimi-turkiyede-yapilacak-168169.

Öniş, Ziya. "Turkey under the challenge of state capitalism: The political economy of the late AKP era." Southeast European and Black Sea Studies 19, no. 2 (2019): 201-225.

Patton, Marc J. "The economic policies of Turkey's AKP government: Rabbits from a hat?" The Middle East Journal 60, no. 3 (2006): 513-536.

Rikhy, Ayushi, James Roberts, and Shu Cheung. "Global airport privatization: Trends, recent developments and challenges ahead." Journal of Airport Management 8, no. 4 (2014): 300-304.

Scott, Benjamin Fraser. "Halkbank and OFAC: a sanctions evasion case study." Journal of Money Laundering Control (2019).

Tamura, Ryuichi, Koji Kobayashi, Yasufumi Takano, Ryohei Miyashiro, Kazuki Nakata, and Tatsuya Matsui. "Best subset selection for eliminating multicollinearity." Journal of the Operations Research Society of Japan 60, no. 3 (2017): 321-336.

Taş, Hakan. "Turkey–from tutelary to delegative democracy." Third World Quarterly 36, no. 4 (2015): 776-791.

Taştan, Ceyda. "The Gezi Park protests in Turkey: A qualitative field research." Insight Turkey 15, no. 3 (2013): 27-38.

Thomas, Melvin A. "What do the worldwide governance indicators measure?" The European Journal of Development Research 22, no. 1 (2010): 31-54.

Wang, Yuan, Cheng-Yi Yao, and Donghui Kang. "Political connections and firm performance: Evidence from government officials' site visits." Pacific-Basin Finance Journal 57 (2019): 101021.

Yeldan, Erinç A., and Burç Tuna Ünüvar. "An assessment of the Turkish economy in the AKP era." Research and Policy on Turkey 1, no. 1 (2016): 11-28.

Zürcher, Erik Jan. Turkey: A modern history. Bloomsbury Publishing, 2017.

Appendix A. Summary Statistics for All Variables

variable	count	mean	standard deviation	median	min	max	range	skew	kurtosis	standard error
Board Connection Rate, X_{it}	110	0.126	0.231	0.000	0.000	0.875	0.875	1.770	1.931	0.022
2007 fixed effects, X_{2007}	110	0.200	0.402	0.000	0.000	1.000	1.000	1.480	0.191	0.038
2011 fixed effects	110	0.200	0.402	0.000	0.000	1.000	1.000	1.480	0.191	0.038
2015 fixed effects	110	0.200	0.402	0.000	0.000	1.000	1.000	1.480	0.191	0.038
2018 fixed effects	110	0.200	0.402	0.000	0.000	1.000	1.000	1.480	0.191	0.038
2021 fixed effects, X_{2021}	110	0.200	0.402	0.000	0.000	1.000	1.000	1.480	0.191	0.038
GDP per Capita EUR	110	8214.204	885.162	8117.200	7051.730	9780.060	2728.330	0.649	-0.445	84.397
Real Effective Exchange Rate, X_{Qt}	110	92.920	21.366	100.390	60.440	119.240	58.800	-0.339	-1.367	2.037
Inflation	110	13.460	8.256	8.400	6.210	28.280	22.070	0.925	-0.732	0.787
Market Value Growth in 1 year, $Y_{it}(1)$	110	61.767	120.794	17.870	-49.456	665.887	715.343	2.154	5.271	11.517
Market Value Growth in 2 years	88	75.054	138.215	46.540	-53.751	1136.132	1189.883	5.373	37.162	14.734
Market Value Growth in 3 years	88	194.301	368.395	113.363	-19.113	3282.823	3301.936	6.783	53.308	39.271
Market Value Growth in 2 years (annualized), $Y_{it}(2)$	88	37.527	69.107	23.270	-26.875	568.066	594.941	5.373	37.162	7.367
Market Value Growth in 3 years (annualized), $Y_{it}(3)$	88	64.767	122.798	37.788	-6.371	1094.274	1100.645	6.783	53.308	13.090

Appendix B. The Use of Variables in OLS Models

variable	Model 1	Model 2	Model 3	dependent variable	regressor
Board Connection Rate, X_{it}	X	X	X		X
2007 fixed effects, X_{2007}	X	X			X
2011 fixed effects					X
2015 fixed effects					X
2018 fixed effects					X
2021 fixed effects, X_{2021}	X				X
GDP per Capita EUR					X
Real Effective Exchange Rate, X_{Qt}			X		X
Inflation					X
Market Value Growth in 1 year, $Y_{it}(1)$	X			X	
Market Value Growth in 2 years				X	
Market Value Growth in 3 years				X	
Market Value Growth in 2 years (annualized), $Y_{it}(2)$		X		X	
Market Value Growth in 3 years (annualized), $Y_{it}(3)$			X	X	