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# Table of Contents

## Research Article

### **The Changing Notions of Political Economy in Greece Till the Beginning of The 21St Century**

*Stavros D. Mavroudeas* ..... 125

### **Keynes and The Modern Economy: Analogies, Differences, and Contradictions**

*Onur ÖZDEMİR* ..... 141

### **Media Literacy: The Real, Interactive Way and Being Ethical within Post Conflict Non-Catharsis Society in Bosnia and Herzegovina**

*Sabahudin Hadžialić*..... 159

### **Assesment of Macroeconomicand Financial Performance of Fragile Five and MINT Countries Using TOPSIS Method**

*Özge Demirkale, Çiğdem Özarı* ..... 171

### **The Effect of Transformational and Transactional Leadership Behaviours on Organizational Culture**

*Khan Muhammed RAJABI, Salih GÜNEY, Binnur GÜRÜL* ..... 193

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## **FROM THE EDITOR**

*We have come a long way. We are now indexed in international indexes like SOBIAD and ASOS. All our past issues can be now reached online and they are uploaded in “Dergipark”. Until now, our online articles have been downloaded nearly eight thousand times while we continue to appear in hardback. This indicates to the increased numbers of our readers and expansion of our reach. We are improving our digital presence as we are digitalizing our article submission procedures and refereeing. We are pleasantly surprised and happy to see the quality and number of articles have risen. The number of downloads and articles we have received from international academics and researchers residing in different countries has also increased.*

*In this issue, we are presenting five very interesting and powerful articles. The first article is coming from Greece and was written by Stavros Mavrodeas. He is a prominent academic with extensive publication record within the Political Economy field. In this article, he investigates the notions of the term ‘Political Economy’, in Greece. He focuses on the evolution of economic thought in Greece, in itself it had an interesting track record. The paper looks at the past debates between various economic approaches to draw up the shape of academic landscape of Economics in Greece. This story is full of lessons for other country experiences. In Greece, Mavrodeas argues that the “Political Economy” in Greece was identified with economic theory in general and it covered the Classical Political Economy but with noteworthy influences from the German Historical School.*

*Mavrodeas separates developments within the study of Political Economy after the 2<sup>nd</sup> World War from its previous history. According to Mavrodeas especially from the end of the 2<sup>nd</sup> World War, the identification of Political Economy with general economic theory was kept but evolved towards almost purely neoclassical. In this sense, until after 1974, when Colonels Coup was defeated and the term was redefined to take its proper meaning. Before then the term Political Economy was used as a corollary for neoclassical general economic theory and had actually nothing to do with*

*Political Economy. For Mavrodeas, proper meaning of the term Political Economy reflects scientific traditions that focus on the social nature of economic relations and proceed to study them accordingly has been dominant till today. On the other hand, minor and unsuccessful attempts by neoclassicism to make inroads into Political Economy through the so-called New Political Economy and Public Choice theory has been annulled. The interesting part of the paper comes with its supplemented survey of academic syllabi and in the teaching programs of secondary education that shows, changing conceptions of Political Economy occurs with a time gap.*

*The second paper is by Onur Özdemir, a promising academic producing within the Political Economy tradition. His paper almost follows what Stavros Mavrodeas attempted to do. For Özdemir, the major tools of the orthodox Keynesian approach and even its criticisms based on mainstream assumptions lead simultaneously to classical dichotomies and gave way to the influences of neoclassical thoughts. He particularly focuses on the concepts of uncertainty and expectations. These concepts Özdemir argues, reveals the difference of orthodox Keynesian arguments from the others. Additionally, he looks at counter arguments by examining three different streams of thought: the Lucas critique; the new Keynesian approach and the small menu cost theory; the heterodox reflections. Looked closely, these contradictory currents' conceptual make ups reveal the differences of orthodox Keynesian assumptions from the mainstream theoretical neoclassical approach. Like Mavrodeas, Özdemir also implicitly suggests that; if a more myopic, detailed reading of the original texts were done, differences in the conceptual notional backgrounds can be captured more bluntly.*

*A prominent academic from Bosnia – Herzegovina Sabahudin Hadžialić, set forth to search for an answer to the state of affairs on media's current situation in his native land. This question implies an uneasiness with the existing media outlets and what it has been actually doing. Hadžialić focuses on freedom of expression as he questions the merits of "libertarian society." This is a philosophically rich paper, requires reader to have deeper knowledge on "libertarianism", "open society", "healthy*

society”, “anarchy”, “ethics” and “moral values”. What is interesting about Hadžialić’s quest on these questions overarches with political economy framework as he sets forth to cover the interests of big capital and politics, technology, ethical and professional standards. In this vane, using an interdisciplinary framework he concentrates on the problem of poor professional skills of the new entrants into the media industry. He relates this primarily to the poor educational quality of the newcomers particularly in the case of Bosnia and Herzegovina but not only there. He argues that poor professional quality is also related to the fact that there are too many media outlets for a relatively smaller market such as Bosnia and Herzegovina. He quickly mentions that what is true for Bosnia and Herzegovina is also true for Serbia, Montenegro, Croatia, Macedonia and Kosovo. Sabahudin Hadžialić emphasizes that although there appears to be “freedom of speech” in these countries, as a result of their Political Economy realities, in day to day application the use of “freedom of speech” is mostly abusive or inadequate. Hadžialić concludes that media owners, journalists and editors can easily slander, smear, spin real problems which turn these so called “libertarian societies” in the context of a non-free, captive and imprisoned societies. For Hadžialić, this would be as a result of poverty, existential fear, ignorance coupled with the absence of elemental courage and curiosity.

The fourth article by Demirkale and Özari is an econometric application that measures the performance of Fragile Five and MINT countries (Brazil, India, Indonesia, South Africa, Turkey, Mexico, and Nigeria). The paper uses macroeconomic and financial indicators between 2015-2019. Performance measures are calculated by using TOPSIS method, which is one of the multi-criteria models in decision making. This method is tested by using data from stock market indexes, exchange rates, inflation and interest rates. These parameters were used as the main performance evaluation criteria. Main finding of this investigation shows that, Turkey a member of both MINT and the Fragile Five group, is the country with the lowest macroeconomic and financial performance while Indonesia was found to be the best performing country. In addition, this research presents a numerical application to illustrate the use of TOPSIS method.

*The final article of this issue by Rajabi, Güney and Gürül investigates transformational and transactional leadership behaviors of employees on organizational culture in an organization. This is done so to determine the effects and differences of demographic characteristics on such occurrence. The first part of this paper establishes a conceptual background by defining, the concept of leadership, its importance, and its differences from similar concepts. The second part of the paper focuses on the background of transformational and transactional leadership concepts. Definition of organizational culture, its importance, characteristics and classification has been dealt in the third part. The last part of this study brings together the results of collected questionnaires by using reliability test, normality test, and Kaiser-Meyer-Olkin (KMO) tests. The paper concludes that the demographic characteristics of the employees have a positive impact on organizational culture.*

*Finally, I would like to stress our gratitude to Associate Prof. Dr. Mustafa Aydın, the President of the Board of Directors and our Rector, Prof. Dr. Yadigar İzmirli for their continued support to our journal. Prof. Dr. Celal Nazım İrem, Dean of the Faculty of Economics and Administrative Sciences (FEAS), our assistants at the Department of Economics and Finance, Ms. Ecem Coşar, Mr Aytaç Bayraktar and Mr. Anıl Tuğral.*

**Prof. Dr. Sedat AYBAR**  
**Editor**



# ***The Changing Notions of Political Economy in Greece Till the Beginning of the 21<sup>st</sup> Century***

**Stavros D. Mavroudeas<sup>1</sup>**

## **Abstract**

This paper surveys the changing notions ascribed to the term ‘Political Economy’ in Greece from the beginning of the Greek economics till the beginning of the 21st century. It relates them to the evolution of economic thought in Greece and the turbulent course of Greek capitalism. It argues that during the birth period of economic studies in Greece the term ‘Political Economy’ was identified with economic theory in general. covered the Classical Political Economy but with noteworthy influences from the German Historical School. From the end of the 2nd World War and afterwards, the identification of Political Economy with general economic theory was kept but the latter tended to be almost purely neoclassical. After 1974 the term was redefined and took its proper meaning, namely that of the scientific traditions that focus on the social nature of economic relations.

**Keywords:** *Political Economy, Greece, Economic Thought*

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## **INTRODUCTION**

Political Economy (as distinct from Economics) is the first version of an autonomous science of economic relations. In the form of Classical Political Economy (more prominently represented by A. Smith and D. Ricardo) it had created the science of economic relations. Political Economy considers the economy as a ‘social game’, that is as a function of society having social character. This means that (a) its main agents are social classes, (b) a main process is the struggle between them and (c) the economy is intrinsically linked to the other social functions (politics etc.). Classical Political Economy was instrumental in aiding the establishment of the capitalist system during its struggle against the *ancient regime*. However, once the capitalist system was established and its own contradictions and failings emerged (especially in the form of recurrent economic crises and immiseration of the working class), the Classical Political Economy fell from grace. Economics – engineered by the Marginalist school – argued that the economy is a non-social ‘individualist game’. This means that (a) the main agents are egoistic individual, (b) social groupings do not matter in the economy and (c) the economy is not related – at least intrinsically – to the other functions of society. Economics became the new mainstream as they served better the capitalist system. On the other hand – and at the same time (end of 19<sup>th</sup> century) – Marxist Political Economy emerged. The latter followed the same basic tenets with Classical Political Economy about the social character of the economy. But disagreed over the fate of capitalism by arguing that capitalism is not ‘the end of history’ (as the Classical Political Economy maintained) and that social evolution can surpass it by creating, through working class’ struggle, a novel and more just socio-economic system (socialism). Economics became the mainstream approach to analyzing the economy whereas Marxist Political Economy dominated the underworld of Political Economy.

This paper surveys the changing notions that have been ascribed to the term ‘Political Economy’ in Greece from the beginning of the Greek economics till the beginning of the 21<sup>st</sup> century. These notions are closely related to the evolution of economic thought in Greece and the debates between various economic approaches but also to the turbulent and marred by crises course of Greek capitalism. Moreover, these different understandings shaped

crucially the academic landscape of Economics in Greece. In a nutshell, it is argued that during the birth period of economic studies in Greece the term ‘Political Economy’ was identified with economic theory in general. As such it covered the Classical Political Economy but with noteworthy influences from the German Historical School. Later, especially from the end of the 2nd World War and afterwards, the identification of Political Economy with general economic theory was kept but the latter tended to be almost purely neoclassical. Thus, the term was used as a corollary for neoclassical general economic theory and had nothing to do with Political Economy as such. After 1974 the term was redefined and took its proper meaning, namely that of the scientific traditions that focus on the social nature of economic relations and proceed to study them accordingly. This definition has predominated till today with only minor and unsuccessful attempts by neoclassicism to make inroads in the field through the so-called New Political Economy and Public Choice theory.

The main theme of the paper is supplemented by a survey of the status of Political Economy in the academic syllabi and in the teaching programs of the secondary education. It is being shown that its status follows, sometimes with a time lag, the changing conceptions of Political Economy.

### **THE CHANGING NOTIONS of POLITICAL ECONOMY in GREECE**

The introduction of economic science in the Greek academic system has followed a rather peculiar trajectory; at least compared to the nowadays dominant Anglo-Saxon paradigm. This peculiar trajectory is closely related to Political Economy and the meaning that was attributed to it<sup>2</sup>. Three are the major differentiae specific of this trajectory.

First, economic science was introduced in the Greek university rather lately comparing with more advanced capitalist countries. Schumpeter (1954), surveying the history of economic analysis from 1790 till 1870 argues that a rapid professionalization took place during that period. Comparing to that it was only in 1839 that the term ‘economist’ was firstly introduced

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<sup>2</sup> Psalidopoulos (1999) provides a very illuminating picture of this peculiar trajectory and the national specificities that characterized it for a significant period.

win Greece (Psalidopoulos (1999), p.78). And it was only in 1837 that the study of economic science was introduced in the Greek universities with the creation of a chair on Plutology occupied by I. Soutsos in the Law School of the University of Athens. A second chair on Public Economics followed in 1881 but very soon became inactive. Afterwards, several chairs on economics were inaugurated – both in the National Kapodistriakon University of Athens and the Aristotelian University of Thessaloniki (which are the oldest Greek universities) - but always within the auspices of the Law School. After a period, several professional non-university schools were created which provided mainly vocational education that had to do with economics. These schools were dominated to a great extent by university professors, as they seldom held chairs also in these schools besides their universities.

A second feature has already been mentioned. Contrary to the usual Anglo-Saxon experience, university economics sprang out of law schools rather than philosophy schools Psalidopoulos (1999: 172-3). Indeed, from 1926 till 1967 economics were part of the syllabus of the Law School of the University of Athens and were separated only on the last 4<sup>th</sup> year of studies. The same happened in the University of Thessaloniki. Then, first in the University of Thessaloniki in 1953 and afterwards in the University of Athens in 1967, the study of economics and political science were separated from law studies and autonomous departments of Economics and Political Science were created. Finally, first in the University of Athens in 1972 and then in other universities, economic and political science studies were separated and autonomous relevant departments were created.

A third feature was that Greek university economics as well as the whole economist community were in the beginning influenced mainly from Germany and France rather than England (Psalidopoulos (1999), p.173). This influence, as Psalidopoulos (1999: 184-5) accurately points out, ended in 1970-71 with the realignment of the Greek system with the by then dominant in economics Anglo-Saxon paradigm. However, the not-so-short-lived Franco-German influence equipped Greek economists with a broader and more polyphonic perspective than the already ascending in the Anglo-Saxon world neoclassical one. For example issues of multi-

disciplinarity and emphasis on a social perspective in economic analysis were strong even when they had been purged elsewhere. Of particular importance was the influence that the German Historical School yield as well as the role of a significant Greek economist of the 1920s and 1930s, A. Andreades (see Psalidopoulos (1999: 170-1)). The German Historical School, despite its many shortcomings, paid emphasis on social conditions and thus avoided the separation of economic from social relations that neoclassicism institutes. On the other hand, A. Andreades took an eclectic perspective in economics; particularly between classical Political Economy, German Historical School and neoclassicism. Of course, there were some prohibited scientific areas. Marxism was excluded from academic studies although it was known to several academic economists (e.g. A. Sideris, D. Kalitsounakis – see Psalidopoulos (1999: 172)) and covered in academic journals (for example in the influential *Archive of Economic and Social Sciences*)<sup>3</sup>. This had to do with the fear that the workers' movement instilled to the bourgeois class and the persistent attempts of the latter to suppress it.

These national specificities of the Greek economist community marked the way Political Economy was defined. In the beginning – as indeed elsewhere – all academic chairs in economics were branded as ‘Political Economy’. Very slowly there was a diversification and some specialized chairs were created (e.g. Public Economics). However, most of the basic chairs belonged to ‘Political Economy’. On the other hand, under the rubric ‘Political Economy’ different meanings were hidden. In the beginning they denoted the perspective of Classical Political Economy and also that of the German Historical School. As such it laid emphasis on social relations and studied economic relations as part of the societal web. Neoclassicism started to make inroads in the 1930s. Formally it was taught within the auspices of Political Economy and, at the same

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<sup>3</sup> Two were the main academic economic journals: the *Archive of Economic and Social Sciences* (edited by D. Kalitsounakis) and the *Review of Social and Public Economics* (edited by X. Zolotas and A. Aggelopoulos). The first covered the whole spectrum of the social sciences (and not only economics) and his editor studied meticulously the Classical Political Economy. On the other hand, the *Review of Social and Public Economics* focused exclusively on economics with X. Zolotas representing liberal views and A. Aggelopoulos state interventionist views.

time, it did not enjoy an unequivocal dominance. On the contrary, the ascendance of theories of planned economy - either of the Marxist type adhered by the young then the Soviet Union or of the 'state-socialist' type that the newer German Historical School advocated – together with the increased influence of economic state interventionism during the intra-war period inhibited significantly the spread of neoclassicism. Even doyens of liberalism (e.g. X. Zolotas<sup>4</sup>) flirted sometimes with socialist or quasi-socialist economic ideas. It was only after the 2<sup>nd</sup> World War that the grip of neoclassicism became firm in Greek economics. Again the general rubric 'Political Economy' was conserved but its content changed: now it was solely Marginalism. This nearly schizophrenic situation continued till the 1970s when slowly the chairs on general economic theory were changed from 'Political Economy' to 'Economics'. This process was part of the aforementioned purge of the Greek specificities and the realignment with the by then dominant Anglo-Saxon academic paradigm.

Of course, political and social conditions influenced this changing landscape. The realignment with the Anglo-Saxon paradigm stemmed from the development of Greek capitalism and its closer ties with the dominant Anglo-Saxon countries – first with the UK and after the 2<sup>nd</sup> World War with the US. Thus neoclassicism became dominant and the type of standardization of the internal organization of economic science decoupled from the Franco-German perspectives and followed the Anglo-Saxon model<sup>5</sup>. The creation of the Centre for Economic Research (known as *KEPE*) played a significant role in that. This process evolved for good after the 1960s and it was promoted by both the Right and the Centre and Centre-Left in Greek politics. On the other hand, the Left remained – particularly after the Civil War of 1946-9 – excluded from the academia and literally persecuted<sup>6</sup>. Thus it had no actual influence on

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4 X. Zolotas was a famous Greek economist with a long-standing influence who became also prime minister for a limited period in the early 1990s.

5 Psalidopoulos (1999) gives a detailed and lucid account of this transformation, particularly in the chapter 'Economic Science in Greece, 1944-1967: From national specificities to the Anglo-Saxon paradigm'.

6 For example, even a prominent economist and member of a wealthy industrialist family, A. Aggelopoulos, who had participated in the communist-led Resistance against the Axis occupation was thrown out of the university.

academic debates although it mastered a considerable influence outside it and popularized its ideas more systematically than the dominant trends<sup>7</sup>.

There is however an interesting point in this post-war era. Political Economy as a rubric was brushed aside but at the same time – particularly in the 1960s – Keynesianism started making significant inroads in the Greek economist community. Under its wings, shyly in the beginning, more radical problems started to appear. Thus the brushing aside of the rubric coincided with the emergence of approaches that can today be classified as Radical Political Economy. This development was not curious. In the Anglo-Saxon world, after the war, Keynesianism had become the new orthodoxy and this was communicated to Greece by the economists that were trained abroad and returned to the country afterwards. The Keynesian dominance with its heretical (for neoclassicism) views on state economic intervention, demand, money and unemployment facilitated the emergence of more radical perspectives. Thus not only radical Keynesian approaches but also classical and Marxist Political Economy perspectives were reinvigorated. These began to trickle down to Greece despite the repressive political environment. In fact the pre-dictatorship period of relaxation of this environment facilitated this trickle down. Thus, views today classified as Political Economy began to appear in Greece without however using the very term in a stricter form.

The military dictatorship of 1967-74 suspended this process while the realignment while the Anglo-Saxon model continued even more forcefully. During its reign, the standardization of economics and its clear-cut separation from the other social sciences (through the creation of autonomous Economics departments) continued but radical views were again prohibited. It was only after the fall of the dictatorship that the aforementioned process began again. The radicalization of the Greek society and the return of academics who have worked abroad – many of whom had fled the dictatorship and opposed it actively – reinforced it.

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<sup>7</sup> The scientific journal *Antaios* was instrumental in elaborating and publicizing the economic views of the Left in the post-civil war period.

The academic community was restructured, fresh views were introduced and the old academic apparatus was brushed aside (and purged to a rather small extent from those who had unabashedly co-operated with the military junta). The newfound air of freedom led to the flourish of radical perspectives. Another crucial new feature was that Marxist Political Economy was 'legalized' and entered the academic community.

These developments led to a change of the understanding of Political Economy. Within this new boundary, they were enlisted all these theories and currents that stress the social nature of economic relations and proceed to study them accordingly as opposed to the neoclassical a-social and individualist perspective. Under this new banner Marxist Political Economy, the revival of Classical Political Economy (particularly in the form of Neo-Ricardianism), radical post-Keynesianism and institutionalism spread in the Greek economist community and acquired a significant foothold in the academia. Thus, the term 'Political Economy' started to be used again in academic appointments and scientists working within this perspective began to be accepted in specialized scientific fields (an almost non-go area previously).

This conception of the term 'Political Economy' continued to hold till the 1990s. However, soon disconcerting signs appeared. Neoconservatism in Greece became dominant with a significant time-lag (compared to the West). Whereas in the West neoconservatism was dominant from the early 1980s, in Greece it reigned by the early 1990s. This neoconservative onslaught gripped the Greek university as well.

Neoconservatism in higher education began in the late 1980s. In the beginning it was concealed behind 'innocent' changes of supposedly technical nature. In the case of economics' departments this took the form of the creation of several new departments that fell broadly within the sphere of economics<sup>8</sup>. However, contrary to the old general economics departments the new ones were extremely specialized in scope. In essence,

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<sup>8</sup> For a detailed presentation see Petralias (1999).



these new departments were more technocratic and thus, silently, Political Economy was pushed aside. At the same time the crisis in the relation between the university in general (and the economics departments in particular) and the labour market had erupted for good. After a golden era of rapid development – from the mid-1950s till the 1973-4 – Greek capitalism entered a period of structural crisis. The Greek university has expanded during the previous golden era because there was an urgent need for educated personnel and particularly scientific wage labor. This, in turn, facilitated possibilities of social ascendancy for middle and lower classes. Thus the Greek university became a truly mass university with limited class barriers.

The arrival of the 1973-4 crisis disrupted these links. A first victim was the old traditional general economics departments: their degrees were considered not sufficiently marketable and thus not securing getting a good job. On the contrary, the new specialized and more technocratic departments were considered as better equipped for this. It is characteristic that the two older economics departments (those of the University of Athens and Thessaloniki) were overtaken by newer departments – coming from older professional schools - as the first choices of new entrants. Several of these newer departments were actually quite old – though not older from the two aforementioned ones – but were not part of the university system in the beginning. They became part of it later on and in the 1980s acquired the formal title ‘university’<sup>9</sup>. These were older than the other new specialized of the 1980s but at the same time were keener than the old traditional departments to follow the new dominant trends. Their ascent was founded in the combination of having an ‘air’ of tradition by not being newly-found and at the same time conforming willingly to the new social, economic and political prerogatives. Thus they eagerly transformed internally by both creating new specialized and technocratic departments and making their older economics departments more orthodox. This situation was further aggravated in the 1990s when neoconservatism became even stronger

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<sup>9</sup> Thus, the Athens School of Economic and Trade Science was renamed Athens University of Economics and Business and the Higher Industrial Schools of Thessaloniki and Piraeus were renamed as Universities of Macedonia and Piraeus respectively.

and started to promote its intellectual core more openly. This was coupled with a greater turn towards quantitative techniques, empirical studies (with limited or no economic analysis) or mathematical modeling (of an extremely unrealistic abstract nature).

This neoconservative turn affected through two paths the conception and the status of Political Economy. The first path was expressed by some limited attempts by neoclassicism to hijack the area of Political Economy through a short-lived attempt to promote the so-called New Political Economy and particularly Public Choice theory. In both cases it was argued that the consideration of political aspects – but within an individualist framework and without the consideration of social aspects as such – legitimized the use of the term. In other words, economic analysis could speak about lobbies and institutions but not about social classes and class struggle. Thus, this view was projected as the new meaning of the term. Not only this but even the exclusion of Marxist, Classical and Institutionalist political economic perspectives from the area of Political Economy was preached since they were deemed as ‘dated’ and ‘sociological’; and thus belonging to the pre-history of economic science which has no place in a modern university. This whole endeavor falls completely into the new phenomenon of ‘economics’ imperialism’ – i.e. the recent attempt by neoclassicism to conquer scientific fields that were previously non-go areas for it<sup>10</sup>. It is interesting to note that this hijacking attempt was not based on the work of the founders of marginalist analysis (Walras, Jevons, Bohm Bawerk, Clark etc.) who indeed tackled issues of Political Economy, but from a subjectivist utilitarian viewpoint. On the contrary, in this new neoconservative attempt even these perspectives were absent and Political Economy was redefined as simply the analysis of political issues from a marginalist perspective. However, these far-fetched and rather extravagant attempts did not succeed. The causes of this failure are two. First, there was still significant resistance within academia but

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<sup>10</sup> The case of ‘economics’ imperialism’ was exclaimed by Lazear in many papers (e.g. Lazear (2000)) and criticized accurately by Fine (e.g. Fine (2007)).

also the students against neoconservatism. Second, neoconservatism – in the end – preferred to proceed directly to the purge of Political Economy instead of trying to liquidate it from within.

The second – and dominant – path was an outright purge of Political Economy from the Greek university. It actually blocked its post-dictatorship spread and inaugurated once again systematic attempts not only to contain it but actually to curtail it. Hence, the number of new academic appointments in Political Economy was curtailed tremendously and even older appointments changed or were not renewed. This move was supported – and to a significant degree instigated – by the educational policies of all the recent Greek governments.

To summarize, in the beginning of Greek academic economics (i.e. in the end of the 19<sup>th</sup> century) the term ‘Political Economy’ was used extensively and it was understood as general economic theory. In essence, it followed the Classical Political Economy tradition but also, to a significant extent, the German Historical School. As such it laid a certain emphasis on the social dimension of economic relations. On the other hand, Marxist Political Economy was almost completely excluded. Neoclassicism started to make significant inroads from the 1930s and onwards but this was checked by the strength of the economic theories that stressed the role of the state in the intra-war period. During this whole period the rubric ‘Political Economy’ was treated as synonymous with general economic theory and even purely neoclassical approaches used the title. Beginning before the 2<sup>nd</sup> World War and accentuated afterwards the term ‘Political Economy’ started to be displaced by the term ‘Economics’ and ‘Economic Theory’ (or Economic Analysis). In the late 1960s, while the marginalization of the term continued, there appeared – under the auspices of Keynesianism – radical theories that can today be classified as Radical Political Economy. During the period of the military dictatorship these radical perspectives were again repressed and the marginalization of Political Economy continued. After the fall of the dictatorship a new conception of Political Economy was established as the social understanding of economic relations.

## **THE POSITION of POLITICAL ECONOMY in THE ACADEMIC SYLLABI and in the TEACHING PROGRAMS of THE SECONDARY EDUCATION**

The changing scientific and academic landscape that was presented above is closely related to the position that Political Economy holds in the curricula of university departments and in the teaching programs of the secondary education (since the introduction of economic courses in the later).

From the beginning of the standardization of the economics curricula (and the turn towards the Anglo-Saxon academic paradigm) after the 2<sup>nd</sup> World War and till the end of the 1970s economic studies were dominated by a rather arcane version of neoclassicism. Keynesian theory was introduced in the 1960s – in the form of the Hicksian post-Keynesian neoclassical synthesis. Some more radical Keynesian perspectives were introduced in the late 1960s but this trend was interrupted by the strict control that the military dictatorship exercised on the universities. Thus, studying economics from a social perspective - i.e. Political Economy as such - was prohibited. At the same time the principles' courses – and usually the textbooks that accompanied them – were branded as 'Introduction to Political Economy'. The same happened with many of the university chairs of that time. The explanation of this contradiction is quite simple. The Greek university system from its very constitution followed Western trends in academia but with a sometimes considerable time-lags. Hence, from the 1960s and onwards economics departments, while purely neoclassical in essence, kept the outward appearance of the older tradition in economics (i.e. that of Political Economy).

This situation started to change in the late 1970s and early 1980s, after the fall of the military junta and the liberalization of the university. The combined impacts of the radicalization of the Greek society, the influence of the student movement (which played a crucial role in the anti-dictatorship struggle), the purge of the academics that energetically supported the dictatorship and the return of a significant number of Greek academics who fled the country during the dictatorship had a rejuvenated effect on economic studies. Academic curricula were reorganized drastically and more radical approaches were introduced. Political Economy proper was

introduced and indeed held a prominent influence in the academic syllabi. Marxist Political Economy, as part of the Political Economy tradition, was for the first time introduced both as part of Political Economy courses and as an autonomous course.

In the mid-1980s there was another important development. In 1984 an economics course was for the first time introduced in the secondary education. It was taught at the 6<sup>th</sup> (and last) class of the secondary education and was designed to provide elementary knowledge of economics at a beginner's level particularly for those students that aimed to enter an economics department. Later, in 2000, another economics course was introduced at the 4<sup>th</sup> class of the secondary education. Thus, from the mid-1980s and onwards, the new entrants in the economics departments had some knowledge of economics. Another major development took place in 1993 when the subject of Political Economy replaced that of Sociology as one of the courses of the entrance exams for the economics departments<sup>11</sup>. This change was particularly important – and sparked a row with the teachers of Sociology – because of the crisis of the educational system that was mentioned before. To put it simply, as the economic and social conditions of the middle and lower classes worsened there was even more pressure for their off-springs to enter the university as a way of social ascent. This made particularly the last classes of the secondary education mere appendages to the university entrance exams. Hence, taught courses that were not among those examined fell into obscurity and lacked attention. That was the case with the economics courses till the 1993, which meant that till then very few entrants to economics departments had any previous knowledge of economics. This changed after the 1993 and thus academic curricula had to be revised accordingly.

The introduction of economics courses in the secondary education posed the question of the theoretical content of these courses. In the beginning, the economics courses of the secondary education fell within the auspices

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<sup>11</sup> In Greece the entrance to the university passes through a national examination process, which is differentiated in several broad areas (e.g. Medicine, Law, Economics, Engineering etc.) and which is conducted under the auspices of the Ministry of Education. In each area the standards are universal and set by the ministry.

of Political Economy. Thus, they taught both the social aspects of economic relations and the existence of contending approaches within economic theory. At that time there was an overwhelming consensus within the educational community – academic and otherwise – on this issue but also within the Greek society in general. This overwhelming consensus is clearly indicated in the proceedings of a conference on ‘Political Economy and the liaison between Mid and Higher Education’ organized by the older Greek economics department, the Greek Economic Chamber and the Greek Federation of Secondary State School Teachers in Athens in 1995 (see Union of Economist Teachers of the Secondary Education (1995)). Even the more conservative approaches did not dispute the necessity of studying economics from a social perspective nor the branding of the courses as ‘Political Economy’<sup>12</sup>. Thus, the first textbook was titled ‘Political Economy’ and presented both Political Economy and Neoclassical theory. Another textbook replaced it in 1992 which also was titled Political Economy and presented both Political Economy and Neoclassical theory.

As said before, the neoconservative tide started to affect the Greek educational system with a time-lag. This affected the position of Political Economy in both the academic syllabi and the teaching programs of the secondary education. Hence, from the mid-1990s and onwards systematic attempts took place to marginalize Political Economy.

In academic syllabi courses of Political Economy (and Marxist Political Economy either as part of it or as a distinct subject) were reduced. It is indicative that almost all the nine purely economics departments (in the universities of Athens, Thessaloniki, Macedonia, Crete, Piraeus, Patras, Ioannina, Thessaly and AUEB) had before the mid-1990s a compulsory course on Political Economy at an introductory level. These introductory

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<sup>12</sup> There was a minor disagreement not with the essence of Political Economy as such but for renaming it as Social Economics on the grounds that this is more intuitive today. However, even this modification was not espoused. It is also indicative that there was also another proposal for the creation of a special body of secondary education teachers of social sciences who would teach economics, politics and sociology. This shows how strong was the emphasis, at that time, on the links between the social sciences.

courses were usually coupled with either a compulsory or an elective course on Marxist Political Economy and also with several specialized courses in which Political Economy occupied a significant part (e.g. Development). After the mid-1990s compulsory introductory courses were reduced to 4 out of the 9 and some of the elective courses were eliminated. At the same time, the presence of Political Economy in specialized courses was also reduced in many cases.

The same process took place in the teaching programs of the secondary education. Thus, in 1993-4 a new textbook was introduced that kept the title ‘Political Economy’ (with the subtitle Microeconomics – Macroeconomics) but its content was only neoclassical theory. This was replaced in the same year by another textbook with the title ‘Economic Theory’ whose content was also only neoclassical theory. This was again replaced in 2003 by another textbook under the title of ‘Principles of Economic Theory’ (taught till today) presenting solely the neoclassical perspective. Curiously enough the textbook for the 4<sup>th</sup> class of the secondary education has remained the same and still covers aspects of Political Economy.

In a nutshell, the neoconservative turn took place in the Greek educational system with a noticeable time-lag from the 1993 and afterwards. Since its launch it affected the position of Political Economy in both the secondary and the higher education by marginalizing it to a great extent. This process holds till the beginning of the 21<sup>st</sup> century. However, the onset of the fourth global capitalist crisis (the 2008 economic crisis), the subsequent 2010 eurozone crisis (and the Greek 2010 economic crisis that is part of it) create serious problems to the mainstream dominance. But the new landscape is still far from clear.

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# ***Keynes and the Modern Economy: Analogies, Differences, and Contradictions***

**Onur ÖZDEMİR<sup>13</sup>**

## **Abstract**

This paper investigates the major tools of the orthodox Keynesian approach and the critical discussion for that approach based on mainstream assumptions covering both classical dichotomy and the neoclassical thoughts. While the study reveals the difference of orthodox Keynesian arguments from the others in the presence of the importance of uncertainty and expectations, the counter-arguments are formed by way of examining three different assumptions: (i) the *Lucas critique*, (ii) the *new Keynesian approach and the small menu cost theory*, and (iii) the *heterodox reflections*. Moreover, it briefly explains the core elements of Keynesian investment theory concerning the components of financial markets. However, both of these factors also consider some major contradictory factors to reveal the difference of orthodox Keynesian assumptions from the mainstream theoretical agenda of the neoclassical approach.

**Keywords:** *Keynesian Economics, Classical Dichotomy, Financial Markets, Investment Theory, Neoclassical Approach*

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## **INTRODUCTION**

The classical theory was shocked by the new economic approach in the late 1930s. The name of the shock was the General Theory of Employment, Interest and Money which was written by the revolutionary economic-philosopher, John Maynard Keynes. His ideas stimulated a deep shock in the classical economic theory by way of changing the economic literature to a large extent. Indeed, Keynes formed the practice of the modern macroeconomics and the economic policies of the governments. Following the end of World War II, the arguments and the ideas of Keynes which concern economic policy were also adopted by leading Western economies. Furthermore, during the 1950s and 1960s, the ultimate success of Keynesian policies covering unemployment, income and wealth distribution, resource allocation, and performance on economic growth in the Western economies resulted in involvement across almost all capitalist states.

Keynes's innovative arguments were centered upon the validity of neoclassical assumptions. According to the neoclassical approach free market or laissez-faire system automatically obtains the level of full employment as so workers were flexible in their wage demands. In other words, it means that there is no way to emerge involuntary unemployment in the total aggregate economic system. Furthermore, Keynes emphasized that Say's law which was organized upon the presumption that supply creates its own demand was completely insignificant in complex and ever-developing economic systems. In that complexity, Keynes argued that individuals substantially save a portion of their income due to uncertain characteristics of the economic environment. As Keynes (1964) states that the classical economic theory has propensity to produce an economic system with two outstanding faults. First, there is a failure to provide persistent full employment for all who want and are qualified to work at the actual wage level. Second, there is an arbitrary and unequal distribution of income and of wealth that often leads living conditions to be unlivable for poor segments of households and the lower middle class.

At that point, it should be briefly mentioned how Keynes's ideas developed and structured in the aftermath of World War I. In 1919, Keynes wrote a book which was named as *Economic Consequences of the Peace* to state his arguments with the process of producing the peace treaty. This book is a leading one that constituted the upcoming arguments of Keynes produced in the *General Theory*. As Skidelsky (1996) mentions that Keynes's war experience marked the start of his career as a radical economist. The experience of the 1920s made it obvious for Keynes that classical theory could not provide knowledge for the current economic conditions. The unemployment problem, for instance, gave him priority to focus on that issue which was strictly criticized in the *General Theory*. However, after the Great Depression when the unemployment rate remained remarkably high in almost every capitalist country, it was proved that the arguments of the classical theory did not apply to the socio-economic context.

Although his observations for the post-War period of the economic progress aware of the failure of the existing theory, Keynes was still partially locked to the classical approach. However, his ideas were shaped around the expectation and the uncertainty for the economic structure. In other words, Keynes laid a foundation of two of the most important views: *expectations* and *uncertainty*. As it is known that Keynes formed his theory on the grounds of the uncertainty. That is why Keynes added the view of the conventions into his theory to cope with the uncertainty.

At this juncture, this paper briefly investigates the basic characteristics of Keynesian economics and then it explains the anomalies, contradictions, and inconsistencies to his ideas in "General Theory" based on the other economic thoughts. In that sense, the second part focuses on the major points of orthodox Keynesian assumptions. The third part explains the Lucas critique, New Keynesian assumptions, and the comparison of core arguments of the Keynesian school of thought with the heterodox assumptions. The fourth part explains the development of investment theory and the theory of financial markets considering the role of expectations and uncertainty. The fifth part compares the arguments of Keynes and the neoclassical school. The final part concludes.

## **ORTHODOX KEYNESIAN ASSUMPTIONS**

As was mentioned in the previous section, Keynes substantially rearranged the whole socio-economic context of classical theory after writing his famous book which was the *General Theory* in 1936. The theories forming the basis of Keynesian economics were first conducted in that book. In some senses, Keynesian economics is called a mixed economy; however, it is not a mixed one, but the new, revolutionary one in the history of economics thought.

Keynesian ideas in the *General Theory* started to shape with the critique of the Great Depression. Keynes argued that the solution to the crisis was to stimulate the economy by way of two aspects: (1) *the reduction in interest rates* and (2) *government spending in infrastructure*. In the sense of the first factor, the investment by the hand of government injects income which then results in more spending in the economy. Hence the interest rate should be decreased at the first stage. Following that case, the income injection into the economic system would stimulate production and investment with even more income and spending.

Moreover, the main conclusion of Keynesian economics indicates that no strong mechanism moves to the optimum output point and the full employment rate. Contrary to the classical dichotomy which argues that there is no involuntary unemployment in the economy, Keynes proposed that in case of the normal situation of an aggregate economy without any intervention or adjustment, the full employment level would be no chance to emerge. Therefore, this hypothesis conflicted with the classical approach which assumed a strong general tendency towards the optimum level of the economy.

Keynes tried to separate his core theories from the classical economists covering Ricardo, Marshall, Edgeworth, and Pigou. He always contrasted them in the *General Theory*. His central tenet of the classical view was known as Say's law which stated that "supply creates its own demand". This law briefly assumes that if people have their own self-interest and wish to maximize their utility by economic effort, then their all income will be spent to buy things to be produced by the market. In other words,

Keynes argued that Say's law as the basis of the classical theory did not apply to the economic world of experience to a large extent.

Moreover, Keynes adjusted himself to explain why supply did not create its own demand even in a perfectly competitive market with flexible wages in the General Theory. Therefore, it should be focused to explain Keynes's ideas as the strong form of Say's law only holds if increases in individual savings exactly match an increase in aggregate investment. Hence, Keynes began to criticize Say's law through developing a theory that explains the determinants of savings, consumption, investment, and production, which was constituted in the interaction of aggregate demand and aggregate supply that determines the optimum level of output and employment of an aggregate economy.

Besides the criticism through Say's law, Keynes also introduced the importance of aggregate demand and aggregate supply interaction for the total economic system. Primarily, the Keynesian aggregate demand-aggregate supply model redeveloped and reinvestigated from the Marshallian approach of demand and supply. In the General Theory, Keynes explained the functions of his aggregate demand and aggregate supply to find out the intersection point where it specifically points to the effective demand. In that sense, the optimum level of effective demand specifically shows the equilibrium level of aggregate employment and output. Also, it would justify hiring the specific number of workers necessary to produce the volume of output being purchased.

Finally, it should be noted that one of the most crucial features of Keynes's theory is the determination of wage level and the consumption level. According to Keynes (1964), the problem of wage determination is not an easy issue and has some contradictory characteristics. First, Keynes (1964) argued that it is the nominal wages rather than real wages which are set in negotiations between employers and employees. Second, nominal wage cuts are being difficult to put into effect due to the presence of regulative activities, wage contracts, and trade unions. Belonging to those two factors, Keynes particularly separated himself from the classical dichotomy. In that sense, the classical approach promotes the abolishment

of minimum wage law, the presence of trade unions, and wage contracts in contrast to Keynesian assumptions. However, Keynes argued that workers would resist nominal wage reductions, even without wage contracts or trade unions, until they would make sure that there is a general reduction in overall wage level and average price level. While Keynes focalized on nominal wage rigidities, the classical approach specified that real wage level should be reduced to get on with the level of employment. Alternatively, it means that the nominal wage level would have fallen more than the average price increases. At that point, Keynes stated that this might lead to a problem in an aggregate economy functions since the reduction of nominal wage level more than average prices would then reduce the aggregate consumer demand. Therefore, the expected result of this process would be the reduction in sales and revenues, and, of the expected profits. Besides, the planned investment would be riskier due to the reduction of expected profits. All in all, Keynes (1964) strictly pointed to the importance of adjustment in the nominal wage level depending on the changes in the average price level.

In the light of these differences between Keynes and classical dichotomy, the Keynesian shortcomings, contradictions, and inconsistencies should be also noted based on three distinctive factors: (i) *Lucas critique*, (ii) the *new Keynesian approach and the small menu cost theory*, and (iii) *the heterodox assumptions*. The next section is based on the explanation of these contradictions in Keynesian economics.

### **SOME CRITICAL DISCUSSIONS LUCAS CRITIQUE**

The new classical macroeconomics is utilized as an important approach in which it is based on the Lucas's (1976) contribution for the dynamic foundations of economic theory in the context of a critique towards the Keynesian economics. Lucas (1976) emphasizes that economists substantially focus on the problem of how people form expectations of their future. Therefore, expectations have a crucial role in an aggregate economy since they all sorts of behavior. In that vein, while given expectations depend on several determinants, one of them is very crucial for Lucas: *the policy formation pursued by the government*. When policymakers adjust the

effects of any policy change, they need to know how people's expectations respond to them. Therefore, Lucas (1976) argues that traditional methods of policy evaluation do not adequately consider the impact of policies on expectations. This argument for traditional policy evaluation is called the Lucas critique.

Following that argument, Lucas's important contribution to the economic theory, which is different from the Keynesian approach, is the introduction of "deep parameters" including preferences, technology, and resource constraints. According to Lucas (1976), the basic need for the prediction of the effect of a policy experiment, the model that consists of "deep parameters" such as preferences, technology, and resource constraints that govern individual behavior should be included in the economic analysis. So that we can predict how individuals will behave, the change in policy framework can be taken into account, and the individual's decisions can be agglomerated to measure the macroeconomic effects of any policy change. For instance, one of the most important phenomena for the Lucas critique was aroused in the analysis of disinflation. Also, another important example emerges in the negative relationship between inflation and unemployment so-called Phillips curve in which it could theoretically be failed if the monetary authorities attempt to exploit it. In particular, Lucas solved that theoretical gap by way of including the ideas related to preferences, technology, and resource constraints on economics and advanced the Keynesian expectation theories in the macroeconomic structure. Furthermore, it encouraged the macroeconomic foundation to build microeconomic foundations for their existing models.

## **NEW KEYNESIAN ASSUMPTIONS AND SMALL MENU COSTS THEORY**

Another important contribution to the orthodox Keynesian economics comes from the new Keynesian approach. The importance of that approach depends on the fact that it strives to provide microeconomic foundations for traditional Keynesian economics. The new Keynesian approach belongs to two major assumptions. The first assumption states that households and firms have rational expectations similar to what the new Classical school of thought argues for an aggregate economy. However, they significantly

differ from the new Classics in the analysis of a variety of market failures. The second assumption assumes that there is an imperfect competition in price and wage-setting to help for explaining why prices and wages can become sticky. It means that both factors do not be adjusted instantaneously to unexpected changes that emerged in economic conditions. Furthermore, the new Keynesian school of thought claims that wage and price stickiness indicate that the economy may fail to attain full employment level. Therefore, the approach specifies that the aggregate economy should be stabilized by the government or by the central bank together with using a mixed policy agenda, which may lead to a more efficient macroeconomic outcome contrary to a free-market policy.

Moreover, according to the new Keynesian approach, the actual question depends on the reasons for the slow adjustment of prices, which is an important contribution to the orthodox Keynesian approach. For instance, one of the important analyses proposed by the new Keynesian approach is the presence of menu costs which is developed by Mankiw (1985) to explain the relationship between small menu costs and large business cycles in consideration of a macroeconomic model of monopoly. The menu costs analysis means small costs that must be paid to adjust nominal prices. For example, price lists and the cost of the menu catalog can be thought of as menu costs. According to Mankiw (1985), firms are not the only ones that must pay to change the price, but some externalities accompany fluctuating prices. Mankiw (1985) adds to describe the case that a firm that decreases its prices due to a decrease in the money supply will increase the real income of the customers of that product. This will then lead the buyers to purchase more of that product, which will not necessarily be from the firm that lowers prices. As firms do not obtain the highest profit from reducing their prices, their incentive to adjust prices in response to macroeconomic conditions is decreased.

## **HETERODOX REFLECTIONS**

Besides the above-mentioned assumptions which are based on the revision of the orthodox Keynesian approach, some heterodox views are mostly criticized for those traditional views. As it is stated that Keynes (1964) attacked to the classical economic theory of automatic reach to the full



employment level and the efficient use of productive resources. Related to this case, the classical dichotomy assumes that unemployment should be considered as a result of restrictions on production and free trade led by state interventions, tariffs, and quotas. Moreover, the emergence of over-production is not possible since “every supply creates its own demand” at the final stage of each transaction. Keynes (1964) particularly rejects this free-market economy and thus explains how over-production and unemployment could occur. According to Keynes (1964), there is a gap between productive capacity and consumption since all that is produced should not be fully consumed in a given period of time. This gap could be filled through production, or saying, by investment. However, the problem could emerge at that point. As investment depends on what firms’ plans are the chances of making a profit, there is no guarantee that this gap would be filled. Therefore, Keynes (1964) proposes ways of overcoming this problem by government intervention through the way of consumption and the way of investment. At the end of each transaction, the government would have to increase its spending and then would take the control of the investment spending. Providing this theoretical proposition, Keynes (1964) thought that he was undermined the Say’s law; and thereby, the classical dichotomy.

In that sense, related to the theoretical significance of Say’s law, Marx [1976] (1982) has also somewhat proposed similar arguments as Keynes (1964) does. Marx [1976] (1982) explains his critique on Say’s law by stating that although Say was right about every sale being a purchase because the buyer and seller were various, the seller could stop circulation if for any reason he didn’t return the money immediately. However, both of these arguments show that Marx and Keynes indicate how over-production was possible under the capitalist system.

On the other hand, the common point of Keynes and Marx is that although capitalists could invest to expand production in times of economic downturns or recessions, they would not do so unless there was selling the products at an adequate profit level. Marx [1976] (1982) states this reluctance to spend to expand production naming as “hoarding”; however, Keynes (1964) explains it as “liquidity preference” which means that

people prefer in this same concept to keep their money in cash or its equivalent. Hence, there will be a gap between money demand and money supply. Although they started to an explanation of this situation in similar ways, they reached different conclusions. On the one hand, according to Marx [1976] (1982), firms were always tried to find ways to reduce the cost of producing goods by changing labor with machinery or other means of securing the output level the same with less labor. Therefore, it would result in a higher level of unemployment. Furthermore, the capitalist system needs unemployment to have an industrial reserve army to keep wages low to a level that makes production profitable. However, in turn, Marx [1976] (1982) argues that periodical crises are inevitable due to this process of capitalism and it goes through another phase of expansion, boom, crises, and depression. On the other hand, Keynes (1964) argues that government intervention could be taken to encourage investment and to increase consumption; so that, recovery from depression could be raised and actively maintained at a continuous full-employment level.

## **THE INVESTMENT THEORY and the ROLE of FINANCIAL MARKETS**

In the orthodox Keynesian economics, the uncertainty dominates the macroeconomic approaches. Keynes developed his views on the uncertainty throughout his economic writings. His theories are dominated by uncertainty; in other words, the future for him is not certain and it has full of unexpected things. In particular, uncertainty depends on a lack of information. Therefore, uncertainty might have different intensities. Since households cannot exactly know nor estimate the possible outcomes, all individual activities are characterized by uncertainty. Also, expectations are uncertain due to this inherent lack of information. We do not fully inform about the environment and its external factors or we do not have much knowledge of the macroeconomic context and the consequences of our actions. These two concepts, which are uncertainty and the expectations, constitute the infrastructure of the orthodox Keynesian approach.

Furthermore, Keynesian effective demand theory which developed in the General Theory gives important aspects and hints for uncertain expectations at the firm level. The macroeconomic model proposed by Keynes (1964)

generally consists of theories for determining aggregate demand, while the supply is treated unsatisfactorily (in other words, it is vertical in the model). In any case, it is the behavior of profit-seeking firms acting under the condition of uncertainty that is at the center of an effective demand concept. It is entrepreneurs' expectations concerning demand and supply that determine the levels of output and by that the effective demand for workers. Besides, it is the intersection between sum of the firm's sales expectations and their estimated production sales that determine the firm's decisions on output and employment. As Skidelsky (1983) indicates that the economics of Keynes is a theory of rational choice under uncertainty.

The uncertainty and expectation phenomena also play a crucial role both for investment theory and the theory of financial markets in Keynesian economics. First, it can be started with the liquidity preference theory in the financial markets. In Keynes's liquidity preference theory of financial markets, flexible price movements in financial markets covering both domestic and international units can form their way. However, the market players merely attempt to keep up stability in market price movements. As it is mentioned above sections, the economics of Keynes is dominated by uncertainty; thus, the economic future is unknowable which contrasts with the assumptions of classical economics produced an efficient market theory for world financial markets. According to mainstream views, financial market development is accelerated by speculative movements.

The financial market theory developed by Keynes (1964) stresses on the primary function of financial markets in which its primary aim is to provide liquidity, not the efficiency. In a situation where the economic future is uncertain, financial market prices tend to be stable as long as market participants accept the conventions. In other words, people are based on their expectations in financial markets to the conventions.

Keynes invoked the concept of true uncertainty regarding the future for the investment theory. Unlike the classical theory of rational expectations, the future revenues might be expected to earn are not predictable if the future is uncertain. In that sense, according to Crotty (1994), Keynes stresses the centrality of agents' consciousness of their ignorance: the state of

confidence plays a crucial role in his theory of the investment decision. Crotty (1994: 8-9) argues that “it is important to distinguish “optimism” and the neoclassical concept of “risk” from Keynes’s degree of “confidence” ...changes in the degree of confidence will shift the investment function even if our hypothetical subjective probability distribution is held constant ...when confidence is weak, the incentive to invest in physical capital or to hold long-term financial assets is blunted”.

In the orthodox Keynesian approach, entrepreneurs recognize that the future demand cannot be predictable although investment spending depends on expectations. It means that true uncertainty dominates investment spending. Therefore, the investment spending by entrepreneurs is more than the result of what Keynes is called “animal spirits” that motivating entrepreneurs. As Davidson (2007: 60) mentions that “since the animal spirits of entrepreneurs can differ from the propensity to save, therefore today’s investment spending by entrepreneurs is not directly related to the current planned aggregate savings propensity to the community”. It indirectly points to the case that the higher the level of entrepreneurial expectations of future sales and profits the greater their animal spirits. Since purchasing more investment equipment or plants, any investment projects must have more funds and these funds must be funded by the financial markets. In a theoretical sense, it can be true. However, in the Keynesian approach, the future is twilight zone and unpredictable, so that entrepreneurs will not invest too much due to several risk factors.

Up to that point, the major assumption of orthodox Keynesian economics in the case of investment theory is localized on true uncertainty. However, the risk factor is another important point in Keynesian economics. Therefore, Keynes (1964) specifies a distinction between risk and uncertainty. For instance, the conventions are considered as a factor to reduce risks and transforming uncertainty in the orthodox Keynesian approach.

Crotty (1994) puts an important passage for Keynes’s theory of conventional decision making. According to Crotty (1994: 15), the conventional formations on expectations “...creates or imagines the previously missing data needed to link rival choices to expected outcomes

[and also] they create *confidence* that expectations thus formed have a degree of meaningfulness or validity or truth-content sufficient to sustain an investment decision of great moment for the agent”. In addition, Crotty (1993: 8) remarks that “unexpected outcomes will change forecast values and could induce an alternation in the forecasting procedure and/or a decline in management’s confidence in the validity of the forecasting process. But even the confirmation of expectations by events will alter the level of investment because it will raise confidence in the meaningfulness of forecasts”.

Finally, according to Crotty (1993), the investment substantially depends on management’s preference for growth relative to safety in Keynesian economics. On the one hand, the expected profit rate has great power on the investment decision that then increase both growth and safety. On the other hand, any change in financial leverage, interest rate, or in management’s confidence will reduce the level of investment since each factor will lower the safety relative to possible investment.

## **THE NEOCLASSICAL APPROACH AND THE KEYNESIAN REFLECTIONS**

It is worth to notice that the neoclassical approach has played an important role in economic literature. When you compare the neoclassical approach with classical roots, the former one is more vulnerable in the lights of Keynesian economics attacks on theoretical context. There are different kinds of reasons that lie under this vulnerability which of those can be ranged as abstract models, mathematical extremeness, and the deficiency of economic pluralism.

The first one is the abstract world of the neoclassical approach. Most scientific indicators show that imagination has a positive impact on the development of humans and their creativity. To tell the truth, imagination is a brain activity in which all people engage compulsorily. It makes us break off for some time from the tiring, difficult, and sometimes boring life that we are living. On the other hand, it makes you gain strength and inspire you for creating new opinions. Let us think of imagination within the science of economics. In a world where economics is the basis of

everything, it is not difficult to imagine what kind of a future an economic world based on imagination is being prepared for people. We are faced with a system that almost completely lost its empirical part totally and is detached from most branches of science, is made plain, and presented to students and all other people in that manner. However, as a result of all the foregoing, what is left from such an imaginary structure in its most solid form: *the economic crises*. The economic crises can display with clarity all problems of living in this imaginary world.

Secondly, neoclassical economics uses extreme forms of mathematics in their models and theories without having any reality. It can be argued that mathematics is certainly necessary, but only in instrumental terms. You all know that in the stage of economy politics, it is claimed that democracy is not an end in itself but as a means. Now we can say in the field of economics that in most models and theories of neoclassical economics, it is true that mathematics is used as a means. Using absolute accuracy and in some conditions, the controversial of mathematical results as a means naturally creates an impact of a shield on the persons who are using this. As a result, mathematical operations that are widely used by neoclassical economics cannot detain us from saying that it used mathematics as a shield, too. But you can ask what is going on with the basic data taken from the life itself while mathematics is being used as the major tool and instrument? On one side there are results found with mathematical efforts, and on the other side, there are realities of life, which do not fit these results at all. Let us bring these two basic phenomena together. These contradictions inherent in the neoclassical structure and unexplained problems make evident the difficulties and impossibilities of students in their efforts to understand the society with this education. Finally, before finishing commenting on this item, it should be useful to emphasize and state once again: mathematic is necessary within the science of economics and should be taught, but as much as it is necessary and as purged from its instrumental aspects.

Thirdly, neoclassical economics has not a pluralistic approach. So, what is pluralism in economics? However, before answering the question “what do you mean by pluralist approaches in economics”, let us look at the meaning of pluralism. The concept of pluralism, which is mostly used in the science of politics, expresses that different opinions, ideologies, and

thoughts exist in every field of societal life and that these differences are equally legitimate, and that every individual has to carry these opinions to the stage of life in an equal and free manner. But, within this definition, do you think that the neoclassical economic system has adopted a pluralist model? The reasons are that unfortunately the social science branch of economics has detached itself from other sciences in recent years and stuck into the (so-called) absolute reality of its own world. Under the weight of monist opinions, the science of economics has brought to life once again the tyranny of totalitarianism with a neoclassical economy. It caused one of the most fundamental quests of philosophy, “is existence one, or is it more than one?” to begin being discussed for the economy, too. Neoclassical economics, which established models and theories departing from the understanding that reality could be constructed on a single principle or reduced to a single principle, is now more cornered with the current economic crisis. It allows us to say that it cannot continue this way. We will see for how long it is going to continue its actuality... However, it can be stated that we do not want an education and teaching of economics purged from history, sociology, philosophy, psychology, and anthropology (In that sense, Keynesian economics differs with its philosophical sides from the neoclassical approach). We want to find answers to questions with a science of economics which includes all fields of social sciences. Only this way can the discipline comprehend the economic relations of life. The hierarchical order created by neoclassical economics will be destroyed when the economy becomes an interdisciplinary field. If we can define economics as a branch of science that becomes meaningful with human relations, we have to raise objections to this system which takes men as economic objects. I think that we can achieve this by first bringing to the fore pluralism against this monist system in which methods that exclude critical thinking are taught.

## **CONCLUSION**

In this paper, it is focused on one of the most important economic approaches which is called the orthodox Keynesian approach. The current study primarily began with a short explanation of Keynesian economics especially for its attacks on Say’s law. After a brief explanation of the characteristics of the Keynesian economics, it was stressed on four

different points for arguments about this approach which were the Lucas critique, the new Keynesian approach and the small menu cost theory, the heterodox reflections, and the issue of the validity of Keynesian economics for the modern capitalist system. Moreover, the paper pointed to the development of investment theory and the theory of financial markets under true uncertainty based on conventional expectation and confidence in the orthodox Keynesian economics. In this sub-section, the paper substantially investigated the uncertainty and the expectation phenomena of the Keynesian approach in accordance with the investment theory and the liquidity preference. Finally, it was briefly explained that neoclassical economics was more vulnerable to Keynes's attacks in a theoretical context which is based on three points: (i) abstract models of neoclassical approach, (ii) extremeness of mathematics, and (iii) the deficiency of economic pluralism.



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# ***Media Literacy: The Real, Interactive Way and Being Ethical Within Post Conflict Non-Catharsis Society in Bosnia and Herzegovina***

**Sabahudin Hadžialić<sup>14</sup>**

## **Abstract**

Who is responsible for the media's current state of affairs? Is there any greater freedom of expression today, or is it a greater repression, or is it two sides of the same coin? The so-called "libertarian society" has come to the place of the desired "healthy society", and thus we appear to have moral anarchy. Above all, the interests of big capital and politics, technological unpreparedness, and non-compliance with ethical and professional standards prevail and overcome all.

There is also the problem of over-production of too many young people in the media field who possess poor skills, the result of the lack of a good education and monitoring of contemporary trends in journalism, as well as too many media outlets for such a small space such as Bosnia and Herzegovina (everything written about this country relates as well to Serbia, Montenegro, Croatia, Macedonia and Kosovo\*). It is not questionable that there is freedom of speech, but its application is mostly abusive or inadequate.

Media owners, journalists and editors are not difficult to pay for slander punishment and similarly when they have met the goal — to smear someone, spin real problems, etc. — BiH's libertarian society (if we can call it that) should be seen in the context of a non-free, captive and imprisoned society, a society that is chained to poverty, existential fear, subject to an epidemic of ignorance coupled with the absence of elemental courage and curiosity.

**Keywords:** *Media Literacy, Education, Journalism, Media Ethics, Media Laws, Catharsis, Bosnia and Herzegovina*

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## **INTRODUCTION**

### **FREEDOM of SPEECH and POVERTY**

Freedom of journalistic speech and expression in such a society is primarily limited by the employers' interests and the fact that journalism, as it is currently being sought in the labor market, appears to argue that anybody can be a journalist. This is happening, while the authors of the commentaries and important columns within the newspapers with the highest circulation, as the most respected form of writing in journalism, are often under the legal age, and lack experience, both professional and in real life. This is unacceptable from the perspective of professional ethical standards, if such a thing does indeed exist.

Often, in the newsrooms, the sentence is heard: "Whoever does not like it, then he/she can go, as I can find a new person for 100 euros per month on the street." And what is even worse, that's the truth. People under the pressure of poverty and unemployment are willing to work, not only for 100 euros, but for free, just to get involved in the profession, and there is no positive selection of staff as more microphone holders are required, than quality and engaging journalists.

With their willingness to look under each stone, such journalists often even annoy employers as boring and even dangerous people who can make problems with advertisers, patrons, political and business friends. Here's a banal example of what I am writing about: when is the last time that you have seen an article or commentary that examines the work of a Telecom operator?

The media are almost totally subordinated to political elites and national interests, which is why they have lost their freedom. Let's take examples in the Federation of Bosnia and Herzegovina (entity of BiH) where we can immediately talk about who is currently in power (the left and / or right option within one nation) by the chosen topics of public service TV – while in the Republika Srpska (entity in BiH) we have two equally powerful TV companies one public TV service – RTRS, and the other private TV channel – BN TV belonging to different political options. Has

there ever happened a case that an option that is under the “control” of any one of the media mentioned above is this media “asking” that “option” for this or that? Unfortunately, not. And that is why professional ethical standards of journalism are in question. “Where everyone thinks the same, no one thinks the God knows what”, said the great Duško Radovic (former Yugoslav writer and journalist, Belgrade 1922-1984) in the eighties of the last century.

It is believed that the above-mentioned penury has contributed to the reduction of media freedom. As an example, we can state that in the years after the war (1992-1995) in Bosnia and Herzegovina international donors donated millions of euros, and because of that it was easier for journalists to write and speak, as they were not dependent on anyone in the country.

The beginning of the 21st Century brought a rapid reduction in these donations. In fact, today it is possible to speak about very small amounts in relation to those immediately after the war. Because of this, the media have been subjected, when seeking funding sources, to look to the other side. Given that BiH is more and more dependent on political interests, as a result of the public and private sector of the economy largely financing the media, so the media have become politically dependent. The very fact that the strongest tycoons are, depending on the economic and territorial area they cover, in direct connection with political actors, has led to the interaction of the organized alignment of indirect pressures on the media that leads to blackout or underestimation, since the circulation of “inappropriate media to a reasonable measure” cannot harm “wider” interests.

### **MONEY MAKES JOURNALISTS GO AROUND**

Since the money is mostly in the hands of parties and companies associated with them, it is very difficult for the media to survive if they do not have someone behind them. Much of the media, especially in the Republika Srpska (BiH entity), are funded from the state budget. Can they criticize the government that finances them? A lot of issues are addressed by professional ethical standards in these areas, which are under the umbrella of precisely designating subjects of political pluralism in the context of the development of a healthy society.

A recently released World Press Freedom Index claims that BiH is in the 58th place, and after which many media said that media freedom in BiH has stagnated. Namely, in 2006 BiH was ranked 19th, and in 2010 at 47th. Place out of 180 countries included within the ranking..quote from WPMI: *“The polarised political climate, marked by constant verbal attacks and nationalist rhetoric, has created a hostile environment for press freedom. Editorial policies reflecting ethnic divisions and hate speech are ever more evident. Journalists are attacked for their ethnic origins as well as what they write. Defamation suits by politicians often serve to intimidate journalists and deter them from pursuing their work.”*..end of quote.

I am convinced that instead of “stagnation”, it would have been better to say that the situation in the media has changed and that the pressures have now been embedded into the system, and by that they are less visible, recognizable and far worse, in the long run. While the situation is no better in other countries in the region, in BiH this influence is more pronounced because of the economic and social situation, including a deep national division between ethnic groups: Bosniaks, Croats and Serbs.

Specifically, try to be a Journalist journalist of daily “*Dnevni avaz*” and publish something against Fahrudin Radončić or a journalist of daily “*Nezavisne novine*” and criticize Milorad Dodik, or even a journalist of the daily “*Oslobođenje*” and write something against the owner of Oslobođenje, Mujo Selimović. It’s simply impossible. First of all because of self-censorship, because journalists are aware that something like this would not past the editor’s desk and as such they don’t even try, but even if they did try, such a text would not be published — and we aren’t even to speaking about the consequences for the journalist.

And there are still a number of such examples. On the one hand, this can be understood in the context of the fear of journalists and that more and more of them are left out of jobs. But for the profession — professional journalism — it’s a disaster! Those who are willing to sell their human and

professional dignity to (even a small one) salary, a free ride with or smile of a politician should not be doing this job. By doing such, they are doing a disservice not only to him/her, but also to the ethics of journalism.

There are legal frameworks in BiH that provide an undisturbed working atmosphere for journalists, and that is largely a good basis for respect for media freedom, but these do not apply in practice.

However, in addition to legal regulations, physical attacks on journalists' teams, court bans, police clashes in the newsroom, denial of accreditation for certain journalists and verbal attacks, are just a part of what journalists in BiH are suffering. Since 2006, 65 physical assaults on journalists and direct threats to death have been reported, and only 15% of criminal offenses against journalists have been faced with final judgments.

It is true that Bosnia and Herzegovina has a pretty good legislation that would be envied by journalists who are fighting against the hardcore restrictions and free information in many countries around the world. It is far away, however, though, to say that in BiH we are satisfied. The growing political pressures on the media, the information (half-information and fake news) that journalists receive, pressures from media owners towards journalists, have influenced that all of these laws are almost not being applied. Why this exists? Simply, because of lack of media literacy education, development of critical thinking and "blame on other side" always for any mistake within your own ethnic group. War ended in 1995, but as the time is passing by it looks like it stopped yesterday and will continue tomorrow. Again, why? Because, it is much easier to educate a public to hate other and different ones instead of developing education which will develop critical thinking of own problems which, eo ipso, will help to overcome exactly this problems. But, politicians from all three involved mentioned sides know (and support each other so well in that) how to „teach“ their flock/herd that the problem exists in other and different ones then within its own flock/herd. By the way, all three sides speak the same language and say that they speak different languages. Why is that? Because the known linguists confirm that we can say that if the differences

between languages are less than 40 %, people speak the same languages and here the differences are less than 15 %. For example, Bosniaks, Serbs and Croats do not need interpreter when talking to each other. Also, to quote famous German philosopher Fichte: “Nation equal language“. So, they need to separate languages to be able to call themselves with different national names. In the same time, being no-catharsic shows that all three sides call their war – criminal heroes, still. Of course, International Tribunal in the legitimately established by UN has prosecuted that majority of the War Crimes have been committed by the Serbs, then by the Croats and then by the Bosniaks. Although, who killed even one innocent person during the war is a war criminal and not to talk about even Genocide such has happened in Srebrenica in 1995, Bosnian city of Eastern Bosnia and Herzegovina, when more than 8000 Bosniaks have been killed within of couple days by the side of Serbian forces. Journalists on all three sides (with just few, but brave examples on all three sides) serve the fascistic chauvinists (about which I already wrote in Eurasia Review online journal from the USA back in January 2020), populist leaders of Bosniaks, Serbs and Croats within Bosnia and Herzegovina.

That said (There are legal frameworks in BiH that provide an undisturbed working atmosphere for journalists, and that is largely a good basis for respect for media freedom, but these do not apply in practice.), there is no adequate control of the application of these laws. The best way to properly control these laws would be the establishment of an independent parliamentary commission that would monitor the implementation of these laws every six months.

In addition to violent behavior towards the media, journalists are denied access to information, although we have, as I said earlier, the Laws on Freedom of Access to Information at all levels of Dayton (back in 1995) made in Bosnia and Herzegovina. Many of the businesses of the governing structures are hidden from the eyes of the public and completely unavailable to journalists, which shows a high degree of corruption in Bosnia and Herzegovina.

## **THE LAWS AND HOW TO AVOID IT?**

The Law on Freedom of Access to Information stipulates that the deadline



for the provision of information is 15 days, and misdemeanor sanctions are prescribed if the institution or other legal entity does not provide the information within that deadline, But there have been no effects of that provision so far — no one has been sanctioned due to denial of information to journalists up to date.

Journalists are today the target of many forces, from political to economic power potentates, but the truth is that media owners are now employing a staff who meets “house rules” and if he / she is not necessarily a good journalist.

Responsible journalism and media freedom can be protected. However, the job and work of journalists in BiH is heavily burdened by low wages and pressures from commercial advertisers, and because of these poor working conditions, journalists go down to lethargy and live in fear of their own existence.

The freedom of media journalists must defend with responsible journalism with high professional ethical standards. But, with a unanimous appearance. None of the journalists can do anything alone, but together they can do a lot. Journalists are often faced with various types of pressures and the duty of all journalists is to be with their colleagues and support them when needed. Journalism can be rescued by raising professional standards, and education outside of standard institutions is essential; scholarship programs such as BIRN and Reuters, Media Center workshops, and independent learning, as well as studying at universities that have no influence on this or that policy (whether it is social, economic, and / or political).

Responsible journalism starts with each of the individual journalists because the first – journalist is responsible to himself/herself, to the people around him, and then to all who may read what he/she writes and then to the profession itself.

There is lacking, first and foremost, of collegiality in the territory of Bosnia and Herzegovina, no matter about which kind of media we are talking about. For example, politicians have a meeting and allow journalists to

wait for 5-6 hours in the winter cold, refuse to appear at a scheduled time. Why do not all journalists simply agree to leave the site and not report on the meeting? Yes, someone will probably stay and break the deal, but believe me, the politicians will do the same when such things happen on several occasions. There needs to be in the media, not a collegial grouping of just one or two, but an understanding that all must be involved.

For many, it is funny when, for example, Milorad Dodik “Serbian member of Bosnian presidency“ jokes or offends one of their colleagues or they are silent about it. Journalists are still squatting for hours in all possible weather conditions waiting for the unpardonable end of a meeting, lunch or some other political event. It’s as if we are cleaning the garbage in a stranger yards, and yet we do not see the trash in our own area of the media. How many journalists are still working in the black economy - working full-time, often more than ten hours a day, earns just a small amount of money? Media bosses have been employing journalists for many years on fake contracts, giving them a miserable salary. At least a third of them have not had internships and they are not paid for health and other benefits.

Of course, auto-censorship exists in the worst possible form. A large number of journalists are waiting for a job, so this means that there are the same number of people who think twice before editing something within the line of words. Journalists fail to convey to their colleagues how editors put pressure on them because they (editors) have been called from the “Central”. Surreal reality is at work, and the freedom of journalistic speech has also been lost.

## **CONCLUSION: BECOMING AND BEING ETHICAL**

We can conclude that there are numerous reasons for disturbing the dignity of the journalist profession, and for some, they are solely responsible - the journalists - and for others, there is a government that is accustomed to keeping the media “curbed”.

Unfortunately, some practices that violate media rights have become permanent and are not likely to change until there is fundamental change in society as a whole (who mentioned Media Literacy?).

However, even journalists are just humans. They too are people who, like other citizens of Bosnia and Herzegovina, suffer from extreme poverty and existential fear. Because of this they often work under rules and conditions that are counter to a positive media and are silent about what bothers them.

To avoid all of the above, and to create the prerequisites for the creation of professional ethical standards aimed at the creation of a healthy society, it is necessary to respect and implement five basic criteria that are the core part of every ethical system, including those belonging to professional journalists:

1. First of all, the ethical system must have common values relating to honesty, democracy, truth, objectivity, honesty and privacy. This is because before we can come to an ethical judgment, society must reach an agreement about standards of moral behavior.
2. The second criterion is that these standards must be established and based on reason and experience and they should harmonize the rights and interests of people with their obligations to other people.
3. Third, the ethical system must seek for justice. There must not be double standards of behavior unless there are compelling and morally viable grounds for discrimination.
4. The ethical system should be, as the fourth criterion, based on the freedom of choice and an ethics system that includes responsibility, to encourage honest behavior. If that is not done, then we get moral anarchy.
5. Finally, my firm stance is that I always use my own sentence in work and behavior: “However many rights I win, I must win the same amount of the responsibility.”

And of course, how can we still better shape and not allow the continuation of the maintenance of moral anarchy? Should we focus on the Law or Ethics? The question of quality is unavoidable.

What is important is that if a particular profession wants to call itself professional, it has to do its job on an ethical basis with what is most important — those who accomplish it must be responsible for their work and acts.

So, until we meet this: “Rights equal responsibility; Responsibility equal empathy and Empathy equal Equality” we will not be able to talk about any of mentioned goals above. In Bosnia and Herzegovina, but also wider.

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# ***Assesstment of Macroeconomic and Financial Performance of Fragile Five and MINT Countries Using TOPSIS Method***

**Özge Demirkale<sup>15</sup>**  
**Çiğdem Özari<sup>16</sup>**

## **Abstract**

The main purpose of this research is to measure the performance of Fragile Fives and MINT countries (Brazil, India, Indonesia, South Africa, Turkey, Mexico, and Nigeria), based on macroeconomic and financial indicators between 2015-2019. For this purpose, the TOPSIS method, which is one of the multi-criteria models in decision making, was used. In this method, stock market index, exchange rate, inflation and interest rate were decided to use as the main evaluation criteria. According to the findings obtained from the research, Turkey, which is a member of both MINT and the Fragile Five group, was found to be the country with the lowest macroeconomic and financial performance and Indonesia was found to be the best performing country. In addition, this research presents a numerical application to illustrate the use of the TOPSIS method.

**Key Words:** *TOPSIS, Macroeconomic and Financial Indicator, Fragile Fives, MINT.*

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## **INTRODUCTION**

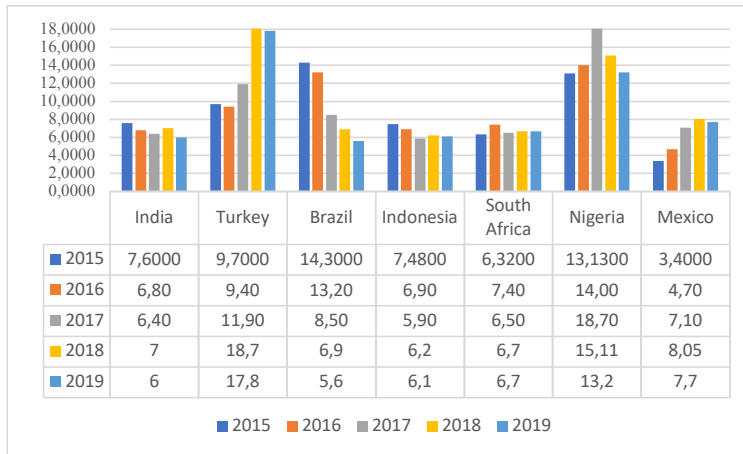
The formation of a balance in macroeconomic and financial indicators has an important role in ensuring the economic balance of countries. In particular, the instability in the macroeconomic and financial indicators of developing countries is a major difficulty to a balanced economic growth. The common issue of these countries is that they have low per capita income, worthless currency, high interest and inflation rates, savings deficit, and dependence on exports for growth.

Depending on the similarities that developing countries have in terms of macroeconomic indicators, various country groups are formed. Country groups such as the BRICS, MINT (Mexico, Indonesia, Nigeria, and Turkey) and Fragile Fives (Brazil, India, Indonesia, Turkey, and South Africa) are known as groupings within emerging market economies in terms of similarities in their economic and social structures. In 2003, a report for an international investment bank called Goldman Sachs stated that Brazil, China, Russia, and India will have more national income in 2050 than the G-6 countries and become the leading market economies. With the participation of South Africa, the term BRICS have emerged using the initials of these five countries. The MINT group countries identified by O’neill as the “new quartet” of the world economy at the end of 2013 have emerged. It is stated that these countries will be among the economies of the future for the next 20 years, especially because of their demographic advantages (Hayaloğlu, 2015, 18). The fragile fives classification was first revealed in a report by Morgan Stanley Investment Bank in August 2013. Brazil, India, Indonesia, Turkey, and South Africa were the countries that devalued the most against the US dollar after the FED’s decision to start monetary tightening in 2013. Morgan Stanley referred to these countries as “fragile fives” in its August 2013 report (Morgan Stanley, 2013: 1-2).

In Figure 1, the percentage-denominated values of the Fragile Fives and MINT countries ‘ one-year bond interest rates are presented in the 2015-2019 period range. Accordingly, Brazil and Nigeria have the highest interest rates between 2015-2016. Between 2017 and 2019, Turkey and Nigeria are among the countries with the highest interest rates.

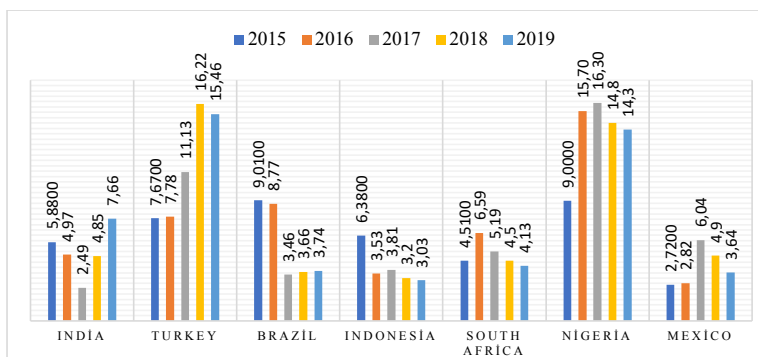


**Figure 1:** Interest Rates of Fragile Fives and MINT countries



While Turkey, Brazil and Nigeria are among the countries with the highest consumer price index growth rates among the Fragile Fives and MINT countries in the 2015-2016 period range, Brazil has seen an improvement in inflation rates since 2017. Indonesia’s inflation rate was 6.3% in 2015, a decline of about 3% in 2019. India’s inflation rate stood at about 4.5% between 2015-2018, an increase of about 3.12% in 2019. It is observed that the inflation rates of South Africa and Mexico did not change very much in the respective periods (Figure 2)

**Figure 2:** Rate of Growth in Consumer Price Index of Fragile Fives and MINT countries



The aim of this research is to compare and rank the macroeconomic and financial performance of 7 countries, which are members of both Fragile Fives and MINT between 2015 and 2019. For this purpose, one of the multi-criteria models in making decision, a Technique for Order Preference by Similarity to an Ideal Solution (TOPSIS) is used as an analysis method. Stock market index, exchange rate, inflation and interest rate were decided to use as the main evaluation criteria to rank these countries based on macroeconomic and financial performance. In this context, studies in the literature using TOPSIS and similar multi-criteria decision making (MCDM) methods were first examined.

## **LITERATURE REVIEW**

Several methods have been developed in the field of MCDM techniques. These methods have some advantages and/or weaknesses over each other. The decision-maker must decide which of these methods to choose, depending on the character of the problem and the process. The SAW (Simple Additive Weighing) method, developed by Churchman and Ackoff (1954) by applying it to the portfolio selection problem, is one of the most widely used methods in MCDM techniques due to its mathematical simplicity (Yeh, 2003; 291-292).

The ELECTRE (Elimination and Choice Translating Reality English) method, one of the techniques of the MCDM, was first developed by Beneyoun in 1966. This method is based on dual superiority comparisons between alternative decision points for each evaluation Factor (Ersöz ve Kabak, 2010, 111). TOPSIS method, developed by Hwang and Yoon (1981), is a method developed as an alternative to the ELECTRE method. The basis of the TOPSIS method is that the alternative chosen must be at the closest distance to the positive ideal solution while the negative ideal solution must be at the furthest distance (Feng ve Wang, 2000: 138).

The AHP (Analytic Hierarchy Process) method, developed by Thomas L. Saaty in the 1970s, is a powerful and easy-to-understand mathematical method that enables the evaluation of quantitative and qualitative variables in a decision-making process (Dağdeviren ve Eren, 2001: 43). The PROMETHEE (Preference Ranking Organization Method for Enrichment

Evaluations) method, developed by Brans in 1984, is a method used mostly from locative problems (Zeleny, 1986:17). Multicriteria decision aid methods such as PROMETHEE/GAIA and MAUT allow the decision-maker to quantify multiple objectives even when these objectives contain conflicting attributes or when they are subjective (Almeida, 2007: 3569).

In the literature, it is possible to find many studies comparing countries in terms of macroeconomic and financial indicators using the TOPSIS method. The TOPSIS method has found a place in the literature especially in recent periods in the field of economics and finance. This section includes some national and international studies conducted in different areas with the methods MCDM.

Özden (2011), ranked the macroeconomic indicators of Turkey with the European Union (EU) countries for the year 2009 using the TOPSIS method. According to the results of the study, the two countries that performed the best were Luxembourg and Denmark, respectively. Turkey was ranked twenty-seventh, while Greece was ranked last.

Ashourian (2012), investigated the Middle East and North Africa (MENA) countries according to the TOPSIS method using socio-economic data from 1997-1999. According to the results of the study, Mauritania as ranked first in 1999, while Turkey was ranked ninth and Lebanon was ranked last.

Genç and Masca (2013), analyzed the macroeconomic performance of EU countries and Turkey for 2012 using TOPSIS and PROMETHEE methods. Economic indicators such as inflation, unemployment rate, long-term interest rates, budget balance, public debt were used as decision criteria. The findings obtained from two analyses were found to be similar. The study also showed that Turkey ranked twenty-first in the PROMETHEE method and eighteenth in the TOPSIS method.

Urfalıoğlu and Genç (2013), investigated the macroeconomic indicators of Turkey and EU member and candidate countries for 2010 using TOPSIS, ELECTRE and PROMETHEE methods. In the study using macroeconomic

indicators such as exports, imports, unemployment, inflation rate, GDP per capita, Turkey was found to be thirteenth in TOPSIS method, thirty-one in ELECTRE method and thirty-second in PROMETHEE method.

Krivka (2014), analyzed the impact of the 2008 crisis on Lithuanian industries between 2006 and 2011 using the methods of SAW, VIKOR and TOPSIS. In the study, pre-economic crisis, crisis order and post-crisis periods were categorized and the industries least and most affected by the crisis were compared by ranking. The study also ranked industries that showed the fastest and slowest recovery after the crisis.

Eyüboğlu (2016), compared the TOPSIS method using macroeconomic indicators of Turkey, Poland, Mexico, Chile, Malaysia, Hungary, Indonesia, China, Argentina and Brazil between 2003 and 2013. According to the results from the study, China and Malaysia were among the best performing countries in the rankings, while Turkey, which was ranked fifth in 2003, was ranked last in 2013.

Balcerzak and Pietrzak (2016), investigated the developments of EU member states in the context of sustainable growth between 2004 and 2013 and the countries considered leaders in this field by the TOPSIS method. The results from the study show that the new EU member states made significant progress in terms of sustainable growth in the period 2004-2013 and ranked first.

Topçu and Oralhan (2017), examined the macroeconomic indicators of 35 OECD countries between 2010 and 2015 using ELECTRE and TOPSIS methods. According to the results of the TOPSIS method, in which countries are ranked according to their macroeconomic performance, it was determined that Britain was ranked first, Germany was ranked second, and Turkey was ranked thirtieth.

Sevgin and Kundakçı (2017), compared the macroeconomic performance of Turkey and 28 EU countries for 2013 using MOORA and TOPSIS methods. In the study using 6 basic macroeconomic indicators, Turkey

was ranked among the lowest performing countries compared to the 28 EU countries.

Cihan and Salur (2017), examined the macroeconomic performance of Turkey and BRICS countries between 2004 and 2014 using the TOSIS method. Indicators such as budget deficit/GDP, current balance/GDP, growth, inflation, and unemployment rate were used in the study. The result was that the highest performing country among the BRICS countries was China.

Sevgin and Çağlar (2017), analyzed the sociodemographic and economic variables of the member states of the Organization of Islamic Cooperation (OIC) using Data Envelopment Analysis and the TOPSIS method. According to the results obtained from the TOPSIS method, Turkey was ranked forty-two in the socioeconomic model, thirtieth in the economic model and eighth in the sociodemographic model, while Qatar was ranked first in all three models.

Ela et al. (2018), analyzed the macroeconomic performance of Turkey and EU countries for 2015 using the TOPSIS method. According to the results of the study, Ireland, Cyprus and Poland were among the countries with the best performance, while Turkey, Austria and Belgium were among the countries with the lowest performance.

Künç ve Yaşar (2019), examined the budget revenue-expense and debt variables of Turkey and OECD countries for 2018 using the TOPSIS and VIKOR method. According to the results obtained from the study, the TOPSIS method has been shown to give results that are appropriate according to the expectations of the budget balance performance rankings in the VIKOR method with this method.

## **DATA AND TOPSIS METHOD**

Data used in the study, Capital Markets Board, Central Bank of the Republic of Turkey, Investing.com -Stock Market Quotes & Financial News and Inflation.eu compiled from their website. The countries and stock market index information, exchange rate, interest rate and inflation rate are illustrated in Table 1.

**Table 1:** Alternatives and Evaluation Criteria of The Research

<b>Target</b>	<b>Max</b>	<b>Min</b>	<b>Min</b>	<b>Min</b>
<b>Country</b>	<b>Stock Market</b>	<b>Interest (%)</b>	<b>Inflation (%)</b>	<b>Exchange</b>
India	BSE Sensex	1-year bond interest	Consumer Price Index	USD/INR-EUR/INR
Turkey	BIST100	1-year bond interest	Consumer Price Index	USD/TL- EUR /TL
Brazil	BOVESPA	1-year bond interest	Consumer Price Index	USD/R-EUR/R
Indonesia	JSX	1-year bond interest	Consumer Price Index	USD/IDR-EUR/IDR
South Africa	JTOPI	1-year bond interest	Consumer Price Index	USD/ZAR-EUR/ZAR
Nigeria	NSE 30	1-year bond interest	Consumer Price Index	USD/NGN-EUR/NGN
Mexico	S&P/BMV IPC (MXX)	1-year bond interest	Consumer Price Index	USD/MXN-EUR/MXN

TOPSIS method was used in the study and this method compared the fragile fives and MINT countries with the data for the period 2015-2019 in terms of macroeconomic and financial indicators. TOPSIS method, was first put forward by Hwang and Yoon (1981), is a method developed as an alternative to the ELECTRE method. The basis of the TOPSIS method is that the alternative chosen must be at the closest distance to the positive ideal solution while the negative ideal solution must be at the furthest distance (Feng ve Wang, 2000, 138).

In the TOPSIS method, the decision maker defines weights for each criteria and compares the options group by calculating the distance between the positive ideal result and the negative ideal result for each option on these criteria. This method is more effective than other methods because of its features such as easy to use, high consistency, less calculations and programmable (Huang vd., 2011: 17).

TOPSIS method consists of 6 Steps starting with the creation of the decision matrix. The stages of the solution process of the method are as follows (Jahanshahloo, vd., 2006, s. 1378; Özcan vd., 2016b):

**Step 1:** Establish a decision matrix for the ranking.

$$A = A_{m \times n} = \begin{bmatrix} a_{11} & \dots & a_{1n} \\ \vdots & \ddots & \vdots \\ a_{m1} & \dots & a_{mn} \end{bmatrix}$$

The alternatives which will be ranked are listed in the rows of the decision matrix and the evaluation criteria which will be used for decision making are placed in the columns of the decision matrix. Table 2 illustrates the decision matrix of the research for the year 2015.

**Table 2:** Decision Matrix (2015)

2015	Stock Market	Exchange	Inflation	Interest
India	27382.9200	67.5446	5.8800	7.6022
Turkey	79900.9483	2.8937	7.6700	9.7217
Brazil	49050.0500	3.5636	9.0100	14.3498
Indonesia	4875.2117	14170.9375	6.3800	7.4816
South Africa	46262.1183	13.5981	4.5100	6.3292
Nigeria	1.3983	208584.3750	9.0000	13.1300
Mexico	43.7710	167966.8750	2.7200	3.4900

The countries which will be ranked have been listed in the rows of the matrix and the evaluation criteria which will be used for decision making are placed in the columns of matrix.

**Step 2.** Calculate the normalized decision matrix.

The normalized decision matrix is determined using the elements in the decision matrix with the help of the following equality.

$$r_{ij} = \frac{a_{ij}}{\sqrt{\sum_{i=1}^m a_{ij}^2}} \quad i=1,2, \dots, m; j=1, 2, \dots, n.$$

As a result of the calculations made to create the normalized decision matrix. The R matrix is obtained as follows.

$$R_{ij} = \begin{bmatrix} r_{11} & \dots & r_{1n} \\ \vdots & \ddots & \vdots \\ r_{m1} & \dots & r_{mn} \end{bmatrix}$$

In this step, normalized values are multiplied by weight of each indicator. Next, the weighted criterion matrix is formed as shown in Table 3 for the year 2015.

**Table 3:** Normalized Decision Matrix (2015)

2015	Stock Market	Exchange	Inflation	Interest
India	0.000002	0.000000	0.0181	0.0119
Turkey	0.000007	0.000000	0.0237	0.0152
Brazil	0.000004	0.000000	0.0278	0.0225
Indonesia	0.000000	0.000000	0.0197	0.0117
South Africa	0.000004	0.000000	0.0139	0.0099
Nigeria	0.000000	0.000003	0.0278	0.0206
Mexico	0.000000	0.000002	0.0084	0.0055

**Step 3.** Calculate the weighted normalized decision matrix.

To calculate the weighted normalized decision matrix, first the weights of each criteria must be determined by the decision maker. Then the weighted normalized matrix is obtained by multiplying the weight values specified for each criteria.

$$\sum_{i=1}^n w_i = 1,$$

where  $w_i$  denotes the weight of  $i^{\text{th}}$  criteria

$$V = V_{ij} \begin{bmatrix} w_1 r_{11} & \cdots & w_n r_{1n} \\ \vdots & \ddots & \vdots \\ w_1 r_{m1} & \cdots & w_n r_{mn} \end{bmatrix}$$

**Table 4:** Weighted Normalized Decision Matrix (2015)

2015	Stock Market	Exchange	Inflation	Interest
India	0.000000	0.000000	0.0018	0.0012
Turkey	0.000001	0.000000	0.0024	0.0015
Brazil	0.000000	0.000000	0.0028	0.0022
Indonesia	0.000000	0.000000	0.0020	0.0012
South Africa	0.000000	0.000000	0.0014	0.0010
Nigeria	0.000000	0.000000	0.0028	0.0021
Mexico	0.000000	0.000000	0.0008	0.0005



**Step 4.** Determine the positive-ideal and negative-ideal solutions.

J for the profit index and J' for the cost index

Positive Ideal:  $A^* = \left\{ (\max_i v_{ij} | j \in J), (\min_i v_{ij} | j \in J') \right\}$  and  $A^* = \{v_1^*, v_2^*, \dots, v_n^*\}$

Negative Ideal:  $A^- = \left\{ (\min_i v_{ij} | j \in J), (\max_i v_{ij} | j \in J') \right\}$  and  $A^- = \{v_1^-, v_2^-, \dots, v_n^-\}$

**Step 5.** Calculating the distances of the positive and negative ideal solution points of each alternative.

$$S_i^+ = \sqrt{\sum_{j=1}^n (v_{ij} - v_j^*)^2} \quad i = 1.2. \dots m \quad \text{and} \quad S_i^- = \sqrt{\sum_{j=1}^n (v_{ij} - v_j^-)^2} \quad i = 1.2. \dots m$$

**Table 5:** Positive Ideal Solution

2015	Stock Market	Exchange	Inflation	Interest	$S_i^+$
India	0.000000	0.000000	0.000001	0.000000	0.001168515
Turkey	0.000000	0.000000	0.000002	0.000001	0.001812538
Brazil	0.000000	0.000000	0.000004	0.000003	0.002580326
Indonesia	0.000000	0.000000	0.000001	0.000000	0.00129084
South Africa	0.000000	0.000000	0.000000	0.000000	0.000709009
Nigeria	0.000000	0.000000	0.000004	0.000002	0.002456299
Mexico	0.000000	0.000000	0.000000	0.000000	7.21176E-07

**Table 6:** Negative Ideal Solution

2015	Stock Market	Exchange	Inflation	Interest	$S_i^-$
India	0.000000	0.000000	0.000001	0.000001	0.001431346
Turkey	0.000000	0.000000	0.000000	0.000001	0.000834188
Brazil	0.000000	0.000000	0.000000	0.000000	5.09644E-07
Indonesia	0.000000	0.000000	0.000001	0.000001	0.001347099
South Africa	0.000000	0.000000	0.000002	0.000002	0.001872169
Nigeria	0.000000	0.000000	0.000000	0.000000	0.00019096
Mexico	0.000000	0.000000	0.000004	0.000003	0.002580326

**Step 5.** Calculate the relative closeness to the ideal solution and rank the alternatives.

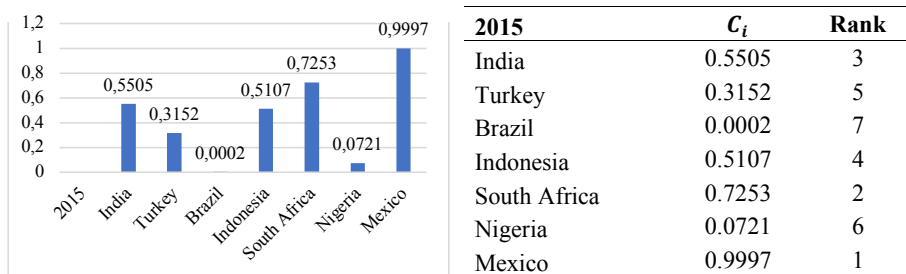
$$C_i^* = \frac{S_i^-}{S_i^- + S_i^+} \quad i = 1, 2, \dots, m.$$

**Table 7:** Distances from Positive Ideal and Negative Ideal Solutions and Relative Closeness to The Ideal Solution (2015)

2015	$S_i^+$	$S_i^-$	$C_i$
India	0.0012	0.0014	0.5505
Turkey	0.0018	0.0008	0.3152
Brazil	0.0026	0.0000	0.0002
Indonesia	0.0013	0.0013	0.5107
South Africa	0.0007	0.0019	0.7253
Nigeria	0.0025	0.0002	0.0721
Mexico	0.0000	0.0026	0.9997

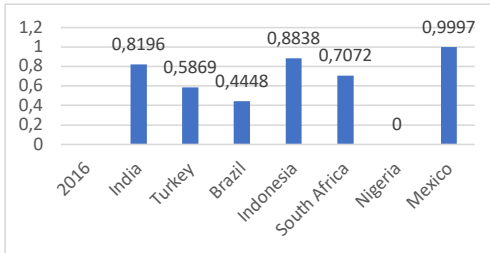
The ranking by the TOPSIS method shows that the country with the best performance in terms of macroeconomic and financial indicators in 2015 is Mexico. The second and third place are South Africa and India, respectively. Brazil, on the other hand, is seen as the country with the worst performance among the Fragile Fives and MINT countries in 2015, taking seventh place.

**Figure 3:** 2015 Ranking Results



The ranking by the TOPSIS method shows that the country with the best performance in terms of macroeconomic and financial indicators in 2016 is Mexico. Brazil was ranked sixth, up one place from the previous year. Turkey has drawn a similar picture between 2015 and 2016.

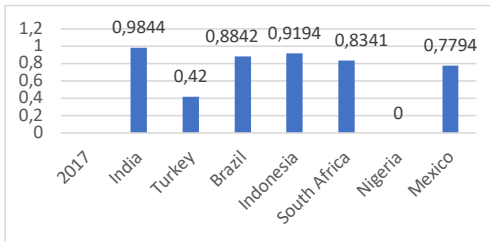
**Figure 4: 2016 Ranking Results**



2016	$C_i$	Rank
India	0.8196	3
Turkey	0.5869	5
Brazil	0.4448	6
Indonesia	0.8838	2
South Africa	0.7072	4
Nigeria	0.0000	7
Mexico	0.9997	1

In 2017, Mexico declined to fifth place. India is in the first place and Indonesia is in second place. It has been observed that Turkey has declined in a row compared to previous years.

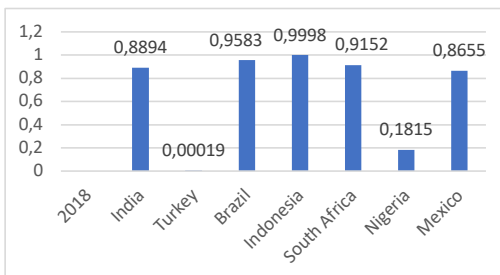
**Figure 5: 2017 Ranking Results**



2017	$C_i$	Ran
India	0.9844	1
Turkey	0.4200	6
Brazil	0.8842	3
Indonesia	0.9194	2
South Africa	0.8341	4
Nigeria	0.0000	7
Mexico	0.7794	5

In 2018, Mexico preserved its place in the rankings compared to the previous year. India has regressed in the rankings and placed fourth. Turkey and Nigeria's rankings changed places compared to the previous year and they were ranked seventh and sixth, respectively.

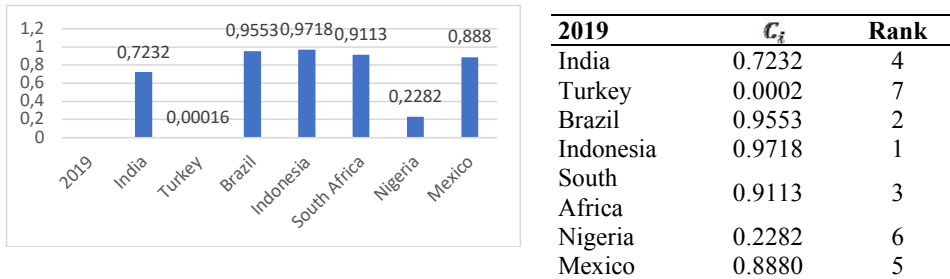
**Figure 6: 2018 Ranking Results**



2018	$C_i$	Rank
India	0.8894	4
Turkey	0.0000	7
Brazil	0.9583	2
Indonesia	0.9998	1
South Africa	0.9152	3
Nigeria	0.1815	6
Mexico	0.8655	5

In 2019, it was determined that the rankings of Mexico, Turkey and Nigeria remained the same compared to the previous year. Indonesia is ranked first in 2018 as well as in 2019.

**Figure 7: 2019 Ranking Results**



## FINDINGS

In this section, the results of the analysis were evaluated. Stock market index, exchange rate, inflation and interest rate data for the period 2015-2019 were used as macro-economic and financial indicators of the countries. The proximity value ( $C_i$ ) and the ranking of countries obtained from positive ideal solutions consisting of the best performance values and negative ideal solutions consisting of the worst performance values are given in Table 8 by the TOPSIS method. The highest value of  $C_i$  indicates the alternative (country) for which it is best in terms of the 4 criteria determined. If this value is the lowest value, it indicates the alternative (country) where the performance is worst in terms of the criteria in question.

**Table 8: Ranking Results (2015-2019)**

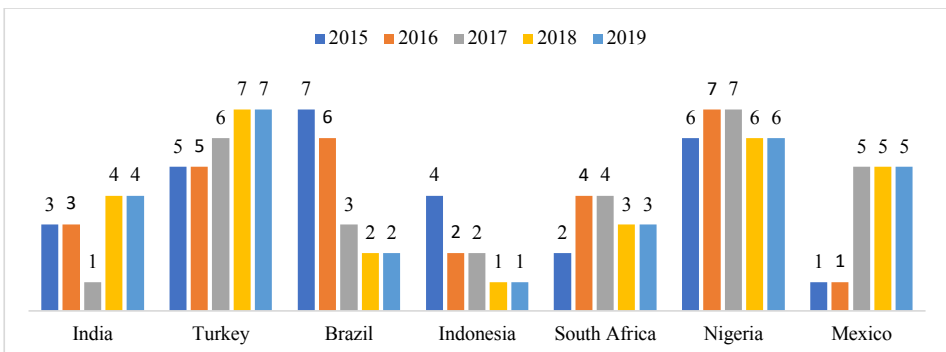
	$C_i$ & Rank	$C_i$ & Rank	$C_i$ & Rank	$C_i$ & Rank	$C_i$ & Rank
<b>India</b>	0.55 3	0.82 3	0.98 1	0.89 4	0.72
<b>Turkey</b>	0.32 5	0.59 5	0.42 6	0.00 7	0.00
<b>Brazil</b>	0.00 7	0.44 6	0.88 3	0.96 2	0.96
<b>Indonesia</b>	0.51 4	0.88 2	0.92 2	1.00 1	0.97
<b>South Africa</b>	0.73 2	0.71 4	0.83 4	0.92 3	0.91
<b>Nigeria</b>	0.07 6	0.00 7	0.00 7	0.18 6	0.23
<b>Mexico</b>	1.00 1	1.00 1	0.78 5	0.87 5	0.89

As seen from Figure 8, the ranking by the TOPSIS method has been observed to place Nigeria sixth and/or seventh in the period 2015-2019. Nigeria was ranked sixth in 2015, its place in the rankings declined in 2016 and 2017 and has continued to be ranked sixth again in the past two years. In 2015 and 2016, Turkey was ranked fifth, while its place in the rankings declined from 2017-2019, and it was found to be ranked seventh in 2019. In this context, between 2015 and 2019, Turkey and Nigeria had similar performance levels in terms of macroeconomic and financial indicators.

Another conclusion noted in the study is that Brazil's performance improved according to its macroeconomic and financial indicators between 2015-2019. Brazil was ranked seventh in 2015 and sixth in 2016, while it experienced an improvement in its macro-economic and financial indicators between 2017 and 2019, placing second in 2019. Mexico, on the other hand, is showing the opposite picture with Brazil. Mexico was ranked first from 2015-2016, while it is seen to have dropped to fifth from 2017-2019

With the exception of 2017, India and South Africa have similar performance levels, according to the rankings made by the TOPSIS method. Another conclusion from the study is that Indonesia had a stable performance in terms of macroeconomic and financial indicators between 2015-2019.

**Figure 8:** Ranking of Countries in terms of Their Macroeconomic and Financial Performance (2015-2019)



## **CONCLUSION**

In this study, the macroeconomic and financial performance of Fragile Five and MINT countries were measured according to the selected criteria using the TOPSIS method, which is one of the multi-criteria decision-making methods. The study covers the years 2015-2019. The criteria used in the study consist of stock market index, exchange rate, inflation, and interest rate data.

In the rankings made by the TOPSIS method, Nigeria was ranked sixth in 2015, its place in the rankings declined in 2016 and 2017, and it has continued to be ranked sixth again in the past two years. In 2015 and 2016, Turkey was ranked fifth, while its place in the rankings declined from 2017-2019, and it was found to be ranked seventh in 2019. In this context, between 2015 and 2019, Turkey and Nigeria had similar performance levels in terms of macroeconomic and financial indicators.

Another notable result in the study is that Brazil's performance improved relative to its macro-economic and financial indicators between 2015-2019. Brazil, which finished seventh in 2015, was found to have moved up to second place in 2019. Mexico was ranked first from 2015-2016, while it declines to fifth from 2017-2019. Another result from the study showed that Indonesia had a stable performance in terms of macroeconomic and financial indicators between 2015-2019. It has also been found that India, which came in first place in 2017, has declined to fourth place in 2019.

When we rank countries according to their macroeconomic and financial performance for 2019, the best performing country appears to be Indonesia. Brazil and South Africa were placed second and third, respectively. The countries with the worst performance in terms of macroeconomic and financial indicators are Turkey, Nigeria and Mexico, respectively. The worst performance ranking in the study was found to show similarity as of 2017.

Country groups such as Fragile Five and MINT countries are known as groupings within emerging market economies in terms of similarities in their economic and social structures. Morgan Stanley's August 2013 report

found that Brazil, India, Indonesia, Turkey and South Africa were among the most depreciating countries against the US dollar following the Fed's decision to start monetary tightening. According to the findings from the study, Turkey, which is part of the Fragile Five group, was found to be the country with the most weakness. Indonesia, which is part of the MINT and Fragile Five group, was found to be the best performing country.

Although the study has significant contributions, it is not possible to sustain the study without constraints. But it is thought that these constraints will be an opportunity for further research. One limitation is that the study was conducted between 2015-2019. It is thought that expanding the analysis period by participating especially in crisis periods, as well as measuring the performance of countries by including different criteria into the analysis will make important contributions to the literature of decision analysis and techniques.

In this research, each of the 4 criteria has 1/4 weight. Further researches can be made by elimination of these limitations. It is also possible to use other MCDM methods such as ELECTRE, AHP, PROMETHEE, VIKOR etc.

## ATTACHMENT

**Table 1: Decision Matrix (2016)**

2016	Stock Market	Exchange	Inflation	Interest
India	26505.69	70.72	4.97	6.82
Turkey	77392.32	3.18	7.78	9.45
Brazil	53983.23	3.63	8.77	13.24
Indonesia	5059.89	14018.85	3.53	6.90
South Africa	45303.62	15.32	6.59	7.48
Nigeria	1.18	273722.92	15.70	14.00
Mexico	45.90	196699.67	2.82	4.77

**Table 2: Decision Matrix (2017)**

2017	Stock Market	Exchange	Inflation	Interest
India	31162.84	63.57	2.49	6.37
Turkey	100439.03	3.89	11.13	11.90
Brazil	68421.86	3.42	3.46	8.46
Indonesia	5785.12	14333.30	3.81	5.99
South Africa	48457.88	14.22	5.19	6.57
Nigeria	1.45	328407.79	16.30	18.74
Mexico	49.00	201871.08	6.04	7.11

**Table 3: Decision Matrix (2018)**

2018	Stock Market	Exchange	Inflation	Interest
India	35683.95	74.50273	4.85	7.046167
Turkey	101782.1	5.276929	16.22	18.77667
Brazil	82609.89	4.005104	3.66	6.92875
Indonesia	6098.583	15510.26	3.2	6.262833
South Africa	49694.68	14.46143	4.5	6.696667
Nigeria	1.679318	335840.6	14.8	15.11
Mexico	46.73069	209548.6	4.9	8.05

**Table 4: Decision Matrix (2019)**

2018	Stock Market	Exchange	Inflation	Interest
India	38716.27	74.49827	7.66	6.044583
Turkey	100709.2	6.011408	15.46	17.86917
Brazil	101794.5	4.182117	3.74	5.6
Indonesia	6324.663	14944.56	3.03	6.170583
South Africa	50080.64	15.2834	4.13	6.692083
Nigeria	1.232455	355706.3	14.3	13.29
Mexico	43.06634	204957.5	3.64	7.75



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# ***The Effect of Transformational and Transactional Leadership Behaviours on Organizational Culture***

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## **Abstract**

This research was conducted in order to determine the effects and differences of demographic characteristics and transformational and transactional leadership behaviours of employees on organizational culture in an organization. Our study consists of four parts. In the first part, the concept of leadership, its definition, importance, and its difference from similar concepts will be examined. In the second part, the definition and basic dimensions of transformational and transactional leadership will be examined. In the third part, detailed information will be given on the definition of organizational culture, its importance, characteristics, and classification. In the last and fourth part of the study, research results will be given. Questionnaire technique was used in the study. Reliability test, normality test, and Kaiser-Meyer-Olkin (KMO) test were applied to the obtained data. As a result of the research, it was concluded that the demographic characteristics of the employees affect the organizational culture.

**Keywords:** *Leadership, Transformational and Transactional Leadership, Organizational Culture*

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## **INTRODUCTION**

In the 20th century, organizational behaviour discipline, transformational, transactional leadership styles, and organizational culture have begun to become the focus of many scientists. They are the most researched concepts. With the emergence of globalization, increasing knowledge, constantly changing new products and technology in every field, the importance of concepts such as leadership, transformational and transactional leadership and organizational culture have started to increase.

When organizations started to place importance on human and human power, organizational behaviour discipline and organizational culture also gained importance and organizations continued to be renewed and developed in order to ensure their sustainability. Organizations have to adapt to constantly and rapidly changing internal and external environmental conditions and maintain their sustainability in the market and they are obliged to maintain the commitment of their employees to the organization and to further strengthen the organizational culture ties among them. Companies should employ leaders who will influence their employees in all aspects and increase their commitment to the organization so that they further adapt to the purpose and vision of the organization. Transformational and transactional leaders have important roles in creating a conscious and effective organizational culture in organizations. Transformational and

transactional leaders are what form the basis of organizational culture. There is a direct link between leadership and organizational culture.

## **CONCEPT and DEFINITION of LEADERSHIP**

Leadership is a very broad and comprehensive concept. It is possible to find many definitions of leadership in the literature. While leadership was a religious and political concept that was frequently used only in primitive communities and military fields, today it has become an important component of organizational management and organizational culture due to technological developments. Throughout history, the concept of leadership has attracted the attention of researchers and a lot of noteworthy research has been conducted in this area.

There are many definitions of leadership put forward by different researchers. In the early 1920s, the role and importance of leadership in organizational management began to increase with the increasing impact of the Industrial Revolution and the introduction of high-tech products. The research on leadership conducted so far has resulted in various definitions of leadership. Despite this abundance of definitions, there is no generally accepted definition of leadership. People tend to live together due to their nature and socialization needs. Thomas Hobbes' «Leviathan,» Thomas More's «Utopia,» and J. J. Rousseau's «Social Contract» examine people's transition from living irregularly in the natural environment to living together and forming a society from different angles. For a human community, certain duties and responsibilities must be shared within the framework of certain rules. In order to allocate these duties and responsibilities among the individuals that make up the community, there is a need for a special individual from within that community (Çelik, 2000:1).

We can list some of the definitions about leadership as follows:

- Leadership is the ability and knowledge to influence and mobilize individuals by gathering them around predetermined goals and objectives (Güney, 2015: 26).
- Leadership is giving energy to the followers to do their duties better and the orientation process of this energy (Erdoğan, 2007: 486).
- Leadership is the art of mobilizing followers in line with specific goals and objectives (Fındıkçı, 2013: 55).
- It is the process of one person influencing and directing the behaviours of others in order to achieve predetermined individual, group, and organizational goals (Ataman, 2009: 543).
- Leadership is the power to influence others. It is the ability to do something without putting pressure on others (Mansurova, 2017: 4).

Certain definitions of leadership have been addressed above. These definitions approach the concept from different aspects. Considering the dimensions of the leadership concept, it can be understood that there is no definite and clear definition that is generally accepted. Although there is no common definition, it is seen that researchers have similar views on leadership.

It can be said that the definitions related to the concept of leadership include the following elements (Güney, 2015: 26; Dümen, 2008: 38).

**Goal:** Common goals and interests that bring the members of the organization together.

**Leader:** It is the person who determines the purpose of the organization, ensures communication within the group; it is a creative person who regulates and organizes.

**Leadership:** It is the ability and knowledge to gather individuals around specific goals and to influence and mobilize them to achieve these goals.

**Followers:** These are the subordinates who follow the leader's influence.

**Environment:** It is the basic element that emerges from variables such as the competence of the individuals in every aspect, the clarification of the goals and objectives of the organization, and the motivation level of the followers.

If the common aspects of all leadership definitions are summarized briefly, it is possible to talk about a group of people and the common goals that this group is trying to achieve, and an effective, talented, and knowledgeable leader in achieving the group's goals.

## **FOUNDATIONS of LEADERSHIP**

When the publications of the researchers on leadership are studied, it will be seen that the concept of leadership is formed by the combination of some main elements (Güney, 2015: 37). The cornerstones of leadership are:



**Providing Motivation:** The person in charge of the organization as the leader should ensure that their followers feel the importance of their own work so that they appreciate and adopt the goals of the organization. The leader should motivate subordinates to reach the goals of the organization (Özalp ve Kirel, 1992: 165-167).

**Appreciation and Congratulation:** The leader should show the members that they like their work by sincerely praising them and making them feel how important they are to the organization. As a leader, they must show their commitment to their followers and clearly express gratitude to them. These behaviours of leaders positively affect the performance of the employees.

**No Gender Discrimination Between Followers:** The leader should take care not to make any gender discrimination between men and women while moving towards the goals and objectives of the group. It is in the interest of the society and the organization that all followers work together. A person in the position of a leader moves away from the leadership position as soon as they begin to discriminate among the followers and lead the organization to failure (Güney, 2011: 37).

## **LEADERSHIP RULES**

Saying «I am the leader of this society,» does not make a person a real leader. The person in the leader's position should have certain characteristics and qualities. The leader must comply with the norms and rules specified in leadership definitions. It is imperative that the person who claims leadership grows and develops themselves. Otherwise, it will cause great harm to both the leader and the followers in the society, and it will drag the group into crisis. Some norms that can be considered as a prerequisite for leadership are addressed below (Güney, 2015: 55).

**One should know and improve oneself:** An impressive leader must first know themselves. They must know their own weaknesses and strengths, strengthen their weaknesses, and improve themselves in every aspect.

**The person should have sufficient knowledge and experience:** Knowledge and experience are the most fundamental elements for

leadership. It is not possible for a leader without knowledge and experience to lead the society in real terms. Leaders who cannot answer the society's questions and find solutions to its problems lose their dignity and become an object of derision. A leader should be like a complete resource in terms of knowledge and experience. In other words, the society should feel that it can find an answer and a solution in the leader for every problem it faces. The leader has earned the society's trust (İnce and Oktay, 2006: 19).

**The leader should have a sense of responsibility:** The leader has a responsibility for the followers' goals and objectives. A leader should fulfil this responsibility in the most critical times, clearly, and without wasting any time (Baykal, 1998: 137).

**The leader should set objectives and goals:** The person in the leader's position should set original objectives, goals, and dreams for the society and the organization. Only when these objectives and goals are achieved true leadership is demonstrated.

**The leader should be able to make appropriate and timely decisions:** It is the ability to make decisions even in the most difficult conditions that makes a true leader. A rational, logical, and worthy leader is able to make and implement healthy decisions even in the most difficult times (Tuncer, 2011: 68-70).

## **THE DIFFERENCE BETWEEN LEADER AND MANAGER**

In order to better understand the difference between leader and manager, it will be useful to refer to the definitions of both concepts. Management is a concept that describes the processes of planning, organizing, and controlling the activities within the group in line with the goals of the organization. It is the art of managing people.

**Leadership:** It is the skill of guiding, shedding light, and persuading the employees in order to realize common goals and objectives (Erdoğan, 2007: 488).

**Manager:** It is someone who employs smarter people than themselves.

**Leader:** It is the person who motivates the followers by influencing them in every aspect.

The differences between Leader and Manager are shown in Table 1 below.

**Table 1:** Differences Between Manager and Leader

<b>MANAGER</b>	<b>LEADER</b>
Administrator	Innovative
Keeps the order	Makes a difference
Sustains	Improves
Structure-centered	Human-centered
Tends to control	Trusts
Wide perspective	Narrow perspective
Asks "How" and "When"	Asks "What" and "Why"
Considers the lower limits	Considers the environment
Accepts the current situation	Challenges the current situation
Acts in accordance with the norms	Can go beyond the norms
Does things right	Does the right things
Copyist	Original
Authoritarian	Risk-taker
Encourages	Directs
Asks questions	Gives answers
Gives more importance to ideas	Gives more importance to events
Flexible	Rigid

**Source:** Güney, 2012: 43, Akyar, 2011: 276-277.

Both concepts are based on achieving predetermined goals and objectives of employees. Leader and manager are both the source of power for employees and followers.

There is a fundamental difference between the leader and the manager. As stated in the table above, the leader predicts the events and changes in advance, while the manager aims for keeping the order in the same way.

The manager does not want changes and does not become happy when there are changes in the organization. If organizations desire efficiency, sustainability, and success, they should employ or train employees and staff with both leadership and managerial characteristics. Otherwise, continuous innovation, change, and competition in our age will make it difficult for organizations to adapt to time (Güney, 2012: 42, Keçicioğlu, 1998: 10).

### **FORMS OF POWER USED IN THE LEADERSHIP PROCESS**

The concept of leadership is closely related to the concept of power. Taking a leader's role depends on that person's attitude, personality traits and behaviour towards the group members and their acceptance of them as a leader. It is closely related to the power of influence they have. In order to influence individuals, the person in the leading position must use their power from time to time. A person in the position of a leader should know very well what types of power they have, which type of power to use, and when, where, and how to use it. When they are aware of the forms of power they have and when they can use appropriately, they will reach the leadership quality and this will make them more effective and successful than other people (Derya, 2010: 9-27). It is possible to come across many definitions regarding the concept of power. Some of these definitions are addressed below (Güney, 2015: 10, Sinanoğlu, 1998: 82, Mansurova, 2017: 8).

Power is the ability of a person (or group) to influence another person (or group).

Power is an ability required to influence people's behaviour.

Power is the ability of an individual or group to influence and control the decisions, attitudes, and behaviours of others.

Power is the ability of a person to influence another person to follow their own orders or a rule of their choice. The forms of power used in the leadership process are as follows.

**Leader and Legal Power:** Legal power is defined by researchers as legitimate, legal power. It is also known as the strength of the position an individual has. Legal power is the type of power that results from the status of the leader and manager in the organization. The power of an individual to influence and direct their followers due to their official status is the legal power. According to some researchers, it is necessary to monitor and control leaders and managers who rely too much on legal power and who use their legal power frequently against their followers. Otherwise, the effectiveness of legal power may decrease. The person in the position of leader takes legal power from their position. For the followers at lower levels, there is an obligation to follow the orders given by the leader due to the status of the leader. To the leader's use of legal force against the subordinates, subordinates can respond with their own legal power as well. Just as managers have job descriptions in laws and regulations, employees also have job descriptions in the same resources (Minister and Büyükbeşe, 2010: 76).

**Leader and Power Based on Liking (Charismatic Power):** Charismatic power is a power based on personality traits. It is a special type of power that arises from a person's aura. Its origin is completely inherent. If the leader is a respectful person, their instructions are more easily accepted and followed by subordinates. The personality traits of a leader are discussed more than the formal and legal power. With this power, the charismatic leader manages the subordinates, inspires them and gives them hope. Due to charismatic power, subordinates more easily accept some attitudes and behaviours they do not like in the leader. The essence of this power lies in the completely voluntary fulfillment of the leader's orders by the subordinates through their own free will. Leaders evoke a sense of admiration in their subordinates due to this special power they possess. Subordinates adopt them as a role model because they admire the leader. Charismatic power is much broader and more extensive than any other force. However, there are very few people who have this power. Great leader Mustafa Kemal Atatürk had natural leadership qualities. His stance, behaviour, love and respect for the public, intelligence and courage are a perfect example of charisma (Bayrak, 2001: 27).

**Leader and Expertise Power:** The power that a leader has and that followers need, based on knowledge and skills, is called expert power. The subordinates, who see the expertise of their leader, accept and trust the decisions and judgments made by them more easily. Expert power in leadership is not constant; it may increase or decrease. If the knowledge and skills of a leader are accepted by subordinates, their expertise power increases. If the leader's decisions are found to be wrong and incomplete, that leader's expertise power decreases. On the other hand, the fewer people in the organization who have a command of the knowledge, experience, and technical skills of the leader, the more expertise power the leader has. Therefore, leaders should always follow the agenda and be closely involved with the internal and external affairs and the organizational changes. Leaders must always improve the amount of knowledge they have. Otherwise, they may lose their expertise over time. In order not to lose the expertise power they have; leaders should be in the position of a problem solver and a source of information for their subordinates. The staff class in organizations and military institutions is the best example of this power (Güney, 2015: 66).

**Power of Rewarding:** Rewarding is a right. Leaders can influence their subordinates by playing a role in wage increases and promotions in organizations. Since leaders have the right to use formal types of awards in institutions and organizations, they can mobilize their subordinates in line with the determined goals and objectives by using their power resulting from award-giving. Rewarding practices consist of awards such as salary increase, premium payment, promotion, appreciation, increasing authority and responsibilities, increasing status, praising, etc. (Güney, 2015: 65).

**Power of Punishment:** It is the power that arises when people do not act in accordance with the organization's goals and objectives. It is the opposite of the power of rewarding. It expresses the leader's power to punish the subordinates. It is a form of power based on fear. For this reason, anything that invokes fear in the followers is a source of power (Güney, 2015: 65).

## **TRANSFORMATIONAL AND TRANSACTIONAL LEADERSHIP**

**Transformational leader:** The definition of transformation in the dictionary is «transforming into a different form, changing shape, transformation, revolution, alternation», but it is also expressed as «bringing something from one level to another» (TDK, 2019). The transformational leadership concept used by James V. Downton for the first time was addressed by the author in his work titled «Rebel Leadership» and the concept (Transformational Leadership) has entered the literature with the work named «Leadership» published by James McGregor Burns in 1978. The concept of transformational leadership may take place in Turkish sources as a reformer, transformations, changer, transformative leader (Koçel, 2018: 608).

**The Concept and Definition of Transactional Leadership:** It is stated that transactional leadership, which was conceptualized by Burns and examined by many researchers, especially Bass, is more traditional than transformational leadership. It is based on the transactions between the leader and their followers (Luthans, 2011: 431). Transactional leadership, in its simplest form, refers to the exchange between the leader and the followers. The basis of the abovementioned exchange is the leader and the employees gathering together and determining the tasks that need to be completed, and agreeing on the rewards and punishments to be given to them based on whether these tasks are done in the desired way by the subordinates (Bass, 1998: 4; Bass, 1990b: 20). Due to the nature of social exchange, the leader, on the one hand, controls the behaviour of the followers by using power and authority, and on the other hand, responds to their requests and needs. In order to ensure the willingness and obedience of the followers to work, the transactional leader, using organizational resources, makes a special effort to involve their subordinates in the process and to change their values. A kind of stimulus-response model is utilized to control and correct adverse behaviour. (Grundstein-Amado, 1999: 250-251). The transactional leader is known as a form of leadership that was first disclosed by Burns. According to most researchers, the main basis of this theory is adherence to bureaucratic authority and laws. The transactional leader follows the goals and objectives that lead the

organization to success by distributing responsibilities to their followers. If the organization achieves success and the desired values, its followers are rewarded, and if it fails, they are punished. The transactional leadership system is evaluated as a leadership style based on reward and punishment.

### **Comparison of Transformational and Transactional Leadership:**

McGregor Burns discussed the distinction between transactional leader and transformational leader, based on the managerial teachings of Herbert A. Simon and Weber's source of economic and non-economic authority in relation to political leadership. It was named transactional leader (managerial, traditional leadership) and transformational leadership theory was developed due to the failure of this leadership approach in the face of newly developing economic and social conditions. The first studies on this issue were conducted to specify the qualities that make transformational leadership different from transactional leadership (Allix, 2000: 10).

Leadership is defined by Burns in his work titled "Leadership" as putting people into action by taking advantage of political, economic or similar powers and values to achieve their independent or mutual goals. The most important point in the definition is the objectives, which are independent from each other but also related. Two people can exchange goods and services mutually in order to achieve an independent goal. In this type of relationship, there is a bargain, not a joint effort, for followers to achieve their common interests. The situation in question arises from the transactional leadership approach. Leaders' changing and shaping the goals and values of their followers using only the leadership process, on the other hand, is all about transformational leadership. Both of the leadership approaches stated above can be used for the benefit of humanity. If the behaviour between the leader and the followers makes it possible for the goals of both sides to be achieved, then the transactional leadership will satisfy the followers. The formative values of the transactional leader are determination, correctness, and responsibility. The areas of interest for the transformational leader are equality, freedom, and justice that are to be built upon the former. The transformational leader aims to increase the morale and motivation level of the followers through the latter values stated above (Burns, 1978: 425-426).



Tichy and Devanna (1986: 343), on the other hand, explain the differences between transformational leadership and transactional leadership, as in Table 2.

**Table 2:** Differences Between Transactional and Transformational Leadership

	<b>Transactional</b>	<b>Transformational</b>
Time orientation	Short, today	Long, future
Coordination	Rules and guidelines	Unity of objectives and
Contact	Vertical, top to bottom	Versatile
Focus	Financial goals	Customer (internal and
Reward system	Organizational, external	Personal, internal
Source of power	Status	Followers
Decision making	Centralized, Top down	Participated, Bottom up
Employee	Seen as property	Seen as a developable
Obedience	Commandment	Rational explanation
Attitude towards	Avoiding, Resisting, and Protecting the	Not Avoiding, Adapting
Guidance Mechanism	Earnings	Vision and values
Inspection	Excessive harmony	Self-control
Perspective	Internal	External
Duty planning	Segmented, individual	Enriched, grouped

**Resource:** Tichy and Devanna, 1986: 343.

## **CULTURE, THE CONCEPT AND DEFINITION OF ORGANIZATIONAL CULTURE**

The concept of culture, which has more than 100 definitions in the literature, was explained in the 1750s as «the way of life of the human being.» According to Taylor, who was the most referenced name in those years, culture is «a complex whole that includes knowledge, faith, art and morality, customs and traditions, habits and all skills of a person as a member of a society.» (Gunner, 2012: 1281).

Culture, which is a deeply rooted concept, is a concept of interest to different fields of humanities and social sciences and is mainly a research subject of social anthropology. It is predicted that the concept of culture is derived from the Latin word «colere» or «culture,» which are originally used to mean «nurture, look» (Smith, 2009).

It is known that the Romans used the term «cultura» to distinguish between the plants planted by people in a field and the plants that grow

by themselves in the natural environment. Again, the term «agri-cultura», meaning «cultivating the land,» was coined by the Romans to correspond to the term «agriculture.» In this sense, the term culture still lives today. The word «ekin» (kultur), which is suggested as the equivalent of the word «culture» in Turkish, has been derived to meet the meanings of «to plant, to cultivate» in the verb «colere.» The fact that the concept of culture covers different fields and has different aspects, as well as being an abstract concept, brought along various definitions made from various aspects. For this reason, culture has been the subject of research in many different disciplines such as psychology, history, political science, anthropology, and sociology and it has been defined by different disciplines with different emphasis (Seymen, 2008: 2).

**Importance of Organizational Culture:** There have been many studies recently drawing attention to the importance of organizational culture. Because the importance of culture for any group of people, society, country, and business organization has been noticed recently. Groups evolve into organizations as people work together to achieve goals. As goals become more specific and longer term and jobs become more specialized, organizations become both formal and institutional.

**Features of Organizational Culture:** Many features of organizational culture can be addressed, but in general, we can list the features of organizational culture as follows (Güney, 2015: 188-189, Vural et al., 2007: 45).

- It is symbolic,
- It is a reflection of top management,
- It can be understood and felt without being expressed,
- It has a stable structure,
- It is distinctive and characteristic
- It is accepted.

## **EXAMINATION OF THE EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL LEADERSHIP BEHAVIORS ON ORGANIZATIONAL CULTURE**

### **Purpose of the study**

People spend a large part of their lives working. During these times, people want to both meet their own wishes and expectations and be cheerful and peaceful. Of course, there are some responsibilities that fall on the employee for all these to happen. Due to the constantly changing and renewed technological products and intense competitive environments in our age, organizations need a knowledgeable, experienced, and effective leader and a reliable organizational culture in order to reach their predetermined goals and objectives and their future vision. The aim of the study is to reveal that these two phenomena are not separate from each other, but in fact, they are concepts that complement each other.

### **The population and sample of the research**

The population of the research consists of employees working at the public and private sectors in Istanbul. The sample of the study consists of 234 participants.

### **Methodology of the research**

In our research, our data collection method was determined as the questionnaire. In the first part, the personal information of the participants was included. While analyzing the dimensions of multifactorial leadership (transformational and transactional leadership) in the second part, the Kaiser-Meyer-Olkin (KMO) test was applied to the dimension of organizational culture in the last part.

### **Data analysis**

SPSS (Statistical Package for Social Scientist) 18 was used for our survey analyses and the analysis methods to be used were determined according to the results of the normality analysis. As a result of normality analysis, according to Shapiro-Wilk and Kolmogorov - Smirnov tests: "The scale

does not have a normal distribution at 95% confidence level” hypothesis was accepted. Nonparametric tests were applied depending on the result. In addition to these, reliability analysis and frequency analysis were also applied.

### **Research hypotheses**

Hypothesis 1: Organizational culture shows a statistically significant difference according to the gender of the employees.

Hypothesis 2: Organizational culture shows a statistically significant difference according to the age groups of employees.

Hypothesis 3: Organizational culture shows a statistically significant difference according to the education level of employees.

Hypothesis 4: Organizational culture shows a statistically significant difference according to the positions of the employees in the institution.

Hypothesis 5: Organizational culture shows a statistically significant difference according to the total period of time employees worked in the institution.

## **RESULTS**

Frequency and percentage distributions of the demographic variables are shown in Table 3 below.

**Table 3:** Frequency distribution of personal characteristics of individuals

Variable	n	%
<b>Age</b>		
20 – 30	38	16.2
31 – 40	85	36.3
41+	111	47.5
<b>Total</b>	<b>234</b>	<b>100</b>
<b>Gender</b>		
Female	97	41.5
Male	137	58.5
<b>Total</b>	<b>234</b>	<b>100</b>
<b>Education Level</b>		
High School	7	3.00
Associate Degree - Undergraduate	89	38.0
Graduate Degree or higher	138	59.0
<b>Total</b>	<b>234</b>	<b>100</b>
<b>Status</b>		
Manager and Director	28	12.00
Doctor or Nurse	144	61.5
Administrative Staff	62	26.5
<b>Total</b>	<b>234</b>	<b>100</b>
<b>Service</b>		
Less than 5 years	82	35.0
6-10 years	77	32.9
11-15 years	75	32.1
<b>Total</b>	<b>234</b>	<b>100</b>

When the table regarding the demographic characteristics of the sample group is examined, it is seen that 38 (16.2%) of the participants in the sample group are in the 20-30 age group, 85 (36.3%) are in the 31-40 age group, and 111 (47.5%) are 41 years old and above. 97 (41.5%) of the participants are female and 137 (58.5%) are male. 7 (3%) of the participants have a high school degree, 89 (38%) have an associate or undergraduate degree, and 138 (59%) have a graduate or higher degree. 28 of the participants (12%) are managers or directors, 144 (61.5%) are doctors or nurses, and 62 (26.5%) are administrative staff. It was observed that 82 of the participants (35%) have a seniority of less than 5 years, 77 (32.9%) have 6-10 years, and 75 (32.1%) have 11-15 years. The correlation analysis between transactional leadership behaviours and organizational culture is shown in Table 4 below.

## CORRELATION ANALYSIS

**Table 4:** Correlation Analysis Between Transactional Leadership Behaviours and Organizational Culture

Dimensions	Avg.	Std. Dev.	1	2	3	4	5	6	7	8	9
Management with Passive People and Passive/Avoidant Leadership	2.11	0.91	—								
Conditional Reward	3.64	0.74	-0.301**	—							
Management with Active People	3.02	0.81	0.189**	0.276**	—						
Transactional Leadership	2.72	0.53	0.787**	0.160*	0.643**	—					
Power Distance	2.95	0.70	0.283**	0.008	0.223**	0.317**	—				
Avoiding Uncertainty	3.94	0.61	-0.276**	0.303**	-0.043	-0.154*	0.012	—			
Masculinity/Femininity	2.71	1.00	0.362**	-0.07	0.103	0.336**	0.378**	-0.176**	—		
Individualism/Collectivism	3.87	0.63	-0.259**	0.231**	-0.097	-0.153*	-0.104*	0.287**	0.074	—	
Organizational Culture	3.34	0.46	0.193**	0.100	0.141*	0.270**	0.612**	0.276**	0.765**	0.359**	—

The table above shows the relationship between transactional leadership behaviours and organizational culture, and when the table is examined, the following relationships between the variables were found: weak positive correlation between perceptions of Management with Passive People and Passive/Avoidant Leadership and Power Distance ( $p < 0.01$ ;  $r = 0.283$ ), weak negative correlation between perceptions of Management with Passive People and Passive/Avoidant Leadership and Uncertainty Avoidance ( $p < 0.01$ ;  $r = -0.276$ ), moderate positive correlation between perceptions of Management with Passive People and Passive/Avoidant Leadership and Masculinity/Femininity ( $p < 0.01$ ;  $r = 0.362$ ), weak negative correlation between perceptions of Management with Passive People and Passive/Avoidant Leadership and Individualism/Collectivism ( $p < 0.01$ ;  $r = -0.259$ ), weak positive correlation between perceptions of Management with Passive People and Passive/Avoidant Leadership and Organizational Culture ( $p < 0.01$ ;  $r = 0.193$ ), moderate positive correlation between perceptions of Conditional Reward and Avoidance of Uncertainty ( $p < 0.01$ ;  $r = 0.303$ ), weak positive correlation between perceptions of Conditional Reward and Individualism/Collectivism ( $p < 0.01$ ;  $r = 0.231$ ), weak positive correlation between perceptions of Management with Active People and Power Distance ( $p < 0.01$ ;  $r = 0.223$ ), weak positive correlation between

perceptions of Management with Active People and Organizational Culture (p 0.05; r = 0.141), moderate positive correlation between perceptions of Transactional Leadership and Power Distance (p 0.01; r = 0.317), weak negative correlation between perceptions of Transactional Leadership and Uncertainty Avoidance (p 0.05; r = -0.154), moderate positive correlation between perceptions of Transactional Leadership and Masculinity/Femininity (p 0.01; r = 0.336), weak negative correlation between perceptions of Transactional Leadership and Individualism/Collectivism (p 0.05; r = -0.153), weak positive correlation between perceptions of Transactional Leadership and Organizational Culture (p 0.01; r = 0.270) The correlation analysis between transformational leadership behaviours and organizational culture is shown in Table 5 below.

**Table 5:** Correlation Analysis Between Transformational Leadership Behaviours and Organizational Culture

Dimensions	Avg.	Std. Dev.	1	2	3	4	5	6	7	8	9	10
Idealized Effect (Behavioural/Qualitative)	3.78	0.63	—									
Intellectual Stimulation	3.65	0.74	0.443**	—								
Inspirational Motivation	3.71	0.66	0.532**	0.543**	—							
Individual Support	3.68	0.84	0.361**	0.386**	0.356**	—						
Transformational Leadership	3.72	0.55	0.819**	0.752**	0.798**	0.600**	—					
Power Distance	2.95	0.70	-0.09	-0.052	-0.022	0.052	-0.071	—				
Avoiding Uncertainty	3.94	0.61	0.229**	0.178**	0.175**	0.275**	0.283**	0.012	—			
Masculinity/Femininity	2.71	1.00	0.275**	0.207**	-0.048	-0.165*	0.248**	0.378**	0.176**	—		
Individualism/Collectivism	3.87	0.63	0.204**	0.116	0.283**	0.143*	0.258**	-0.104	0.287**	0.074	—	
Organizational Culture	3.34	0.46	-0.083	-0.014	0.101	0.045	-0.012	0.612**	0.276**	0.765**	0.359**	—

The table above shows the relationship between transformational leadership behaviours and organizational culture, and when the table is examined, the following relationships between the variables were found: weak positive correlation between the perceptions of Idealized Impact (Behavioural/Qualitative) and Uncertainty Avoidance (p <0.01; r = 0.229), weak negative correlation between the perceptions of Idealized

Effect (Behavioural/Qualitative) and Masculinity/Femininity ( $p0.01$ ;  $r = -0.275$ ), weak positive correlation between the perceptions of Idealized Effect (Behavioural/Qualitative) and Individualism/Collectivism ( $p0.01$ ;  $r = 0.204$ ), weak positive correlation between the perceptions of Intellectual Stimulation and Uncertainty Avoidance ( $p0.01$ ;  $r = 0.178$ ), weak negative correlation between the perceptions of Intellectual Stimulation and Masculinity/Femininity ( $p0.01$ ;  $r = -0.207$ ), weak positive correlation between the perceptions of Inspirational Motivation and Uncertainty Avoidance ( $p0.01$ ;  $r=0.175$ ), weak positive correlation between the perceptions of Inspirational Motivation and Individualism/Collectivism ( $p0.01$ ;  $r = 0.283$ ), weak positive correlation between the perceptions of Individual Support and Avoidance of Uncertainty ( $p0.01$ ;  $r = 0.275$ ), weak negative correlation between the perceptions of Individual Support and Masculinity/Femininity ( $p0.05$ ;  $r = -0.165$ ), weak positive correlation between the perceptions of Individual Support and Individualism/Collectivism ( $p0.05$ ;  $r = 0.143$ ), weak positive correlation between the perceptions of Transformational Leadership and Uncertainty Avoidance ( $p0.01$ ;  $r = 0.283$ ), weak negative relationship between the perceptions of Transformational Leadership and Masculinity/Femininity ( $p0.01$ ;  $r = -0.248$ ), weak positive correlation between the perceptions of Transformational Leadership and Individualism/Collectivism ( $p0.01$ ;  $r = 0.258$ ).

## **REGRESSION ANALYSIS**

Variables associated with organizational culture as a result of correlation analysis were included in the regression analysis and multiple regression analysis was performed. Since the perception of Transformational Leadership and its sub-dimensions were not related to organizational culture, the effect of transformational leadership behaviour on organizational culture has not been examined. The effect of transactional leadership behaviours and its sub-dimensions on organizational culture is shown in Table 6 below.



**Table 6:** The Effect of Transactional Leadership Behaviours and Its Sub-Dimensions on Organizational Culture

Independent Variable	$\beta$	t	p
Constant	2.797	14.24	0.000
Management with Passive People and Passive/Avoidant Leadership	-0.086	-1.04	0.300
Management with Active People	-0.135	-1.89	0.061
Transactional Leadership	0.415	2.27	0.024
<b>F</b>		4.155	
<b>Model (p)</b>		0.007	
<b>R<sup>2</sup></b>		0.051	

The table above shows the effect of transactional leadership behaviour on organizational culture. Regression coefficients were tested with t statistics, and Transactional Leadership ( $p < 0.05$ ) was found to be statistically significant in the regression equation that explains organizational culture. Management with Passive People and Passive/Avoidant Leadership ( $p = 0.300$ ) and Management with Active People ( $p = 0.061$ ) are not significant in the explanation. One unit increase in the Transactional Leadership behaviour score causes a 0.415-fold increase in the constant anxiety score. Transactional Leadership has a statistically significant effect on organizational culture. Explanatory coefficient, which is the percentage of independent variables explaining the model as a result of the multiple linear regression analysis ) is 0.051. The regression equation that was found to be statistically significant is as follows.

Organizational Culture = 2.797-0.086 (Management with Passive People and Passive/Avoidant Leadership) -0.135 (Management with Active People) +0.415 (Transactional Leadership).

## CONCLUSION

The second scale, which aims to measure the participants' attitudes towards transformational leadership behaviours that consists of 20 items, was developed on the basis of five dimensions: idealized effect (behavioural), idealized effect (qualitative), inspiring motivation, intellectual stimulation, and individual support perception. In order to reveal the attitude perception factor design related to transformational leadership behaviours, principal

component analysis was chosen as the factorization method, and maximum variability from vertical rotation methods was chosen as the rotation method. Cronbach's Alpha test values of the four sub-dimensions of the transformational leadership behaviours scale show that the reliability level of the scale is sufficient.

The 19-item organizational culture scale, which aims to measure participants' attitudes towards organizational culture, has been developed on the basis of four dimensions: power distance, escape from uncertainty, masculinity/femininity, and individualism/collectivism perception. In order to reveal the attitude perception factor design related to organizational culture, principal component analysis was chosen as the factorization method, and maximum variability from vertical rotation methods was chosen as the rotation method. Cronbach's Alpha test values for the four sub-dimensions of the organizational culture scale show that the reliability level of the scale is sufficient. Factor analysis results of all three scales were shown in tables in detail in the findings section.

Considering the analysis of the age variable, it was seen in the comparison table of the transactional leadership behaviours scale that the participants' perceptions of management with passive people and passive/avoidant leadership, conditional reward, and management with active people sub-dimensions showed a statistically significant difference in different age groups. It was observed that the median of management with passive people and passive/avoidant leadership perception of the participants in the 31-40 age group was statistically significantly higher than of those above the age of 41. This shows that the 31-40 age group prefers passive leadership more than those above the age of 41. It was observed that the median of conditional reward perception of the participants aged 41 and above was statistically significantly higher than those in the 20-30 and 31-40 age groups. Participants aged 41 and above are more receptive to conditional reward. The median of management with active people perception of the participants aged 41 and above is again statistically significantly higher than those in the 31-40 age group. This age group prefers a more active

management than the 31-40 age group. When the comparison table regarding the scale of organizational culture was examined, it was seen that the participants' perceptions of power distance, masculinity/femininity, and organizational culture showed a statistically significant difference according to gender. It was observed that the median of men's perception of power distance, masculinity/femininity, and organizational culture was statistically significantly higher than that of women.

When it comes to the analyses related to the seniority variable, when the comparison table of the transactional leadership behaviours scale was examined, it was seen that the participants' perceptions of transactional leadership behaviour and its sub-dimensions did not show a statistically significant difference according to seniority. In the same way, it was observed that the scores related to leadership behaviour perceptions and to its sub-dimensions and the scores related to organizational culture perceptions and to its sub-dimensions do not show a statistically significant difference according to seniority.

Regarding the analysis of the job title variable, when the comparison table of the transactional leadership behaviours scale was examined, it was seen that the scores of participants' perceptions of transactional leadership and its sub-dimensions did not show a statistically significant difference according to the job title. Finally, when the comparison table of the transactional leadership behaviours scale was examined regarding the analysis of the education level variable, it was seen that the participants' perceptions of transactional leadership behaviours and its sub-dimensions did not show a statistically significant difference according to the education level.

When the comparison table regarding the transformational leadership behaviours scale was examined, it was seen that the idealized effect (behavioural/qualitative) perceptions of the participants showed a statistically significant difference according to their education level. It has been observed that the median of idealized effect (behavioural/qualitative) perception of participants with a graduate or higher degree is statistically significantly higher than those with an associate or undergraduate degree.

When the comparison table regarding the scale of organizational culture was examined, it was seen that the scores related to participants' perceptions of organizational culture and its sub-dimensions did not show a statistically significant difference according to their education level.

When the transactional leadership behaviours and organizational culture correlation analysis table is examined, there is a positive weak relationship between the perceptions of management with passive people and passive/avoidant leadership and power distance, a weak negative relationship between perceptions of management with passive people and passive/avoidant leadership and uncertainty avoidance, a moderate positive relationship between the perceptions of management with passive people and passive/avoidant leadership and masculinity/femininity, a weak negative relationship between the perceptions of management with passive people and passive/avoidant leadership and individualism/collectivism, a weak positive relationship between the perceptions of management with passive people and passive/avoidant leadership and organizational culture, a moderate positive relationship between the perceptions of conditional reward and uncertainty avoidance, a weak positive relationship between the perceptions of conditional reward and individualism/collectivism, a weak positive relationship between the perceptions of management with active people and power distance, a weak positive relationship between the perceptions of management with active people and organizational culture, a positive relationship between the perceptions of transactional leadership and power distance, a weak negative relationship between the perceptions of transactional leadership and uncertainty avoidance, a moderate positive relationship between the perceptions of transactional leadership and masculinity/femininity, a negative relationship between the perceptions of transactional leadership and individualism/collectivism, a weak positive relationship between the perceptions of transactional leadership and organizational culture.

When the transformational leadership behaviours and organizational culture correlation analysis table is examined, there is a weak positive relationship

between the perceptions of idealized effect (behavioural/qualitative) and avoiding uncertainty, a weak negative relationship between the perceptions of idealized effect (behavioural/qualitative) and masculinity/femininity, a weak positive relationship between the perceptions of idealized effect (behavioural/qualitative) and individualism/collectivism, a weak positive relationship between the perceptions of intellectual stimulation and uncertainty avoidance, a weak negative relationship between the perceptions of intellectual stimulation and masculinity/femininity, a weak positive relationship between the perceptions of inspirational motivation and uncertainty avoidance, a weak positive relationship between the perceptions of inspirational motivation and individualism/collectivism, a weak positive relationship between the perceptions of individual support and uncertainty avoidance, a weak negative relationship between the perceptions of individual support and masculinity/femininity, a weak positive relationship between the perceptions of individual support and individualism/collectivism, a weak positive relationship between the perceptions of transformational leadership and uncertainty avoidance, a weak positive relationship between the perceptions of transformational leadership and uncertainty avoidance, a weak negative relationship between the perceptions of transformational leadership and masculinity/femininity, a weak positive relationship between the perceptions of transformational leadership and individualism/collectivism.

Multiple regression analysis was performed by including variables related to organizational culture that were found as a result of correlation analysis. Since the perception of transformational leadership and its sub-dimensions were not related to organizational culture, the effect of transformational leadership behaviour on organizational culture has not been examined.

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