Institutional entrepreneurship and organisational learning: financial stability policy design in Turkey

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ABSTRACT

In the aftermath of the Global Financial Crisis (GFC), ‘financial stability’ emerged as one of the key pillars of economic policy-making and as a new mandate for central banks. In spite of the acceptance and prominence of financial stability goal, we know very little about the mechanisms of institutional change and the role of institutional entrepreneurship in particular, to pursue financial stability objective in national contexts. This study investigates the active financial stability pursuit of the Central Bank of the Republic of Turkey (CBRT) following the GFC and argues that institutional entrepreneurship of CBRT as an organisation and the governor of CBRT as an individual paved the way for active financial stability pursuit and resulting institutional and policy changes in Turkey by accomplishing ‘organisational learning’ at the CBRT. Governor of CBRT also played a key role as an institutional entrepreneur by gaining Turkish Treasury’s political support in design of unconventional monetary policy measures for financial stability objective. Utilising institutional theory, organisation theory, and public policy literature, this study offers an interdisciplinary, agency based and process-oriented analysis to the study of the political economy of central banking in the aftermath of GFC and sheds light on the questions of why and how central banks take specific policy decisions from a micro-level analysis.

KEYWORDS

Institutional entrepreneurship; institutional change; policy change; organisational learning; financial stability

Introduction

Post-GFC context resulted in the transformation of the roles of central banks in national economies (Braude, Eckstein, Fischer, & Flug, 2012), tools they utilise to achieve their objectives (Borio & Disyatat, 2010; Borio & Zabai, 2016) and the emergence of macro-prudential measures for financial stability purposes (Baker, 2013; Galati & Moessner, 2013). Active financial stability pursuit of central banks following the GFC significantly challenged their established relationships with governments and financial markets in different contexts (Han, 2016). Moreover, the new focus on financial stability concerns paved the way for new regional financial and monetary arrangements (Krampf & Fritz, 2015). In order to cope with the negative influence of the crisis, Federal Reserve (Fed), European Central Bank (ECB),
Bank of England (BE) and Bank of Japan (BJ) employed unconventional monetary policy measures such as lowering policy interest rates close to zero level and started Quantitative Easing (QE) policies (Borio & Zabai, 2016; Fawley & Neely, 2013). The main goals behind these unconventional measures were to lessen the impact of the financial crisis and stimulate economic growth in crisis affected advanced countries. These measures are coined as unconventional because they are exceptional and significantly diverge from routine central bank practices before the GFC such as controlling short-term policy interest rates and keeping them within a positive range (Borio & Zabai, 2016). Unconventional policies of the major central banks especially of the Fed increased short-term capital flows to the emerging economies with increasing volatility and risks in managing them (Ahmed & Zlate, 2014; Gallagher, 2014). As a result, while in advanced countries central banks’ main concern has been to sustain financial stability by lowering interest rates and injecting massive amounts of money to the economy, in emerging economies main concern for financial stability risks came from the volatile capital flows.

While much of the literature examines unconventional monetary policies of advanced countries, this study focuses on an emerging economy, Turkey and how the Central Bank of the Republic of Turkey (CBRT) started to actively pursue financial stability goal in addition to its mandate of achieving and maintaining price stability and engaged in unconventional monetary policy measures for this purpose. In addition to the informal institutional change in central bank mandate for financial stability purposes without legal amendments, CBRT introduced new ‘experimental’, ‘unconventional’ or ‘unorthodox’ monetary policy instruments for active financial stability pursuit (interest rate corridor and reserve option mechanism (ROM)) (Akçelik, Aysan, & Oduncu, 2013; Akçelik, Başçı, Ermişoğlu, & Oduncu, 2015; Aysan, Fendoglu, & Kilinc, 2014). Hence, informal institutional change for active financial stability pursuit of CBRT was followed with policy changes in line with the financial stability objective.

In addition to these developments, Financial Stability Committee (FSC) was established in 2011 by the Turkish Treasury for the purpose of coordinating monetary policy and regulatory activities in order to sustain financial stability in Turkey. This constitutes a formal institutional change in the Turkish context. Thus, this study strives to explain the mechanisms behind the informal, formal institutional changes and the policy changes for active financial stability pursuit of CBRT. As this study is concerned with both institutional and policy changes, these terms are used interchangeably throughout this study. This study focuses on the period between 2010 and 2015 when CBRT started to actively follow financial stability objective and utilised unconventional monetary policy measures for this purpose.

Under what conditions and through which mechanisms did CBRT actively follow financial stability goal in the aftermath of GFC? What are the influential institutional and agency-level (both organisational and individual) factors in this institutional/policy change and how do these factors interact in the process of institutional/policy change? In order to answer these questions, this study brings a process-oriented and agency-based analysis to the changes in central banking activities and for this purpose utilises institutional theory, organisation theory and public policy literature. This paper argues that institutional/policy change regarding financial stability policy in Turkey was made possible by the institutional

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1’QE policies are those that unusually increase the monetary base, including asset purchases and lending programs. Programs designed to improve credit conditions – that is, credit easing – are a special case of QE if they also increase the monetary base’ (Fawley & Neely, 2013, p. 52).
entrepreneurship of CBRT as an organisation and the Governor of CBRT as an individual and the key endogenous mechanism that facilitated institutional/policy change is organisational learning within CBRT. CBRT as an organisation acted as an institutional entrepreneur with its organisational capabilities and institutional entrepreneurship of the Governor of CBRT was critical in sustaining a learning friendly environment at CBRT. Moreover, the Governor of CBRT played a critical role in gaining political support of the Turkish Treasury for financial stability purposes and this coordination paved the way for experimental monetary policy design and the establishment of FSC in Turkey.

This paper is organised as follows. The first section explains how Turkish case is an outlier case among other emerging economies with respect to the active financial stability pursuit. The second section provides a literature review on institutional/policy change, policy learning and organisational learning while the third section explains the methodology utilised in this paper. The fourth section presents the empirical evidence and the fifth section concludes.

The outlier case of Turkey among similar emerging economies

As elaborated in previous sections, the main financial stability risk for emerging economies after 2009 has been the surge of capital flows because of unconventional monetary policies of advanced countries. IMF (2011) indicates that the largest recipients of capital flows since 2009 have been Asian and Latin American emerging economies, in addition to South Africa and Turkey and ‘Net capital inflows have already exceeded pre-crisis peaks in many countries (Brazil, Indonesia, Korea, and Thailand), and are approaching pre-crisis highs for the rest (Peru, South Africa, and Turkey)’ (IMF, 2011, pp. 3, 18). The same report also underlines the vulnerabilities of emerging economies to the surge of capital flows (IMF, 2011, p. 9).

To illustrate that many emerging economies are not immune from the adverse impact of large short-term capital inflows, the term of ‘fragile five’ is used for Brazil, India, Indonesia, South Africa and Turkey as these countries have similar problems of large current account deficits, they are dependent on foreign capital inflows, they have lower economic growth prospects and as a result they have higher risk of currency depreciation against the US dollar (Morgan Stanley Research, 2013). Hence, Turkey shares similar risks with other emerging economies. Nevertheless, Turkish approach differs from the other cases with the active role of CBRT in financial stability pursuit and utilisation of unconventional monetary policies without direct capital flow management measures (CFMs).

IMF Policy Paper (2013, p. 17) indicates that emerging economies such as Brazil, Indonesia and Korea implemented CFMs, whereas India and China have continued their extensive traditional capital controls. Magud, Reinhart, and Rogoff (2011, p. 5) underline that although India’s and China’s substantial capital and exchange control measures are not exactly the same, these countries cannot be lumped together with other countries which ‘went down the path of financial and capital account liberalization’. Thus, countries such as Brazil, Indonesia, South Africa and Turkey face similar risks because they have substantially liberalised their capital account regimes before the GFC. Nevertheless, as a response to the surge of capital flows, Turkey followed a different path compared to the other cases. For instance, Brazil imposed capital controls with 2% tax on portfolio equity and debt inflows in 2009 and the tax on financial transactions increased to 4 and 6% in 2010 (Gallagher, 2014; IMF, 2011). Indonesia imposed six-month holding period for central bank bonds in 2010 and South Africa engaged in capital outflow liberalisation starting from 2009 (IMF, 2011).
Turkey is the only case where unconventional, experimental monetary policy measures are utilised for financial stability purposes in an emerging economy and no direct measure of capital flows have been implemented. Unconventional monetary policy measures utilised by CBRT also differ from advanced country experiences because CBRT did not lower interest rates to zero level, did not engage in QE but used asymmetric interest rate corridor and ROM in order to avoid financial stability risks associated with the surge of capital flows.

Another important aspect of the Turkish case is that Turkey has always been known as a reactive state which could not initiate policy reform before a crisis, but only after it with the impetus of external actors (Öniş & Şenses, 2007). Turkey experienced its worst economic and financial twin crises in 2000 and 2001 and only with the help of IMF programme could transform its financial system, the central bank was granted legal independence and an independent banking regulatory agency Banking Regulation and Supervision Agency (BRSA) became functional (Bakır, 2009; Bakır & Öniş, 2010). In other words, a Turkish authority, CBRT, initiating a proactive stance against the risks in the international financial markets with the utilisation of unconventional policies without direct external pressure is something that is very rare in Turkish political economy. Hence, proactive role of CBRT in financial stability pursuit, utilisation of unconventional monetary policy in an emerging economy and not resorting to direct capital flow measures make the Turkish experience an outlier case (George & Bennett, 2005).

**Explaining institutional/policy change with a focus on agency and endogenous mechanism**

Institutions can be conceptualised as ‘formal and informal rules, regulations, norms and understandings that constrain and enable behaviour’ (Morgan, Campbell, Crouch, Pedersen, & Whitley, 2010, p. 2). This study is concerned with both formal and informal institutional changes regarding active financial stability pursuit in Turkey starting from 2010. While active financial stability pursuit of CBRT since 2010 is an informal institutional change because there were no legal changes for this purpose, the establishment of FSC in 2011 constitutes a formal institutional change for the governance of financial stability policy. Moreover, for financial stability purposes, CBRT engaged in unconventional monetary policies of asymmetric interest rate corridor and ROM which are policy changes that are under investigation in this study.

Underlining the agency of organisations in addition to the agency of individuals, this research is concerned with how organisations are critical in leading to institutional and policy change. In other words, this study is concerned with the agency of organisations as players of the game, whereas institutions can be conceived as rules of the game (North, 1990). Lack of agency and reliance on exogenous explanations of institutional/policy change rather than specifying endogenous mechanisms has been seen as major weaknesses of both the institutionalist theory and public policy literature (Battilana, Leca, & Boxenbaum, 2009; Howlett & Migone, 2011; Lawrence & Suddaby, 2006; Lawrence, Suddaby, & Leca, 2009; Radaelli, Dente, & Dossi, 2012).

Regarding the increasing importance of agency in institutional analysis and in the studies of institutional change, ‘institutional entrepreneurship’ scholarship attempts to fill this void (Battilana et al., 2009). Institutional entrepreneurs can be individuals or groups of individuals and organisations or groups of organisations who initiate divergent changes and
actively participate in the implementation of these changes and their activities are enabled by field characteristics and actors’ social position (Battilana et al., 2009, pp. 67, 68). In terms of actors’ social position, ‘the status of the organization in which an individual actor is embedded as well as her hierarchical position and informal network position within an organization’ and the ‘financial resources and resources related to social position, such as formal authority and social capital’ are key factors enabling institutional entrepreneurship which ‘play a key role in helping institutional entrepreneurs convince other actors to endorse and support the implementation of a vision for divergent change’ (Battilana et al., 2009, pp. 77, 83). In this study, CBRT as an organisation and the Governor of CBRT as an individual are identified as institutional entrepreneurs because they initiated divergent change for financial stability purposes and they were actively involved in all the policy stages of agenda setting, policy formulation, implementation and evaluation. The Governor of CBRT played a critical role in institutional/policy change for financial stability purposes by gaining the political support of Deputy PM responsible for Turkish Treasury. With this support, CBRT maintained its autonomy, CBRT was enabled to utilise experimental measures and the establishment of FSC with the leadership of Deputy PM empowered CBRT to bring its agenda to other public organisations and compelled other organisations to follow the lead of CBRT in financial stability pursuit. Deputy PM responsible for Treasury is an important actor in this study with his political support but he is not an institutional entrepreneur because he did not initiate divergent change and was not actively involved in all policy stages.

After identifying agency in the institutional change process, the key concern is to identify the endogenous mechanism of institutional/policy change. One of the most important implications of GFC has been to question the merits of conventional central banking that has prioritised price stability prior to GFC. As Borio (2011, p. 1) puts it, central banks are now in uncharted waters and ‘Central banking will never be quite the same again after the global financial crisis’. Thus, central banks around the world are in the process of learning their new roles in the economy. As Minsky (1986, p. 359) put it several decades ago: ‘Central banking is a learning game in which the central bank is always trying to affect the performance of a changing system.’

In public policy literature, learning as a mechanism leading to policy change in different forms have a long history but as Bennett and Howlett (1992) rightly assert, different approaches to learning need to be more specific on answering the questions of who learns, what is being learned and to what effect learning occurs. Learning is defined as ‘updating of beliefs’ in public policy literature (Dunlop & Radaelli, 2013, p. 599; Radaelli, 2009, pp. 1146, 1147). However, relying on the policy learning of CBRT officials does not explain why it was only CBRT officials, not other public organisation officials, who first noticed financial stability risks in Turkey. Therefore, learning within CBRT needs to have an organisational element.

Grin and Loeber (2006, pp. 210, 211) draw attention to organisational factors influential in the learning processes because only with a focus on organisational aspects of learning, we can explain how context influences individuals’ learning potential. Making a similar point, Haunschild and Chandler (2008, pp. 632, 634) contend that in studies of institutional entrepreneurship leading to learning, more focus needs to be on organisational level learning because institutional entrepreneurs are not isolated from organisational settings and giving more emphasis to organisational learning will help to acquire a broader understanding of how institutional change occurs. One interesting aspect of organisational learning literature...
is that it has developed in management studies with a specific focus on private companies. Thus, studying organisational learning within public organisations offers a fertile research area (LaPalombara, 2001; Rashman, Withers, & Hartley, 2009). Furthermore, public organisations’ inability to effectively use information and experience to make better decisions reveal their failure of organisational learning and this issue requires much more attention of scholars (Moynihan & Landuyt, 2009, p. 1097).

Edmondson and Moingeon (1998, p. 12) define organisational learning as a process of ‘acting, assessing, and acting again’ which enables organisations to adapt to the changing circumstances. Cohen and Levinthal (1990), Dibella, Nevis, and Gould (1996), Common (2004) and Borrás (2011) underline the importance of organisational capacity for organisational learning to occur. There are also a few studies which apply the notion of organisational learning to the public sector (Hirschmann, 2012; Leeuw, Rist, & Sonnichsen, 1994; Zarkin, 2008). However, the role of individual agency within the organisation in fostering organisational learning is overlooked in these studies. Focusing on the within organisational features and highlighting the essential role of individual agency, Goh and Richards (1997, pp. 577, 578) identify five elements necessary for organisational learning to occur: clarity of purpose and mission, leadership commitment and empowerment, experimentation and rewards, transfer of knowledge and teamwork and group problem-solving. Similarly, Garvin, Edmondson, and Gino (2008, p. 110) identify three building blocks of organisational learning: a supportive learning environment, concrete learning processes and practices and leadership that reinforces learning. According to them, a supportive learning environment has four characteristics: psychological safety, appreciation of differences, openness to new ideas and time for reflection (Garvin et al., 2008, p. 111).

Based on theoretical considerations and interviews with experts, this study identifies four elements that organisational learning at CBRT rests on: organisational capabilities of CBRT; identification of clear policy goal and strategy regarding financial stability policy; feedback mechanisms that facilitate policy experimentation and evaluation within CBRT and also institutional entrepreneurship of the Governor of CBRT Erdem Başçı in creating a learning-friendly environment, in facilitating utilisation of experimental measures at CBRT and with his critical role in gaining political support from Turkish Treasury for CBRT’s active financial stability pursuit. In this study, I argue that this political support allowed CBRT to maintain its independence despite political pressure. These elements of organisational learning and other enabling conditions for institutional entrepreneurship are further elaborated in the later sections.

Process tracing and interview research in uncovering the policy process and identifying the endogenous mechanism leading to institutional/policy change

Process tracing in case study research allows uncovering the links between hypothesised causes and outcomes, finding the intervening variables in the causal processes and generating new variables and hypotheses inductively (George & Bennett, 2005, p. 6). In this research process, tracing method is supplemented with in-depth, semi-structured interviews with experts who are familiar with financial stability policy design in Turkey. For the interviews, purposive sampling is used in order to identify causal process observations in the financial stability policy design by contacting relevant actors in the decision-making
process. Interviews are utilised for identifying causal mechanisms leading to institutional/policy change, special attention is paid to achieving saturation point and triangulation strategy is used by making use of alternative data sources (Mosley, 2013).

In CBRT’s financial stability policy design, key decision-makers are the members of central bank monetary policy committee (MPC). Although all six members of the MPC during 2015 were contacted, three members could be reached and with them interviews conducted.\(^2\) Other interviews are conducted with five high-level CBRT officials, three former high-level CBRT officials, two academics who served as consultants to the CBRT in the past and two former members of FSC representing other regulatory agencies. In total, 15 interviews are conducted. In order to have convincing evidence for the arguments in the research, responses from all interviewees are categorised into emerging themes and for transparency concerns number of interviewees giving similar answers are indicated in Table 1.

### Financial stability policy design in Turkey

After 2000 and 2001 twin financial and economic crises in Turkey, CBRT gained its independence and started implicit inflation targeting in 2001 which became official in 2006 (Bakır, 2009; Başçı & Kara, 2011). For inflation targeting purposes, CBRT started to use symmetric interest rate corridor in 2002 with overnight lending and borrowing interest rates (Figure 1). Supported with fiscal discipline and proper financial regulation and supervision, CBRT could lower inflation rates to single digits after decades-long chronic high inflation problem in Turkey (Figure 1).

Starting from 2010, CBRT has been the only organisation drawing attention to global imbalances and the macro-financial risks in the Turkish economy. For instance, in the fourth quarter Inflation Report of 2010 published in October 2010, CBRT for the first time warns for the risks related to the surge of capital flows and allocates long sections of the report on the historical trajectory of capital flows, risks related to the surge of capital flows and how

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\(^2\)There was a senior management change at CBRT in 2016 and interviews are conducted before this change.
capital flows were the major reason behind the Asian Crisis in the 1990s (CBRT, 2010a, p. 13). In addition to rapid credit expansion, CBRT underlines the risks of a rapid increase in asset prices, deteriorating current account deficit and inflationary pressures because of the surge of capital inflows and expresses its scepticism towards capital control measures to prevent financial stability risks (CBRT, 2010a, p. 25). CBRT indicates that it will have a proactive approach to managing financial stability risks with alternative monetary policy instruments (CBRT, 2010a, p. 68). In addition, CBRT underlines the changing central banking paradigm after GFC with more responsibilities for financial stability concerns and asserts that CBRT will more actively follow financial stability objective with a macro perspective by utilisation of alternative tools as price stability and financial stability objectives complement each other (CBRT, 2010a, p. 89). In the Financial Stability Report (FSR) published in December of 2010, CBRT reiterates the importance of financial stability objective, stresses the major risks in the Turkish economy and outlines that CBRT will not use capital control measures but more flexible macro-prudential measures for its financial stability goal (CBRT, 2010b, p. iv). Starting from late 2010, CBRT started to actively use the new policy mix of reserve requirements and the asymmetric interest rate corridor for financial stability purposes. This policy mix constitutes the first phase of policy implementation. In the second phase of policy implementation, in 2011 CBRT introduced ROM and FSC was established in June 2011 (Akçelik et al., 2013; Aysan et al., 2014; Başçı & Kara, 2011).

Reserve requirement ratios were increased to contain credit growth and CBRT stopped paying interest for required reserves (Başçı & Kara, 2011, pp. 4, 5). CBRT started to use interest rate corridor asymmetrically by widening the corridor, reducing the overnight borrowing rate while keeping the lending rate unchanged which would discourage short-term capital flows ‘by creating a managed uncertainty about short-term yields’ (Aysan et al., 2014, p. 57). In addition, one-week repo auction rate was made the main policy instrument and operational framework was changed for flexible use of liquidity management (Başçı & Kara, 2011, pp. 4, 5). As seen in Figure 2 of the asymmetric interest rate corridor, the difference between the upper bound of overnight lending rate and the lower bound of overnight borrowing rate could be widened or shortened by CBRT in different time periods in an asymmetric manner and one-week repo rate is determined in the shaded area, within the limits of interest rate corridor. In other words, CBRT could have flexibility in determining

![Figure 1. Inflation and CBRT interest rates between 2002 and 2009. Source: CBRT and World Bank Databank. *: For overnight lending and borrowing rates, the last CBRT rates in the specified years are used.](image-url)
interest rates by changing upper and lower bounds of the asymmetric interest rate corridor in response to cyclical capital flows.

The second element in this new policy mix is ROM which allows banks to deposit foreign currencies or gold for their Turkish lira reserve requirements (Alper, Kara, & Yorukoglu, 2013). ROM is expected to work as an automatic stabilisation mechanism because each bank has a reserve option coefficient (ROC) according to their relative funding costs and banks are expected to utilise this mechanism according to their needs in the face of external funding shocks (Alper et al., 2013, pp. 4, 5). ROM was constructed through time, in a gradual pace for the financial system to adapt to it and for CBRT to make necessary adjustments (Akçelik et al., 2013; Alper et al., 2013). Also, interest rate corridor and ROM are seen as complementary instruments for the conduct of monetary policy as they have different monetary policy functions (Alper et al., 2013, p. 12). Although asymmetric interest rate corridor is a known monetary instrument, it has been rarely used in other countries and only for a short period (Goodhart, 2013). On the other hand, ROM was developed and utilised first and only in Turkey by CBRT. As CBRT official indicates, ROM was scrutinised carefully by IMF officials as a new instrument but they could not find any faults in the design and implementation of it (Interview 5, 4 June 2015).

In order to reveal the organisational learning elements, the role of agency in institutional/policy change and policy-making process, open-ended questions are asked to the experts. Table 1 illustrates the questions asked in the interviews, the responses are categorised under emerging themes and brackets next to emerging themes indicate how many interviewees share a similar view.

To the question of why CBRT started to actively follow financial stability objective starting from 2010, all interviewees indicate the surge of capital flows and related risks for Turkey as a common reason. Current CBRT officials indicate that CBRT wanted to create awareness for financial stability risks in Turkey, whereas former CBRT officials and academics indicate that inaction from BRSA and Treasury compelled CBRT to take action. Ten respondents indicate the difficulty of substantive capital controls in Turkey and past experience as a
major reason that CBRT tried to find innovative means to overcome risks associated with the surge of capital flows. Moreover, current CBRT officials indicate that additional goals for CBRT necessitated an increase of tools and some former CBRT officials and academics share this view.

One academic indicates that by prioritising financial stability, CBRT took responsibility it should not have taken (Interview 12, 12 June 2015). CBRT official, on the other hand, indicates that surge of capital flows increased systemic risk or macro-financial risks for the Turkish economy, and CBRT saw that there was no entity legally responsible for macro-financial risks as BRSA’s responsibility covered only micro-financial risks (Interview 5). CBRT officials also indicate that changing central banking paradigm around the world, or the macro-prudential turn, has shown that central banks cannot just focus on price stability, they should also take financial stability risks into account. In the words of a high-level CBRT official: ‘Macroeconomics emerged after the Great Depression in 1929. We can say that macro-prudential measures emerged after 2007–2008 global crisis’ (Interview 6, 8 June 2015).

On the question of how CBRT could take proactive measures, most of the interviewees underline the organisational competence of CBRT. Organisational features of CBRT that distinguish it from other public organisations are indicated as research capacity, staff quality, ability to act rapidly, feedback mechanisms, budget flexibility, operational independence and debate environment in decision-making that no other public organisation enjoys. Emphasising CBRT’s competence, an academic indicates that ‘CBRT is not just the expert on monetary policy, it has the expertise, foresight, comprehension for the overall economy which no other organisation has’ (Interview 12). Another academic contends that ‘Other public organisations do not have problem-solving, policy innovation or implementation capacity like CBRT’ (Interview 13, 20 January 2016). Past crises experience of Turkey, especially fiscal discipline and strong banking system are indicated as enabling conditions for CBRT’s proactive measures. CBRT official indicates that without fiscal discipline, CBRT could not prioritise financial stability concerns (Interview 5).

Related to the debate environment, the role of the Governor and MPC members in allowing and encouraging bringing new ideas for debate and their desire for utilising experimental measures are indicated by several interviewees. CBRT official indicates that former Governors were also enthusiastic about debate environment within CBRT, especially during MPC meetings, but the involvement of more academics without bureaucracy experience within MPC induced more ‘out of line’ or ‘unconventional’ thinking which made CBRT decisions much more flexible (Interview 5). This reveals how the agency of individuals, especially the Governor and MPC members are critical in fostering a learning friendly environment at CBRT. Another CBRT official underlines that CBRT underwent a significant organisational change for a more effective financial stability orientation and without the strong willingness from senior management, organisational change with this scope could not have been achieved (Interview 9, 10 June 2015).

Another distinguishing feature of CBRT underlined by all the interviewees is its close working relation with international organisations, especially the Bank for International Settlements (BIS). Former and current CBRT officials indicate that very prestigious and closed BIS meetings allow central bankers around the world to learn directly from other country experiences. Another CBRT official asserts that in the design of unconventional

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3In January 2006, AKP government introduced a 15% withholding tax to foreign investors making investments in government bonds but withdrew this decision in June 2006 due to losses observed in the financial markets (Kuser, 2006).
monetary policy measures in Turkey, BIS has a very important role as BIS was more active compared to other international organisations in constructing the new ‘macro-prudential’ central banking paradigm (Interview 14). Besides, current CBRT officials underline that G-20 had almost no role in CBRT’s unconventional monetary policies and Turkey could only provide input as a ‘sweetener’ because G-20 debates were dominated by bigger economies (Interview 8, 10 June 2015).

Another important factor emphasised by interviewees in enabling design and implementation of experimental policies by CBRT is the close working relationship between the Turkish Treasury and CBRT. Close personal ties between the Governor of CBRT Erdem Başçı and the Deputy Prime Minister responsible for Treasury Ali Babacan is critical here. They have been close friends since primary school and they went to the same university (NTV News, 2011). When Ali Babacan was first elected as an MP in 2002, Erdem Başçı was his advisor. Erdem Başçı became Deputy Governor of CBRT in 2003, was nominated as Governor of CBRT in 2006 but the president at the time vetoed him so Erdem Başçı stayed as Deputy Governor until 2011 and in 2011 he was appointed as the Governor of CBRT. In addition to the critical role of MPC members in financial stability policy design, several interviewees indicate the critical role of the Governor in the new policy mix. One academic indicates that Erdem Başçı was very active in monetary policy decisions even before he became the Governor and his role is very critical in CBRT’s new policy mix (Interview 13). CBRT official indicates that Erdem Başçı started Governorship very strong because of the political support behind him and CBRT could not design experimental policies without this political support (Interview 14).

Related to the political support to CBRT policies and close personal ties between Erdem Başçı and Ali Babacan is the establishment of FSC in 2011. Most of the interviewees assert that the need for cooperation and consultation necessitated the establishment of FSC. Current CBRT officials indicate that after first policy implementation phase CBRT saw that its policies needed to be supported by other public organisations, especially BRSA. For instance, in the foreword for the FSR of May 2011, the Governor of CBRT Erdem Başçı asserts that CBRT is ‘one of the authorities responsible for financial stability in Turkey’ (CBRT, 2011a, p. ii). In the same report it is indicated that CBRT used reserve requirement ratios to curb the credit growth, but in the first quarter of 2011 credit growth did not decline (CBRT, 2011a, pp. 13, 14). Current CBRT official indicates a similar point that CBRT oversaw the limitations of its new tools in achieving financial stability objectives and ‘Until coordination between different agencies is constructed, we intervened actively with our tools’ (Interview 7, 10 June 2015). FSC was established by the Turkish Treasury in June 2011 and BRSA took decisions to contain credit growth with macro-prudential measures only after the establishment of FSC. In the FSR of November 2011, these developments are interpreted positively: ‘The credit growth has been decelerating on the back of the precautionary measures taken by the CBRT in the framework of the new policy mix and recent measures introduced by the BRSA’ (CBRT, 2011b, p. 29).

Some interviewees oppose Deputy PM leading FSC meetings as the independence of CBRT and other regulatory agencies could be affected by this practice. On the other hand, experts who took an active role in FSC meetings underline that CBRT maintained its independence within FSC and the presence of political authority makes FSC more functional because decisions can be taken and implemented much more rapidly. CBRT officials indicate that ‘Presence of political authority ensures result oriented consultations, otherwise
consultations cannot result in decisions’ (Interview 7), ‘Presence of political authority is important for facilitating consultation and coordination mechanism and legislative process’ (Interview 10), ‘FSC relieved CBRT’ and ‘strong initiative behind FSC made enforcement feasible’ (Interview 5). Several interviewees mention that CBRT was very strong at FSC and Ali Babacan designed FSC in a way to make CBRT bring its agenda to the other regulatory agencies. CBRT official emphasises that ‘In terms of data analysis, technical analysis, impact analysis, CBRT is superior to other organisations. We can have a more macro perspective and this makes CBRT more influential in different committees’ including FSC (Interview 5). Former FSC members representing other regulatory agencies provide evidence in support of this view. FSC decisions were binding for them because they could not easily change the decisions taken within the committee. They emphasise that CBRT was very strong at FSC and with the decisions enforced by the Deputy PM, regulatory agencies did not have an option but to comply. As one former member of FSC meetings explains, ‘FSC decisions are binding in an unwritten way’ and ‘when a decision is taken, agencies are expected to comply’ (Interview 15, 16 February 2016). This shows that institutional entrepreneurship of the Governor of CBRT is critical in acquiring political support from the Treasury so that within FSC CBRT could maintain its autonomy, FSC could function to let CBRT bring its agenda and other regulatory agencies were compelled to follow CBRT’s lead.

The above analysis illustrates that CBRT was the only relevant organisation in all the financial stability policy-making process. In the agenda-setting stage, CBRT created awareness for the financial stability risks in the Turkish economy and advocated a more active role for this purpose. In the policy formulation stage, CBRT identified the key financial stability risks for the Turkish economy, realised that it needed more tools for additional goals and this resulted in unconventional monetary policy decisions. In the policy implementation stage, CBRT utilised reserve requirements, asymmetric interest rate corridor, and ROM, respectively. In the policy evaluation stage, these policy measures were evaluated by CBRT and necessary adjustments were made. Furthermore, policy evaluation by CBRT revealed that CBRT measures by themselves could not achieve the expected outcomes and the active involvement of BRSA was seen necessary for financial stability purposes. This resulted in the establishment of FSC so that CBRT could bring its agenda to the attention of other regulatory agencies. Thanks to the political support gained from Deputy PM Ali Babacan, CBRT could implement financial stability-oriented policies, determine the agenda of the FSC meetings, paved the way for active financial stability orientation in the Turkish economy and other regulatory agencies had no option but to follow the lead of CBRT’s active financial stability pursuit.

The analysis so far demonstrates the observable implications of organisational learning within CBRT in a sequential manner. Firstly, CBRT is the first and only public organisation to realise financial stability risks in the Turkish economy starting from 2010 and started to create awareness for these risks in its communications. Secondly, CBRT identified the key financial stability risks in the Turkish economy such as high credit growth rate, worsening current account deficit and risk of overheating in the economy. Thirdly, organisational learning within CBRT revealed that in Turkey there was no public organisation legally responsible for macro-financial risks, and something had to be done in order to prevent a crisis. Fourthly, organisational learning within CBRT deduced that financial stability goal could not be followed by mere reliance on the policy interest rate and CBRT diversified its policy tools to achieve additional goals. Fifthly, active policy evaluation processes
and feedback mechanisms allowed CBRT to fine-tune, update newly implemented policies according to the needs. These evaluations illustrated that active involvement of BRSA was necessary for achieving financial stability goals. Sixthly, organisational learning within CBRT resulted in an organisational change for more effective financial stability orientation. In all the observable implications of organisational learning within CBRT, the critical role of the Governor as an institutional entrepreneur need to be emphasised in enabling a learning friendly environment and gaining political support from the Turkish Treasury.

It is important to emphasise that CBRT’s active financial stability pursuit came with economic and political costs which makes political support from the Treasury much more critical. By their nature, macro-prudential, financial stability measures in emerging economies tried to minimise risks with the downside of lower economic growth. In the words of a high-level CBRT official, CBRT ensured a soft landing in the economy against the risks of overheating and a potential economic crisis (Interview 5). To give an example to the economic and political costs of financial stability policy, GDP grew at an annual rate of 9.2% in 2010 for Turkey, 8.8% in 2011 but grew at a rate of 2.1% in 2012 (World Bank Open Data, 2016). CBRT policies were harshly criticised by politicians at the highest level, Deputy PM Ali Babacan who continuously served in successive one-party AKP governments since 2002 was not given ministry position in the government after 1 November 2015 elections and Erdem Bağcı was not reappointed as the Governor of CBRT in April 2016. Nevertheless, their dismissal from the key positions did not result in a major overhaul of the financial stability institutional framework. CBRT still emphasises financial stability concerns in its communications, FSC is still active for coordination and cooperation of financial stability policy and most of the macro-prudential measures implemented for financial stability purposes are still in place. On the other hand, newly appointed individuals will be critical for the functioning of FSC in the following periods.

Conclusion

By bringing an interdisciplinary orientation, this paper offers a framework that explains both institutional and policy changes in a process-oriented manner, underlines the agency of both organisations and individuals in the policy-making process and identifies organisational learning as an endogenous mechanism leading to institutional/policy change. Thus, this paper fills the widely cited weaknesses in research on institutional and policy change: lack of agency and overreliance on exogenous explanations. With its interdisciplinary orientation utilising institutional and organisation theory and public policy literature, this paper offers an alternative account on the political economy of central banking in the aftermath of GFC and demonstrates how central banks adapt to their new roles in different contexts. Moreover, this study illustrates that only with a micro-level analysis we can answer why and how central banks in different contexts take specific decisions, how their relations with political actors, regulatory agencies and international actors are formed, exercised and how agency of individuals and organisations make a difference in the policy-making process.

This study corroborates previous literature on organisational learning in management studies that organisational capability, clear policy goal and strategy and feedback mechanisms are key factors leading to organisational learning. Moreover, this study shows that institutional entrepreneurship of key individuals is critical in creating a learning friendly environment and gaining political support from key decision-makers. Thus, in the public
sector, political support appears to be an additional relevant factor for organisational learning. This finding is in line with the findings of Zarkin (2008), Schout (2009) and Visser and Togt (2016) that political support and political commitment are important factors for organisational learning to occur in the public sector. The evidence in this study suggests that without comprehensive political commitment, political support of key politicians can be a critical factor for organisational learning in the public sector to result in institutional/policy changes. Thus, the nature of political support may vary in different contexts. For public organisations to engage in policy innovation, adapt to the changing domestic and international environment and deal effectively with evolving and transforming challenges, more research needs to be conducted on organisational learning in the public sector in different contexts.

Another contribution of this study is that financial stability pursuit necessitates close cooperation and coordination between independent agencies. However, this raises questions such as how should FSCs make decisions, what should be the role of political authority in these committees, should these committees prioritise preserving independence of regulatory agencies or having result-oriented consultations with rapid decision-making procedures? The institutional framework in Turkey in the form of FSC allowed CBRT to determine the agenda for other regulatory agencies and this facilitated the result-oriented debates within FSC because of the presence of Deputy PM in these meetings. This reveals that in future research more attention needs to be paid for the effective coordination and cooperation between central banks, regulatory agencies and other economic policy-making entities in different contexts. This may require a rethinking of independence of central banks and regulatory agencies in different respects because in different contexts political authority may prioritise different objectives.

Micro-level analysis and agency based explanations in a single case study make generalising the findings of this study much more difficult. However, with its findings this study contributes to the larger body of research on institutional and policy change, institutional entrepreneurship and organisational learning. It should also be noted that the time-period under investigation in this study, between 2010 and 2015 provides a good venue to examine the role of agency in leading to institutional/policy change. During this period, established central banking paradigm has shifted dramatically around the world and central banks were in search of their new roles in national economies. Search of finding novel ways to operate, tools to utilise and of forming new governance mechanisms for financial stability purposes in the face of emerging risks, has enabled agency to play a much more crucial role in the policy-making process. Hence, this study attempts to understand the dynamics behind these changing roles with its agency-based and process-oriented approach.

Reliance on a single case for empirical evidence can be considered another limitation of this study. However, single case studies are essential for uncovering the causal processes, testing and building theories (George & Bennett, 2005). As explained in previous sections, Turkish case is studied because it is an outlier case compared to other countries facing similar risks and the detailed study of an outlier case helps to uncover new variables and generate new hypotheses. By studying an outlier case, this study reveals how CBRT could engage in proactive financial stability pursuit with unconventional, experimental policy measures. On the other hand, the limitation of studying a single case can be overcome with future detailed research on the political economy of central banking in different contexts. Another limitation of this study is that evaluation of central bank policies, impacts of
the unconventional monetary policy in Turkey on the banking sector, real sector and the overall effectiveness of the policy mix could not be given sufficient attention. Future studies on central banking would benefit from an interdisciplinary political economy perspective analysing winners and losers of changing central banking activities in different contexts.

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No potential conflict of interest was reported by the author.

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