Turkish Corporate Governance Principles And Its Implications For ISE Corporate Governance Index Companies

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The CMB'S Principles of Corporate Governance is a very useful guideline for companies that want to improve their corporate governance practises. Published in 2003 and amended in 2005, these principles are very comprehensive. The CMB Principles and other legislation in this field in Turkey try to strengthen the position of the individual shareholders against the controlling block of shareholders. The principles specificly focuses on shareholders' rights, public disclosure and transparency, relationships with stakeholders and board of directors. Although the principles were published in 2003, the acceptance and application of principles is relatively slow among ISE listed companies. To further motivate publicly held companies on corporate governance ISE started to calculate Corporate Governance Index in 2007. Currently there are 24 companies listed in the index. These companies are obviously in a better position than other ISE listed companies but they are also not capturing world standards on corporate governance on privileges regarding voting rights, cumulative voting, restrictions on transfer of shares, disclosure on insider trading, corporate governance committee as the results of this study show.

INTRODUCTION

Good corporate governance is key to the integrity of corporations, financial institutions and markets, and central to the health of our economies and their stability. Corporate governance is affected by the relationships among participants in the governance system. Controlling shareholders, which may be individuals, family holdings, bloc alliances, or other corporations acting through a holding company or cross shareholdings, can significantly influence corporate behaviour. As owners of equity, institutional investors are increasingly demanding a voice in corporate governance in some markets. Individual shareholders usually do not seek to exercise governance rights but may be highly concerned about obtaining fair treatment from controlling shareholders and management. Creditors play an important role in a number of governance systems and can serve as external monitors over corporate performance. Employees and other stakeholders play an important role in contributing to the long-term success and performance of the corporation, while governments establish the overall institutional and legal framework for corporate governance. These relationships are subject, in part, to law and regulation and, in part, to voluntary adaptation and, most importantly, to market forces.

The aim of this paper, after giving a brief introduction on corporate governance, is to provide an overall picture of Turkish capital markets, mention about Turkish Capital Market Board's Corporate

Governance Principles and why they were developed. The last section of the paper focuses on the corporate governance practises of companies included in the ISE's Corporate Governance Index.

CORPORATE GOVERNANCE IN THE WORLD AND IN TURKEY

Corporate scandals which occurred in many countries in the last decade (e.g., Enron, Worldcom, Global Crossing in the US; Parmalat and Cirio in Italy; Ahold in the Netherlands) have forced politicians, national stock exchanges, financial authorities, and supranational organizations (such as European Union, Organisation for Economic Co-operation and Development) to search for more effective governance practices. Governance practices reflect, in fact, differences in culture, traditional financing options, corporate ownership patterns, and legal origin. (Zattoni, Cuomo, 2008)

Good corporate governance helps increase the credibility of companies. International capital tends to flow to markets where corporate governance principles are practiced at a high level. The governance principles have gradually become the criteria with which the companies must comply in order to tap funds from the international capital markets. (Varis et.al, 2001) Compliance with the principles of corporate governance is a determining factor for retaining international flow of capital on a permanent and consistent basis. This is due to the fact that compliance with governance principles will help increase confidence in the company, reduce the cost of capital and induce a suitable ground for procuring long-term financing. Implementation of governance principles that ensure the protection of shareholders' rights and promote trust in the company enables companies to maintain their financial requirements from the international capital markets. As these principles become more widespread among the companies, a dynamic and competitive sector is created and a consistent development is attained.

Due to the current efforts of Turkey trying to become a member of European Union, the recent global scandals of large corporates in the most developed markets of the world, the competition of emerging markets to attract global FDI and the decreasing returns of the global stock markets, corporate governance is the "hot" topic both in the world and in Turkey. Yet the concept and implementation of corporate governance is relatively new in Turkey.

Corporate governance models can vary according to the system of corporate ownership and management control mechanisms prevailing in a country. In Turkey, a market-oriented corporate governance and control system cannot be said to exist, since the flotation ratios of listed companies and share dispersion levels are low. (Okutan, 2007)

Many countries in the world has developed codes for corporate governance in order to motivate companies for good governance. OECD Principles of Corporate Governance provided a general framework for most of these countries. Codes of good governance can be considered a set of best practices regarding the board of directors and other governance mechanisms. Such codes have been designed to address deficiencies in the corporate governance system, by recommending a set of norms aimed at improving transparency and accountability among top managers and directors (Fernandez-Rodriguez, Gomez-Anson and Cuervo-Garcia, 2004). Turkey has also developed its own corporate governance code in 2003. The next section summarizes the structure of Turkish capital markets.

THE STRUCTURE OF TURKISH CAPITAL MARKETS

The Major Capital Market Institutions in Turkey

Turkish capital market is a relatively new market and still continues to grow. The most important financial agents have less than thirty years background. The major capital market institutions in Turkey are, Capital Markets Board of Turkey (CMB), the Istanbul Stock Exchange (ISE) and Banking Regulation and Supervision Agency of Turkey (BRSA).

The Capital Markets Board of Turkey (CMB)

Capital Markets Board of Turkey (CMB) is the regulatory and supervisory authority in charge of the securities markets in Turkey. The CMB has been making detailed regulations for organizing the markets and developing capital market instruments and institutions in Turkey. The CMB's main purpose is to make innovative regulations, and perform supervision with the aim of ensuring fairness, efficiency and transparency in Turkish capital markets, and improving their international competitiveness. (www.cbm.gov.tr)

Based on the main objectives of fair and orderly functioning of the markets and protecting the rights of investors, the CMB has a wide range of responsibilities. Depending upon the development stages of the markets and the state of the country's economy, the list of priorities changes from time to time. However the major objective remains the same: to take the necessary measures for fostering the development of capital markets, and hence to contribute to the efficient allocation of financial resources in the country while ensuring investor protection.

The Istanbul Stock Exchange

The Istanbul Stock Exchange was established in 1985. The main purpose of the ISE is ensuring that securities are traded in a secure and stable environment. The ISE was started to operate in 1986. The ISE is a public corporation operating as an autonomous and professional institution. The ISE is entitled to issue legal regulations related to the subjects and fields within the scope of its authority. The ISE has contributed to the development of Turkish capital markets and Turkish economy since the date of its establishment. (www.ise.org)

Banking Regulation And Supervision Agency

In year 2000, Turkish Government started to remove the fragmented structure in banking regulation and supervision, and to establish an independent body which will be the unique authority in banking sector. BRSA was established in 1999. The main aim BRSA's is to improve the effectiveness of regulation and supervision and o built an independent decision making mechanism. BRSA started to operate in 2000. (www.bddk.org.tr)

Economic and Financial Overview of Turkey

In the previous decade, financial risks have threatened the World' financial markets. Global economic crises have lots of negative effects on global economy and the financial system. In most developed countries, economic development slowed down and unemployment increased. Growth rates fell down sharply around the globe. Along with global markets, the global financial crisis affected Turkish economy and financial markets significantly.

In Turkish economy, CPI inflation ended 2008 at 10.6 percent, up 1.7 points from end-2007. Global economic effects in 2008 have had an important impact on the domestic inflation. Gross Domestic Product (GDP) grew by 6.7 percent in the first quarter of 2008, but the pace of growth moderated in the second and third quarters, up only 2.3 and 0.5 percent. Accordingly, GDP rose by 3 percent in the first nine months of 2008 from a year earlier. (Turkish Central Bank, Annual Report, 2008). GDP growth in the Turkish economy for the year 2008 has been 1.1 percent. Growth in the first quarter of 2008 has been 7.3 percent, and decreased to 2.8 percent and 1.2 percent in the second and third quarters respectively. In the last quarter the decreasing trend has continued and has resulted in a negative 6.2 percent growth rate.(CMB, Annual Report 2008)

Turkish financial system has been experiencing a prosperous growth in recent years. On March 2009, total assets of the financial system was 574 billion USD (Central Bank assets included). Turkey is a bank-based system and the Turkish financial system is dominated by banks with a share of 78.8 percent in assets. Table 1 shows that financial system assets in Turkey.

Banking sector is very significant for Turkish economy. Private sector banks have more than a 50 percent of the market share and are primarily part of a bigger family owned commercial conglomerates. Although the banking system in Turkey dominates the intermediation process, the percentage of loans to the private sector in their total assets is relatively small compared to both bank-based and capital markets-based economies (Erturk, 2003)

Family-controlled groups of companies are a common feature of the Turkish business scene, often with a high degree of cross-ownership between companies. Controlling shareholders play a leading role in the management and strategic direction of company groups, many of which include companies that are listed on the Istanbul Stock Exchange. (Yuksel, 2008) Two basic characteristics of Turkish listed companies are concentrated ownership and insider boards.

TABLE 1
FINANCIAL SYSTEM ASSETS

	Total Assets (bn TL)	Asset Share (%)	Assets/GDP (%)
Banks	754,2	78.2	79.8
Factoring Firms	6,3	0.7	0.7
Leasing Firms	16,9	1.8	1.8
Consumer Finance Firms	4,8	0,5	0,5
Insurance Firms	14,8	1.5	1.6
Securites Investment Trusts	0,6	0.1	0.1
Securities Firms	4,2	0.4	0.4
Mutual Funds	28,7	3.0	3.0
REIT	4,3	0.4	0.5
Central Bank	122,7	12.8	13.0
TOTAL	957,5	100.0	101.3

Source:(http://www.bddk.org.tr/WebSitesi/english/About_Us/About_BRSA/5804BRSA_Info_Booklet_31_07_2009.pdf)

The Istanbul Stock Exchange was founded in 1986. By the end of 2008, there are 284 corporations traded in the National Market of ISE, 18 corporations in the Second National Market, 3 corporations in the New Economy Market and 12 corporations in the Watch List Market, making a total number of 317. Stock issues have increased and reached $ 7.7 billion in 2008. In 2008, ISE Share Price Index-100 decreased by 62 percent in US dollar terms. In 2008, average daily trading volume was US $ 1,041 million and total trading volume was US $ 261.3 billion. Table 2 shows total trading volume in the ISE between the years 2000-2008.(CMB Annual Report, 2008)

TABLE 2
TOTAL TRADING VOLUME IN ISE FROM 2000 TO 2008

Year	Total Trading Volume (billion US $)
2000	181.9
2003	100.2
2004	147.8
2005	201.8
2006	229.6
2007	300.8
2008	261.3

Source: Adopted from CMB Annual Report, 2008.

Market capitalization reached US Dollar 120 billion at the end of 2008. For 2008 price/earnings ratio and turnover ratio are calculated as 5.7 percent and 128.4 percent. Table 3 shows that main indicators for corporations in the ISE.

TABLE 3
THE MAIN INDICATORS FOR CORPORATIONS WITH SHARES LISTED ON THE ISE

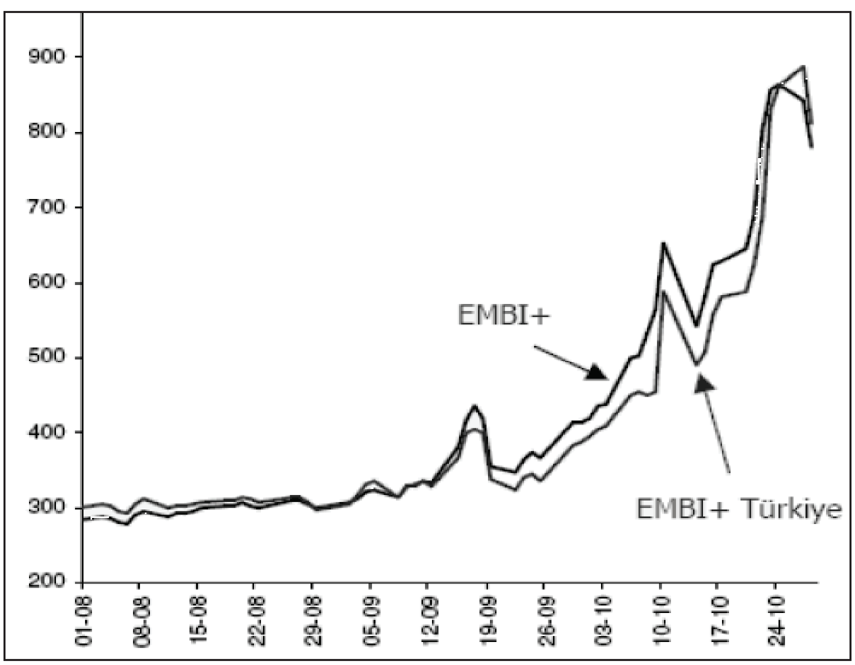
Year	Corporations with Shares Traded on ISE		P/E (%)*	Turnover Ratio (%)
	Number Of Corporations Traded	Market Capitalization ($ Million)		
2000	315	69,507	16.1	206.2
2001	310	47,689	824.4	161.5
2002	288	34,402	27.0	170.1
2003	285	69,003	12.3	192.4
2004	297	98,073	13.3	182.3
2005	304	162,814	19.4	153.9
2006	316	163,775	14.9	145.0
2007	319	289,986	12.0	137.0
2008	317	119,698	5.76	128.4

*: Total Market Value/Total of the last four quarterly net profits

Source: Adopted from CMB, 2008 Annual Report, 2008, 43.

The global crisis has obviously impacts on Turkish financial markets. On the other hand, Turkey does not fare any worse than many emerging and industrial countries so far. As EMBI+ and EMBI+ Turkey indices clearly show in Figure 1.

FIGURE 1
THE IMPACT ON TURKISH ECONOMY



Source: Yilmaz, Kamil, **Global Financial Crisis and the Turkish Economy**, TUSİAD-KOC University Economic Research Forum, Conference on "Global Economic Slowdown and the Turkish Economy, Paris, 14 November 2008.

According to Ararat and Ugur, Turkey's investment environment is quite slimy for the investors. Low liquidity, high volatility, high cost of capital and limited new capital formation are the characteristics of the Turkish capital market. (Ararat and Ugur, 2003) Shortcomings in the legal and regulatory framework contribute substantially to the risks of investing in equity markets in Turkey. (Ararat, Ugur, 2003) Durukan et.al. conclude that Turkey is still in the process of improving capital market's institutional and legal structures. (Durukan et.al, 2009)

Yurtoglu summarizes the characteristics of Turkish corporate governance system as such: "The characteristics of the Turkish corporate governance regime are to a large degree reflected by the following features of the Turkish capital market. First, only a small fraction of Turkish companies are publicly listed and traded. Second, there is no active market for corporate control due to the concentrated ownership of the typical traded company. It is almost impossible to acquire a traded company through a hostile takeover bid since the controlling owner must approve a control change. A third, feature of the Turkish corporate governance landscape is the presence of business groups." (Yurtoglu, 2003)

CAPITAL MARKET BOARD'S CORPORATE GOVERNANCE PRINCIPLES

Legal Framework for Corporate Governance

Investor protection turns out to be crucial for corporate governance because, in many countries, expropriation of minority shareholders and creditors by the controlling shareholders is extensive. When outside investors finance firms, they face a risk, and sometimes near certainty, that the returns on their investments will never materialize because the controlling shareholders or managers expropriate them. Corporate governance is, to a large extent, a set of mechanisms through which outside investors protect themselves against expropriation by the insiders. (La Porta et.al., 2000)

The legal approach to corporate governance holds that the key mechanism is the protection of outside investors -whether shareholders or creditors- through the legal system, meaning both laws and their enforcement. Corporate governance legislations in Turkey are the Turkish Commercial Code (TCC), the Capital Market Law, regulations by the Capital Markets Board of Turkey (CMB) as well as other regulations for certain sectors, such as the banking and telecommunications.

Many countries, including those with developed economies, have reviewed their own legislation or are in the process of reviewing current legislation regarding corporate governance. (World Council For Corporate Governance, 2004) In Turkey, all companies are subject to the Turkish Commercial Code (TCC). The Code is currently being revised, the new code, prepared by a commission, is expected to be approved by the Parliament in 2010.

Introduction of the new Code is likely to result in the further developments in corporate governance in Turkey. In this code's draft version there are provisions related to; the definition of qualifications for becoming a board member, security of minority rights, establishment of proxy voting and electronic voting principles, permission for on-line general meetings via websites, clearly stated minimum informational contents of annual reports and company websites and the requirement that auditors be independent audit firms or certified public accountants. (Atakan et al, 2008)

The objective of the Capital Market Law (CML) is to regulate and control the secure, fair and orderly functioning of the capital markets and to protect the rights and benefits of the investors. Following the enactment of the CML in 1981, the necessary regulations have been made by the Capital Markets Board (CMB) in order to organize the markets and the capital market institutions.

The corporate governance framework in Turkey rests primarily upon a "public enforcement" model, with Capital Markets Board (CMB) playing a leading role in setting corporate governance standards for publicly held companies, enforcing the applicable standards and fostering market integrity. The CMB's effective exercise of its supervisory powers has compensated to sum extent for weaknesses in market disciplinary forces and limitations in civil remedies. Although this public enforment model is, on balance, a source of strenght in the existing environment, it also presents some challenges. (OECD, 2006) The authorities face the difficult task of balancing the need to proactively use their powers to prevent harm against the need to pull back in order to encourage market participants to assume greater responsibility for their conduct and facilitate the development of market discipline.

The Principles

The CMB based its corporate governance principles on the leading work of the Global Corporate Governance Forum (GCGF), which has been established in cooperation with the World Bank and the Organization of Economic Cooperation and Development (OECD). Experts and representatives from the CMB, the Istanbul Stock Exchange and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose; additionally many academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after the required evaluations. Regulations of many countries have been examined, and generally accepted and recommended Principles; primarily the "OECD Corporate Governance Principles" of 1999 together with the particular conditions of Turkey have been taken into consideration during the preparation of these Principles. (CMB, 2005) However, they are far more detailed and contain many specific guidelines for companies to follow.

The principles were first published in 2003 and revised in 2005 to take into account revisions made to the OECD Principles in 2004. All companies whose shares are traded in Istanbul Stock Exchange (ISE) need to comply with these principles and publish corporate governance compliance reports yearly. According to a Report about corporate governance practises in Turkey by OECD, the CMB Principles represent a comprehensive, high-level statement of recommended governance practices that reflect international good practice standards in many areas. (OECD, 2006)

The CMB Principles consist of four main sections, namely shareholders, disclosure- transparency, stakeholders and board of directors. (CMB, 2003) The first section discusses the Principles on shareholders' rights and their equal treatment. Issues such as shareholders right to obtain and evaluate information, right to participate in the general shareholders' meeting and right to vote, right to obtain dividend and minority rights are included in detail in this section. Matters such as keeping records of shareholders and the free transfer and sales of shares are also discussed.

The second section discusses the Principles regarding disclosure and transparency. Within this scope, Principles for establishment of information policies in companies with respect to shareholders and the adherence of companies to these policies are discussed.

The third section is concerned mainly with stakeholders. A stakeholder is defined as an individual, institution or an interest group that is related with the objectives and operations of a company in any way. Stakeholders of a company include the company's shareholders and its workers; creditors, customers, suppliers, unions various non-governmental organizations, the government and potential investors who may consider to invest in the company. This section includes the Principles to regulate the relationship between the company and stakeholders.

The fourth section includes Principles concerning functions, duties, obligations, operations and structure of the board of directors; remuneration thereof, as well as the committees to be established to support the board operations and the executives. Under the section concerning the board of directors, it is proposed that the board of directors be composed of two different types of members. These are executive and nonexecutive members. In case a member bears its administrative duty as a managing member, then the mentioned board member is defined as the board member having an execution duty. A non-executive member is defined as an individual not having any administrative duties within the company. The chief executive officer (CEO) is the individual who is responsible for the implementation mentioned under the articles of association at the highest level. In case there is no CEO in corporate structure, same function will be fulfilled by the general director.

The Principles do not provide exceptions to the current regulations. In other words, public companies' obligations defined by the relevant legislation are still effective without any amendments. The Principles also include provisions beyond the current regulations, and they have been prepared in order to fill the gaps in corporate governance practices. Therefore, the Principles also aim to play a guiding role for future regulations. The Principles will be periodically examined in order to ensure that they stay up-to-date.

During the year following the launch of the Guidelines, the response from the listed companies in adapting the voluntary principles was disappointing. (Ararat, Yurtoglu, 2007) Very few companies made any reference to CMBT's CG Guidelines in their 2003 annual reports. In order to improve the compliance, CMBT introduced mandatory reporting based on a standard report template in 2004. Starting with 2004 annual reports, listed companies had to include an account of their compliance with CMBT's CG Guidelines in their annual reports using the CMBT template. The report would explain which provision of the Guidelines the issuers comply with, which provisions they do not comply, the reasons for non-compliance, and planned actions to ensure compliance. The quality of compliance reports in 2004 annual reports were disappointing, so were the actual implementation of the Guidelines as revealed by CMBT's survey results; the Guidelines and the mandatory reporting on compliance had created some awareness but did not provide incentives/sanctions for compliance.

TABLE 4
MAIN PARTS OF CORPORATE GOVERNANCE PRINCIPLES

Part I - Shareholders 1. Facilitating the Exercise of Shareholders' Statutory Rights 2. Shareholders Right to Obtain and Evaluate Information 3. The Right to Participate in the General Shareholders' Meeting 4. Voting Rights 5. Minority Rights 6. Dividend Rights 7. Transfer of Shares 8. Equal Treatment of Shareholders
Part II –Public Disclosure and Transparency 1. Principles and Means for Public Disclosure 2. Public Disclosure of Relations between the Company and Its Shareholders, The Board of Directors and Executives 3. Periodical Financial Statement and Reports in Public Disclosure 4. Functions of External Audit 5. The Concept of Trade Secret and Insider Trading 6. Significant Events and Developments That Must Be Disclosed to the Public
Part III - Stakeholders 1. Company Policy Regarding Stakeholders 2. Stakeholders' Participation in the Company Management 3. Protection of Company Assets 4. Company Policy on Human Resources 5. Relations with Customers and Suppliers 6. Ethical Rules 7. Social Responsibility
Part IV – Board of Directors 1. Fundamental Functions of the Board of Directors 2. Principles of Activity and Duties and Responsibilities of the Board of Directors 3. Formation and Election of the Board of Directors 4. Remuneration of the Board of Directors 5. Number, Structure and Independence of the Committees Established by the Board of Directors 6. Executives

Source: CMB, 2003

The ISE's Corporate Governance Index

In addition to the Principles, in order to motivate companies for good corporate governance, Istanbul Stock Exchange started to calculate ISE Corporate Governance Index in 2007. ISE Corporate Governance Index (XKURY) is the index in which companies applying CMB's Corporate Governance Principles are included. ISE Corporate Governance Index aims to measure the price and return performances of ISE-listed companies with a corporate governance rating of minimum 6 over 10. The corporate governance rating is determined by the rating institutions incorporated by CMB in its list of rating agencies.

Calculation of the Corporate Governance Index started on 31.08.2007 after the Exchange was notified of 5 companies with Corporate Governance Rating of minimum 6 over 10. A rating between 1 - 10 is assigned to the overall level of compliance with the principles of corporate governance as well as to the four main sectors of corporate governance, namely, shareholders, public disclosure and transparency, stakeholders, board of directors. A rating of 1 (one) represents the weakest profile. A rating of 10 (ten) represents the highest quality. In order to be included in the Istanbul Stock Exchange (ISE) Corporate Governance Index, a rating of 6 or more is required.

TABLE 5
FIRMS LISTED IN CORPORATE GOVERNANCE INDEX OF ISE

	FIRM	**Latest Corporate Governance Rating**	**SECTOR**
1	*Doğan Yayın Holding A.Ş.*	9.00	*Financial Institutions*
2	*Vestel Elektronik Sanayi ve Ticaret A.Ş.*	8.50	*Manufacturing Industry*
3	*Y&Y Gayrimenkul Yatırım Ortaklığı A.Ş.*	8.16	*Financial Institutions*
4	*Tofaş Turk Otomobil Fabrikası A.Ş.*	8.24	*Manufacturing Industry*
5	*Türk Traktör ve Ziraat Makineleri A.Ş.*	*8.12*	*Manufacturing Industry*
6	*Hürriyet Gazetecilik ve Matbaacılık A.Ş.*	8.50	*Manufacturing Industry*
7	*Tüpraş- Türkiye Petrol Rafinerileri A.Ş.*	8.34	*Manufacturing Industry*
8	*Asya Katılım Bankası A.Ş.*	7.82	*Financial Institutions*
9	*Otokar Otobüs Karoseri Sanayi A.Ş.*	8.12	*Manufacturing Industry*
10	*Şekerbank T.A.Ş.*	8.00	*Financial Institutions*
11	*Dentaş Ambalaj ve Kağıt Sanayi A.Ş.*	7.82	*Manufacturing Industry*
12	*Anadolu Efes Biracılık ve Malt Sanayi A.Ş*	8.27	*Manufacturing Industry*
13	*Yapı ve Kredi Bankası A.Ş.*	8.44	*Financial Institutions*
14	*Vakıf Menkul Değerler Yatırım Ortaklığı A.Ş.*	*7.81*	*Financial Institutions*
15	*Coca Cola İçecek A.Ş.*	8.30	*Manufacturing Industry*
16	*Arçelik A.Ş.*	8.21	*Manufacturing Industry*
17	*TAV Hava Limanları Holding A.Ş.*	8.50	*Financial Institutions*
18	*Türkiye Sınai Kalkınma Bankası*	8.77	*Financial Institutions*
19	*Doğan Şirketler Grubu Holding A.Ş.*	8.26	*Financial Institutions*
20	*Petkim Petrokimya Holding A.Ş.*	7.71	*Manufactoring Industry*
21	*Logo Yazılım Sanayi ve Ticaret A.Ş.*	8.05	*Tecnology*
22	*İş Finansal Kiralama A.Ş.*	8.02	*Financial Institutions*
23	*Türk Prysmian Kablo ve Sistemleri A.Ş.*	7.76	*Manufactoring Industry*
24	*Türk Telekomünikasyon A.Ş.*	*8.01*	*Transportation, Telcom, and Storage*

Source: www.imkb.gov.tr

The overall rating as well as the ratings for the four main sections are disclosed to the public. As of the beginning of 2010, there are 24 companies listed in Corporate Governance Index of ISE which can be seen in Table 5.

IMPLICATIONS FOR ISE CORPORATE GOVERNANCE INDEX COMPANIES

The CMB' Principles have major implications for publicly held companies. Because only the firms listed in the ISE are obliged to confirm with the Principles and prepare annual CG Reports. The CMB made a study regarding corporate governance practices of ISE listed companies in 2004, but the results were not satisfactory. (CMB, 2004) It should be expected that the current situation is different from 2004, but since there is no data concerning all ISE companies, it is not fair to say that corporate governance in Turkey is in a good state. The authors previously examined the corporate governance practices of banks listed in the ISE and found that for example only five out of fifteen banks have independent members in their boards. (Nemli Caliskan, Turan Icke, 2009a) Furhermore, 52% of the non-financial service sector firms listed in the ISE declare that they don't have any independent members in their Boards. (Nemli Caliskan, Turan Icke, 2009b)

Companies included in the Corporate Governance Index of ISE obviously are in a better position than other ISE listed firms. To provide a general picture of those companies, the authors tried to summarize the below headings from the corporate governance reports of those companies in Table 6.

TABLE 6
MAJOR CG PRACTISES OF CORPORATE GOVERNANCE INDEX COMPANIES

	Privileges Regarding Voting Rights	Cumulative Voting	Restrictions On Transfer Of Shares	Disclosure On Insider Trading	Independent Members In Board Of Directors	Corporate Governance Committee
Hürriyet Gazetecilik ve Matbaacılık A.Ş.	*No*	*No*	*No restrictions*	*Disclosed with the names*	*3 independent members*	*Yes*
Yapı ve Kredi Bankası A.Ş.	*No*	*No*	*No restrictions*	*Disclosed with the names*	*No information about independency*	*No*
Vakıf Menkul Değerler Yatırım Ortaklığı A.Ş.	*No*	*No*	*No restrictions*	*Disclosed with the names*	*3 independent members*	*Yes*
Coca Cola İçecek A.Ş.	*No*	*No*	*Yes*	*Disclosed with the names*	*2 independent members*	*Yes*
Arçelik A.Ş.	*No*	*No*	*No restrictions*	*Disclosed with the names*	No independent members	*No*
TAV Hava Limanları Holding A.Ş.	*No*	*No*	*No restrictions*	*Disclosed with the names*	*2 independent members*	*Yes*
Anadolu Efes Biracılık ve Malt Sanayi A.Ş.	*No*	*No*	*No restrictions*	*Disclosed with the names*	1 independent member	*Yes*
Asya Katılım Bankası A.Ş.	*Yes*	*No*	*No restrictions*	*Disclosed with the names*	No independent members	*Yes*
Dentaş Ambalaj ve	*No*	*No*	*No*	*Disclosed*	No independent	*No*

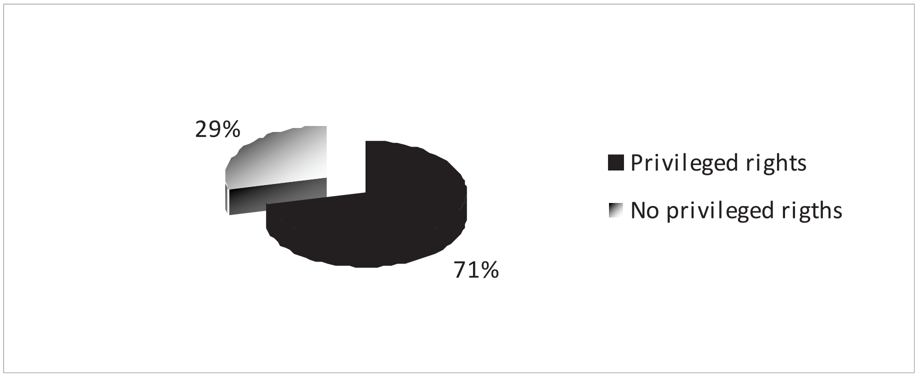
Kağıt Sanayi A.Ş			*restrictions*	*with the names*	members	
Doğan Yayın Holding A.Ş.	*No*	*No*	*No restrictions*	*Disclosed with the names*	*3 independent members*	*Yes*
Otokar Otobüs Karoseri Sanayi A.Ş.	*No*	*No*	*No restrictions*	*Disclosed with the names*	No independent members	*No*
Şekerbank T.A.Ş.	*No*	*No*	*No restrictions*	*Not disclosed*	*1 independent member*	*Yes*
Tofaş Turk Otomobil Fabrikası A.Ş.	*Yes*	*No*	*Yes*	*Disclosed with the names*	No independent members	*Yes*
Tüpraş- Türkiye Petrol Rafinerileri A.Ş.	*Yes*	*No*	*No restrictions*	*Disclosed with the names*	*N.A.*	*Yes*
Türk Traktör ve Ziraat Makineleri A.Ş.	*Yes*	*No*	*Yes*	*Disclosed with the names*	No independent members	*No*
Vestel Elektronik Sanayi ve Ticaret A.Ş.	*No*	*No*	*No*	*Disclosed with the names*	*2* independent members	*Yes*
Y&Y Gayrimenkul Yatırım Ortaklığı A.Ş.	*Yes*	*No*	*No*	*Disclosed with the names*	*3* independent members	*Yes*
Türkiye Sınai Kalkınma Bankası	*No*	*No*	*No*	*Disclosed with the names*	*N.A.*	*No*
Doğan Şirketler Grubu Holding A.Ş	*No*	*No*	*No*	*Disclosed with the names*	*2* independent members	*No*
Petkim Petrokimya Holding A.Ş.	*Yes*	*No*	*Yes*	*Disclosed with the names*	*N.A.*	*No*
Logo Yazılım Sanayi ve Ticaret A.Ş.	*No*	*No*	*No restrictions*	*Disclosed with the names*	*1* independent members	*No*
İş Finansal Kiralama A.Ş	*No*	*No*	*No restrictions*	*Disclosed with the names*	No independent members	*Yes*
Türk Prysmian Kablo ve Sistemleri A.Ş.	*No*	*No*	*No restrictions*	*Disclosed with the names*	No independent members	*No*
Türk Telekomünikasyon A.Ş.	*Yes*	*No*	*Yes*	*Not disclosed*	No independent members	*No*

To make it more clear, the above criteria are summarized in figures in the following pages.

Privileges Regarding Voting Rights

CMB Principles state that privileges regarding voting rights should be avoided. Shareholders of preferred stock should not have the privilege to nominate in a way that would distort the fair representation of holders of publicly traded shares in the management of the company. 71 % of index companies has privileges regarding voting rights, whereas 29 % has no privileges.

FIGURE 2
PRIVILEGES REGARDING VOTING RIGHTS



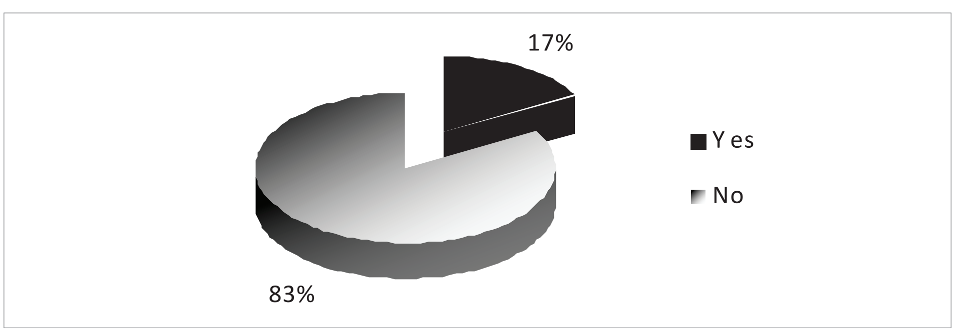
Cumulative Voting

Cumulative voting system may enable minority groups to send directors to the board, depending on the size of the board and the percentage of shares held by the minority. The legal recognition of cumulative voting is seen as an indicator of a good corporate governance system.(Okutan-Nilsson, 2007) According to the Principles, the cumulative voting procedure should be adopted so as to ascertain that minority shareholders send their representatives to the Board of Directors. Within the framework of the legislation, the procedure for the adoption of cumulative voting should be incorporated in the articles of association of the company. The board of directors should inform the shareholders about the cumulative voting system. Although the principles strongly recommend cumulative voting system, none of the companies listed in the Index has cumulative voting procedure.

Restrictions on Transfer of Shares

CMB Principles asks companies that practices that would hinder shareholders to freely transfer their shares be avoided. The articles of association should not contain provisions to impede the transfer of shares. 83 % of the index firms has no restrictions on transfer of shares in the articles of association, whereas 17 % has restrictions.

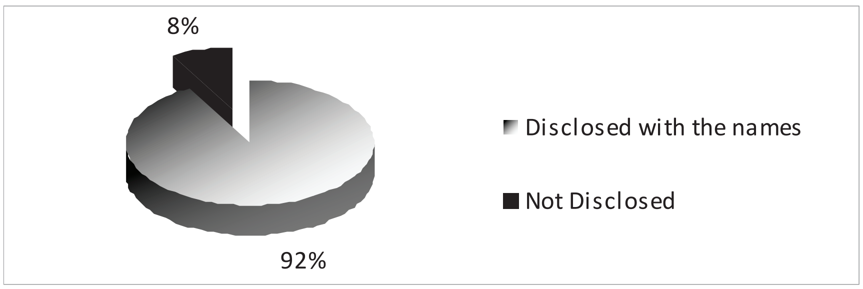
FIGURE 3
RESTRICTIONS ON TRANSFER OF SHARES



Disclosure on Insider Trading

In order to prevent insider trading companies need to take all the necessary measures and precautions. A list of the names of executives and other persons/institutions who provide services to the company, and who can potentially possess price-sensitive information should be prepared and disclosed to public in accordance with the information policy. 92% of the companies disclosed the list of individuals who can be classified as an insiders with their names, 8 % did not disclose.

FIGURE 4
DISCLOSURE ON INSIDER TRADING



Independent Members in Board of Directors

The independent board members are assumed to be objective in decision making and have the natural advantage to praise the interests of the company, shareholders and stakeholders equally. Lorsch suggests that one of the important tools to empower Board of Directors is most of the directors coming from outside of the company and have no relationship with it. (Lorsch, 1995) Within this framework, the presence of a clear majority of independent board directors is one of the important elements that ensure corporate governance practices are properly implemented.

However, when country practices are examined, it can be observed that this issue is evaluated differently in each case based on the conditions of each country. Taking into consideration Turkish practice, special clauses have been incorporated to the CMB Principles that emphasize the need for the independence of the board of directors. Moreover, it was recommended that the board of directors be constituted from at least two independent members, and that at least one third of the members fulfill the criteria for independence. Doubtlessly, as the conditions change in time, this ratio is to increase.

Figure 5 shows the percentage of companies with independent members in their boards. 38 % of the index companies declare that they don't have any independent members, the objectivity in the decisions of Board of Directors in the absence of independent members is questionable.

Existence of Corporate Governance Committee

In spite of the recommendations, it can be seen that half of the index firms did not found Corporate Governance Committee.

FIGURE 5
PERCENTAGE OF COMPANIES WITH INDEPENDENT MEMBERS ON THEIR BOARDS

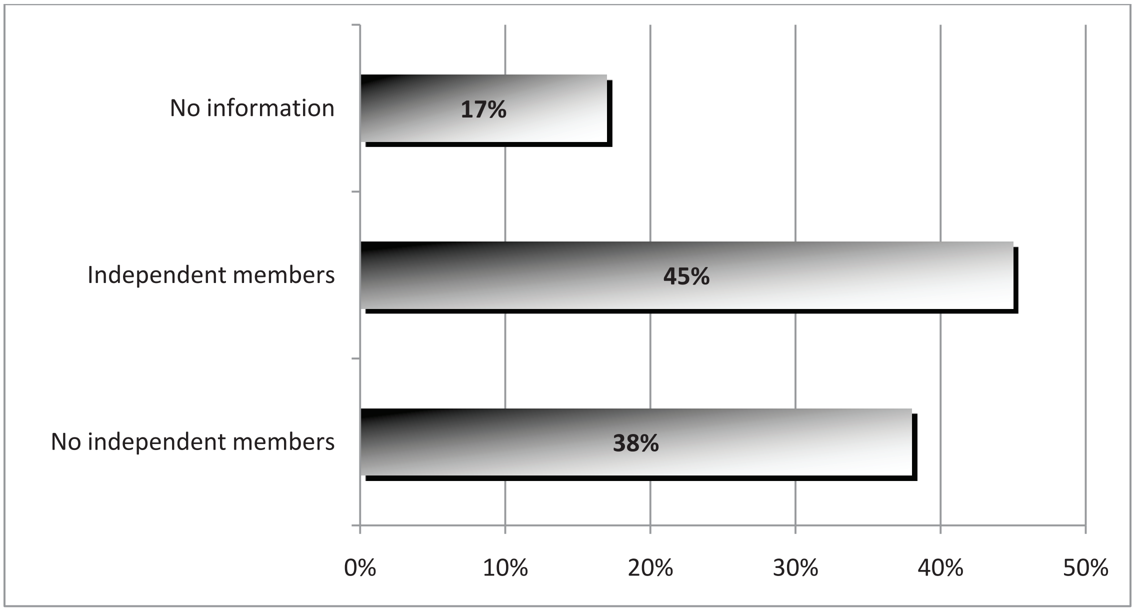
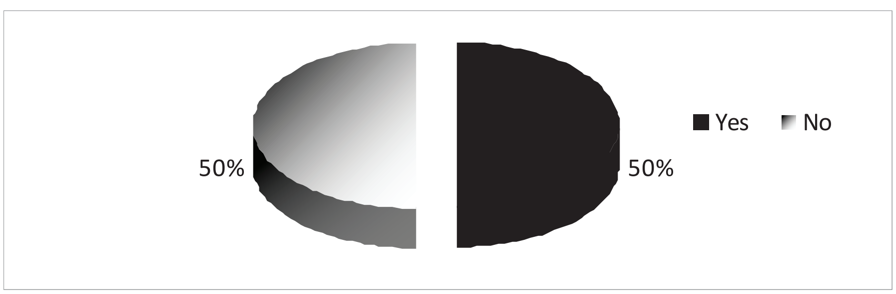


FIGURE 6
CORPORATE GOVERNANCE COMMITTEE



CONCLUSION

The CMB'S Principles of Corporate Governance is a very useful guideline for companies that want to improve their corporate governance practises. Published in 2003 and amended in 2005, these principles are very comprehensive. The CMB Principles and other legislation in this field in Turkey try to strengthen the position of the individual shareholders against the controlling block of shareholders. The principles specificly focuses on shareholders' rights, public disclosure and transparency, relationships with stakeholders and board of directors.

Although the principles were published in 2003, the acceptance and application of principles is relatively slow among ISE listed companies. To further motivate publicly held companies on corporate governance ISE started to calculate Corporate Governance Index in 2007. Currently there are 24 companies listed in the index. These companies are obviously in a better position than other ISE listed companies but they are also not capturing world standards on corporate governance on privileges regarding voting rights, cumulative voting, restrictions on transfer of shares, disclosure on insider trading, corporate governance committee as the results of this study show.

Although many areas are improving in Turkish corporate governance practice, there remains some challenges ahead. Turkish companies need to consider the CMB Principles not an enforcement but a guideline and try to improve their corporate governance performance if they want to be more competitive and able to find capital from international markets.

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