

## **Corporate Governance in Non-Financial Service Sector Firms Listed in the Istanbul Stock Exchange**

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*In this paper corporate governance practices of Turkish non-financial service sector firms listed in ISE are analyzed. The sample consists of twenty-nine firms. Turkish non-financial service sector is chosen because it is one of the most powerful forces of Turkish economy. Moreover, since these firms are obliged to publish corporate governance reports yearly, they are more likely to have “better” corporate governance practices than other non-financial service sector firms (not listed in ISE). The analysis is based on the corporate governance reports, annual reports, financial statements and articles of associations of the firms. The corporate governance practices of these firms are analyzed as to four main criteria: shareholders, public disclosure-transparency, stakeholders and board of directors.*

### **INTRODUCTION**

Corporate Governance has been on the agenda for a long time around the World. Increasing research interest has occurred not only in the United States where the subject is well established as a significant focus of business research, but also there is growing interest across Europe and developing countries. Turkey is no exception with a growing interest in corporate governance from academics, business circles, policymakers and regulators and with recent government initiatives to improve corporate accountability and control in the financial sector. (Ararat and Ugur, 2003)

The pioneering research on corporate governance beginning from 1930's focus on the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. In their classic “Modern Corporation and Private Property”, Berle and Means defined a corporation as a means whereby the wealth of innumerable individuals has been concentrated into huge aggregates and whereby control over this wealth has been surrendered to a unified direction. (Berle and Means, 1932, p.4) The authors talk about the agency problem in modern corporations where ownership and control are separated.

Building upon Berle and Means' work, after decades, Jensen and Meckling defined an agency relationship as “a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent”. If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent. (Jensen, Meckling, 1976, p.5)

The publication of Jensen and Meckling's model pioneered a voluminous body of research, both theoretical and empirical. (Denis, McConnell, 2003) Through the 1970s and 1980s that research was largely focused on the governance of US corporations, and US-based corporate governance research continues to expand. By the early 1990s, however, research on governance in countries other than the US began to appear. In the beginning, that research focused primarily on other major world economies, primarily Japan, Germany, and the United Kingdom. More recent years, however, have witnessed an explosion of research on corporate governance around the world, for both developed and emerging markets. The result is an extensive and still growing body of research on international corporate governance.

In the past two decades, with the driving forces of the OECD, the World Bank, institutional investors, stock exchanges, national and international capital markets, corporate governance has started to determine how the corporations are managed in many countries. Today corporate governance is defined as the set of mechanisms – both institutional and market-based – that induce the self-interested controllers of a company (those that make decisions regarding how the company will be operated) to make decisions that maximize the value of the company to its owners (the suppliers of capital). (Denis, McConnell, 2003)

## **CORPORATE GOVERNANCE IN TURKEY**

The corporate governance landscape in Turkey is characterised by concentrated ownership, often in the form of family-controlled, financial-industrial company groups. (OECD, 2006, p.11) Pyramidal structures are common and there is a high degree of cross-ownership within some company groups. Controlling shareholders often play a leading role in the daily management and strategic direction of publicly held companies.

Demirag and Serter found that the ownership of Turkish companies is highly concentrated, families being the dominant shareholders. The separation of ownership and control is most pronounced in family ownership. However, the cash flow and voting rights in Turkish companies are relatively more aligned than other family control firms, such as those found in Italy and the Far East. (Demirag, Serter, 2003, p.47)

According to Yurtoglu, overwhelming majority of Turkish publicly listed companies are ultimately owned and controlled by families who organize a large number of companies under a pyramidal ownership structure or through a complicated web of inter-corporate equity linkages.(Yurtoglu, 2003) A pyramid is a structure in which an apex shareholder, usually a very wealthy family, controls a single company, which may or may not be listed. This company then holds control blocks in other listed companies. Each of these holds control blocks in yet more listed companies, and each of these controls yet more listed companies.(Morck and Steier, 2005) The main reason for the adoption of this pyramidal ownership structure in Turkey seems to be leverage, as this structure allows the owners to succeed in raising capital in the equity market without losing control of the firm.

Moreover, almost every private bank is under the control of families who typically control a large number of other financial and industrial companies. Hence, the monitoring function of the banks works in a way that reinforces the interests of the owner family. (Yurtoglu, 2000)

Another corporate governance issue, emerging from the Turkish system, seems to be weaknesses in minority shareholder rights, although new measures are being taken, including the adoption of new corporate governance rules of best practice. (Demirag, Solomon, 2003) As La Porta et. al. reports, in many countries, expropriation of minority shareholders and creditors by the controlling shareholders is extensive. (La Porta et al, 2000) Turkey is among those countries. Procedures for minority shareholders to voice their views are extremely limited and, as with many countries around the world, lessening the divide between majority and minority shareholder rights is an essential step towards improving corporate governance standards. Furthermore, such improvements in minority shareholder rights are required in order to prevent expropriation of minority shareholder wealth by majority shareholders through abuse of power and concentration. Indeed, better protection of minority shareholders has been found to be significantly associated with higher corporate valuation (La Porta et al., 2002, p.1147).

An organized equity market is a relatively recent phenomenon with the Istanbul Stock Exchange (ISE) being established only in 1985 in Turkey. From the mid-1980's until the beginning of 2000's economic conditions were difficult for companies. Thin markets, relatively few active institutional investors and an unpredictable macroeconomic environment limited incentives for companies to adopt good corporate governance practices. More recently however the return of foreign investors, greater opportunities for Turkish companies to do business abroad and increasing competition for foreign capital appear to be encouraging more companies for good corporate governance.

## **CAPITAL MARKETS BOARD OF TURKEY AND CORPORATE GOVERNANCE PRINCIPLES**

Capital Markets Board of Turkey (CMB) is the regulatory and supervisory authority in charge of the securities markets in Turkey. Empowered by the Capital Markets Law (1981), the CMB has been making detailed regulations for organizing the markets and developing capital market instruments and institutions in Turkey.

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 corporate governance framework in Turkey rests primarily upon a "public enforcement" model, with Capital Markets Board 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 some extent for weaknesses in market disciplinary forces and limitations in civil remedies. Although this public enforcement model is, on balance, a source of strength in the existing environment, it also presents some challenges. (OECD, 2006, p.12) 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.

OECD Principles of Corporate Governance (1999) is the most widely accepted good governance conduct in the world. Following these principles in Turkey, Capital Markets Board of Turkey published CMB Principles of Corporate Governance in 2003. These principles were amended in 2005. All companies whose shares are traded in Istanbul Stock Exchange need to comply with these principles and publish corporate governance reports yearly.

The CMB Principles consist of four main sections, namely shareholders, disclosure- transparency, stakeholders and board of directors. (CMB, 2003, p.8) 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.

## **ANALYSIS AND FINDINGS**

This paper summarizes the findings on the corporate governance practices of Turkish non-financial service sector firms listed in Istanbul Stock Exchange (ISE). The Turkish economy has mainly shifted to a service economy base over the last two decades. (Elden, Erginler, 2006) Among the service sub-sectors, domestic retail and wholesale trade, transportation and communication services each account for 15-16 percent of GDP. Smaller in size, tourism and finance are likely to make significant contributions to the growth performance of Turkey in the near future. (Gultekin, Yilmaz, 2005)

The non-financial service sector in Turkey increased its share in the national income in parallel with developments in the world economy.(Brewster, Mayrhofer, Morley, 2004). The growth of the non-financial service sector in Turkey, seems to be following a similar pattern to that within EU member states. (Blanpain, Pennings, Dereli, 2006) A study made on the sector breakup of FDI in Turkey reveals that non-financial service sectors on value basis have taken the biggest share from total investments. Transport, telecommunications, banking and financial services, wholesale and retail trade are the service sub-sectors which attract most of the FDI inflows (Yilmaz, 2007, p.17) Turkey is also a major service provider in the rapidly expanding tourism sector whose share in GDP is expected to grow. ( Laçiner, Özcan, Bal, 2005, p.237)

Turkish non-financial service sector is chosen in this study because it is one of the most powerful forces of Turkish economy and has been expected to grow in the next years. The Capital Markets Board of Turkey wants firms listed in ISE, to prepare their Corporate Governance Reports annually. Since the chosen firms are obliged to publish corporate governance reports annually, they are more likely to have “better” corporate governance practices than other non-financial service sector firms- not listed in ISE. Firms which are applying good governance principles may provide best-practise examples to other firms.

Although there are thirty five non-financial service sector firms listed in ISE, corporate governance compliance reports of four of them could not be accessed and two of them had Corporate Governance reports of 2007 latest. As a consequence, these firms are excluded from the analysis and the final sample consists of twenty-nine non-financial service sector firms. (Table 1)

**TABLE 1**  
**NON-FINANCIAL SERVICE SECTOR FIRMS LISTED IN ISE**

| Firm                       | Sector                   |
|----------------------------|--------------------------|
| Acibadem Saglik Hizmetleri | Healthcare               |
| AFM Film                   | Entertainment            |
| Ak Enerji                  | Energy                   |
| Aksu Enerji                | Energy                   |
| Ayen Enerji                | Energy                   |
| Besiktas Futbol Yatirim    | Sports                   |
| BIM Magazalari             | Retail                   |
| Boyner Magazacilik         | Retail                   |
| Celebi                     | Ground Handling Services |
| Dogus Otomotiv             | Automotive               |
| Edip Gayrimenkul           | Real Estate              |
| Enka Insaat                | Construction             |
| Fenerbahce Sportif         | Sports                   |
| Galatasaray Sportif        | Sports                   |
| Intema Mutfak              | Building products        |
| Marmaris Altinyunus Hotel  | Hotel                    |
| Marti Hotel                | Hotel                    |
| Migros Ticaret             | Retail                   |
| Milpa                      | Marketing                |
| Reysas Logistic            | Logistics                |
| Sanko Pazarlama            | Marketing                |
| Selcuk Ecza Deposu         | Pharmaceutical           |
| Tesco Kipa                 | Retail                   |
| Trabzonspor Sportif        | Sports                   |
| Turkcell                   | Telecommunication        |
| Turk Hava Yolları          | Air transportation       |
| Turk Telekom               | Telecommunication        |
| Vakko Tekstil              | Textile                  |
| Zorlu Enerji               | Energy                   |

To analyze these firms' corporate governance practices, firms' corporate governance reports(2008), annual reports, articles of association, financial statements, material disclosures and other information on the web sites are used. The analysis is based on four main criteria which are, shareholders, public disclosure-transparency, stakeholders and board of directors. Subcriteria are shown in Table 2.

**TABLE 2**  
**ANALYSIS CRITERIA**

|   |   |
|---|---|
| <p><b>1.SHAREHOLDERS</b></p> <ul style="list-style-type: none"> <li>• The number of shareholders' meetings</li> <li>• The rate of participation in shareholders' meetings</li> <li>• Voting rights</li> <li>• Minority rights</li> <li>• Cumulative voting</li> <li>• Restrictions on transfer of shares</li> <li>• The right of requesting to assign a special auditor</li> <li>• Proxy right</li> </ul> | <p><b>3.STAKEHOLDERS</b></p> <ul style="list-style-type: none"> <li>• Human resources policy</li> <li>• Existence of the projects of social responsibility</li> </ul>   |
| <p><b>2.PUBLIC DISCLOSURE AND TRANSPARENCY</b></p> <ul style="list-style-type: none"> <li>• Company Information Disclosure Policy</li> <li>• Disclosure of the Ultimate Controlling Individual Shareholder(s)</li> <li>• Disclosure on insider trading</li> </ul>   | <p><b>4.BOARD OF DIRECTORS</b></p> <ul style="list-style-type: none"> <li>• Structure and composition of the board of directors</li> <li>• Independent members in board of directors</li> <li>• Existence of audit and corporate governance committees</li> </ul> |

**Shareholders**

*The Number of Shareholders' Meetings*

Shareholders' meeting is an important tool for shareholders to evaluate the performance of company. Shareholders can express their opinions and ask questions related to the performance of the company and its executives during these meetings. The CMB Principles contain very detailed rules on the procedure for convening the shareholders' meeting, which is regulated in essence by the Turkish Commercial Code (TCC).

In the non-financial service sector, 73% of the companies had ordinary shareholders' meeting in 2008. 23% had one ordinary and one extraordinary shareholders' meetings and 3% had one ordinary and two extraordinary meetings.

*The Rate of Participation in Shareholders' Meetings*

CMB Principles ask the firms general shareholders' meeting be conducted in a manner to ensure the highest level of participation. In order to ensure attendance of maximum number of shareholders, announcement of invitation to the general shareholders' meeting should be performed through all means of communication including electronic means, at least three weeks in advance in addition to the methods of invitation in the legislation.

Table 3 summarizes the rates of participation in ordinary shareholders' meetings. Although the rates seem to be extremely high, this can be due to the participation of majority shareholders, maybe family members. There is no specific information related to minorities.

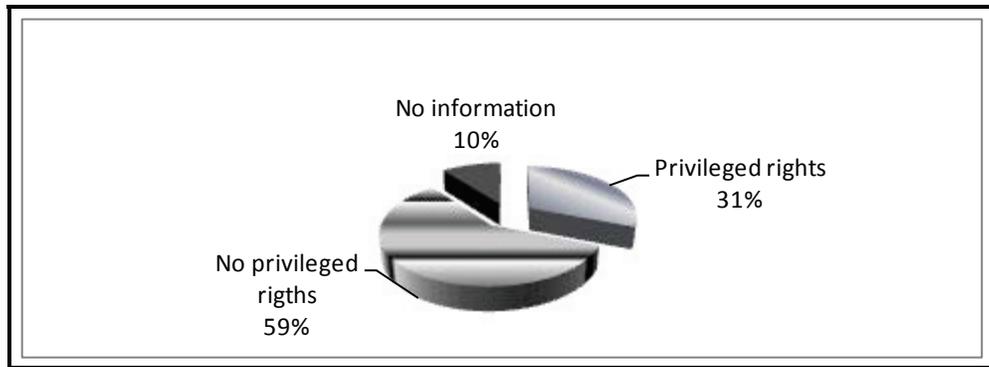
**TABLE 3**  
**THE RATE OF PARTICIPATION BY SHAREHOLDERS IN SHAREHOLDERS' MEETINGS**

| <b>Firm</b>             | <b>Ordinary Sh' Meeting</b> | <b>Firm</b>               | <b>Ordinary Sh' Meeting</b> |
|-------------------------|-----------------------------|---------------------------|-----------------------------|
| Acibadem Sağlık         | 98,00                       | Marmaris Altinyunus Hotel | NA                          |
| AFM Film                | 61,90                       | Marti Hotel               | 45,47                       |
| Ak Energy               | 74,72                       | Migros Ticaret            | 62,35                       |
| Aksu Energy             | No info                     | Milpa                     | 65                          |
| Ayen Energy             | 84,98                       | Reysas Logistic           | No info                     |
| Besiktas Futbol Yatırım | NA                          | Sanko Pazarlama           | 74,94                       |
| BIM Magazalari          | 51,08                       | Selcuk Ecza Deposu        | No info                     |
| Boyner Magazacilik      | 60                          | Tesco Kipa                | 92,88                       |
| Celebi                  | 77,41                       | Trabzonspor Sportif       | 74,99                       |
| Dogus Otomotiv          | 73,02                       | Turkcell                  | 69,45                       |
| Edip Gayrimenkul        | 75,00                       | Turk Hava Yolları         | 58,00                       |
| Enka Insaat             | 88,00                       | Turk Telekom              | 88,00                       |
| Fenerbahçe Sportif      | 85,84                       | Vakko Tekstil             | No info                     |
| Galatasaray Sportif     | 68                          | Zorlu Enerji              | 65                          |
| Intema Mutfak           | 51,50                       |                           |                             |

*Voting Rights*

The right to vote is an indispensable right for shareholders. Different than one share-one vote principle, companies may have privileged rights on voting stated in company's articles of association. 31% of companies analysed has privileged rights on voting, 58.62% has no privileged rights and 10.38% gave no information about privileged rights in their reports.

**FIGURE 1**  
**PRIVILEGED RIGHTS ON VOTING**

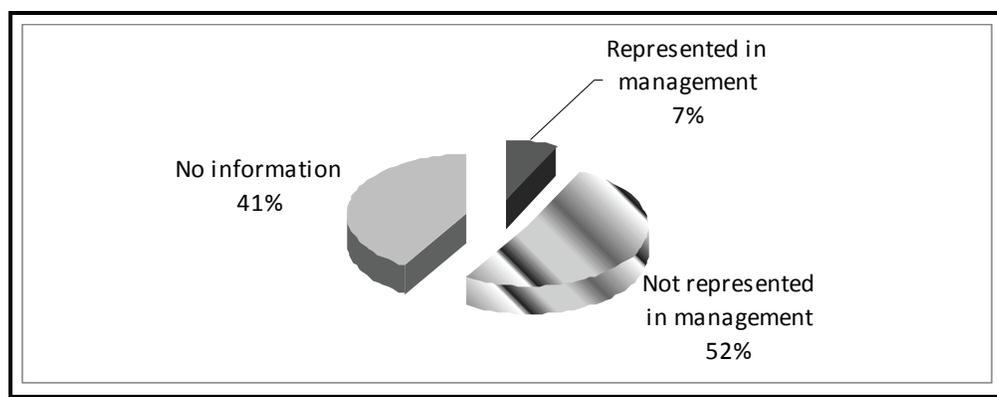


*Minority Rights*

The rights granted by the TCC to minority groups include the right to ask statutory auditors to investigate allegations, the right to have special auditors appointed, the right to call a shareholder's meeting or to insert items on the agenda, the right to veto the release of director's liabilities due to their transactions during the incorporation of the company and the right to ask the company to sue the directors for their liability. Although, the legislation gives these rights to minorities, as with many countries around the world, the minority shareholders cannot use their rights properly in practice.

In the reports of the companies, information could be found related only to the representation of minority shareholders in Board of Directors. Of the twenty nine companies in the sample, only 7% has minority rights represented in management. 52% of the firms declare that minority rights are not represented in management, whereas 41% give no information on this topic. Lessening the divide between majority and minority shareholder rights is an essential step towards improving corporate governance standards in Turkey. (Demirag, Solomon, 2003)

**FIGURE 2:  
MINORITY RIGHTS**



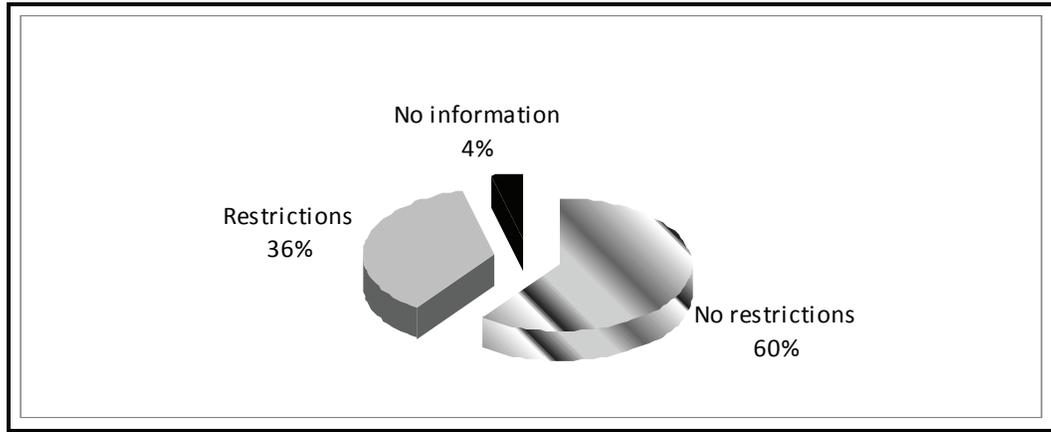
#### *Cumulative Voting*

One method of facilitating minority representation at board level is the use of cumulative voting. This 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. The results show the opposite. Of the 29 companies 21 do not have cumulative voting and 8 give no information.

#### *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. 60% of the non-financial service sector firms has no restrictions on transfer of shares in the articles of association, whereas 36% has restrictions and 4% give no information on this topic in their reports. 36% is a relatively high percentage and shows that companies need to take precautions related to restrictions on transfer of shares.

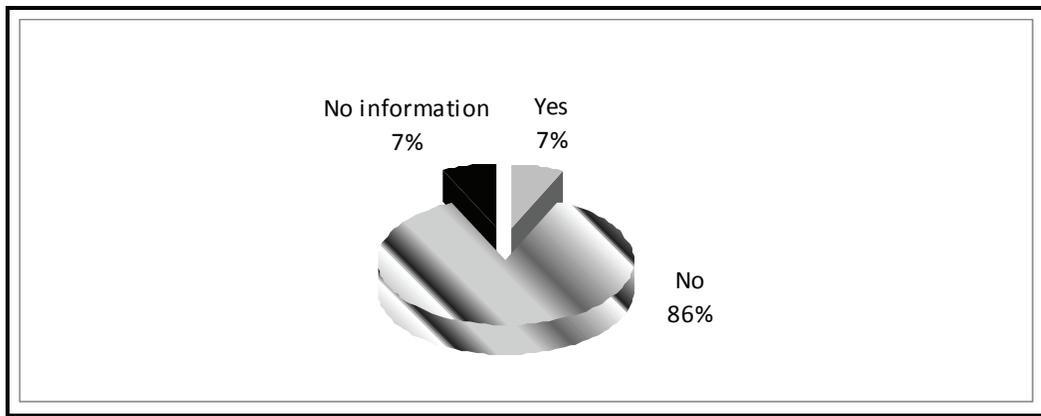
**FIGURE 3  
RESTRICTIONS ON TRANSFER OF SHARES IN THE ARTICLES OF ASSOCIATION**



*The Right of Requesting to Assign a Special Auditor*

Requesting to assign a special auditor by shareholders may be arranged as an individual right in the articles of association. 86% of the companies do not give this right to their shareholders, 7% have no information, only 7% have this right given to shareholders in the articles of association.

**FIGURE 4  
SPECIAL AUDITOR**



*Proxy Right*

Under Turkish law, it is possible to vote in absentia by giving a power of representation (proxy) to a third person. According to the Principles, companies should not make the process of giving such power of representation unduly difficult. In 27 of the companies, shareholders may use their voting rights by use of a proxy, there is no information on this topic in 2 companies' reports.

**Public Disclosure and Transparency**

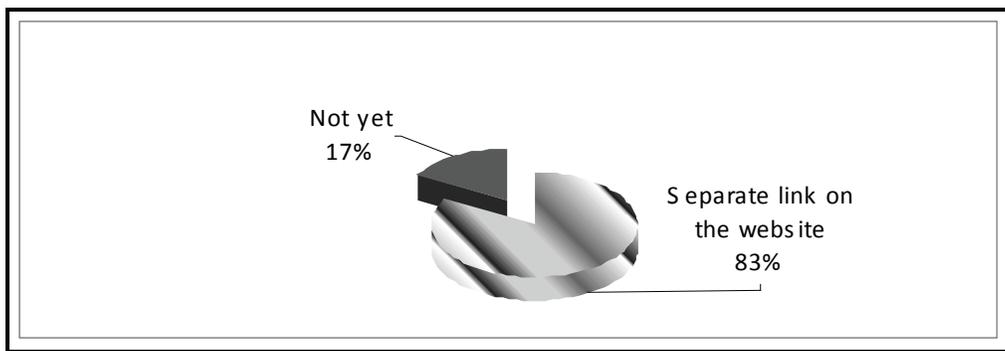
*Company Information Disclosure Policy*

CMB Principles require companies to establish its information policy and disclose it to the public. The company's website should be actively used as a means of public disclosure. Significant information to be published on the company's website mainly include trade register information; detailed information about

the shareholder and management structure; detailed information about preferred shares; the final version of the company's articles of association together with date and numbers of the trade register gazettes in which amendments are published; publicly disclosed material information; annual reports, periodical financial statements, agendas of the general shareholders' meetings and list of participants and minutes of the general shareholders' meeting.

All non-financial service sector companies have their information disclosure policy. 83% of them have a separate link to company disclosure policy in their website. Remaining companies do not publish their disclosure policy in the website.

**FIGURE 5**  
**COMPANY DISCLOSURE POLICY ON THE WEBSITE**

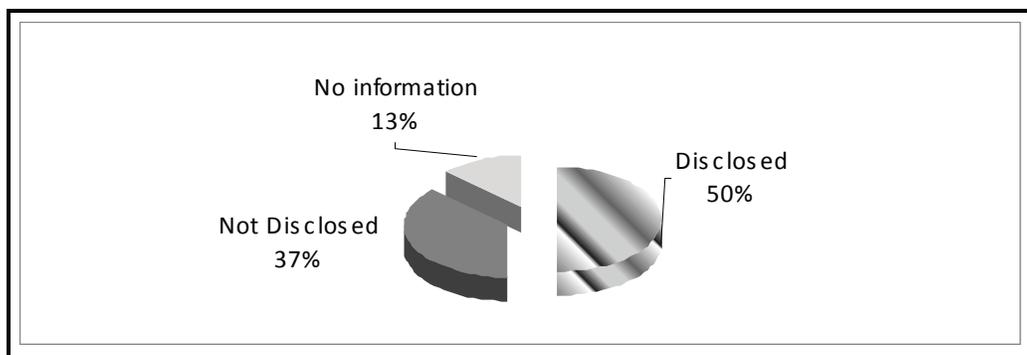


*Disclosure of the Ultimate Controlling Individual Shareholder(s)*

Under this heading, the information about the company's ultimate controlling individual shareholder/shareholders determined after eliminating the effects of indirect and mutual ownership are disclosed to the public or not is questioned.

50% of the non-financial service sector companies disclosed the names of their ultimate controlling individual shareholder(s), whereas 37% did not disclose. 13% gave no information on this topic. Although the Principles require companies to explain the reasons for not disclosing such information there is no such information in the reports.

**FIGURE 6**  
**DISCLOSURE OF THE ULTIMATE CONTROLLING INDIVIDUAL SHAREHOLDER(S)**

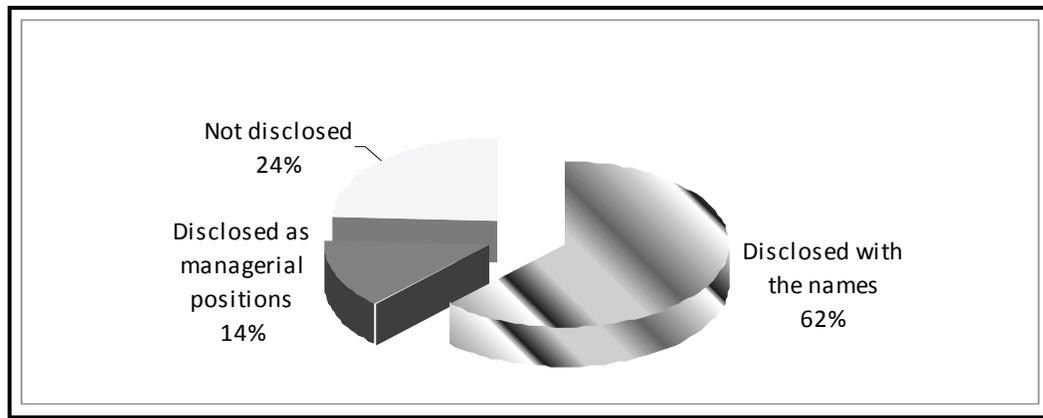


### *Disclosure on Insider Trading*

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.

62% of the companies disclosed the list of individuals who can be classified as an insiders with their names, 14% disclosed not the names but the managerial positions, 24% did not disclose.

**FIGURE 7**  
**DISCLOSURE ON INSIDER TRADER(S)**



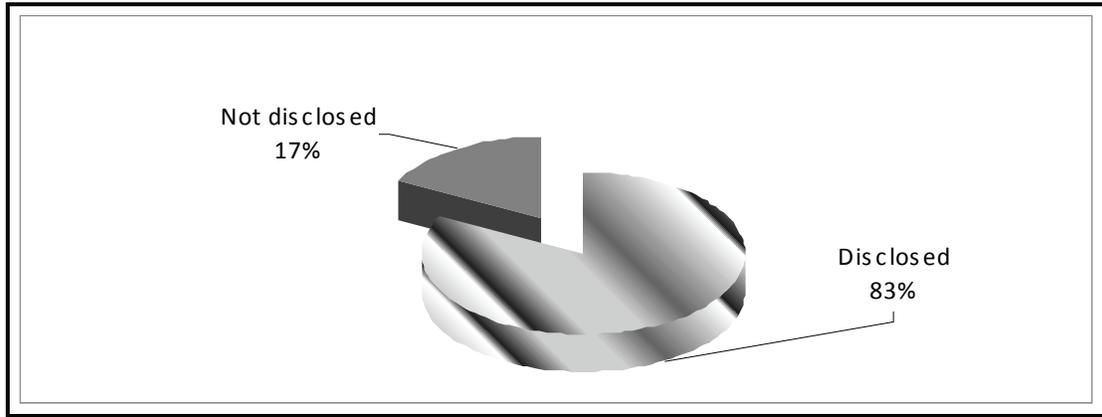
### **Stakeholders**

#### *Human Resources Policy*

Human resource management is a strategic approach to the management of an organization's most valued assets - the people working there who individually and collectively contribute to the achievement of the objectives of the business. Human resources policies play an important role in building the loyalty of employees to the organization. When establishing employment policies and preparing career plans, the company should adopt employment policies that would provide equal opportunities to individuals who have similar specifications.

As to the companies in the sample, 83% of non-financial service sector companies have a human resource policy and disclosed it, whereas 17% have a policy but not disclosed it.

**FIGURE 8**  
**HUMAN RESOURCES POLICY**



#### *Existence of the Projects of Social Responsibility*

Corporate social responsibility is one of the most important topics regarding the operations of companies in the last decade. Companies need to be aware of their responsibilities against their stakeholders, including the society and the environment. 24 of the non-financial service sector companies have social responsibility projects and disclosed them in their reports, 5 of them do not have.

#### **Board of Directors**

##### *The Structure and Composition of Board of Directors*

The board of directors, which is the most senior executive body of a company and elected by the company's shareholders, should fairly represent the company within the framework of the relevant legislation, the articles of association and the in-house regulations and policies.

Table 4 shows the composition of Boards of Directors of 29 non-financial service sector firms. Boards are composed of 7 members on the average.

##### *Independent Members in Board of Directors*

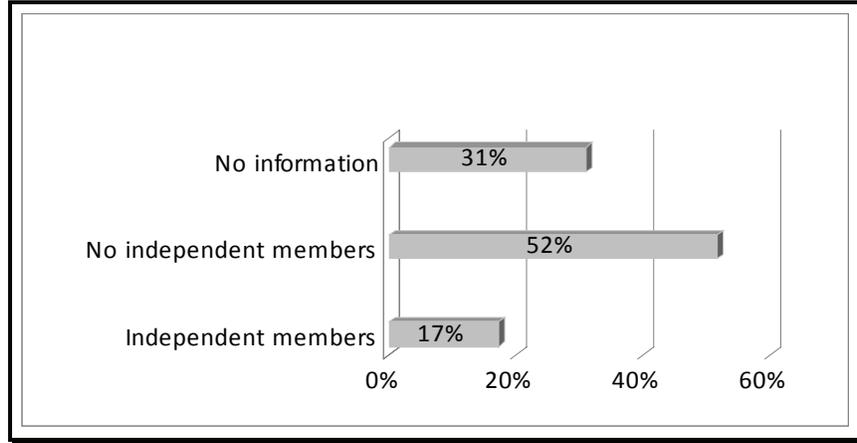
The independent board members are assumed to be objective in decision making and have the natural advantage to praise the interests of the company, shareholders and stakeholders equally. Lorsch suggests that one of the important tools to empower Board of Directors is most of the directors coming from 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.

**TABLE 4**  
**BOARD OF DIRECTORS**

| <b>Firm</b>               | <b>Total Number and Composition of Members</b> |
|---------------------------|--|
| Acibadem Sağlık           | 5 members; 4 non-executives                    |
| AFM Film                  | 5 members; 3 non-executives                    |
| Ak Enerji                 | 7 members; 2 non-executives                    |
| Aksu Enerji               | 6 members                                      |
| Ayen Enerji               | 5 members; 4 non-executives                    |
| Besiktas Futbol Yatırım   | 7 members                                      |
| BIM Magazaları            | 7 members; 7 non-executives                    |
| Boyner Magazacılık        | 5 members; 5 non-executives                    |
| Celebi                    | 6 members; 4 non-executives                    |
| Dogus Otomotiv            | 7 members                                      |
| Edip Gayrimenkul          | 6 members                                      |
| Enka Insaat               | 9 members                                      |
| Fenerbahçe Sportif        | 9 members                                      |
| Galatasaray Sportif       | 7 members                                      |
| Intema Mutfak             | 9 members                                      |
| Marmaris Altinyunus Hotel | 5 members                                      |
| Marti Hotel               | 5 members; 2 non-executives                    |
| Migros Ticaret            | 11 members                                     |
| Milpa                     | 6 members; 4 non-executives                    |
| Reysas Logistic           | 5 members; 4 non-executives                    |
| Sanko Pazarlama           | 5 members                                      |
| Selcuk Ecza Deposu        | 7 members; 5 nonexecutives                     |
| Tesco Kipa                | 10 members; 5 non-executives                   |
| Trabzonspor Sportif       | 5 members                                      |
| Turkcell                  | 7 members, none of them non-executives         |
| Turk Hava Yolları         | 7 members                                      |
| Turk Telekom              | 10 members                                     |
| Vakko Tekstil             | 5 members                                      |
| Zorlu Enerji              | 7 members; 5 non-executives                    |

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. Figure 9 shows the percentage of companies with independent members in their boards. 52% of the non-financial service sector firms 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.

**FIGURE 9**  
**COMPANIES WITH INDEPENDENT MEMBERS ON THEIR BOARDS (%)**



Moreover, the Principles recommend that at least one third of the members the Board of Directors should be independent members. Only 5 of the 29 (17%) firms have independent members in their Board of Directors. (Table 5) 3 companies have independent board members but they do not satisfy the criterion that one third of the total members of Board of Directors be independent members. Only 2 of the companies comply with the recommendation. These companies are shown in italics.

**TABLE 5**  
**NUMBER OF INDEPENDENT MEMBERS**

| <b>Firm</b>           | <b>Number of Independent Members</b> | <b>Ideal Number according to 1/3 recommendation</b> |
|-----------------------|--------------------------------------|---|
| Acibadem Saglik       | 1                                    | 2   |
| <i>BIM Magazalari</i> | 2                                    | 2   |
| Boyner Magazacilik    | 1                                    | 2   |
| Milpa                 | 1                                    | 2   |
| <i>Zorlu Enerji</i>   | 2                                    | 2   |

In spite of CMB recommendations, Turkish firms do not take necessary precautions to increase the number of independent members in Board of Directors. In another study, analyzing the corporate governance practices in banks listed in ISE, the authors found that only five out of fifteen banks have independent members in their boards. Only two of these five banks have one third of their boards composed of independent members. (Nemli Caliskan, Turan Icke, 2009)

*Existence of Audit and Corporate Governance Committees*

CMB Principles recommend the companies that the Board of Directors establish a corporate governance committee besides audit committee. Establishment of an audit committee is a legal requirement in Turkey. All firms in the sample have audit committees, only 11 of them have established corporate governance committees. This number needs to be increased. Although the Principles asks the firms to explain the reasons in case a corporate governance committee is not established, there is no information related to the reasons in the reports of companies which don't have corporate governance committees. Table 6 shows the names of firms having Corporate Governance Committees and number of members.

**TABLE 6**  
**THE NUMBER OF MEMBERS OF CORPORATE GOVERNANCE COMMITTEE**

| <b>Firm</b>             | <b>Number of Members</b> |
|-------------------------|--------------------------|
| Besiktas Futbol Yatirim | 3                        |
| Boyner Magazacilik      | No information           |
| Dogus Otomotiv          | 1                        |
| Enka Insaat             | 4                        |
| Fenerbahce Sportif      | 2                        |
| Migros Ticaret          | 2                        |
| Selcuk Ecza Deposu      | No information           |
| Trabzonspor Sportif     | 4                        |
| Turkcell                | 3                        |
| Turk Hava Yolları       | 2                        |
| Vakko Tekstil           | No information           |

## CONCLUSION

This paper tries to draw a general picture of corporate governance in Turkish non-financial service sector, by analyzing the specific practices of twenty-nine ISE listed non-financial service sector firms. Corporate governance landscape in Turkey is fastly improving. Capital Market Board's Corporate Governance Principles have strongly motivated Turkish companies -especially ISE listed- for good corporate governance. There are many improvements in company practices related to investor relations, public disclosure and transparency, stakeholder relations and board of directors in the last five years.

Consistent with CMB Principles, non-financial service sector companies are encouraging greater participation by minority shareholders in shareholder meetings. Some companies that previously restricted attendance at shareholder meetings are opening up such meetings to stakeholders, analysts and the media. In terms of voting rights, one third of companies assessed has privileged rights on voting, although the Principles require the cumulative voting procedure should be adopted, the results show the opposite. Twenty one companies do not have cumulative voting procedure. In twenty seven companies, shareholders may use their voting rights by use of a proxy. As to the minority rights, only seven percent of firms has minority rights represented in management. Fifty two percent declare that minority rights are not represented in management, whereas 41% give no information on this topic.

One of the fastly improving areas is the the quantity and accessability of information about companies. Consistent with CMB Principles, many listed companies are making information related to their financial and annual reports, shareholder meetings, news releases, investor relations contract details and corporate governance compliance reports available on their websites. All non-financial service sector companies analyzed established their information disclosure policy and almost all of them have a separate link to company disclosure policy in their website. However, many of the companies are unwilling to disclose information related to ultimate controlling individual shareholder(s) and insider traders. Although the Principles require companies to explain the reasons for not disclosing such information there is no such information in the reports.

Stakeholder relations are also improving, for example, corporate social responsibility is on the agenda of all companies. Twenty four of the non-financial service sector companies have social responsibility projects. Moreover, all of non-financial service sector companies have a human resource policy.

In Turkey, relatively few companies have implemented the CMB's recommendations regarding board independence. Fifty two percent of the non-financial service sector firms declare that they don't have any

independent members in their Boards. It will take some time for companies to identify and recruit experienced and knowledgeable candidates who also meet the CMB's strict independence criteria. CMB Principles recommend the companies that the board of directors establish a corporate governance committee besides audit committee. All firms in the sample have audit committees, only eleven of them have established corporate governance committees which needs to be increased.

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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