Akdeniz University
Institute of Social Sciences

University of Hamburg
School of Business, Economics and Social Sciences

Pınar Buket Kılınç

Development of Corporate Governance, Corporate Governance Approach of Banking Sector and Effects of Corporate Governance on the Financial Structure of Banking Sector's Companies: A Research on ISE 100 Index and ISE Corporate Governance Index (XKURY)

Akdeniz-Hamburg Universities, EuroMaster International European Studies Joint Master's Programme
Master Thesis

Antalya-Hamburg, 2012

Akdeniz Üniversitesi
Sosyal Bilimler Enstitüsü Müdürlüğüne,

Pınar Buket KILINÇ'ın bu çalışması, jürimiz tarafından Uluslararası İlişkiler Ana Bilim Dalı Avrupa Çalışmaları Ortak Yüksek Lisans Programı tezi olarak kabul edilmiştir.

Başkan	: Doç. Dr. Hakan ER	
Üye (Danışman)	: Doç. Dr. Can Deniz KÖKSAL	
Üye	: Prof. Dr. Wolfgang VOEGELİ	

Tez Başlığı:

Development of Corporate Governance, Corporate Governance Approach of Banking Sector and Effects of Corporate Governance on the Financial Structure of Banking Sector's Companies: A Research on ISE 100 Index and ISE Corporate Governance Index (XKURY)

Onay : Yukarıdaki imzaların, adı geçen öğretim üyelerine ait olduğunu onaylarım.

Tez Savunma Tarihi : 14/12/2011
Mezuniyet Tarihi : 09/01/2012

Prof. Dr. Mehmet ŞEN
Müdür

……………………………………

Akdeniz University
Institute of Social Sciences

University of Hamburg
School of Business, Economics and Social Sciences

Pınar Buket Kılınç

Development of Corporate Governance, Corporate Governance Approach of Banking Sector and Effects of Corporate Governance on the Financial Structure of Banking Sector's Companies: A Research on ISE 100 Index and ISE Corporate Governance Index (XKURY)

Research Director

Assoc. Prof. Dr. Can Deniz Köksal
Akdeniz University, Turkey

Prof. Dr. Wolfgang Voegeli
University of Hamburg, Germany

Akdeniz-Hamburg Universities, EuroMaster International European Studies Joint Master's Programme

Master Thesis

Antalya-Hamburg, 2012

TABLE OF CONTENTS

LIST OF TABLES

List of Graphs

LIST OF ABBREVIATIONS

A.Ş	Anonim Şirket (Company Limited by Shares)
BIS	Bank for International Settlements
BRSA	Banking Regulation and Supervision Agency
GCGC	German Corporate Governance Code
CEO	Chief Executive Officer
CMB	Capital Market Board
CML	Capital Market Law
EU	European Union
FDI	Foreign Direct Investment
F.S.I	Financial Statement Item
ICGN	International Corporate Governance Network
IMF	International Monetary Fund
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
ISE	Istanbul Stock Exchange
ISE XKURY	Istanbul Stock Exchange Corporate Governance Index
NYSE	New York Stock Exchange
NASDAQ	National Association of Securities Dealers Automated Quotations Stock Exchange
OECD	Organisation for Economic Co-operation and Development
PDP	Public Disclousure Platform
SMEs	Small and Medium Enterprises
SOX	Sarbanes-Oxley Act
TUSIAD	Turkish Industrialists' and Businessman's Association
T.S.K.B	Türkiye Sinai ve Kalkınma Bank
UK	United Kingdom
UN	United Nations
U.S.A	United States of America

Abstract

Development of Corporate Governance, Corporate Governance Approach of Banking Sector and Effects of Corporate Governance on the Financial Structure of Banking Sector's Companies: A Research on ISE 100 Index and ISE Corporate Governance Index (XKURY)

Corporate governance has been a focal point of research in the World and Turkey in recent years. The present research takes a look at the framework of the development of corporate governance and presents its impact on the economy and companies. By comparison of the corporate governance models, it is aimed to get clear answer about structural differences between systems and countries. It is accepted that the process of corporate governance is a dynamic and the corporate governance structure in each country develops in response to country-specific factors and conditions. However, the good corporate governance is based on transparency, accountability and openness in reporting and disclosure of information, both operational and financial. These are internationally accepted to be vital to the practice of all models. Additionally, development of corporate governance has increased after OECD Corporate Governance Principles which was published in 1999 for the first and then drawn up in 2004. On the other side Capital Market Board of Turkey (CMB) published the Corporate Governance Principles in 2003 and this is the first important movement in order to improve corporate governance applications, raise awareness and integrate the Turkish capital market to the global market that has been revised in 2005. The other important implementation for encouraging companies to implement corporate governance principles is the Istanbul Stock Exchange (ISE) Corporate Governance Index (XKURY), which supplies a standard and comparable measurement system. Corporate Governance in banking sector is the main research theme of this thesis; corporate governance practices in banks which shares are traded in ISE 100 and ISE XKURY are analyzed and discussed the effects of ISE XKURY Index on the financial performance of companies. It is also aimed to evaluate the impact of good corporate governance implementations and developments on financial performance in banking sectors between 2007 and 2011.

Keywords: Corporate Governance, Corporate Governance Principles, Banking Sector, Turkey, Corporate Governance Index, Financial Performance

Özet

Kurumsal Yönetimin Gelişimi, Bankacılık Sektöründe Kurumsal Yönetim Yaklaşımı ve Kurumsal Yönetimin Bankacılık Sektöründeki Şirketlerin Finansal Yapısı Üzerine Araştırma: IMKB 100 ve IMKB Kurumsal Yönetim Endeksi (XKURY) İnceleme

Kurumsal Yönetim dünyada ve Türkiye'de son yıllarda araştırmaların odak noktası haline gelmiştir. Mevcut araştırma kurumsal yönetimin gelişim çerçevesini ele alırken, onun ekonomi ve şirketler üzerine etkilerini de ortaya koymaktadır. Kurumsal Yönetim Modellerinin karşılaştırılması yoluyla, sistemler ve ülkeler arasındaki yapısal farklar hakkında net bir cevap almak amaçlanmıştır. Kurumsal yönetim sürecinin dinamik olduğu ve her ülkede, ülke koşullarına ve ülkeye özgü faktörlere göre geliştiği kabul edilmektedir. Ancak iyi kurumsal yönetim, operasyonel ve finansal olarak şeffaflık, hesap verebilirlik, raporlama ve bilgi vermede açıklık ilkelerine dayanmaktadır. Bunlar aynı zamanda uluslararası bütün modellerin uygulamalarında gerekli olarak kabul edilir. Ayrıca Kurumsal Yönetim uygulamaları OECD tarafından 1999 yılında yayınlanan ve 2004 yılında revize edilen Kurumsal Yönetim İlkeleri sonrasında artmıştır. Diğer taraftan Türkiye Sermaye Piyasası Kurulu (SPK) 2003 yılında kurumsal yönetim uygulamalarını geliştirmek, bilinci artırmak ve Türk Sermaye Piyasasını küresel pazara entegre etmek amacıyla Kurumsal Yönetim İlkelerini yayınlamış ve 2005 yılında revize etmiştir. Diğer bir önemli gelişme, standart ve karşılaştırılabilir ölçüm sistemi sağlayan, şirketleri kurumsal yönetim ilkelerini teşvik etmeyi amaçlayan ve İstanbul Menkul Kıymetler Borsası (IMKB) tarafından geliştirilen Kurumsal Yönetim Endeksidir. Bu tezin ana araştırma teması kurumsal yönetimin bankacılık sektöründeki durumunu, IMKB 100 ve IMKB XKURY Endeksindeki bankaların finansal performansları üzerine kurumsal yönetimin etkisini araştırmak ve tartışmaktır. Ayrıca 2007-2010 yılları arasındaki iyi kurumsal yönetim uygulamalarının ve gelişiminin finansal performansa etkisinin değerlendirilmesi amaçlanmaktadır.

Anahtar Kelimeler: Kurumsal Yönetim, Kurumsal Yönetim Prensipleri, Bankacılık Sektörü, Türkiye, Kurumsal Yönetim Endeksi, Finansal Performans

Introduction

The questions of "How is the development of corporate governance in the last decade in Turkey and in the World?", "What are the developments of corporate governance in the banking sector?" and "How have financial performance items been influenced by corporate governance implementations?" and "How is the effect of listed in Corporate Governance (XKURY) Index on financial performance?" are answered through this study. This study aims to define Corporate Governance into account the structures from different countries and then focuses on Turkey's Corporate Governance model. After this definition part, examination of corporate governance in banking sector is implemented and the research study is based on the analysis of corporate governance effects on financial performance of bank companies which are listed in the ISE 100 Index.

The first part of study aims to make a mention of the features and importance of corporate governance in the country and company level. It is examined the impact of corporate governance for countries and companies by the help of empirical studies through this study. The term is used in many different ways and boundaries of subject transform extensively. However, the Organization for Economic Co-operation and Development (OECD) that is actively co-coordinating and guiding the work on the corporate governance determine the term; "Corporate governance is affected by the relationships among participants in the governance system. Controlling shareholders, which may be individuals, family holdings, block alliances, or other corporations acting through a holding company or cross shareholdings, can significantly influence corporate behavior. As owners of equity, institutional investors are increasingly demanding a voice in corporate governance in some markets."[1] The second part underlines the models of corporate governance and determines the differences between countries in the light of Germany, U.S.A and Turkey. Systems of corporate governance can be distinguished according to the degree of ownership; such that outsider systems are characterized by wide dispersed ownership, insider system is qualified by concentrated ownership. It is one of the differences between two model, this document is underlined the structures of systems with representative countries. However, there is no single model of corporate governance and each country has improved its structure, therefore the possibility of convergence system and its obstacles are also discussed under the second part.

[1]"OECD Principles of Corporate Governance" (2004), p.14.

The next section describes the corporate governance background, institutions and features of corporate governance of Turkey. The “pull” and “push” factors are determined in the development process of this term in Turkey. Turkey’s successful reforms has strengthened the country’s economic fundamentals and supplied in era of strong growth-overegging. Moreover, Turkey has well-regulated financial markets and banking systems. All of this positive structure, Turkey’s corporate governance practices has increased in 2000s. Good corporate governance structure can vary not only across countries but also across sectors. Therefore, corporate governance principles and structures in banking sector are investigated in the fourth part of this study. The implementation of Basel Committee on Banking Supervision that is the part of the Bank of International Settlements (BIS) and it is underlined ‘Enhancing Corporate Governance for Banking Organizations’. The institutions and ISE Corporate Governance Index (XKURY) are analyzed under this section. CMB and ISE initiated a Corporate Governance Index project in 2007 and it was aimed to supply an incentive to firms to improve their corporate governance. Since 2007, companies, which receive corporate governance rating from independent rating agencies higher than 7, can be included in this index with reduced listing fees as voluntary. The index effects on companies’ performance are examined in the banking sector in the last part of this study.

One of the key questions we want to answer in this study is the effect of XKURY Index on the banks’ performance. By doing this, we practice upon the banks which are listed in the ISE 100. According to several studies in the literature, there are diverse results based on corporate governance effects on financial data in which they are influenced more than others. For this study, the summary balance sheet and income statement data in 2007 and 2010 of ISE 100 deposit and participation banks are collected and examined in two different groups of banks: which are listed in ISE XKURY Index and have not rating grades and are not listed in this index. Briefly, The present research aims to take a look at effects of ‘extra’ or ‘voluntary’ corporate governance practices on the financial performance in banking sector between the period of 2007 and 2010. As, all listed companies in ISE 100 ISE listed companies to include Corporate Governance Compliance and Disclosure Report every year, this study has discussed the results of voluntary activity, as listed in the ISE XKURY and getting rating grade from the independent rating agencies are not obligatory for listed companies. Moreover, in order to give a clear answer to this question the thesis specifically examines the role and development process of corporate governance in the World, Turkey and banking sector

Part I Corporate Governance Framework

1. Definition of Corporate Governance

Corporate Governance is an area that has grown very rapidly in the last decade. After the financial reporting scandals such as Enron, Adelphia and Parmalat, it started to be important on the political and business agenda. It is not only corporate collapses, which are mentioned above, series of crisis occurred in the different parts of the world. Financial scandals all over the world are seen the main reason to focus on corporate governance issues. These scandals, such as Enron, Barings Bank, Royal Ahold[2] are especially related to transparency and disclosure, control and accountability and the most convenient form of board structure that will be capable of preventing such scandals occurring in the future. Policy makers, regulators, market participants and governments give high level of attention to the issue of corporate governance and the main aim to create 'good governance' policies and practices and help to companies to attain these objectives as it is essential for confidence of financial market. In other words, recent financial scandals surrounding the Asian countries and the U.S.A seriously undermined investors' confidence in operating in the financial markets and the term of corporate governance has become a topic that is attracting a lot of interest both in companies and governments.[3] This chapter reviews the theoretical contribution about corporate governance.

Corporate governance concerns the management and companies' power and influence in society. Generally, it deals with the separation of ownership and control. The recent past, a lot of corporate governance codes are created and there are several definitions are made academically.

According to H. Kent Baker and Ronald Anderson(2010) corporate governance in broad terms;

In broad terms, corporate governance refers to the way in which a corporation is directed, administered, and controlled. Corporate governance also concerns the

[2]For more information about the financial scandals: Mallin, C. (2004): "Principles of Good Corporate Governance and Best Practice Recommendations, Oxford University Press, p. 1-4.
[3]Tuzcu, A. (2004): "Corporate Governance Approach of Istanbul Stock Exchange Companies", Millettletarası Münasebetler Türk Yıllığı, Volume 35, p.146.

relationships among the various internal and external stakeholders involved as well as the governance processes designed to help a corporation achieve its goals. Of prime importance are those mechanisms and controls that are designed to reduce or eliminate the principal-agent problem. Corporate Governance covers the broad array of systems, processed and procedures that seek to regulate the relationship between managers and shareholders in particular and among all firm shareholders in general.[4]

Sir Adrian Cadbury describes the term as follows "Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as near as possible the interests of individuals, corporations and society. The aim is to align as nearly as possible the interests of individuals, of corporations and of society. The incentive of corporations and to those who own and manage them to adopt internationally accepted governance standards is that these standards will assist them to achieve their aims and attract investment. The incentive for their adoption by states is that these standards will strengthen their economies and encourage business probity."[5]

Moreover, corporate governance was defined by Berle and Means (1932), Fama and Jensen (1983) and Scleifer and Vishny (1986) as "it refers to the set of internal and external control mechanisms that reduce the conflicts of interest between managers and shareholders deriving from separation of ownership and control." [6] In other words, corporate governance intends to show how a corporation is governed. The importance of corporate governance has been increased rapidly owing to United Nations (UN), World Bank and OECD. Their additives are examined; it is feasible to understand increasing importance of the term of corporate governance. Its current meaning is close the definition of World Bank report in 1989. After the years World Bank had contributed the development of corporate governance not only economic side, but also political. [7]

[4]For more information about the 'An Overview of Corporate Governance: Baker, H. and Ronald, A. (2010): "Corporate Governance: A Synthesis of Theory, Research and Practice", Robert W. Kolb Series, pp. 3-19.
[5]Sir Adrian Cadbury (2003), in "Global Corporate Governance Forum", available at: http://www.ifc.org/ifcext/cgf.nsf/AttachmentsByTitle/Forum_Review_2003/$FILE/GCGF_Annual_Review.pdf , (last access:09.08.2011)
[6]Munar,, F. and Sobrero, M. (2003): "Corporate Governance and Innovation", Edward Elgar Publishing, p. 3.
[7]Bayramoğlu, S. (2005): "Yönetişim Zihniyeti", İletişim Yayıncılık, pp. 34-35.

According to World Bank definition;

> "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and its stakeholders. Corporate governance is only a part of the larger economic context in which firms operate that includes, for example, macroeconomic policies and the degree of competition in product and factor markets. The corporate governance framework also depends on the legal, regulatory, and institutional environment....Corporate governance assists in the strengthening of the overall international financial system and reduces the vulnerability of emerging markets to financial crisis."[8]

In the last decade, the most general meaning is composed by OECD. In 1998, OECD stressed the importance of corporate governance and created the most general meaning.

> "Corporate governance is affected by the relationships among participants in the governance system. Controlling shareholders, which may be individuals, family holdings, block 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."[9]

In addition to these definitions, J. J. Du Plessis defined the most important components of corporate governance as it follows;

- It is a process controlling management.
- It takes into consideration interests of internal stakeholders and other parties who can be affected by the corporation's conduct.
- It aims to ensuring responsible behaviour by corporations.
- It has the ultimate goal of achieving the maximum level of efficiency and profitability for a corporation. [10]

---

[8] "Why Corporate Governance?", World Bank Official web-site, available at: http://www.worldbank.org/ifa/rosc_cgoverview.html, (last access: 01.08.2011)
[9] "OECD Principles of Corporate Governance" (2004), p.14.
[10] J.J. Du Plessis, McConvill, J. And Bagaric, M. (2011): "Principles of Contemporary Corporate Governance", Cambridge University Press, Second Edition, pp. 9-10.

On the other hand, it is possible to clarify corporate governance by the levels of regulations in the countries. Corporate Governance includes the general framework of governance rules and regulations which are to be specified on different levels of regulation. The first level covers of mandatory conditions, which are set down by law (German Stock Corporation Act), and the second level is soft law condition, such as national Codes. [11]

After the above mentioned definitions, it is certain that there is not general corporate governance description. Different authorities describe the issue by various effects and results. For instance, investor sides, corporate governance is essential that the business is being well managed and will continue to be profitable. On the other side, governments take into consideration of confidence of financial market for sustainable economy. As a result, corporate governance is not just for business success and profit, it is also for essential the success of overall economy. Lastly, good corporate governance is important for creating mechanisms in order to achieve accountability between the board, senior management and shareholders, while protecting the interests of relevant stakeholders.

1.1 Importance of Corporate Governance

The theoretical underpinnings of the issue of corporate governance produce the importance of this term. However, the title consists of different dimensions, structures and instruments. For that reason, with this paper, three main results of good corporate governance are examined. In the last parts of study I aim to investigate corporate governance in Turkey and banking sector with analysis of ISE Corporate Governance Index. In order to determine the effect of corporate governance on the business activities, this part underlines the essential main arguments. As it is seen; business activities success and corporate governance can be utilized different disciplinary perspectives.

It is therefore important to clearly assess at the beginning of this part the boundaries and importance of corporate governance. Because of the increase of the corporate governance, the increasing role of the private sector, the increase of countries' dedications and the new competitive conditions can be listed. Moreover, corporate governance is a relatively new area and its development has been affected by theories from a number of

[11] Werder,E.and Talaulicar,T. (2006): "Handbook on International Corporate Governance: country analyses" Edited by: Christina, A. Mallin, Edward Elgar Publishing, p.28.

disciplines, including finance, economics, accounting, law, management, and organizational behaviour. The main theory that has affected its development, and that provides a theoretical framework within which it most naturally seems to rest, is agency theory. However, stakeholder theory is coming more into play as companies increasingly become aware that they cannot operate in isolation. They should consider their shareholders and they need also to have regard to a wider stakeholder constituency.[12]It is certain that corporate governance consists of mutually reinforcing institutional elements such as the board of directors, legal systems, transparency, separation of CEO and chair, accountability.

At the beginning of the definitions, financial scandals are emphasized, but corporate governance is not only cause of crisis. It is true that it has certain effects on preventing some of the worst aspects of the crisis. “Corporate Governance could have helped to reduce the catastrophic impacts that the global and national economies are now suffering.”[13] It is the importance of corporate governance in the general economic market. However, the term is investigated by the importance in business, as large or publicly companies take cognizance of corporate governance to set a framework of policies to protect investments from outside stakeholders. In other words, it outlines the responsibility of individuals and how the company conducts business.

According to Michal C. Jensen, Corporate Governance is an issue which deals with owners of common stocks because stockholder wealth depends in large part upon the goals of people who set the strategy of the corporation. [14]

For corporate governance, it is not feasible to create one certain definition. Considering these aspects of corporate governance, its meaning is expanding and it covers transparency, accountability and management as well as democracy, social responsibility and rule of law.[15]In other words, corporate governance associates with greater corporate responsibility and the conduct of business within acceptable ethical standards. Transparency, accountability and openness in reporting and disclosure of information, both operational and financial, are internationally accepted to be vital to the practice of *good*

[12]Mallin, C. (2004): “Principles of Good Corporate Governance and Best Practice Recommendations, Oxford University Press, p.18.
[13]Anderson, R. and associates: “Risk Management and Corporate Governance”, OECD, p.2.
[14]Jensen, M.C. (2000): “A Theory of the Firm: Governance, Residual Claims, and Organizational Forms” Harvard University Press, p.9.
[15]Çukurçayır, M. Eroğlu,T. and Uğuz, H. (2010): “Yönetişim”, Çizgi Kitapevi, p.314.

corporate governance. [16]According to OECD definition good corporate governance is vital in economic market, as it helps organizations maintain integrity and efficiency. Thanks to this, well-governed companies are seen as more attractive investment by outside stakeholders. Another important point, the large businesses that use corporate governance practices to create a system of check and balance. Good corporate governance is transparent and accountable to all internal and external stakeholders. “A leading corporate governance issue concerns the appropriate design of a legal, institutional and regulatory framework that helps to align the interests of shareholders and managers. Policy makers worldwide have looked to devise an effective framework that supplies proper incentives for the board and management to act in the interest of the company and its shareholders; and furnish investors with sufficient monitoring information.”[17]

Furthermore, corporate governance is not only essential for large and publicly companies, but also for Small and Medium Enterprises (SMEs) as they have critical role for economic growth and poverty reduction. In other to access financial market domestically or internationally, the SMEs face concepts of corporate governance relating to transparency, accountability and disclosure. The lack of awareness about corporate governance affects all economic markets, especially in developing countries. Without implementation of corporate governance practices SMEs may not planning and forward thinking and they will be inadequate leadership and management skills at senior management skills. Today global world and economic market force SMEs to improve their corporate governance skills in order to cope with ever changing business environment and economic conditions. The increasing strategic importance of corporate governance has introduced to raise other major questions. How is the relationship between corporate governance and performance of firms?[18] The second question is that. How the effects of corporate governance on economic performance?

[16]Fourier,D.“Good Corporate Governance in Ensuring Sound Public Financial Management”, available at: http://www.dpsa.gov.za/batho-pele/docs/afripubserday/Africa%20public%20service%20day%20Fourie%20Corp%20gov1.pdf (last access: 10.09.2011)
[17]OECD (2006):“Corporate Governance of Non-Listed Companies in Emerging Markets”, p.8.
[18]Balton, B. and Bhagat, S.(2008): “Corporate Governance and Firm Performance”, Journal of Corporate Finance, Volume 14, pp. 257-273.

1.1.1 Corporate Governance Effects on Economy

Corporate Governance is seen as one of the key decisive factor for economic development. In order to create good corporate governance structure, transparent relations between companies, government bodies and banks are needed. Relationships between companies and investors are in the compliance with the business world principles, a well-functioning law and regulations. It means that the productivity and growth will increase after the implementation of corporate governance principles. Countries, which are less successful in terms of corporate governance skills, are less resistant to financial crisis than other countries, which have good corporate governance practices and implementation.[19]

Corporate governance provides sustainable economic development by increasing the performance of companies and their access the outside capital. Good corporate governance has stabilizing and growth effect on the macro economy. In other words, the development and attraction of the quality of business is linked the corporate governance, for instance non-transparent and unaccountable economic environment can be prevented with the help of corporate governance mechanisms. Furthermore, as good corporate governance structure refers to full recognition of transparency, internal control and risk management, it is means the high quality of economic environment, less corruption, a healthier private sector, fairer markets and greater institutional development and these are key factors for economic growth.[20]

The effects of corporate governance on countries:[21]

- Increasing the country's image.
- Increasing the foreign capital investment.
- Preventing the escape of capital to abroad.
- Increasing the competitiveness of the economy and capital markets.
- Getting over the economic crisis with less damage.

---

[19] Kaymaz, Ö. Alp,A.and Aktaş,R.(2008): "İyi Kurumsal Yönetim Yapıları ve Üç Temel Ayağı: İç Kontrol, Risk Yönetimi ve Muhasebe Uygulamaları", İMKB Dergisi, Vol:10. Num: 40. pp.43.

[20] Sowa, N. K. (2005): "Corporate Governance and Ethics in Bank" roundtable discussion report on the 14-15th November , at the Banking College, Accra, available at: http://www.secghana.org/Presentations/The%20Macroeconomic%20Benefits%20of%20Good%20Corporate%20Governance.doc, (last access: 01.09.2011)

[21] Yörük, N. (2006): "Aile Şirketlerinde Kurumsallaşma ve Halka Açılmanın Finansal Performans Üzerine Etkisi: Halka açık bir aile şirketi üzerine vaka çalışması" Selçuk Üniversitesi İktisadı İdari Bilimler Fakültesi Sosyal ve Ekonomik Araştırmalar Dergisi, Vol:12, pp. 186-188.

- Using and distribution of resources efficiently.
- Maintenance of a higher level of prosperity.

According to Colin Mayer, there is a strong relationship between economic growth and financial development. The economic growth and financial development relation was declassified by several studies report. What is the relationship between economic growth, financial development and corporate governance?

The economic benefit of corporate governance can be based on the protection of investors, because it is a crucial determinant of the development of financial system. The development of financial systems is in turn related to the external financing of companies, these points to a key role for investors' protection in promoting the external financing and growth firms.[22] Benefits from outside funds, it is possible to give confidence to those who supply funds. Create confidence that might be to ensure stability in the management and way to ensure stability in the economic and management field. Creation successful corporate governance is to help increase confidence in the existing system.

1.1.2 The Effects of Corporate Governance on Company Performance

This part of study focuses on relationship between corporate governance and company performance. Better governance is related to certain measure of performance. Today, better governance is measured by different indexes. The study, which are made by Bhagat, Baton and Romanoi, describes the measurement method of effects corporate governance on company performance. [23]Better governance as measured by several academic indexes and stock ownership of board membership is positively correlated with accounting measures of operating performance. None of the widely used governance measures - indexes or individual board characteristics – are correlated with future stock market performance.[24]

[22]Mayer, C. (2002): "Financing the New Economy: Financial Institutions and Corporate Governance" Information Economics and Policy, Vol:14, pp.311-312.
[23]Balton, B. Bhagat, S and Romano, R. (2010): "Corporate Governance: A Synthesis of Theory, Research and Practice", Robert W. Kolb Series, pp.7-8.
[24]For measuring corporate governance effects on firm performance, it is better to take into consideration future accounting, finance and corporate law researches.

As it is mentioned before, academic indexes and codes are measured in order to describe better corporate governance. Many of the codes operate consists of ‘comply or explain’ basis and this means that a company has comply fully with the code and state that it has done or it explains why it has not complained fully. These have significant influence on investors’ decisions.[25]

Current theoretical and empirical works determine that good corporate governance provides the target identification which is oriented the purposes and interests of the company and shareholders. Moreover, it supplies to enhance the performance of managers, to promote using the company’s resources in the efficiency. The effects of corporate governance on companies:[26]

- Providing a low cost of capital.
- Increasing the financial opportunities liquidity.
- Integration the capital market easily.
- Surviving the economic crisis uncomplicatedly.
- The maximization of the firm value.
- Reducing the cost of the foreign debts by ensuring trust among foreign investors.

Several studies suggests[27]that corporate governance reforms can help emerging market integrate global financial markets and thereby lowers their risk-adjusted cost of capital. Furthermore, empirical studies state that international investors recognize the significance of corporate governance practices on the financial performance of firms than ever before and while adopting investment decisions and international investors believe that this issue bears more importance for countries that are in needed on reforms, and they are more ready to pay higher premiums for companies having sound corporate governance practices.[28]

---

[25] Mallin, C. (2004): “Principles of Good Corporate Governance and Best Practice Recommendations, Oxford University Press, p.42.
[26]Yörük, N. (2006): “Aile Şirketlerinde Kurumsallaşma ve Halka Açılmanın Finansal Performans Üzerine Etkisi: Halka açık bir aile şirketi üzerine vaka çalışması” Selçuk Üniversitesi İktisadı İdari Bilimler Fakültesi Sosyal ve Ekonomik Araştırmalar Dergisi, Volume: 12, pp. 186-188.
[27]Ararat, M. Claessens, S. and Yurtoğlu, B. (2007): “Synthesis Report of International Conference on Corporate Governance in Emerging Markets”, Sabancı University, available at: http://www.ifc.org/ifcext/cgf.nsf/AttachmentsByTitle/Researchsynthesisreport/$FILE/Synthesis+report+Melsa.doc, (last access: 30.08.2011)
[28]Capital Markets Board of Turkey (2003): “Corporate Governance Principles of Turkey”, pp.4-9.

According to Alex Knell the answer of question: How Corporate Governance adds value to your company? "A framework of recognized corporate governance criteria, endorsed and implemented from the top of the company, is the only way to create the confidence that an ethical cultural exists. This is not logically fool proof as criminals will always find a way to break the law. But if you believe most people are decent and honest. Corporate governance compliance gives a company so many honesty boundaries to publicly cross that dishonesty is unlikely to persist unchallenged, unnoticed or unpublicized. Therefore, publicly adopting corporate governance compliance is great news for all the stakeholders who deal with their company. This is a fact that does not go unnoticed by a potential buyer of your business." [29]

Finally, relationships between the major elements of corporate governance system and company performance are investigated several times theoretically and empirical. All these results and examples of these empirical researches are transferred through the parts of this study. Especially, the importance of corporate governance on company performance is prospected upon with the help of the rating notes and financial data comparison between the same groups of companies.

Part II Corporate Governance Models

2. Content of Corporate Governance Systems

Corporate Governance can be classified into two types: outsider and insider systems. After these two diverging approaches analyses, convergence system is investigated in the study. Categorization of corporate governance is the distinction between shareholder (outsider) and stakeholder (insider) systems. Shareholder system consists of firms maximizing profits in the interests of private shareholders.

On the other hand, stakeholder system set in motion by broader obligations to a wider range of stakeholders (e.g. employees, suppliers, the state and local community), and may be conceptualized as a social entity rather a vehicle for the optimization of private

[29]Knell, A. (2006): "Corporate Governance: A Practical Implementation Guide for Unlisted Companies" Published by Elsevier, p.18.

interests[30] Research about the separation of corporate governance systems put forth other perspectives. Shareholder and stakeholder aspects depend on the differences in the definition of boards' role in the governance of corporations.[31]Another approach, corporate governance is affected by geographical boundaries. Each country creates its unique governance model. As a cultural, legal and institutional context of country designate the models of corporate governance. Seven characteristics of systems of corporate governance can be clarified.[32]

- The general conditions of a particular country.
- The role of capital markets in the national economy.
- External market for corporate control and anti-take-over mechanisms.
- Ownership and control (shareholder rights and protection).
- The board system.
- Disclosure rules and accounting standards.
- The role of the company and accountability.
- Level of competition.
- Banking system[33].
- Level of development of property rights.

Before analysis of outsider and insider systems, it is better to mention the main differences of these two models. The priorities of the company and its role in society, the structure of financial-capital markets, ownership and control, the board system are the main significant differences between the two systems. According to the Gedajlovic approach, corporate governance is clarified under the shareholder and stakeholder perspectives. Corporate governance agency, legal and organizational perspectives stem from different disciplines, traditions and basic assumptions regarding the essential nature of the corporate form of organization.[34]

---

[30]Barker, M.R. (2006): "Insiders, Outsiders ad Change in European Corporate Governance, Report of the Council of the European Studies Conference, Chicago, p.3.
[31]Maassen, G. (2002): "An International Comparison of Corporate Governance Models", SpencerStuart, Third Edition, pp.13-14.
[32]Berghe, L van den in collaboration with Elst, C van der, Carchon, S. and Levrau, A. (2002): "Corporate Governance in a globalizing world: convergence or divergence?: European perspective", Kluwer Academic Publishers, pp.7-9.
[33]Capital Markets Board of Turkey (2003): "Corporate Governance Principles of Turkey", p.5.
[34]Gedajlovic, E. (1993): "A Cross-National Study of Corporate Governance, Strategy and Firm Performance, PhD Dissertation, Concordia University, p.56.

Table 2.1: The Comparison of Shareholders and Stakeholders Model

Shareholder	***Stakeholder***
Maximizes shareholder value and look after shareholder interests	Look after all stakeholders interests, especially public
Seek profitability and efficiency	Look for survival, long-term growth and stability
Narrow Ownership	**Widely Held**
Ownership concentrated in a few hands with strong power over management, sometimes through an executive chairman	Ownership scattered with managers given a great of freedom but subject to market forces such as takeovers and proxy rights
Minority shareholders poorly protected and need independent director support	All shareholders need protection with close attention to management actions
Single Tier Board	**Two Tier Board**
Executive and non-executive directors sit together	A supervisory Board consists solely of non-executives and a lower level management board
Chairman works closely with CEO, and this is a board of committees for audit, remuneration and nomination	Supervisory Board totally independent from management board

Source: The official web-site of International Chamber of Commerce: Governance Models: available at: http://www.iccwbo.org/corporate-governance/id3173/index.html

After taking into consideration all of these approach and definitions, it is certain that corporate governance systems or models consist of lots of dimension. In the outsider model, corporate governance set sights on the firm's outsider investors, in contrast, in the insider model it is defined as a stakeholder oriented system with large blocks held by banks, other corporations, and families. It is possible to conclude that the two types of corporate governance models result into different objectives, such as external shareholder interests (customers, suppliers, trade unions, local council, competitors, public institutions, investors, civil society organizations or internal stakeholders interests (employees, suppliers, creditors).[35]Before moving to analyse systems of countries and details of corporate governance models, it is vital to mention that during the year national corporate governance practices and the structures of models can be effected by economic globalization and

[35]Tuzcu, A. (2004): "Corporate Governance Approach of Istanbul Stock Exchange Companies", Milletlerarası Münasebetler Türk Yıllığı, Vol: 35, pp. 145-149.

capitalist diversity and the system changes can be seen in economies.[36] It is accepted that the process of corporate governance is a *dynamic*[37] and the corporate governance structure in each country develops in response to country-specific factors and conditions.

2.1 Outsider Model

This part reviews the literature of outsider model of corporate governance. It is one of the system that is characterized by close relationships between management and shareholders. In the literature, this model is called UK or U.S.A model and when their quoted companies are examined, it is seen that they are dispersed across a large number of investors with majority of equity held by financial institutions such as pension funds and insurance companies. [38]

In countries, such as United States, United Kingdom, Canada and Australia, have an Anglo-Saxon legal tradition and corporate governance typically focuses on the company's outside investors. In this system, top-managers tend to be monitored by means of market based rewards and penalties. Under the outsider system, employees often find it difficult to trust top-management, because their behaviour is depending upon permanent market analysis. Moreover, this model relies on the strength of capital and labour markets to apportion resources within companies and high- powered incentives and external control systems to discipline managers' interests. Supporter of outsider model agree about the opportunistic tendencies of management and recognize the divergent goals of shareholders and management. For that reason, external control system is argued which can effectively monitor and impose constraints on managerial discretion. Governance structures, for instance the board of directors, legal superstructure are used as mechanisms to supply fulfilment of implicit and explicit contracts, all aimed at better serving the interests of shareholders.

---

[36]For more information: Barker, M.R. (2006): "Insiders, Outsiders ad Change in European Corporate Governance, Report of the Council of the European Studies Conference. In this report is examined insider-outsider conception of post-war European corporatism and corporate governance changes in non-liberal European economies.

[37]"Three Models of Corporate Governance from Developed Capital Markets", EWMI/PFS Program/Lectures Report on Corporate Governance, 2005, available at: http://www.emergingmarketsesg.net/esg/wp-content/uploads/2011/01/Three-Models-of-Corporate-Governance-January-2009.pdf, (last access: 01.09.2011)

[38]Tan. H.L. and Wang. J. (2007): "Modeling an Effective Corporate Governance System's for China's Listed State-Owned Enterprises: Issues and Challenges in a Transitional Economy", Journal of Corporate Law Studies, Vol: 7, No: 1, pp: 1-2.

A company, which is under the outsider system will have a higher proportion of performance-based executive compensation and adopt more control mechanisms in the board of directors' roles and structures. [39]In other words, under the outsider system managers should act maximum benefits of shareholders. However, there is passive attitude and it is caused by one shareholder takes all the milestones for shareholder activism although this holder has a small part of the potential benefits. A weak owner mostly leads to a strong manager, potentially creating conflicts of interests between increased managers and spread shareholders. There are three instruments in order to monitor the companies under the absence of a strong owner requires.

- First instrument is a board of management, but it should be independent of the managers.
- Second is to align management and shareholder interests to stimulate managers to become shareholders.
- Third is an active external market for corporate control which functions to discipline the firms and their management. [40]

2.2 Insider Model

In the insider system, countries can be positioned at this extreme of the governance spectrum have by definition a relatively small-stock market and listing is not seen as important step in development process of a company. As, bank financing plays a more prominent role as do direct investments. On the other hand, in some countries, which have an insider system, banks play an important role as shareholder as well as a major creditor of the company. This system is also called "network-oriented system", as networking is important between controlling block holders explains. Companies, which are under this system, tend to have ownership structure. Besides, board structures are seen more complex in insider system. For instance, two-tier boards can be rule or at least option. The top tier covers non-executive directors who supervise the company and the second tier of executive

---

[39]Castro, G. Roberto, Arino, Miguel, A.,Rodriguez, Miguel,A. and Ayuso,S. (2008): "A Cross-national Study of Corporate Governance and Employment Contracts", Business Ethics: A European Review, Volume: 17, Issue: 3, pp: 259-284.

[40] For more information about the effects of these instruments: Berghe, L van den in collaboration with Elst, C van der, Carchon, S. and Levrau, A. (2002): "Corporate Governance in a globalizing world: convergence or divergence?: European perspective, Kluwer Academic Publishers, p.10.

directors. The nomination of non-executive directors is not always the privilege of shareholders and these practices enhances board independence from shareholders.[41]

By contrast, the insider system is characterized by stable and close relations between management and shareholders and by the existence of formal rights for employees to influence key managerial decisions. In this system, the owners of companies are often taking a role on the board of directors or other senior managerial positions. The insider system has different forms (Japanese, Family-Based and Germanic Model), generally continental Europe. Under the insider system, debt-equity ratio will be higher and will have lower levels of turnover and layoffs.

It is seen stronger worker displacement policies, higher levels company-specific training for employees, higher employee-company fit, higher internal knowledge sharing and joint organizational earning among employees in comparison with the outsider system. Stakeholders' claims are typically taken into account for top management decisions, job security becomes a main corporate objectives.[42]

2.3 Convergence System

According to the literature, the debates about convergence system of corporate governance have increased thanks to increase of corporate governance practices. The globalization of corporate governance causes a raise of convergence in system possibilities. This system implies that the convergence of insider stakeholder corporate governance system to an outsider shareholder oriented system. One of the approaches is the globalization of corporate governance and the creation of convergence model is not possible and cannot be completely excluded before a truly global marketplace is established. [43]

---

[41]Berghe, L van den in collaboration with Elst, C van der, Carchon, S. and Levrau, A. (2002): "Corporate Governance in a globalizing world: convergence or divergence?: European perspective", Kluwer Academic Publishers, p.11.
[42]Castro, G. Roberto, Arino, Miguel, A., Rodriguez, Miguel, A. and Ayuso, S. (2008): "A Cross-national Study of Corporate Governance and Employment Contracts", Business Ethics: A European Review, Volume: 17, Issue: 3, pp: 259-284.
[43]Dignam,A. and Galanis, M. (2009): "The Globalization of Corporate Governance", Ashagata Publishing, pp.170-171.

Corporate governance points of countries are different and globalization is dynamic[44] process therefore the developments still continue all over the world on the basis of economic, politic and social changes. The effect will not be seen same in each county. The activities of converging corporate governance provides common language for countries, such as corporate governance codes, international accounting standard, globalization of companies, raising capital an overseas stock exchange, research publications, international conferences, professional journals, securities regulation.

Besides, there are diverging forces, such as legal differences, standard in legal process, stock market differences, ownership structures, history, cultural and ethical factors.[45]Lastly, OECD Principles of Corporate Governance has multilateral language and supplies a common understanding on corporate governance. It is also valuable in order to improve international dialogue for the promotion of better corporate governance.[46] Convergence system discussions, on the other side, will be a way of finding better practices in global context.

Part III Corporate Governance in Turkey

3. Overview Corporate Governance in Turkey

Because of international and domestic developments, corporate governance implementations and debates have increased in the recent years in Turkey. Due to density of the state family-owned businesses and smaller companies and the legal system, good corporate governance practices have been behind developed countries. Corporate Governance systems are based on the disclosures of financial information and transparency, but the basis form of commerce, banks and Capital Market Law of Turkey are more concerned with the needs of shareholders. In contrast, stakeholders in Turkey have increased and covered all society and became more common. Furthermore, increasing the number of large business and opened to world markets in the recent years. International financial markets are forced by companies to apply the implementations of corporate

[44]Ibid.
[45]Plessis, J.J., Bagaric, M. and Hargovan, A. (2011): “Principles of Contemporary Corporate Governance”, Cambridge University Press, Second Edition, pp.18-19.
[46]Nestor,S. and Thompson,J.K..: “Corporate Governance Patterns in OECD Economies: Is Convergence Underway?, p.23.,available at: http://www.oecd.org/dataoecd/7/10/1931460.pdf , (last access: 01.09.2011)

governance. The EU – Turkey relations has been improved and Turkey has adopted a new audit and financial standards during the harmonization process of Turkey – EU relations. The situation in the World and Turkey indicates that these standards are imperative for the future success of capital market.[47] According to Ararat and Uğur, there are "pull" and "push" effects corporate governance practices in Turkey. Corporate Governance debates in international level have a "pull" effect and it has provided to take an attention of Turkish companies and policy makers about the link between performance or development and corporate governance. On the other side, domestic realities has a "push" effects, such as law systems, restricting of the banking system, limited Foreign Direct Investment (FDI).[48]

After this study, which was published by Ararat and Uğur in 2003, different studies are being made to contribute to the development of corporate governance, and as it is many other countries, the OECD Corporate Governance Principles are the cornerstones of corporate governance principles in Turkey. Corporate Governance principles of the OECD were published in 1999 for the first time and then they have been revised in 2004, CMB published the principles in 2003 and then revised these principles in 2005 after the revision OECD corporate governance principles. As it is mentioned before the model of corporate governance should be compatible with the conditions peculiar to each country. [49] The next part of study examines these principles with general framework. However, the concepts of equality, transparency, accountability and responsibility are seen to be main concepts in all international good corporate governance approaches and it is also widely accepted in Turkey.[50]

These four basic principles of corporate governance are connected to each other on the basis of performance measurement, companies create value for shareholders and work in accordance with social values. The principle of equality implies that the equal treatment of share and stakeholders in all management activities of the company. It is aimed to prevent all possible conflicts of interest. Transparency means to disclose companies' financial and non-financial information to the public in a timely manner. This information should be easy to reach, at a low cost and have accurate, complete, clear and construable manner. The most

[47]Aysan, A.M. (2007): "Kurumsal Yönetim ve Risk", First Edition, p.153.
[48]Ararat, M. and Uğur, M. (2003): "Corporate Governance in Turkey: An Overview and some Policy Recommendations", Corporate Governance, Vol.3, No.1, p.58.
[49]Ibid.
[50]Capital Markets Board of Turkey (2003): "Corporate Governance Principles of Turkey", p.6.

serious troubles concerning the transparency is that the countries financial information cannot be compared because of the various accounting standards.

In order to provide comparability of financial information, EU has set of regulations for all publicly traded companies to prepare their consolidated tables in accordance with International Financial Reporting Standards (IFRS) which were published by International Accounting Standards Committee. Accountability refers that the board of directors monitor the performance of top management independently and ensure from top managers accountability against shareholders. In other words, the obligation of the board of directors account to the company to the shareholders. Turkey has also recognized the importance of these standards and improved by legal and obligatory report and disclosure standards. Lastly, responsibility means the conformity of all operations carried out on behalf of the company with the legislation, articles of association and in-house regulations together with the audit thereof. [51]

3.1 The Short Overview of Turkish Economy and Corporate Governance Model

Turkish economy is increasingly driven by industry and service sectors and agriculture still has a vital role. After the aggressive privatization program, state involvement in industry, banking, transport and communication has reduced and an emerging cadre of middle-class entrepreneurs is adding dynamism to the economy. After the crisis in 2001, Turkey's successful reforms strengthened the country's economic fundamentals and supplied in era of strong growth-overegging more than 6% until 2008. Moreover, Turkey has well-regulated financial markets and banking systems.[52]Besides, all of this positive structure, Turkey corporate governance practices has increased in 2000s. Turkish companies display highly concentrated and centralized ownership structures. Families, directly or indirectly own about 80% of all companies.[53]Pyramidal structures are common and there is often a high degree of cross-ownership within the groups.

---

[51]Deloitte and Corporate Governance Association of Turkey (2008): "Nedir Bu Kurumsal Yönetim?", available at: http://www.deloitte.com/assets/Dcom-Turkey/Local%20Assets/Documents/turkey(tr)_cgs_nedirbuky_261206.pdf , (last access: 01.09.2011)
[52]"The World Fact book", last updated in August, 2011, Central Intelligence Agency(CIA), available at: https://www.cia.gov/library/publications/the-world-factbook/geos/tu.htm, (last access: 01.09.2011)
[53]Yurtoğlu,B.B: "Firm-Level Profitability, Liquidity, and Investment", Edited by: Altuğ,S. and Filiztekin, A.(2006): "The Turkish Economy: The real economy, corporate governance and reforms", Routledge Studies in Middle Eastern Economies, p.179.

When the models of corporate governance are analysed, it is crucial to investigate the prevailing board structures and decision-making processes in the jurisdiction comprehensive and systematic process are seldom. [54]The Corporate Governance Model is recommended by the CMB for listed companies in Turkey and its approach is "comply or explain reasons for non-compliance". It is similar to OECD Model represented by the Principles of Corporate Governance recommended for member countries. CMB Corporate Governance Model was four sections:[55]

1. Facilitating the usage of share-holders right.
2. Providing Public Disclosure and Transparency.
3. Protecting rights of other stakeholders.
4. Assuring the Implementation.

Table 3.1: CMB Corporate Governance Principles

Part I: Shareholder	**Part II:** Public Disclosure and Transparency	**Part III:** Stakeholders	**Part IV:** Board of Directors
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	**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	**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	**1.**Fundemental Functions of 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 Committees Established by the Board of Directors **6.**Executives

Sources: CMB Official Web-site: www.cmbt.gov.tr

[54]"Corporate Governance in Turkey: A pilot study", 2006, published by OECD, pp.38-39.
[55]Aysan, M.A.: "The Turkish Case", Edited by Aras.G.and Crowther,D. (2008): "Culture and Corporate Governance", Published by Social Responsibility Research Network, p.137.

Generally, the first part of shareholder rights are included the right to obtain accurate information, the right to participate actively in the general shareholders' meeting, and right for equal treatment among shareholders. Second part is public disclosure and transparency that aims to supply shareholders and investors accurate, complete, comprehensible and easy-to-analyse information which is also accessible at a low cost and timely manner. Third part is for stakeholders that focus on the company's basic policies towards stakeholders. This is important for the success of company in the long-term, as it is minimize as possible conflicts of interest between the company and stakeholders. Stakeholders of company can consist of employee, creditors, trade unions, non-governmental organizations, potential investors and suppliers, customers and governmental organizations. Last part is the board of directors that is the most senior executive body of company. This body of company should determine the vision and mission of the company and make the activity results of the company to be projected accounting records in accordance with present legislation and international accounting standards[56] with the attention of balance between the interests of shareholders, stakeholders and company's growth prospects. In accordance with principles, 'comply or explain' approach is valid, but the letter 'R' on the side of the some of the principles. It means, this principle is recommendation only and no disclosure is required.[57]

According to Tuzcu research (2004), Turkish corporate governance model is investigated in order to find an answer to the question: Turkish corporate governance model is closer to the insider model or outsider? The result is that workers are key stakeholders in the Turkish Corporate Governance System. "Corporate governance performance of ISE 100 companies scored the highest in the managerial practices is linked to the workers." It is interesting that workers are seen more important than the shareholders after analysing ISE companies. The Turkish model also gives value to the customers and majority shareholders. These are the main characteristics of the outsider model. Why the Turkish model is different from USA system; because of the minority shareholders position. Turkey has contrast of two systems.[58]

---

[56]Akdoğan,Y.E. and Boyacıoğlu,M.A (2010): "Corporate Governance in Turkey: An Overview", Selçuk Üniversitesi Sosyal Bilimler Dergisi, Vol:24, p.16.
[57]Capital Market of Board Turkey Corporate Governance Principles, available at: www.cmb.gov.tr
[58]Tuzcu, A. (2004): "Corporate Governance Approach of Istanbul Stock Exchange Companies", Milletlerarası Münasebetler Türk Yıllığı, Volume 35, p.166.

Briefly, Turkey's corporate governance model is insider-nominated and ownership model may be classified as black share ownership. The economic structure is generally in the form of family-controlled, financial and industrial company groups. According to CMB corporate governance principles and general economic condition, board of directors aim to increase the company's market value to the maximum extent and shareholders obtain long-term and stable income. The balance between growth and shareholder interest is important aim of board of directors. Single tier oversight structure is used and board members are separated as executive, non-executive and independent in Turkish Corporate Governance Model.[59]

3.2 The Recent Developments of Corporate Governance in Turkey

About the recent developments of corporate governance in Turkey, there are lots of implementation can be ordered especially through the 2000s. Ararat has written an analysis of corporate governance developments in Turkey. She states the role of boards in Turkey and issue related to owner-dominated boards of controlled companies. She calls for corporate governance reforms in Turkey with contribution of OECD report (Corporate Governance in Turkey: A pilot study of Turkey in 2006). Corporate governance improvements are supported by liberalization of markets and large firms. Corporate governance reforms in Turkey:[60] CMB published the Corporate Governance Guidelines with a soft law approach. These are the recommendations for voluntary adaptation. CMB created the group for set of principles of good corporate governance. This group covers the ISE and Corporate Governance Forum of Turkey (composed of the Turkish Industrialist and Businessmen's Association (TUSIAD) and Sabancı University).[61]Listed companies were required to include a corporate governance compliance report in their annual reports after having ignored the Corporate Governance Guidelines for two years following their initial lunch and preparing Corporate Governance Compliance report has become a regular for listed companies by the end of 2009. These reforms demonstrate the corporate

---

[59]Şehirli, K. (2009): "Corporate Governance in Family Firms: A Comparison between Italy and Turkey", Edited by: Aras,G and Crowther,D. (2009): "Global Perspectives on Corporate Governance and CSR", Published by Ashagat, pp.207-210.

[60]Ararat,M. "Comply or Explain without consequences: the case of Turkey", Edited by: Mallin,A.C. (2011): "Handbook on International Corporate Governance: Country Analyses", Second Edition, Edward Elgar Publishing, pp. 356-357.

[61]Paksoy,S. and Aziz,E. (2004): "Corporate Governance in Turkey", Kluwer Law International Published: "Trends and Developments in Corporate Governance", pp. 261-262.

governance structures of Turkey. It is based on voluntary approach, but the situation is different for ISE listed companies.

Ranking the important events in Turkey in relation to corporate governance:

Table 3.2: Corporate Governance Milestones in Turkey

2002	Turkey's first code of best practice is introduced by TUSIAD.
2003	Capital Market Board of Turkey issued the Corporate Governance Principles. CMB issued the regulation about corporate governance rating.
2004	Banking Regulation and Supervision Agency (BRSA) issued the draft of Credit Institutions Law. CMB announced the results of a survey on Corporate Governance practices of ISE listed firms. CMB ruled that ISE listed companies to include Corporate Governance Compliance Report in their annual reports and to have an investor's relations section in their internet sites including the compliance report.
2005	ISE introduced the rules for Corporate Governance Index. CMB amended the Corporate Governance completed the survey 'Corporate Governance Map of Turkey'. The new Turkish Commercial Code that was submitted to the Parliament. Banking Law including corporate governance principles by BRSA issued.
2006	CMB issued the regulation on independent auditing standards. OECD published a report on Corporate Governance in Turkey: A Pilot Study (It is the first of its kind)
2007	CMB issued the revised 'Communiqué on Principles Regarding Rating and Rating Agencies. ISE launches 'Corporate Governance Index'.
2008	New Turkish Commercial Law Code discussed second time in the Turkish Parliamentary Justice Commission and the commission's report completed. Draft will be considered by Parliamentary. CMB announced ISE listed companies to include Corporate Governance Compliance and Disclosure Report.
2009	Public Disclosure Platform (PDP) started to be operational and it is an electronic system through which electronically signed notifications required by the capital markets and ISE regulations are publicly disclosed. New discount regulation, which is for companies included in ISE Corporate Governance Index, was announced by ISE.

Sources: Corporate Governance Association of Turkey official web-site: www.tkyd.org

On the other hand, CMB's guideline is seen as weak, because of the lack of legal framework. OECD reports state that the necessities of further improvements and implementations in the areas of control, disclosure, the protection of minority shareholders and the role of board.[62]Lastly, in 2010, CMB and ISE started the IPO campaign. It is aimed to support SME's to flood their shares on the ISE. At the end of the 2009, 317 companies were listed on the ISE, after IPO campaign the aim is to increase this number 1000 in 2023. It is also very important development in order to increase awareness and implementations of corporate governance.[63]

3.3 The Comparison of Corporate Governance Principles Structures: Germany, USA and Turkey

After the examination of corporate governance systems, it is essential to look at the corporate governance principles' structures in different countries which are performed under outsider or insider systems. Under this analysis, three countries' structures are investigated in the study. Firstly, German Corporate Governance is an outsider control system, which is based on stakeholder orientation; its function rests on internal, non-public information as opposed to public information. The set of active participants in the Corporate Governance of large publicly traded German companies are compatible with the distribution of power and influence. The German system is based on stakeholders because of the legal norm. German Stock Corporation Act gives the high power to the management board and this authority can manage the company in its own responsibilities. Shareholder value maximization is also important but in the literature German Company Law is seen far away from the strict and exclusive shareholder value maximization.[64]

Actually, development about Corporate Governance hadn't been very successful in Germany until 1990s. Bankrupts and defects which emerged on big and trustworthy German companies, as seen all over the world, gave more importance to the subject. Accommodating the principle of Corporate Governance was evaluated as winning new

---

[62] "Corporate Governance in Turkey: A pilot study", 2006, published by OECD, pp.356-357.
[63]Ararat,M. "Comply or Explain without consequences: the case of Turkey", Edited by: Mallin,A.C. (2011): "Handbook on International Corporate Governance: Country Analyses", Second Edition, Edward Elgar Publishing, pp.356-357.
[64]Schmidt, H.R. (2004): "Corporate Governance in Germany: An Economic Perspective", Working Paper Series: Finance and Accounting 118, Department of Finance, Goethe University Frankfurt am Main, available at: http://ideas.repec.org/p/cfs/cfswop/wp200336.html , (last access: 01.09.2011)

customers and possibilities of rising financial performance. In 1998 legal arrangements were made, especially they were for increasing controls and transparency of stock companies. Principles of Corporate Governance which were published by OECD were based as a "Best Application Code" in civil ventures during 1999-2000. It was like a market guides those stock companies could use to comply corporate governance structures. The last German Principles of Corporate Governance were published officially in 2008. There were concentrated on ownership much more than insider system, because it has varied due to a bilateral committee.[65]In Germany, a Code of Good Corporate Governance Practices was seen as the way of making broadened definition for corporate governance. It was the important step for Germany as peculiarities of the German Corporations Law, international code would not be fit for Germany. In other words, role of the two-tier board[66] would not right into factual details of economy and corporate governance practices to the international area. The official German Corporate Governance Code (GCGC) was adopted in 2002. The main aim of the code was to improve the practices of corporate governance which is based on managing, directing, and overseeing listed corporations. The approach of Code is 'comply or disclose'. That means these recommendations are not mandatory, but that listed companies must explain, if they do not follow them.[67] According to German system, Corporate Governance describes legal mechanisms and external capital market-oriented mechanisms governing the relationships of an active management, its supervision and the function of shareholders' meeting within corporations. German Model is not only considers the relationship of management and shareholders, but also includes the relationship between management and other stakeholders, and the relationships amongst stakeholders themselves.[68]

Secondly, The United States is evaluated under the rule-based regime. There is not 'comply or disclose' form of corporate governance, therefore it is oriented toward mandatory compliance with legislation and stock exchange requirements, with a much

[65]Güçlü, H.(2010): "Kurumsal Yönetim ve Uyum Derecelendirmesi", İMKB, pp.22-26.
[66]For more information about two-tier system: Hopt,K.J, Kanda,H. Roe,M.J. Wymeersch,E. and Prigge,S. (1998): "Comparative Corporate Governance the stata of the art and emerging research", Oxford University Press, pp.227-229.
[67]Plessis, J.J., Grossfeld, B., Luttermann, C., Saenger, I. and Sandrock, O. (2007): "German Corporate Governance International and European Context", Springer, p.11.
[68]Plessis, J.J., Grossfeld, B., Luttermann, C., Saenger, I. and Sandrock, O. (2007): "German Corporate Governance International and European Context", Springer, p.11.

greater emphasis on regulatory enforcement rather than voluntary compliance. [69]In the U.S.A, major institutional investors, investment representatives, major companies, financial intermediaries and institutions representatives of the universities established International Corporate Governance Network (ICGN) this institution enterprises improve their competitiveness, funding enable flows determining the main principles of corporate governance which businesses must comply with them, for protecting fund holders. These principles were accepted by 29 countries which they are members of OECD, and they were accepted in the name of OECD Corporate Governance.[70]

U.S.A Corporate governance has changed significantly since 1980. As a number of business and finance scholars have underlined, the corporate governance structures in place before the 1980s gave the managers of large public U.S.A corporations little reason to make shareholder interests their primary focus. Before 1980, corporate managements tended to think of themselves as representing not the shareholders, but rather "the corporation." In this view, the goal of the company was not to maximize shareholder wealth, but to ensure the growth of the enterprise by balancing the claims of all important corporate stakeholders such as employees, suppliers, and local communities, as well as shareholders. After company crises of 2000s uncovered the failure of corporate governance arrangements and U.S.A corporate governance studies were started for the purpose of improving the general environment of investors, eliminating the negative effects of such events on the economy, re-gaining the confidence of investors, increasing confidence in capital market. The most important legal implementation was Sarbanes Oxley Law which was accepted in 2002. It mandates a number of changes in corporate governance for publicly traded companies. The NYSE and NASDAQ also mandated corporate governance changes for firms listed on their respective SOX mandated changes that will affect executive compensation, shareholder monitoring, and, particularly, board monitoring.[71] SOX aim to eliminate accounting fraud and management misconducts and to renovate confidence in the U.S.A financial markets.

---

[69]Broshkı, E.B. and Li, K. (2006): "Corporate Governance Requirements in Canada and the United States: A Legal and Empirical Comparison of the Principles-based and Rules-based Approaches", p.6. available at: http://finance.sauder.ubc.ca/~kaili/BroshkoLi.pdf, (last access: 01.09.2011)

[70]Demir, Y. (2008) "Kurumsal Yönetişimin Artırılmasına Yönelik Bir Anlayış: Kurumsal Yönetişim", Gümrük Dünyası Dergisi, Issue: 63, p.3, available at: http://www.gumrukkontrolor.org.tr/Yayinlar/Dergiler/63/icindekiler.html, (last access: 01.09.2011)

[71]Holmstrom, B. MIT and Kaplan, S. N. (2003): "The State of U.S. Corporate Governance: What's Right and What's Wrong?, p. 5-21, available at: http://research.chicagobooth.edu/economy/research/articles/185.pdf, (last access: 01.09.2011)

European and Turkish approaches are in the form of comply or disclose, in contrast with the U.S.A's approach. In the literature, a 'comply or disclose' style has been characterized by some as being too weak to seriously address the corporate governance failures seen over last few years. Moreover, given that one of the main reason for implementing corporate governance requirements in the first reason is to increase investor confidence in the capital markets, 'comply or disclose' style or principles-based approach that allows firms to perform ineffective corporate governance practices may not meet this objective and more than a rules-based approach.[72]

Table 3.3: The Comparison of Corporate Governance Principles Structures[73]

	U.S.A	*GERMANY*	*TURKEY*
Broadcasting Principles	Private sector/Non-Governmental Organizations	Public	Regulatory Authority
Legal Arrangements: Yes-No	Yes	Yes	No
Application necessity of Principles: (Necessity, Discretionary, Comply or Disclose)	Necessity-Discretionary	Discretionary-Comply or Disclose	Discretionary-Comply or Disclose

[72]Broshkı, E.B. and Li, K. (2006): "Corporate Governance Requirements in Canada and the United States: A Legal and Empirical Comparison of the Principles-based and Rules-based Approaches", pp.2-6, available at: http://finance.sauder.ubc.ca/~kaili/BroshkoLi.pdf, (last access: 01.09.2011)

[73]See: Güçlü, H. (2010): "Kurumsal Yönetim ve Uyum Derecelendirmesi", İMKB, pp.17-43. Hakan Güçlü has analyzed the EU Countries (England, Germany and France), USA and Japan Corporate Governance Structure and made a comparison between Turkey.

Part IV Bank Corporate Governance

4. Overview of Bank Corporate Governance

Because of the international and domestic scandals and problems about the bank governance, the role of corporate governance in the banking sector has been increased. The implementation of Basel Committee on Banking Supervision, which is the part of the BIS, is underlined 'Enhancing Corporate Governance for Banking Organizations'. As with other principles, it is based on OECD Corporate Governance Principles. What are the aims of this guidance? It intends to help adaptation and implementation of corporate governance practices in banking organizations. It does not consist of the establishment of a new regulatory for national legislations, regulations and codes. Bank regulations are also concentrated of a separation between bank management and government. The problems are not different, when the other sectors are examined. Thus, the solutions are the same and are collected under the 'corporate governance'. Bank regulations purpose to protect bank's viability and welfare a broad group of stakeholders and shareholders.[74]

In other words, the well-organized banks provide the lower cost of capital for companies and manage capital formation and activator for productivity growth. After these positive effects, it is possible to say weak governance concepts of banks can influence on economic development negatively. The sound corporate governance means in bank to allocate capital efficiently and put forward effective corporate governance over the firms which they fund. The banks managers should not act in their own interests rather than in the interests of shareholders and debt holders. Moreover, bank will be less likely to allocate society's saving efficiently and asserts corporate governance over firms. Two reasons are apparent for separate analysis of banks' corporate governance:[75]

- Banks are generally less transparent than non-financial companies. For instance, loan quality is not always observed and can be kept secret for long periods. Banks can change the risk composition subject to their advantage more quickly and take over the

[74]Gup,B.E. (2007): "Corporate Governance in Banking: A Global Perspective", Edward Elgar Publishing, p.xi.

[75]Levine,R. (2004): "The Corporate Governance of Banks:A Concise Discussion of Concepts and Evidence", World Bank Policy Research Working Paper 3404, pp.2-3. available at: http://econ.worldbank.org., (last access: 25.08.2011)

problems by extending loans to clients that cannot service previous debt obligation. Briefly, the first reason of the separation of analysis corporate governance in banking is based on accruing information.

- Banks are important for economy and their activities are vital for observing the economic policy. Governments have banks and the international standard guarantee heavy involvement in the banking industry such as BIS, IMF and World Bank implementation. When the bank owner is government, it is also true that the governance character is seen differently. It is another discussion and important point for banks corporate governance.

4.1 Corporate Governance Principles for Banking Sector

As mentioned above, corporate governance is the important for banking sector for development of an economy and preventing the governance problems in banking organisations. For that reason, Basel Committee on Banking Supervision designed principles which are viewed as significant elements of an effective corporate governance process.

Table 4.1: Corporate Governance Principles for Banking

Principle 1: Board members should be qualified for their positions, have a clear understanding of their role in corporate governance and be able to exercise sound judgment about the affairs of the bank.
Principle 2: The board of directors should approve and oversee the bank's strategic objectives and corporate values that are communicated throughout the banking organisation.
Principle 3: The board of directors should set and enforce clear lines of responsibility and accountability throughout the organisation.
Principle 4: The board should ensure that there is appropriate oversight by senior management consistent with board policy.
Principle 5: The board and senior management should effectively utilize the work conducted by the internal audit function, external auditors, and internal control functions.
Principle 6: The board should ensure that compensation policies and practices are consistent with the bank's corporate culture, long term objectives and strategy, and control environment.
Principle 7: The bank should be governed in a transparent manner.
Principle 8: The board and senior management should understand the bank's operational structure, including where the bank operates in jurisdictions, or thought structures, that impede transparency.

Source: Enhancing Corporate Governance for Banking Organisations, 2006 www.bis.org./publ/bcbs112.pdf

According to Basel Committee on Banking Supervision, “from a banking industry perspective, corporate governance involves the manner in which the business and affairs of banks are governed by their boards of directors and senior management, which affects how, they:

- Set corporate objectives;
- Operate the bank’s business on a day-to-day basis;
- Meet the obligation of accountability to their shareholders and take into account the interests of other recognized stakeholders;
- Align corporate activities and behaviour with the expectation that banks will operate in a safe and sound manner, and in compliance with applicable laws and regulations; and
- Protect the interests of depositors.”[76]

To sum up, corporate governance obtains a disciplined structure when the banks define their objectives and monitoring the performance of those objectives and it implies using resources more efficiently. Management is very important for regulators, supervisors, shareholders, executive managers, directors, internal auditors, external auditors and general public. Corporate governance implementations are precondition in order to create risk profile, operate the banks in safe and achieve sustainable public trust. As it is mentioned above banks have vital role on the welfare of an economy and good corporate governance reduces financial risk, also increases systematic stability. [77]

4.2 Recent Developments and the Role of Institutions

The Turkish banking sector has a successfully had a reconstitution and consolidation period in 2000s. The establishment of measurement and stricter regulations have positively affected the banking sector. Furthermore, during this process, many banks emerged. It is possible to say the Turkish banking sector continues to remain healthy and well-capitalized. A Growing economy shows its effect on this sector with huge increase of consumer demand and investment opportunities. Corporate and commercial loans have increased and SME

[76]“Enhancing Corporate Governance for Banking Organizations”: Basel Committee on Banking Supervision, 2006, p.4, at: www.bis.org./publ/bcbs112.pdf, (last access: 25.08.2011)
[77]Greuning,van H.and Bratonovic,S.B. (2009): "Analyzing Banking Risk: a framework for assessing corporate governance and risk management", Published by the World Bank, Third Edition, pp.41-42

segment has expanded to use of loans more than before, therefore it is accepted that the banking sector regulations created an environment of confidence and these opportunities in economic growth, new products and banking sectors' trust environment have invited interest of foreign banks that want to obtain a position in this bright market. A better regulated and strengthened banking system, increasing investment level and increasing foreign trade volume came into play to access foreign banks in the Turkish market. The Turkish banking sector needs to maintain a health and steady growth, thanks to high access of foreign banks, Turkish banking sector's competition level has increased and it has conduced to a faster adaptation to global banking standards.[78]As maintained Aysan and Ceyhan research paper "Globalization of Turkey's Banking Sector: Determinants of Foreign Bank Penetration in Turkey", they examine the factors of foreign bank penetration in Turkey. They give the answer to the question: "What are the conditions that make the host country market attractive to foreign entrants?" Foreign banks' benefits arrange in order, for instance, they bring hosts countries' banking industry new technology and risk management techniques, regulations that can reduce the amount of financial capital which, but the most important benefit for our study is foreign bank develop the quality of corporate governance and Turkey corporate governance system is one of the pulling factors which attract foreign banks to Turkey. [79]

Another study is related to a comparison of banking sector development in EU Accession Countries (Bulgaria, Croatia, Romania and Turkey) with an analysis of roles of foreign banks. The result of study, Turkey is following a different corporate governance approach with regard to foreign investors compared to other Accession Countries. "Turkish bank owner's preferred to form strategic partnership and joint ventures with their foreign partners and retain a controlling share. The joint venture and corporate governance literature streams basically argue that hindered by limited market access (i.e. restricted to joint ventures and minority foreign ownership); foreign owners can exert only mildly positive effects on economic development and growth."[80] It is the other perspective to

[78]Terterov,M. and Rosenblatt,P. (2006): "Turkey: A Business and Investment Review", Published by Global Market Briefings, pp.37-39.
[79]For more information results of study: Aysan,A.F. and Ceyhan,P.Ş. (2008): "Globalization of Turkey's Banking Sector: Determinants of Foreign Bank Penetration in Turkey", International Research Journal of Finance and Economics, pp.90-102.available at: http://www.eurojournals.com/finance.htm, (last access: 01.09.2011)
[80]Hagmayr,B. and Haiss,P. (2006): "Foreign Banks in Turkey and Other EU Accession Countries: Does Minority vs. Majority Ownership Make the Difference?" Edited by Niyazi,B. Proceedings of the International

produce the close relationship between corporate governance and foreign banks level in countries. It also states the different corporate governance structure has an effect on the level of foreign investors.

According to another study, which focuses on the corporate governance effects on banks, effective corporate governance in banks in Basel Committee focuses on two points. As the first, the supervision and control authorities are made responsible for ensuring the effective management and the control of the reserves. For this, authorities publish the documents and recommends for monitoring results in order to establish of corporate governance structure in banks. Secondly, the Committee focuses on the regulations about the way of effective corporate governance for banks. In this context, Committees are provided for effective corporate governance: boards of directors should carry the necessary qualifications, corporate values and culture should be created, board of directors should supply effective supervision and control of activities, corporate risk management and internal control system should be created. CMB published Corporate Governance Principles in 2003, and the BRSA introduced the new law (2005) that highlights corporate governance arrangements, this has great importance, because this movement indicates the special corporate governance attention of BRSA. The study examined the structure of corporate governance adaptation analysis in Turkish Banking sector in the process of Basel II. 64 criteria were taken into consideration in 24 banks, 12 banks are quoted on ISE and the others are not. As a result, publicly traded banks have higher levels of compliance, because of the necessity of open to public, than non-public banks. [81]

According to Sabancı University survey, which is conducted by Ararat and Çetin, publicly traded companies on ISE (banking sector survey) are compared with other companies and international banks (the top 25 banks in Europe). Turkish banks are more transparent than other publicly traded companies. It is determined that corporations on the ISE Index are more transparent compared to the average and the situation has accelerated with past crisis banking regulations and IFS coming into effect.[82]

Finance Symposium 2006 on "Financial Integration Review and Steps Ahead", Marmara University, Istanbul, May 25-26, pp.649-669.

[81]Tuna,A. (2008): “Basel II Çerçevesinde Bankalarda Kurumsal Yönetim ve Türkiye’deki Ticari Bankalar Üzerine Bir Araştırma”, PhD Thesis, Istanbul University, pp.134-135.

[82]Ararat,M. and Çetin,A.T. (2008): “İMKB’de İşlem Gören Bankaların Kamuya Açıklama Yoğunlukları ve Yönetişim Özellikleri”, Sabancı University Survey Report, available at: http://cgft.sabanciuniv.edu/sites/cgft...edu/.../BasinBildirisi_Bankalar-seffaflik.doc, (last access:20.08.2011)

Institutions with legal powers and/or responsibilities related with banking corporate governance are the following[83]:

- Banking Regulations and Supervisory Agency (BRSA), it is established in 1999.
- Capital Markets Board (CMB), it is established in 1982.
- Istanbul Stock Exchange (ISE), it is established in 1985.

4.2.1 The Role of Banking Regulations and Supervisory Agency

The Banking Regulations and Supervisory Agency (BRSA) is an independent public legal entity with administrative and financial autonomy. It was established in 1999 and its role is based on the protecting application of the Banking Act, depositors and saying that banks and financial institutions can work with healthy, discipline and globally competitive manner in order to achieve long term economic growth and stability.[84] The strategic plan of BRSA[85] for the period of 2006-2008 stated the five main objectives for sufficient and effective corporate governance. The targets of development corporate governance aim, the activities are realized in a professional, open and efficient way, the activities regarding public illumination is increased, highly qualified and productive personal working is employed and trained, the management of the physical and financial resources is activated for increasing the institutional capacity, projects are improved and institutional skills are prepared and implemented. According to strategic plan 2010-2012, improving corporate governance is seen the way for enhancing the administrative capacity.[86]

At the same time, Regulations on banks' Corporate Management Principles which is published in the Official Gazette Number: 26333 in 2006[87], the objective is to regulate the structures and processes relating to corporate management of banks and the principles. The regulation is based on the Article 22 and 93 of the Banking Law Nr. 5411 in 2005. The

---

[83]These institutions are not important for the development of corporate governance in banking sector, but also for all sectors. However, for this study, it is focused their vital position for banking sector by author.
[84]Terterov,M. and Rosenblatt,P. (2006): "Turkey: A Business and Investment Review", Published by Global Market Briefings, p.36.
[85]BRSA Strategic Plan 2006-2008: available at: http://www.bddk.org.tr/websitesi/english/About_Us/About_Us.aspx, (last access:20.08.2011)
[86] BRSA Strategic Plan 2010-2012: available at: http://www.bddk.org.tr/websitesi/english/About_Us/Strategic_Plan/8047SP(2010-2012)(ENG).pdf, (last access:20.08.2011)
[87]Official Gazette Number: 26333 (2006): available at: www.bddk.org.tr/websitesi/english/Legislation/8829destek_hizmeti.pdf, (last access:20.08.2011)

meaning of corporate governance is described in the regulation "The management of the bank by the board in managers in compliance with the determined targets, the Law, the regulations published pursuant to the Law as well as other related legislation, main contract and in-bank regulations and the ethical rules of banking, and so the protect the interest and rights of all stakeholders and shareholders as well as the savers".[88] The principles of Corporate Management are published on the basis of Basel Committee on Banking Supervision Principles[89].

4.2.2. The Role of Capital Market Board

Capital Market Board (CMB) is the major institution involved in the capital market and regulates the operations of ISE. CMB is an independent, regulatory and supervisory authority which is empowered by the Capital Market Law (CML) that was enacted in 1981 and CMB was established in 1985. Its role based on adopting regulations in order to develop capital markets instruments and institutions. Since 2003, CMB has continued to increase the corporate governance reforms and issued a number of significant directives and recommended Corporate Governance Code in 2003 and Corporate Governance Principles are presented as the guideline for future regulations by CMB.[90] In other words, CMB is an external environmental actor and sets the emergencies of the corporate governance model with the way of the implementations.[91] Moreover, Turkish Capital Markets and Istanbul Stock Exchange is funding support for the Eurasia Group on Corporate Governance for Capital Market Development. This is a platform in order to share experience and promote policy and institutional reforms to capital market development within the Eurasian region. The aim of the group takes into consideration the link between capital market development and economic growth and determines the better corporate governance practices on the capital market development. The Group was established in 2011, therefore the first meeting

---

[88]"Regulations on the Banks' Corporate Management Principles", published by Banking Regulation and Supervision Agency, available at: http://www.bddk.org.tr/websitesi/english/legislation/6857corporate%20management%20principles.pdf, (last access:20.08.2011)

[89]Ibid. There are seven principles on the regulation of BRSA, and these principles aims the same targets with Basel Committee on Banking Supervision principles.

[90]Ararat,M. and Uğur,M. (2006): "Turkey, Corporate Governance at the Crossroads", Edited by: Mallin,A.C. "Handbook on International Corporate Governance: Country Analyses", Edward Elgar Publishing, pp.196-197.

[91]Sayılar,Y. (2009): "The Effects of Capital Markets Board and Corporate Governance on Human Resource Practices in Turkey: A Study Based on Research Dependency Perspective", Is,Guc Industral Relations and Human Resources Journal, Vol:11, Num:2, p.172.

report (September, 2011) has not been published yet.[92]However, this is another important function of CMB to strength the relation with other regions and supports the implementations which are important steps for increasing corporate governance principles. Under the Public Disclosure and Transparency part, there is one article to banks which are publicly held. "...should be required to make both a standard explanation as required by the related legislation and also a brief comment about the capital adequacy obligations of the company in the footnotes of periodical financial statements which should be subject to external audit. Brokerage house and banks should also display annual and interim capital adequacy tables accompanied by the opinion of the audit firm on the company's own website"[93]Publicly held or not, banks aim to comply with the Corporate Governance principles issued by CMB and they prepare their compliance declaration to these principles within the framework of CMB's statement and international and industry principles.[94]

4.2.3. The Role of Istanbul Stock Exchange

The Istanbul Stock Exchange was established in 1985 and commenced to operate in 1986. Its aim is to provide secure and stable environment for trade. The ISE has contributed to the development of a Turkish capital market. ISE launches 'Corporate Governance Index' (XKURY) in 2007. It is an index which companies applying for Corporate Governance Principles are included. The next part of this study is examined and the calculation of (XKURY).[95]Corporate governance principles are not optional for companies whose shares are traded on the ISE. It is mandatory to have their "declaration of corporate governance compliance" and "corporate governance compliance report" in their annual reports and on their web-sites within the framework of the CMB decision in 2004.

Lastly, the questionnaire research which is investigated, the ISE traded companies and member firms structure about the corporate governance principles. The research consists of the relationship between corporate governance and financial structure-profitability of companies. The date of research is 2007, it is the same year of implementation of ISE

---

[92]"Eurosia Group on Corporate Governance for Capital Market Development", 27 September 2011, Kazakhstan, draft meeting agenda available at: http://www.oecd.org/dataoecd/36/45/48620343.pdf, (last access:10.09.2011)

[93]"Corporate Governance Principles", Capital Market Board of Turkey, 2005, article 3.1.5. p.29.

[94]See: The banks corporate governance rate are calculate with four captions which are Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors.

[95]For more information: Istanbul Stock Exchange Official Web-Site: http://www.ise.org/Indexes/StockIndexesHome/CorporateGovernanceIndex.aspx

XKURY Index and short-term later the mandatory of "declaration of corporate governance compliance", therefore, our idea is that this percentage would be higher, if the survey was made now. The results of the study: "Out of total 513 traded companies and member firms of the ISE, 358 of have responded to the questionnaire. 52% of the respondents have replied that they were aware of corporate governance principles and standards. The financial and market performance of those companies that have implemented corporate governance is higher than those which have implemented corporate governance to a lesser degree."[96]

4.3 ISE Corporate Governance Index (XKURY)

ISE started to introduce corporate governance index principles in 2005 with the decision of CMB. CMB Serial: VIII, No: 51 dated Communiqué on Principles Regarding Rating Agencies and Capital Market Rating Activity" has been published in the Official Gazette No: 26580 in 2007. Accordance with the Communiqué, the rating activity, credit rating and the rating is compliance with the practice of the Principles of Corporate Governance. CMB Market pressure will increase the market pressure to originate corporate governance culture and structure after the creation of the index. The calculation of index has started in 2007 and 34 companies have had adaptation grades from enterprises having authority of index rating so far as corporate governance principles[97]. Corporate Governance Rating grade is given to companies within the corporate governance principles issued by CMB, by measuring levels of compliance with the following ratios and the rate is determined between 1 and 10.[98]

Rate Weight of Corporate Governance Principles

Caption:	**Weight %:**
Shareholders	25
Public Disclosure and Transparency	35
Stakeholders	15
Board of Directors	25

[96]Küçükçolak,A. and Özer,L. (2007): "Do Corporate Governance, Independent Boards & Auditors Affect Market and Financial Performance: An Application to Istanbul Stock Exchange", pp.18-19. available at: http// http//bai2009.org/file/Papers/1453.pdf , (last access: 01.09.2011)
[97]Public Disclosure Platform: available at: http://www.kap.gov.tr/yay/GenelBilgiler/Endeksler.aspx, (last access: 15.01.2011)
[98]Güçlü, H.(2010): "Kurumsal Yönetim ve Uyum Derecelendirmesi", İMKB, pp.120.

Table 4.2: Authorized Institutions of Rating Activity

Rating Agencies, which is established in Turkey, are authorized by Capital Market Boards in Turkey	International Rating Agencies: Determination of rating Activity in Turkey is accepted by Capital Market Board
1. TCR Turkish Corporate Governance and Credit Rating Inc. **2.** Saha Corporate Governance and Credit Rating Services Inc. **3.** Kobirate International Corporate Governance and Credit Rating Services Inc. **4.** JCR Eurasia Rating	**1.** Risk Metrics Group Inc.

Source: www.spk.gov.tr[99]

Lots of studies are based on the differences between companies which are effecting transactions in corporate governance index and companies which are not included in this index in the context of financial performance of companies. According to Aksu and Kösedağ research which was evaluated the transparency and disclosure practices with 52 of the largest and most liquid companies in the ISE.[100] Firstly, the variation of transparency and disclosure scores arise from the differences of company size and growth opportunities. Secondly, they examine the relationship between the overall transparency and disclosure scores in financial performance. The result shows significant differences in financial performances in the companies in the two extreme transparency and disclosure score quartiles.[101]

The other research, which was made by Büyükşalvarcı and Abdioğlu, they examined the differences in financial structure between companies are listed in corporate governance index and are not included in this index. The result of study: the companies, which are involving corporate governance index, use more foreign sources than other financial groups and their working capital turnover ratio, return on equity ratio and earnings per share ratio is increasing. On the other hand, there are not certain results about corporate governance positive effect on stock returns, liquidity ratios, long and short term debt ratio, leverage

[99]For more information about the Authorized Institutions of rating Activity: Güçlü, H.(2010): "Kurumsal Yönetim ve Uyum Derecelendirmesi", İMKB, pp.108-118.

[100]Aksu,M,H. and Kösedağ,A. (2006): "Transparency & Disclosure Scores and Their Determinants in the Istanbul Stock Exchange", An International Review, Vol:14, No:4, pp.275-294, available at: http://ssrn.com/abstract=852224 , (last access: 01.09.2011)

[101]Büyükşalvarcı,A. and Abdioğlu,H. (2010): "Corporate Governance, Financial Ratios and Stock Returns: An Empirical Analysis of Istanbul Stock Exchange(ISE)", International Research Journal of Finance and Economics, Issue:57, p.4.available at: http:// www.eurojournals.com/finance.htm , (last access: 01.09.2011)

ratio and stock exchange performance…etc.[102]According to research in Turkey, the history of corporate governance index is not so long and still companies are working on better practices and increasing awareness, therefore the period of 2007-2011 is too short to get a certain result about the index financial effects. For instance, Dalğar and Çelik are analysing the effects of corporate governance on the financial structure of business within the research on ISE Corporate Governance Index. However, they also mention at the end of the study, Corporate Governance Index is new and there are a small number of companies under the formation of index. These are the most important constraints of the study. The result of the study is close to the previously research. In short, corporate governance has a positive effect on profitability. But later, after the increase in companies on ISE XKURY index and with a longer period, the study will be done again in order to increase reliability of study.[103] For this study, it is not the first aim to see financial effects and the economic structure of companies. As a priority, the aim is to examine the increase of awareness in banking sector in the basis of Corporate Governance Index (XKURY). With the help of the bank's corporate governance rate report, the improvements points will be determined and the corporate governance committee role will discussed after the development points results.

[102]Büyükşalvarcı,A. and Abdioğlu,H. (2010): "Corporate Governance, Financial Ratios and Stock Returns: An Empirical Analysis of Istanbul Stock Exchange(ISE)", International Research Journal of Finance and Economics, Issue:57, pp.11-30, available at: http:// www.eurojournals.com/finance.htm , (last access: 01.09.2011)

[103]Dalğar,H. and Çelik,İ. (2010): "Effects of Corporate Governance on the Financial Structure of Businesses: A Research on ISE Corporate Governance Index (XKURY)", Finans Politik & Ekonomik Yorumlar, Vol:48, Num:557, pp.99-110.

Part V Turkish Banking Sector Analyze: A Research on ISE Corporate Governance Index (XKURY)

5. Corporate Governance Reforms and Effects in Banking Sector: An Analyze on ISE 100 and ISE XKURY Banks

The Turkish Banking Sector has gone through a remarkable process of resolution and recovery during 2000s. Corporate Governance reforms had featured significantly in this process. Banking supervision was being strengthened, notably through the introduction of the earlier-mentioned supervisory agency, BRSA; with operational independence; and through the strict regulations on consolidated reporting. [104] Effects this positive environment rise to the occasion with high level of foreign banks interest, increase the financial data on the balance sheet.

The establishment of ISE Corporate Governance Index and the regulations regarding the corporate governance rating that makes the corporate governance principles implementation levels of companies to be determined by a standard and comparable measurement system promote the corporate governance implementations to put in order in banking sector and to assist the companies acting responsibly about corporate governance.[105] As it is mentioned before, the corporate governance principles rating compliance is the activity of independently and fairly in order to classify the compliances of the companies to the corporate governance principles that was published by CMB. In conformity with the Communiqué on Principles Regarding Ratings and Rating Agencies, the implementation levels of principles are measured in terms of four main criteria coming into existence with shareholders, public disclosure and transparency, stakeholders and the board of directors during the compliance to the corporate governance principles. For each one, between 1 and 10 rate is graded and a grade is given for representing the compliance of the company to the principles as a whole. The lowest level is 1 and 10 mean the highest level in rating compliance to the corporate governance principles. According to this

---

[104]Tükel,A. Üçer,M. and Ricjkeghem,C. (2006): "The Turkish Banking Sector: a rough ride from crisis to maturation", Edited by: Altuğ,S. and Filiztekin,A. (2006): "The Turkish Economy, the Real Economy, Corporate Governance and reforms, Routledge published, pp.276-300.
[105]Ibid.

Communiqué, it is non-mandatory or voluntary to have rating done for companies.[106] However, CMB ruled that ISE listed companies to include Corporate Governance Compliance Report in their annual reports and have an investors' relations section in their internet sited including the compliance report. In other words, listed companies are under an obligation to issue an annual corporate governance compliance report presenting the extent of their compliance with the Principles and explaining the reasons for any divergence. [107] Besides, rating activity is conducted by rating agencies[108] which are founded Turkey and international rating agencies which are accepted by the CMB.[109] ISE XKURY Index was started to estimate on 31.08.2007 with the notification of 5 companies and the lowest grade of 6, then it is increased to 7 to be notified by ISE has been laid for the index. ISE Corporate Governance Index aims to measure the price and return performances of companies traded in ISE Markets with a corporate governance rating of minimum 7 over 10. The corporate governance rating is determined by the rating institutions incorporated by CMB in its list of rating agencies as a result of their assessment of the company's compliance with the corporate governance principles as a whole. The ratings of companies included in ISE Corporate Governance Index can be found among the disclosures of the companies sent to the Public Disclosure Platform (PDP). For companies included in ISE Corporate Governance Index, the annual listing/registration fees is applied as 50% of the tariff for the first two years, 75% of the tariff for the following two years and then continue as 90% of the tariff. [110]

Furthermore, it is anticipated, listed on the ISE XKURY can supply advantages with increasing the firm value and performance and creating a preference for the interest of foreigners. It is expected arise ISE XKURY positive effect on banking sector companies between 2007 and 2010. With this study, two important results will emerge. First, the increase of corporate governance implementations in banking sector in years of research, second analysis period is bright for banking sector and ISE XKURY and corporate governance implementations positive effects can be seen clearly in this sector on the financial data of ISE 100 banks. As a result, when we do not take into consideration ISE

[106]Akdoğan,Y.E. and Boyacıoğlu,M.A. (2010): "Corporate Governance in Turkey: An Overview", Selçuk Üniversitesi Sosyal Bilimler Dergisi, Vol:24, p.25.
[107]Nilsson,G.O. (2007): "Corporate Governance in Turkey", European Business Organization Law Review, Volume:8, Issue:2, p.195.
[108]Ibid.
[109]Ibid.
[110]ISE Official web-site: http://www.ise.org/Indexes/StockIndexesHome/CorporateGovernanceIndex.aspx

XKURY, Corporate Governance is ruled by Istanbul Stock Exchange for ISE listed companies. During research period, it is also increased in all the banks, in the ISE 100 listed, corporate governance compliance activities have improved. Currently, there are many papers and reports explaining the structure and definition of corporate governance in Turkey. This analysis aims to move ahead of the definition and give specific examples with significant effects on performance and efficiency.

5.1 Distribution of Banking Sector on ISE 100 and ISE XKURY

This is a review of the ISE 100 banks and distribution on the ISE XKURY. The banks are Akbank T.A.Ş, Asya Katılım Bank A.Ş, Türkiye Garanti Bank A.Ş, Türk Halk Bank A.Ş, Türkiye İş Bank A.Ş, Şekerbank T.A.Ş, Türk Ekonomi Bank A.Ş, Tekstil Bank A.Ş, Türkiye Sınai Kalkınma Bank A.Ş, Türkiye Vakıflar Bank T.A.Ş, Yapı Kredi Bank A.Ş in the ISE 100 Index. In parallel to this statement, there are three types of banks in Turkey; deposit banks, development/investment banks and participation banks. As of June 2011, 48 banks of the above varieties are offering their services in Turkey. In other separation of banks is based on type of ownership: private owned and state owned bank. [111]There is one participation bank in ISE 100 Index list (Asya Katılım Bank A.Ş), and one privately-owned development and investment bank (Türkiye Sınai Kalkınma Bank A.Ş). The distribution of the other nine banks' system: 64% is the private owned banks and 18% is the state-owned deposit banks. The others, which are participation bank and investment bank, have 18% per cent. As a result, privately-owned deposit banks have sovereignty on the ISE, on the other hand, there are just three state-owned deposit banks in Turkish banking system, and two of them are in ISE 100 Index listed.[112]

A condition requiring, 36 companies are listed on ISE XKURY Index.[113] Three of them are not open to public and 5 banks[114] are listed in the ISE XKURY Index. In other words, %14 comes into existence by the banking sector. Four banks, which are Asya Katılım Bank A.Ş, Şekerbank T.A.Ş, Türkiye Sınai Kalkınma Bank A.Ş, Yapı Kredi Bank A.Ş, are listed in

---

[111]For more information banking sector in Turkey: " Financing a Business", official we-sites of Invest in Turkey, available at: http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/FinancingABusiness.aspx, (last access: 01.09.2011)

[112]The list of ISE 100 available at: http://www.ise.org/Home.aspx

[113]The list of companies available at: http://www.tkyd.org/tr/derecelendirme.asp

[114]The banks are Albaraka Türk, Aysa Katılım Bankası, Şekerbank T.A.Ş, Türkiye Sinai ve Kalkınma Bank A.Ş and Yapı ve Kredi Bank A.Ş.

the ISE 100 Index. In this study, financial data examination of ISE 100 and ISE XKURY Index Banks focuses on the balance sheet of deposit and participation banks; therefore the financial data of Türkiye Sınai Kalkınma Bank A.Ş is not included due to their operating system differences. However, before moving to examine banks' balance sheets, it is essential to present the increase of rating grade of banks in the ISE XKURY Index.

5.2 ISE XKURY Banks Rating Grade Development: The study period between 2008 and 2010

Methodology of rating is based on the Corporate Governance Principles that was developed by the Turkish Capital Markets Board. During the rating process, each criterion is evaluated on the basis of information provided by the company officials and disclosed publicly or additional information is provided from the company by rating agencies. Rating activity is conducted by rating agencies[115] which are founded Turkey and international rating agencies which are accepted by the CMB.[116]

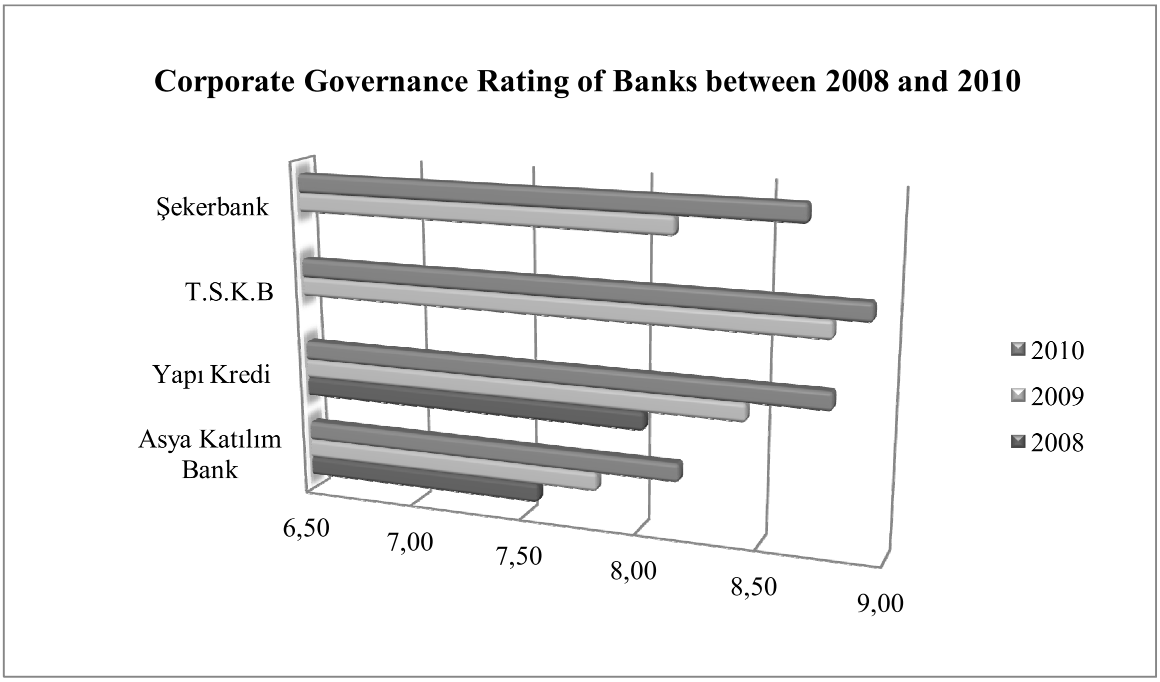
In 2007, the first year of Index, there was not any company from banking sector in the ISE XKURY Index. Asya Katılım Bank A.Ş (participation bank) and Yapı Kredi Bank A.Ş (privately-owned deposit banks) attended the ISE XKURY Index list in 2008. The next year, Şekerbank T.A.Ş (privately-owned deposit banks) and Türkiye Sınai Kalkınma Bank A.Ş (privately-owned development and investment bank) got involved in Index. Lastly, Albaraka Türk (It is not listed in the ISE 100 Index) attended the Index in 2010.

Firstly, Asya Katılım Bank A.Ş rating reports are examined between 2008 and 2010:[117]In 2008, Bank Asya obtained an overall corporate governance rating of 7.56. The second year, it was increased to 7.82. The significant increases are seen at the shareholders and public disclosure and transparency sections, as the main improvements that affected the revision are related generally with these sections. Secondly, the first year rate of Yapı Kredi Bank A.Ş is 8.0. In 2009, corporate governance rating is revised up to 8.44. The highest level of improvement is monitored in the public disclosure and transparency section. Finally, in 2010, the rate is reached at 8.78 and the most increase is observed in the board of

---

[115]Ibid.
[116]Ibid.
[117]Bank Asya Corporate Governance Rating Reports from 2008 to 2010 are available at: http://www.bankasya.com.tr/en/investor_relations/, (last access: 03.09.2011)

directors (from 6.7 to 7.7) and the disclosure and transparency section (from 8.1 to 9.2). [118] Thirdly, T.S.K.B is listed in ISE XKURY since 2009. The first year rate is 8.77, when it is compared with others; it has the highest level rate in public disclosure and transparency section. [119]Moreover, it is outside of usual, and it is spreading to 8.92. The compliance reports of this company prove the success of T.S.K.B in the field of corporate governance. Lastly, Şekerbank T.A.Ş are listed in ISE XKURY Index since 2009. The first year rate is 8.14 and it is increased 8.66 in 2010 thanks to range of corporate governance friendly measures in the one year in the several fields such as, information policy, risk management and internal control and board meetings.



Graph 5.1: Corporate Governance Rating of Banks between 2008 and 2010

According to bank Corporate Governance Rating grades, as can be seen on the graphics above, their rating has increased rapidly on the basis of the years. It is voluntary activity for all companies to list in the ISE XKURY Index. Moreover, CMB ruled that ISE listed companies to comply Corporate Governance Principles and published Corporate Governance Compliance report every year. In addition to this, the number of banks, which are listed in the ISE XKURY, has increased from year to year.

[118]Yapı Kredi Bank Corporate Governance Rating Reports from 2008 to 2010 are available at: http://www.yapikredi.com.tr/tr-TR/yatirimci_iliskileri/kurumsal_yonetim_raporu.aspx?q=45
[119]T.S.K.B Corporate Governance Rating Reports from 2008 to 2010 are available at: http://www.tskb.com.tr/yatirimci_iliskileri/cift_sira_pdf.aspx?SectionID=sP0uAxvq1DtaVRztj84EaA%3d%3d&ContentId=2g3UNxrQszOpyGf82UYqnw%3d%3d

This voluntary activity of banks provides rating grade besides their own compliance report which is given by independent rating agencies and to make extra arrangement to enhance the convergence criteria and to increase the rating grade each year. The financial data evaluations of banks after receipt in the ISE XKURY Index, banks, which are in the ISE 100 Index, are divided into two categories: first group represents the banks that are not listed in the ISE XKURY Index and second is listed in the ISE XKURY Index.

5.3 Methodology of Performance Analyze

One of the key questions we want to answer in this study: “Are there extra effects of XKURY Index on the banks’ performance?”. By doing this, we practice upon the banks which are listed in the ISE 100. Before moving to describe methodology of this study, it is better to indicate that there is one development and investment bank in listed in the ISE 100 Index, due to its operating system differences, it is not incorporated in financial data examination.[120] According to several studies in the literature, there are diverse results based on corporate governance effects on financial data in which are influenced more than other. In other words, the financial observations differ by the degree of interference. For this study, the summary balance sheet and income statement data in 2007 and 2010 of ISE 100 deposit and participation banks are collected primarily. Selected data from the financial tables are determined in the form of net profit, total assets, net loans, shareholders’ equity and deposits. In order to reach these observations, the banks’ annual reports are utilized which are published every year on the web-site of banks and they turn to account for calculating changes from 31.12.2007 to 31.12.2010. The year of 2007 is preferred as it is one year before the banks became to be included in the ISE XKURY Index, and 2010 is the last year that banks published their annual reports. The period is beneficial in order to observe the effects of banks participation XKURY Index on their financial performance.

The ratio calculation formula is:

$$\frac{\text{F.S.I}^{121}\ 2010 - \text{F.S.I}\ 2007}{\text{F.S.I}\ 2007} \Longrightarrow \text{Change \% from 2007 to 2010}$$

[120]Ibid

[121]Financial Statement Item: F.S.I

As a result of rate for each bank; a new grouping is made with the banks which have increased all financial statement items data. 10 out of 11 have developed their financial data from 2007 to 2010. These ten banks are located in two different groups; one group banks are also listed in the ISE XKURY Index and the other group banks are not, but all of them have positive development per cent from 2007 to 2010. By this way, the average results of two separate groups are investigated to observe in which financial data has been affected by the banks get involved in ISE XKURY Index. The groups, which are used to find the average of banks' financial data, are as follow;

Table 5.1: ISE 100 Index Deposit and Participation Banks

1.List of Banks, which are also listed in the ISE XKURY	**2.**.List of other ISE 100 Index Banks, which has increased all financial data from 2007 to 2010
• Asya Katılım Bank A.Ş • Şekerbank T.A.Ş • Yapı Kredi Bank A.Ş	• Akbank T.A.Ş • Türkiye Garanti Bank A.Ş • Türk Halk Bank A.Ş • Türkiye İş Bank A.Ş • Türk Ekonomi Bank A.Ş • Türkiye Vakıflar Bank T.A.Ş

Source: www.imkb.gov.tr

As a result of analysis, the first group banks' average financial data is compared with the second group which consists of the banks that have Corporate Governance Rating grade and are listed ISE XKURY Index as a voluntary and the financial data differences are presented by graphics.

5.3.1 ISE 100 Banks Summary Balance Sheet, which are also listed in the ISE XKURY from 2007 to 2010

When we take in hand first group ISE 100 Index banks' summary balance sheets results, which are also listed in the ISE XKURY Index, it is observed all outstanding items in each bank have increased significantly. For instance, Yapı Kredi Bank A.Ş has increased both of the rate of corporate governance[122] and the net profit importantly. Asya Katılım Bank A.Ş has improved its corporate governance rating grade, at the same time it has implemented striking strengthen, especially observations without the net profit. Considering

[122]Ibid: Chart 1

the years of financial research for Şekerbank, it has also been successfully increased its net profit and other data. The average financial data of banks in this group, net profit 59.0%, total assets 94.1%, net loans 111.4%, shareholders' equity 98.4% and deposits 95.5% have improved through the research period.

Table 5.2: Yapı Kredi Bank A.Ş Summary Financial Information

Selected Financial Statement Items: TL million			
	2007	**2010**	**% Change**
Net Profit	1.019	2.255	121.30
Total Assets	56.660	92.814	63.8
Net Loans	29.088	54.243	86.4
Shareholders' Equity	5.003.838	10.317.700	106.1
Deposits	33.706	55.207	63.7

Source: http://www.yapikredi.com.tr/en-US/investorRelations/main.aspx

Table 5.3: Şekerbank A.Ş Summary Financial Information

Selected Financial Statement Items: TL thousand			
	2007	**2010**	**% Change**
Net Profit	122.861	170.247	38.5
Total Assets	6.088.402	11.369.104	86.7
Net Loans	3.614.433	7.518.656	108.0
Shareholders' Equity	864.789	1.400.497	61.9
Deposits	4.155.066	7.698.664	85.2

Source: http://www.sekerbank.com.tr/english/investor.jsp

Table 5.4: Asya Katılım Bank A.Ş Summary Financial Information

Selected Financial Statement Items: TL thousand			
	2007	**2010**	**% Change**
Net Profit	221.337	259.962	17.4
Total Assets	6.260.048	14.513.419	131.8
Net Loans	4.609.665	11.060.267	139.9
Shareholders' Equity	853.856	1.941.667	127.3
Deposits	4.697.750	11.166.582	137.7

Source: http://www.bankasya.com.tr/en/investor_relations/index.jsp

5.3.2 ISE 100 Banks Summary Balance Sheets which are not listed in the ISE XKURY from 2007 to 2010

On the other hand, there remains seven banks in ISE 100 Index after the first group analysis. As stated above, this study is in the form of comparison profitability increase banks, therefore six banks evaluated in the group.[123]It is ruled all ISE listed companies to comply Corporate Governance Principles; therefore these group banks must also published compliance report every year. In addition, research period has passed successfully and financial data has changed noticeably. As a result of six banks it is observed that the improvement of averages are: net profit 66.3%, total assets 66.4%, net loans 83.0%, shareholders' equity 79.3% and deposits 69.3%.

Table 5.5: Akbank T.A.Ş Summary Financial Information

Selected Financial Statement Items: TL million			
	2007	**2010**	**% Change**
Net Profit	2.041	3.010	47.4
Total Assets	72.103	120.070	66.5
Net Loans	39.882	57.733	44.7
Shareholders' Equity	10.632	17.948	68.8
Deposits	43.635	71.708	64.3

Source: http://www.akbank.com/investor-relaions/stock-information.aspx

Table 5.6: Türkiye Garanti Bank A.Ş Summary Financial Information

Selected Financial Statement Items: TL billion			
	2007	**2010**	**% Change**
Net Profit	2.4	3.1	29.1
Total Assets	76.2	137.0	79.7
Net Loans	39.0	70.0	79.4
Shareholders' Equity	7.1	17.0	139.4
Deposits	43.7	79.0	80.7

Source: http://www.garanti.com.tr/en/our_company/investor_relations.page

[123]Table 17 Tekstil Bank A.Ş is not inserted in average financial data.

Table 5.7: Türk Halk Bank A.Ş Summary Financial Information

Selected Financial Statement Items: TL million			
	2007	**2010**	**% Change**
Net Profit	975	2.010	106.1
Total Assets	40.234	72.942	81.2
Net Loans	18.121	44.296	144.4
Shareholders' Equity	4.383	7.445	69.8
Deposits	30.841	54.782	77.6

Source: http://www.halkbank.com.tr/channels/200.asp?id=377

Table 5.8: Türkiye İş Bank A.Ş Summary Financial Information

Selected Financial Statement Items: TL million			
	2007	**2010**	**% Change**
Net Profit	1.701	2.982	75.3
Total Assets	80.181	131.796	64.3
Net Loans	33.980	64.232	89.0
Shareholders' Equity	10.604	17.014	60.4
Deposits	48.533	88.260	81.8

Source: http://www.isbank.com.tr/English/content/EN/Investor_Relations-548-363.aspx

Table 5.9: Türk Ekonomi Bank A.Ş Summary Financial Information

Selected Financial Statement Items: TL thousand			
	2007	**2010**	**% Change**
Net Profit	131.811	300.301	127.8
Total Assets	14.371.850	19.031.105	32.4
Net Loans	7.845.403	11.753.255	49.8
Shareholders' Equity	1.040.923	1.812.863	74.1
Deposits	8.185.793	11.999.150	46.5

Source: http://www.teb.com.tr/eng/main/haritainvestor_relations_menu.aspx

Table 5.10: Türkiye Vakıflar Bank T.A.Ş Summary Financial Information

Selected Financial Statement Items: TL million			
	2007	**2010**	**% Change**
Net Profit	1.031	1.157	12.2
Total Assets	42.408	73.962	74.4
Net Loans	23.470	44.836	91.0
Shareholders' Equity	5.226	8.559	63.7
Deposits	28.863	47.701	65.2

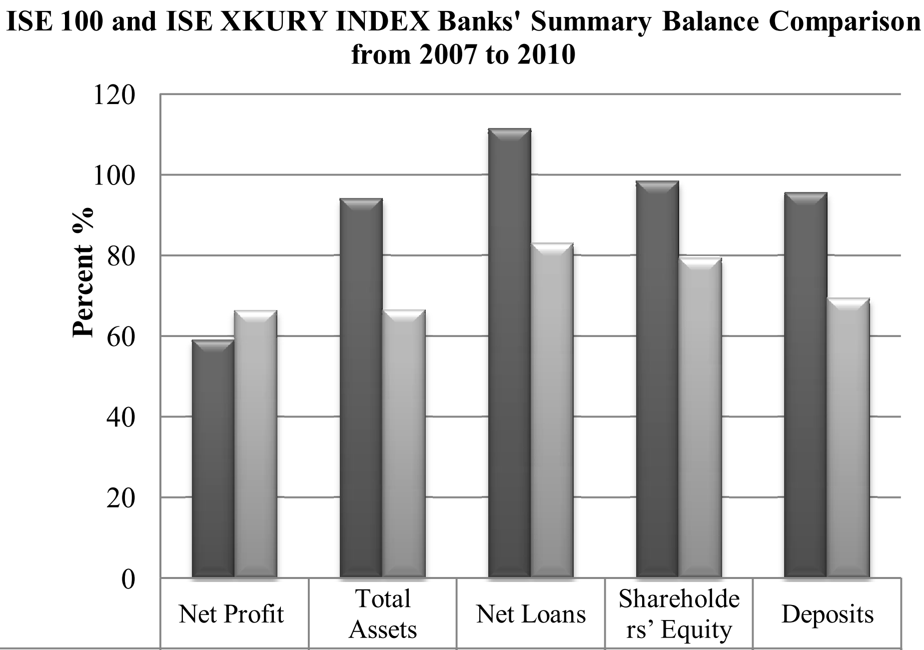
Source: http://www.vakifbank.com.tr/financials.aspx

Table 5.11: Tekstil Bank A.Ş Summary Financial Information

Selected Assets Items: TL thousand			
	2007	**2010**	**% Change**
Net Profit	43.646	16.504	- 62.1
Total Assets	2.991.091	2.558.318	-14.4
Net Loans	1.353.160	1.191.319	-11.9
Shareholders' Equity	386.523	499.020	29.1
Deposits	285.219	132.394	-53.5

Source: http://www.tekstilbank.com.tr/portal/en/investor_relations/financial_information.html

5.3.3 Comparison of Two Groups and Results of Study



	Net Profit	Total Assets	Net Loans	Shareholders' Equity	Deposits
ISE XKURY Index Banks'Avarage Percent	59	94,1	111,4	98,4	95,5
ISE 100 Index Banks' Avarage Percent	66,3	66,4	83	79,3	69,3

Graph 5.2: ISE 100 and ISE XKURY Index Banks' Summary Balance Comparison from 2007 to 2010

As a result, ISE XKURY Index is compassed by Istanbul Stock Exchange for giving investors impression about the companies' management activities. In other words, investors provide the information about companies' corporate governance activities and ratings by using ISE XKURY Index. As a condition of participating in the ISE 100, banks has been forced CMB Corporate Governance Principles. Other than this, they can get rating grade after the evaluation of independent rating agencies on a voluntary basis. The general opinion is that the quality of corporate governance and the activities, which have an effect on the development of corporate governance, provide financial success for companies. This study has emerged from this point and investigated the average effects of ISE XKURY on financial performance of banks. As a result the comparison of two groups, ISE 100 banks', which are also listed in ISE XKURY Index, financial data increase average is considerably high when it is compared with the second group. However, it is observed that net profit improvement is 6% plus in the second group banks, which are not listed in the ISE XKURY Index. According to these results, ISE XKURY effect on the net profit is not observed in banking sector, but it will be impact on net loans, shareholders' equity, deposits and total assets. In addition, this study carries out within the certain limitations. For instance, this research is not consists of all economic indicators or sectorial financial data. Furthermore the number of banks and the research period are not sufficient to reach certain results. After the increase of the number of banks in the ISE XKURY and the period dilation, this study will be repeated in order to improve of study reliability. On the other side, all the banks, which are included in survey, has implemented Corporate Governance Compliance report on their web-site, it is obligatory to comply corporate governance principles in order to list in ISE 100, so they have strengthened their corporate governance structure. In this line, corporate governance reforms and implementations during the research period has an effect significantly on the increase of financial performances in banking sector.

CONCLUSION

This paper is an effort to define the corporate governance development in Turkey and its effect on financial performance in the light of banking sector analysis. The importance of corporate governance has been realized by developed and developing countries. The relationship between corporate governance and financial performance of companies has been proved by several studies in literature. Initially, good corporate governance is vital for economic and capital market development and well-governed companies are seen as more attractive investment by outside stakeholders. Good corporate governance structures are evaluated with full recognition of transparency, accountability, disclosure, internal control and risk management. These come with a lot of prosperities, such as high quality of economic environment, healthier capital market and private sector. Create confidence, thanks to these; ensure stability in the management and economic field are the results of good corporate governance implementations.

Secondly, corporate governance and company performance are generally measured by different indexes. Many of codes and indexes are operated on 'comply and explain' basis, but they have significant influence on investor decisions. They give high importance to the companies which have successful corporate governance implementations. On the other side, indexes pave the way for data comparison between the same groups of companies and observe the effects of corporate governance.

Thirdly, corporate governance systems and model analysis demonstrate that the structures of models can be affected by economic condition, market structure or legal system, but good corporate governance implementation, which is designed for each country specific conditions, results are not different according to models. The activities of converging corporate governance supplies common language, such as corporate governance codes and international accounting standards. These are important in order to improve international dialogue to strengthen better corporate governance implementations in global context. However, it is certain that there is not one type of model for every country and company.

Furthermore, Turkey's corporate governance system is close to system of insider (Germany or EU), such as 'comply or explore' approach, ownership concentration, bank-oriented financial system. The most important point, corporate governance implementations and regulatory reforms have increased significantly in 2000s. As it is in many other countries, OECD Corporate Governance Principles are the cornerstones of Corporate Governance in Turkey. Besides these reforms, Turkey has improved its financial market and system, thanks to this; it has strengthened the economic conditions and provided the strong economic growth. However, according to OECD survey report (2006), Turkey needs further improvements in the areas of control, disclosure, and the protection of minority shareholders and the role of boards. The CMB's guide should be strength with legal framework.

Besides, the increase of domestic and foreign activities, companies want to work with trusted financial institutions. Banks assume a major role in the financing of investment of these companies, therefore they need to be fulfilled all the requirements of corporate governance in order to be trustworthy in the presence of them. The well-organized banks supply the lower cost of capital for companies, manage capital formation and activator for productivity growth. The sound corporate governance in banking means to allocate capital efficiently and put forward effective corporate governance over the firms which they fund. For that reason, Basel Committee on Banking Supervision designed principles which are viewed as significant elements of an effective corporate governance process. On the other side, the Turkish banking sector had successfull had a reconstitution and consolidation period in 2000s. Corporate governance reforms have an effect on this bright process, as the last part of this research describes this influence by the help of financial performance results of banks. BRSA introduced the new law in 2005 that highlights corporate governance arrangements; this has great importance, because this movement indicates the special corporate governance attention of BRSA. Effects on this positive environment rise to the occasion with high level of foreign banks interest, increase the financial data on the balance sheet. According to research in the literature, publicly traded banks have higher levels of compliance, because of the necessity of being open to public, than non-public banks. In this study, all the banks are listed in the ISE 100; therefore the compliance report is an obligatory for them. In other words, CMB ruled that ISE listed companies to include Corporate Governance Compliance Report in their annual reports and have an investors relations section in their internet site including the compliance report. However, it is aimed to describe extra corporate governance practices such as ISE XKURY INDEX, would be effective on financial performance. The calculation of index has started in 2007 and 36 companies are listed on ISE XKURY Index. Three of the banks are not open to public and 5 banks are listed in the ISE XKURY Index. At the outset, the aim is to examine the increase of awareness in banking sector in the basis of Corporate

Governance Index (XKURY). The number of banks, which are listed in the ISE XKURY, has increased their indicators from year to year. This voluntary activity of banks provides rating grade besides their own compliance report which is given by independent rating agencies and to make extra arrangement to enhance the convergence criteria and to increase the rating grade each year. As a result of study, banks' rating grades have increased rapidly on the basis of the years.

According to the results, ISE XKURY effects on the net profit is not observed in banking sector, but should be impact on net loans, shareholders' equity, deposits and total assets. In addition, this study carries out within the certain limitations. For instance, this research does not cover of all economic indicators or sectorial financial data. Furthermore the number of banks and the research period are not sufficient to reach certain results. After increasing the number of banks in the ISE XKURY and the period dilation, this study will be repeated in order to improve of study reliability. On the other hand, all the banks, which are included in survey, have strengthened their corporate governance structure in order to be listed in ISE 100 Index. In this line, corporate governance reforms and implementations during the research period have an effect significantly on the increase of financial performances in banking sector.

BIBLIOGRAPHY

Akbank A.Ş Investor Relations web page available at: http://www.akbank.com/investor-relaions/stock-information.aspx, (last access: 01.09.2011)

Akdoğan,Y.E. and Boyacıoğlu,M.A (2010): *"Corporate Governance in Turkey: An Overview",* Selçuk Üniversitesi Sosyal Bilimler Dergisi, Vol:24.

Aksu,M,H. and Kösedağ,A. (2006): *"Transparency & Disclosure Scores and Their Determinants in the Istanbul Stock Exchange",* An International Review, Vol:14, No:4, available at: http://ssrn.com/abstract=852224, (last access: 01.09.2011)

Albaraka Türk Katılım Bankası Investor Relations web page available at: http://en.albarakaturk.com.tr/investor_relations/homepage.aspx?SectionID=FmBNwIuvjqDQSxFPkd1XQ%3D%3D&ContentId=pkPDvRro%2FC5qyTuk2MYDhQ%3D%3D,(last access: 01.09.2011)

Anderson, R. and associates: *"Risk Management and Corporate Governance",* OECD Publications, Paris.

Ararat, M. Claessens, S. and Yurtoğlu, B. (2007): *"Synthesis Report of International Conference on Corporate Governance in Emerging Markets",*Sabancı University, available at: http://www.ifc.org/ifcext/cgf.nsf/AttachmentsByTitle/Researchsynthesisreport/$FILE/Synhesis+report+Melsa.doc, (last access: 30.08.2011)

Ararat, M. and Uğur, M. (2003): *"Corporate Governance in Turkey: An Overview and some Policy Recommendations",* Corporate Governance, Vol.3, No.1.

Ararat,M. *"Comply or Explain without consequences: the case of Turkey",* Edited by: Mallin,A.C. (2011): *"Handbook on International Corporate Governance: Country Analyses"*, Second Edition, Edward Elgar Publishing.

Ararat,M. and Çetin,A.T. (2008): *"İMKB'de İşlem Gören Bankaların Kamuya Açıklama Yoğunlukları ve Yönetişim Özellikleri",* Sabancı University Survey Report, available at: http://cgft.sabanciuniv.edu/sites/cgft...edu/.../BasinBildirisi_Bankalar-seffaflik.doc,
(last access:20.08.2011)

Ararat,M. and Uğur,M. (2006): *"Turkey, Corporate Governance at the Crossroads",* Edited by: Mallin,A.C. "Handbook on International Corporate Governance: Country Analyses", Edward Elgar Publishing.

Asya Katılım Bankası A.Ş Investor Relations web page available at: http://www.bankasya.com.tr/en/investor_relations/index.jsp (last access: 01.09.2011)

Aysan, A.M. (2007): *"Kurumsal Yönetim ve Risk",* First Edition.

Aysan, A.M. (2008): *"The Turkish Case",* Edited by Aras.G.and Crowther,D.: *"Culture and Corporate Governance",* Published by Social Responsibility Research Network.

Aysan,A.F. and Ceyhan,P.Ş. (2008): *"Globalization of Turkey's Banking Sector: Determinants of Foreign Bank Penetration in Turkey",* International Research Journal of Finance and Economics, available at: http://www.eurojournals.com/finance.htm, (last access: 01.09.2011)

Baker, H. and Ronald, A. (2010): *"Corporate Governance: A Synthesis of Theory, Research and Practice"*, Kolb Series in Finance, Published by John Wiley & Sons Inc.

Balton, B. and Bhagat, S. (2008): *"Corporate Governance and Firm Performance"*, Journal of Corporate Finance, Volume 14.

Barker, M.R. (2006): *"Insiders, Outsiders ad Change in European Corporate Governance*", Report of the Council of the European Studies Conference, Chicago.

Basel Committee on Banking Supervision (2006): *"Enhancing Corporate Governance for Banking* Organizations": available at: www.bis.org./publ/bcbs112.pdf, (last access: 25.08.2011)

Berghe, L van den in collaboration with Elst, C van der, Carchon, S. and Levrau, A. (2002): *"Corporate Governance in a globalizing world: convergence or divergence?: European perspective",* Kluwer Academic Publishers.

Broshkı, E.B. and Li, K. (2006): *"Corporate Governance Requirements in Canada and the United States: A Legal and Empirical Comparison of the Principles-based and Rules-based Approaches",* available at: http://finance.sauder.ubc.ca/~kaili/BroshkoLi.pdf, (last access: 01.09.2011)

BRSA Strategic Plan 2006-2008: available at: http://www.bddk.org.tr/websitesi/english/About_Us/About_Us.aspx, (last access:20.08.2011)

BRSA Strategic Plan 2010-2012: available at: http://www.bddk.org.tr/websitesi/english/About_Us/Strategic_Plan/8047SP(2010-2012)(ENG).pdf, (last access: 20.08.2011)

Büyükşalvarcı,A. and Abdioğlu,H. (2010): *"Corporate Governance, Financial Ratios and Stock Returns: An Empirical Analysis of Istanbul Stock Exchange(ISE)",* International Research Journal of Finance and Economics, Issue:57, available at: http:// www.eurojournals.com/finance.htm , (last access: 01.09.2011)

Capital Markets Board of Turkey (2003): *"Corporate Governance Principles of Turkey".*

Castro, G. Roberto, Arino, Miguel, A., Rodriguez, Miguel, A. and Ayuso, S. (2008): *"A Cross-national Study of Corporate Governance and Employment Contracts",* Business Ethics: A European Review, Volume: 17, Issue: 3.

Çukurçayır, M. Eroğlu,T. and Uğuz, H. (2010): *"Yönetişim",* Çizgi Kitapevi.

Dalğar,H. and Çelik,İ. (2010): *"Effects of Corporate Governance on the Financial Structure of Businesses: A Research on ISE Corporate Governance Index (XKURY)",* Finans Politik & Ekonomik Yorumlar, Vol:48, Num:557.

Demir, Y. (2008) *"Kurumsal Yönetişimin Artırılmasına Yönelik Bir Anlayış: Kurumsal Yönetişim",* Gümrük Dünyası Dergisi, Issue: 63, available at: http://www.gumrukkontrolor.org.tr/Yayinlar/Dergiler/63/icindekiler.html, (last access: 01.09.2011)

Deloitte and Corporate Governance Association of Turkey (2008): *"Nedir Bu Kurumsal Yönetim?",* available at:
http://www.deloitte.com/assets/Dcom-Turkey/Local%20Assets/Documents/turkey(tr)_cgs_nedirbuky_261206.pdf, (last access: 01.09.2011)

Dignam,A. and Galanis, M. (2009): *"The Globalization of Corporate Governance",* Ashagata Publishing.

"Eurosia Group on Corporate Governance for Capital Market Development", 27 September 2011, Kazakhistan, draft meeting agenda available at:
http://www.oecd.org/dataoecd/36/45/48620343.pdf, (last access: 10.09.2011)

Fourier,D. *"Good Corporate Governance in Ensuring Sound Public Financial Management",* available at:
http://www.dpsa.gov.za/batho-pele/docs/afripubserday/Africa%20public%20service%20day%20Fourie%20Corp%20gov1.pdf, (last access: 10.09.2011)

"Financing a Business", official we-sites of Invest in Turkey, available at: http://www.invest.gov.tr/enUS/investmentguide/investorsguide/Pages/FinancingABusiness.aspx, (last access: 01.09.2011)

Garanti Bankası A.Ş Investor Relations web page available at: http://www.garanti.com.tr/en/our_company/investor_relations.page, (last access: 01.09.2011)

Gedajlovic, E. (1993): *"A Cross-National Study of Corporate Governance, Strategy and Firm Performance*", PhD Dissertation, Concordia University.

Greuning,van H.and Bratonovic,S.B. (2009): *"Analyzing Banking Risk: a framework for assessing corporate governance and risk management",* Published by the World Bank, Third Edition.

Gup,B.E. (2007): *"Corporate Governance in Banking: A Global Perspective",* Edward Elgar Publishing.

Güçlü, H. (2010): "Kurumsal Yönetim ve Uyum Derecelendirmesi", İMKB.

Hagmayr,B. and Haiss,P. (2006): *"Foreign Banks in Turkey and Other EU Accession Countires: Does Minority vs. Majority Ownership Make the Difference?"* Edited by Niyazi,B. Proceedings of the International Finance Symposium 2006 on *"Financial Integration Review and Steps Ahead*", Marmara University, Istanbul, May 25-26.

Halk Bank A.Ş Investor Relations web page available at: http://www.halkbank.com.tr/channels/200.asp?id=377 (last access: 01.09.2011)

Holmstrom, B. MIT and Kaplan, S. N. (2003): *"The State of U.S. Corporate Governance: What's Right and What's Wrong?",* available at: http://research.chicagobooth.edu/economy/research/articles/185.pdf, (last access: 01.09.2011)

Hopt,K.J, Kanda,H. Roe,M.J. Wymeersch,E. and Prigge,S. (1998): *"Comparative Corporate Governance the stata of the art and emerging research",* Oxford University Press.

Isbank A.Ş Investor Relations web page available at: http://www.isbank.com.tr/English/content/EN/Investor_Relations-548-363.aspx, (last access: 01.09.2011)

Jensen, M.C. (2000): *"A Theory of the Firm: Governance, Residual Claims, and Organizational Forms",* University Press.

J.J. Du Plessis, McConvill, J. And Bagaric, M.(2011): *"Principles of Contemporary Corporate Governance",* Cambridge University Press, Second Edition.

ISE Official web-site: http://www.ise.org/Home.aspx

Kaymaz, Ö. Alp, A.and Aktaş,R. (2008): *"İyi Kurumsal Yönetim Yapıları ve Üç Temel Ayağı: İç Kontrol, Risk Yönetimi ve Muhasebe Uygulamaları",* İMKB Dergisi, Vol:10. Num: 40.

Knell, A. (2006): *"Corporate Governance: A Practical Implementation Guide for Unlisted Companies"* Published by Elsevier.

Küçükçolak,A. and Özer,L. (2007): *"Do Corporate Governance, Independent Boards & Auditors Affect Market and Financial Performance: An Application to Istanbul Stock Exchange",* available at: http// http//bai2009.org/file/Papers/1453.pdf , (last access: 01.09.2011)

Levine,R. (2004): *"The Corporate Governance of Banks:A Concise Discussion of Concepts and Evidence",* World Bank Policy Research Working Paper 3404, available at: http://econ.worldbank.org., (last access: 25.08.2011)

Mallin, C. (2004): *"Principles of Good Corporate Governance and Best Practice Recommendations",* Oxford University Press.

Maassen, G. (2002): *"An International Comparison of Corporate Governance Models",* SpencerStuart, Third Edition.

Mayer, C. (2002): *"Financing the New Economy: Financial Institutions and Corporate Governance"* Information Economics and Policy, Vol: 14.

Nestor,S. and Thompson,J.K..: *"Corporate Governance Patterns in OECD Economies: Is Convergence Underway?"*, available at: http://www.oecd.org/dataoecd/7/10/1931460.pdf, (last access: 01.09.2011)

Nilsson,G.O. (2007): *"Corporate Governance in Turkey",* European Business Organization Law Review, Volume:8, Issue:2.

OECD (2006):*"Corporate Governance of Non-Listed Companies in Emerging Markets",* OECD Publications, Paris.

OECD (2006): "*Corporate Governance in Turkey: A pilot study",* 2006, published by OECD, Paris.

OECD (2004): "*OECD Principles of Corporate Governance"*, OECD Publications, Paris.

Official Gazette Number: 26333 (2006): available at: www.bddk.org.tr/websitesi/english/Legislation/8829destek_hizmeti.pdf, (last access:20.08.2011)

Paksoy,S. and Aziz,E. (2004): *"Corporate Governance in Turkey",* "Trends and Developments in Corporate Governance", published by Kluwer Law International.

Plessis, J.J., Bagaric, M. and Hargovan, A. (2011): *"Principles of Contemporary Corporate Governance",* Cambridge University Press, Second Edition.

Plessis, J.J., Grossfeld, B., Luttermann, C., Saenger, I. and Sandrock, O. (2007): *"German Corporate Governance International and European Context",* Springer.

Public Disclosure Platform: available at: http://www.kap.gov.tr/yay/GenelBilgiler/Endeksler.aspx, (last access: 15.01.2011)

"Regulations on the Banks' Corporate Management Principles", published by Banking Regulation and Supervision Agency, available at: http://www.bddk.org.tr/websitesi/english/legislation/6857corporate%20management%20principles.pdf, (last access: 20.08.2011)

Sayılar,Y. (2009): *"The Effects of Capital Markets Board and Corporate Governance on Human Resource Practices in Turkey: A Study Based on Research Dependency Perspective",* Is,Guc Industral Relations and Human Resources Journal, Vol:11, Num:2.

Schmidt, H.R. (2004): *"Corporate Governance in Germany: An Economic Perspective",* Working Paper Series: Finance and Accounting 118, Department of Finance, Goethe University Frankfurt am Main, available at: http://ideas.repec.org/p/cfs/cfswop/wp200336.html , (last access: 01.09.2011)

Sowa, N. K. (2005): *"Corporate Governance and Ethics in Bank"* roundtable discussion report on the 14-15th November , at the Banking College, Accra, available at: http://www.secghana.org/Presentations/The%20Macroeconomic%20Benefits%20of%20Good%20Corporate%20Governance.doc, (last access: 01.09.2011)

Şehirli, K. (2009): *"Corporate Governance in Family Firms: A Comparison between Italy and Turkey",* Edited by: Aras,G and Crowther,D. (2009): "Global Perspectives on Corporate Governance and CSR", published by Ashagat.

Şekerbank A.Ş Investor Relations web page: available at: http://www.sekerbank.com.tr/english/investor.jsp, (last access: 01.09.2011)

Tan. H.L. and Wang. J. (2007): *"Modeling an Effective Corporate Governance System's for China's Listed State-Owned Enterprises: Issues and Challenges in a Transitional Economy",* Journal of Corporate Law Studies, Volume 7, No: 1.

Türk Ekonomı Bankası A.Ş Investor Relations web page: available at: http://www.teb.com.tr/eng/main/haritainvestor_relations_menu.aspx, (last access: 01.09.2011)

Tekstilbank A.Ş Investor Relations web page: available at: http://www.tekstilbank.com.tr/portal/en/investor_relations/financial_information.html, (last access: 01.09.2011)

Terterov,M. and Rosenblatt,P. (2006): *"Turkey: A Business and Investment Review*", Published by Global Market Briefings.

"The World Fact book", last updated in August, 2011, Central Intelligence Agency (CIA), available at: https://www.cia.gov/library/publications/the-world-factbook/geos/tu.htm, (last access: 01.09.2011)

"Three Models of Corporate Governance from Developed Capital Markets", EWMI/PFS Program/Lectures Report on Corporate Governance, 2005, available at: http://www.emergingmarketsesg.net/esg/wp-content/uploads/2011/01/Three-Models-of Corporate-Governance-January-2009.pdf, (last access: 01.09.2011)

Corporate Governance Association of Turkey web page available at: http://www.tkyd.org/tr/, (last access: 15.09.2011)

Türkiye Sınai ve Kalkınma Bankası A.Ş Investor Relations web page available at: http://www.tskb.com/Investor_Relations/default.aspx?SectionID=yIEbyC3tGaPYmP8oyK8pLg%3D%3D&ContentId=4oEu6KjEmU33gGZTiL4GkQ%3D%3D, (last access: 01.09.2011)

Tuna,A. (2008): *"Basel II Çerçevesinde Bankalarda Kurumsal Yönetim ve Türkiye'deki Ticari Bankalar Üzerine Bir Araştırma",* PhD Thesis, Istanbul University.

Tuzcu, A. (2004): *"Corporate Governance Approach of Istanbul Stock Exchange Companies",* Milletlerarası Münasebetler Türk Yıllığı, Volume 35.

Tükel,A. Üçer,M. and Ricjkeghem,C. (2006): “*The Turkish Banking Sector: a rough ride from crisis to maturation”*, Edited by: Altuğ,S. and Filiztekin,A. (2006): “The Turkish Economy, the Real Economy, Corporate Governance and reforms, published by Routledge.

Vakıfbank A.Ş Investrors Relations web page: available at: http://www.vakifbank.com.tr/financials.aspx, (last access: 01.09.2011)

Werder,E.and Talaulicar,T.(2006): *"Handbook on International Corporate Governance: country analyses" Edited* by: Christina, A. Mallin, Edward Elgar Publishing.

Yapı ve Kredi Bank A.Ş Investor Relations web page: available at: http://www.yapikredi.com.tr/en-US/investorRelations/main.aspx, (last access: 01.09.2011)

Yörük, N. (2006): *"Aile Şirketlerinde Kurumsallaşma ve Halka Açılmanın Finansal Performans Üzerine Etkisi: Halka açık bir aile şirketi üzerine vaka çalışması"* Selçuk Üniversitesi İktisadı İdari Bilimler Fakültesi Sosyal ve Ekonomik Araştırmalar Dergisi, Vol: 12.

Yurtoğlu,B.B: *"Firm-Level Profitability, Liquidity, and Investment",* Edited by: Altuğ,S. and Filiztekin, A.(2006): “The Turkish Economy: The real economy, corporate governance and reforms”, Routledge Studies in Middle Eastern Economies.

CURRICULUM VITAE

Name: Pınar Buket Kılınç
Address: Meydan Kavağı Mah. 1561 Sok. Yeşilbahçe Sitesi C Blok Antalya / Türkiye
E-mail: pinar.pbk@gmail.com
Phone: +90(0)5072539785
Date of Birth: 08.08.1985
Nationality: Turkish

Education and Qualification

MA: International Relations European Studies, Hamburg (currently studying)
Bachelor: Business Administration, Germany (2007)
Bachelor (Hons): Business Administration, Turkey (2007)
High School: Science, Manavgat Anatolian High School (2003)

Career Summary

Apr. 2011 – Jul. 2011 Assistant (Internship), Antalya Metropolitan Municipality, Antalya
Mar. 2011 – Mar. 2011 Assistant (Internship), Republic of Turkey EU Ministry for EU Affairs, Ankara
Dec. 2007 – Feb. 2009 Branch Transactions Authority, Turk Ekonomi Bankası Çallı Branch, Antalya
Aug. 2007 – Nov. 2007 Assistant, Clup Hotel Sera, Antalya
2005-2006 Assistant (Summer Internship), Independent Audit Office, Antalya

Languages

English: C1 (Advanced)
German: B1 (Intermediate)
Turkish: Native Speaker

DECLARATION OF AUTORSHIP

I declare that this thesis and the work presented in it are my own and have been generated by me as the result of my own original research.

None of the parts of this thesis has previously been submitted for a degree or any other qualification at this university or any other institution.

The written document matches completely to the CD version.

Where I have quoted from the work of others, the source is always given within reference part of my Thesis.

Antalya	05.10.2011	
----------	---------------	--------------
Place	Date	Signature