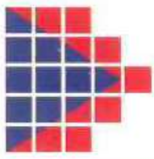

CORPORATE GOVERNANCE HANDBOOK OF BUSINESS JOURNALISM

CIPE

EGD

CORPORATE GOVERNANCE ASSOCIATION OF TURKEY PUBLICATIONS
CORPORATE GOVERNANCE HANDBOOK OF BUSINESS JOURNALISM
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Preface

"The Corporate Governance Handbook for Business Journalism" provides a new and significant insight to the efforts of the Corporate Governance Association of Turkey (TKYD). Since 2003, the scope of corporate governance has been expanding into public corporations, privately-held corporations, government business enterprises, non-governmental organizations and sports clubs, and TKYD continues to be a leader with its informative and practical handbooks and guides.

Having close relations with the business world, the media has been increasing its scope and impact everyday by utilizing recent technological advances. While the business journalist observes the fair, transparent, accountable and responsible management principles, where the corporate governance aims to shape its principles on behalf of all relevant shareholders, the media plays a key role in educating the business world, its investors and the greater public about corporate governance and its role and benefits.

As a result of new laws and regulations, we need to reexamine how we review all corporate governance principles. The common goal is to provide the business journalist with the framework to recognize the internationally accepted corporate governance principles as the benchmark in his/her reporting and to be able to question the context and generate suggestions. Our goal in preparing this publication is to give journalists the information and resources needed to accurately provide information to the public in a timely and detailed manner, and to provide them with research and information and international practices and standards.

This publication and the project developed around it was shaped by the joint efforts of Business Journalists Associations, Bahcesehir University and USA-based Center for International Private Enterprise. We thank our project partners that enabled us to convey the corporate governance principles to the greater public and through their hard work and significant contributions, including the members of Corporate Governance Association of Turkey. We also hope that this valuable expertise helps professionals who are just beginning their journey and to those who want to improve themselves.

Best regards,
Muharrem Yılmaz
Chairman, Corporate Governance Association of Turkey

Preface

Certain concepts have become imperative to developing economies around the world and in Turkey. Corporate governance principles play a key role at this point and have reached a professional standard that is mandatory when reading the economic developments accurately.

Raising the information bar of business journalism has become a necessity, particularly in the rapidly diversifying Turkish economy. The corporate governance practices include significant tools that enable accurate data review and analysis within the principles of transparency, fairness, accountability and responsibility.

As a result of the joint efforts between the Corporate Governance Association of Turkey and the Business Journalists Association, I believe that we have laid the foundation for a significant process, stemming from the need to provide professional information to the business media in a reference manual and to provide the true understanding of corporate governance philosophy.

We will enable our colleagues to evaluate the global developments critically, to analyze the data accurately, and to therefore perform at their best when we reach this kind of level of understanding.

As a member of the Business Journalists Association, I congratulate the Corporate Governance Association of Turkey and its respective staff for contributing to the efforts of on-the-job trainings. I would like to express my thanks and gratitude on behalf of the developing field of business journalism in Turkey.

Celal Toprak
Chairman of the Board, Business Journalists Association

About the Corporate Governance Association of Turkey (TKYD)

Founded in 2003, the Corporate Governance Association of Turkey **(TKYD)** is a non-profit organization whose mission is to lead and guide the private and public sectors into adopting, establishing, accurately implementing and continuously keeping the main corporate governance principles on their agenda; to contribute to the recognition and development of corporate governance mentality; and to implement the best practices in Turkey.

Offering access to information through its corporate governance series, research reports, periodicals, non-periodical publications and its Internet site, TKYD enables its members:

- to expand their communication network through social activities such as special theme activities and year-end meetings
- to obtain exclusive participation in international conferences and seminars
- to participate in co-sponsored education programs, membership opportunities designed for individual and institutional development, and study groups
- to prepare recommendations, thus leading them in corporate governance matters in our country. (www.tkyd.org)

About the Business Journalists Associations (EGD)

With over 600 business journalists in 2007, the Business Journalists Association continues to provide foreign language courses, training activities, and vocational seminar programs. By demonstrating the collaboration of printed and visual media, radio, Internet, and news agencies, EGD recruits professionals from the public relations industries as consulting members of their organization. (www.ekonomigazetecileri.org)

About the Center for International Private Enterprise (CIPE)

CIPE is an institution whose research is supported by the private sector for strengthening democratic structure and thus developing adherence to corporate governance principles. Established under the Chamber of Commerce of the US, CIPE is one of the partners of the National Endowment for Democracy (NED). CIPE has been maintaining close relations with global business leaders, political leaders and the press. CIPE also continues conducting studies. More detailed information can be found at www.cipe.org.

Why the Corporate Governance Guide Was Prepared For Business Journalism

Corporate governance is a set of best practices presented to sectors ranging from public and privately-owned companies to state-owned enterprises and civil society organizations, as well as sports clubs. It can be described as a set of standards regarding the strategic direction and control of companies. It has gained a great deal of interest from the public during a time when economic crises and company scandals are increasingly taking place.

The business journalists play a great role in society by informing, leading and making decisions. Therefore, it is essential that they effectively highlight the corporate governance perspective in everything from their news and reports to their comments and evaluations, and understand the basis of the existing governance issues in order to identify the problems and take regulatory measures. Also, it has become clear that those business journalists who fulfill their obligations with this perspective will play a key role in spreading the corporate governance principle to the business world, its investors and society as a whole.

It can be said that many issues with governance today stem from the absence of corporate governance practices. Therefore, the understanding of the corporate governance philosophy

by business journalists in their news and reports, comments and evaluations are likely to contribute to the institutions and the economy in general. “Corporate Governance Handbook for Business Journalism” is prepared to assist business journalists with better understanding the corporate governance issues shedding light on the critical findings by asking the right questions, and sharing these findings with the general public.

“Corporate Governance Principles” were formed under the leadership of OECD in 1999 by incorporating the lessons learned from certain economic crises and company scandals, and they strive for establishing good practices formed around the principles of fairness, transparency, accountability and responsibility. Following the notion that “one size does not fit all”, the principles continue developing with the concept that each country should constitute its own corporate governance principles based on its own culture and realities. Even though each country has tried to form its own specific structure, the basis for implementation remains the same. At this point, using the corporate governance principles as an evaluation tool may provide the opportunity to examine, compare and discuss the topic according to international standards. In a time when we often discuss the economic globalization and the breaking down of borders, the Corporate Governance Handbook for Business Journalism will certainly highlight the importance of using international standards as the foundation.

The significance of this publication is that it is the first step of a long-term project and its goal is to ignite the discussion of this topic. For university students who view business journalism as a job, professionals who are just beginning to develop their careers and business journalists who are constantly working on improving themselves, this publication is also aimed at the shareholders that are in constant communication with this professional group. These shareholders may belong to the private and public sector and who communicate with business journalists through press releases, interviews and reports, public relations agencies, and many other ways while performing their daily duties. The Corporate Governance Handbook for Business Journalism aims to meet the expectations of business journalists to extent degree in order to enable them to carry out their tasks within expected standards.

What is Corporate Governance and Why is It Important?

What is Corporate Governance?

Corporate governance is a set of standards that defines the policy, procedures and best practices regarding the strategic direction and control of corporations. It covers the balance of power among three significant parties:

- The Board of Directors that is responsible for guiding and monitoring the company,
- The Shareholders that invest in, and provide funding for, the company, thus having the right to elect or dismiss the Board of Directors,
- The management that is employed by the Board of Directors to run the company’s business.

The Board of Directors assigns and leads the management team and represents the interest of the shareholders. Legally, the Board of Directors is ultimately responsible for the company’s business. Therefore, the Board of Directors is always at the focal point of the company’s corporate governance practices.

The Board of Directors is elected by the Shareholders and acts as the executive head of corporate governance practices. The Board of Directors hires the management team responsible for the overall performance of the company, with a general director or CEO at the

top.,. However, the ultimate responsibility of protecting the integrity of the company and the investments of shareholders lies within the Board of Directors.

Corporate governance practices provide the effective operation of the main model specified below:

- The Shareholders elect the Board of Directors
- The Board of Directors executes the majority decision after voting on important issues (decision making mechanism),
- Decisions are made in a transparent manner, allowing that shareholders and other stakeholders to hold the Board of Directors accountable (in other words, in a manner that Board of Directors can explain),
- Financial and other types of information that shareholders, investors and other stakeholders need is prepared by implementing the financial policies that are determined under the watch of the company's management,
- The policies and procedures are regulated and applied according to current legislations.

Principle of Separation of Powers and Corporate Governance

As with all institutions that operate under a proxy, the principle of the separation of powers lies at the heart of good company management. The principle of separation of powers makes a democratic system the best form of governance by making the executive, legislative and judicial functions independent of each other. Following this same principle makes for the most effective governance of the company. In other words, regulating the decision making, executive and inspection bodies and making them independent of each other is essential for responsible and effective governance of a company. The main decision-making body that the individual three bodies report to is the Board of Directors, who in turn represent the shareholders.

What Does Corporate Governance Deal With?

A company’s existence can be simply expressed as follows: A company is a mechanism for transforming the inputs of raw materials, labor, capital, and intellectual property "into profit".

To this point, the practice of corporate governance regulates the following matters without violating the interests of shareholders and the rights of other potential stakeholders:

- The effectiveness and efficiency of the transformation of inputs mentioned above,
- The question of “how much profit was kept by whom”,
- The matters that may arise when the owner, director and inspector of the company are different from one other.

Corporate governance practices are not only important for publicly traded companies, but also for small, mid-sized and privately-owned companies in order to increase their productivity, minimize internal disagreements and easily transfer the property and leadership positions.

Shareholders

In addition to the Board of Directors, shareholders and management, there are also many other stakeholders that are critical to the operations of the company. Company creditors, financial institutions that provide lending, employees, suppliers, customers and tax authorities can be considered among the most important stakeholders.

Stakeholders can have a direct or indirect interest in the company's financial performance. While the members of the Board of Directors, managers and other employees receive benefits, the investors expect a financial return in exchange for their investment. While creditors speculate about the interest they receive on their investment, shareholders care about the distribution of the profit. While customers' main concern is on the continued supply and quality of products and services, the suppliers are concerned with the continuation of the operation and the collection for the products or services they sell. Aside from all of this, the government is concerned with payment of taxes in full and on time.

In the business world, the most important challenge facing a company entering into a business relationship with another company is whether the company will achieve the expected commercial profit. Achieving the expected profit is the primary way of establishing trust with stakeholders. The confidence in the company grows stronger as the powers and responsibilities of the Board of Directors, the management and the controlling bodies using corporate governance practices are clearly identified.

In a good corporate governance system, the managers are encouraged to act in the best interest of the company and the shareholders. Furthermore, regular inspections and audits must be conducted to explain the performance and activities of the company.

The effective use of company resources is encouraged. Therefore, corporate governance system is a set of standards that acts as the main tool for increasing the economic effectiveness among shareholders, board of directors, management, and other stakeholders mentioned above through mutual agreements and cooperation.

Corporate Governance Principles
Corporate governance is based on a set of four basic principles:

Transparency
Transparency represents the need to publicly share accurate, clear and comparable information at the right time and the right place, since the investors are able to direct their resources effectively only when they have accurate and satisfactory financial and non-financial information. Therefore, disclosing past performances, future goals and expected significant risks to investors is considered a requirement of good corporate governance. In this regard, while the performance, goal and risk management factors build the foundation for public awareness and transparency, they also strengthen the image of the Corporation in the eyes of the investor and the shareholder. Transparency encourages feedback to be provided before, during and after the activities taking place.

Accountability
The framework of corporate governance must include the strategic guidance of the company, effective monitoring of management by the board of directors and the board's accountability towards the company and its shareholders.

Fairness
Fairness represents the equal treatment of all shareholders by the company management. Under this principle, the shareholder rights, including the minority shareholder and foreign partners, are protected.

Responsibility

Responsibility represents the operation of the company in accordance with rules and regulations that reflect society's values while creating a profit for shareholders. However, corporate governance principles emphasize that laws in general make up the minimum standards for social responsibility and the ultimate responsibility of the company would be displayed by surpassing the legal obligations.

What is the Difference Between Corporate Governance and Institutionalization?

What we need to understand about institutionalization is that it is a system whose survival doesn't depend on a specific person's presence. As it is with every system, identifying the relationships of different elements in a system and how they interact with each other and the system as a whole, and defining different roles and responsibilities are essential for a healthy operation.

The Goals Of Institutionalization Can Be Summarized As Follows:

- Establishing an organizational structure that complies with goals,
- clearly defining job responsibilities,
- Establishing internal regulations,
- Switching to a professional management style by distributing the powers and responsibilities.

Institutionalization aims for a more clear and concise operation of functions. Having incorporated such characteristics, the corporate governance concept is higher-level structure that includes institutionalization and places a balance of power between shareholders, management and other stakeholders. Many companies that adopt corporate governance practices while operating as an institution can be used as an example in order to explain the difference between these two concepts.

The Advantages of Good Corporate Practices

Studies show that more than 84% of corporate investors may pay a premium for a company that follows good governance principles vs. a company with weak governance, even though they both may have the same financial structure.

A strong corporate governance concept:

- Enables access to capital and financial markets,
- Establishes an effective internal control system that provides accountability and better profit margins,
- Helps companies to survive in a competitive environment as mergers, acquisitions and partnerships increasingly take place,
- Strengthens the governance by creating a strong company strategy that attracts investors,
- Facilitates the relationships between the investors and creditors through its transparent management approach,
- Helps to prevent banking crises even in countries with undeveloped capital markets,
- Protects small shareholders (minority shareholders) and their investments,
- Makes corruption difficult through its effective internal control system structure regarding the transparency and accountability,
- Facilitates the planning and execution of property transfer process while lowering the disagreement possibilities,

A weak corporate governance concept on the other hand:

- Makes it difficult to attract sufficient investors due to its negative impact on the investor, discourages competition and limits new employment possibilities.- In the end, it may cause certain risks to emerge that might push the company totally outside of the market,
- Creates an environment where company executives (board of directors and assignees) pursue their own interests and abuse the corporate assets instead of protecting the interests of shareholders, creditors and other related parties,
- May cause the enactment of excessive regulations that would essentially limit the growth of the company as a result of compelling the authorities to review the laws.

Role of Corporate Governance in Preventing the Corruption

Reviewing the findings of 2010 of the Global Corruption Barometer, a public opinion poll performed worldwide by the International Transparency Organization, we see that 6 people out of 10 indicated the increase of corruption in the last three years and every 1 person out of 4 stated that they provided bribes last year. According to public opinion, the places where corruption increased the most are Europe (by 73%) and North America (by 67%).

The study results in Turkey show parallel findings. 57% of the survey participants in Turkey stated that corruption had increased during the last three years.

33% of the participants in the survey stated that they used bribes for at least one of 9 services (customs, education institutions, judiciary, land title services, health services, police, institutions providing registrations and permissions, tax administrations, electric, water, gas etc. services) that were subject to research in the last 12 months. This number is rather high when compared to those of other countries. The same percentage worldwide is 25%, 5% in European Union countries and 19% in the Western Balkans where Turkey was evaluated as well.

Finally, the participants were asked to comment on the fight against corruption of governments and 59% of participants found the fight against government corruption politics effective and 40% said that it was insufficient.

The results in Turkey show that corruption is still one of the biggest problems in the country, and it is considered widespread by public opinion despite efforts to prevent it. Because the Barometer results reflect one-on-one experiences of the individuals in addition to their perceptions about the matter, the results that indicated that 1 out of every 3 people had used bribes within the last year in Turkey are remarkable and at a level where the authorities should be alarmed.

Financial transparency provided by corporate governance is one of the measures used to prevent corruption and fight against bribery. A strong internal control structure, effective internal control mechanisms and independent control shape the basic inputs of the corporate governance concept and contribute to managements in charge.

Sustainability

A new world order has been emerging today where company interests do not conflict with social interests and the social and environmental topics, in addition to economy and profit-focused perspective, have started becoming the responsibility of corporations.

"In the world today, the largest labor and financial capital lies in the hands of corporations."
South Africa King Corporate Governance Committee

Sustainability is the definition of today's social order, living standards and labor models in a manner that enables future generations to survive without depleting natural resources. The main goal of sustainability is to increase the value of the shareholder in the long run, to rehabilitate social conditions, to minimize the resources used in production, to increase productivity and to minimize the operational impact on the environment.

The most important factors leading to this order can be listed as follows:

- Population growth,
- Increasing urban population,
- Increasing problems regarding health, education and basic essential topics,
- Increasing need for natural resources (water, mine etc.)
- Increasing need for energy and the security of energy supply,
- Increasing consumption in parallel to economic development,
- The changing climate,
- Environmental problems.

This new world order will be formed through the mutual agreement of the private sector, the public sector and other areas of society that are closely related to the matter. Technological innovations (new technologies that increase productivity, electrical cars, new technologies that change the processes, etc), changes in life styles (to consume only what you need, to use sustainable products), the leading role of the public through various mechanisms (environmental legislation, taxes, regulations related to product contents (REACH), carbon markets, etc.) will play an important role during this period of change.

Corporate governance and sustainability are closely related to each other. The steps that need to be taken for sustainability may cause some concerns in terms of financial investment criteria during unstable and unforeseeable situations. In some cases there may be problems in accurately reading the risks that are relevant to sustainability. Sustainability promotes communication with all the shareholders and taking steps towards mutual agreements. It promotes motivation of the employees. The decisions made under the framework of sustainability guarantees the long-term survival of corporations. The survival of companies and their successful performance is regarded as one of the most significant criteria, especially for the investors and is made possible by corporate governance.

The Developments around the World and in Turkey

Corporate Governance around the World

Looking at company bankruptcies, we see that certain companies are managed in favor of the management's own interest instead of that of its shareholders. The inability to control the way a company is managed by its shareholders and other stakeholders is one of the main factors paving the way for the demise of a company.

After a series of bankruptcies and a lack of governance understanding, the Organization for Economic Cooperation and Development (OECD) formed a study group to evaluate the outlook and opinions of member countries regarding corporate governance and to create a set of non-binding principles. The goal was to form a leading platform through legal regulations and other regulatory efforts regarding corporate governance that would be implemented by member countries. The motto "One size does not fit all" was placed on the first page by OECD Secretary General, Donald J. Johnston, and one of the main goals became to encourage regulations that countries would establish according to their needs. The other generally accepted idea was that the principles would be open to change within time. Even though the

principles mainly concerned publicly traded companies the first study of OECD also emphasized that applying these principles to privately held companies and public corporations would be more helpful.

OECD Corporate Governance Principles, approved by OECD Council of Ministers in 1999, became an international reference point for decision makers, investors, companies and other shareholders worldwide. Since the date of its approval, these principles have kept the corporate governance concept on the agenda and become a guide for legislative and regulatory initiatives in OECD member countries and others.

Corporate governance quickly took its place on the agenda and would most likely maintain its place during the following years, clearly due to company scandals that have appeared in recent years. The overnight disappearance of model companies such as Enron, WorldCom and Parmalat opened the well known facts for "good governance" for discussion. Following the company scandals, the United States passed a new law, called “Sarbanes-Oxley Act”, which included extremely radical provisions in order to improve corporate governance practices in the country. Similarly, Germany legislated corporate governance principles and made their implementation mandatory. Japan reviewed company laws and enacted serious improvements. Accordingly, many other countries have been re-shaping their current legislation in accordance with the framework of Corporate Governance Principles.

Approximately 10 years have passed since February 2002, when the Enron scandal was swept off the agenda after its shares dropped from $80 to $0.25. The research after such a huge scandal showed that the management of the company conducted illegal practices in order to increase their own fortunes through salaries, bonuses and stock bonds; independent auditing firms acting on behalf of the investors did not perform their tasks as they were contracted to do; and regulatory bodies were unable to find any way out of the disaster. Seeing such a failure in the management structure of Fortune 500’s #7 ranked company and other similar stories that emerged thereafter made taking necessary measures inevitable.

Corporate Governance in Turkey

Turkey closely monitored the developments and prepared the guide "Corporate Governance: The Best Practice Code" in 2001 as a result of the efforts of a study group formed under TUSIAD (Turkish Industry and Business Association). Following this study, Capital Markets Board published its own study in 2003 called “Capital Markets Board Corporate Governance Principles” and updated this study in 2005 and 2010 by monitoring international developments and improvements. The Capital Markets Board’s Corporate Governance Principles are based on the "implement or explain" mentality. Thus they were required to announce their compliance of such principles in the form of a statement by Turkish companies and they quickly became a part of a company’s routine. The following year, the Corporate Governance Statement of Compliance became a requirement for all annual reports.

Following the period referred to as the “Banking Crisis Period” of our economic history in 2001, the Banking Regulation and Audit Agency (BDDK) decided to renew the Bill of Credit Agencies. Putting the law dominated by corporate principles and practices into action in 2005 made it one of the largest success factors for overcoming the international financial crisis in 2008 and all future crises.

The rapid developments in the corporate governance of capital markets continued after the announcement of the Corporate Governance Index (XKURY) in 2007. The index was put

together by notifying the Istanbul Stock Exchange (IMKB) with rating scores provided by the institutions that were licensed by Capital Markets Board and the calculation of the index started in August 2008. The Corporate governance index had 33 companies as of August 2001 and IMKB maintained a score of over 100 points during the 2008 crisis by being less affected by momentous fluctuations, thus proving that it could bring confidence to investors.

Corporate governance principles that were primarily prepared for companies whose shares are publicly traded on the stock exchange also became a requirement for non-public companies. Therefore, many elements of corporate governance principles have been included in the New Turkish Commercial Code that will be effective on July 1, 2012 and which will bring many radical changes to the commercial life in terms of corporate governance. The goal of the New Turkish Commercial Code is to set up a substructure through which all financial companies in Turkey will be managed by a set of best practices.

The Effects on Company Performance

The basic goal of a company's management teams is to increase the value of the company and create additional value for its shareholders. It is essential to all stakeholders that increasing the value of the company should be done by adhering to corporate governance principles.

Corporate governance turned into a significant approach to managing companies in a more effective, productive and transparent way in recent years. The corporate scandals, such as Enron, WorldCom and Parmalat in 2001, provide significant lessons learned in order to understand the impact of corporate governance on the performance of the company.

It is obvious that the financial reports released by the companies mentioned above were so well-prepared that they did not send out any warnings about the operation of the system. Also, the independent auditing firms that had exclusive information on the back end did not act to inform the shareholders about the situation. As the crisis emerged, the auditing companies shut their doors because the confidence towards those institutions was lost. They went against the standards of corporate governance and auditing principles.

When these corporations were analyzed, it was clear that their Code of Conduct and corporate governance principles were defined in writing and the system was working well on paper, when in fact the system was not working correctly, the warning signs did not reach the proper authorities, and the scandals erupted as the situation was at the point of no-return. The important thing was not whether the rules were written, but whether they were being put into practice. After such developments, the confidence in both the auditing agencies and the corporations themselves increasingly became an issue.

The negative consequences of incomplete and unreliable information

can extend well beyond an individual company

or even stock market.

They can affect an entire economy.

Former CEO of PricewaterhouseCoopers, Samuel DiPiazza

It is rather significant to create the board of directors with independent individuals that are experts in the industry in order to objectively and accurately evaluate the management's

performance and correctly identify the company strategy. Boards of directors that are made up of individuals who are non-active members of the management team (family members who do not have any active position in company's management can serve on the board of directors) can better evaluate and critique the decisions made by the company's management and make suggestions. This way, a positive contribution can be made to improve the overall performance.

A good corporate governance would provide benefits such as high profitability, stability and survivability in a crisis, and as a result, an increase in the overall value of company and its profit share. Compliance with transparency principles would increase shareholder confidence and facilitate finding resources, suppliers, customers and employees.

According to a research study by Deutsche Bank in 2005, the performances of companies operating in England were compared to one other and the results revealed that companies with an independent board of directors performed better by 12.5% when compared to other companies.

The Role in Mediating Governance Disagreements

The conflict risk increases among shareholders and stakeholders in companies with no good corporate governance practices. While such problems may be favorable news for business journalists, understanding the roots of those problems may trigger bringing much more critical issues into light.

Corporate governance conflicts may emerge in different forms. Generally observed corporate governance conflicts may be summarized as follows:

The conflicts between company shareholders and board of directors: A shareholder or group of shareholders may claim that their rights were violated and the share values dropped.

Conflicts between the board of directors and general director/CEO: The board of directors hires the general director/CEO and gives him/her the authority to manage the company. The Board of Directors might question the actions of the CEO and may not be satisfied with his/her performance. On the other hand, the CEO may have some concerns about the decision making process of the board of directors. Both scenarios may negatively impact the business environment and the efficiency and value of the company may decrease.

Conflicts between the individual members of board of directors: This situation may include the chairman, the CEO/general director and other executive or non-executive members of the board.

Conflicts between the majority and the minority shareholders: The dominating partner who has the control may have the opportunity to sell the company’s resources according to his/her interests and damage the minority shareholder.

Conflicts between creditors and shareholders or the management team: While the bank or the crediting institutions share the damages in the event of bankruptcy, they are unable to receive any share of higher profits that the company may earn except the profit obtained in interest from accounts receivable. Once the credit is collected from an institution, shareholders and the management may choose high-risk investments that the concerning financial institution would not normally agree to.

To understand the conflicts arising from corporate governance practices, it would be helpful to illustrate the difference between the aforementioned example and other conflicts that take place in companies. For example, a conflict with a supplier regarding the conditions of a contract is not relative to corporate governance practices. The information regarding this contract is passed to the board of directors for information purposes, but the problem is solved by the management team using the company's specific policies and procedures. However, in the event that the management team conducts business against company policies, this issue may be a corporate governance conflict.

The likelihood of conflicts in companies that are managed well in accordance with corporate governance principles is low. However, good corporate governance practices do not mean that conflicts will never take place. The important thing to note is that the board of directors, investors and other stakeholders should have a healthy policy and procedure in place in order to solve the conflict in a timely and most cost-effective way. In particular, the board of directors should ensure that any conflict must be resolved quickly and effectively before the company's brand and reputation is damaged.

Today, traditional approaches (through litigations and regulatory authorities) lead to very expensive and delayed solutions in resolving the conflicts mentioned above. The judicial system operates in a weak and slow fashion in many countries. Therefore, alternative and flexible conflict resolution methods that eliminate the need to take the matter to court seem to be quickly embraced around the world. These mechanisms are generally operated discretely. Due to their benefits, these types of mediatory practices have been encouraged by many regulatory authorities around the world.

The Importance in the Development of Investment Environment

The globalization of financial markets created similar expectations of the international investor regardless of the country. Therefore, the compliance with generally accepted, good governance principles by companies in developing countries has a positive impact on the investor's confidence, which leads to an increase in the share values of the company and subsequently increases the trading volume on the stock exchange.

The results of a research study conducted by Dr. Melsa Ararat in 2005 revealed specific types of performances when corporate governance principles were implemented:

- The companies that protect the rights of minority shareholder, that are more transparent, that focus on a specific business field and where the ownership is widely distributed are more immune to financial crises. Whether or not the company is a holding company does not level decision making body of a company change the situation.
- The performances of companies where dominant partners increase their leverage over the share portion through voting privileges, pyramid structures and other similar ways are comparatively lower.
- The companies that are more transparent in their ownership structure and in the efforts of their board of directors are not only more profitable, but they also have a higher profit share.
- The companies that are more transparent are able to find more resources.

That the institutions are able to find more independent resources increases the investments, leads to economic growth and consequently leads to a decrease in unemployment.

The common practice of corporate governance principles increases the confidence of investors and the transfer of funds. Research shows that financial markets may attract more funds in countries where ownership and shareholder rights are protected. Furthermore, the cost of resources is much lower in such countries, because investors direct their investments into markets that they feel more comfortable with.

The practice of corporate governance principles ensures that the right resources are used for the right investments, affects labor policies positively, and leads managements to proper and efficient operations. Good practice of corporate governance reduces market risks.

Significant Mechanisms in Putting the Corporate Governance Principles into Practice

Today the effects of globalization significantly impact the way companies conduct business. Rapidly changing competition, as well as global crises, brings up new standards and practices about governance weaknesses.

Separating the Company Ownership and the Company Governance

Corporate governance is a set of principles and practices that strives to minimize the effects of problems that arise when company ownership is separated from the governing and controlling bodies.

In today's modern company structure (especially in stock exchange firms), company ownership is separate from the governing and controlling bodies. In other words, shareholders (the represented party) and governing and controlling bodies (the representing party - Board of Directors and the Management) are different groups. Through this kind of structuring, the represented party requests service from and gives power to the representing party. This relationship is also legally included in the commercial laws. This type of structure creates some internal challenges due to the differences between the interests of company owners and the managers. At this point, corporate governance practices try to reduce the risk of managers putting their own interests before those of company owners. The factors that may trigger a conflict of interest, which is the main reason for corporate governance problems to arise when the shareholders are separated from the management (Board of Directors and the Management), can be summarized as follows:

- The risk perceptions of company owners and managers are different. Company owners are more conservative about taking risks while the managers may be more willing to take higher risks, depending on their goals,
- While the majority of the managers have a fixed salary, company owners get their share from the profit that the company generates.
- Because company ownership is separate from the controlling body, the company owners may step outside of the decision-making process and allow the managers make the decision,
- Asymmetric information: When the representing party (i.e. the management) has more detailed information than the represented party (i.e. company owners). Generally a company's managers have much more information about the business of the company and their performances.

Board of Directors

The Board of directors is at the center of a company’s corporate governance practices. The Board of directors is the top-level decision making body of a company with management and representation authority. Today, the expectations of shareholders and other stakeholders on the board of directors illustrates that the board of directors have become the first contact points concerning the emerging issues.

In general, the board of directors is responsible for directing and supervising the company. This scope of general responsibility can be listed in details as follow:

- Identifying the company goals in the short and long term,
- Reviewing implemented strategies in order to achieve the corporate goals,
- Monitoring the strategic and financial performance of the company and taking corrective measures when necessary,
- Employing the CEO/general director, monitoring his performance and determining his salary and benefits,
- Ensuring that teams of board of directors, its committees and the company's top-management are compatible with one other and that they work in a constructive way to reach the corporate governance goals of the company,
- Creating and executing a communication policy with shareholders and other stakeholders,
- Creating and implementing the Code of Conduct,
- Ensuring that the company's practices comply with legal framework,

The Board of directors should not be included in a company’s daily routines; this duty must be performed by the company management. The Board of directors supervises the company to ensure that it is being managed according to company interests and the interest of its shareholders and other stakeholders, and in compliance with corporate governance practices, and to take corrective measures if necessary.

The following factors are essential to a board of directors when practicing corporate governance, positively affecting a company's performance and complying to legal framework:

- Criteria to become a member of the board of directors,
- The body of board of directors (executive and non executive membership of board of directors),
- The ratio of independent members to total members,
- Election of the board of directors and their orientation,
- Separation of the tasks of board of directors and CEO/general director,
- The role of chairman of board of directors,
- Scale (number of members) of board of directors and decision making mechanism,
- Matters related to the operation of board of directors and their meetings (corporate secretary, meeting notes, budget, meeting agendas, necessary documents, communication between the board and company management, etc.),
- Re-election of board of directors and their retirement,
- The salaries and benefits that are offered to board members,
- Evaluation of CEO/general director’s performance,
- The quantity, structure and the independent status of board of directors committees.

Executive and Non-Executive Membership of Board of Directors

In good corporate governance practices, the separation of executive and non executive” members on the board of directors is vital. An executive member of the board of directors is

responsible for both managing the company and maintaining their full-time career at the same time. While he/she fulfills his membership obligations of the board of directors, he should focus on strategically directing and monitoring the entire company. However, to what extent can an executive member remain independent and objective while he/she is directly responsible for other specific issues?

To minimize the possible controversy on this topic, non-executive members are appointed as members of the board for corporate governance practices. The goal is to ultimately provide the most objective and independent perspective in the decisions the board makes and the directions they take.

Non-Executive Members of Board of Directors are classified into two groups:

a) "Dependent members" who are not a part of the company's management structure but are related to the company (such as family members, product and service suppliers, professional members of the industry, and members that have worked in the company in previous years),
b) "Independent members" who are neither a part of the company's management team nor related to the company (See Independent membership of board of directors).

Independent Membership of Board of Directors

Creating the board of directors is vital for achieving good corporate governance practices, and the independence of select members is a critical element. In line with corporate governance principles, some members of the board are recommended to become independent members.

In generally accepted practices, the requirements for independent membership of the board of directors are determined. Some of the important pre-requisites include:

- A member may not be a significant shareholder,

- A member may not work in the company or any company with connections to the industry (including the significant customers and suppliers),

- A member may not have any relatives that are important shareholders or directors.

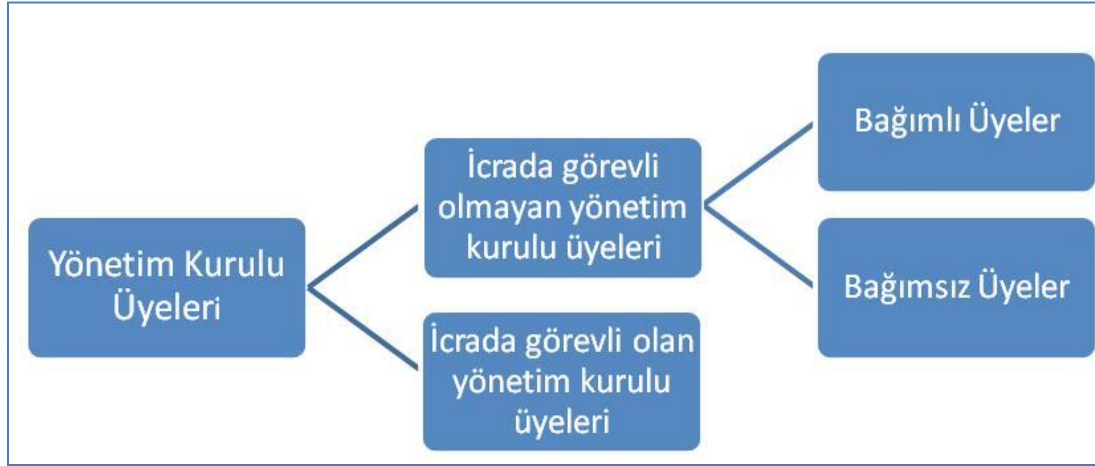
A member may not have any interest outside of the satisfaction from being a member of the board of directors The independent member is someone who is neither an executive nor has any relationship with the company (from outside), but someone who fits certain generally accepted qualification criteria and is a completely independent member. Non-executive members with connections to the company may also be partly independent compared to executive members. Looking at the practices, we see that complete independence is not guaranteed simply by meeting the requirements, but also by independent thoughts and actions.

The independent members of the Board of Directors can contribute to improving management quality only to the extent that they can exhibit intellectual independence.
Yılmaz Argüden

Independent members of the board of directors contribute to the direction and supervision of the company with their independent and objective perspectives, as well as with their extensive knowledge and experience. The paradox about the aforementioned executive members is

balanced with the specifications of independent members, allowing for a healthy operation of the decision making mechanism

The creation of the board of directors in terms of their independence and whether they are executive or non-executive members can be summed up as follows:



Separation of CEO/General Director Tasks from those of the Board of Directors Chairman

One of the good corporate governance practices is the separation of the Chairman of the Board from of the company CEO/general director. In practice, it has been concluded that a CEO/general director is unable to fulfill two different positions and there are potential risks if these roles are not separated from each other,. The company CEO/general director is responsible for overseeing the company and focusing on operations and administration. On the other hand, the Chairman of the Board works to achieve long-term goals, monitors the actions of the management team, and supervises them. If the executive and auditing authority is one and the same, it may prevent the company's long-term profitability and growth.

Board Of Directors Committees

Committees may be formed to enable the board of directors to focus on specific subjects. These committees play a significant role in structuring an active internal control system as an effective corporate governance mechanism. The audit committee, corporate management committee and management reward committee are good examples of such committees. For example, the audit committee assists the board of directors with managing risk and monitoring the internal control system and its compliance.

Experience shows that selecting committee members from the group of non-executive board members can help the committee operate objectively and increase its efficiency.

Risk Management

Risks can be defined as uncertainties for an organization on the path towards its determined goals. These uncertainties can be developments that negatively affect the work flow and order and may also have the potential for creating some opportunities. The risk management function creates an awareness for recognizing the opportunities and having directors and

shareholders take necessary action regarding current and potential risks and opportunities that may affect the business flow and order. Thus it helps them to take actions in order to minimize the organization's damage from such factors.

The organization may become more tolerant to challenges arising from complex processes, increased competition and financial difficulties by using an effective risk evaluation and management mechanism. There are organizations that operate with an awareness that a healthy and sustainable development can only take place through learning from crises and taking necessary measures, and such companies can obtain resources to create an effective risk management strategy.

In order to shape the tasks within the organization free from individuals, taking the best examples as a model to conduct business, discussing how to provide the maximum benefit from activities, documenting and thus strengthening the corporate structure are some of the top priorities of the risk management function. Therefore, the risk management system creates the basis for awareness and transparency within the organization and strengthens the concept of organization from the perspective of the investors and shareholders. This mechanism not only helps the board of directors carry out their supervisory tasks on execution but also assures the shareholders and other stakeholders that the organization is operating in accordance with legal regulations and corporate governance principles.

"Corporate Risk Management" Function Operates As Follows:

- Determines the financial, operational, strategic, legal, external and reputation risks in accordance with the goals of the organization.
- Determines the Key Risk Indicators (KRI) and monitors the risks by using tracking tools such as "Dashboard", "Scorecard", etc.
- Determines the limits against potential risks by taking the organizational goals into consideration.
- Prepares the action plans, distributes the responsibilities and establishes regular communication between individuals in charge in order to take action quickly in the event that the limits are exceeded.
- Informs the board of directors via periodic risk reports and risk committees.

In addition to the good establishment of the risk management process, this system should have a simple and flexible structure in order to be an effective management tool. A risk management unit should be established according to the company's size and needs. The goal of this unit under the board of directors is to observe the potential risks and develop the necessary policies in order to carry out risk management processes. The individuals that work in this unit should be competent in various fields such as accounting, finance, auditing, law and management. Effective risk management supports the development of an internal control mechanism and creates the basis for its functions. The internal control unit should also evaluate the efficiency of the risk management system while planning for its activities.

Internal Control System

An internal control system is considered a system because it aims to provide the effectiveness and the efficiency of operations, reliability of financial reporting system and compliance with legal regulations, all of which are designed to provide reasonable guarantee; it is directed by the board of directors, managers and employees, and included in all business processes.

The internal control system has three main goals and five components:

Goals:

- To increase the effectiveness and the efficiency of operations through a standard processes by using company resources at an optimum level,
- To establish a reliable financial reporting process,
- To ensure compliance with legal regulations.

Components:

- Control environment: includes the company's management function, internal control system and partners related to it, the attitudes, behaviors and mentality of the board of directors and managers.
- Risk evaluation: includes the process of defining the risk and its management based on the determined goals of the company.
- Control functions: includes identifying the risks that would prevent the company from reaching its goals, taking necessary precautions, and providing a process for implementing directions.
- Information systems that include activity processes regarding the financial reporting and communication: includes the accounting system elements that are related to the monitoring, recording, classifying and reporting of activities and operations in order to ensure the accuracy of company's assets, liability and equity.
- Monitoring the controls: it is the process of evaluating the design and control functions and taking necessary action as a result of such an evaluation when necessary.

Today, if an active internal control system is designed to support a sustainable development strategy, it might be seen as one of the most important factors that increases the value of company.

The Benefits of Effective Internal Controls for Companies

The design and implementation of an effective internal control system is not only important for minimizing the mistakes and malpractices in a company, but they are also vital for the sustainability and growth of the company. The benefits of a well designed and tested internal control system can be summarized under reliability, compliance with regulations, financial reporting and operational efficiency as follows:

Who do the controls affect and which goals do they meet ?	**What do effective controls provide?**
I. Increase of the reliability of the company	
Increase in confidence of company partners towards the system	• Establishment of a control and risk based structure • Assurance for minimum mistakes and abuse • Turning towards investment
Increase in confidence of stakeholders towards the company (dealers, customers, banks etc.)	• Assurance that comes with transparency • Increase in stakeholders' loyalty • Obtaining high reliability in the eye of auditing authority
Potential investors	• Higher premium distribution to company shares • Promoting the investment decision of foreign partners
II. Compliance with regulations	
Reducing the disruption/full stop risk of	• Providing continuous growth

business operations and the risk of facing possible litigations (customer, dealer and worker cases etc.)	• Preventing the losses resulting from failures or stops of operations • Reducing the litigation costs
Compliance with New Turkish Commercial Code and Basel II - The responsibilities of board of directors - Risk detection and management - Internal and external (independent) audit - Financial planning	• The most significant tool for board of directors to carry their responsibilities • Compliance with laws • Low risk of facing litigation and protection the reputation • High rating grading as a result of increased credibility and access to low interest loans thereof
Catalyst for the opportunities in public offerings/bonds in domestic and foreign capital markets	• Acceleration of public offering process as a results of effective planning and rapid information flow • Performing and completing independent audits effectively • High rating score for compliance with corporate governance principles and high stock values thereof
III. Accurate and well timed financial reporting	
Higher quality information in order to manage the business effectively and efficiently: - Strict control of costs as a precaution for decreased profitability as a result of the ending inflation - Globalization/increased competition	• Establishment of effective management reporting (financial analysis, financial planning and budgeting) • Quick and effective decision making capability • Profitability as a result of increased competition power
"Correct and real" financial tables where mistakes arising failures and abuse are minimized	• Compliance with legislation • Protection of reputation • Prevention of financial loses
Relations with external audit and auditors - Changes at accounting and audit standards	• Getting the worth return for company's money through control and risk based "independent audits that provide added value" • The ability to prepare financial tables by the organization
III. Operational efficiency	
Clarity in terms of roles and responsibilities among the management and the employees	• Increased efficiency and motivation as a result of effective work distribution • Reducing the dependence on critical employees
Operations	• Effective control of costs as a result of effective and efficient business processes • Use of sources at an optimum level (human sources, systems etc.) • Minimizing operational failures • Effective and continuous operational risk evaluation

The bottom line is that an effective internal control system contributes to the company in many ways and supports the company's sustainable development strategy.

Internal audit

An internal audit is an independent and objective assurance and consultation activity that was developed in order to improve the company's system and processes and to increase its value. An internal audit brings a systematic and disciplined approach in order to evaluate and improve the effectiveness of internal control and corporate governance processes. It helps the company reach its goals. It is an important mechanism for improving transparency and accountability within the company.

The generally accepted approach from the board of directors and the decision making mechanisms of the management is to provide the financial and non-financial information flow to the decision-making body, to review and evaluate the quality of this information (accuracy and integrity) and to take the decisions regarding the company's governance in accordance with the results of this evaluation. Transparency plays a significant role in the decision-

making mechanism. Therefore, at this point, the internal audit mechanism emerges as a major corporate governance tool for both the company partners and the board of directors.

Internal audits may cover many departments depending on the requests and needs of company partners. The topics such as operational efficiency, reliability of financial reporting, investigation and prevention of misuse, protection of assets and compliance with laws are the main subject matters for an internal audit's scope.

Financial Reporting and Independent Audit

Activity report

A company activity report might include many factors that a business journalist may use to report on corporate governance practices. The factors that may be news worthy from the corporate governance perspective are as follows:

- The message from the Board of Directors and CEO/general director,
- A general overview of the company and its share performance,
- Risk management,
- Financial tables and footnotes,
- Independent audit reports,
- Reports on the compliance with corporate governance principles,
- Corporate social responsibility.

Financial tables

A Google search of IFRS (International Financial Reporting Standards) will return a list of approximately 20 million results that were provided by accounting, audit and consulting firms and government institutions.

For the first time on January 1, 2005, the road map requiring that public companies in the European Union must prepare their financial tables in accordance with UFRS, the permission of the US Capital Market Board to allow the American companies to use UFRS in 2009 and requiring them to complete their transformation to UFRS by 2014, 2015 or 2016 depending on their size significantly increased the studies and discussion about UFRS.

The fact that over 100 countries have used the International Financial Reporting Standards, with this number likely to increase in the near future, made UFRS the only universal accounting language.

The sections where an activity report gives the most information about the company are the financial tables and their indispensable parts i.e. footnotes. Therefore, these sections may be vital for a business journalist in terms of potential news.

The elements that a business journalist should keep in mind when examining financial tables and footnotes are as follows:

- **Balance sheet:** The Company shows its financial position as of a specific date. These sheets provide information on the company’s net current capital, liquidity status, its funding sources and where the funding was used. It offers insight into the continuity of the company.
- **Profit/loss statement:** This shows the company’s net income, expenses and overall financial performance during a specific period. It presents vital information about the

growth, profit margin, and changes in expenses and income. A financial table provides its readers with the opportunity to evaluate the company's productivity and what portion of its profits came from operations and from non-operational elements.

- **Cash flow table:** This is considered the most important financial table. It compares the net profit to liquidity within a specific period and shows what portion of net profit turned into cash.
- **Equity change table:** This table shows the movement of equity between the beginning and end of a specific period. It is an important table in order to see the capital increase, profit distribution and the accumulated profit.
- **Footnotes:** These are indispensable parts of financial tables and present the details and analyses of accounting contents. The following factors in footnotes may be useful for a business journalist to create an analysis and report on the corporate governance practices:
-

□□□□□Current accounting policies (revenue recognition, depreciation, etc.)
□□□ Accounting policies that were selected but not followed, the justifications and their impact on financial tables
□□□□The changes in accounting policies compared to last year, the justifications of such changes and their impact on financial tables
□□□□ The details about accounting mistakes made during the previous year
□□□□ Transactions and balances regarding relevant companies: This part is particularly important in order to show the activities of the company with other related companies. Understanding these activities, their reasons, and whether they were performed fairly may provide a business journalist with some interesting information. The fact that manipulations in financial tables mostly arise from such activities with relevant companies shows the importance of this part in footnotes.
□□□ Reporting by departments (this part provides information about the company's main product range and geographic turnover, capital investments and depreciation)
□□□□Fixed assets, investments, capital, accumulated profits and other reserves
□□□□Benefits provided to top management
□□□ Profit per share (especially for stock exchange companies)

Independent audit
The development of the economy and the presence of many business players increases the need to obtain reliable information. As previously mentioned in the definition of corporate governance, companies have many partners (shareholders, board of directors, etc.) and internal and external stakeholders (suppliers, tax authorities, creditor financial institutions). The tool for creating confidence in the information used by all of these players during their decision-making processes has become the independent audit.

An important function of the independent audit is to ensure transparency and accountability, as well as reliability above all. Therefore, performing a quality audit within the generally accepted audit standards (recognized as "International Audit Standards") has become indispensable. Audits are guarantees of corporate governance principles and performing them poorly greatly increases the risks of maintaining trust in the market. Hence, the auditors may become the focus of many company scandals. In an effort to minimize risk, the common goal should be to ensure that all of the players in the market actors are confident that this critical function is being performed effectively.

Considering that the annual reports and the financial tables are prepared by the board of directors and the management, the audit report that is prepared after examining the financial tables is a part that business journalist must read carefully for independent thinking and objectivity.

"The element that defines the audit and the auditor is the independence. Independence first means the independence of the auditor from the audited company and his/her objectiveness from his/her perspective." New Turkish Commercial Code No. 6102, General Preamble.

Auditor's view

The auditor performs his audit in accordance with the accounting standards and regulations, which are the basis for preparing financial tables in accordance with audit standards. Preparation of financial tables is the responsibility of company management. The auditor does not participate in the preparation process; doing so may damage his/her independence.

If the independent auditor does not find any problems as a result of the audit, he expresses a positive opinion in his report. The appropriate changes shall be made in the independent audit report in the event that the auditor comes up with the following issues:

a) Highlighting the issues, if there are any, would not affect the auditor's opinion but would be considered necessary to share with the financial table customers,
b) In the event that there are issues that affect the opinion of the independent auditor, he/she would either present a valid opinion, avoid any opinion, or give a negative opinion.

The problems affecting the views of the independent auditor might indicate very significant corporate governance issues for the business journalist. If the effects of those problems impact the financial tables, the independent auditor may simply not be able to provide a positive opinion:
If the independent auditor is not able to perform his or her tasks (if there is a limitation in his work space), the following results may arise:

- In the event that an independent auditor is unable to present a positive opinion, but the effects of work space limitations are considered so important that it prevents him from providing a negative opinion or any opinion at all providing that such a condition would be considered rare, then he/she provides a conditional opinion. He/she provides the conditional opinion by including the expression "except issues such as …" in order to indicate the effects of those issues regarding the condition in question.
- In the event that the possible effects of work space limitations become so important that the auditor is unable to obtain adequate and independent audit evidence and therefore cannot provide an opinion, then he/she avoids presenting any opinion.

In the event that there is a disagreement between the management and the auditor concerning the compliance of certain accounting policies, their methods of implementation or the adequate explanation of financial tables, the following situations arise:

- In the event that the independent auditor concludes that he/she is unable to present a positive opinion, but considers the impact of such a disagreement with the management so important that it prevents him from presenting a negative opinion or any opinion at all providing that such a situation would be considered rare, then he/she presents a conditional opinion. He/she provides the conditional opinion by including the expression "except issues such as …" in order to indicate the effects of those issues regarding the condition in question.

- In the event that the auditor concludes that the impact of his/her disagreement with the management is important for the financial tables, if such incidents are common, and if he finds that providing a conditional opinion is insufficient to explain the misleading and missing structure of financial tables, then he/she present a negative opinion.

In all other situations where the independent auditor provides an opinion other than a positive one, he/she provides clear and understandable justifications for such a conclusion in the report, and if the impact of such an opinion on the tables can be calculated, they are provided as well. This kind of information can generally be presented in a separate paragraph before those that avoid presenting any opinion. Also, it should be noted in a footnote related to the financial tables that this information - if any - was discussed thoroughly. A journalist's understanding of the reason behind this opinion brings important matters onto an agenda that would require an investigation by corporate sources and other stakeholders.

Accounting Standards of New Turkish Commercial Code and Reforms in Independent audit

It has become a requirement for a company to prepare its financial tables in accordance with UFRS with complete transparency. It is also required to have an independent audit conducted in accordance with International Audit Standards in order to be listed on the Turkish stock exchange or in other developed markets, to attract private equity/venture capital and to take its place in highly competitive markets.

The New Turkish Commercial Code has radically integrated this universal change and structuring into its legal system. The regulated New Turkish Commercial Code requires that the accounting systems and financial reports of all corporations, whether these companies are public or not, shall be in compliance with Turkish Accounting Standards, which is the translation of IFRS; These financial reports shall be independently audited in accordance with Turkish Auditing Standards, the translation of International Audit Standards.

Beginning January 1, 2013 when the reporting-related article is put into effect, the Turkish accounting system will become fully compliant with IFRS and all prepared financial reports will be subject to an independent audit.

The Importance of Corporate Governance for Family-Owned Companies

As with many economies, family-owned companies carry out the majority of economic activities in Turkey as well. Even though family-owned companies are claimed to function as group companies that hold more than one company in their portfolio and are less affected by economic crises in the country, their existence is short lived due to problems that they experience during the transfer of the company from one generation to the next.

GÜNCEL KELEBEK

Gelinlerin kavgası Roman'ı bitiriyordu

BİR CANAVAR YARATMIŞIM

KARIN TOKLUĞUNA ÇALIŞTIK

Most family-owned companies disappear after the first generation and the number of family-owned companies that have survived and still exist during the third generation is rather low. According to a survey conducted in the US, the percentage of family-owned companies that disappear during the first generation is 80%, 16% after the second generation and 4% after the third one.

Considering the large share of family-owned companies in the economy of the country, it is evident that the

implementation of corporate governance in family-owned companies is a very crucial process for the entire economy. Corporate governance in family-owned companies is not a process that only the founding member or individuals of the family would implement, but rather it is a collective process. Therefore, there is a learning and change process and consequently, a cost of transfer and compliance.

Family-owned companies that go public and are traded in the stock exchange perform their corporate governance practices more quickly and efficiently. Most of the practices are considered implemented in order to comply with the regulations of regulatory and auditing bodies. Otherwise, there may be some ambitious companies willing to perform all the requirements of corporate governance and make a good amount of progress in this matter.

It is possible that family-owned companies may view a public offering as a phase of transformation to corporate governance while at the same time considering it as an alternative to low-cost funding for financing. However the decision to go public would provide the family-owned companies the opportunity to simultaneously fulfill both goals. Beginning to trade family-owned companies on the Istanbul Stock Exchange (IMKB) would increase the extent of institutionalization and good corporate governance practices in these companies while also enhancing their survival and providing a low cost finance source. Looking at the IMKB-30 index in which 15 of the largest companies that are traded in IMKB are family-owned, it can be concluded that being a family-owned company is not a problem in order to be traded in IMKB and, on the contrary, many large family-owned companies prefer that.

Family-Owned Companies and Corporate Governance

Due to its direct impact on the consistent sustainability of companies, the corporate governance principles have also become important for companies whose shares are not traded in the stock exchange. Even though the family-owned companies show a rapid growth performance during their first years due to their unique advantages, the need arises for more specific regulations in order to sustain the performance and complicated relationships as companies grow. In other words, the need to manage the growth emerges in order to sustain entrepreneurial success.

SÖYLEŞİ

Türkiye'nin en köklü aile şirketlerinden biri olan Ulusoy Holding, bu yıl kardeşler arasındaki anlaşmazlık sonrasında üçe bölündü. Saffet Ulusoy, Yılmaz Ulusoy ve Alican Ulusoy (Cemal Ulusoy'un oğlu), bölünme sonrasında tam bir sessizliğe büründüler. Kimse çıkıp bu süreç üzerinde konuşmadı. Yılmaz Ulusoy, bu sessizliği Ekonomist için bozdu ve çok şey anlatan şu cümle ile ayrılığı özetledi: "Ulusoy bölündü maalesef. Bütün uğraşlarıma rağmen kurumsallaşamadık, edebimizle ayrıldık."

"Kurumsallaşamadık edebimizle ayrıldık"

For example, as business develops and the company grows, more investments are made in different areas and the investor feels the need to work with professional managers. Thus, the investor who takes risks and the professional managers who make the decisions in exchange for a salary are developed. In short, the ownership and the management become separate from one another. Therefore the need for corporate governance principles arises in order to establish efficient operating systems. It should be kept in mind that a successful entrepreneur cannot have all the critical resources and personal qualities that are required to manage the growth.

Another important issue in family-owned companies is the growth of the family independent from the company's growth. Even though a family-owned company can illustrate satisfactory growth by meeting the financial expectations of the entrepreneur, it may not be able to meet the family's financial expectations in the subsequent generations. For this reason, the financial expectations of family members within the company should be clarified and a suitable performance level should be defined.

In addition to the shareholder status of the family alone, other interest groups will emerge within the family as a result of the family's expansion such as "family members as both shareholders and employees, employees but not shareholders and neither shareholder nor employees" whose interests will differ from those of each other. When the different interests of such groups are not governed well, the differences in opinions of family members regarding the company's operation and future may risk the continuity of the company. Corporate governance in family-owned companies aims to create a mechanism that enables the family members to discuss their individual expectations of the business and provide a balance, preventing the company's future to come to a deadlock because of internal reasons.

Another element that makes corporate governance practices in family-owned companies important is capital. The family has to communicate in a wide range of roles such as partnerships, corporate investors, financial bodies and individual investors in the event of insufficient family capital. The establishments of such partnerships make the corporate governance a requirement because one of the main goals of corporate governance is to protect and improve the rights of the owner that arise from being a shareholder.

Family-Company Relations

The most important reasons that family-owned companies fail after an unsuccessful transfer to subsequent generations and/or the death or disability of its founder(s) are the lack of a solid plan and the inability to think long-term; in other words, not placing the necessary importance on corporate governance. When we examine the "healthy" family-owned companies within that context, the common characteristics that we see are the commitment and confidence in each other, mutual appreciation, open communication, spending social time together, mental stability and the ability to challenge vital problems. The companies which do not/cannot carry such characteristics can be used as examples of family-owned companies that are not able to maintain their activities. Therefore, the characteristics of successful families should be examined as best practices and they should be incorporated into every example of family-owned companies.

Family Constitution

Forming the structure that supports communication among family members and provides the achievement of family goals ultimately improves the confidence among family members, but establishing the procedures to make it happen requires time and investment. One of the important tools to create and implement the family decision-making structure is a family constitution.

A family constitution clearly expresses the values, philosophies, rules and expectations that family members take part in as an employee or manager in regards to business. This constitution is a living document and its content must be flexible and regularly reviewed in order to meet the requirements of family members.

Fundamentally, this constitution is a set of policies that regulates how the business and the family interacts with each other. Generally it outlines the philosophy and the values of the family as their mission.

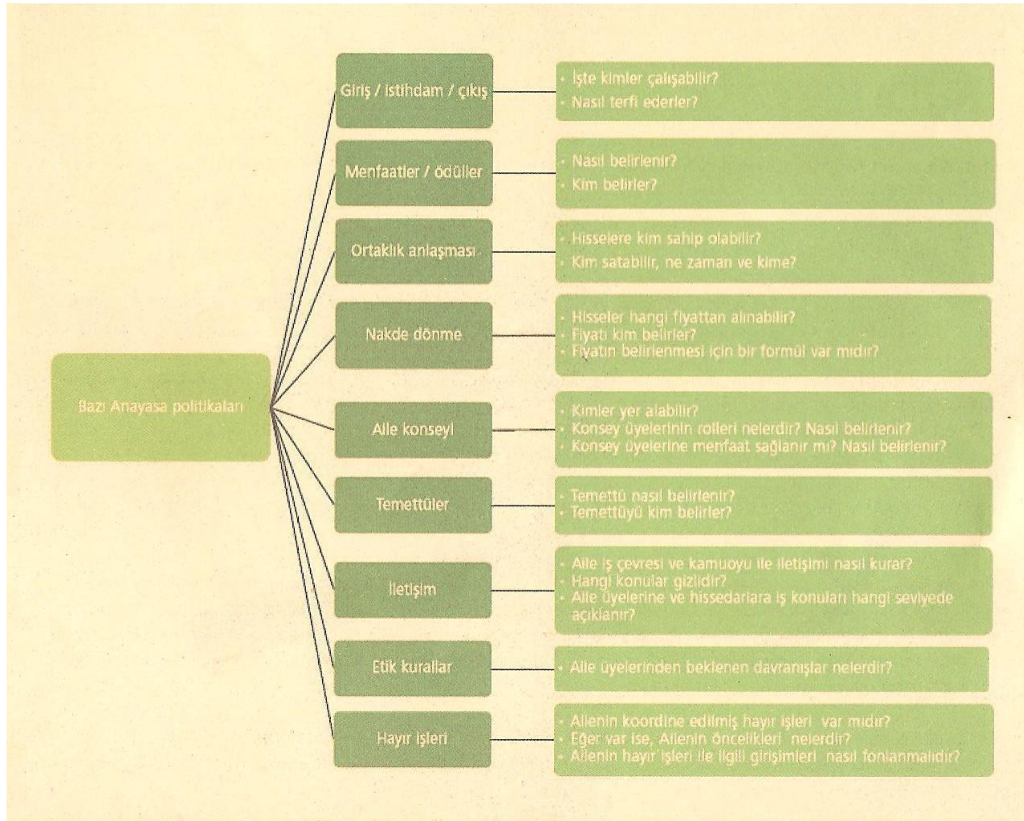
Family affects the business and vice versa. A family's business plan is different from other business plans. The factors affecting the business are, for example, the number of children, their capacities and the family history. The business factors affecting the family are the

criteria such as size, geography, growth and liquidity. While forming the family constitution, it is important to keep the family goals and business strategies aligned.

Succession Planning

Succession planning is an important and critical element for the sustainable performance of family-owned companies. It is possible to prevent a crisis using a proactive approach during the sensitive period of transfer to future generations through implementing a planned process with the help of corporate governance principles.

The families of company founder/founders begin to grow as the company grows. Their children grow up and reach the age to take over the company. At this stage, two different problems may arise. The first and most common situation is when the founder(s) do not favor the idea of transferring the authority due to various reasons. The main reasons for avoiding transfer can be summed up as the founder's lack of confidence in his children, the opinion that his/her children would not be successful for various reasons, and the thought that he/she can manage the company the best being the founder of the company.



The other problem experienced during succession planning is that the children may not wish to take over the business. They may have been disconnected from the business as they were not encouraged to focus on it, there may be areas of interest other than the family business, they may think that they would not be as successful under the watch of the founder and a fair structure would never take place within the family and the company.

New generation transfer plans should be planned and put into practice without any delay in order to protect the family assets and to ensure its survival for future generations. In the event

that such structuring does not take place, conflicts of interest would be inevitable. More importantly, such conflicts would be reflected to the management of the company. Each heir that does not wish to take part in the family-owned company would be seen as a risk factor that would cause the division of the company in proportion to their partnership share, the sale of company shares to individuals outside of the company or the division of the company within.

Succession planning for new generations is the key for the long-term survival of the company. Any delay in implementing this plan may lead the family members to make other decisions that would otherwise be taking place in the company.

Family Council

Gürsoy Kardeşler, dördüncü kuşağa k u r u m bırakacak

Mithat Selection markasının yaratıcısı hazır giyim firması Mithat Giyim'de son 20 yıl kurumsallaşma çabaları içinde geçti. 1937'de kurulan şirkette ikinci kuşak iş başında. İkinci kuşak bir sonrakileri yönetime hazırlıyor. Hedef, dördüncü kuşakla beraber tam profesyonelliği sağlamak.

İŞ VE AİLEYİ AYIRIN

KURUMSALLAŞMA ÇABALARI

İLK ADIM ANONİM ŞİRKET

DUYGUSALLIK ÖNDE

Family councils are forums that are used worldwide by many family-owned companies and they aim to increase the communication within the family. When family councils are efficiently put into practice, they can help overcome issues such as lack of communication and self expression among family members. The goal of the family council is to facilitate free and clear communication among family members. The family council may lay out the requirements for working in the company, prevent different perceptions by revealing power struggles, resentments and expectations, and use it as a platform to form the family constitution

Family Board

While the family council is based on open participation, a family board is a mechanism formed by shareholder family members and focused on family/business and shareholder/management concepts. In addition to shareholder family members taking on various executive duties, non-executive shareholder family members may also be included in a family board. The family board directs the company by keeping efficient communication channels with the family council, works to create a corporate system that is independent from individuals and prepares the foundation necessary for the transfer of the company to next generations.

Legislation and Regulations

Corporate Governance Principles and the Practices of Capital Markets Board

Bad governance is considered one of the most important reasons behind financial crises and company scandals and it confirms the significance of a good governance concept. Internationally, this subject was emphasized, considered just as important as financial performance, and sought after during the making of investment decisions.

The World Bank and Economic Cooperation and Development Organization (OECD) along with the Global Corporate Governance Forum (GCGF), formed by the participation of private sector representatives, are leaders in studies about creating a specific framework for corporate governance around the world. Additionally, many countries, including those with developed economies, reviewed or are in the process of reviewing their current regulations. Many

countries have been redefining and publishing their current regulations in accordance with corporate governance principles.

Parallel to many practices around the world, the Capital Markets Board created corporate governance principles. During this time, the regulations of many countries were examined, and in 1999 "OECD Corporate Governance Principles" generally accepted and recommended principles around the world, and our unique characteristics were taken into consideration.

CMB Corporate Governance Principles were presented to public companies in 2003 with a "implement or express" principle and they were updated in 2005 after following the latest developments. An advisory set of practices and the "Corporate Governance Compliance Statement" were added to annual activity reports and made a requirement in 2005. Following the New Turkish Commercial Code that is expected to come into effect in July 2012, as well as the development in the aftermath, the principles are expected to become a requirement.

CMB Corporate Governance Principles consists of four main chapters: shareholders, public disclosure and transparency, stakeholders and the board of directors.

The first chapter includes the rights of shareholders and their equal treatment. In this chapter, shareholders have the right to obtain and review information, to participate in and to vote for the board of directors, and to receive profit share. Their minority rights are also detailed. The equal treatment of shareholders, keeping good records of their free transfer and sale of shares are also addressed here.

The second chapter includes principles concerning public disclosure and transparency. In that regard, the principles to create a disclosure policy for shareholders as well as policies for public disclosure are specified, the information on periodic financial tables and reports was standardized and detailed by taking the current global developments and national circumstances into consideration.

The third chapter is related to stakeholders. Stakeholders are defined as any individual, institution or interest group who has any relationship with the activities that help the business to achieve the goals. Stakeholders concerning the company consist of stakeholders, shareholders employees, creditors, customers, suppliers, unions, various non-governmental organizations, the government and even potential investors. The principles about regulating the relationships between the company and the stakeholders are covered here.

The fourth chapter includes the principles concerning the function, position, responsibilities, activities and the formation of the board of directors, the financial rights given to the board of directors, and the committees and managers that were formed to assist the board of directors in their activities.

In the chapter on the board of directors, it is recommended that the board of directors should consist of two types of members: executive and non-executive. If a member of the board has an administrative duty such as executive director in the company, this member of the board is defined as an executive member. Likewise, a non-executive board member is defined as anyone who does not have an administrative duty in the company except for the board of directors' membership. The Chief Executive Officer is the individual who is the highest ranking responsible person as stated in the main establishment articles of the company. This person is called a CEO according to international management systems. If the company does

not have a Chief Executive Officer in its structure, the same duties are performed by the general director.

The Reforms of New Turkish Commercial Code in Terms of Corporate Governance

The New Turkish Commercial Code was legislated and announced by the Official Gazette No 27846 dated February 14, 2011. Thus the "Corporate Governance" that requires the management and audits of companies to be carried out according to the principles of accountability, fairness, transparency and responsibility gains more importance day by day and constitutes the basic pillars of Turkish Companies' book of the new Turkish Commercial Code.

According to Article No 1529 of the New Turkish Commercial Code, corporate governance principles in publicly-held companies, their basic explanations from the board of directors, and the grading procedures and the results that follow according to these principles shall be concluded by Capital Markets Board. It states "provided that the Capital Markets Board's affirmative opinion is obtained, other government agencies and institutions are allowed to make limited regulations regarding the corporate governance principles relevant to their business field."

Upon the legislation of the New Turkish Commercial Code, the importance of corporate governance practices are likely to increase and its areas of use are expected to spread to a wider range.

The amendments that the New Turkish Commercial Code brings are as follows:

The dominating thought in the New Turkish Commercial Code is that even though corporate governance is a set of foreseen rules for exchange companies, it is an assuring and a sustainable development codex for the investor, which should be applied especially in all businesses.

A preparing regulation for future, PricewaterhouseCoopers

Accounting Principles Are Being Revolutionized

International Financial Reporting, the common language for accounting practices around the world, is entering into Turkish Accounting Standards (TMS), the New Turkish Commercial Code and Turkish law. Even journal entries, the basic element of accounting in businesses will be prepared by TMS. This regulation is a revolution for accounting practices in Turkey.

Audits Are Being Abolished, Independent Auditing Is Coming

The inspection system is radically changing with the New Turkish Commercial Code. In the New Code, the auditors are a part of the corporation i.e. the authority has been abolished; the audits of all companies of any size are left to independent auditing firms or at least to one SMMM (Chamber of Certified Public Accountants) or/and YMM (Chamber of Sworn-in Certified Public Accountants) in small or mid-sized capital companies. Such audits are "independent audits" that are based on international standards. The scope of the audit is the entire accounting system, including the consolidated financial tables, annual reports and

inventory of company and group of companies. Financial tables and annual reports which are not audited by an auditor are considered unregulated. The general assembly cannot make a decision regarding the profit distribution based on unregulated financial tables, and the decisions that are taken shall be considered null and void. In situations where an auditor presents a negative opinion or avoids any opinion, the board of directors shall resign, general assembly shall elect a new board of directors by holding an extraordinary meeting, and the audit shall be performed again.

Shareholders Will Not Be Able to Borrow From Their Own Companies

In the New TCC, borrowing of company money by the shareholders is prohibited except the debt arising from the letter of application. This regulation aims to prevent the common, bad and risky practices in business life and thus to prevent the shareholders from using the company's budget in many other businesses and transactions, from making their personal spending using this channel, and even from withdrawing money from the company.

Single Incorporations and Limited Companies Can Be Established

One of the reforms that resulted from the New TCC is the establishment of a Joint Stock Corporation with one shareholder and a Limited Company with one partner. The current legislation requires that incorporations shall have at least five shareholders, and limited companies shall have at least two partners. According to New TCC, only the one shareholder or the one partner will be able to use all the authorities of the general board and make decisions.

Important Structural Changes to Board of Directors

- Parallel to the sole proprietorship concept, the board of directors can consist of one person,
- The board of directors will not be required to have shares of company stock,
- Legal entities will be able to serve as members of the board,
- At least one quarter of the board members is required to have completed a higher education,
- At least one member of the board of directors authorized to represent the company is required to be a Turkish citizen and have a residence in Turkey.
- Provided that necessary changes are made to the articles of association in order to provide representation for all interest groups, representation is given to certain share groups, shareholders that form certain share groups, and minorities,

Nontransferable Tasks and Powers Are Coming to Board of Directors

An important change in the current law is that New TCC renders the board of directors with certain tasks and powers that it cannot transfer to any body including the executives and general board. Some of these tasks and powers include:

a) Top management of the company,
b) Determining the management organization,
c) Basic concepts of business economics such as accounting, financial control (internal control and independent audit), risk detection and management and financial planning,
d) Assignment and deposal of any individuals with signature authority.
e) High level monitoring of individuals in management to determine whether they are operating in accordance with laws and internal regulations,

f) The review and presentation of the annual report and corporate governance statements to the general board.
g) Notifying the court in the event of running deep in debt,.

The members of the board of directors who do not carry out their responsibilities as required in accordance with New TCC may face legal and penal charges.

Board of Directors' Duty of Care Is Changing

New TCC brings the concept of a "cautious manager" as the new standard regarding the duty of caring for the board of directors instead of being a prudent businessman. From the concept of cautious manager, we should understand that the manager is competent to carry out his/her tasks and has the necessary skills and education to assess the relevant information, as well as to follow and supervise the practice and developments. According to new TCC, a member of board of directors will need to identify the risks arising from crises in the economy, changes in market conditions, and uncertainties and to take necessary measures. Otherwise he/she will be held responsible for the failure. The responsibility in this particular sense is more realistic according to the new law.

Professional Boards of Directors Are Moving Ahead

The changes that New TCC brings to the managerial responsibilities of capital companies are very important in terms of professionalism of boards of directors. New TCC regulates the board of directors by protecting the corporate governance rules in terms of functional and structural aspects and it took the professional management and transparency into consideration while doing so.

Companies communities is entering into legal system

With New TCC, enterprise systems and consolidation concepts are adopted by our commercial Code. The relations between main (parent company) and subsidiary partnerships (branch company) are determined based on the equilibrium of transparency, accountability and interest.

Concept of Risk Managing Company

New TCC requires the establishment of committees for early detection of risks in capital companies if necessary. At this point, significant amounts of responsibilities are assigned to independent auditors. This committee is also required for companies whose shares are publicly traded on the stock exchange.

Transfer of the Management is Becoming Explicit

The Board of Directors can transfer its management authority in part or in full to one or a few members of the board or to anyone outside of the board in accordance with an issued internal regulation as a result of a provision that is included in the articles of partnership.

General Board and Board of Directors Meeting to Be Held in Electronic Environment

One significant regulation is that the New Turkish Commercial Code enables the general board and board of directors meetings to be held in an electronic environment (on-line). Provided that it is regulated in the articles of partnership, the members will be able to participate in board of directors and general board meetings through audio and video transfer and voting. Regarding the representation, the concepts of agency representative, independent representative and corporate representative are included in the code. The company has the ability to recommend anybody in relation with itself to shareholders as a representative, but it also has to recommend another person that is completely independent from the company and objective.

Requirement for an Internet Site

The New TCC requires that capital companies establish an Internet site and dedicate a portion of it for information society service. This site will be supplied with all additions, financial tables and audit reports, as well as all reports and information that might interest the players of capital markets. Otherwise legal and penal sanctions will be imposed.

Democracy of Shareholding: Strengthening the Minority Rights

Shareholding and minority rights, as well as new litigation rights of the shareholder, enter into the New TCC.

Significant Reforms in Company Merger, Division, Type Change

Merging, dividing and changing the type of company are regulated in detail in the new code. Along with new articles, such structural regulations not only enable those changes to be implemented in a reliable, transparent and simple operation chain, but they also protect the creditor and other beneficiaries and stakeholders. Furthermore, the transfer of workers to a transferred company, as well their rights and responsibilities, are regulated in detail.

Legal and Penal Liabilities Increase and Become More Specific

In the event that shareholders and the member of the board do not fulfill the responsibilities arising from the code, they will face legal and penal charges. Most of penal liabilities are new. There are important judicial fines in the New TCC that will become permanent on the records of individuals in the event of conviction.

Corporate Governance and Business Journalism

The Importance of Corporate Governance for Business Journalists

Economic crises, company scandals and sustainability problems in family-owned companies today show that business journalists must fully understand the operations of a modern company or an institution model in order to understand the operation of the business within the framework of corporate governance.

It is necessary for a business journalist to comprehend how many various problems complete each other under the roof of corporate governance and how they affect the company’s performance and to relay it to readers in terms of the effectiveness of the study and news. Not establishing this understanding by business journalists would lead to an incomplete story vs. the entire picture and its essence.

Using policies and procedures to manage a company effectively and to provide sustainable profit is critical. The public’s understanding of this critical role requires that a business

journalist must have the ability to report efficiently and create news regarding the corporate governance problems. Many global and Turkish economic crises and company scandals during recent years arose from corporate governance implementation failures and negatively affected the whole community. At this point, especially investment-oriented stakeholders need to understand and be informed about the factors behind the decision making process of companies and their results. The news and reports of a business journalist play a critical role in fulfilling this need.

As a result, once business journalists create their news while comprehending the corporate governance practices, they will be able to trace the problems, ask the right questions by extracting the critical information and present complex topics to the public, along with their original causes, in an understandable manner.

The Role of the Business Journalist in the Implementation of Corporate Governance Practices

As a result of the confidence the business journalist provides to the public, their research and analyses affect the business and academic world, the government and other stakeholders. Journalists search for the topics that give a warning signal using their skill of anticipation and disclose the problems, abuse of power and corruption in their news and reports. Whenever there is a lack of legislation and insufficient legal system, the studies that business journalists put together function like a strong antidote. Therefore, the potential of the business journalists and the active media platform are of vital importance for the development of good corporate governance practices.

Business media has a significant power in explaining to society the good corporate governance practices by featuring good and bad examples of such practices in their news. Business media can help the development of good corporate governance practices by creating public awareness about basic corporate governance problems. Subsequently, business media can contribute to the improvement of the private sector and the sustainability of companies. From this perspective, the business media is one of the main players in economic development.

The studies of business journalists are crucial to helping investors, government and other stakeholders understand bad corporate governance practices in companies and taking the necessary precautions in order to prevent potential company scandals and bankruptcies. The developments today indicate that shareholders have an increasing need for information about a company's detailed corporate governance policies. Global economic crises in 2007 and 2008, misleading accounting practices, weak risk management practices, and problems regarding the accountability of board of directors and the decisions of the management forced investors to seek more transparency in the companies in which they wish to invest. On the other hand, more family-owned companies are in need of capital in order to survive, grow and attract investors. All of these latest developments significantly show that business journalism has a trigger impact on the economy and investments with its studies and news regarding the corporate governance practices.

Companies have a large shareholder group. The media, one of the common communication tools of this large shareholder group, assumes a significant responsibility to make the world more sustainable. Working only for profit has become obsolete today and the media has the power and responsibility to trace the irresponsible management of a company and warning the regulators when necessary.

Corporate Governance at the Focus of News

It is true that many management problems today arise from a lack of corporate governance practices. Therefore, a major contribution to the economy would be if the business journalists understand the corporate governance philosophy and reflect this philosophy in their news, comments and evaluations. Such an approach would help business journalists to track corporate governance problems efficiently, extract critical information by asking the right questions, evaluate completely, and share this information with the public. In other words, a business journalist places the corporate governance concept into the heart of news, enriches his/her evaluations and comments in the content and provides the maximum contribution by informing the public about companies with good and bad governance practices.

In this chapter, the elements that business journalists might take into consideration in their news, comments and evaluations about companies from a corporate governance perspective are summarized.

Do the corporate interests conflict with those of the members of the board of directors?

- Are there any conflicts of interest among board of directors members which would prevent the effective representation of shareholders?
- Is there any member on the board of directors that represents the government or a union?
- Does a large shareholder control the board of directors?

Are the salaries and benefits of the board of directors fair enough to enable them to act in accordance with the interest of the relevant company or corporation?

- Do members of the board of directors receive sufficient compensation or attendance fees that would prevent shareholders to move responsibly according to their interests?
- Are there any committees that determine the compensations of the members of the board and is this information available to the public?
- How do reward systems and share option plans work?

What is the shareholding structure of the board of directors?

- What percentage of shares goes to the members of the board of directors?
- Are there any members representing the minority shareholders?

Is the chairman of the board of directors independent?

- Is the role of the Chairman of Board of Directors and the role of CEO/general director separate from one other?
- Does the Chairman of Board of Directors have a strong character to defend his opinions against the CEO/general director?

Is the Board of Directors independent?

- What is the number of executive and non-executive members on the board of directors?
- Are there any fully independent members other than non-executive ones and those who have no connection with the company except being a member of the board of directors?

Is there an executive board? Does it organize regular meetings and provide reports to the board of directors following those meetings?

Are there any committees of the board of directors, specified below, in accordance with the position and the needs of the company?

- Audit committee,

- Risk Management Committee,
- Management Rewarding Committee,
- Management Board Candidacy Committee,
- Social Responsibility Committee,
- Other Specific Committees for the needs of the organization.

Are the performances of the board of directors, committees and the management evaluated periodically?

- Are there restrictions for voting?
- Can all general board members participate in general board meetings?
- Are there any difficulties, such as the holding of meetings by the General Board on unavailable dates and at unclear and far away places?
- Are there any legal limitations, such as requiring the notarization of votes that are provided by proxy or restricting the mailing of votes by proxy?
- Are members of the board able to receive complete information and documents regarding the company on time and on a regular basis ?
- Do members of the board of directors/the senior management announce their financial income obtained from business operations that directly affect their own interest using official communication channels?
- Does the organization have written official policies related to all of its shareholders and are they accessible?
- Is there sufficient information provided to investors to enable them to make investment decisions?
- Is there sufficient information provided concerning actual problems and risks?
- Are main threats that would affect the company's performance and/or prevent it from reaching its financial, operational and compliance goals evaluated and reported?
- Are the developments that may create risks and offer opportunities for the corporate activities monitored?
- Are such risks and opportunities efficiently controlled and checked using risk management tools?

Are business plans (for example 3-year plans) of the company prepared? Do those plans include at least the articles specified below?

- Corporate goals, main intent and basic values included in the organization's objective,
- Business reviews, including product, market and marketing analyses,
- Human resources,
- Risk factors that may affect the business performance,
- Activity plan-key success factors, short/long term goals, milestones and decision points.

Is the current debt of the company announced in general board meetings?
Is the annual activity report published each year and is it on the Internet site?
Does the activity report include at least the issues specified below?

- An overview of the company and evaluation of company activities,
- Messages from the board of directors and CEO/general director,
- Details of executive committees (top management) and the board of supervisors,
- Share performance,

- Results of the company's financial and operational activity, the analyses and evaluation of these results, realization level of planned activities, corporate position vs. set strategic goals,
- Corporate strategy and goals,
- Corporate social responsibility and sustainability policies and relevant activities,
- Policies regarding the members of the board of directors and key managers (compensation and other benefits),
- Details about board members including their qualifications, the selection process, and other company commitments,
- Risk factors,
- Audited financial tables and audit report with footnotes.

Does Corporate Governance Conformity Statement take place in annual activity report?

Do the issues take place in the statement in minimum level?

- Names and roles of managers that worked during the year,
- Frequency of board of directors meetings,
- Roles and responsibilities of board of directors,
- Subject titles within the responsibility of board of directors,
- Financial reports, such as approved budgets by the board of directors, results compared to the budget and regularly revised projections as a reference,
- The responsibilities of committees under the board of directors,
- The responsibilities of managers regarding preparing financial tables,
- Statements of manager opinions about important issues concerning the organization,
- Election of managers and re-election requirements,
- Distribution of tasks for the board of directors and CEO/general director,
- The risks that the company is exposed to and the management of such risks,
- The reasons why corporate governance principles are not applied, if any,
- Attendance records of mangers to meetings,
- Training program for managers,
- Openness of the manager to independent recommendations,
- Relations with stakeholders.

Are the independently reviewed financial reports of the organization prepared in a manner that satisfies all stakeholders?

- What are the accounting standards (such as International Financial Reporting Standards, domestic standards, etc.) used in preparing the financial tables?
- Are the financial reports provided to shareholders in an accessible and timely manner?
- Do the reports present the detailed justifications of changes in the accounting policies?
- Are the associated company operations reported in detail?
- Are the financial reports audited by a credited audit firm?
- Historically, has the associated audit firm working with the company been carrying out such tasks?

How are the relationships between the auditor and the board of directors or the management evaluated and how is the auditor's rotation determined?

- Are the financial and non-financial reports of the company sufficient for investors to make decisions?
- Do the reports examine the true problems of the company? Is the presentation more the main reason for the issues or is it rhetorical?
- Are the corporate statements provided on time, accurately and transparently?

Declarations
Ethical Principles of Business Journalists Association

The main goal of journalism is to provide the public with information that is transparent, accurate, relevant, on time and complete.

The journalist, in fact, performs a social and public duty by acting as an information service to the public.

Therefore, journalists should stick to humane values and avoid being a warmonger, supporting the weapons race, praising violence, racism and discrimination, supporting repressive regimes and similar activities.

A true journalist supports universal values such as peace, democracy, human rights and social development.

The Business Journalist Association has adopted these values in its establishment and is determined to protect them. In addition, work and professional principles were also presented in studies that followed. The summary of those conducted studies is as follows:

Members of EGD check the news from its parties. It respects the right to reply and correct and puts efforts towards the exercise of these rights.

EGD members support their colleagues when they are subject to cruel treatment, unlawful conduct, unjust custody and trials. They put forth efforts in order to exhibit a collective behavior in such matters.

EGD members cannot use their jobs as a tool for defamation.

EGD members, even if not prohibited by law, cannot use the economic and financial information for his/her interest or for the interest of his/her relatives before it is published.

EGD members warn the public companies to be diligent and fair in their press release meetings.

EGD members are required to inform relevant parties when they or their first degree relatives have a position in speculative investment organizations. When they present analysis or comments about these organizations, it would be appropriate to state that they hold a position in them.

If non-journalists write in the press media, EGD members expect them to identify themselves and recommend the application of this rule below:

The actual titles and jobs of individuals that continuously or occasionally operate in a press media within journalism areas should be stated properly and the public should be informed of their position. This note may be displayed with an asterisk next to their names.

EGD members cannot accept any gifts from any public or private sector organizations, their officials and organizations that provide public relations for such organizations to the extent that such a gift would affect the objectivity of the news and the analyses of the journalist.

EGD members cannot publish unwanted news unless public interest requires otherwise. They pay great attention to the confidentiality of news sources and professional secrets.

EGD members cannot conduct business on their behalf, on behalf of their organizations, third persons or parties by using its identity, function and power.

In the event that EGD members are asked for news with commercial or advertisement characteristics, they cannot provide such news unless it is guaranteed that this news is specified as "commercials" or "advertisements".

EGD members cannot falsify the truth by any means, including imposing their own or their institution’s view in the news. They cannot use any unpleasant, rude and derogatory expressions in their news and comments that target individuals and institutions.

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CORPORATE GOVERNANCE HANDBOOK
OF BUSINESS JOURNALISM

It can be said that many issues with governance today stem from the absence of corporate governance practices. Therefore, the understanding of the corporate governance philosophy by business journalists in their news and reports, comments and evaluations are likely to contribute to the institutions and the economy in general. "Corporate Governance Handbook for Business Journalism" is prepared to assist business journalists with better understanding the corporate governance issues shedding light on the critical findings by asking the right questions, and sharing these findings with the general public.

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