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Of DOW JONES NEWSWIRES

ISTANBUL (Dow Jones)--Guler Sabanci is riding the wave of foreign interest in Turkey. In the past year, the 52-year old chief executive of one of Turkey's largest conglomerates has struck one deal after another with investors eager to cash in on Turkey's fast growing economy.

In the past 12 months, Sabanci has inked agreements with the likes of Citigroup (C), Austria's Verbund (VER.VI) and the U.K.'s Aviva PLC (AV.LN), raising more than $3.5 billion for her company.

But those deals don't just signal a new willingness by foreigners to invest in Turkey. They also reflect a transformation in the way Turkish companies do business, gradually becoming more professional, better managed and more transparent.

"Tighter audit standards introduced in 2003 and the introduction of international financial reporting standards as the mandatory reporting standard in 2005 transformed the quality of financial reporting in Turkey," Standard & Poor's said in a study published earlier this year.

There's also evidence that Turkish companies are becoming more forward-looking in their approach. Two years ago, for example, as foreign investment in Turkey began picking up following the 2001 financial crisis, Sabanci Holding (SAHOL.IS) developed its first ever long-term strategic business plan, something that "has marked the beginning of strategic governance for us," Sabanci said. "This means a different management approach in a new world and it's one of the milestones for responsible, transparent, innovative and creative management."

Such initiatives reflect a virtuous cycle taking hold in Turkey's corporate sector: As more foreign investment enters the country, more Turkish companies are beginning to pay attention to corporate governance and professional management. And that in turn is attracting more foreign investment.

Not so long ago, and despite its huge growth potential, Turkey struggled to attract foreign direct investment. Between 1980 and 2003, FDI in Turkey amounted to only $19 billion. Even as recently as 2004, the country received only $2.88 billion in FDI, according to Turkey's central bank.

But over the past two years, the country has seen a remarkable upsurge in FDI, taking in $ 9.80 billion in 2005 and a record $ 20.1 billion in 2006. And so far this year, Turkey has managed to attract another $11 billion.

That foreign investment - and the greater role played by foreign investors in steering Turkish companies - has been a major factor in reinforcing the move towards better corporate governance.

"After the 2001 financial crisis, and the privatization trend of the last decade, many major Turkish corporates have materially improved their corporate governance practices," said Bulent Akgul, director at Fitch Ratings. "That has been driven primarily by their expansion and integration into the international capital markets."

Turkish Airlines, or THY (THYAO.IS), for example, now has on its board a representative from Templeton Asset Management, which has invested some $4 billion in Turkey, making it one of the leading emerging market funds investing there. Mobile telephone giant Turkcell Iletisim Hizmetleri AS (TKC) is another. Two years ago it appointed two foreigners to its board of directors, specifically as the heads of its auditing and corporate governance committees.

Conglomerates Sharpen Corporate Focus

But foreign influence is only one factor in the transformation of corporate Turkey. Part and parcel of the change is a sharper corporate focus.

For the past two years the giant Dogan Group, for example, has been restructuring to focus on just two key sectors - media and energy, which now account for 95% of group revenue - while exiting from its foray into financial services.

In 2005, it sold Disbank to Belgium's Fortis group (FORB.BT) for EUR880 million and has since divested part of its stake in an insurance subsidiary. The company says it is also ready to sell off its non-core businesses in areas like vacation homes and steel wire production.

Likewise, Koc is also slimming down. Once a family-owned company, it's now a sprawling $7 billion empire spanning every business activity from tourism to tomato paste.

In June, Chief Executive Officer Bulent Bulgurlu told journalists that Koc Holding will now focus on just four sectors - consumer durables, automotive, energy and finance - under its new strategic plan. The company recently appointed U.S. investment bank JP Morgan to help it reduce its stake in one of its best-known subsidiaries, retail giant Migros Turk T.A.S. (MIGR.IS).

The changing corporate scene in Turkey also means that smaller companies can borrow more easily or stage initial public offerings, which provides an incentive to further transform themselves.

"IPOs or bond issuance in the local or international markets provide additional impetus to improving corporate governance practices," said Akgul. "This is because listed companies need to comply with listing requirements, which will increase the transparency of their businesses."

According to a report published by Fitch Ratings in July, between 2005 and 2007, four small to mid-size Turkish companies issued bonds in the international markets, raising about EUR569 million compared with none previously. Before 2004, only a few blue-chip companies, like Petrol Ofisi and Vestel, had issued international bonds. "We can see that it has increased significantly and smaller firms have started testing the waters," said Akgul.

Meanwhile, the government has also been pressing to improve corporate governance and transparency. Before July's general elections, the government had proposed changes to Turkey's commercial code - something the business community has long lobbied for.

The legislation, now under parliamentary review, is expected to be passed either later this year or early next year. The goal of the changes is to bring about further improvements in transparency in disclosure, in the ownership structure of companies and in how groups comprising multiple companies are structured.

Recently, Turkey's Capital Markets Board has also taken steps to improve transparency in the stock market. Since 2003, the CMB has taken the initiative at the national level through the development of legislation and a regulatory framework. That year, the CMB introduced corporate governance principles, which can be used primarily by listed companies as well as by joint stock companies in both the private and public sector, and the board amended these principles in 2005.

The CMB also asked companies to include a report on compliance with corporate governance principles in their annual reports as a separate section. Financial reporting under the International Financial Reporting Standards, or CMB's IFRS-based framework, has been a requirement since the beginning of 2005 for all publicly listed companies.

To be sure, despite the visible progress that's been achieved in transparency, particularly in relation to information disclosure and ownership structures, there are still problems.

"Challenges remain with regard to board quality and related party transactions due to complex ownership structures," said Fitch Ratings.

Experts also argue that appointing professionals from outside to a company's board doesn't necessarily guarantee their independence.

"Having professionals from outside leads to a relative improvement in the company's corporate governance but families still dominate decision making on company boards in Turkey," said Melsa Ararat, a professor of management studies at Sabanci University and director of the Corporate Governance Forum of Turkey. Ararat noted that CEOs in Turkey don't have job security because "there's no developed market for managers."

Overall, however, the transformation of Turkish companies continues to draw applause from foreign investors.

"If we look at two major groups - Koc and Sabanci - although they are clearly family conglomerates, they have been quite forward-looking and open-minded to new management concepts, joint ventures and innovation while at the same time keep the minority investors in mind," said Mark Mobius, managing director of the emerging-markets equity team at money-manager Templeton Asset Management Ltd.

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