

**Board Composition and Control Mechanisms in ISE50:  
Form Outscores Substance**

Draft

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### Abstract

We analyze corporate governance related disclosures of Istanbul Stock Exchange-50 companies to assess the implementation of three mechanisms of board composition and control, namely the presence of independent board members, board compensation and board committees for audit and corporate governance and examine results across ownership and control categories. We find that companies make an effort to implement the recently introduced regulations but face difficulties to interpret the spirit of the principles. We conclude that despite the compliance efforts, the governance practices of ISE50, are still far from resolving the conflicts of interests inherent in some ownership categories.

Countries are in a process of developing their own codes through their regulatory authorities to improve their corporate governance framework. A growing number of both scholarly and professional studies focus on good governance principles and mechanisms. While the findings and suggestions of these studies are conflicting in nature, there seems to be a consensus on the importance of contextual factors. Studies suggest that corporate governance practices vary widely across companies, influencing the incentives for corporations in adopting different governance mechanisms (La Porta et.al, 1999, Klapper and Love, 2004). Considering the governance mechanisms of the structural context and the relevant conflicts of interests are essential in developing and implementing corporate governance principles.

Corporate governance principles have originated from developed markets which are characterized by diffuse ownership that leads to separation of ownership and control. In this type of structure, the conflict of interest is between the owners and managers as defined in the classical principal-agent conflict (Jensen and Meckling 1976, Fama and Jensen 1983), where governance can be improved by imposing disciplinary measures to align the interests of managers with the owners. However, in developing markets, principal-agent conflict is of less relevance. Developing markets are characterized by high concentration of ownership and predominance of family control and management (Claessens et al. 2000), which has been explained by weak institutional and legal systems and low investor protection (La Porta et al. 1999). Large shareholdings or concentrated ownership structure is used as a mechanism of control. In this type of ownership structure, expropriation of minority investors, managers and employees become the potential problems (Schleifer and Vishny, 1997). In emerging markets firm level governance provisions matter more in establishing credible investor protection. Firm level governance can be improved by increasing disclosure, selecting well-functioning and independent boards and imposing disciplinary mechanisms to prevent controlling shareholders (and their managers) from expropriation of minority shareholders.

Similar to other emerging markets, Turkish companies also have highly concentrated ownership structures and most of them are controlled by families. Management teams tend to be either composed of or closely controlled by the family, which also dominate the board of directors (Yurtoğlu, 2003). Within this context, the leading problem is monitoring the controlling owners and related conflicts of interests.

Corporate Governance Principles (CGP) of the OECD and the regulatory authority in Turkey, the Capital Market Board (CMB) introduce several mechanisms of control for the benefit of shareholders. CMB has introduced its corporate governance principles initially in 2003 and updated it in 2005. ISE listed companies have been making efforts to align their practices

with CGP since then. Our objective is to investigate the perceptions and implementation of some of internal control mechanisms. This investigation allows us to assess the relevance/importance of the proposed mechanisms within the framework of potential conflicts of interest for an emerging market as Turkey.

We describe our methodology in the section, categorize ISE-50 companies according to their ownership and ultimate control. In the following section, we assess their corporate governance disclosure in terms the three mechanisms of board composition and control.

## **Methodology**

Studies on corporate governance mostly utilize ratings/rankings to measure corporate-governance related variables. The effectiveness of such rankings in reflecting the actual governance structure of a firm has been questioned. Fernandez (2007) finds, in his study of Euronext Lisbon companies arket, by checking for the existence of certain features in annual reports, apparently good governance. However, checking for the existence of attributes in annual reports may add up to high corporate governance score, but looking into the substance of these attributes may reveal a different story. Petra (2006) finds that the three largest US corporate failures of the early 2000s would have satisfied on paper, some of the subsequently introduced corporate governance reforms. Nunes (2007) claims, in his study of independent directors on the Euronext Lisbon company boards, that “simply checking for the existence of certain features in annual reports is not enough”. He finds “apparently good governance”, but on “digging deeper”, the results turn out to be less satisfying. Petra recommends that “management and shareholders alike need to focus on the substance of the reforms and not merely the form in order to make meaningful improvements to corporate governance” (Petra 2006)

In this study, we critically analyze the contents corporate governance related disclosures for the implementation of three mechanisms of control recommended by the CMB in their Corporate Governance Principles (CGP). The sample consists of the companies which were included in the Istanbul Stock Exchange 50 (ISE 50) index as of January 2007. Data sources are annual reports, corporate governance compliance reports (CGCR) and minutes of their shareholders’ meetings, as published on the company websites. The results of the content analysis are then compared across company categories according to the nature of their control structure.

We start with a review and categorization of the ownership structure of the ISE50 companies and discuss the implications of different control mechanisms for each of these groups. Then we assess, how the three mechanisms of control, namely, the existence of independent board members, the compensation of executive and non-executive board members and the formation of board committees, have been perceived,implemented and disclosed by the ISE50 companies. Finally, the substance and relevance of these mechanisms of corporate control are questioned and discussed.

Potential conflicts of interests and the monitoring needs for good governance are dependent on the ownership structure and control. Therefore, we start with a review and categorization of the ownership structure of ISE50 companies and discuss the implications of different control mechanisms for each of these groups. Then, considering the characteristics of our context, we identify three mechanisms; namely existence of independent board members, the compensation of board members (and management) and the functioning of board committees.

Using corporate governance related documents mentioned above, we assess how these mechanisms have been perceived, implemented and disclosed by the ISE-50 companies.

### **Ownership Structure and Control:**

ISE listed companies are required to disclose their shareholder structure in their annual reports. Based on this disclosure, we categorize ISE50 companies into the following groups:

1. Domestic Individual Control: In 24 companies the majority of the shares are held by domestic blockholders and less than 50% of their shares in free float. A further three companies have a large majority of their shares in free float, but their articles of association reveals that cash flow rights are not equal to control rights and through privileged shares, blockholders control the board even though a small percentage of shares. Thus, the number of ISE50 companies controlled by domestic individual blockholders increases to 27.
2. Domestic Institutional (non-corporate) Control: A further 8 companies have a minority of their shares in free float and are controlled by blockholders which are in the form of pension funds or foundations. İsbank and Oyak group companies form the majority of this group.
3. Foreign Corporate Control: 3 companies have controlling blockholders which are foreign corporations.
4. Joint Control (by foreign and domestic shareholders): 8 companies have joint control by domestic and foreign blockholders through equal share ownership and privileges in electing an equal number of board director.
5. State Controlled: 3 companies are owned and controlled by the state.

One company cannot be classified into any of the groups since all of its shares seem to be in freefloat according to Takasbank and the company does not disclose any information relating to its control structure in its annual report and website.

None of the ISE50 companies display dispersed ownership. Average share of the dispersed owners is 38.7% in ISE50 companies, while the median is 34%. The remaining 66 % is owned by the blockholder(s) who control the firm. Shareholders actively control the board and manage their companies. The question that needs to be asked is how do regulations aimed at resolving the principal agent conflicts of dispersed ownership apply to markets like the ISE? How are these regulations perceived and implemented by companies where blockholders are firmly in control?

### **Who ultimately owns ISE50 companies?**

The CMB has required ISE-listed companies to disclose in Section II.11 of the Corporate Governance Compliance Report, “the information about the company’s ultimate controlling individual shareholder/shareholders determined after the eliminating the effects of indirect and mutual ownership are disclosed to the public or not, reasons for not disclosing such information”. In other words, reflecting the “comply or explain” principle, disclose your controlling individual shareholders or explain why you don’t disclose.

The CMB requirement is a restricted version of the related OECD principle. The OECD Principle V.A.3 states that “the corporate governance framework requires disclosure about the recorded owner and holdings of persons who individually or collectively own a substantial

(well below controlling) ownership interest in a company” (OECD, 2006, p.126). While OECD asks for the disclosure of “substantial, even if below controlling” shareholders, the CMB is satisfied with only controlling shareholder/s.

The CMB reports that in their CG Implementation Survey of November 2004, in which 249 companies responded to the survey conducted via e-mail, “only 36% of the companies are publicly disclosing ultimate individual shareholders, after eliminating indirect ownership” (CMB, 2004, p.iii). Note the absence of the word “controlling”.

The performance of the ISE50 companies is better, 25 out of the 50 (or 50%) have disclosed their ultimate controlling shareholders. However, overall disclosure is less revealing than disclosure levels across ownership categories. Out of the disclosing 25 companies, ten have answered by saying “none”, as they are majority owned by non-corporate institutions (pension fund, foundations or the state) and thus have no controlling individual shareholders, thus disclosure of ultimate shareholders are not applicable for these companies. Domestic Individual, Foreign and Joint control categories have ultimate individual shareholders, and disclosure of these individuals is the relevant disclosure. The results of disclosure of ultimate shareholders across ownership categories are given in the following table

Table 1: Disclosure of Ultimate Controlling Shareholders

ISE 50	No Ultimate Individual Blockholders (Institutional + State)	Controlled by Individual Blockholders (Individual+Foreign+Joint)
Total	11	38
Disclosure	10 (91%)	15 (39%)

Where disclosure is irrelevant thus easy, we observe 91% disclosure, while where disclosure is relevant the disclosure ratio drops to 39%. The tabulations show that the level of disclosure is much lower in ownership categories that have ultimate individual controlling shareholders.

Out of the 27 domestic blockholder controlled companies, only ten have disclosed their ultimate controlling shareholders. Among the 15 which disclosed controlling shareholders, three are Koç Group and four are Doğan group companies. Koç Group companies are rather coy about their disclosure: Arçelik’s CGCR reads, “Since the public knows that members of the Koç Family are the ultimate controlling shareholders of the Company, it was considered unnecessary to perform and disclose a separate calculation in this regard” (CGCR 2005, p.7). However imprecise, this amount of disclosure is certainly more informative than that of their parent, Koç Holding : “There is no special circumstance that may have an impact on the investors that warrants the announcement of real person(s) that are ultimate controlling shareholders.” ([www.koc.com.tr/use/investorinfo](http://www.koc.com.tr/use/investorinfo)).

The Sabancı Group is even more discrete about disclosure. There are four group companies in the ISE50, none disclose the Sabancı family members as ultimate shareholders. Similarly, Eczacıbaşı İlaç does not mention the family members and makes the following disclosure about its ultimate individual shareholders as: “The Company is a member of the Eczacıbaşı Group and no study has been done on this subject”.

Domestic blockholders are so certain of their control over the companies that they do not bother to reveal the ultimate shareholders, control is so natural that they sound somewhat surprised that such a disclosure is requested by the regulatory authority. As one of the

disclosing companies, even Arçelik indicates the name of the controlling family and does not go beyond that explanation. Arçelik seems to be saying that this requirement does not apply to their case, since the family is naturally in control, they find a precise calculation of ultimate ownerships “unnecessary”.

In companies where domestic and foreign blockholders jointly control the company, proportion of disclosure on ultimate shareholders is similar to the domestic individual group. Out of 3 foreign firms, two of them disclose their ultimate individual shareholders. The number and percentage of companies disclosing information relating to ultimate shareholders across ownership categories is presented in the table below.

Table 2: Disclosure of Ultimate Controlling Shares Across Ownership Categories

	Total	Disclose	%
Domestic Individual Control	27	10	37,0%
Institutional Control	8	7	87,5%
Joint Control	8	3	37,5%
Foreign	3	2	66,7%
State	3	3	100,0%
Total	49	25	51,0%

**Independent Board Members**

The election of independent directors as a mechanism of control relates to the principal-agent conflict. Independent directors are suggested to improve monitoring of managers in companies where managers actually appoint and control the board of directors. However, theory and empirical evidence on the impact of independent directors is mixed and conflicting (Hermalin and Weisbach, 2003). Notorious examples of corporate governance scandals had independent directors on their boards in the years prior to their bankruptcy. A majority of the board of Enron consisted of independent directors (Petra, 2006). Although there is no consensus on the role of independent directors, almost all of the corporate governance codes require the presence of independent directors, irrespective of the contextual characteristics or major conflicts of interest to be addressed. While manager-owner conflict seems to be the major problem in dispersed companies where management and ownership is separated, in companies with controlling blockholders the dominant conflict is between majority and minority owners.

CGP of Turkey stresses the importance of the presence of independent board directors” for good governance. Principles requires at least two independent directors and at least one third of the board members to fulfill the criteria for independence. In section 4, Item 3.3.5 of CGP, requirements to be considered as an “independent member” are listed. Definition of independence is considerably clear and detailed.

Out of ISE-50 companies, 16 (32%) do not even bother to mention in their CGCR whether they have independent directors or not, pretending the issue does not exist. 34 companies (68%) disclose information on the independence of their board of directors. Out of these companies, 17 disclose that they have no independent directors. Some of these companies provide explanations as to why they do not have any independent member. The remaining 17 companies indicate the existence of independent members and disclose their names.

The potential role of independent members would play differs across ownership categories. Divergence of manager-shareholder interests may be a problem in the institutional and state control groups. Thus, especially institutional group and state controlled group would benefit from the existence of independent directors, but they are the worst performers. Only one company out of 8 institutionally controlled companies reports independent directors. Others claim that all of their board members are “naturally independent”. Disclosure of Anadolu Sigorta, a subsidiary of İşbank, exemplifies and reflects the stance of this category on the issue of independent directors. Anadolu Sigorta declares that “There are no non-corporate ultimate shareholders with a controlling interest in the company, it is thought that Board Directors all naturally possess the advantage to act independently and therefore to be impartial in their decisions, upholding the interests of our company and the stakeholders above everything else.” (CGCR 2005, p.11). The ownership structure, as just defined by Anadolu Sigorta, is the structure that is linked to the principal-agent conflict and independent directors are one of the mechanisms for controlling the discretionary behavior of managers.

Disclosures on the independence of board members also reveal out the ambiguity among the companies on the definition of independence. In the institutionally controlled companies, directors who are managers or directors in affiliated group companies are disclosed as independent members. Although the requirements for independence are clearly stated in CGP, similar ambiguity also exists in other ownership groups.

Out of the 27 companies in the domestic individual control group, 11 companies report independent directors, while 9 companies report that they do not have any independent directors. Out of this 9, four companies explain why they do not have independent directors. These explanations suggest that either they perceive no need for independent directors or their articles of association do not allow the presence of independent members. Arçelik states that “such a need has not arisen”. Eczacıbaşı İlaç also provides its own alternatives to independent directors through the following disclosure: “There has been no demand or need for independent members, the Board is careful to listen to the views of shareholders, and it outsources consultancy services when required.” (CGCR, 2005). Ambiguity relating to the definition of independence is also observed in this ownership category. Directors which are disclosed to be independent do not comply with the independence of CCP. Doğan Yayın Holding admits that their choice of independent board member does not strictly comply with the independence criteria set forth in CGP, but claims that “the essence of the relationship rather than its form truly matters. Thus, according to the OECD Principles, a board member is regarded as an independent member is he/she is in a position to freely voice his/her opinion without any form of interference” (CGCR, 2005, p.8). Based on this argument, they designate the president of the joint venture partner of its own subsidiary as an “independent” director.

In the joint control group, out of the six companies that disclose information relating to independent board members, two have independent directors while four declare no independent directors and explain why. In these joint ventures, domestic and foreign partners establish joint control through privileged equal shares which elect equal number of board members. These companies complain that inclusion of independent directors would upset the balance of power in the board. This seems to be a legitimate problem to be addressed by regulatory institutions. Independence of the board members can not be assessed in the state controlled firms since none of them discloses information on this issue. Companies’ disclosures on independent directors across ownership categories are presented in the following table.

Table 3: Independent Directors Across Ownership Categories

	No Disclosure	Independent Directors		Total
		Present	None	
Domestic Individual Control	7	11 (40,7%)	9	27
Institution Control	4	1 (12,5%)	3	8
Joint Control	2	2 (25,0%)	4	8
Foreign	0	2 (66,7%)	1	3
State control	3	0 (0,0%)	0	3
<b>Total</b>	<b>16</b>	<b>16</b>	<b>17</b>	<b>49</b>

## Board Compensation

The impact of board compensation, especially that of executive directors, on corporate governance is a controversial issue. There is no theoretical consensus on the impact of board compensation on its effectiveness. However, conflict of interest arises as directors pay themselves large compensation packages, at the expense of shareholders. Therefore disclosure of board and management compensation is one of the monitoring mechanisms, commonly included in most corporate governance codes. Theoretically, shareholders, armed with this information can question management at shareholders' assembly.

OECD Principle (VI.D.4) states that “the board should assume the function of aligning key executive and board remuneration with the long-term interests of the company and its shareholders”. Similarly, the CMB Principles “encourages boards to assess, at least annually, the performance of the board as a group, as well as the performance of each board member and the senior executive officers. Companies are encouraged to link performance and remuneration and provide disclosure in their annual reports about performance against objectives and remuneration in relation to performance” (CGP, p.103). This disclosure is expected to increase transparency and improve the ability of the shareholders to evaluate the compensation packages of directors and ultimately prevent the directors from enriching themselves at the expense of the shareholders.

A high disclosure is achieved in this category, 42 of the ISE50 companies provide disclosure on compensation of their board members. 6 out of these 42 report that their board members receive no compensation at all. The remaining 36 companies pay their directors fixed salaries or a share of earnings. Only 4 companies pay a percentage of net income to board members as stipulated in their articles of association. Corporate governance recommendations which encourage performance linked compensation is met by only 4 of the ISE50 companies. The remaining 32 pay a fixed salary, which is approved at the shareholders assembly. The breakdown of board pay disclosure on types of pay is presented in the table below:

Table 4: Compensation Disclosure and Type

No Disclosure	8	16%
No Compensation	6	12%
Fixed Salary	32	64%
Percent of Earnings	4	8%
<b>Total</b>	<b>50</b>	<b>100%</b>

The disclosure requirement of the CMB does not distinguish between executive and non-executive. Board compensation is determined by a decision of the shareholders' assembly. The shareholders, reflecting the CMB policy, mostly decide on a uniform pay for all directors, without distinguishing between executive and non-executive directors. Only two companies out of ISE50 are exceptions to this rule. One pays a 40% higher compensation to its two independent directors and the pay is denominated in USD, while the other board members get paid in YTL. Incidentally, the USD 60,000 per year compensation of these two directors is the highest disclosed annual pay in the ISE50. In all other companies board salaries are denominated in local currency and are commonly in the range of USD 20,000-30,000 per year equivalent.

The surprising revelation is how little board members earn in Turkey in contrast to other markets. The highest annual compensation is USD 60,000 and the lowest is the "legal minimum monthly salary". This odd characteristic of Turkish board compensation was also observed by the OECD (2006) corporate governance assessment. "Historically, board members received little or no compensation in respect of their responsibilities qua board members.....Some observers suggested that board members would be reluctant to request reimbursement for expenses incurred as a result of their board duties". OECD further points out the risks inherent in this situation: "If these practices continue, companies might find it difficult to recruit qualified, independent board members"(OECD, 2006, p.104). Similar assessment and risks were also pointed out in the task force report of IIF (Institute of International Finance) in 2005. Average compensation structure was observed to be either low or nonexistent, discouraging qualified and experienced professionals from agreeing to become board members and/or devoting sufficient time and effort in company matters. Thus, this payment structure becomes a factor hindering board monitoring.

The "equal pay for all directors" structure also leads to inadequate disclosure on compensation. Most ISE50 boards include one or more executive directors, in many cases the CEOs. The disclosed pay is the component of the total compensation as board members only. What they receive as CEOs or executives remain undisclosed. Some companies vaguely mention that their executive directors receive "12 monthly salaries" or "16 monthly salaries".

The low pay structure can not be attributed solely by the concentrated ownership structure of Turkish context. Fernandes (2007) finds, in his study of board compensation on the Euronext Lisbon, that board members are paid lavishly. The ownership structure of the 51 companies of this study are similar to ISE50 with "an average of 60% of shares are held by insiders .... and controlling shareholders". Despite this structure, board members' average compensation was calculated at €267,524, reaching €385,822 for executive directors. There must be other factors at work in ISE50.

We find one of our observations hard to understand. Out of the six companies which report that they do not pay anything to their directors, two companies have independent directors on their boards. Both of these companies declare that they do not make any payments to their directors in accordance with the decision of their shareholders' assembly. It is worth noting that one of these two companies with independent board members working on a "pro bono" basis is also listed on the New York stock Exchange as an ADR and thus subject to the regulations of the Securities and Exchange Commission.

Compensation practices and disclosures of ISE50 companies exhibit differences across ownership categories. All the companies in the institutional and foreign groups disclose their

board compensation and mostly paid in the form of fixed salary. The only four companies which link their board compensation to earnings are all in the domestic individual control group. Out of the six companies that do not make any payments to the directors, 3 are in the domestic individual control, 2 are in joint control and 1 is in foreign groups. The breakdown of director compensation practices with respect to ownership categories is presented below:

Table 5: Compensation Practices Across Ownership Categories

	No Disclosure	Disclose Compensation		
		No Pay	Salary	Dividend
Domestic Individual Control	4	3	16	4
Institutional Control	0	0	8	0
Joint Control	2	2	4	0
Foreign Control	0	1	2	0
State Control	2	0	1	0
Total	8	6	31	4

**Board Committees**

Board committees are also expected to improve board oversight. Different committees might suggest different aspects of board’s monitoring. While the audit committee monitors the financial reporting, auditing and internal control systems, nominating and governance committees reflect the board’s motivation in monitoring its own activities (Ferris and Yan, 2007)

OECD Principle VI.D.6 states that “the board should assume the responsibility for monitoring and managing potential conflicts of interests of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions” (OECD, 2006, p.106). The ownership and control structure in Turkey creates a potential for board members-shareholders-managers-employees to maximize their self interests. CMB Communiques require listed companies to form audit committees to control and manage these conflict of interests. Thus, establishing audit committees is a mandatory requirement for listed companies. The OECD Principle VI.D.2 states that “the board should monitor the effectiveness of the company’s corporate governance practices and make changes as needed” (OECD, 2006, p.102). The CGP recommends the companies to establish corporate governance committees. As opposed to audit committees, formation of corporate governance committees is voluntary, that is companies either comply with this recommendation or explain why they do not. The OECD report, conveys that “approximately 18% of the listed companies whose 2004 Corporate CGCR were reviewed by the CMB had established corporate governance committees, although a number of other companies indicated that they were planning to establish such a committee soon” (OECD, p.103).

In our study, we find that among the ISE50, 45 companies (90%) have formed audit committees while only 20 (40%) have corporate governance committees. As expected, compliance with mandatory requirements is higher. However even in the ISE50 there are still five companies which do not report audit committees yet. Table 6 presents the breakdown of the board committees with respect to the presence or absence of independent directors.

Table 6: Board Committees and Independent Directors

	Audit Committee		Corporate Governance Committee	
	None	Present	None	Present
No Disclosure	1	15 (93,8)	13	3 (18,8%)
Independent Directors	2	15 (88,2)	6	11 (64,7%)
No Independent Directors	2	15 (88,2)	10	7 (41,2%)
Total	5	45 (90%)	29	20 (40,8%)

Out of the 45 companies with audit committees, only 15 report to have independent directors. Considering the ownership structure in Turkey, the present committees, in the absence of an independent director may end up controlling only “self-interested behavior” or “misuse of corporate assets” by managers and/or employees. If such behaviour on the part of the controlling shareholders is to be detected and prevented by the audit committee, the presence of a truly independent directors is obviously a necessity. Our analysis reveals that, while most ISE50 companies have complied with the letter of the audit committee requirement, only a minority (30%) has complied with the spirit of the regulation by including an independent member. Whether this percentage will remain the same when the “true” independence criteria of the directors is established would be the subject of further study.

Boards seem to be more reluctant to comply with voluntary requirements, as the finding that only 20 companies (40%) have established corporate governance committees reveals. Considering that nomination and compensation are included in the functions of the corporate governance committees, boards’ motivation to control themselves also seems to be low. While most of the companies state that there is no need for a corporate governance committee, some companies disclose an explanation that they use outside consultants as a substitute.

The corporate governance committee has a very limited scope in some companies, there is a general tendency to interpret it to determine the compensation packages of top managers and almost never the compensation of board members. Similar to the audit committees, presence of the corporate governance committee does not guarantee that conflicts of interests are actually addressed and resolved. Out of 20 companies with corporate governance committees, only 6 disclose the presence of independent directors in their boards.

The breakdown of the two board committees across different ownership categories is presented below in Table 7. The ownership category which would theoretically benefit most from a corporate governance committee is the institutional group, where the managers are in a position to expropriate the shareholders which are foundations. The category turns out to be the slowest in establishing a corporate governance committee, only two out of the eight have done so. There does not seem to a significant difference among the other ownership groups in terms of corporate governance committees.

Table 7: Board Committees across Ownership Categories

	Supervision Committee		Corporate Governance Committee	
	None	Present	None	Present
Domestic Individual Control	2	25 (92,6%)	16	11 (40,7%)
Institutional Control	0	8 (100%)	6	2 (25,0%)
Joint Control	0	8 (100%)	5	3 (37,5%)
Foreign Control	2	1 (33%)	1	2 (66,7%)
State Control	0	3 (100%)	1	2 (66,7%)
Total	4	45 (91,8%)	29	20 (40,8%)

## Conclusions

Our study reveals that the ISE50 companies have acceptable score in complying with the corporate governance items we have investigated. However, in terms of substance they still have substantial room for improvement. The entire corporate governance process is a relatively recent concept for Turkish companies and they are making efforts to understand and interpret its implications. For the time being, companies' primary emphasis seems to be on making their present governance structures look like they are in compliance instead of making the necessary changes to comply with the substance of the regulations. They have mostly implemented the easy-to-do changes, but the principles addressing the relevant conflicts of interests remain largely untouched.

The CMB has introduced the principles without prioritizing them and without a timetable reflecting these priorities. This might be the major reason for the observed practices during this transitory adjustment period. Furthermore, the principles of CMB depend to much on the corporate governance codes of mature markets and in some respects failed to take into account the conflicts of interest particular to a emerging market setting.

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