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CORPORATE GOVERNANCE IN TURKEY: ISSUES AND PRACTICES OF HIGH-PERFORMANCE COMPANIES

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ABSTRACT

This paper extends previous research, which investigated the relationship between performance and corporate governance practices. This study examines the concept of corporate governance in Turkey and compares compliance with good governance norms by high performance companies (HPCs) and comparable, but lower performing ordinary companies (ORD). It provides a background by explaining the problems of corporate governance and also briefly explains the regulatory framework in Turkey. The study is based on the published annual reports for the year 2010 of 60 ISE companies (30 HPCs and 30 ORDs). The research question examined is: Do companies that are demonstrably high performing companies in Turkey also exhibit good corporate governance compared to their paired peers? The key governance parameters, as per Turkish norms (Corporate Governance Principles of Turkey 2005), are selected on a 54-point scale. The study finds that Turkish companies generally, whether HPC (57.90 %) or ORD (50.68 %), score moderate measures of corporate governance. However, we find that HPCs in Turkey score higher on the norms of good corporate governance than comparable companies and the differences are statistically significant. Overall, these results strongly support the proposition that Turkish HPCs apply superior corporate governance practices and succeed to confirm conclusions of earlier research on HPCs in other economies. The paper concludes with limitations and outlining potential areas of corporate governance practices for further research.

Corporate Governance, High Performance Companies, Turkey

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INTRODUCTION

This study continues the exploration of the links between performance and good corporate governance practices. It is widely accepted that bad management practices have triggered the financial crises and company scandals that broke out in recent years. This has clarified the importance of the concept of sound corporate management practices. The importance of the issue has been growing at an international level and the quality of corporate governance practices, which is deemed to be as important as financial performance in investment decisions, has become a subject of more serious consideration. Over the last several years, Turkish economy has been actively reviewing its corporate governance system, transparency and accountability. The recent collapse of the Enron and WorldCom Corporations in the U.S., and similar incidents in many countries including Turkey underscored the critical importance of structural reforms in the governance of large and financial institutions. In this backdrop, a study of corporate governance on Turkish companies is important because of Turkey's economic growth and stature among emerging economies.

This paper begins with the examination of the previous research and issues concerning corporate governance concept. It provides a background by explaining the problems of corporate governance and regulatory framework in Turkey. It then examines the corporate governance practices among the best performing Turkish companies. Furthermore, it examines the compliance with corporate governance norms conducted on a sample of high-performance companies (HPCs) and comparable, but lower performing ordinary companies (ORDs) in Turkey. Turkish HPCs are characterized by sustained and superior cash flow returns, asset growth, and total shareholder returns. As shown in previous research, HPCs in Turkey have superior total asset management, profitability, financial risk, liquidity, and operating asset management (Turel *et al*., 2012). We expect that HPCs will also be models of good corporate governance practices. To test this proposition, we compare the compliance of HPCs with corporate governance norms with the compliance by a sample of paired ORDs in Turkey. In other words, we examine the question: Do companies that are demonstratively the best performing companies in Turkey act as exemplars of good corporate governance? Our findings support the hypothesis that compliance with corporate governance norms is a good distinguisher of what makes a HPC. Many HPCs score high in corporate governance practice compared to their paired ORDs.

The remainder of this paper is organized as follows: the next section summarizes previous research followed by the concept of corporate governance. We then discuss the problems of corporate governance and regulatory framework in Turkey. Next, the sample, data, methods of analysis, and results are provided. The final section notes the limitations, presents some future research ideas and concludes the paper.

1. PREVIOUS RESEARCH REVIEW

Previous research has shown empirically how performance interacts with good corporate governance practices. Klapper and Love (2002) analyzed firm-level corporate governance throughout the world and ultimately showed that there is a correlation between stronger corporate governance and operating performance. Though the study included countries throughout the world and was not specific to Turkey, it does support the general theory that strong corporate governance positively affects operating performance.

Ashbaugh-Skaife *et al*. (2006) investigates whether firms that exhibit strong governance benefit from higher overall firm credit ratings relative to firms with weak governance. Their analysis documents that firms' governance affects firms' credit ratings. They found that credit ratings are negatively associated with the number of block holders and CEO power, and positively related to takeover defenses, accrual quality, earnings timeliness, board independence, board stock ownership, and board expertise.

Using a sample of 2,106 firms and 39 structural measures of corporate governance (e.g., board characteristics, stock ownership, institutional ownership, activist stock ownership, existence of debt holders, mix of executive compensation, and anti-takeover variables), Larcker *et al*. (2007) found that their indices have a mixed association with abnormal accruals, little relation to accounting restatements, but some ability to explain future operating performance and future excess stock returns.

Bowen *et al*. (2008) investigate whether accounting discretion is explained largely by efficient contracting or by managerial opportunism. They found associations between poor governance quality and accounting discretion. They fail to detect a negative association between the level of accounting discretion due to lax governance and subsequent firm performance. Rather, they found some evidence that discretion due to poor governance is positively associated with future operating cash flows and future ROA.

Banerjee *et al*. (2009) analyzed the compliance of HPCs as well as ORDs with good corporate governance norms. They found that on average, HPCs exceed ORDs on corporate governance scores in quartile groupings however the results do not strongly support that Indian HPCs apply superior corporate governance practices. On the other hand, Sami *et al*. (2011) find that their composite measure of corporate governance is positively and significantly associated with firm performance and valuation.

Corporate governance has also important implications for risk management and performance measurement systems and can impact many areas including corporate reputation. Governance Risk has been identified as a primary area in Enterprise Risk Management (Frigo & Litman, 2008), driven by factors such as controls and

governance capabilities. Performance measurement systems have been identified as an integral part of corporate governance in companies (Frigo, 2003; Busco *et al*., 2005). Corporate governance can impact areas such as corporate reputation which is something that has been identified as a significant risk area for companies (Eccles *et al*., 2007). Corporate reputation is crucial in attracting investment and overall is a very important component in high performing companies. This is another reason we expect HPCs to score highly in corporate governance.

As Turkey's system of corporate governance and related reporting practice are in the developing stage, there is less literature on corporate governance in Turkey than there would be in more industrially developed countries with a more advanced system of corporate governance. The topic of corporate governance has been addressed by a number of Turkish authors and researchers however there were little previous formal studies on the relationship between adherence to corporate governance principles and performance. This has been a factor in shaping our motivation for searching a relationship between corporate governance and performance.

Kula (2005) investigates the impact of the roles, structure and process of boards on performance of Turkish companies. The survey was conducted on 386 mostly small and non-listed stock ownership companies in April/May 2003. He found that the separation of chairman and general manager positions has significant positive impact on firm performance.

Gurbuz *et al*. (2010) evaluate the impact of corporate governance on financial performance in Turkey, taking the issue of institutional ownership into account. They use a sample of 164 firm-year observations for real sector firms on the Istanbul Stock Exchange covering the 4 year time span from 2005-2008. They found that corporate governance practices enhance firm financial performance during the observation period. As a result of their analyses, institutional investors are found to improve financial performance of all firms, whereby the impact on firms listed on the index is more than those not listed on the index.

Akman *et al*. (2011) examine whether family or foreign ownership affects firm performance differently in Turkey. They analyze the relationship between ownership structure and firm performance for publicly owned companies listed on the Istanbul Stock Exchange over the period from 2005 to 2009. They found that there is a negative relationship between family ownership and firm performance and foreign ownership has a positive impact on firm performance.

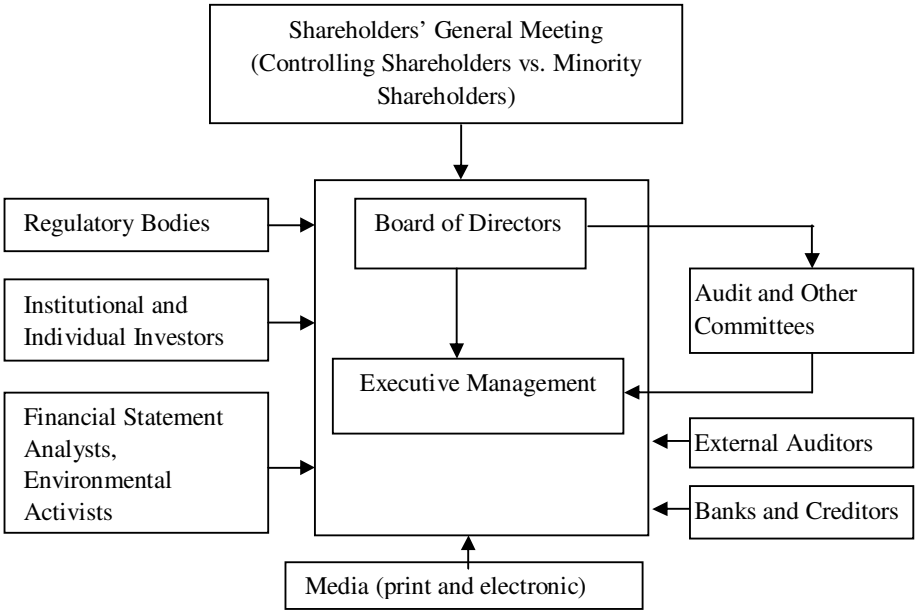
Sengur (2011) examines whether properly implementation of corporate governance principles make difference in performance of companies in Turkey. The results of her study show that there is no significant difference in performance of Corporate Governance Index Companies and non corporate governance index companies in Turkey when performance is measured in terms of ROA and Tobin Q. Additionally, her findings support that there is no significant difference in

performance of Corporate Governance Index Companies between the year of t0 and t1 (to = the preceding year of entrance to Corporate Governance Index, t1= the first year in Corporate Governance Index). The paper concludes that properly implementing corporate governance principles and to be listed in Corporate Governance Index does not associated with ROA and Tobin Q in Turkey.

2. CONCEPT OF CORPORATE GOVERNANCE

Corporate governance is viewed as a system that delineates the rights and responsibilities of each major group of stakeholders in a company, and spells out rules and procedures for making decisions about corporate affairs (OECD, 1998). It is a systematic process by which companies are directed and controlled to enhance their wealth generating capacity. In Turkey and other countries, the lack of laws ensuring good corporate governance meant that those who could get control of the corporation had an incentive to steal assets from the minority shareholders; and managers had similar incentives vis-a-vis shareholders (Stiglitz, 2002). The governance process should ensure that the companies are managed in a manner that meets stakeholders' aspiration, interest, and social expectations. The stakeholders include providers of capital, creditors, employees, stock markets, auditors, fund managers, regulating bodies, environmental activists, financial statement analysts, to mention a few. Figure 1 shows how many of the stakeholders can play an important role in influencing the corporate governance in a company.

Figure 1. **Stakeholders' influence on the corporate governance**



Good corporate governance implies:

(a) Optimal utilization of resources for enhancing the value of the company by way of effectively monitoring of executives' performance and supporting the entrepreneurship spirit.
(b) Ethical behavior of the company in honoring and protecting the rights of all stakeholders.

The two core principles of corporate governance are:

(a) Management must have the executive freedom to drive the company forward without undue restrictions, and
(b) This freedom of management should be exercised within a framework of effective accountability.

Form the above-mentioned core-principles of corporate governance emerge the cornerstones of governance philosophy which include:

- Trusteeship
- Transparency
- Empowerment and Accountability
- Control

While each one of the above has a far-reaching implication in corporate governance, quality of governance depends on a host of factors. Some of them are:

- Efficiency and effectiveness with which board functions
- Adequacy of the process
- Integrity of management
- Commitment level of each of the board members
- Quality of corporate reporting and
- Participation of stakeholders in the management process

3. PROBLEMS OF CORPORATE GOVERNANCE

Good corporate governance is essential for any company or country that is willing to compete effectively in the global market. Turkey has a strong regulatory framework for corporate governance but some challenges remain. According to "Corporate Governance in Turkey: A Pilot Study" published by OECD in 2006, family controlled groups of companies are a common feature of the Turkish business scene, often with a high degree of cross ownership between companies. Controlling shareholders often play a leading role in the management and strategic direction of company groups. In terms of transparency, there are some improving areas, particularly with respect to financial reporting, accessibility of company disclosures, basic information about share attributes, the largest direct shareholders, basic information about boards, and stakeholder policies. However, disclosures relating to the sensitive topics of ownership and control, related party transactions,

and the effectiveness of internal controls continue to vary in terms of the amount of information disclosed.

Some corporate governance issues in Turkey are defined by Ararat and Orbay (2006):

- Concentrated ownership and economic power associated with complex and opaque control structures,
- Uncontested power of controlling shareholders due to low flotation rates, limited institutional shareholding and weak equity culture,
- Unclear separation of management and control roles, ineffective boards, weak firm level formal control systems
- Market abuse (market manipulation, insider trading)
- Weaknesses in enforcement
- Weak risk management and internal audit practices
- Poor reporting on connected lending, transfer pricing and related party transactions
- No disclosure requirements on privately entered share purchase agreements or shareholder agreements
- Inefficient judiciary
- No role for shareholders in major asset transactions
- Wide use of privileged share classes and share groups

4. REGULATORY FRAMEWORK IN TURKEY

It is generally agreed that sound legal regulation and enforcement are key pillars upon which good corporate governance is built. An ideal regulatory framework should be preventive, protecting the interests of the majority stakeholders, and have clarity, transparency and market orientation. Internationally, corporate governance norms have been instituted through a judicious mix of the available routes: legislation, regulation or self-discipline and free volition. Often a forth driver is also evident in the form of societal pressures. In countries with well-developed economies, capital markets and commercial citizen awareness, legislative interventions are minimal because market forces act as the main drivers. In others, apart from legislations, regulatory agencies such as capital market regulators, professional bodies, and central bank play an important role in bringing out an orderly and disciplined regimen among their constituents. Self-regulation though persuasion comes about by way of initiatives taken by industry chambers and business associations, often also guided by globalization initiatives that dictate adoption of international best practices. Social pressures also impact on corporate social responsiveness and often manifest in corporate responses well beyond legislative demands concerning ecology, environment, community development, and so on (Banerjee *et al*., 2009).

Two major legislations comprise the legal framework of the Turkish capital markets; the Turkish Commercial Code and the Capital Markets Law (CML). The Turkish Commercial Code basically governs commercial relationships and establishment and governance of companies. The Code was enacted in 1956 and has been amended several times in response to changed circumstances. An overall effort to modernize the Turkish Commercial Code has been in progress for a long time. On February 14, 2011 the new Turkish Commercial Code has been published in the official gazette and will come into force on July 1, 2012. In the European Union (EU) integration process of Turkey, the code mainly aims to harmonize the Turkish Commercial Code with European legislation system. Provisions set forth in the Turkish Commercial Code aims to regulate commercial relations in accordance with the recent changes in the local and global business environment. The Code concerns social responsibility of the companies and take corporate ethical standards into consideration. The corporate governance approach of the Code is based on four pillars: full transparency, fairness, accountability and responsibility.

The Code accepts the single shareholder joint stock company and single member partner limited liability company. The Code allows the board meetings and general assembly meetings to be held in electronic media. The Board of Directors is responsible for the preparation of the financial statements in conformity with the Turkish Financial Reporting Standards which are identical with International Financial Reporting Standards (IFRS). All of the capital stock companies are required to be audited by statutory auditors. The audit is required to be performed in accordance with Turkish Auditing Standards which are identical with International Auditing Standards (ISAs). Furthermore, the Code allows the application of special audits on the request of any shareholder. In order to improve the transparency the Code requires every capital stock company to have a website. The web site should include all the reports and all the relevant data concerning shareholders and stakeholders. Article 1529 of New Turkish Commercial Code empowers Capital Market Board of Turkey (CMB) to regulate corporate governance practices for Turkish companies.

The mission of CMB is making regulations, and performing supervision with the aim of ensuring fairness, efficiency and transparency in Turkish capital markets, and improving their international competitiveness. Within the scope of its mission, in July 2003 CMB issued the Corporate Governance Principles of Turkey with the purpose of enhancing the corporate governance regulations for listed companies. CMB principles were established mainly in accordance with OECD Corporate Principles. Additionally, CMB took into consideration the particular conditions of Turkey during the preparations stage of principles. Parallel to OECD principles, CMB Corporate Governance Principles were revised in 2005. The CMB principles are based on the principle of “comply or explain”. In other words, the implementation of the principles is optional and companies should disclose the

extent of compliance and explain the reasons why some of the principles are not adopted. The implementation status of the principles should be disclosed in Corporate Governance Compliance Report that is included in the annual report as a separate section.

In Turkey, Istanbul Stock Exchange (ISE) listed companies are encouraged to comply with Corporate Governance Principles of Turkey. With the aim of measuring the price and return performances of ISE listed companies, ISE Corporate Governance Index has been founded on August 31, 2007. As of November 2011, there are 34 companies listed on Corporate Governance Index (Public Disclosure Platform of Turkey). ISE listed companies with a corporate governance rating of minimum 6 out of 10 are eligible to be listed in Corporate Governance Index. The corporate governance rating is determined by the rating institutions that are approved by CMB. CMB regulates principles of rating institutions under the Communiqué on Principles Regarding Ratings and Agencies (Serial: VIII, No: 51). As of November 2011, there are five rating institutions approved by CMB to evaluate and rate the companies' compliance with Corporate Governance Principles of Turkey.

Corporate governance rating of a company is granted by rating institutions upon the request of a company. Ratings demonstrate how a company complies with advisory rules of CMB Corporate Governance Principles. Corporate governance ratings are granted out of 10 and Corporate Governance Rating Reports are published by the rating agencies. Like Corporate Governance Principles, Corporate Governance Rating Reports include 4 main sections namely Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors. In compliance with the CMB's directive, rating institutions use weights for each main section to reach an overall Corporate Governance Rating. The weights are as follows: Shareholders 25%, Disclosure and Transparency 35%, Stakeholders 15%, Board of Directors 25%.

5. CORPORATE GOVERNANCE PRACTICE IN HIGH-PERFORMANCE COMPANIES

This study examines and compares the corporate governance practices of Turkish HPCs and ORDs. Turkish HPCs were chosen in previous research (Turel *et al.*, 2012) based on the following criteria (from 2005 to 2009):

- Cash flow return on investment (CFROI) at twice or more the cost of capital or greater than 5% discount rate in Turkey.
- Growth rates in assets exceed average growth rate of Turkish GDP.
- Relative total shareholder returns (TSR) above the ISE 100 average.

Turkish HPCs are characterized by: sustained and superior cash flow returns, asset growth, and total shareholder returns. As shown in previous research, HPCs in Turkey have superior total asset management, profitability, financial risk, liquidity, and operating asset management (Turel *et al*., 2012). We expect that HPCs will be models of good corporate governance practices. To test this proposition, we compare the compliance of HPCs with corporate governance principles with the compliance by a paired sample of ORDs in Turkey (see Table 1). In the matching process, a HPC and ORD were considered pairs if they operate in the same of similar industries. We examine the question: Do companies that are demonstratively the best performing companies in Turkey also exhibit good corporate governance? Though many HPCs score high in corporate governance practices while some do not, our findings suggest that compliance with corporate governance principles is a good distinguisher of what makes a HPC.

Table 1. **Description of HPCs and paired ORDs of Turkey**

No	Company Name	Description
1	Acıbadem Sağlık Hizmetleri ve Tic. A.Ş. (HPC)	Acıbadem Sağlik Hizmetleri ve Ticaret A.Ş. is a provider of healthcare services.
2	Marmaris Altınyunus Turistik Tesisler A.Ş.	Marmaris Altınyunus Turistik Tesisler A.Ş. operates touristic hotels.
3	Adana Çimento Sanayii Türk A.Ş. (HPC)	Adana Çimento Sanayii Türk A.Ş. is a manufacturer of cement and ready-mix concrete.
4	Göltaş Göller Bölgesi Çimento San. ve Tic. A.Ş.	Göltaş Göller Bölgesi Çimento San. ve Tic. A.Ş. is a manufacturer of cement and ready-mix concrete.
5	Adel Kalemcilik Tic. ve San. A.Ş. (HPC)	Adel Kalemcilik Tic. ve San. A.Ş. is producing writing instruments such as wood-cased black-lead, color and copying pencils, ballpoint pens, fiber pens, oil pastels, wax crayons.
6	Serve Kırtasiye San. ve Tic. A.Ş.	Serve Kırtasiye San. ve Tic. A.Ş. is the producer, importer, and exporter office stationery.
7	Anadolu Efes Biracılık ve Malt Sanayii A.Ş. (HPC)	Anadolu Efes Biracılık ve Malt Sanayii A.Ş. is the producer of beer, malt drinks and solf drinks.
8	Türk Tuborg Bira ve Malt Sanayii A.Ş.	Türk Tuborg Bira ve Malt Sanayii A.Ş. is the producer of beer and malt drinks.
9	AFM Uluslararası Film Prodüksiyon Tic. ve San. A.Ş. (HPC)	AFM Uluslararası Film Prodüksiyon Tic. ve San. A.Ş. is one of the leading companies in Turkey that specializes in operating movie theatres.
10	Favori Dinlenme Yerleri A.Ş.	Favori Dinlenme Yerleri A.Ş. invests and operates tourism facilities.
11	Arena Bilgisayar San. ve Tic. A.Ş. (HPC)	Arena Bilgisayar San. ve Tic. A.Ş. is providing marketing, selling, and logistics services for technology products.
12	Datagate Bilgisayar Malz. Tic. A.Ş.	Datagate Bilgisayar Malz. Tic. A.Ş. is engaging in the representation, sales, distributorship, marketing, logistics and after sales services of many IT producer supplying IT components.
13	Boyner Büyük Mağazacılık A.Ş. (HPC)	Boyner Büyük Mağazacılık A.Ş. is the leading department store with its 28 Boyner stores and 12 discount stores throughout Turkey.

14 BİM Birleşik Mağazalar A.Ş.	BİM Birleşik Mağazalar A.Ş.'s object is to offer consumers basic food items and consumer goods at the best prices and highest quality.
15 Borusan Mannesmann Boru San. ve Tic. A.Ş. (HPC)	Borusan Mannesmann Boru Sanayi ve Tic. A.Ş. is the producer of water installation and gas fitting pipe; industrial pipes; special pipes for several areas like furniture, textiles, and automotives; boiler pipes; profiles used in the production of roof construction, machines, and agricultural equipment; plastic pipe and fitting systems; and spiral pipes used in water–petrol–natural gas transportation lines.
16 Kordsa Global Endüstriyel İplik ve Kord Bezi San. ve Tic. A.Ş.	Kordsa Global Endüstriyel İplik ve Kord Bezi San. Ve Tic. A.Ş. is the producer of nylon and polyester yarn, cord fabric and single end cord. In addition, the company serves for the tire reinforcement and mechanical rubber markets.
17 Bosch Ev Aletleri San. ve Tic. A.Ş. (HPC)	Bosch Ev Aletleri San. ve Tic. A.Ş. is the manufacturer of household appliances such as refrigerators, dishwashers, washing machines, and vacuum cleaners.
18 İhlas Ev Aletleri İmalat San. ve Tic. A.Ş.	İhlas Ev Aletleri İmalat San. ve Tic. A.Ş. is the manufacturer of household appliances such as cleaning robots and instant water heaters.
19 Çelebi Hava Servisi A.Ş. (HPC)	Çelebi Hava Servisi A.Ş. is a supplier of ground handling services to the aviation industry.
20 Uçak Servisi A.Ş.	Uçak Servisi A.Ş.'s main activites are to open, operate, and run restaurants, buffets, cafeterias, similar facilities and sale stores in airports, terminals and other airborne locations.
21 Eczacıbaşı İlaç, Sınai ve Finansal Yatırımlar San. ve Tic. A.Ş. (HPC)	Eczacıbaşı İlaç, Sınai ve Finansal Yatırımlar San. ve Tic. A.Ş. is a producer of pharmaceuticals. In addition, the company has avtivities in real estate development.
22 Deva Holding A.Ş.	Deva Holding A.Ş. is a manufacturer of pharmaceuticals, animal health products, and cosmetic products.
23 Ege Profil Tic. ve San. A.Ş. (HPC)	Ege Profil Tic. ve San. A.Ş. is a manufacturer of door and window profiles made of polyvinyl chloride (PVC).
24 Pimaş Plastik İnşaat Malzemeleri A.Ş.	Pimaş Plastik İnşaat Malzemeleri A.Ş. is a manufacturer of door and window profiles made of polyvinyl chloride (PVC).
25 Enka Inşaat ve Sanayi A.Ş. (HPC)	Enka İnşaat ve Sanayi A.Ş. has business activities in engineering and construction, energy investments, real estate, trade & manufacturing, and retail.
26 Edip Gayrimenkul Yatırım San. ve Tic. A.Ş.	Edip Gayrimenkul Yatırım San. ve Tic. A.Ş. has business activities in construction to be carried out on the real estates owned by the company.
27 Ford Otomotiv Sanayi A.Ş. (HPC)	Ford Otomotiv Sanayi A.Ş. has a licensee and partnership agreement with Ford Motor Company, which is a worldwide leader in automotive products and services.
28 Anadolu Isuzu Otomotiv San. ve Tic. A.Ş.	Anadolu Isuzu Otomotiv San. ve Tic. A.Ş. is a producer of light duty trucks and midibuses.
29 Gentaş Genel Metal San. ve Tic. A.Ş. (HPC)	Gentaş Genel Metal San. ve Tic. A.Ş. is a producer of laminates, werzalits, getaprofile products, duralits, and chipboard.
30 Feniş Alüminyum San. ve Tic. A.Ş.	Feniş Alüminyum San. ve Tic. A.Ş. produces semi-finished and finished aluminium products.
31 Gubre Fabrikalari T.A.Ş.(HPC)	Gubre Fabrikaları T.A.Ş. provides fertilizers to the agricultural sector.

32 Ege Gubre Sanayii A.Ş.	Ege Gubre Sanayii A.Ş. provides fertilizers to the agricultural sector.
33 Intema İnşaat ve Tesisat Malzemeleri Yatırım ve Pazarlama A.Ş. (HPC)	Intema İnşaat ve Tesisat Malzemeleri Yatırım ve Pazarlama A.Ş. is a marketing company specializing in construction and installation materials.
34 Milpa Ticari ve Sinai Ürünler Paz. San. ve Tic. A.Ş.	Milpa Ticari ve Sinai Ürünler Paz. San. ve Tic. A.Ş. engages in the direct marketing of large number of products from various industries, including electronics to automotive, computers to real estate.
35 İpek Matbaacılık San. ve Tic. A.Ş. (HPC)	İpek Matbaacılık San. ve Tic. A.Ş. is a company active in the commercial printing sector and engages in the exploration of energy, gas oil, natural gas, and fossil fuels.
36 Bayindir Matbaacılık A.Ş.	Bayındır Matbaacılık A.Ş. is a company active in the exploration and operating of metallic mines.
37 Izmir Demir Çelik San. A.Ş. (HPC)	Izmir Demir Çelik San. A.Ş. is a manufacturer of long steel for domestic and international markets.
38 Ereğli Demir Çelik Fabrikaları T.A.Ş.	Ereğli Demir Çelik Fabrikaları T.A.Ş.is one of the major manufacturers of iron and steel with industrial facilities in Turkey and Romania.
39 İzocam Tic ve San. A.Ş. (HPC)	İzocam Tic ve San. A.Ş. is a manufacturer of insulating materials such as glass wool, rock wool, extruded polystyrene (Foamboard) sheets, and elastomeric rubber (flexible) insulation materials.
40 Polylen Sentetik İplik Sanayii A.Ş.	Polylen Sentetik İplik Sanayii A.Ş. is a manufacturer of synthetic yarn and textile.
41 Kelebek Mobilya San. ve Tic. A.Ş. HPC)	Kelebek Mobilya San. ve Tic. A.Ş. is a manufacturer of kitchen furniture, bath furniture, and living room furniture.
42 İdas İstanbul Döşeme Sanayii A.Ş.	İdas İstanbul Döşeme Sanayii A.Ş.is a manufacturer of furniture.
43 Konfrut Gıda San. ve Tic. A.Ş. (HPC)	Konfrut Gıda San. ve Tic. A.Ş. is a producer of fruit and vegetable concentrates and purees, as well as further sales and exports of such products.
44 Dardanel Önentaş Gıda San. A.Ş.	Dardanel Önentaş Gıda San. A.Ş. is a seafood company in Turkey and the undisputed leader in canned tuna fish with compelling market share of %75.
45 Mutlu Akü ve Malzemeleri San. A.Ş. (HPC)	Mutlu Akü ve Malzemeleri San. A.Ş. is a manufacturer of automotive, marine, and industrial batteries.
46 Aksa Enerji Üretim A.Ş.	Aksa Enerji Üretim A.Ş. manufactures gasoline, diesel, natural gas and marine generating sets, lighting towers and generator hardware
47 Otokar Otomotiv ve Savunma San. A.Ş. (HPC)	Otokar Otomotiv ve Savunma San A.Ş. is an automotive manufacturers in Turkey, and has been providing solutions to its customers both in the commercial and military range.
48 Karsan Otomotiv Sanayii ve Tic. A.Ş.	Karsan Otomotiv Sanayii ve Tic. A.Ş. has been producing commercial vehicles for the world's leading brands, including its own, through its contemporary and flexible manufacturing facilities,
49 Şeker Piliç ve Yem Sanayi Tic. A.Ş. (HPC)	Şeker Piliç ve Yem Sanayi Tic. A.Ş., in the poultry industry, produces poultry feed and processes chichen products.

50 Banvit Bandırma Vitaminli Yem San. A.Ş.	Banvit Bandırma Vitaminli Yem San. A.Ş. is a prducer of broiler chickens. The company is able to carry out all stages of vertical integration regarding poultry production. It owns the largest broiler chicken processing facility under a single roof.
51 Turkcell İletişim Hizmetleri A.Ş. (HPC)	Turkcell İletişim Hizmetleri A.Ş.is the leading GSM operator in Turkey, but is also the third largest GSM operator in Europe in terms of subscriber numbers. Turkcell's shares have been traded on the New York Stock Exchange (NYSE) since 2000.
52 Türk Telekomünikasyon A.Ş.	Türk Telekomünikasyon A.Ş.provides national and international communication solutions customized for its users' requirements.
53 Türk Hava Yolları A.O. (HPC)	Türk Hava Yolları A.O. is the flag carrier of the Republic of Turkey in the civil air transportation industry.
54 Reysaş Taşımacılık ve Lojistik Tic. A.Ş.	Reysaş Taşımacılık ve Lojistik Tic. A.Ş. is providing services in the logistics sector, in the areas of Vehicle Transportation, Logistics, International Transportation, Fuel Transportation, Forwarding and Warehousing.
55 Türkiye Petrol Rafinerileri A.Ş. (HPC)	Türkiye Petrol Rafinerileri A.Ş. is operating four oil refineries, with a total of 28.1 million tons annual crude oil processing capacity, Tüpraş is Turkey's largest industrial enterprise. In addition, the company has a 50,000 ton capacity petrochemical production facility, a majority stake (79.98 %) in shipping company DİTAŞ, and 40% share ownership of petrol retailer Opet.
56 Petkim Petrokimya Holding A.Ş.	Petkim Petrokimya Holding A.Ş.has a petrochemical production facility.
57 Vakko Tekstil ve Hazır Giyim Sanayi İşletmeleri A.Ş. (HPC)	Vakko Tekstil ve Hazır Giyim Sanayi İşletmeleri A.Ş. is a ready-to-wear fashion emporium in Turkey.
58 Menderes Tekstil San. ve Tic. A.Ş.	Menderes Tekstil San. ve Tic. A.Ş. is a producer of home-textile.
59 Zorlu Enerji Elektrik Üretim A.Ş. (HPC)	Zorlu Enerji Elektrik Üretim A.Ş. is one of the strongest participants in the Turkish energy sector that is rendering "turn-key delivery" services.
60 Aksu Enerji ve Ticaret A.Ş.	Aksu Enerji ve Ticaret A.Ş.'s main field of activity is to operate electricity generation and distribution facilities that are owned by Turkish Electricity Administration.

The description of companies draws upon the data gathered from their web pages.

5.1. Sample Size and the Period of Study

Our sample includes 60 companies that are listed in ISE. There were 30 HPCs and 30 ORDs. We relied on the web pages (investor relations section) and annual reports for the year 2010 of the selected companies. The period of study is significant because it follows the financial years that is the period when CMB publishes and proposes Corporate Governance Principles of Turkey in 2005.

5.2. Evaluation Method and Its Rationale

Based on Corporate Governance Principles of Turkey and some key governance parameters used in prior research (Klapper & Love, 2004; Eng & Mak, 2003; Black *et al.*, 2006; Cheung *et al.*, 2007; Al Shammari & Al Sultan, 2010) a

"corporate governance scorecard" was developed to conduct an in-depth analysis and evaluation of the standard and quality of corporate governance in HPCs and ORDs. The scorecard consists of 54 key governance parameters. Our expectation is that the level of compliance with governance principles (reflected in a high score) will correlate positively with high performance. For purposes of our study, the timing of the implementation of corporate governance principles is ideal because compliance with the communiqué is optional for all companies (thus, a "level playing field") and can be compared to our classification of each company as HPC or ORDs. We evaluate the corporate governance practices of the companies based on their annual reports and web pages (investor relations section).

The method applied here for evaluation of the standard and quality of corporate governance has considered all the relevant conditions of corporate governance stipulated by corporate governance principles of Turkey which were established by the Capital Markets Board of Turkey in 2005. Reed (1998) emphasized that the practice of corporate governance varies across firms due to a number of factors; (a) formal mechanism of governance, (b) regulatory and macroeconomic circumstance, (c) credit system, (d) tax policy, (e) macro stabilization policy, and (f) industrial planning. However, we believe that the criteria we used to determine the level of each company's corporate governance is relevant across all industries because it focuses on actions taken by management. It is our belief that effective corporate governance starts at the top and that is the main characteristic that our study measures.

In order to ascertain how far these companies are compliant of governance standard, each parameter is scored on a binary bases as "yes" or "no". Each "yes" answer is equal to one point. Where we cannot obtain enough information in order to score a parameter as "yes" or "no", we coded as "no". Although this method is subjective having its own limitations, it helps us to pinpoint the quality and effectiveness of corporate governance with points assigned to important parameters of governance. Accordingly, each such company has been awarded points on some parameters, which constitute the governance process in company. The corporate governance scorecard, grouped into the following sub-categories, are presented in

Table 2:

1. Shareholders
2. Public Disclosure and Transparency
3. Stakeholders
4. Board of Directors

Table 2. **Corporate governance scorecard**

SHAREHOLDERS	
1	Statement of Company's Philosophy in Code of Governance
2	Shareholder's/Investors relations department
3	The company provides contact details for a specific investor relations person.
4	Disclosure of the attendance rate at annual shareholders' general meeting
5	Location and time of general meetings held
6	Agendas of the general shareholder meeting
7	Minutes of the general shareholders' meeting
8	Minutes of the important board of directors meeting
9	The firm follows the one share-one vote principle
10	The cumulative voting procedure is adopted
11	The company has a clearly defined and consistent dividend policy
12	Disclosure of remuneration policy
13	Disclosure of salaries of senior management
14	The company presents its financial statements on time.
15	The company has an internal audit operation established as a separate unit in the company.
16	Auditing firm expresses a standard auditing opinion
Public Disclosure and Transparency	
17	Two executives responsible for public disclosure
18	Disclosure of risk management practices
19	Discloses forward looking information (Pro Forma Financial Statements and Reports)
20	The company maintains a website
21	Website is available in English
22	Information about the management structure
23	Capital structure is presented in a table format
24	Statistical data and graphics is incorporated in the annual report
25	Whistle blower policy
26	Annual report available for download from the company website
27	Presenting financial ratios.
28	Presenting share-price trend/behavior.
29	Presenting the amount of market capitalization.
30	Presenting the shareholders owned 5% + of shares
31	Disclosure of audit fees.
Stakeholders	
32	Employment policy that would provide equal opportunity
33	Employee compensation policy
34	Qualitative information on environmental protection program.
35	Quantitative information on environmental protection program.
36	Sponsoring public health, sporting, and educational activities.
37	Existence of ethical rules.
38	Employee health and safety measures
39	Information about relationships with customers and suppliers
Board of Directors	
40	List of board members.
41	Disclosure of responsibility for each board member
42	Disclosure of educational qualifications (academic and professional) of directors
43	Board of directors convene at least once a month

44	Board chairman and CEO are not the same person
45	Majority of the board of directors are non-executive members
46	Majority of the board of directors are independent members
47	Disclosure of tenure of board of directors (Duration of Directors Contracts)
48	Existence of corporate governance committee
49	Existence of audit committee
50	Chairman of each committee is an independent member
51	Transparency in composition of audit committee
52	Compliance of minimum requirement of the number of independent directors in the audit committee.
53	The audit committee convenes at least once in three months
54	Publishing of audit committee report

Under each of these four categories, details have been developed to determine the exact points assigned to a company.

5.3. Results

The research of evaluation on corporate governance standards adopted and practiced by all of 60 companies including both HPCs and ORDs as disclosed in their annual reports and web pages (investor relations section) are shown in Table 3. Table 3 sorts the pairs in a descending order of score differences between HPCs and ORDs. The individual total scores range from a high of 80.0 percent to a low of 20.0 percent of the total possible. The median score is 54.63 percent. As expected, the top score is achieved by an HPC, Turkcell Ltd., while the lowest score is recorded by an ORD, Polylen Ltd. Clearly, there are HPCs that excel at corporate governance, whereas there are also laggards among the HPCs.

Table 3. **Governance standards attained by the HPCs and Non_HPCs for the year 2010**

No	Company Name	Indıvidual Score_ max. 54	Rank	Percentage
1	İzocam Tic ve San. A.Ş. (HPC)	29	31	53,7%
2	Polylen Sentetik İplik Sanayii A.Ş.	11	60	20,4%
3	Vakko Tekstil ve Hazır Giyim Sanayi İşletmeleri A.Ş. (HPC)	28	35	51,9%
4	Menderes Tekstil San. ve Tic. A.Ş.	13	58	24,1%
5	Çelebi Hava Servisi A.Ş. (HPC)	35	14	64,8%
6	Uçak Servisi A.Ş.	22	53	40,7%
7	AFM Uluslararası Film Prodüksiyon Tic. ve San. A.Ş. (HPC)	25	48	46,3%
8	Favori Dinlenme Yerleri A.Ş.	12	59	22,2%
9	Zorlu Enerji Elektrik Üretim A.Ş. (HPC)	40	3	74,1%
10	Aksu Enerji ve Ticaret A.Ş.	28	39	51,9%
11	Türk Hava Yolları A.O. (HPC)	38	6	70,4%
12	Reysaş Taşımacılık ve Lojistik Tic. A.Ş.	27	42	50,0%
13	Adana Çimento Sanayii Türk A.Ş. (HPC)	32	21	59,3%

14 Göltaş Göller Bölgesi Çimento San. ve Tic. A.Ş.	22	52	40,7%
15 Acıbadem Sağlık Hizmetleri ve Tic. A.Ş. (HPC)	32	22	59,3%
16 Marmaris Altınyunus Turistik Tesisler A.Ş.	22	54	40,7%
17 Ford Otomotiv Sanayi A.Ş. (HPC)	39	4	72,2%
18 Anadolu Isuzu Otomotiv San. ve Tic. A.Ş.	29	33	53,7%
19 Eczacıbaşı İlaç, Sınai ve Finansal Yatırımlar San. ve Tic. A.Ş. (HPC)	40	2	74,1%
20 Deva Holding A.Ş.	32	23	59,3%
21 Anadolu Efes Biracılık ve Malt Sanayii A.Ş. (HPC)	38	7	70,4%
22 Türk Tuborg Bira ve Malt Sanayii A.Ş.	30	30	55,6%
23 Gubre Fabrikalari T.A.Ş.(HPC)	36	10	66,7%
24 Ege Gubre Sanayii A.Ş.	29	34	53,7%
25 Enka Inşaat ve Sanayi A.Ş. (HPC)	32	20	59,3%
26 Edip Gayrimenkul Yatırım San. ve Tic. A.Ş.	26	45	48,1%
27 Intema İnşaat ve Tesisat Malzemeleri Yat. ve Paz. A.Ş.(HPC)	26	43	48,1%
28 Milpa Ticari ve Sinai Ürünler Paz. San. ve Tic. A.Ş.	20	55	37,0%
29 Otokar Otomotiv ve Savunma San. A.Ş. (HPC)	33	16	61,1%
30 Karsan Otomotiv Sanayii ve Tic. A.Ş.	28	40	51,9%
31 Boyner Büyük Mağazacılık A.Ş. (HPC)	33	18	61,1%
32 BİM Birleşik Mağazalar A.Ş.	28	41	51,9%
33 Kelebek Mobilya San. ve Tic. A.Ş. HPC)	26	44	48,1%
34 İdas İstanbul Döşeme Sanayii A.Ş.	22	51	40,7%
35 Turkcell İletişim Hizmetleri A.Ş. (HPC)	43	1	79,6%
36 Türk Telekomünikasyon A.Ş.	39	5	72,2%
37 Arena Bilgisayar San. ve Tic. A.Ş. (HPC)	35	13	64,8%
38 Datagate Bilgisayar Malz. Tic. A.Ş.	32	24	59,3%
39 Türkiye Petrol Rafinerileri A.Ş. (HPC)	37	9	68,5%
40 Petkim Petrokimya Holding A.Ş.	35	15	64,8%
41 Şeker Piliç ve Yem Sanayi Tic. A.Ş. (HPC)	29	32	53,7%
42 Banvit Bandırma Vitaminli Yem San. A.Ş.	28	38	51,9%
43 Adel Kalemcilik Tic. ve San. A.Ş. (HPC)	33	17	61,1%
44 Serve Kırtasiye San. ve Tic. A.Ş.	33	19	61,1%
45 Gentaş Genel Metal San. ve Tic. A.Ş. (HPC)	30	28	55,6%
46 Feniş Alüminyum San. ve Tic. A.Ş.	31	26	57,4%
47 Izmir Demir Çelik San. A.Ş. (HPC)	30	27	55,6%
48 Ereğli Demir Çelik Fabrikaları T.A.Ş.	31	25	57,4%
49 Ege Profil Tic. ve San. A.Ş. (HPC)	25	47	46,3%
50 Pimaş Plastik İnşaat Malzemeleri A.Ş.	30	29	55,6%
51 Konfrut Gıda San. ve Tic. A.Ş. (HPC)	19	56	35,2%
52 Dardanel Önentaş Gıda San. A.Ş.	26	46	48,1%
53 İpek Matbaacılık San. ve Tic. A.Ş. (HPC)	16	57	29,6%
54 Bayindir Matbaacılık A.Ş.	24	49	44,4%
55 Bosch Ev Aletleri San. ve Tic. A.Ş. (HPC)	28	37	51,9%
56 İhlas Ev Aletleri İmalat San. ve Tic. A.Ş.	36	12	66,7%
57 Borusan Mannesmann Boru San. ve Tic. A.Ş. (HPC)	28	36	51,9%
58 Kordsa Global Endüstriyel İplik ve Kord Bezi San. ve Tic. A.Ş.	38	8	70,4%
59 Mutlu Akü ve Malzemeleri San. A.Ş. (HPC)	22	50	40,7%
60 Aksa Enerji Üretim A.Ş.	36	11	66,7%

Table 4 shows that 18 of the 30 companies above the median are HPCs and Turkish HPCs dominate the upper quartiles of companies with better corporate governance practices as compared with Turkish ORDs based on individual percentile scores on the assigned point-value system.

Table 4. **Turkish HPCs and Non-HPCs grouped in quartiles of governance scores**

	Number of Companies	
Quartiles	HPCs	Non-HPCs
1	10	5
2	8	7
3	7	8
4	5	10
Totals	30	30

Turkcell Ltd. represents a good case study for a HPC that has strived and achieved a relatively high levels of corporate governance. Turkcell's shares have been traded on the Istanbul (IMKB) and New York Stock Exchanges (NYSE) since July 11, 2000, and it is the first and only Turkish company ever to be listed on the NYSE.

To obtain a better understanding of the corporate governance practices at Turkish companies, Table 4 provide the descrpitive statistics of HPCs and ORDs for each categories and in total. It can be observed that the mean corporate governance scores of HPCs are superior than ORDs in all sub-categories and in total.

Table 5. **Descriptive statistics of Turkish HPCs and ORDs**

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	SHAREHOLDERS_HPC	10,4667	30	1,79527	,32777
	SHAREHOLDERS_ORD	9,7667	30	2,75034	,50214
Pair 2	DISCLOSURE_HPC	8,9000	30	2,10664	,38462
	DISCLOSURE_ORD	7,5333	30	2,68756	,49068
Pair 3	STAKEHOLDERS_HPC	5,0333	30	1,77110	,32336
	STAKEHOLDERS_ORD	3,7333	30	2,24274	,40947
Pair 4	BOD_HPC	6,8667	30	2,60944	,47642
	BOD_ORD	6,3333	30	2,30940	,42164
Pair 5	TOTAL_HPC	31,2667	30	6,32419	1,15463
	TOTAL_ORD	27,3667	30	7,11232	1,29853

Similar to previous studies on HPCs, we emprically investigate the hypothesis that, as compared to ORDs, HPCs will have statistically superior corporate governance practices in total and in sub-categories such as shareholders, tranparency and disclosure, stakeholders, and board of directors. Table 5 compares Turkish HPCs with their paired ORD peers on individual scores for each sub-category and in total. We found that HPCs exceed ORDs on average individual scores but the difference is statistically significant at the 0.05 level for disclosure and tranparency, stakeholders, and in total.

Table 6. **Comparison of corporate governance scores of Turkish HPC and ORDs**

Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	SHAREHOLDERS_HPC - SHAREHOLDERS_ORD	,70000	3,41548	,62358	-,57536	1,97536	1,123	29	,271
Pair 2	DISCLOSURE_HPC - DISCLOSURE_ORD	1,36667	2,57954	,47096	,40345	2,32988	2,902	29	,007
Pair 3	STAKEHOLDERS_HPC - STAKEHOLDERS_ORD	1,30000	2,35108	,42925	,42209	2,17791	3,029	29	,005
Pair 4	BOD_HPC – BOD_ORD	,53333	2,94470	,53763	-,56624	1,63290	,992	29	,329
Pair 5	TOTAL_HPC – TOTAL_ORD	3,90000	7,83604	1,43066	,97398	6,82602	2,726	29	,011

SUMMARY AND CONCLUSION

We began this research with the objective of examining the concept of corporate governance in Turkey and analyzing the compliance of HPCs as well as comparable, but lower performing ordinary companies (ORDs). First, we found that Turkish companies generally, whether HPC (57.90 %) or ORD (50,68 %), score moderate on measures of corporate governance. Next, we observe that Turkish HPCs dominate the upper quartiles of companies with better corporate governance practices as compared with Turkish ORDs based on individual

percentile scores on the assigned point-value system. Further analysis show that, HPCs exceed ORDs on corporate governance scores and the differences are statistically significant for the sub-categories of disclosure&tranparency and stakeholders, and in total. In conclusion, these results confirm conclusions of earlier research on high performance companies in other economies and supports the proposition that Turkish HPCs apply superior corporate governance practices compared to ORDs.

LIMITATIONS AND FUTURE RESEARCH

The evidence presented here is subject to some caveats. First, an important limitation of our study and most of the prior literature is that the dependent variable (corporate governance quality) is difficult to measure and hence, our results are subject to measurement error problems. The evaluation of corporate governance practices has been made are subjective and is based on the information in the annual report and web page of each company. Further, we do not know if these findings are specific to Turkey or whether is applies universally to other emerging economies. We also do not know the long-term effects of poor corporate governance. With these limitations in mind, we suggest the following areas for future research:

- Is good performance the result of good corporate governance and bad performance always preceded by bad governance?
- How to measure the effectiveness of corporate governance in a company?
- What are the causes of improper functioning of the corporate system in Turkey?
- What is the role of ethics in corporate governance?

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