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Corporate governance is improving in Turkey but some challenges remain

Corporate governance is improving in Turkey but some key issues, including the potential for unfair treatment of minority shareholders, need to be tackled if Turkish firms are to take full advantage of opportunities to grow in coming years, according to a new OECD report.

Corporate Governance in Turkey: A Pilot Study evaluates Turkish corporate governance standards and practices in light of recommendations in the *OECD Principles of Corporate Governance*, which were first issued in 1999 and revised in 2004. It is the first study of its kind in an OECD member country.

Good corporate governance has become essential for any company or country that wants to compete effectively in the global marketplace and attract long-term capital to grow their businesses.

Turkey has a strong regulatory framework for corporate governance, according to the report. Disclosure to the market by listed companies is improving, and international standards for accounting and auditing are being introduced. The report urges the Turkish government to adopt as soon as possible proposed amendments to Turkish company law, including a proposal to centralise the process for setting accounting standards under the Turkish Accounting Standards Board.

But some challenges remain. Family-controlled groups of companies are a common feature of the Turkish business scene, often with a high degree of cross-ownership between companies, the report notes. Controlling shareholders often play a leading role in the management and strategic direction of company groups, many of which include companies that are listed on the Istanbul Stock Exchange. This is not a problem in itself. Without effective safeguards, however, there is potential for abuse, for example in situations where controlling shareholders impose commercial conditions that go against the interests of the company as a whole and minority shareholders. Market discipline – defined as the power of financial markets to persuade companies to meet corporate governance standards or risk public criticism, lawsuits or a sell-off in their shares – is still relatively weak.

To address this, the OECD recommends that Turkey strengthen the laws on deals involving related parties, for example by implementing proposed amendments to Turkish company law requiring more disclosure about deals between companies that belong to a group and requiring controlling companies to compensate controlled companies for losses resulting from the exercise of control.

The report also recommends that publicly held companies be required to give more detailed and easier-to-understand disclosure about who owns them and controls them, proposes tougher penalties for breaking the law and encourages the authorities to focus more resources on enforcing these laws.

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In parallel, the OECD urges Turkey to give greater scope to institutional investors in the exercise of their rights as shareholders. At present, pension and mutual funds regulated by the Capital Markets Board (CMB) cannot participate actively in governance of the companies in which they invest and are subject to portfolio limits that restrict their incentives to monitor corporate governance practices. These restrictions should be eliminated and funds should disclose the corporate governance policies that they apply to their investments.

Elsewhere, the report emphasises the vital role of boards in improving company performance and ensuring fair treatment for all shareholders. To fulfil this role, boards must be both able and willing to exercise objective and independent judgement. With this in mind, the report recommends that all publicly held companies disclose adequate information to shareholders about how their boards work and to fully implement the board structures and practices recommended by the OECD.

Finally, the report stresses the need for supervisory, regulatory and enforcement authorities to have the power, integrity and resources to act professionally and objectively. Independent regulators like the CMB need stable funding, freedom to decide how they spend their budget and clear support from government, it says. The continued strong leadership and independence of the CMB and other independent financial sector authorities are crucial for the long-term vitality of the corporate sector in Turkey and the economy as a whole.

Corporate Governance in Turkey: A Pilot Study has been issued by the OECD's Steering Group on Corporate Governance. The assessment was carried out using a draft of a new assessment methodology recently developed by the Steering Group for use by the World Bank and others.

The *OECD Principles of Corporate Governance* are available at www.oecd.org/daf/corporate-affairs. Two annexes to the report, including a detailed Principle-by-Principle assessment, will also be made available at www.oecd.org/daf/corporate-affairs following the release of the report.

The report is available to journalists on the password-protected website or from the OECD's Media Division (tel. + 33 1 45 24 97 00).

Corporate Governance in Turkey: A Pilot Study can be purchased in paper or electronic form through the OECD's Online Bookshop. Subscribers and readers at subscribing institutions can access the online version via SourceOECD.