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International Corporate Governance Systems : Is Convergence Among the Systems a Dream?

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ABSTRACT

As competition for foreign and domestic investment grows, the concept of corporate governance attracts considerable attention as an effective tool to improve firm competitiveness and the major economic and business environment in a country. Corporate governance in the last few decades has evolved in response to corporate scandals, company failures and systemic crisis. It is a complex subject which cannot be analyzed without taking societal, cultural and historical factors into consideration. In the majority of the academic studies, there is an agreement that three main corporate governance systems are the Anglo-Saxon, the German (Continental European), and the Japanese one. It is obvious that much work still needs to be done in the field of corporate governance reform in both developed and developing countries, although governance standards are improving and it is expected that this trend will continue.

KEYWORDS : Corporate Governance, OECD, Corporate Governance Principles, Anglo-Saxon System, Convergence

1.Introduction

In today's complex business environment globalization and the financial market liberalizations have provided new opportunities for enhanced profits to the international investors. On the other hand, companies are now much more exposed to intense competition and significant amount of capital fluctuations due to the reason that they need to attract both domestic and international capital in order to conduct their business operations. As competition for foreign and domestic investment grows, and firms look for new ways to remain competitive, the concept of corporate governance attracts considerable attention as an effective tool to improve firm competitiveness and the major economic and business environment in a country.

Although corporate governance is a relatively new term, it involves a process, which has been practiced for as long as corporate entities have existed. Providers of necessary financing for companies such as pension funds, mutual funds, banks or other financial institutions demand assurances that their investments will be protected and will obtain the promised return. Good corporate governance is at the center of this process, which ensures that management of corporate entities is conducted in accordance with the highest standards of ethics and efficiency (Gregory and Simms, 1999).

Many international codes, including the Organization of Economic Cooperation and Development (OECD) Principles, underline the role of stakeholders in the governance process. They indicate the external aspect of corporate governance, which concentrates on the relationship between the company and its stakeholders. Stakeholders are those individuals or institutions, who have an interest in the company such as investors, employees, creditors, consumers, suppliers, regulatory bodies and the local community in which a company conducts business. Firms sometimes act at the expense of shareholders. However, as it was also emphasized by the International Finance Corporation (IFC, 2010) there is a consensus that in today's business world, modern companies cannot fully operate by ignoring the concerns of the stakeholders. On the other hand, it is obvious that companies, which persistently place stakeholders' interests before those of shareholders cannot remain competitive in the industry in which it operates over the long run.

Corporate governance in the last few decades has evolved in response to corporate scandals, company failures and systemic crisis. Corporate scandals, which occured in many countries at the beginning of the new century (e.g. Enron, Worldcom, Global Crossing in the US) all forced politicians, financial regulators and supranational organizations like the European Union (EU), the OECD, and the International Monetaray Fund (IMF) to develop more effective governance practices (Zattoni, Cuomo, 2008). As Huse (2007) points out, trust is an indispensable part of free market capitalist system and these corporate scandals did not only result from executive failures but also from governance deficiencies. The various corporate scandals and frauds have once more underlined the fact that corporate governance deserves particular attention.

Reputation has become a key element for a company's success because it positively contributes to its assets. Good corporate governance practices will undoubtedly improve a company's reputation and consequently, such companies will enjoy more public confidence and greater trust in company products, which will lead to higher sales and higher profits. All of these factors will eventually play a significant role in the valuation of the company. However, as it was also emphasized by the it should also be noted that corporate governance is not a one-time exercise, but rather an ongoing process, which should be reagularly updated and reviewed. Global investors are aware of the difference and tend to value long-term commitment to good corporate governance practices rather than a single action (IFC, 2010).

The plan of the study, which aims to elaborate the international corporate governance principles and practices, is as follows. In the first section, the definition and the evolution of the corporate governance will be presented. In the second section, the reasons why corporate governance is important will be explained. In the third section, the OEDC Corporate Governance Principles will be reviewed. In the fourth section, international corporate governance systems will be introduced under the subheadings of the Anglo-Saxon, the German (Continental European) and the Japanese systems. In the fifth section, the developments about the corporate governance practices in Turkey will be investigated. In this context, detailed information about the Borsa Istanbul (BIST) Corporate Governance Index (XKURY) will be presented. In the conclusion part, the possibility of convergence in the international corporate governance practices will be discussed.

2.Definition and the Evolution of Corporate Governance

While the term corporate governance is used universally and frequently, there is no single accepted definition that can be applied to all situations. The term "corporate governance" can both be narrowly and broadly defined. According to a narrow definition by Gregory and Simms (1999), it concerns the relationships between corporate managers and shareholders. Larcker and Tayan (2011) define corporate governance as a control tool that an organization uses to prevent self-interested managers from engaging in activities detrimental to the material interests of shareholders and stakeholders. Supporting this view, Anand (2008) states that corporate governance is the principle by which the Board of Directors (BOD) effectively monitor and direct the activities of the corporate entity. If implemeted properly, Corporate Governance Principles will guarantee that the interests of shareholders are represented and that the corporate entity will meet all of its ethical and legal obligations.

The OECD (2004) defines corporate governance as :
Procedures and processes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the Board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making.

With the above defintion, the OECD states that corporate governance is related to issues in four major areas : (1) rights and responsibilities of shareholders, managers and the Board, (2) role of stakeholders, (3) equitable treatment of shareholders, and (4) sufficient amount of transparency and disclosure.

3.Importance of Good Corporate Governance for Firms

After big corporate scandals, corporate governance has become crucial for most companies. Investor protection has gained significant importance for almost all financial markets as a result of these tremendous company failures and scandals. As Aras and Crowther underline (2009), investors demand that firms implement corporate governance principles properly in order to achieve better returns on their investments and to reduce agency costs. For this reason, companies cannot ignore the pressure for good governance demanded by shareholders, potential investors and other stakeholders.

It is obvious that good corporate governance is rewarded with higher market valuation and companies with better corporate governance practices also enjoy higher price-to-book ratios. Investors are actually ready to pay a premium for a company that is respectful to shareholder rights, has transparent financial reports, and has an independent Board providing management oversight, which constitute basis of corporate governance approaches (Campos, Newell and Wilson, 2002). Good corporate governance is important not only because it represents sound values, but also because it allows a firm to maximize wealth in a legitimate way.

Although, there is no single definition of corporate governance and it is subject to debate to measure good corporate governance, it is obvious that adopting good corporate governance practices has many benefits on company performance. Aras and Crowther (2009) specify these benefits, which result from good governance practices as :

- It creates sustainable value and ensures efficient use of resources.
- It increases shareholders' satisfaction and credibility.
- It provides efficient and effective management.
- It ensures efficient risk management and provides an early warning system against all risks.
- It ensures a responsive and accountable corporation.
- It keeps the Board independent from management.
- It improves decision-making processes,

In addition to the main points mentioned above, corporate governance is also important because the quality of corporate governance has several vital impacts on : (1) the efficiency with which corporations employ assets ; (2) its ability to attract low cost capital ; (3) its ability to meet societal expectations ; and (4) its overall performance (Gregory and Simms, 1999). For publicly traded firms, one of the most important benefis of good corporate governance practices is its effect on share value, liquidity and investor portfolio strategy. Such a benefit is the main motivating factor of the members of the Board when they make up their mind to involve in corporate governance practices or to improve existing ones (OECD, 2011).

4.The OECD Principles of Corporate Governance

Since corporate governance is very influential on the firm performance, firms should know what these Corporate Governance Principles are and how applying these principles will improve strategies of the companies. The OECD Principles of Corporate Governance were originally developed in response to a call by the OECD Council Meeting at Ministerial level on 27-28 April 1998 at the height of the Asian crisis in order to promote the core standards of corporate governance : fairness, transparency, accountability and the responsibility. A Task Force was formed, which comprised of representatives from the 29 OECD member nations, as well as representatives from interested international organizations and business and labor unions. In April of 1999, the Task Force issued a set of corporate governance principles that formalize the views of the Task Force members on the fundamentals (Gregory and Simms, 1999).

Since the principles were agreed in 1999, although they are intended to be non-binding, they formed the basis for corporate governance initiatives in both OECD and non-OECD countries for them to improve corporate governance. The OECD Principles of Corporate Governance are intended to assist OECD and non-OECD governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries. In addition to this, they provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance. The Principles mainly focus on publicly traded companies, both financial and non-financial but they might also be a useful tool to improve corporate governance in non-traded companies (OECD, 2004).

The Principles were reviewed to take into account of developments and experiences in OECD member and non-member countries. The revisions made in 2002 strenghtened the 1999 principles in four major areas of concern (Clarke, 2007) :

- Ensuring the basis for an effective corporate governance framework, including effective regulatory and enforcement mechanisms,
- Improving possibilities for the exercise of informed ownership by shareholders,
- Strengthening of Board oversight of management,
- Increasing attention to conflicts of interest through enhanced disclosure and transparency.

The Principles are not legally binding and do not aim at detailed prescriptions for national legislation. Rather, they try to identify objectives and suggest various means for achieving them. Their main purpose is to serve as a reference point for other countries to develop their own national corporate governance practices. They can be used by policy makers in order to develop their legal and regulatory frameworks for corporate governance, which reflect their own economic, social, legal and cultural circumstances (OECD 2004).

The framework of OECD Corporate Governance Principles is built on four core values (IFC, 2010) :

Fairness: The corporate governance framework should protect the shareholder rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders.

Responsibility: The corporate governance framework should recognize the rights of stakeholders as established by law. It should also encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

Transparency: The corporate governance framework should ensure that timely and accurate disclosure is made on all material subjects about the company, including its most recent financial situation, governance structure, performance and ownership.

Accountability: The corporate governance framework should provide the strategic guidance of the company, the effective monitoring of management by the BOD, and the Board's accountability to the company and shareholders.

5.The International Corporate Governance

Corporate governance is a complex subject which cannot be analyzed without taking societal, cultural and historical factors into consideration. This is particularly important in order to understand the differences and concerns related to the corporate governance practices of different countries. Many codes of best practices and corporate governance principles have been formed in the last few decades in many different countries in a variety of regions in the world. Different corporate governance systems have emerged and continue to emerge as a response to different legal backgrounds, cultures, history and the governance practices. In the majority of the academic studies, there is an agreement that three main corporate governance systems exist, which are the Anglo-Saxon (US and the UK), the German (Continental

European), and the Japanese.

5.1.The Anglo-Saxon System of Corporate Governance
According to the Anglo-Saxon corporate governance system, the capital market is the primary source of capital and corporate success is measured with return on invested capital. The legal system in these countries is originated from common law and investor protection and markets have high priority. In the Anglo-Saxon system, which is also named as market-based corporate governance system, investors, either individuals or institutions have the highest impact on corporate policies and decision making (Durukan, Ozkan, Dalkilic, 2009). The individual investors are in the center of system due to the reason that a dispersed ownership structure exists in the Anglo-Saxon corporate governance system.

Today, the largest and the most liquid capital markets are in the United States (US). The US market is the largest in terms of various criteria such as trading volume, value of public equity offerings, and corporate and securitized debt outstanding. The Securities and Exchange Commission (SEC) is the most important regulatory body in the US, which was created by the Congress in 1934. The SEC has various powers such as to have the authority to regulate securities exchanges (such as the New York Stock Exchange, the NASDAQ, and the Chicago Mercantile Exchange), to bring civil enforcement actions against firms or managers, who violate securities law through insider trading, fraud or false disclosure, and to provide the quality of accounting standards, and the financial reporting. The US corporate governance system is shareholder-centric, which means that it emphasizes the interests of shareholders (Larcker and Tayan, 2011).

One important piece of federal legislation related to the U.S. corporate governance is the Sarbanes-Oxley Act of 2002. This legislation has been regarded by many people as the single most important piece of legislation affecting companies since the Securities Exchange Act of 1934. In the US, corporate scandals and company failures associated with firm such as Enron, Tyco and Global Crossing seem to have accelerated the introduction of the Sarbanes–Oxley legislation (Wearing, 2005). It introduces radical corporate law changes related to financial reporting, internal accounting controls, personal loans from companies to their managers, and the destruction of documents. In addition, Sarbanes–Oxley Act restricts the range of additional services that an audit firm can provide to its client. There are increased penalties for executives and professionals who attempt to commit fraud (Larcker and Tayan, 2011).

The British model of corporate governance has many common points with that of the U.S. model. This mainly results from the similarities between these two countries in terms of capital markets structure, legal basis, regulatory approach, and cultural values. As Larcker and Tayan (2011) point out, like the U.S., the British model is also shareholder-centric, with a single BOD, management participation on the Board, and an emphasis on transparency and disclosure by means of audited financial reports. Publicly traded companies in the UK are not legally obliged to adopt the standards of the Revised Combined Code. Instead, the London Stock Exchange requires that they issue an annual statement to shareholders stating whether they are in compliance with the Code and, if not, indicating their reasons for noncompliance. This practice, known as "comply or explain", puts the burden on public shareholders to monitor whether the company's explanation for noncompliance with the Code is acceptable. Even if compliance with Code is voluntary and based on the "comply or explain" rule, empirical evidence shows that publicly traded companies take the main code recommendations into account (Zattoni and Cuomo, 2008).

As Lehmann and Weigand (2000) state, the Anglo-Saxon financial system has been criticized for short-termism, ignorance of interests other than shareholders, and inefficiency in delivering effective corporate governance by some commentators. They have also suggested that corporate governance tends to be reviewed only when a crisis occurs. For those who see business ethics as the essential element of the system, the recommendations offered by bodies such as the Cadbury Committee did not provide a solution.

5.2.The German (Continental European) System of Corporate Governance
Legal tradition in Germany is based on civil code instead of the common-law system of the UK and the USA. A civil-code tradition means that legislation mandates more aspects of governance and German corporations have less rights to determine their own structures and processes. Germany requires that corporations have a two-tiered Board structure instead of the unitary structure practiced in the UK and the US. In the two-tiered Board, the Executive Board (Vorstand) is responsible for making decisions on such day-to-day operations such as strategy, product development, manufacturing, finance, marketing, distribution, and supply chain. The second Board, Supervisory Board (Aufischtsrat), which is made up entirely of non-executive directors, oversees the Executive Board. The Supervisory Board is responsible for appointing members to the Executive Board, approving financial statements, making decisions regarding major capital investments, mergers and acquisitions and the payment of dividends (Larcker and Tayan, 2011).

Concentrated ownership is one of the prominent features of the German system. German corporations are generally in the hands of large blockholders and widely dispersed outside shareholdings as in the USA or UK are not common. Ownership stuctures do not change much over time. Although improving recently, the German stock market is still relatively small concerning listings and market capitalization. Close ties between industrial firms and financial institutions such as banks apparently ease access to debt capital, thus reducing the need to attract equity capital on the stock market (Lehmann and Weigand, 2000).

In contrast to the Anglo-Saxon system, German corporate governance system relies more on the banks instead of the capital markets for the required financing due to historical reasons. These relationships developed after the Second World War, in which German banks provided loans to hard-hit firms and they received portions of the companies' ownership as collateral. In return, bank managers were given a seat on the Supervisory Board. Given the large representation by labor and financial institutions, German shareholders have always had far less influence over the Board than shareholders in the U.K. and the U.S. This structure constitutes a serious risk to the rights of minority shareholders because they have to rely on other stakeholders to protect their interests. In Germany, creditors have stronger rights than they do in the US and the UK, and rights of shareholders are weaker (Shleifer and Vishny,1997). On the other hand, increased liberalization of capital markets in recent years and a gradual shift from bank financing to financing through securities markets have changed several features of the German corporate governance system (Larcker and Tayan, 2011).

5.3.The Japanese System of Corporate Governance
Like in Germany, the Japanese system of governance dates back to the post–World War II era. The Japanese developed a loose system of interrelations between companies, called the keiretsu because at the end of the war, Allied forces forbade the Japanese zaibatsu, the powerful industrial and financial conglomerates that composed much of the country's pre-war economic strength (Shleifer and Vishny, 1997).

In Japan, as in Germany, banks also own minority shares in industrial firms and are key partners in the keiretsu. The corporate culture in Japan is highly stakeholder-centric as opposed to the Anglo-Saxon system. Proponents claim that unlike Western styles of capitalism, the Japanese system encourages a long-term perspective, and divides the benefits of success more equitably among constituents. On the other hand, critics of the Japanese system believe that it is extremely resistant to change. However, as Larcker and Tayan (2011) indicate, as Japanese companies access global capital markets, international institutional shareholders have replaced the role of major banks. Consequently, Japanese companies find themselves faced with pressures coming from shareholders that emphasize operational efficiency and shareholder value over conservative management.

6.Corporate Governance Practices in Turkey
Turkey is a civil law country and as many studies indicate, the emphasis has been on the controlling shareholders rather than capital markets. As Ararat and Ugur (2003) argue, low liquidity, high volatility, high cost of capital and limited capital formation have been the main features of the Turkish capital market. The capital market is not considered as a source of funds for the Turkish companies and consequently, a very small percentage of the Turkish companies are listed

in the Borsa Istanbul (BIST). As Durukan et. al. (2009) denote, major characteristics of Turkish corporate governance system are similar to German and Japanese corporate governance systems, which can be listed as concentrated ownership, pyramidal structures, family owned companies and low investor protection. Turkey is still in a transtion period on the way to improve capital market's institutional and legal structures.

By the beginning of 2000, authorities realized that regulations were not sufficient to meet the international corporate governance requirements. However, there has been a general approach for reform of corporate governance in Turkey. Two major institutions taking the lead in this issue are the Turkish Industrialists' and Businessmen's Association (TUSIAD), which established a Working Group on Corporate Governance in 2000 and the Capital Markets Board (CMB), which issued corporate governance principles with the aim of enhancing the corporate governance regulations in Turkish listed companies in July of 2003. By realizing that no single model can fit every country, the CMB examined the regulations of many countries and primarily accepted and recommended the OECD Principles of 1999. The Corporate Governance Principles of the CMB were revised in 2005 to adjust with the revised OECD principles (Arsoy and Crowther, 2009).

The corporate governance principles issued by the CMB were based on the "comply or explain" approach meaning that the implementation of the CMB Principles is discretionary. The CMB Principles have four major parts : shareholders, public disclosure and transparency, stakeholders and the Board of Directors (CMB, 2003). As Arsoy and Crowther (2008) state Corporate Governance Principles are crucial for the stakeholders since stakeholders should be informed about the company in an accurate, reliable and transparent manner.

6.1.The BIST Corporate Governance Index

The BIST Corporate Governance Index (XKURY) is composed of listed companies who accomplished a certain level of Corporate Governance Principles. XKURY aims to measure the price and return performances of companies traded in BIST Markets with a corporate rating of minimum 7 over 10 points. The corporate governance rating is calculated by the five rating institutions approved by the CMB to evaluate and rate the companies' compliance with the corporate governance principles of Turkey as a whole. In this context, XKURY started to be calculated on 31.08.2007 with the initial value of 48.082,17. Companies listed in the BIST are encouraged to comply with the corporate governance principles. Although the implementation of these principles is optional, companies now have to disclose the extent of compliance in corporate governance compliance section included in the annual report (SAHA, 2014).

The ratings of companies included in the XKURY can be provided from the related disclosures of the companies sent to the Public Disclosure Platform (PDP). There were only five companies (Doğan Yayın Holding, Vestel Elektronik, Y&Y Gayrımenkul Yatırım Ortaklığı, Tofaş and Türk Traktör) when XKURY was introduced on 31 August 2007. Today, the index comprises **54** companies. This number is very low as compared to more than 400 companies listed in the BIST. However, the president of the BIST, İbrahim Turhan stated that according to a recent survey conducted among 215 companies that belong to 11 different industries, 62 of these companies expressed that they have corporate governence strategies and they would like to participate into XKURY in the near future. This situation indicates that the importance given to corporate governance practices has increased significantly among the BIST companies recently (Kaplangil, 2013).

Table 1
Companies included in the BIST Corporate Governance Index (XKURY) (as of July 2014)

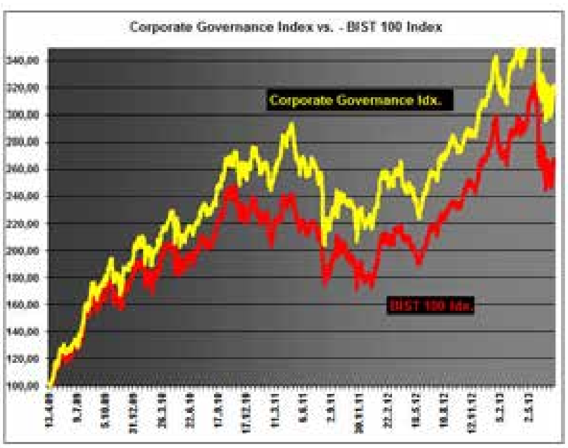
Rated Company	First Rating, Date, Rating Firm	Last Rating, Date, Rating Firm
1.Doğan Yayın Holding	81.19, April 2006, ISS	89.41, March 2014, ISS
2. Vestel Elektronik	75.91, March 2007, ISS	89.45, March 2014, ISS
3. Y&Y GYO	78.83, April 2007, SAHA	90.40, April 2014, SAHA
4. Tofaş Türk Oto Fabrikası A.Ş.	75.72, May 2007, SAHA	89.51, May 2014, SAHA
5. Türk Traktör ve Ziraat Mak A.Ş.	75.17, August 2007, SAHA	90.46, August 2014, Saha Rating
6. Hürriyet	79.67, September 2007, ISS	92.96, September 2014, SAHA
7. Tüpraş	79.12, October 2007, SAHA	93.10, October 2014, SAHA
8. Otokar A.Ş.	79.40, March 2008, SAHA	91.99, March 2014, SAHA
9. Anadolu Efes A.Ş	80.96, June 2008, SAHA	94.20, May 2013, SAHA
10. Asya Katılım Bankası	75.56, July 2008, SAHA	90.85, June, 2014, SAHA
11.Lider Faktoring Hizmetleri A.Ş.	69.73, August 2008, SAHA	86.99, August 2014, SAHA
12. Yapı ve Kredi Bankası A.Ş	80.21, December 2008, SAHA	88.16, March 2014, SAHA
13. Vakıf Yatırım Ortaklığı	78.10, January 2009, TCR	93.10, March 2014, Kobirate
14. Şekerbank	81.36, February 2009, ISS	90.74, March 2014, ISS
15. Coca Cola İçecek A.Ş.	83.04, July 2009, SAHA	92.47, July 2014, SAHA
16. Arçelik A.Ş.	82.09, July 2009, SAHA	94.11, July 2014, SAHA
17. TAV	83.34, September 2009, ISS	94.15, August 2014, ISS
18. TSKB	87.69, October 2009, SAHA	94.43, October 2014, SAHA
19. Doğan Şirketler Grubu A.Ş.	82.64, November 2009, SAHA	86.46, March 2014, SAHA
20. Petkim Petrokimya A.Ş.	77.13, November 2009, TCR	90.10, August 2014, Kobirate
21. Logo Yazılım San. ve Tic. A.Ş	80.53, December 2009, SAHA	80.65, March 2014, SAHA
22. İş Finansal Kiralama A.Ş.	80.24, December 2009, SAHA	85.93, March 2014, SAHA
23. Türk Prysmian Kablo ve Sist.	77.58, December 2009, SAHA	82.56, March 2014, SAHA
24. Türk Telekomünikasyon A.Ş.	80.11, December 2009, SAHA	83.16, March 2014, SAHA
25. Turcas Petrol A.Ş	75.20, March 2010, Kobirate	90.90, March 2014, Kobirate
26. Park Elektrik A.Ş	86.45, June 2010, SAHA	84.47, March 2014, SAHA
27. Aygaz A.Ş	84.61, June 2010, SAHA	92.93, July 2014, SAHA
28. Albaraka Türk	81.38, October 2010, JCR	84.44, July 2014, JCR
29. Yazıcılar Holding	80.44, November 2010, SAHA	91.30, October 2014, SAHA
30. İhlas Holding	77.10, December 2010, JCR	78.40, July 2014, JCR
31. İhlas Ev Aletleri	71.20, December 2010, JCR	77.90, July 2014, JCR
32. Doğuş Otomotiv	77.05, February 2011, TCR	90.40, March 2014, Kobirate
33. Mensa	75.90, June 2011, SAHA	77.50, June 2012, Saha Rating
34. Pınar Süt Mam. San. A.Ş.	83.43, November 2011, SAHA	89.94, May 2014, SAHA
35. Egeli & Co. Yat. Holding A.Ş.	82.00, December 2011, SAHA	85.77, March 2014, SAHA
36. Türkiye Halk Bankası A.Ş.	87.40, December 2011, SAHA	87.23, March 2014, SAHA
37. İş Yatırım Menk. Değerler A.Ş	86.29, December 2011, JCR	89.09, September 2014, JCR
38. Global Yatırım Holding A.Ş.	83.64, December 2011, SAHA	88.40, March 2014, Kobirate
39. Garanti Fakt. Hizmetleri A.Ş.	83.58, August 2012, Kobirate	89.00, August 2014, Kobirate
40. ENKA İnşaat ve Sanayi A.Ş.	91.59, November 2012, SAHA	87.25, March 2014, SAHA
41. Pınar Entegre Et&Un San. A.Ş.	87.73, December 2012, SAHA	90.13, May 2014, SAHA
42. Boyner Büyük Mağaz. A.Ş.	86.36, December 2012, SAHA	81.99, March 2014, SAHA
43. Aselsan Elektronik Ticaret A.Ş.	87.73, December 2012, SAHA	85.74, March 2014, SAHA

Rated Company	First Rating, Date, Rating Firm	Last Rating, Date, Rating Firm
44. İş Gayrimenkul Yat. Ort. A.Ş.	85.27, December 2012, JCR	85.64, March 2014, JCR
45. Garanti Yatırım Ortaklığı A.Ş.	83.90, January 2013, Kobirate	90.20, March 2014, Kobirate
46. Creditwest Faktoring A.Ş.	80.28, June 2013, JCR	78.79, June 2014, JCR
47. Akbank	92.37, November 2013, SAHA	87.62, March 2014, SAHA
48.Pınar Su Sanayi ve Ticaret A.Ş.	93.41, December 2013, SAHA	91.65, May 2014, SAHA
49. Pegasus Hava Taşımac. A.Ş.	81.30, December 2013, Kobirate	87.70, October 2014, Kobirate
50. Işıklar Yatırım Holding A.Ş.	77.90, May 2014, Kobirate	
51. Çemaş Döküm San. A.Ş.	76.20, May 2014, Kobirate	
52. Aksa Akrilik Kimya San. A.Ş.	92.18, August 2014, Kobirate	
53. TAIB Yatırım Bank A.Ş.	88.59, June 2014, SAHA	
54. Kuveyttürk	85.89, July 2014, SAHA	

Source : http://www.tkyd.org/tr/derecelendirme.asp

We could prove the direct relationship between the share performance of a company with the level of compliance with the Corporate Governance Principles with empirical studies from different countries. One of the most important studies related to this issue belong to a known paper by Gompers, Ishii, and Metrick (2003), who studied the impact of corporate governance on firm performance. They constructed a governance index and found a positive correlation between corporate governance and firm performance during 1990s. They also report in their study that firms with weak corporate governance have lower operating performance measured in terms of lowers sales growth and net profit margins. Accordingly, they found that stock returns of firms with strong shareholder rights outperformed returns of firms with weak shareholder rights by 8.5% per year during this decade (Bhagat, Bolton, 2008). We can show the BIST performance vis a vis the BIST Corporate Governance Index (XKURY) as evidence to support this claim. Since the beginning of 2009, XKURY increased by **317%**, whereas BIST 100 registered only an increase of 263% as the chart below indicates it.

Figure 1 : Performance of Corporate Governance Index (XKURY) vis a vis BIST 100



Source : http://www.saharating.com/SpotsDetail.aspx?SpotsId=8

7.Conclusion

The processes of globalization, significant amount of capital mobility and economic and financial integration had all great impact on corporate governance systems all around the world. There is a growing demand for reforms in many countries as a result of pressure mostly from international institutional investors. The direction and content of these reforms are mostly shaped by the corporate scandals and frauds that have occured frequently since the beginning of 1990s. Weak corporate governance has generally been accepted as a major problem that needs to be solved to provide investor confidence and decrease the impact of the future financial shocks. However, as Clarke (2007) emphasized, good corporate governance is not only about the protection of the rights of the international investors, but also about the protection of domestic investors. International investors have a broader variety of sophisticated financial instruments to diversify their overall portfolio risk as opposed to the domestic investors, who are more dependent on the local markets. Domestic investors face with the risk of losing their savings when enough transparency is lacking and governance systems do not work properly. In such an environment, which does not protect the rights of minority shareholders, these domestic investors are hesitant to invest in corporations directly thus limiting their ability to contribute the development process of their country's economy.

There are mainly two types of opposite opinions concerning the convergence of corporate governance systems. According to the first one, all of the reforms and legal acts will not be able to provide a unified corporate governance system due to the reason that national systems of corporate governance result from different origins, historical processess and economical and political approaches (Aluchna, 2009). There will certainly be considerable diversity in the forms of corporate governance around the world. Different traditions, values and aims of different business groups will produce different outcomes in corporate governace as a result of preferences of these business groups while they paractice their business activities.

According to the second opinion, there is a strong chance of convergence toward a single model of corporate governance. Despite very salient differences in corporate systems, the appearent tendency is towards convergence and the pressure for further convergence is rapidly growing each passing day. In this context, Hansmann and Kraakman (2001) claim that a great deal of uniformity and convergence has been achieved as a result of basic corporate governance practices to such an extent that economies have approached a worldwide consensus that managers should act in the interests of all shareholders. They state that there are mainly three principal factors that force economies towards convergence such as the failure of alternative models, the competitive pressures of globalization and the shift of interest group influence in favor of an emerging shareholder class. They claim that convergence in corporate governance practices proceeds much faster than in corporate law. However, they believe that there will be an increasing pressure for convergence in law, too.

It is clear that governance reform ranks on top of agenda of policy-makers and regulators. In the Western European countries such as Germany, France, Italy and Spain, reforms in the fields of improvement of investor protection, strenghtening the rights of investors and increasing corporate disclosure have already been developed and implemented. As a result of these reforms, as Aluchna (2009) underlines, the role of banks and industrial companies decreased tremendously in favour of institutional investors such as pension and investment funds and stock markets became much more transparent. However, it is obvious that much work still needs to be done in the field of corporate governance reform in both developed and developing countries, although governance standards are improving and it is expected that this trend will continue. The main idea behind these reforms is to formulate a set of corporate governance standards that will allow creating an integrated, flexible, efficient and compeititive financial system that will be able to face pressures from a variety of interets groups coming from all around the world.

In conlusion, although convergence toward stronger legal protection of minority shareholders will probably result in a business environment of increased investment and growth, it is not clear how quickly such a convergence will occur. Arguably, market forces will affect the degree to which convergence occurs (Denis and Conell, 2001). In addition, assuming that all countries will implement the same corporate governance preactices is unrealistic. Probably, the fundamental characteristics of the European and the Asian appraches to corporate governance will be perceived as part of the cultural dynamism and will be maintained. At the same time, companies in different countries will adopt the important universal principles and codes of conduct within a very diverse set of corporate structures. These principles and codes of conduct will be implemented by the companies as long as a significant number of local managers believe that utilizing such codes and principles in business life is the right thing to do for their companies.

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