Corporate Management in Banking System: 
Investigation of Industrial Development Bank of Turkey of the CMB Compliance with Corporate Governance Principles

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Abstract: Corporate governance is defined as any laws, regulations, codes and practices that enable an institution to attract and retain human capital and financial resources while allowing it to create economic value for its shareholders in the long run while respecting the values of its society. The aim of this study to observe the compliance of Turkey’s Capital Market Board Corporate Governance Principles of Industrial Development Bank of Turkey. The Bank’s annual report for 2016 has been reviewed. The review consists of four parts: shareholders, public disclosure and transparency, stakeholders and the board of directors. As a result of the examinations conducted by these criteria has reached the conclusion that the Industrial Development Bank of Turkey to comply with the corporate governance principles and apply what principles require.

Keywords: Corporate Governance, Corporate Governance Principles, Turkey Industrial and Development Bank

JEL Classification: G34

1. Introduction
The changes and innovations that have taken place in the financial sector make the corporate governance approach more important. Banks are institutions that have an important place in the economy of the country. Corporate governance is a system aimed at protecting the rights of bank shareholders and all other stakeholders. Corporate governance ensures transparency and protects the rights of stakeholders, which can lead to misappropriations.
Corporate governance is based on four fundamental principles. These principles, accepted by all, transparency, fairness, responsibility and accountability. Corporate Governance Principles established by the Capital Markets Board (CMB) are implemented in our country. In addition, corporate governance principles were established by the Banking Regulation and Supervision Agency (BRSA). The CMB’s Corporate Governance Principles have been taken as the basis for the study. In this study, firstly the basic concepts related to corporate governance and the importance of corporate governance in the Turkish Banking System, and the arrangements made in the field of corporate governance have been given. In the second part, and the Industrial Development Bank of Turkey is evaluated according to the CMB’s Corporate Governance Principles. During the evaluation, the annual report published by TSKB in the internet site for 2016 is taken as basis. The compliance of TSKB with the CMB’s Corporate Governance Principles has been examined in detail. The aim of the study is to examine how effectively the bank’s corporate governance practices are implemented.

2. General Framework of Corporate Governance and Corporate Governance Regulations

In this section, definition, development and corporate governance principles of corporate governance, regulations made by the Capital Markets and finally regulatory arrangements made by corporate governance and BRSA in terms of banking sector will be given.

2.1. Definition, Development and Principles of Corporate Governance

It is not easy to give a clear and clear definition of corporate governance. There are many definitions made by different institutions and researchers in relation to corporate governance.

"According to the OECD Corporate Governance Committee, corporate governance, in the broadest sense, can be defined as a system in which companies are guided and controlled, and essentially involves a hierarchy of relations between the management of the company, its board of directors, its shareholders and other interest groups. Corporate governance reveals that the company's goals and objectives have been identified and the tools for monitoring performance to identify them have been identified. In other words, corporate governance, which focuses on the management of the company, management control and performance, represents the system of relations between company ownership and management (Gürbüz & Ergincan, 2004: 5).
Turkish Industrialists’ and Businessmen's Association (TÜSİAD) In the work published by the Corporate Affairs Commission's Corporate Governance Working Group in 2002, corporate governance has been defined as; "Corporate governance, which can be defined in many different ways, is in the broadest sense the regulation of any institution that people create in order to achieve an aim in modern life. In a more narrow sense, corporate governance refers to all kinds of laws, regulations, codes and practices that enable an institution to attract and retain human capital and financial resources, thereby allowing it to create economic value for its shareholders in the long term while respecting the values of the society it belongs to" (TÜSİAD, 2002: 9).

Corporate governance is a term related to the organizational state and management of companies. With the increase in company scandals, the concept of corporate governance has come to the fore. The company models based on shareholders were developed for the first time in the UK and USA. However, in the beginning, in these models, the way in which the rights of the other stakeholders of the companies are not mentioned in detail (Gürbüz & Ergincan, 2004: 16).

Some of the important studies in the field of corporate governance are listed in the table below;

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>The Cadbury Report, the first code in corporate governance, was published by the Cadbury Committee.</td>
</tr>
<tr>
<td>1995</td>
<td>The &quot;Greenbury Report&quot; on the remuneration of publicly traded company executives has been published.</td>
</tr>
<tr>
<td>1998</td>
<td>The &quot;Hampel Report&quot;, which extends the responsibilities of the members of the Board of Directors, has been published.</td>
</tr>
<tr>
<td>1999</td>
<td>The first international work on corporate governance, &quot;OECD Corporate Governance Principles,&quot; was published.</td>
</tr>
<tr>
<td>2002</td>
<td>The &quot;Sarbanes Oxley Act&quot; was issued as a result of corporate scandals in the United States.</td>
</tr>
<tr>
<td>2004</td>
<td>&quot;OECD Corporate Governance Principles&quot; have been updated and reissued.</td>
</tr>
</tbody>
</table>

The applications listed above are very important for the development of the corporate governance process. The implementations are a guideline for all companies and form a draft for the more accurate implementation of corporate governance.

The four basic principles of corporate governance that are recognized internationally are as follows:

**Public Illumination and Transparency:** “Transparency is the public disclosure of financial and non-financial information about the company in a timely, accurate, complete, understandable, interpretable, low-cost manner, with the exception of trade secrets and information not yet disclosed to the public” (Pamukçu, 2011: 136).

**Accountability:** "Accountability principle refers to the obligation to account for the members of the board of directors, in essence, against the corporation of the incorporated corporation and hence the shareholders. Contrary to transparency principle, accountability principle covers only after the activity" (Pamukçu, 2011: 136).

**Responsibility:** "The principle of liability states that while companies create value for their shareholders, they operate in a manner that is consistent with laws and regulations that reflect social values" (Türkiye Kurumsal Yönetim ..., 2011: 16).

**Fairness:** "Fairness is the expression of the company's management acting equally to all its rights. This principle implies the protection of shareholder rights, including minority shareholders and foreign partners, and the implementation of contracts made" (TKYD, 2006: 4).

2.2. Regulations Made by the Capital Markets
In 2003, the Capital Markets Board of Turkey (CMB) declared its principles as recommended by the CMB’s Corporate Governance Principles for publicly traded companies. In 2004, publicly held companies were obliged to disclose in CMB's compliance reports how to comply with the principles and what the reasons for not complying with these principles were (TKYD, 2006: 12). The Corporate Governance Principles issued by the CMB in 2003 were revised and re-published in 2005.

Within the context of the regulations made by the CMB regarding the concept of corporate governance in the new Turkish Commercial Code, the "Communiqué on Determination and Implementation of Corporate Governance Principles" numbered 28158 on 30.12.2011 was published in the official gazette. At that time, new
communiqués on corporate governance principles and practices are published by CMB on a day-to-day basis (Haşit & Uçar, 2014: 92). The Corporate Governance Principles of the CMB are included in the following table:

**Table 2. CMB’s Corporate Governance Principles**

<table>
<thead>
<tr>
<th>Shareholders:</th>
<th>At the beginning of the rights of shareholders of the CMB; facilitating the exercise of shareholder rights, receiving and reviewing information, participation in general assembly, voting, scarcity, share of profits and transfer of shares.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Illumination and Transparency:</td>
<td>Public lighting and transparency approach requires disclosure of information about the company to the public. In the Civil Litigation and Transparency Principles section of the CMB, the website contains provisions related to the activity report.</td>
</tr>
<tr>
<td>Stakeholders:</td>
<td>In the CMB's Stakeholders' Policy section, issues such as stakeholder policies, stakeholder participation, human resources policy, ethical rules and social responsibility are addressed. A stakeholder can be defined as a person, institution or interest group that has interests in the company's goals and activities. In this section, regulations regulating the rights of stakeholders are mentioned.</td>
</tr>
<tr>
<td>Board of Directors:</td>
<td>The board of directors consists of, Managerial side of the Board of Directors; the functions of them, their operating principles, the structure, the form of board meetings, the committees established within the board of directors, and hence, the regulation of the financial rights provided to board members and senior managers.</td>
</tr>
</tbody>
</table>

**Source:** Kurumsal Yönetim Tebliği (II-17.1), 2014: 10–21.

### 2.3. Corporate Governance and BRSA Regulations in the Banking Sector

The concept of corporate governance is of special importance when it is considered in terms of banks. Banks are big prescribers because of the basic functions they undertake in the economy. Financial intermediation, as well as the functioning of the crediting liquidity foundation and the payment system, is one of the policy tools of the state in stabilizing the economy (Tuna, 2013: 54).

As the banking sector is a sector where more stakeholders are influenced by its activities, the protection of the rights of the depositors' international institutions providing the bank resources and the shareholders providing the equity is a matter of great importance (Akın & Aslanoğlu, 2007: 5). The risk of crisis is increasing when weak corporate governance practices are in place at banks. Banking crises can significantly affect the country's economy. The ability of banks to function more securely and effectively depends on the creation and implementation of a sound corporate governance process. Banks will face risks if corporate governance is not given the right attitude (Çalışkan & İçke, 2016: 126–127).
“On 1st of November 2006, the BRSA published a regulation in order to regulate the structures and processes related to corporate governance of banks and principles related to them. According to the Regulation on Corporate Governance Principles of Banks, corporate governance principles are covered in the following headings” (BDDK, 2018):

1. Corporate values and strategic targets should be established within the Bank.
2. Authorities and responsibilities within the Bank must be clearly defined and implemented.
3. Members of the board of directors should be aware of the role they have undertaken in corporate governance and have independent qualifications to perform their duties effectively and to make independent evaluations of the bank's activities.
4. They should be aware of the role they have undertaken in corporate governance that have the qualities to effectively carry out senior management tasks.
5. Effective use of the Bank's inspectors and independent auditors' work is essential.
6. Wage policies must be aligned with the bank’s ethical values, strategic goals and internal balances.
7. Transparency in corporate governance.

Banks are required to comply with these regulations in Turkey organized by the BRSA.

3. Investigation and Industrial Development Bank of Turkey by the Capital Markets Board Corporate Governance Principles of Evaluation Criteria

Industrial Development Bank of Turkey, and in this section shall be made in accordance with CMB Corporate Governance Principles. The review consists of four main sections: shareholders, lightning and transparency, stakeholders and board of directors.

3.1. Shareholders

In part related to the shareholders of Turkey Industrial and Development Bank of investor relations, information requests to respond, general meeting participation rate, vote and minority rights, will be examined in accordance with the distribution policy and the transfer of shares in the restriction criteria and evaluation will be done. Below is a summary evaluation of the shareholders;
Table 3. Shareholders

<table>
<thead>
<tr>
<th></th>
<th>Exist</th>
<th>Not Exist</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor Relations Unit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Response to Information Claim</td>
<td>Exist</td>
<td></td>
</tr>
<tr>
<td>Attendance Rate to General Assembly</td>
<td>%84,3</td>
<td></td>
</tr>
<tr>
<td>Suffrage, the Vote</td>
<td>Exist</td>
<td></td>
</tr>
<tr>
<td>About/Using Voting Rights</td>
<td>Not Exist</td>
<td></td>
</tr>
<tr>
<td>Minority Rights</td>
<td>Exist</td>
<td></td>
</tr>
<tr>
<td>Profit Distribution Policy</td>
<td>Exist</td>
<td></td>
</tr>
<tr>
<td>Restriction on Share Transfer</td>
<td>Not Exist</td>
<td></td>
</tr>
</tbody>
</table>

a) **Investor Relations Department**: In 2009, in accordance with TSKB's Corporate Governance Principles, "Shareholder Relations Unit" was established and restructured under the Investor Relations Department as of 2014. Within the context of compliance with the Communiqué, the names and surnames of the managers of the Investor Relations Department and the personnel working in the unit and their communication information are included in the yearly work of the unit (TSKB, 2018: 1). In 2016, all of the information requests of investors and analysts who came by phone or e-mail were answered. It was informed that 131 informative meetings were held at the same report (TSKB, 2016: 2). According to these findings, the corporate governance principles are aligned and the investor relations department is actively operating.

b) **Response to Information Claim**: Turkey has no trade secrets of Industrial and Development Bank, except for share or publicly disclosed information meets any request for information (TSKB, 2016: 2). Information necessary for the exercise of shareholder rights is presented to the shareholders through the website, annual report and special case disclosures. Information is also provided when there are individual requests. In 2016, 52 special case disclosures were made (TSKB, 2016: 2). According to these, the corporate governance principles have been harmonized and necessary care is exercised in the exercise of shareholders' right to information.

c) **Participation Rate to General Assembly**: Considering Turkey's compliance report of Industrial and Development Bank of $ 1,750 million in the 2016 general meeting, representing 84.3% of the share capital of the Bank it is realized with the participation of the shareholders. It is also stated that the place of raporda meeting, day, time and agenda were published three weeks before the meeting date (TSKB, 2016: 3–4). As can be understood here in Turkey shows due care and attention in the General Assembly meeting of the Industrial and Development Bank.
d) Voting Rights and Minority Rights: Industrial Development Bank of Turkey and the voting rights are included in the Corporate Governance Principles Compliance Report. In accordance with the Bank's Articles of Association, each share with a nominal value of 0.01 TL has one vote. The voting rights in the bank are guaranteed by the original contract. On the other hand, Industrial and Development Bank of Turkey stated that no privileged shares in terms of voting rights Corporate Governance Principles Compliance Report. Avoiding concession in voting rights helps equip shareholders and facilitates effective corporate governance mechanism (TSKB, 2016: 4).

Industrial Development Bank of Turkey and stated that except to make adjustments required by the provisions of the legislation regarding the rights of minority Corporate Governance Principles Compliance Report (TSKB, 2016: 4). The bank protects minority rights. The extension of minority rights through the Articles of Association ensures that minority shareholders' rights are better protected. The Bank may further study and extend these rights to minority rights.

e) Profit Distribution Policy: Turkey Industrial and Development Bank's dividend policy is available. While the bank is distributing its profits, it follows a policy that provides a balance between shareholders' expectations and the growth of the bank. The dividend distribution policy is presented to the general meeting and approved by the general assembly. The created policy is presented to shareholders' information in Turkish and English on the company's website. All necessary information on profit distribution is included in the compliance report (TSKB, 2016: 4). Creating the Industrial Development Bank of Turkey and dividend policy and has shown the necessary care to share it with shareholders.

f) Restrictions on Shares: Industrial Development Bank of Turkey that restrict the transfer of shares in the articles of the Corporate Governance Principles Compliance Report is stated that there are no provisions. All shareholders are treated equally in the bank including minority and foreign shareholders (TSKB, 2016: 4). It is understood that, Industrial and Development Bank of Turkey has avoided restrictions on the transfer of shares and treated in accordance with the principle of free transfer of shares.

3.2. Public Illumination and Transparency
In part related to the shareholders of Industrial Development Bank of Turkey disclosure policy will be examined according to their website and annual reports and evaluation criteria will be made.
Below is a summary evaluation of the public Transparency:

<table>
<thead>
<tr>
<th>Table 4. Public Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Policy</td>
</tr>
<tr>
<td>Web Site</td>
</tr>
<tr>
<td>Reports</td>
</tr>
</tbody>
</table>

**a) Information Policy:** Industrial Development Bank of Turkey, and to inform the other disclosures required by all types of financial information, generally accepted accounting principles in fulfilling observing the principles of corporate governance; in this context, a detailed information and public lighting policy is underway. The main objective of the information policy is to ensure that the necessary information and disclosures outside the bank’s trade secrets are communicated on equal terms, in a timely, fair, accurate, complete, understandable, easy and affordable manner to help stakeholders decide (Türkiye Sınai …, 2016). Industrial Development Bank of Turkey by creating a public disclosure policy has shown due diligence regarding disclosure and transparency.

**b) Web Site:** Industrial and Development Bank of Turkey’s compliance report shows that use of the internet site to enlighten public banks actively examined. The disclosures on the bank's internet site are stated in the compliance report in English and Turkish. Information on the Bank’s Corporate Governance Principles is available on the Company’s website. The bank also takes care to keep its website up to date. The Bank has provided internet addresses in Turkish and English and the bank letterhead has the address of the internet site. The Bank has made the necessary arrangements for its website (TSKB, 2016: 5).

**c) Report:** Industrial and Development Bank of Turkey has been preparing annual reports in Turkish and English. The Bank prepares its annual report in accordance with the information and guidance provided by the legislation. Three weeks before the General Assembly meeting, the bank’s annual report is announced to the public on KAP and on the bank's website. After the English activity report is completed, it is published on the bank's website. Turkey Industrial and Development Bank to prepare the annual report by including all the information stipulated by legislation and endeavors to enlighten the public by publishing the relevant place (TSKB, 2016: 5).
3.3. Stakeholders (Beneficiaries)

The section on Stakeholders policies concerning Turkey Industrial and Development Bank of the stakeholders, participation in management of stakeholders, the existence of complaints about human resources policies and discrimination, ethics and social responsibility projects will be examined according to the criteria and evaluation will be done.

The following table summarizes the stakeholders' interest:

| Clear Policy for stakeholders | Exist |
| Stakeholders in the managerial board | Exist |
| Human Resource Policy | Exist |
| The Complaint about Discrimination | Not exist |
| Ethical Rules and Social Responsibility Projects | Exist |

**a) Clear Policy for Stakeholders:** Turkey Industrial and Development Bank examined the compliance report a matter of interest to stakeholders in the bank seems to care to be informed in writing. In addition, relations with stakeholders are arranged in written contracts. If the said rights are not regulated by legislation or contracts, they are protected on the basis of goodwill rules and in accordance with the possibilities of the bank. Beneficiaries have been able to communicate their complaints and suggestions to the bank through the contact form on the bank's internet site (TSKB, 2016: 5). Industrial Development Bank of Turkey and have made the necessary arrangements in respect of informing the stakeholders and provides the necessary compliance with corporate governance principles.

**b) Stakeholders in the managerial board:** Industrial Development Bank of Turkey in the compliance report, the stakeholders in the bank's articles of association require the participation of the bank's management stated that they do not place an arrangement. General evaluation meetings are held twice a year with the employees of the bank about the activities and the course of the bank. In addition, employees can find suggestions or complaints online and contribute to decisions made in this way. In addition, employees who work with committees created by bank employees can participate in the management (TSKB, 2015: 5). Even though it is not regulated by the Bank's Articles of Association, stakeholder participation is ensured. This issue can be arranged in more detail in the Bank's Articles of Association.
c) Human Resources Policy and the Complaint about Discrimination: The Bank's human resources policies are posted on the bank's website and are publicly announced. Job descriptions and distributions and performance criteria were determined by the Bank's management and announced to employees. The principle of equal opportunity for equal people in the recruitment process has been adopted. The Bank demonstrates the necessary discipline in respect of non-discrimination, respect for human rights and protection of employees against physical, mental and emotional abuse. There is no complaint about discrimination by the employees (TSKB, 2016: 6). All these are positive signs in terms of adapting to corporate governance principles.

d) The Existence of Ethical Rules and Social Responsibility Projects: Industrial Development Bank of Turkey and stated that the Banking Code of Ethics adopted Corporate Governance Principles Compliance Report. The Banking Ethics Principles are available in Turkish and English on the bank's website. Industrial Development Bank of Turkey gives importance to social responsibility projects with sustainable banking philosophy. The bank has many social responsibility projects on the field. Information on social responsibility is organized under the heading Corporate Social Responsibility in the bank's annual activity report (TSKB, 2016: 6). Turkey is making significant efforts in social responsibility and show commitment to the Industrial Development Bank and ethical values.

3.4. Board of Directors
In part related to the Board of Directors Turkey Industrial and Development Bank board structure and formation of the shape of the board meetings, management committees formed in the board structure, board members will be examined according to their and senior executives provided financial rights criteria and evaluation will be done. Below is a summary evaluation of the board of directors:

<table>
<thead>
<tr>
<th>Table 6. Board of Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Board Members</td>
</tr>
<tr>
<td>Number of Board of Directors Meetings</td>
</tr>
<tr>
<td>Independent Board Member</td>
</tr>
<tr>
<td>Information on Financial Rights</td>
</tr>
<tr>
<td>Committees Created in the Board of Directors</td>
</tr>
</tbody>
</table>

a) Structure and Formation of the Board of Directors: The Corporate Governance Principles Compliance Report provides detailed information about the structure and
formation of the board of directors. There is a discrimination between the executive / non-executive board of the bank. The board of the bank consists of non-executive members, except the general manager. The chairman of the board of directors and the general directorate are fulfilled by different persons. It is believed that all members of the Board of Directors have the advantage of being able to act independently and to act impartially on the interests of the Bank and its stakeholders, whilst not having a controlling shareholder. The Board of Directors consists of 10 members at the end of the year. The summary information on the Board of Directors and the General Manager is presented in the bank's annual report and detailed CVs are included on the Bank's website and in the annual report (TSKB, 2016: 6).

b) Board of Directors Meetings: The Corporate Governance Compliance Report stated that board meetings were held on a regular basis. Meetings are held at least once a month, and when necessary, regardless of time. Care is taken to ensure that all members are attended when the date of the board meeting is determined. Except in exceptional circumstances, board meetings are held with the participation of all members. The Board of Directors has the opportunity to participate in electronic meetings (TSKB, 2016: 9).

The draft agenda of the board meeting is prepared by the General Manager. The agenda is finalized by taking into account the proposal of the Chairman and Members of the Board of Directors. The Bank takes care to present the documents and information related to the issues on the agenda of the meeting for the members' review at least seven days before the meeting. In the event that the time is not respected, it is essential to provide an equal flow of information to the members of the board of directors (TSKB, 2016: 9).

Every board member in the Bank has one vote. Members do not have weighted voting rights or positive / negative veto rights. Board meetings are held with the majority of the members. When the decision is taken, it is decided by the majority of the participants. Raporda stated that 40 meetings were held in 2016.

c) Committees formed by the Board Position: Audit Committee within the Board and the Industrial Development Bank of Turkey, three committees were formed, including the Corporate Governance Committee and Remuneration Committee. The Corporate Governance Principles Compliance Report provides detailed information on committees. The committees in the bank met regularly in 2016 (TSKB, 2016: 9–10). The bank has shown the necessary skills to create committees.
d) Financial Rights Provided to Members of the Board of Directors and Senior Managers: Industrial Development Bank of Turkey and gave the Board of Directors and Corporate Governance Compliance Report includes information on Remuneration to Senior Executives. This financial rights are determined by the General Assembly. The members of the Board of Directors did not use cash or non-cash loans directly or indirectly from the Bank (TSKB, 2016: 10).

4. Conclusion and Evaluation
The position of the banking sector in the economy is quite large. This situation increases the necessity of effective supervision and control mechanisms in the banking sector. In order for the mechanisms of supervision and supervision to function properly, the concept of corporate governance needs to be improved.

In the study, primarily the basic concepts related to corporate governance, the importance of corporate governance in the Turkish banking system and the arrangements made in the field of corporate governance are included. In the second part, and the Industrial Development Bank of Turkey has been evaluated according to the CMB’s Corporate Governance Principles. The Corporate Governance Compliance Report in the activity report for the year 2016 has been reviewed. The evaluation was carried out under four main headings. These; Shareholders, Public Disclosure and Transparency, Beneficiaries and Board of Directors.

In the Shareholders section, the evaluations were made according to the investor relations unit’s existence, response to information requests, attendance rate to the general shareholders’ meeting, votes and minority rights, profit distribution policy and restrictions on share transfer. In the section related to the disclosure and transparency of the public, an investigation was carried out according to the information policy, website and activity report criteria. In the section on stakeholders’ ownership, stakeholder policies, stakeholder participation in management, human resources policy and the existence of a complaint about discrimination, ethical rules and social responsibility projects were examined. In the last part, the regulations related to the board of directors were examined. The structure and formation of the board of directors are dealt with in the form of board meetings, the committees established in the board of directors and the members of the board of directors as well as the financial rights provided to senior managers. As a result of the investigations carried out by these criteria, Turkey to comply with the corporate governance principles of the
Industrial and Development Bank and has reached the conclusion that the principles apply what they require.

References
Demirbaş M. & Uyar, S. (2016). Kurumsal yönetim ilkerleri ve denetim komitesi, İstanbul: Güncel Yayıncılık,