

Corporate Governance and Sustainability Center



Cycle of an Entrepreneur

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Independence For Good Governance

Independent board members are comprised of those who do not have any conflicts of interest with the company, including board participation in a competing company. The reason of having an independent board of director is to reach desired level of equality transparency, accountability, auditability and reliability and to make sure board members are not influenced by interests in the company. Particularly at the time of crisis, board needs Independent Board Members for different opinions. but honestly.

Regulatory Changes in the Pension System of Turkey

From the beginning of 2013 Turkey's pension reforms will be effective. In addition the allowance of transfers from defined benefit plans to defined contribution plans without tax incurrence, which should provide more favourable tax treatment for retirement distributions the reforms will include the government matching contributions.

Turkey's insurance market has been developing rapidly. This low-penetrated sector has become more and more appealing to foreign investors.

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Cycle of an Entrepreneur

It is now a promising period for those who have a lot to say on innovation and entrepreneurship for a long time. Not only private sector, but also the public sector shows a greater effort. We have to note that there might be a gap between the enthusiasm we show at first and the outcome we produce.

Sometimes the mountain gives birth to a mouse, and sometimes a new concept or a fact is consumed fast without being fully understood. We hope that our culture plays a supportive role not a disincentive one.

There is a sweet competition in Ankara led by several ministries recently. Ministries and affiliate institutions show great effort on taking entrepreneurship to the base and on spreading innovation concept to almost every institution. Of course it comes out of a necessity and a vision. The necessity is obvious; Turkey has a young and growing population, almost 1 million employment is required every year. Another basic need is closing current deficit in order to enable economic performance sustainable which is attained in the last years. So we need to increase the number of companies turning towards innovation-aided services and products; both by transforming current companies and by supporting techno-entrepreneurship among educated youngsters.

The Prime Minister is thought to be triggering the vision. He is known for his “uncommon and strong” leadership on international platforms and among decision makers. It is strange that sometimes it can be more possible to observe the changing image of Turkey abroad. It is him who set the

goal for making Turkish economy among top ten and for boosting exports to 500 billion dollars, and who creates a sweet competition among ministries and institutions. He gives an image of pursuing his goals one by one. Since it has been experienced for many times that a well-organized, substantial and open competition brings social benefit, do I need to expand on it?

We shall not forget that entrepreneurship is not only a “commercial behavior based on personal risk”. Additionally public entrepreneurship, social entrepreneurship and in-house entrepreneurship are among common terminology. Thus we need to evaluate public’s emphasis on this issue and increase in supports and incentives in this context. It is pleasing to see that “teaching a man to fish instead of feeding him everyday” has

turned into a work ethic and a problem solution concept. Because Turkey can show negative attitudes as well as positive ones. For instance, those who complained about the lack of government help in 1999 earthquake couldn’t become organized and could not solve the problems with local initiatives as a necessity of social entrepreneurship. It is pleasing to see that exploiting the government office and “waiting for service pay” culture have shattered with economic and political crisis in 2001. The advancement may have resulted out of obligation; all in all it was in vain to wait for bread from the government in a time of such crisis. It was the government waiting for the citizens’ help, the safes were completely empty; and all the transformation and change happened after this.

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Cycle of an Entrepreneur

Almost everything in entrepreneurship starts with people who think and behave differently, make a habit out of being contrary, examine and most importantly wonder. Entrepreneurship is no doubt a cultural, climatic and an environmental issue. A structure is needed which supports, awards, paves the way for and even make a role model of different, unique and innovative thinking in all social and professional structures, family lives and friendships. However we are aware that we come from a background which dissuades and frightens us by saying: “The sheep separated from the flock is eaten by the wolf”, which does not like “new tricks to old dogs”. However, we are pleased to see that this new culture in the first cycle is being implemented though slowly owing to the recent change. Telling success stories and showing the role models will increase the number of young entrepreneurs who identify the market’s need and form innovative business ideas with the enthusiasm of transforming this need to cost.

Especially “baby boom generation” emerging after the 2nd World War enabled fast growth in conventional sectors, production in global scale and increase in entrepreneurship with the help of private sector.

However in this period, a secret mechanism was in question which “time was in favor of the strong”; play grounds for young entrepreneurs were limited since financial power was an important obstacle at first. Few held the capital; created value flew among society, directors and specialists of institutionalized structures. It was an overall approach for work ethic and model of that time that employees got retired after 30 or 35 years of working.

blue collar – could present middle class advantages to next generations while working until the retirement: Savings rate increased, schooling rates escalated, access to data and experience got easier, and most importantly free thinking and “calculated risk taking” motive were fed.

Maybe Reaganism – Thatcherism wave started to be structured on this social progress. Reduction in the government share in economy, privatization and deepening money market became a model realized in developing countries like Turkey in 2000s, which was presented – or sometimes imposed - by developed countries in 1980s. Accelerating in 1980s, this wave turned into globalism with the fall of Berlin wall in 1989 and it started to be spread to the base. Almost all business models and constructions were turned upside down with deepening and embodiment of the market, entrepreneurship spread to the base eliminating capital obstacle and technology-based enrichment. As a result, young entrepreneurs with innovative and unique ideas could find environments to boost the value of their companies: Google, Facebook, Groupon, etc.

It is the time of speed; early bird catches the worm... What countries like Turkey try to do is learn and take advantage of examples in developed countries and producing its own models... Current deficit, foreign trade deficit and employment problem could only be solved with a distant and local model...

Ufuk BATUM

Deputy General Manager
METU Technopolis



Independence For Good Governance

In the past years corporate governance is becoming an important issue amongst the Turkish companies. A new era will begin for the boards of companies in Turkey with the New Turkish Commercial Code, which is based on the corporate governance principles. The practices of good governance advise that a company's board should be managed in the manner that the company can perform its strategies avoiding board members involving in the company's daily operations.

As investors seek for good corporate governance in companies, the idea of independent boards of directors has become more and more popular. Also the corporate governance principles of Turkey emphasize the significance of the existence of independent board directors for good governance. In order to fulfil the criteria for independence, it is required as a minimum two independent directors and no less than one third of the board members. With the New Turkish Commercial Code the obligation of having a share to be a board member abolished; therefore, the companies could include independent board members without being have to give a share.

With the third generation taking over the management, particularly small-middle family firms have become attracted in applications of corporate management. Because of this, the interest to independent board

members has been increasing in Turkey. Independent board members are comprised of those who do not have any conflicts of interest with the company, including board participation in a competing company. The reason of having an independent



board of director is to reach desired level of equality transparency, accountability, auditability and reliability and to make sure board members are not

influenced by interests in the company. Particularly at the time of crisis, board needs Independent Board Members for different opinions. They are in the board exclusively to assist a company to operate efficiently but honestly.

Many private and public companies embody independent members. The aim of assigning independent board members to private and public companies is to ensure with an independent assessment that corporate estates are well-managed, particularly for shareholders.





Independence For Good Governance



Therefore, independence is for providing shareholders to be more accountable and transparent. The duty of the independent board members is to block any attempt of dispossession, and not to constrain decision-making process of the company.

However, firms which are not listed are also now seeking to have similar boards in their organisations.

It is required by the law that an independent board member should be free from any influences that might compromise his relationship with the company. According to the International Finance Corporation requirements, one should not have any relation or any business dealings with the firm during the past five years in order to meet the criteria to become an independent board member.

Being an independent board member is not a full-time job. No pension is paid for such board members; they are given compensation for the commitment they made for the company.

In order to avoid a bias in decision-making and to maintain their independence, the independent board of director are not allowed to own a considerable percentage of the shares of the company. Independent members of the board can be more objective, because they do not have benefit with the family and the business.

In Turkey another problem that many boards having is the lack of truly independent board members. The statistics shows independent board membership in Turkey is still not as high as Europe, even though there is relative increase in number recently. Turkish companies are searching professionals for Independent board member position with international experiences. Audit committee members are especially required. An independent member of the board should have the ability of thinking strategically. In addition being visionary with a good operation analysing skills are the other essential features sought by the companies from an independent member.



An important level of independence is recommended for the boards and their functioning effectively and independent board members are the key element to provide this. Companies should be cautioned when recruiting independent members, because filling that role with the right person brings value to the board. And those who are interested in being an independent director, should always remember that it is a unique position to be, although it is an opportunity but also a big responsibility.

Murat Onur TURHAL

Coordinator, Research and Publishing
CGS Center

References: Capital Markets Board of Turkey, Communiqué
Serial: IV, No: 56– 57



Regulatory Changes in the Pension System of Turkey

While the government prepares a number of regulatory changes for the pension sector in Turkey, the private sector makes their move to transfer their pension departments of banks into more independent segments. Both of these developments may create an increase in the currently low domestic savings rate.

From the beginning of 2013 Turkey's pension reforms will be effective. In addition the allowance of transfers from defined benefit plans to defined contribution plans without tax incurrance, which should provide more favourable tax treatment for retirement distributions the reforms will include the government matching contributions.

Both for employer-sponsored retirement plans and for individual-established retirement plans the government will provide a 25% match on employee contributions up to the national minimum wage (currently TL 799.5 (\$445.6) per month) and employees will be able to claim a tax deduction of up to 15% on pension contributions.

According to Oxford Business Group's news, Mehmet Bostan, the general manager of Turkey-based



pension firm Vakıf Emeklilik and chairman of the Pension Monitoring Agency stated that "The new government matching scheme will make pensions far more attractive to savers. However, the new rules will reduce the individual penalty for exiting the pension system. In turn, this may lead to some lapsed contracts."

At the end of September IMF team highlighted in their statement about the economic outlook of the country, although Turkish economy has been growing, savings have not continued at the same rate. The new regulations aim to increase the amount of money saved by Turkish people.

It is said in IMF's recent statement "Turkey's low domestic savings make it heavily dependent on capital inflows and increase the amplitude of business cycles. The authorities have correctly identified increasing savings as the key medium-term priority. They have recently undertaken several reforms in this area; in particular, the private pension reform, aimed at widening coverage and improving progressivity, is an important step to strengthen incentives for private savings."

It is thought by many in the industry that it will still be some time before savings levels in Turkey can actually see a solid rise, in spite of this increased government support for boosting savings.





Regulatory Changes in the Pension System of Turkey



The general manager of Halk Portföy Alim Telci, stated to Oxford Business Group that “the pension segment is receiving robust and unprecedented support from the government because the lack of domestic savings is an issue of national significance. Nevertheless, pension penetration will not rise very quickly, as Turkish consumers are heavily indebted and face rising prices, even though their incomes have grown.

Aside from regulatory changes done by the government, some other improvements may be helpful to transform the pension system of Turkey.

Turkey's insurance market has been developing rapidly. This low-penetrated sector has become more and more appealing to foreign investors. In July Cigna Corp, the US insurer sign a deal to purchase a 51% stake in Finans Emeklilik for €85m.

According to Reuters, Yapı Kredi Bankası, one of the largest banks of Turkey, Yapı Kredi Bankasi is supposedly planning to spin off the pensions unit, Yapı Kredi Sigorta to sell it separately. The bank is finding bidders thin on the ground due to the valuation of the unit, which is estimated to be worth some TL1.6bn (\$891.7m) with that price largely being attributed to the pension unit within Yapı Kredi Sigorta.

In addition Yapı Kredi Bankasi, there are other banks using the pension segment in order

to increase overall company profitability. Oyak, the Turkish army's pension fund, recently tried to use its revenue to buy the Gemlik Liman Port. However, a Turkish industrial group Yildirim Holding had out-bid Oyak in a close contest. According to an Ernst and Young report the port was the 10th biggest port in Turkey in terms of handling capacity as of 2009, which is valued at \$350m-400m.

Also Turkey's Treasury will buy a controlling stake in the country's seventh largest bank Vakıfbank to remove uncertainties regarding ownership, as the bank is majority-owned by an autonomous state-run body known as the Directorate of



Foundations. As of the close of trading on Oct. 2 the bank had a market value at \$5.53 billion. Vakıfbank's pension fund will also decide for transferring its 16.1% stake in Vakıfbank to Treasury. It is said that “The possible sale of 16% pension-fund stake to the treasury may create overhang in the short term,” by an analyst at Ekspres Invest, an Istanbul-based brokerage.

It can be said that, throughout the pension segment will probable benefit from new government regulations that will enter into force at the beginning of 2013. It is expected that the pension segment will become more important for the economy of the Turkish in future due to the increasing strength of private players.

References: Capital Markets Board of Turkey, Communiqué Serial: IV, No: 56– 57

<http://www.oxfordbusinessgroup.com/country/Turkey>

Ernst & Young, Shipping Industry Almanac 2012

EYE ON TURKEY



Heading Pictures: Cappadocia

Cappadocia is the historic area of central Anatolia, which is Turkey's most visually striking region, especially the "moonscape" area where erosion has formed caves, clefts, pinnacles, "fairy chimneys" and sensuous folds in the soft volcanic rock.

Nowadays the cave dwellers are predominantly tourists staying in cave hotels who have been drawn to this part of Turkey by its surreal scenery, wealth of ancient churches and unparalleled opportunities for adventure activities.

There is something in Cappadocia for everyone. You can float over the fairy chimneys in a hot-air balloon in the morning, admire Byzantine frescoes in the afternoon and sample fine food and wine at night, take a spectacular hike through a rose-tinted gorge, indulge in a frenzy of shopping at a covered bazaar dating from Ottoman times and see dervishes whirl in an atmospheric caravanserai.



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CORPORATE GOVERNANCE AND SUSTAINIBILITY CENTER

**1429. Cadde Ideal Apt. 13/3
Cukurambar, Ankara ,
Turkey**

**Phone: +90(312) 2202220
Fax: +90(312) 2203534
Email: info@cgscenter.org**

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