



What the private sector needs: Corporate Governance

The restructuring of the public sector in Turkey has been a serious concern of the private sector for a long time. The need for thoroughgoing public reform is understood better when we take into account that the changes will help establish a more effective and efficient public administration, curb corruption, and shrink public spending waste. However, limiting the reform process in Turkey only to the public sector and expecting change only from that sector is not right.

All sectors of society are interrelated. Therefore, one cannot expect good performance from the private sector in a country where the public sector is not functional. However, we also need to question whether the private sector has the right to make demands from the public sector while feigning ignorance of its own internal problems. Can the private sector that is unable to work out its own problems attain a competitive position in the world markets, even if all the problems it attributed to the public sector have been solved? Can we expect corporate balance sheets to reflect reality in an environment where companies are not managed according to such principles as transparency, accountability, fairness and responsibility? How can

our banks extend credit to companies under these circumstances? Didn't the loans extended against distorted balance sheets play a role in creating the environment in which the banking sector now finds itself? Can the stock market be developed in an environment where small shareholders' rights are not adequately protected? Would foreigners invest in this stock market? Would foreign fund managers establish partnerships with these companies? Can tax income be raised with artificial balance sheets? How much can competition increase in an economy where companies are already weak?

Turkey is undergoing a serious restructuring process. We can see that this restructuring will not concentrate just on the public sector or be limited to macroeconomic matters. There absolutely must be change at the micro level as well. Companies that cannot keep up with the restructuring process will need to surrender their positions to those who can keep up with the change. The necessities of this change are determined by corporate governance.

We address corporate governance as one of the most talked about and practiced concepts in recent years. Corporate governance is a system that outlines the

steps for company restructuring. This system is based upon globally applicable principles like transparency, accountability, fairness and responsibility and is broadly defined; it is a system that gives direction to corporations and monitors their operational performance. Corporate governance gained great importance after the Asian financial crisis in mid-1997. Companies that used existing resources in an inefficient way and did not conform to international corporate management standards helped magnify the effects of the crisis in those countries. Corporate transparency and accountability are so critical for overall economic performance that they have begun to be the accepted norm throughout the world since the Asian crisis.

In the age of globalization where the economic and political structures -and even the cultures of the countries- are becoming more alike, macro-economic policies alone are not sufficient to fuel competition. It is no longer enough for companies to establish strong monetary and fiscal policies, to decrease inflation, to stabilize their exchange rates and to balance their budgets in order to capture a greater share of world trade and capital flows. In this environment, it becomes increasingly important for companies to strengthen their structures in order to keep up with the new order of international economy and trade.

On the other hand, it is no longer enough for companies to simply consider the level of their technological progress. Socially responsible companies are beginning to benefit more than those who do not recognize their roles in society and the environment in which they operate. The shareholder-oriented company structure of the past is being transformed into one that takes responsibility for all concerned parties. Corporations that operate properly are conscious of the impact of business ethics and environmental and social values on company image and performance in the long haul. As a result, transparency will be widespread, corporate policies on environmental and ethical values will develop, human rights, gender equality and child labor will be standardized, best applications will become widespread, and external control will be improved in the coming era. Even though such companies are not

in the majority yet, they are gaining ground. For instance, the principles of corporate governance of the OECD are already elevating company management by developing a range of standards and guiding principles. The widening of globalization, and the domino effect globalized crises have on many producers, consumers and investors in developed and developing countries brings the importance of corporate management into the front line.

In a period when we are implementing an extensive economic program to strengthen Turkey's economic structure, the corporate sector also needs restructuring. Turkey will get through this crisis with the common effort of all sectors. While we build up our macro-economic structure, we must also put corporate management reform on our agenda to strengthen our companies' competitive position in the international marketplace. The unrestrained entry of Turkish companies into the world markets, an attractive future for foreign investors in Turkish enterprises, increased competitiveness for Turkish companies against European companies as Turkey prepares to enter the European Union, will all be possible by adopting the principles of corporate governance. We believe that bringing the corporate governance matter which was highly neglected until now into the forefront will have significant effects on the management problems of the private sector.

Corporate governance principles should not be perceived exclusively as private sector concepts. Transparency, accountability, justice and responsibility are general principles that should be accepted in management matters across all sectors. We think that public administration as well as the private sector need to be restructured around these principles. Applying corporate governance principles will significantly contribute to the EU membership process because it will demonstrate a change of mentality. We believe that a public organized around the principles of transparency and accountability can meet the needs of redefining the state-citizen relations. We believe that by restructuring its public and private sectors and by stabilizing its macro-economic structure around these principles Turkey will have eliminated all obstacles on its path towards a prosperous future.