"İŞ, GÜÇ" ENDÜSTRİ İLİŞKİLERİ VE İNSAN KAYNAKLARI DERGİSİ

"IS, GUC" INDUSTRIAL RELATIONS AND HUMAN RESOURCES JOURNAL

Ekim/October 2016 Cilt/Vol: 18/Num:4 Sayfa/Page: 21-34

ISGUC.ORG

İŞ, GÜÇ
ISSN 2148-9874
Endüstri İlişkileri ve İnsan Kaynakları Dergisi

İş,Güç, Endüstri İlişkileri ve İnsan Kaynakları Dergisi, yılda dört kez yayınlanan hakemli, bilimsel elektronik dergidir. Çalışma hayatına ilişkin makalelere yer verilen derginin temel amacı, belirlenen alanda akademik gelişime ve paylaşıma katkıda bulunmaktadır. "İş, Güç," Endüstri İlişkileri ve İnsan Kaynakları Dergisi, 'Türkçe' ve 'İngilizce' olarak iki dilde makale yayınlanmaktadır.

"Is,Guc" The Journal of Industrial Relations and Human Resources is peer-reviewed, quarterly and electronic open sources journal. "Is, Guc" covers all aspects of working life and aims sharing new developments in industrial relations and human resources also adding values on related disciplines. "Is,Guc" The Journal of Industrial Relations and Human Resources is published Turkish or English language.

TARANDIĞIMIZ INDEXLER

İÇİNDEKİLER

YIL: EKİM **2016** / CİLT: **18** SAYI: **4**

TÜRKİYE'DE KURUMSAL SÜRDÜRÜLEBİLİRLİK ALANINDAKİ ÇALIŞMALAR VE YASAL DÜZENLEMELER

STUDIES ON CORPORATE SUSTAINABILITY AND LEGISLATIVE REGULATIONS IN TURKEY[1*]

Ümit Gücenme Gençoğlu[2]
Alp Aytaç[3]

ÖZET

Kurumsal Sürdürülebilirlik, şirketlerde uzun vadeli değer yaratmak amacıyla, ekonomik, çevresel ve sosyal faktörlerin kurumsal yönetim ilkeleri ile birlikte şirket faaliyetlerine ve karar mekanizmalarına uyarlanması ve bu konulardan kaynaklanabilecek risklerin yönetilmesidir. 1989 yılından itibaren dünyada finansal raporlama ile birlikte işletmenin çevreyle, toplumla ve sürdürülebilirlikle ilgili politikaları ve yarattıkları etki de raporlanmaya başlamış ve 2000'li yıllarda artık bağımsız muhasebe denetiminde finansal olmayan bilgilerin de denetimi gündeme gelmiştir. Bu çalışmanın amacı Türkiye'de kurumsal sürdürülebilirlik alanında yapılan çalışmalar ve yasal düzenlemeler ile ilgili mevcut durumu tespit etmektir. Bu amaçla konu, Türk Ticaret Kanunu'ndaki ilgili düzenlemeler, uluslararası finansal raporlama ve denetim standartlarının uygulanması, Sermaye Piyasası Kurulu düzenlemeleri ve kurumsal yönetim ilkelerine uyum raporu ve Borsa İstanbul kurumsal yönetim indeksi başlıkları altında incelenmektedir.

Anahtar Kelimeler: *İşletmenin Sürekliliği, Kurumsal Yönetim, Sürdürülebilirlik, Sürdürülebilirlik Endeksi, Faaliyet Raporları*

JEL Kodu: M14, M41, Q01

1 This articles has been supported by Uludag University Scientific Research Department which has KUAP(İ)-2015/73 number.

2 Prof., Uludag University, Faculty of Economic and Administrative Sciences, Department of Business Administration, Bursa, TURKEY, umitgucenme@uludag.edu.tr

3 Res. Asst., Uludag University, Faculty of Economic and Administrative Sciences, Department of Business Administration, Bursa, TURKEY, alpaytac@uludag.edu.tr

ABSTRACT

Abstract: *Corporate sustainability is the application of economic, environmental and social factors along with corporate management principles to a company's actions and decision-making mechanisms, and management of the risks that arise from such matters in order to create long-term value. Beginning in 1989, along with financial reporting, companies began to report their environmental, social and sustainability policies and their effects, and by the 2000s, the issue of independent audits and review of nonfinancial information was at the forefront. The aim of this study is to identify the present state of research on corporate sustainability and legislative regulations. For this purpose, the subject has been analyzed from the perspective of related regulations under the Turkish Commercial Code (TCC), the application of international financial reporting and audit standards, related regulations under the Turkish Capital Markets Board (CMB) and corporate governance compliance reporting and the Istanbul Stock Exchange (BIST) Corporate Governance Index.*

Keywords: *Corporate Sustainability, Corporate Governance, Sustainability, Sustainability Index, Activity Reports*

JEL Classification: M14, M41, Q01

1. INTRODUCTION

The sustainability of companies, which are commercial organizations, encompasses the concept of social responsibility, which is considered necessary to creating a corporate identity along with efforts that focus on increasing accounting profit. In other words, corporate sustainability is not just a potent financial concept, it is also understood as including company actions that have social content, protect social values and have a strong sense of social responsibility.

Corporate social responsibility and sustainability activities have recently started to figure prominently on the agendas of institutions and organizations. With the addition of social responsibility and environmental issues to corporate management, many organizations have begun to publish corporate social responsibility reports. It is noted that stock markets also play a role in social responsibility activities and in advancing socially responsible and environmentally friendly projects.

According to the Corporate Governance Committee of the Organization for Economic Cooperation and Development (OECD), corporate governance, in the broadest sense, can be defined as the system by which companies are governed and controlled. Furthermore, the management of a company is essentially comprised of a series of connections between the board of directors, shareholders and other interest groups. Corporate governance animates the structure that defines a company's objectives and goals. To reach these objectives and goals, monitoring instruments are devised (Michalski, Miller, Stevens, 2001: 17; Çatıkkaş, 2013: 3).

The principal regulations on corporate management in Turkey are found in the TCC. Based on international financial reporting standards, the format and management of financial statements is the basis of corporate transparency and accountability. In our study, we first focus on these regulations and then examine corporate governance compliance as presented in CMB Communiqués as well as the regulations in the field of corporate sustainability along with corporate governance compliance reporting and the BIST Corporate Governance index.

2. Application Of International Financial Reporting And Audit Standards

Companies traded on the BIST and subject to capital market regulations implemented Capital Market Board Communiqué Series: XI, No. 25, which is compatible with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), between January 1, 2005 and April 9, 2008. After that, they were required to prepare financial reports in accordance with the translation provided by the IAS/IFRS or with the Turkish Accounting Standards Board (TASB) and Turkish Accounting Standards (TAS)/Turkish Financial Reporting Standards (TFRS), published in the Official Gazette.

Under the new TCC no. 6102, according to Turkish accounting standards, the authority to identify companies that will report and be subjected to independent audit has been given to the Council of Ministers. The identification of these companies is carried out every year by decision of the Council of Ministers. The process of preparing this decision is conducted by the Public Oversight Accounting and Auditing Standards Authority and is presented to the Council of Ministers. For the purpose of conforming to the EU acquis program, the content of independent audits has gradually been expanded.

Apart from companies that operate on capital markets within the EU purview, three criteria—total assets, net selling revenue and number of employees—have been determined, and companies that meet at least two of these are subjected to an independent audit. In Turkey, with Council of Ministers Decree that has been published on Offical Gazette on 19.03.2016 for 2016 these criteria are 40 million net assets, 80 million net selling revenur and 200 employees. Hence, companies that provide two third of these criteria are subjected to independet audit on 2016.

Beginning with the largest 2500 companies in 2013, 3500 more in 2014 and circa 5000 companies in 2015 were subjected to an independent audit. Independent audits are carried out based on Turkish audit standards, which were created by Public Oversight Accounting and Auditing Standards Authority (POAASA) and promulgated in the Official Gazette. Independent audits are carried out by independent audit organizations and independent auditors who are mandated by POAASA. Until now 216 independent audit organizations and 13,907 independent auditors have registered with www.kgk.gov.tr, the independent audit register, which is open to the general public (KGK, 2016, www.kgk.gov.tr).

Based on the new regulations, financial reports are redesigned to be composed of financial statements, responsibility statement and board annual report. With the adoption of accounting standards, groundbreaking change will occur in Turkey where tax accounting concepts were in common for the years before. Indeed, expectations regarding accounting are changing. For years the most important goal of members of the accounting profession was to calculate the tax amount to be paid, while the aim of accounting standards is *trustworthy financial reporting* (Gücenme Gençoğlu and Aytaç, 2014: 7).

Companies' information on corporate sustainability is included in their activity reports. Based on independent audit standards, the auditor reviews financial statements and annual activity reports, both prepared based on the going concern assumption. Independent auditing of financial reports is a type of review, which has been an obligation under the TCC starting in 2014 for companies within the audit scope. In this context, determinations of companies' financial capability, solvency and operational risks are made. In the Official Gazette dated March 18, 2014 and numbered 28945, the "Communiqué on Forming of Opinions and Reporting Related to Financial Statements" was published by the Public Oversight Accounting and Auditing Standards Authority (POAASA). This communiqué describes the contents of an activity report investigation and provides an example of an audit report related to an activity report in its appendix. Regarding the activity report, two types of affirmative and qualified report are accepted.

According to the communiqué, pursuant to TCC article no. 514, the responsibility of the company's board of directors in terms of the annual activity report is to prepare this report based on the company's financial statements and reflect the truth and to ensure that all required internal controls are in place to prepare this report. The responsibility of the independent auditor is to issue an opinion on whether the financial information in the report is consistent with the company's financial statements and reflects the truth pursuant to TCC no. 397.

3. Regulations On Corporate Governance In The TCC

TCC no. 6102 includes important changes regarding companies' management and supervision. Under the title of early detection and management of risk, changes have been made to article no. 378. According to this article, which provides an example of the application of corporate management principles to publicly traded companies, in publicly traded companies, the board of directors is responsible for establishing a committee that assesses the risks that affect a company's existence, growth and sustainability and carries out required solutions to enhance the system. The committee evaluates the situation and, if available, indicates dangers and reveals solutions. The report is also sent to the auditor.

Pursuant to TCC no. 375, for stock companies, the committee described above constitutes an added internal control mechanism along with the financial audit and auditing committee. The difference between this committee and the audit committee is that the audit committee focuses on management, while this committee focuses on risk. In addition, while auditing is an observation of the past, the investigation of risk is based on the future and interpreting the future.

According to TCC article no. 398, the independent external auditor supervises the actions of the board of directors as to whether the board of directors has established the above-mentioned committee (expressed in the explanation of article no. 378) and put in place a system to identify current and future threats in a timely manner. If such a system exists, the independent external auditor prepares a separate report describing the structure of this system and actions of the committee and presents it to the board of directors along with the audit report.

Corporate sustainability and corporate governance presented as an assurance of collective improvement constitute a priority along with equality, transparency, accountability and responsibility principles, and great effort is expended in putting them into practice.

4. CMB Regulations And Corporate Governance Principles

Capital Markets Law numbered 6362 was published in the Official Gazette and came into force on December 30, 2012. Corporate management principles are regulated under both the Capital Market Law and the corporate management principles communiqué of the CMB. In the Capital Market Law on Corporate Management Principles, which was prepared mostly based on the OECD Corporate Management Principles, corporate management principles are enumerated and described. They include equality, transparency, accountability and responsibility.

Since 1999, when the OECD Corporate Governance Principles were published, interest in corporate governance has been steadily growing in Turkey. In 2003, the CMB published its Principles of Corporate Governance and this paper is being updated based on international progress.

"II-17.1 CORPORATE GOVERNANCE COMMUNIQUE" was published in the Official Gazette dated January 3, 2014, and numbered 28871 in order to improve applications of corporate governance by the CMB. The purpose and extent of this communiqué is to designate corporate governance principles to be established by partnerships and procedures and principles concerning related party transactions. This communiqué was prepared based on Capital Market Law article 17, dated December 6, 2012, and numbered 6362. Corporate governance principles to be applied by partnerships appear in the appendix of the communiqué.

The CMB governance principles cover two main topics, which are "internal control system with board of directors' declaration as to whether this system is working properly" and "opinion of independent auditing firm about company's internal control system." The audit committee inspects the company's accounting system, the release of company's financial information to the public, the process and efficiency of the independent audit and the internal control system. The audit committee could possibly be named the "risk committee", "risk management committee," or "the committee of early detection and management of risk."

Swift advances in the capital markets in terms of corporate governance have continued with the announcement of the Corporate Governance Index in 2007. The CMB now requests a corporate governance compliance report from publicly traded companies, a corporate governance index has been developed by the BIST, and corporate governance rating operations are made by companies with a CMB license. Board of directors' leadership, active supervision of the inspection committee, and external and internal audits adapted from international standards are critical success factors in terms of the application of "Corporate Governance" and "Principles of Corporate Governance."

With the regulations on corporate governance introducing features such as independent board membership, shareholder rights and high standards of public disclosure, the aim has been to create conditions conducive to raising funds by attracting domestic and foreign, individual and corporate investors to the market.

Under CMB regulations, the board of directors of companies publicly traded on the BIST must form a "corporate governance committee," a "committee of early detection of risk" and an "auditing committee," and all of the members of the auditing committee as well as the heads of the other committees must be selected among the independent members of the board of directors.

Establishing a "Shareholder Affairs" unit is also a regulation that helps publicly traded companies on the BIST communicate with their shareholders. It is intended to foster close relations between companies' boards of directors and the "Corporate Management Committee and Unit of Shareholder Affairs" in order to preserve effective communication between the company and its shareholders and to find and solve potential disagreements.

4.1. Corporate Governance Index

The BIST Corporate Governance Index includes companies that put Corporate Governance Principles into practice. The purpose of the BIST Corporate Governance Index is to survey the price and profit performance of the companies that are publicly traded on the BIST (excluding watch list and C

List companies), whose corporate governance compliance rating is at least 7 out of 10 and whose rating on each main topic is at least 6.5 out of 10.

The corporate governance compliance rating is awarded based on an investigation of a company's corporate governance compliance, which is performed by rating agencies identified by the CMB.

Calculation of the Corporate Governance Index was started on August 31, 2007 with an initial index value of 48,082.17. Rating notes of companies in the BIST Corporate Governance Index are available via companies' descriptions on the Public Disclosure Platform.

4.2. Sustainability Reports And The BIST Sustainability Index

According to conventional management doctrines, company management only answers to shareholders. However, the extent of accountability is greatly expanded under corporate governance principles. Shareholders demand transparency from companies and want information about financial performance as well as social and environmental performance. Sustainability reports, which are an evaluation of a company's strategy, management approach and promises, are seen as an accountability tool (IMKB 2011:11).

A company could take the following concrete steps in terms of sustainability (BIST, 2014:5):

- Adopt and put into practice essential principles of corporate management, which are transparency, equality, accountability and responsibility, use more environment friendly technologies in production, and emphasize environmental protection awareness at every level of the company
- Provide reliable products to the end user
- Improve working conditions and establish required ethical rules
- Conserve energy in production and business processes or increase energy efficiency or design innovative products

Sustainability reporting is a process by which companies describe the effects of their daily economic, environmental and social activities. Globally, the number of companies that report on their sustainability performance is rapidly increasing. Some companies include their sustainability activities in their activity reports, while others inform their shareholders via a separate webpage on their corporate website. Many companies prepare a separate "sustainability report" (Carver and Oliver, 2002:32-33). There are globally accepted reporting frameworks to help companies produce clear, understandable and transparent sustainability reports (Charan, 2005:25). These standards are continually updated in order to make them suitable to companies' needs. Framework and standard setting organizations and consulting firms are taking the lead on this matter (Tenev, Zhang and Brefort, 2002: 127).

Globally accepted reporting frameworks include the G4, developed by the Global Reporting Initiative (GRI), Communication on Progress, COP developed according to the United Nations Global Compact (UNGC), Integrated Reporting (IR), established by the International Integrated Reporting Council (IIRC) and CDP Reports, prepared by the Carbon Disclosure Project (CDP).

Borsa Istanbul A.Ş. (BIST) was founded pursuant to Capital Markets Law article 138 dated December 30, 2012, and numbered 6362. The BIST Sustainability Index was launched on November 4, 2014, with the ticker XUSRD. The initial index value was 98,020.09, which was the closing value of the second session on November 3, 2014. In the first quarter of 2014, which was the first period of assessment, only companies in the BIST 30 were evaluated. The list of companies to be evaluated in 2015 has been expanded to the BIST 50 and in 2016, volunteer companies from BIST 100 are added to the list. For the BIST Sustainability Index, there is one index period, which is November-October. Every year in December, the "list of companies that are subject to evaluation" is revised and announced by the BIST. With the launch of the Index, an advantage has been provided to companies that effectively manage corporate risks and opportunities, as the emergence of an index that is investible and promotes the development of new investment products increases the availability of financing to these companies (http://www.borsaistanbul.com/).

The purpose of the BIST Sustainability Index is to showcase companies with strong sustainability performance, in order to increase understanding, knowledge and applications of sustainability issues in Turkey, in particular among BIST companies.

The Index allows companies to compare their sustainability performance locally and globally. It also provides a performance evaluation tool and an opportunity to manage risk related to corporate transparency, accountability and sustainability. Thus it is thought that it will create a competitive advantage and that companies on the list will greatly increase their recognition and reputation.

An agreement between the BIST and Ethical Investment Research Services Limited (EIRIS) was signed in October 2013 in order to calculate the BIST Sustainability Index based on companies' environmental, social and corporate governance performance. According to the agreement, EIRIS is to evaluate companies based on international sustainability criteria, and companies that score adequately on "Index Selection Criteria" are to be included in the Index calculated by the BIST. The first group of companies to be evaluated is that included in the BIST 30 index, and in this evaluation only public information will be used. In further stages, based on shareholder comments and suggestions, the number of evaluated companies has increased. The list of evaluated companies has been extended first to the BIST 50 and then to the BIST 100.

Criteria considered by EIRIS include: the environment, bio-diversity, climate change, human rights, the supply chain, the structure of a company's board of directors, bribes, and health and safety. Based on shareholder suggestions, in the future, the evaluation methodology may also be changed.

5. Conclusion

Today stakeholders expect companies to be law-abiding and transparent entities while they create added value. To achieve this goal, companies have to establish and improve effective corporate management systems and these depend chiefly on the existence of a good reporting and auditing system in the companies' countries of operation.

With the assimilation of corporate governance concepts in Turkey, the fixing of income inequalities, consolidation of companies' financial structure, decrease of unrecorded activities and transparency and accountability of Turkish companies have become possible.

It has been suggested that sustainability policies enhance corporate reputation, which then reflects positively on brand value. Companies that integrate sustainability approaches to resolution processes reduce costs and enhance productivity and profitability in the long term.

Corporate sustainability approaches cause incremental costs in the short term, including education activities and risk management. However, in the long term, they enhance a company's performance by using new technologies and changing corporate culture.

In other words, companies that adopt corporate sustainability approaches gain legitimacy in the public eye. Companies that have public support clearly have a competitive advantage.

Corporate sustainability approaches involve planning, organizing business processes and verifying that employees are actively contributing. The existence of robust human resources management practices enhances employee motivation and increases their loyalty to the company.

Investors mostly question whether companies take into account corporate sustainability. Companies that successfully manage environmental, social and corporate risks and thus enhance their public reputation arouse the interest of international investors and increase their ability to access financing.

In an economic structure where corporate sustainability is adopted, European countries demand production without environmental harm and work places that respect human dignity. International financial corporations investigate "environmental impact" in order to make credit facilities available.

REFERENCES

Borsa Istanbul (2014), Şirketler İçin Sürdürülebilirlik Rehberi, http://www.borsaistanbul.com/data/kilavuzlar/surdurulebilirlik-rehberi.pdf

Carver J., Olıver C., (2002), Corporate Boards That Create Value, John Wiley & Sons, Inc, 32-33

Charan R., (2005), Advancing Corporate Governance from Compliance to Competitive Advantage, John Wiley & Sons Inc.

Çatıkkaş Ö., (2013), Eğitim Alanı: Kurumsal Yönetim İlkeleri, Marmara Üniversitesi Sürekli Eğitim Merkezi, 3-14.

EIRIS Empowering Responsible Investment (2014), BIST Sustainable Index Research Methodology (www.eiris.org)

Gücenme Gençoğlu Ü., Aytaç A., (2014), The Process Of Formation Of Accounting Standards And The Present Situation In Turkey, 3rd International Symposium on Accounting and Finance, ISAF 2014 Tokyo

http://www.kgk.gov.tr

http://www.spk.gov.tr

http://www.borsaistanbul.com

IMKB Istatistik Müdürlüğü, (2011), Sürdürülebilirlik İle İlgili Özet Bilgiler

Kamu Gözetimi Kurumu, Finansal Tablolara Ilişkin Görüş Oluşturma ve Raporlama (BDS 700), 18.03. 2014 Tarihli 28945 saayılı Resmi Gazete

Kamu Gözetimi, Kurumu, Analitik Prosedürler (BDS 520), 9 Ocak 2014, 28877 sayılı Resmi Gazete

KGK, Finansal Tablolara İlişkin Görüş Oluşturma Ve Raporlama Hakkında Tebliğ, 18.03.2014 tarihli ve 28945 sayılı Resmi Gazete

Michalski W., Miller R., Stevens, B., (2001), Governance in the 21st Century, OECD, 7-26

Shıvdasanı A., Zenner M., (2002), Best Practices in Corparate Governance, Global Corporate Finance

Tenev S., Zhang C., Brefort L., (2002), Corporate Governance and Enterprise Reform in China, Building the Institutions of Modern Markets, World Bank and the International Finance Corporation.