New trends in Corporate Governance
Its Implications for Corporate Performance

Dr. Yılmaz ARGÜDEN
Corporate governance - "the system by which companies are directed and controlled“.

<table>
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<tr>
<th>Corporate Governance Principles</th>
<th>Notable Corporate Accounting Scandals</th>
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<tr>
<td>1992 The Cadbury Report, UK</td>
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<td>1997 The Responsible Board, Ira Millstein</td>
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<tr>
<td>1998 The Principles of Corporate Governance, OECD</td>
<td>Enron (USA) – One Tel (Australia)</td>
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<td>2001 The Sarbanes-Oxley Act,USA</td>
<td>MCI Worldcom (USA) – Tyco (USA) - Adelphia (USA) – Peregrine Systems (USA)</td>
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<td>2003 The Principles of Corporate Governance, OECD</td>
<td>Parmalat (Italy) – Ahold (Netherlands) - Nortel (Canada)</td>
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<td>2004 The Principles of Corporate Governance, OECD</td>
<td>AIG (USA)</td>
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<tr>
<td>2008 Anglo Irish bank (Ireland) – Satyam Computer Services (India)</td>
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<td>2011 Olympus (Japan)</td>
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</tbody>
</table>
All virtue is summed up in dealing justly. - Aristotle

- Trust is the foundation of development both in relations among humans and institutions
- Gaining the trust of others is a valuable but difficult endeavor
- Achieving the status of being trustworthy is a long process, but trust could be lost very quickly
- In gaining trust, actions speak louder than words, as consistency of actions is a more dependable indicator of intent
- Corporate governance is the foundation of corporate trust
- The most important element of organizational infrastructure is the Board of Directors
- The boards do not run companies but rather guide and advise the management
- Governance is much more than compliance.

Good corporate governance is a culture and a climate of:

- Consistency,
- Responsibility,
- Accountability,
- Fairness,
- Transparency and
- Effectiveness that is deployed throughout the organization.
The quality of a board depends on the quality of its members, its structure, and its processes.
Independent members should be competent and sufficiently informed to make judgments for sustainability of the company.

Role of Independent Board Members

- Handle ‘the agency problem’ between the shareholders and the management (fraud, cronyism, lethargy, risk aversion, excessive risk taking)
- Prevention of preferential treatment of any stakeholder.

Components of Independence (*)

- Financial: Corporate governance codes mostly define independence in terms of the financial interest of the member
  - Intellectual
  - Political
  - Group Independence
  - Emotional

(*) Independence argument should not be carried too far to eliminate qualified candidates who may serve the corporation well and go for people who do not have relevant experience.
The key to a successfully functioning board is the character and competencies of the people who make up that board.

1. Integrity and high ethical standards,
2. Understanding of fiduciary responsibility,
3. Financial literacy,
4. Conformity with the corporation’s values,
5. Ability to make judgments on decisions with implications on numerous dimensions,
6. Independent thinking, ability to express thoughts,
7. Exhibiting a constructive approach,
8. Having internalized the principles of corporate governance,
9. Believing in and applying standards of stretch performance,
10. Being prepared to devote sufficient time and attention,
11. Willing to take initiative to be proactive, challenge the management, and when needed take action.

The basic member choosing criterion “What value they will add to the board.”
Board members should demonstrate certain behaviors in fulfilling their duties.

1. Knowing the corporation and the market well
2. Implementing a challenging and constructive questioning process
3. Having a good understanding of the corporation’s cash flow
4. Having an understanding of benchmarks
5. Focusing not only on the performance of the current term, but also about the indicators for the future performance
6. Inorganic growth opportunities
7. Succession planning
8. Potential off-balance-sheet liabilities
9. Reputational risks, whistle blowing process in identifying potential fraud risks
10. Understanding customer expectations
11. Understanding of the value chain
12. Effective oversight for CSR activities
13. Being aware of potential regulatory and legislative changes
14. Understanding of the priorities and concerns of the investment community
Pearls are not found in shallow waters, if you want one, you must dive deep - Chinese Proverb

The key to a successfully functioning board is the character and competencies of the people who make up that board.

Traditionally, members of board of directors are picked by the largest shareholder, Chairperson, or CEO., but....

Independent members should be competent and sufficiently informed to make judgments for sustainability of the company.

Board members should demonstrate certain behaviors in fulfilling their duties.

Chairperson should ensure the effectiveness of the board and sustainable increase of the corporation’s value.

- General characteristics of Board Members.
- Individual competencies of Board Members.

- “acquaintances” that may hesitate to challenge the CEO.
- Limitation to the diversity of joint experience of the board.

- Financial Independence
- Intellectual Independence
- Political Independence
- Group Independence
- Emotional Independence

- Knowing the corporation and the market well
- Focusing current, but also future performance
- Succession planning
- Potential off-balance-sheet liabilities
- Risk evaluation and trade-offs

- Integrity and high standards for ethical conduct
- Openness, transparency and accountability
- Common sense and strategic thinking skills
- Team building
- Experience and knowledge
A collection of excellent players do not always make a great team, especially if they all excel at the same skills.

- Building successful teams / successful boards is an important entrepreneurship skill.
- Effectiveness of boards determine the effectiveness of the corporation.
- **In Order to Create a Successful Board;**
  - Mutual respect, trust, and candor must be attained between all board members.
  - Different skills and competencies of the members must cover company needs like:
    - Risk profile
    - Stage of life cycle
    - Geographic experience
    - Industry experience
    - Stakeholder experience
  - Team members must spend time together and exchange ideas and views.
  - The board has to work as a unified team, not as individual stars.
  - Great care should be taken to ensure that the team is formed properly from the outset.
  - Corporate incentive systems should be set up so as to increase team performance.
  - Sufficient time has to be invested up front to ensure agreement on a common vision.
  - Planned changes are necessary to ensure lasting team success.
Adherence to corporate governance principles is not enough, the expectations of stakeholders are more than that.

<table>
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<tr>
<th>Common Mistakes</th>
<th>How to Avoid such Mistakes</th>
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<td>“We have the best run company”</td>
<td>• Utilize scenario analyses to prepare for the worst</td>
</tr>
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<td></td>
<td>• Make risk evaluations and increasing sensitivity to the weak points</td>
</tr>
<tr>
<td></td>
<td>• Make phased decisions and retain flexible</td>
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<td>Delaying disposal decisions for non-performing business due to stigma of failure</td>
<td>• Ending value draining activities is the easiest way to create value</td>
</tr>
<tr>
<td></td>
<td>• Make realistic and independent assessments when considering disposals</td>
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<tr>
<td>Difficulty of overcoming the investment momentum</td>
<td>• Treat past expenditures as bygones</td>
</tr>
<tr>
<td></td>
<td>• Focus on value creation</td>
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<tr>
<td></td>
<td>• Phase investments, minimize risk of a major failures</td>
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<tr>
<td>Treating costs in different areas with different criteria</td>
<td>• Treat the cost of a one million USD mistake made in marketing and the cost of a one million USD mistake in production with the same criteria</td>
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<td></td>
<td>• Be careful, especially when entering into a new and fashionable business</td>
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<tr>
<td>Being overly influenced by most recent developments</td>
<td>• Focus on long term trends and averages</td>
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<td></td>
<td>• Use comparative benchmarking data to get a more realistic understanding</td>
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<td></td>
<td>• Increase the flexibility and focus on the decision horizon</td>
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<td></td>
<td>• Increase the flexibility of the strategic plan</td>
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<tr>
<td>Group Thinking</td>
<td>• Have a diverse board</td>
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<td>• Establish a climate of candor and encourage dissent</td>
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</tbody>
</table>
If everyone thinks the same, no one is thinking. – Walter Lipmann

A well functioning board needs to balance; ability to provide guidance and oversight and ability to bring different experiences and perspectives.

Building successful teams / successful boards is an important entrepreneurship skill.

Adherence to corporate governance principles is not enough, the expectations of stakeholders are more than that.

The number of board members influences the effectiveness of decision-making.

• Ability to Think Strategically
• Industry Experience
• Top Management Experience
• Senior-Level Relationships

• Mutual respect, trust, and candor between all board members.
• Team members must spend time and exchange ideas.
• A unified team, not individual stars.
• Properly formed team from the outset.
• Incentive systems to increase team performance.
• Agreement on a common vision.
• Planned changes are necessary to ensure lasting team success.

• “We have the best run company”
• Delaying disposal decisions due to stigma of failure
• Difficulty of overcoming the investment momentum
• Treating costs in different areas with different criteria
• Being overly influenced by most recent developments
• Group Thinking

• Circumstances
• Complexities of the corporation
• Geographic scope
The main goal of board meetings is twofold; to provide guidance and to provide oversight.

### BOARD MEETING PRACTICES

1. Ensuring attendance is very important (long-term planning)
2. Agenda has to cover all the relevant issues
3. The annual work agenda will ensure that main issues are properly addressed
4. Time has to be effectively utilized to provide necessary and sufficient information, to allow sufficient discussion to cover all relevant aspects for decision making and to get to a closure on key decisions.
5. Members should also meet in less formal settings, and spend time together at dinners or offsite retreats.
6. The members need to be kept fully informed about all major developments.
7. Getting the right information to board members at the right time is critical for board's effectiveness.
8. Having 5-7 regular board meetings annually is common practice.
9. It is also good practice to set aside a separate meeting to review corporate strategy and risk management and making sure that performance of the board as a whole, as well as the performance of the board committees are evaluated at least once a year.

### DISCUSSION HEADLINES

1. Financials
   1. Credits-Receiveables
   2. Working capital
   4. Budget comparison
   5. Developments in economy and markets
   6. Benchmarking
   7. M&A developments
2. Projects
   1. Plan vs. realization
   2. Investments / Joint ventures
   3. Obstacles-bottlenecks
   4. Potential projects
   5. Competitors’ investments
3. Internal Developments
   1. Access to resources
   2. HR issues
   3. Efficiency improvements
   4. Benchmark
   5. Internal controls
4. Communication
   1. Investor
   2. Internal stakeholders
   3. External stakeholders
   4. Reports on committee work
   5. Monitoring decisions made in previous meetings
Committees do not replace the role of the board but present their findings and recommendations to the full board.

<table>
<thead>
<tr>
<th>Why Committees</th>
<th>Committees are formed to enable board members to use their expertise to address key board issues in more depth than regular board meetings would allow.</th>
</tr>
</thead>
</table>
| Which Committees | **Audit:** Financial statements / internal controls / appointment of external auditors / Integrity of disclosures / fraud prevention  
**Nomination and Governance:** CEO and key members of the management have the necessary skills, experience and are motivated, and that there is an explicit process to identify, recruit, and develop people  
**Compensation:** Oversee corporate performance and assuring quality, integrity, depth, continuity of management, and ensuring motivation and loyalty of management with competitive compensation system  
**Safety and Social Responsibility:** To review safety, health, environmental, and community affairs programs and performance of the company |
| How Many Committees | • The number of committees varies between 2 – 7.  
• Among the top 20 companies’ Boards; 100% have Audit Committees, 90% have a Nomination and Governance Committee, 90% have a Compensation Committee, 50% have a Social Responsibility and Public Policy Committee. |
| Functioning of Committees | It is necessary for each committee to have its own “Committee Charter”, comprised of its Mission, Membership and Structure, Activities, Assessment, and Reporting. |
To open a shop is easy, keeping it open is an art. – Chinese Proverb

The main goal of board meetings is twofold; to provide guidance and to provide oversight.

- Attendance
- Annual work agenda
- Effectively utilized time
- Additional less formal meetings
- Fully informed
- Annually 5-7 regular board meetings

The meeting notes are an important tool for internal communication and they serve as a legal record.

- Who attended and how
- When and at what time the meeting took place
- What basic agenda topics were discussed
- What information was shared with attendees, was it sufficient
- Which alternatives and dimensions were considered
- Which decisions were taken
- ......

Committees do not replace the role of the board but present their findings and recommendations to the full board.

- Audit
- Nomination and Governance
- Compensation
- Safety and Social Responsibility
- ....

For successfully functioning boards; selection, evaluation, remuneration and development processes must be structured.

- Member Selection
- Performance Evaluation
- Compensation Package
- Development and Orientation
One of the keys to a successful board is a good understanding of the differentiated roles of the management and board.

**ROLES of the BOARD**

- Provides guidance and oversight
- Ensures that the corporation is led with an entrepreneurial spirit that enhances its value
- Recruit, appoint, evaluate, reward, and when necessary remove the CEO and top executives.
- Assess and approve strategic direction of the company
- Ensures the integrity of all public disclosures
- Ensures that management has instituted an effective risk management and internal control system
- Monitor performance against agreed upon benchmarks

**ROLES of the CEO and TOP MANAGEMENT**

- Initiates and implements decisions
- Enhance the value of the corporation by leading the organization within the strategic direction approved by the board
- Ensures that the decision making power at each level of management is not only not misused, but is used with care and responsibility to meet stakeholder expectations
- Explains the bigger picture, issues, options, and recommendations to the Board on a timely fashion

A board that interferes with management and assumes an operational role would not be able to credibly exercise its control rights, independently.

For board members, an important characteristic should be a lack of ambition to replace the management with themselves.

Open-minded, early and honest communication is a key enabler of a good governance culture. Management should disclose mistakes, and problems on a timely fashion.
The tone at the top sets the corporate culture.

Structural and procedural issues are not sufficient for good governance. Good governance needs people who understand the spirit of governance, internalize principles, and reflect them in all their actions.

Examples of Behavior Expected in an Organization with Good Governance

- Management should not benefit personally from the corporation’s activities or assets, except for their stipulated compensation and reward packages.
- There should be no transactions with the corporation or its affiliates that is not in line with market prices.
- The management should not assume too much risk on behalf of the shareholders with the hope of inflating short term performance of the company.
- The management should not use the corporate resources to build an empire for themselves.
- No tendency for nepotism.
- Avoiding Insider trading
- No hindrance to effective operation of internal control systems
- Management should take all the necessary precautions to train all employees with respect to avoiding conflicts of interest with the corporation,
- Management should see to it that all employees observe all legal and ethical stipulations, and that there is an effective whistle blowing mechanisms to identify violations.
- The independence of external auditors should not be endangered by giving them too many other assignments.
- There should be a competitive compensation system to ensure that competent individuals with the right qualifications are attracted to the corporation and rewarded for performance.
- No shareholder should be given preferential treatment and commercial transactions made with shareholders should be conducted on an arms length basis,
- Unethical conduct such as bribery should be a cause for dismissal.
- To ensure that management behaves fairly towards all stakeholders, such as employees, suppliers, and distributors.
- Over confidence in internal capabilities has to be avoided, in order to be able to utilize third party resources for improving the corporation’s performance.
- Reductions in investments endangering the future of the company should be avoided to meet short term goals. In particular, investments in intangibles such as the brand has to be watched carefully, as it is difficult to measure the damage in the short term.
- Continuous improvement and benchmarking with best-in-class examples should be encouraged.
- Strict adherence to public disclosure requirements about developments that may have an effect on the value of the company should be observed.
- The systematic assessment of risks and opportunities concerning the corporation’s future should be conducted.
- Corporate social responsibility towards the society and future generations should be taken seriously.
Whenever everyone agrees with me, I always feel I must be wrong. — Oscar Wilde

<table>
<thead>
<tr>
<th>What is Critical Thinking</th>
<th>Skills of A Critical Thinker</th>
<th>Behaviors of A Critical Thinker</th>
</tr>
</thead>
</table>
| • Challenging all assumptions, information and judgments, and evaluating different aspects of the issues at hand before coming to a conclusion. | • Systematic thinking  
• Working discipline  
• Flexibility  
• Openness to new ideas /change  
• Integrity  
• Perseverance  
• Courage  
• Autonomy  
• Self-confidence. | • Gathers and assesses relevant information  
• Thinks open-mindedly considering alternative perspectives  
• Recognizes and assesses their assumptions, implications, and practical consequences;  
• Raises vital questions and problems  
• Formulates them clearly and precisely  
• Comes to well-reasoned conclusions and solutions  
• Communicates effectively with others in figuring out solutions to complex problems |

(*) Absence of critical thinking at the board results in unhealthy decisions, the chairman of the board has to encourage critical thinking and to create an environment conducive to challenge.
Positive and constructive thinking is the key to emotional intelligence which promotes participation and sharing of ideas.

Each mistake is a learning opportunity

- People tends to hide mistakes
- But innovation requires acceptance of mistakes (Edison)
- Mistakes are to be expected, not avoided
- Each opportunity to learn is worth its weight in gold
- Effectively conducting an analysis of a failure requires self-confidence, a spirit of inquiry and openness, patience, and a tolerance for ambiguity.
- Success in innovation does not come with worries or withdrawal, but with persistence, perseverance, and tenacity to continue

Creating an appropriate climate for learning is a critical leadership challenge

- Leaders should share their own mistakes
- Leaders should ensure that the corporate culture embodies an understanding of “to win we have to make calculated experiments” rather than “not doing anything for fear of making a mistake.”

The ability to think positively and constructively can be learned

- Learn from the experience of others.
- At peace with oneself, consistency of thought, expression, and behavior is the enabler of self-confidence, peace, and winning the trust of others.
- The harshest form of criticism is often the kind we evoke upon ourselves.
The only man who makes no mistakes is the man who never does anything. – E. Roosevelt

One of the keys to a successful board is a good understanding of the differentiated roles of the management and board.

The tone at the top sets the corporate culture.

Whenever everyone agrees with me, I always feel I must be wrong. — Oscar Wilde.

Positive and constructive thinking is the key to emotional intelligence which promotes participation and sharing of ideas.

The most important expectation from the board is ensuring compliance to ethical rules, beyond laws and regulations.

- Guidance and oversight vs. initiation and implementation
- Ensuring systems vs. timely and open communication
- Not benefiting personally from the corporation’s activities / assets
- No transactions with the corporation or its affiliates that is not in line with market prices. (Related party transactions)
- Not assuming too much risk on behalf of the shareholders
- No tendency for nepotism
- ..... 
- Critical Thinking

- Each mistake is a learning opportunity
- Creating an appropriate climate for learning is a critical leadership challenge
- The ability to think positively and constructively can be learned
- Corporate Social Responsibility
- Fair Investigation
- The Responsibility to Protect the Environment
- Avoiding Misrepresentation in Public Disclosures
- Effectiveness of Internal Controls
- ...

ARGE
Balanced information regarding the corporation must be shared with each member systematically and timely.

**Dimensions of Board Information**
- Context / Relevance
  - Satisfaction review
  - Benchmarking / Variance Analysis
  - Ample time to review and study

**Characteristics of Information**
- Only necessary and sufficient information
- Comparisons
- Current and presented in a timely fashion
- Derived from best available sources
- Simple and easy to understand
- Clearly identified main assumptions

**Details of Information**
- Information required to support board decisions, particularly investment and strategic issues
- Information about the industry trends, developments, and company’s positioning
- Information that will allow a sound assessment of risks the corporation may face
- Information necessary to assess the corporation’s performance
- Legal and regulatory developments and compliance issues
- Information related to developments at stakeholders, and relationships with them.
- Information about the internal control systems
- Key potentials within and outside the company about their competencies, experiences, and performance.
- The development plan for key executives
However, most of the board decisions are made for the future, therefore access to lead indicators is important.

- No attention to lead indicators – Delay in realizing problems
- Lead indicators such as perception, satisfaction, learning and innovation are harder to measure
- Attention must be given to lead indicators just as the business results
  - Decline in customer satisfaction today - Decline in profits in the future
  - Decline in market share in a particular niche - Diminishing innovation capability of the company

**Examples of Lead Indicators**

- Customer complaints (Failing to learn from them, may cause bigger problems in the future)
- Proportion of income coming from products/services introduce in the last few years
- Performance at new markets
- Increasing or decreasing profits and variance analyses with the past performance
- Tendency of top management to silence people with opposing views.
- Indication for overconfidence of the management and underestimating the competition
Time stays long enough for anyone who will use it. – Leonardo Da Vinci

| Balanced information regarding the corporation must be shared with each member systematically and timely. | • Context / Relevance  
• Satisfaction review  
• Benchmarking / Variance Analysis  
• Ample time to review and study |
| --- | --- |
| However, most of the board decisions are made for the future, therefore access to lead indicators is important. | • No attention to lead indicators – problems late realized  
• Lead indicators are relatively harder to measure  
• Attention must be given just as the business results |
| The quality of the process by which the decisions are made is as important as the quality of information feeding into this process. | • Is it important or urgent and require board decision.  
• Alternatives presented by the management are comprehensive and that their costs, benefits, risks, and impacts are well understood.  
• Identify the type of uncertainty and approach. |
Strategic thinking is the ability to differentiate on a consistent manner.

<table>
<thead>
<tr>
<th>Defining Mission and Vision</th>
<th>Aim / Benefits</th>
<th>Board</th>
<th>Management</th>
</tr>
</thead>
</table>
|                             | • Focus resources  
|                             |   • Avoid activities that do not create value  
|                             |   • Balance between long-short term goals  
|                             |   • Capture opportunities faster  | • Approval  | • Implementation  
|                             | • Strategic intent  
|                             | • Being the lowest cost competitor  
|                             | • Differentiate  
|                             | • Focusing on a niche market  |         | • Communication  
| Setting the Strategy and Strategic Plan | • Build prepared minds  
|                             | • Be able to swiftly respond to the challenges and opportunities  | • Challenging  
|                             |                             | • Shaping  
|                             |                             | • Approval  | • Devising  
|                             | • Fit between the strategy and the resources  
|                             | • Clarity of focus  
|                             | • Dynamic  
|                             | • Holistic  |

• Choice of products, services  
• Choice of part of the value chain to focus  
• Strategic geography  
• Physical geography  
• Organic growth  
• Inorganic growth  
• Business partnerships
As the boards are increasingly faced with choices about where to compete, managing the portfolio of businesses becomes critical.

<table>
<thead>
<tr>
<th>Reasons for having a portfolio of businesses</th>
<th>Responsibilities of the Board</th>
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<tr>
<td>• Change in conditions</td>
<td>• Monitor corporate transactions and closely follow others’ actions.</td>
</tr>
<tr>
<td>• Risk management</td>
<td>• Mentally prepared for corporate transactions well in advance of a potential transaction</td>
</tr>
<tr>
<td>• Capturing market opportunities</td>
<td>• Watch the valuations and firing power (cash generation and debt or equity raising capability) of the companies, as well as potential competitors</td>
</tr>
<tr>
<td>• Capitalizing on key competencies</td>
<td>• Focus on relations with current and potential investors and creditors</td>
</tr>
<tr>
<td>• Scope economies</td>
<td>• Identify which new businesses to develop or enter</td>
</tr>
<tr>
<td>• Asset specificity</td>
<td></td>
</tr>
<tr>
<td>• Inefficiencies in capital markets</td>
<td></td>
</tr>
<tr>
<td>• Capturing scale of economies</td>
<td></td>
</tr>
<tr>
<td>• Changing or increasing the strategic focus</td>
<td></td>
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</tbody>
</table>
One of the key responsibilities of the boards is to ensure that the organization has the right leadership, people, systems, and policies.

When structuring the organization:
- Adapt the structure as the strategies change
- Take into account the skills and competencies of the people within the organization
- Built the organization around the key business processes that the organization has to do well
- Determine the activities to outsource
- Define clear assignments of authority and responsibilities
- Define the titles for each position. (inflation vs. credibility)
- Define how to handle expertise development in various jobs
- Identify information flow, reporting and performance rewarding systems.

When approaching to Human Resources:
- Identify the competencies required to implement the strategy
- Ensure that sufficient number of people with these competencies are present
- Have plans towards the future needs
- Develop system to identify, evaluate, and develop high potential individuals
- Provide diversity of experience to employees to prepare them for future responsibilities
- Make people development a key performance area for managers
- Make people and potential hires believe that the company provides great development opportunities

When approaching to Performance Management and Reward Systems:
- Define business processes
- Determine key performance indicators
- Test the parameters of the compensation and reward system under different scenarios
- Pre-determine what will be considered as attractive rewards for extraordinary performance and normal performance
- Make sure that performance is evaluated on a comparative basis with competitors
- Align the management rewards with the returns to shareholders
- Report full compensation of top management in company’s annual reports with relevant comparative data with competitors
An appropriate choice of the CEO, needs deep understanding of the company, the environment and potential candidates.

**Characteristics of a successful CEO**
- A good manager and a good leader
- Ability to set a vision for the company and to focus all resources to realize this vision
- Have high ethical standards
- Have good communication skills, and ability to motivate people around him/her.
- Ability to select, develop, and motivate people
- Ability to make tough decisions under uncertainty
- Ability to be open to conflicting information
- Ability to take precautions and manage risks

**Alternative Leadership Styles**
- Strategic direction
  - Visionary leadership
  - Top down leadership
  - Participative leadership
- Corporate values and culture
  - Entrepreneurship and innovation
  - Team work
  - Internal competition
  - Operational excellence and discipline
- Accountability and controls
  - Human focus
  - Financial results focus
  - Operational excellence focus
- Competency development
  - Process oriented development of intellectual capital
  - Promoting from within
  - Hiring the best
  - Outsourcing or business partnerships
- Relationship management
  - Competition focus
  - Business partner relationships
  - Regulatory agency relationships
  - Stakeholder relationships
Vision without action is a daydream. Action without vision is a nightmare. - Japanese Proverb

Strategic thinking is the ability to differentiate on a consistent manner.

- Fit between the strategy and the resources
- Clarity of focus
- Dynamic
- Holistic

As the boards increasingly faced with choices about where to compete, managing the portfolio of businesses becomes critical.

- Monitor corporate transactions and closely follow others’ actions.
- Mentally prepared for corporate transactions
- Watch the valuations and firing power
- Focus on relations with current and potential investors/creditors
- Identify which new businesses to develop or enter

One of the key responsibilities of the boards is to ensure that the organization has the right leadership, people, systems, and policies.

- Structuring the organization
- Approaching to Human Resources
- Approaching to Performance Management and Reward Systems

An appropriate choice of the CEO, needs deep understanding of the company, the environment and potential candidates.

- Ability to set a vision for the company
- High ethical standards
- Communication skills,
- Make tough decisions under uncertainty
- …

Effectiveness of boards are directly linked to the quality of the communication.

- Make collective decisions
- Avoid lack of sincerity
- Separate data from opinions
- Keep the opinions from personalizing them
- Have a unified while communicating with the stakeholders
- …
Risk management is the essence of management.

<table>
<thead>
<tr>
<th>What do Boards need to manage risks</th>
<th>An established risk management brings;</th>
<th>Expectations from the board toward risk management</th>
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<tbody>
<tr>
<td>Mental preparation</td>
<td>A healthy corporate governance structure</td>
<td>- crises management plans</td>
</tr>
<tr>
<td>Risk sharing</td>
<td>Taking controlled risks consciously without losing the entrepreneur character of the company</td>
<td>- these plans should be assessed at least once a year</td>
</tr>
<tr>
<td>Diversification</td>
<td>The consistency of the information presented to regulatory agencies</td>
<td>- the plans should be checked whether they are consistent with the size of the company and the potential risks it faces</td>
</tr>
<tr>
<td>Financial prudence</td>
<td>Creation of trust among different stakeholders</td>
<td>- these plans should protect the security and integrity of the corporate records</td>
</tr>
<tr>
<td></td>
<td>High corporate reputation</td>
<td>- plans for the continuity of the systems of critical importance should be established</td>
</tr>
<tr>
<td></td>
<td>Not losing the focus on achieving strategic goals with the appearance of risks</td>
<td>- the precautions should be set to identify and control financial and operational risks</td>
</tr>
<tr>
<td></td>
<td>The ability to create long term value</td>
<td>- systems that involve company’s customer, employee, supplier, regulatory, and other stakeholder data should have a backup</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- potential risks for other stakeholders should be assessed.</td>
</tr>
</tbody>
</table>
One of the key responsibilities of the board is to ensure that there is an effective oversight and internal control.

<table>
<thead>
<tr>
<th>Principles for Internal Control (Audit Function)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Avoid the transformation of the management system from a results oriented system to a control oriented mechanism</td>
</tr>
<tr>
<td>• Avoid internal auditing to act like a prosecutor and evaluate the management decisions solely by their results on an ex-post basis.</td>
</tr>
<tr>
<td>• Internal auditing, except in situations where the executive management’s involvement is suspected in fraud, should be conducted not against the management but with a supportive and value creating manner</td>
</tr>
<tr>
<td>• The authority levels and approval mechanisms for decision making have to be clearly established</td>
</tr>
<tr>
<td>• A record of the decisions should be kept and assessed by an independent unit</td>
</tr>
<tr>
<td>• The record keeping and explanation process should be operated efficiently</td>
</tr>
<tr>
<td>• Results of decision making process must be considered as well as the decision making processes</td>
</tr>
<tr>
<td>• Sole focus on internal procedures may have the effect of bureaucratization and losing sight of the business results</td>
</tr>
<tr>
<td>• Timely provision of accurate information is a key regulatory and market requirement</td>
</tr>
<tr>
<td>• Generally companies above a particular size establish an internal audit department works under the CFO or the CEO, or directly under the auditing committee of the management board</td>
</tr>
<tr>
<td>• Establishing the control mechanism in the company, is primarily a management responsibility, not an audit responsibility.</td>
</tr>
<tr>
<td>• Internal audit is composed of three different types of auditing: Financial, Compliance, Operational</td>
</tr>
<tr>
<td>• The major role of the internal audit is to present an objective, independent assessments and to support that a systematic, disciplined, and reliable approach is used in the risk management of the company.</td>
</tr>
<tr>
<td>• New technologies provide opportunities to institute ‘continuous monitoring systems’</td>
</tr>
</tbody>
</table>
Power corrupts. Absolute power corrupts absolutely.
– Lord Acton

One of the key responsibilities of the board is to ensure that there is an effective oversight and internal control.

Risk management is the essence of management.

The primary function of the audit committee is to assist the board in fulfilling its oversight responsibilities.

- Result oriented system vs. control oriented mechanism
- A supportive and value creating manner
- Record keeping and explanation process
- Timely provision of accurate information
- An internal audit department
- ...

- Mental preparation
- Risk sharing
- Diversification
- Financial prudence

- Assuring the quality and integrity of financial statements
- Assuring the quality and integrity of internal controls
- Assuring compliance with legal and regulatory requirements
- Implementing a dependable whistle blowing procedure
- Addressing any material violations of code of conduct
- Discussing corporate disclosures with the management
- ....
The effectiveness of a board depends at a minimum, on the way it addresses the following issues.

- Adoption of a strategic planning process
- A process for identifying major risk areas and ensuring adequate mitigation strategies and systems are implemented
- Succession planning, including development plans for senior management and monitoring progress as well as compensation policies to ensure ability to attract and retain high quality management team
- Communication and disclosure policies with authorities, investors, analysts, and press
- Integrity of internal control and management information systems, including assurance of the independence of the outside auditors and availability of a fair and independent whistle-blowing process
- Adoption of a self evaluation process for the board covering the composition, processes, timely and relevant information availability, culture and climate, and learning for continuous improvement areas.
On the last 25 years Board compositions of **Global companies** changed a lot due to new responsibilities of the Boards.

<table>
<thead>
<tr>
<th></th>
<th>1986 (100 random companies)</th>
<th>2001</th>
<th>2011 (S&amp;P 500)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Board Size</td>
<td>15</td>
<td>11,1</td>
<td>10,7</td>
</tr>
<tr>
<td>Independent Directors</td>
<td>%66 Outsider (*)</td>
<td>%77</td>
<td>%84</td>
</tr>
<tr>
<td>CEO as the only Insider</td>
<td>Very few</td>
<td>%27</td>
<td>%57</td>
</tr>
<tr>
<td>Chairman – CEO role split</td>
<td>Not mentioned</td>
<td>%26</td>
<td>%41</td>
</tr>
<tr>
<td>Independent Chairman</td>
<td>Not mentioned</td>
<td></td>
<td>%21 (%9 in 2005)</td>
</tr>
<tr>
<td>Annual Board Performance Evaluation</td>
<td>Not mentioned</td>
<td></td>
<td>%99</td>
</tr>
<tr>
<td>Individual Director Evaluation</td>
<td></td>
<td>%35</td>
<td></td>
</tr>
<tr>
<td>Boards Searching for Women Directors Percentage of Women In New Directors</td>
<td>Not mentioned</td>
<td></td>
<td>%44</td>
</tr>
<tr>
<td>Boards Searching for Minority Directors Percentage of Minority In New Directors</td>
<td>Not mentioned</td>
<td></td>
<td>%47</td>
</tr>
<tr>
<td>% of Independent Woman Directors</td>
<td>Not mentioned</td>
<td>%12</td>
<td>%16</td>
</tr>
<tr>
<td>Majority Voting</td>
<td></td>
<td></td>
<td>%79 (%56 in 2008)</td>
</tr>
<tr>
<td>Ceo Succession Discussed Once At Least Once A Year</td>
<td>Not mentioned</td>
<td></td>
<td>%99</td>
</tr>
<tr>
<td>Mandatory Retirement Rules</td>
<td></td>
<td>%58</td>
<td>%73</td>
</tr>
<tr>
<td>Retirement Age 72+</td>
<td>Not mentioned</td>
<td>%36</td>
<td>%83</td>
</tr>
<tr>
<td>Retirement Age 70+</td>
<td></td>
<td>%60</td>
<td>%16</td>
</tr>
<tr>
<td>New Directors from Outside Active CEO’s</td>
<td>%53</td>
<td>%47</td>
<td>%24</td>
</tr>
<tr>
<td>Demand for Strong Financial Background</td>
<td>Not mentioned</td>
<td></td>
<td>%42</td>
</tr>
<tr>
<td>Demand for Industry Background</td>
<td></td>
<td>%40</td>
<td></td>
</tr>
<tr>
<td>Demand for International Expertise</td>
<td>Not mentioned</td>
<td></td>
<td>%39</td>
</tr>
<tr>
<td>Number of Board Meetings</td>
<td>11</td>
<td>8,0</td>
<td>8,2</td>
</tr>
<tr>
<td>Total Average Annual Compensation (Director)</td>
<td>232.142 USD</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(*) Most of the Directors considered “outsider” in 1986 would not qualify as independent today.

Source: Bloomberg Businessweek / Spenser Stuart Board Index 2011
Increasing focus on “CEO succession planning” and “Risk Management” by the Global companies.

Source: Spenser Stuart Board Index 2011
Independent Non Executive Directors are increasing within the composition of European Boards

<table>
<thead>
<tr>
<th>Country</th>
<th>Executive directors</th>
<th>Former executive directors</th>
<th>Independent non-executive directors</th>
<th>Reference shareholders</th>
<th>Employee representatives</th>
<th>Other non-independent directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>1</td>
<td>36%</td>
<td>22%</td>
<td>31%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>10%</td>
<td>2</td>
<td>32%</td>
<td>35%</td>
<td>1%</td>
<td>20%</td>
</tr>
<tr>
<td>Denmark</td>
<td>12</td>
<td></td>
<td>30%</td>
<td>19%</td>
<td>30%</td>
<td>18%</td>
</tr>
<tr>
<td>Finland</td>
<td>5%</td>
<td>2</td>
<td>72%</td>
<td>9%</td>
<td>3%</td>
<td>9%</td>
</tr>
<tr>
<td>France</td>
<td>8%</td>
<td>4</td>
<td>40%</td>
<td>22%</td>
<td>4%</td>
<td>22%</td>
</tr>
<tr>
<td>Germany</td>
<td>5%</td>
<td></td>
<td>21%</td>
<td>8%</td>
<td>49%</td>
<td>17%</td>
</tr>
<tr>
<td>Italy</td>
<td>17%</td>
<td>2</td>
<td>48%</td>
<td>13%</td>
<td>12%</td>
<td>20%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2</td>
<td>3</td>
<td>75%</td>
<td>6%</td>
<td>2%</td>
<td>12%</td>
</tr>
<tr>
<td>Norway</td>
<td>6%</td>
<td>4</td>
<td>51%</td>
<td>10%</td>
<td>21%</td>
<td>8%</td>
</tr>
<tr>
<td>Poland</td>
<td>8%</td>
<td>3</td>
<td>42%</td>
<td>24%</td>
<td>6%</td>
<td>17%</td>
</tr>
<tr>
<td>Portugal</td>
<td></td>
<td></td>
<td>31%</td>
<td>4%</td>
<td></td>
<td>15%</td>
</tr>
<tr>
<td>Spain</td>
<td>15%</td>
<td>1</td>
<td>33%</td>
<td>2%</td>
<td></td>
<td>11%</td>
</tr>
<tr>
<td>Sweden</td>
<td>7%</td>
<td>3</td>
<td>40%</td>
<td>21%</td>
<td></td>
<td>10%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5%</td>
<td>8%</td>
<td>62%</td>
<td>7%</td>
<td>1%</td>
<td>17%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td></td>
<td>29%</td>
<td>1%</td>
<td>61%</td>
<td>2%</td>
<td>7%</td>
</tr>
</tbody>
</table>

2011 European average

Source: Heidrick and Struggles European Corporate Governance Report 2011
Independent Non Executive Chairman will increase further as Spain and Italy align with the other European countries.

Source: Heidrick and Struggles European Corporate Governance Report 2011
Differences can be observed between the European countries in some aspects of the Board composition and functioning.

<table>
<thead>
<tr>
<th></th>
<th>GE</th>
<th>SP</th>
<th>AU</th>
<th>FR</th>
<th>NE</th>
<th>BE</th>
<th>PR</th>
<th>PO</th>
<th>UK</th>
<th>IT</th>
<th>SW</th>
<th>DE</th>
<th>NO</th>
<th>FI</th>
<th>SE</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Length of Board Director Terms</strong></td>
<td>4.9</td>
<td>4.6</td>
<td>4.2</td>
<td>3.8</td>
<td>3.7</td>
<td>3.7</td>
<td>3.4</td>
<td>3.1</td>
<td>2.9</td>
<td>2.9</td>
<td>2.5</td>
<td>2.3</td>
<td>1.6</td>
<td>1.2</td>
<td>1.0</td>
<td><strong>3.1</strong></td>
</tr>
<tr>
<td><strong>Average Time on Board</strong></td>
<td>5.5</td>
<td>6.5</td>
<td>6.6</td>
<td>6.5</td>
<td>5.1</td>
<td>7.6</td>
<td>5.3</td>
<td>3.3</td>
<td>5.2</td>
<td>5.1</td>
<td>6.6</td>
<td>7.2</td>
<td>4.4</td>
<td>4.6</td>
<td>6.1</td>
<td><strong>5.7</strong></td>
</tr>
<tr>
<td><strong>Average Age of Directors</strong></td>
<td>57.8</td>
<td>59.8</td>
<td>56.7</td>
<td>60.4</td>
<td>62.4</td>
<td>57.8</td>
<td>57.3</td>
<td>54.1</td>
<td>58.0</td>
<td>59.8</td>
<td>60.2</td>
<td>57.6</td>
<td>54.8</td>
<td>57.1</td>
<td>55.5</td>
<td><strong>58.4</strong></td>
</tr>
<tr>
<td><strong># of Board Committees</strong></td>
<td>4.5</td>
<td>2.9</td>
<td>2.7</td>
<td>3.4</td>
<td>3.2</td>
<td>3.0</td>
<td>3.0</td>
<td>2.2</td>
<td>3.9</td>
<td>2.3</td>
<td>3.6</td>
<td>2.3</td>
<td>2.1</td>
<td>2.2</td>
<td>3.2</td>
<td><strong>3.0</strong></td>
</tr>
<tr>
<td><strong># of All Committee Meetings</strong></td>
<td>15</td>
<td>21</td>
<td>9</td>
<td>16.3</td>
<td>14.2</td>
<td>13</td>
<td>16.1</td>
<td>10.1</td>
<td>21.5</td>
<td>18</td>
<td>18.2</td>
<td>8.5</td>
<td>11.9</td>
<td>10.5</td>
<td>13.3</td>
<td><strong>15.8</strong></td>
</tr>
<tr>
<td><strong>% of Prevalence of Corporate Board Secretaries</strong></td>
<td>-</td>
<td>%69</td>
<td>%20</td>
<td>%58</td>
<td>%88</td>
<td>%45</td>
<td>%80</td>
<td>%68</td>
<td>%100</td>
<td>%55</td>
<td>%75</td>
<td>-</td>
<td>%25</td>
<td>%46</td>
<td>%74</td>
<td><strong>%57</strong></td>
</tr>
<tr>
<td><strong>Frequency of Board Meetings</strong></td>
<td>5.9</td>
<td>10.9</td>
<td>6.0</td>
<td>9.0</td>
<td>8.3</td>
<td>8.0</td>
<td>8.9</td>
<td>9.2</td>
<td>9.4</td>
<td>11.3</td>
<td>8.4</td>
<td>9.1</td>
<td>14.2</td>
<td>11.4</td>
<td>10.3</td>
<td><strong>9.4</strong></td>
</tr>
<tr>
<td><strong>Companies Organizing A Strategy Away Day</strong></td>
<td>%13</td>
<td>%9</td>
<td>%20</td>
<td>%35</td>
<td>%56</td>
<td>%20</td>
<td>-</td>
<td>-</td>
<td>%29</td>
<td>-</td>
<td>%20</td>
<td>%21</td>
<td>%35</td>
<td>-</td>
<td>%22</td>
<td><strong>%19</strong></td>
</tr>
<tr>
<td><strong>Attendance at Board Meetings</strong></td>
<td>-</td>
<td>%95</td>
<td>-</td>
<td>%89</td>
<td>-</td>
<td>%89</td>
<td>-</td>
<td>-</td>
<td>%94</td>
<td>%89</td>
<td>%94</td>
<td>-</td>
<td>-</td>
<td>%96</td>
<td>%95</td>
<td><strong>%92</strong></td>
</tr>
<tr>
<td><strong># of Directors Holding 3+ NED roles in public co.</strong></td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>6.5</td>
<td>3.5</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td><strong>Frequency of Board Evaluation</strong></td>
<td>%60</td>
<td>%89</td>
<td>%70</td>
<td>%95</td>
<td>%88</td>
<td>%60</td>
<td>%40</td>
<td>%58</td>
<td>%98</td>
<td>%70</td>
<td>%25</td>
<td>%95</td>
<td>%60</td>
<td>%92</td>
<td>%93</td>
<td><strong>%75</strong></td>
</tr>
<tr>
<td><strong>CEO Experience On the Board</strong></td>
<td>%35</td>
<td>%21</td>
<td>%66</td>
<td>%64</td>
<td>%63</td>
<td>%43</td>
<td>%13</td>
<td>%25</td>
<td>%58</td>
<td>%29</td>
<td>%50</td>
<td>%56</td>
<td>%50</td>
<td>%57</td>
<td>%64</td>
<td><strong>%42</strong></td>
</tr>
<tr>
<td><strong># of Directors Per Board</strong></td>
<td>17.1</td>
<td>14.3</td>
<td>11.5</td>
<td>14.2</td>
<td>8.7</td>
<td>13.8</td>
<td>15.2</td>
<td>8.2</td>
<td>12.4</td>
<td>13.9</td>
<td>10.4</td>
<td>9.8</td>
<td>8.0</td>
<td>7.8</td>
<td>10.7</td>
<td><strong>12.1</strong></td>
</tr>
<tr>
<td><strong>% of Non Nationals</strong></td>
<td>%11</td>
<td>%10</td>
<td>%13</td>
<td>%27</td>
<td>%47</td>
<td>%34</td>
<td>%17</td>
<td>%15</td>
<td>%40</td>
<td>%12</td>
<td>%53</td>
<td>%19</td>
<td>%18</td>
<td>%23</td>
<td>%31</td>
<td><strong>%24</strong></td>
</tr>
<tr>
<td><strong>% of Companies with No Foreign Directors</strong></td>
<td>%17</td>
<td>%46</td>
<td>%35</td>
<td>%3</td>
<td>%16</td>
<td>%30</td>
<td>%30</td>
<td>%68</td>
<td>%4</td>
<td>%58</td>
<td>%5</td>
<td>%42</td>
<td>%45</td>
<td>%38</td>
<td>%11</td>
<td><strong>%28</strong></td>
</tr>
<tr>
<td><strong>% of Women On the Board</strong></td>
<td>%13</td>
<td>%9</td>
<td>%8</td>
<td>%11</td>
<td>%15</td>
<td>%8</td>
<td>%4</td>
<td>%8</td>
<td>%12</td>
<td>%3</td>
<td>%11</td>
<td>%18</td>
<td>%33</td>
<td>%25</td>
<td>%29</td>
<td><strong>%12</strong></td>
</tr>
<tr>
<td><strong>% of Companies with No Women On the Board</strong></td>
<td>%10</td>
<td>%26</td>
<td>%50</td>
<td>%10</td>
<td>%24</td>
<td>%35</td>
<td>%55</td>
<td>%47</td>
<td>%14</td>
<td>%70</td>
<td>%15</td>
<td>%0</td>
<td>%10</td>
<td>%4</td>
<td>%4</td>
<td><strong>%25</strong></td>
</tr>
</tbody>
</table>

Source: Heidrick and Struggles European Corporate Governance Report 2011
Women on the Board is an important issue in Europe
An initiative from Turkish Business Society
A corporate governance agenda offer for unlisted companies in Europe from ecoDa initiative.

**For all companies**

1. Shareholders should establish an appropriate constitutional and governance framework for the company.
2. Every company should strive to establish an effective board, which is collectively responsible for the long-term success of the company, including the definition of the corporate strategy. However, an interim step on the road to an effective (and independent) board may be the creation of an advisory board.
3. The size and composition of the board should reflect the scale and complexity of the company’s activities.
4. The board should meet sufficiently regularly to discharge its duties, and be supplied in a timely manner with appropriate information.
5. Levels of remuneration should be sufficient to attract, retain, and motivate executives and nonexecutives of the quality required to run the company successfully.
6. The board is responsible for risk oversight and should maintain a sound system of internal control to safeguard shareholders’ investment and the company’s assets.
7. There should be a dialogue between the board and the shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. The board should not forget that all shareholders have to be treated equally.
8. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.
9. Family-controlled companies should establish family governance mechanisms that promote coordination and mutual understanding amongst family members, as well as organize the relationship between family governance and corporate governance.

**For larger companies**

10. There should be a clear division of responsibilities at the top between the running of the board and the running of the company’s business. No one individual should have unfettered powers of decision.
11. Board structures vary according to national regulatory requirements and business norms. However, all boards should contain directors with a sufficient mix of competencies and experiences. No single person (or small group of individuals) should dominate the board’s decision-making.
12. The board should establish appropriate board committees in order to allow a more effective discharge of its duties.
13. The board should undertake a periodic appraisal of its own performance and that of each individual director.
14. The board should present a balanced and understandable assessment of the company’s position and prospects for external stakeholders, and establish a suitable programme of stakeholder engagement.

**Unlisted companies make a major contribution to economic growth and employment in all EU member states. While the drive for good corporate governance standards and practices is generally directed towards publicly listed companies, a more challenging prospect is the governance of unlisted companies.**

Source: EcoDa, the European Confederation of Directors’ Associations, is a not-for-profit association acting as the European voice of board directors, active since March 2005 and based in Brussels. Through its 10 national institutes of directors, ecoDa represents around fifty-five thousand board members from across the EU.
In Summary

- Good Governance is the Key to Gaining Trust of Stakeholders
- Trust is the Foundation of Development

- Governance is much more than a set of Rules & Regulations
- Governance is a Culture and a Climate of Consistency, Responsibility, Accountability, Fairness, Transparency, and Effectiveness that is Deployed throughout an institution.

- Good Governance is the key to Sustainability of our Organizations and success of humanity in Improving Quality of Life.
Thanks for joining the debate...
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