

Chapter 5

The Corporate Governance Structures of Turkish Listed Family Companies

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Abstract

This study presents the current situation of family companies in Turkey, focusing on the corporate governance structure of listed family businesses. The study addresses two issues: first, it introduces Turkish family companies, explains the family ties within the firm, and clarifies the economic impact of Turkish family companies on the Turkish economy; and second, it identifies the corporate governance characteristics of Turkish listed family companies and the effect of their corporate governance structure on their financial performance. The aim is to provide a theoretical framework, which is an important step in gaining a more accurate insight into the strengths and weaknesses of family companies. The family council and family constitution in Turkish family businesses are presented in detail, and it is explained that in order to institutionalize family businesses the rules and principles for running the business are not sufficient, but that the internal relations of the family and the relations of the family members with the business need to be formalized as well.

Keywords: Family businesses; corporate governance; financial performance; family constitution; Borsa Istanbul

Listed Family Companies

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5.1. Family Companies

Family businesses have special characteristics and differ from nonfamily businesses by common interests, stable corporate culture, high level of social responsibility, optimistic attitude to the problems of the business, and flexibility in terms of work, time, and money. On the other hand, these companies are more committed, proud, and trusting, make quick decisions, and usually use internal financial resources in the form of financing (Petlina & Koráb, 2015). While nonfamily businesses are managed independently of family relations and emotions, factors such as family relationships and emotions, as well as family habits, traditions, and the common culture of the family, also play an important role in family businesses. In their study, Tagiuri and Davis (1996) define the characteristics of family firms as “bivalent attributes” and state that these attributes of family firms are the unique, inherent characteristics and arise directly from the interaction between family, ownership, and management. Simultaneous roles, shared identity, lifetime shared history, emotional entanglement and confusion, a private language of relatives, mutual awareness and privacy, and the special meaning of the organization to the members of the owning family are the bivalent attributes of the family business.

Family participation in ownership and/or management has been considered a unique resource (Habbershon & Williams, 1999) and this uniqueness provides them with a number of advantages. According to various research findings, family businesses can perform better than nonfamily businesses, that is, on average they have better annual returns to shareholders, higher return on assets, higher annual sales growth, and higher annual corporate returns compared to other types of businesses (Anderson et al., 2003; Reddy et al., 2017). However, it has been shown that family businesses only perform better if the founding family is still represented on the management or supervisory board (Andres, 2007; Villalonga & Amit, 2004). From the corporate governance point of view, the positive and negative aspects of family businesses were briefly presented by Cruz and Galdeano (2015). The advantages highlighted were involvement in the corporate mission, the existence of a long-term vision, the similarity of interests between owners and managers, greater intrinsic motivation, limited control mechanisms, the lower risk of conflicts of interest between shareholders and managers, and the lower risk of opportunistic behavior on the part of managers. On the other hand, they mentioned nepotism, lack of performance orientation, priority of control overachieving financial goals, less efficient internal control mechanisms, less efficient external control mechanisms, higher risk of conflicts between family shareholders and minority shareholders, higher risk of negative attitudes, and difficulties in attracting external talent and disciplining managers who are family members as disadvantages.

As already mentioned, conflicts in family businesses represent one of the greatest risks for families and their businesses, as they can threaten not only the success but also the existence of the business. A distinction is often made between relational, process-oriented, and task-oriented conflicts. Relational conflicts are about relationships between people, task conflicts are about work content and goals, and process conflicts are about the way tasks are accomplished

(Jehn, 1997). Task conflict refers to communicated disagreements in which people struggle to find the most appropriate solution in terms of goals and strategies. In other words, task conflicts represent individuals' awareness of differing viewpoints and opinions regarding a group task. Process conflict, on the other hand, is defined as the awareness of conflict about aspects of the process of task accomplishment. More specifically, process conflicts are about issues of task and resource delegation, such as who should do what and how much responsibility should be assigned to different people. The final form of conflict, relational conflict, an awareness of interpersonal incompatibility, involves affective components such as emotions of tension and friction. It includes personal issues such as dislike between group members and feelings such as anger, frustration, and irritation (Jehn, 1997; Jehn & Mannix, 2001). Important steps to manage and resolve these conflicts in family businesses include establishing family rules, decoupling family and business issues, clarifying the transition of the next generation, defining the concept of fairness in the family, and having conflict resolution mechanisms in place (PwC, 2014). It is evident that family rules cannot completely avoid all of these relationship-, process-, and task-oriented conflicts, but they can provide a mechanism for successfully managing and resolving conflicts by establishing a formal link between business and family matters (KPMG, 2010).

Today, when defining a good relationship with friends or supervisors who are not family members, the expression "we have become like a family" comes to mind. So obviously, there are some advantages in a community where there are real family members as supervisors and coworkers. These advantages contribute to the success of family businesses, and the continued existence of these family businesses is very important for the economy. The evidence is that large family businesses have recovered quickly and well from the financial and economic crisis (Amann & Jaussaud, 2011; Boerger et al., 2011; KPMG, 2021) and that they are less sensitive to financial cycles than nonfamily businesses, both in times of financial boom and in times of recession (Škare & Porada-Rochoń, 2021). According to a report by PwC (2021), the unique contribution of family businesses to the national economy is often overlooked in good times, but in difficult times, they prove their importance with their strong foundation of value orientation, long-term thinking, and reasonable debt financing. In 2009, after the financial crisis, family businesses rebounded and found new opportunities in a disrupted global economy, and the same happened again after the COVID-19 crisis (Miroshnychenko et al., 2024).

The term family business refers to people with family ties joining together to produce goods or services with the intention of making a profit. Although family ownership is among the most frequent forms of ownership in economies around the world (Baumann, 2017), it can be defined differently depending on the point of view and taking into account the specific characteristics of the business. In general, it is one in which two or more members of the same family are involved in the same business and one or more of them hold the majority of the business. In this context, if we define a business that is owned by a single person and where no one from the family works, we can say that this business becomes a family business when it passes to the second generation (Deloitte, 2007).

In the literature, there is also no precise and widely accepted definition of family business (Littunen & Hyrsky, 2000). Despite the fact that they occupy an important place in the world economy, it is not possible to put the definition of family business into a specific form. According to Astrachan et al. (2002), a definition of the term “family” is also missing, and this absence raises some related problems and difficulties. What most definitions in the literature have in common is that the management and ownership structure of the business is under the influence and control of a family. In this context, the term “family business” simply refers to businesses where one or more family members hold a significant share of the business and have a say in the future direction of the business. If personal individual ownership is given, which has no relationship to a family, then one will not be able to speak of a family business in the narrower sense. In fact, some studies consider all co-trustees as well as family-appointed directors as family representatives. The reason is that these individuals owe their jobs or positions as beneficial owners to the family, and their incentives are aligned with those of the family (Villalonga & Amit, 2004). Several definitions that have been used in the literature are shown in Table 5.1.

Table 5.1. Definition of Family Businesses.

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- A business that is closely connected with at least two generations of a family, and this connection has a mutual influence on the business policy as well as on the interests and goals of the family (Donnelley, 1964)
 - A business controlled by the members of a single family (Barry, 1975)
 - The majority of the shares or voting rights belong to the person who founded or bought the company, or to a family or relatives, private companies in which the family controls more than 50% of the shares and voting rights, or public companies in which the family holds at least 32% of the shares and voting rights (The Global Family Index, 2021)
 - A family or family group that has and exercises the decisive capital influence. It is important that the family has a say in the fundamental decisions of corporate policy and also exercises its influence via the shareholders’ meeting, the supervisory board, the advisory board, or a similar body (Habig & Berninghaus, 2004)
 - Businesses in which family members have a say in the management and whose capital belongs to one or more of the family members (Ankara Chamber of Industry, 2021)
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5.2. Family Companies in Turkey

The term “family business” is not defined by law in Turkey either. However, according to Kırca (2019), a family business can be defined as a business that is directly or indirectly controlled by persons who are related by blood and/or marriage. In Turkey, 95% of companies and 75% of listed companies are classified as family businesses (PwC, 2016). It is obvious that these estimates can lead to different

results depending on the definition used. Family businesses range from small and medium-sized enterprises to large holdings. 99% of the companies operating in Turkey are small and medium-sized enterprises (SMEs) and 95% of these companies are family businesses (EY, 2020). Taken together, these numbers show that most family businesses are small and medium-sized enterprises. Unfortunately, it is very difficult to find specific data on family businesses in Turkey. Therefore, the importance of family businesses in the Turkish economy can only be estimated by considering the importance of small and medium-sized enterprises in the Turkish economy. As in other countries around the world, small and medium-sized enterprises in Turkey contribute significantly to production, employment, exports and thus economic growth. According to the 2019 data, there are 3.2 million SMEs in Turkey. SMEs account for 99.8% of the total number of enterprises, 73.8% of total employment, 64.5% of total sales and 56.3% of total exports (TOBB, 2020). As can be seen in Fig. 5.1, the Turkish economy is dominated by microenterprises, which are defined as economic units that employ fewer than 10 people and have an annual net turnover or balance sheet of less than TRY 3 million, and this type of enterprises accounts for the largest total employment (KOSGEB, 2005).

Although studies show that family-owned businesses overall account for more than 85% of all businesses in the Organisation for Economic Co-operation and Development (OECD) countries (Dimitriadis, 2017) and more than 60% of all businesses in Europe (European Commission, 2009), most family businesses cannot be easily passed from one generation to the next (Deloitte, 2016). The average lifespan of family businesses in Turkey is 25 years, and 96% end in the third generation (Ankara Chamber of Industry, 2021). These figures show that the phenomenon of “shirtsleeves to shirtsleeves in three generations” which means that the money earned by the entrepreneurial generation is no longer available when their grandchildren are born (Baron & Lachenauer, 2021), is more common in Turkish family businesses. The share of the second generation is 30%, the share of the third generation is 12% and the share of the fourth generation is about 3% (Ankara Chamber of Industry, 2021). In Turkey, the oldest family business still operating today is 245 years old. Compared to the oldest family businesses in European and Asian countries, such as Hoshi Ryokan, a traditional Japanese inn that has been run by the same family for 46 generations, or the Italian arms manufacturer Fabbrica d’Armi Pietro Beretta, which is almost 500 years old (INSEAD, 2019), this number is quite

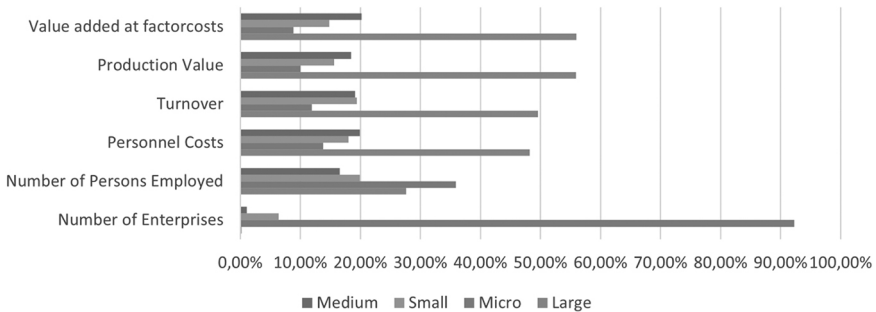


Fig. 5.1. The Contribution of SMEs to the Turkish Economy. Data: Turkish Statistical Institute (2020).

low. Hacı Bekir Lokumları is the oldest brand in Turkey and is already in its sixth generation (Güvemli, 2018). As shown in Table 5.2, the second-oldest family business is 161 years old and is run by the third generation.

How is it that some family businesses have only a short lifespan? Habig and Berninghaus (2004) answer this question with the well-known saying, “The father makes it, the son keeps it, the grandson breaks it” and note that the actual change in the business landscape, the coming and going, is even faster than this popular saying, however. The transition tends to become more problematic from generation to generation as the family grows, the degree of kinship decreases, and the interest in keeping things together generally diminishes. The transmission of Turkish family businesses from generation to generation is also difficult, and the common feature of businesses that have survived through generations is their institutionalization. Therefore, it is clear that there is no substitute for institutionalization for the survival of family businesses (Ankara Sanayi Odası, 2021).

Table 5.3 shows the problems faced by some well-known family businesses in Turkey at various stages of their life cycle. Most of the problems are due to inheritance disputes or disagreements about the vision and future of the business.

Table 5.2. The Oldest Family Businesses in Turkey.

Company Name	Founder	Founding Year
Hacı Bekir Lokumları	Hacı Bekir	1777
İskender Mehmetoğlu	İskender Efendi	1860
Ziraat Bankası	Mithat Paşa	1863
Hafız Mustafa	İsmail Hakkızade	1864
Vefa Bozacısı	Hacı Sadık	1870
Karaköy Güllüoğlu	Hacı Mehmet Güllü	1871
Kuru Kahveci Mehmet Efendi	Mehmet Efendi	1871
Sabuncakıs	İstiraki Sabuncakıs	1874
Erden Gıda Sanayi	Mahir ve Kamil Kardeşler	1878
Komili	Komili Hasan	1878
Çögenler Helvacılık	Rasif Efendi	1883
Cemilzade Şekerci	Udi Cemil Bey	1883
Hacı Abdullah	Abdullah Efendi	1888
Hacı Şakir	Hacı Ali	1889
Teksima Tekstil	H. Mehmet Botsalı	1893
Tuzcuoğlu Nakliyat Fehmi	Mustafa Tuzcuoğlu	1893
Konyalı Lokantası	Ahmet Doyuran	1897
Alevli A.Ş.	Yuda Levi	1898

Source: Sönmez (2017).

Table 5.3. The Conflicts of Some Well-known Family Businesses in Turkey.

Company	Sector	Problem	Result
Toprak Holding	Construction, chemical, paper, tourism, and financial sectors	Conflicts between the founder and his wife/ his grooms	The founder of the company forbade the grooms to work in the company. After his death, his son became chairman of the board, and the companies are still operating
Uzel Makine	Turkey's first domestic tractor manufacturer	After the death of the founder, a dispute arose between his wife, daughter, and the sons about the inheritance.	Went bankrupt
Ulusoy Holding	Transportation	Conflict over the vision of the company between children. The brothers did not share the same goals and values	The company was divided into three different business units
Desa	Manufactures leather products such as shoes, bags, coats, and purses	Disagreements between siblings and nephews	The brothers ended their years-long partnership
Huzur Giyim	Clothing	Disagreement between the father (founder) and his child. Father thinks that the lifestyle of his child has damaged the reputation of the corporate brand, which operates in the conservative clothing industry	The disagreements have continued, and the child reported his brothers to the Ministry of Finance for alleged tax evasion. The Ministry of Finance then imposed a tax penalty of TL 23 million on the company
Fruko-Tamek	Foods such as tomato paste, ketchup, canned peas, jam, juice, corn, tropical cocktails, and pickles	There are problems between the father (founder) and his three daughters. The father believes that these problems arise in the family after his daughter gets married, and grooms come into the family	The company continues to operate, but disputes continue between the father and his daughters

Source: <https://www.finansgundem.com/haber/sirketlerdeki-aile-kavgalari/262635>.

While some of these businesses went bankrupt, in other cases, some of the family members continued on their way by starting new businesses. However, it is certain that in many cases, family relationships have been seriously damaged. It is also certain that companies that solve their problems in the family without going to court are not much affected by these conflicts. The problems in Table 5.3 show that it is not enough for Turkish businesses to operate in full compliance with standard corporate governance principles for nonfamily businesses and family businesses, but they also need well-designed principles for managing family relationships.

Throughout this study, the term “family business” will be used to refer to a company in which the person (or families) who founded or bought the company holds at least 25% of the shares in the capital and voting rights and at least the second generation of the family that bought or founded the company is on the company’s board of directors. As shown in Fig. 5.2, the definition includes the definition of The Global Family Index (2021) and the definition of Donnelley (1964). The 10 largest publicly traded family businesses belonging to different families, as measured by their market value in December 2021, were identified using this definition and are shown in Table 5.4.

There are five different types of companies in Turkey according to the Turkish Commercial Code (TCC). These are joint stock companies, limited companies, collective companies, limited partnerships, and cooperatives. The most common forms of business in Turkey are joint stock companies and limited companies. About 82% of all companies are limited companies, 13% are joint stock companies, and 4% are cooperatives. The share of collective and limited partnership companies totals about 1% (Republic of Turkey Ministry of Trade, 2019). The leading form of organization in Turkey’s economy is the family business groups (FBGs) (Yildirim Öktem, 2018).

Even though the term family business gives the appearance of small and medium-sized enterprises, there are very large listed family businesses both in Turkey and in other countries around the world. Most of these listed firms are family holdings, which are the prime example of FBGs, a particular form of family business (Guillen, 2000) characterized by large size, being active in multiple, often unrelated sectors, and family control in terms of ownership and management (Fracchia et al., 2010). In particular, these large family businesses expand more rapidly than stand-alone companies, which tend to be SMEs, because they receive government support, are protected from international

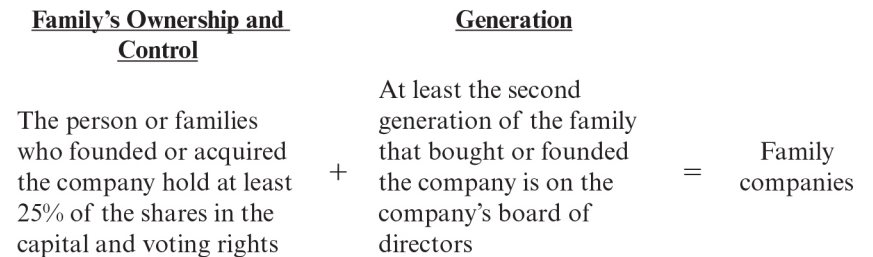


Fig. 5.2. Definition of Family Businesses.

Table 5.4. Ten Big Listed Turkish Family Companies.

Company	Founder Family/ Acquirer Family	Founding/ Acquiring Year	Sector of Company	Market Capitalization (December 2021 – Million USD)
Ford Otomotiv Sanayi A.Ş.	Koç family	1959	Manufacturing: fabricated metal products, machinery, electrical equipment, and transportation vehicles	6,611
Enka İnşaat ve Sanayi A.Ş.	Tara family	1957	Construction and public works	6,222
SASA Polyester Sanayi A.Ş.	Erdemoğlu family	2016	Manufacturing: chemicals, petroleum, rubber, and plastic products	4,534
Akbank T.A.Ş.	Sabancı family	1984	Financial institutions: banks	2,906
Anadolu Efes Biracılık ve Malt Sanayii A.Ş.	Yazıcı and Özilhan family	1966	Manufacturing: food, beverage, and tobacco	1,273
Aksa Enerji Üretim A.Ş.	Kazancı family	1997	Electricity, gas, and water/electricity, gas, and steam	968
Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.	Zorlu family	1997	Manufacturing: fabricated metal products, machinery, electrical equipment, and transportation vehicles	948
Aksa Akrilik Kimya Sanayii A.Ş.	Diñçök family	1968	Manufacturing: chemicals, petroleum, rubber, and plastic products	836
Akfen Gayrimenkul Yatırım Ortaklığı A.Ş.	Akın family	2006	Financial institutions: real estate investment trusts	760
Başkent Doğalgaz Dağıtım Gayrimenkul Yatırım Ortaklığı A.Ş.	Torun family	2007	Financial institutions/real estate investment trusts	695

Source: Finnet (2000), access date: January 9, 2022.

competition and can benefit from the combined financial and human resources of the groups (Yildirim Öktem, 2018). A closer look at Table 5.4 shows the importance of the Koç, Tara, Erdemoğlu and Sabancı families in Turkey. Koç Holding is the largest listed FBG in Turkey in terms of revenue, exports, employees, taxes paid and market capitalization. This family-owned company accounts for 9% of Turkey's total exports and its total capitalization on Borsa Istanbul is 15% (Koç Holding, 2020).

The largest 10 listed family companies are divided into three subcategories, founder-controlled, descendant-controlled, and externally managed, following the categorization of Anderson and Reeb (2003). *Founder-controlled family firms* are firms in which the founder still serves as the chairman of the board of directors of the firm. A *descendant-controlled family business*, on the other hand, is a business where the founder is no longer on the board or has passed away, and one of his descendants holds the position of chairman of the board of directors. Finally, a family company is *externally managed*, where it is classified as a family business but has hired a nonfamily management team, and the family is therefore no longer represented on the board of directors. Almost all of these top 10 family businesses are run by the descendants of the founder or acquirer. The chairman of the board of these family businesses is mostly a family member of the first, second, or third generation. In these family businesses, it is possible to speak of a gradual handover of management to the next generation. The ownership structure of these companies is also mentioned in Table 5.5, which evaluates the family and the ratio of shares currently outstanding. In all of these listed family companies, the family holds more than 38% of the shares and voting rights. In Turkey, all shareholders have the same rights under the principle of “equal treatment” and “one share, one vote” (Art. 357/1, 434/2 of the TCC (2011)). However, it is possible to deviate from these basic principles and include different types of shareholders in the articles of association. In this context, the Commercial Code in Turkey allows the use of preferred stocks (Art. 479/1 of the TCC). The share and voting rights structure of all these family companies is based on the “one share – one vote” rule.

5.3. Corporate Governance Structure of Turkish Listed Family Companies

The Turkish Capital Market Board (CMB) issued the Corporate Governance Principles in July 2003, which were prepared after reviewing the regulations of many countries and taking into account, in particular, the OECD Principles of Corporate Governance. The principles are divided into four sections: shareholders, disclosure and transparency, stakeholders and board of directors. The *first section* is concerned with the principles governing shareholders' rights. Issues such as the right of shareholders to receive and evaluate information, the right to participate in the annual general meeting and the right to vote, the right to receive dividends and minority rights are covered in detail in this section. The *second section*, on the other hand, deals with the principles on disclosure and transparency. This section discusses the principles for establishing a company's information

Table 5.5. Characteristics of 10 Large Listed Turkish Family Companies.

Company	Founder or Acquirer Controlled/Descendant Controlled/Professionally Managed	Generation	Shareholder Structure and Voting Rights	Family Shares (%)	Actual Outstanding Shares Ratio (%)
Ford Otomotiv Sanayi A.Ş.	Descendant-controlled	3	One share, one vote	38.65	17.77
Enka İnşaat ve Sanayi A.Ş.	Descendant-controlled	3	One share, one vote	49.8	8.77
SASA Polyester Sanayi A.Ş.	Descendant-controlled	2	One share, one vote	58.15	19.61
Akbank T.A.Ş.	Descendant-controlled	3	One share, one vote	40.75	50.8%
Anadolu Efes Biracılık ve Malt Sanayii A.Ş.	Descendant-controlled	2	One share, one vote	43.05	32.86
Aksa Enerji Üretim A.Ş.	Descendant-controlled	2	One share, one vote	79.42	20.58
Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.	Descendant-controlled	2	One share, one vote	82.53	17.45
Aksa Akrilik Kimya Sanayii A.Ş.	Descendant-controlled	3	One share, one vote	39.59	36.64
Akfen Gayrimenkul Yatırım Ortaklığı A.Ş.	Founder-controlled	1	One share, one vote	85.73	14.1
Başkent Doğalgaz Dağıtım Gayrimenkul Yatırım Ortaklığı A.Ş.	Acquirer-controlled	1	One share, one vote	89.63	10.25

Source: Public Disclosure Platform (2022). <https://www.kap.org.tr/en/>.

policy toward shareholders and how companies comply with this policy. *Section three* is mainly about stakeholders. It contains the principles that govern the relationship between the company and stakeholders. Finally, the *fourth section* contains the principles related to the functions, duties and responsibilities, operation and structure of the board of directors, its compensation, and the committees established to support the work of the board of directors and the executive committee (Capital Markets Board of Türkiye, 2003).

Table 5.6 illustrates some of the key corporate governance characteristics of Turkey's 10 largest listed family-owned companies. The first characteristic, *board size*, plays an important role in the corporate governance structure of companies. The size of the boards of directors of these 10 largest listed family companies varies between 5 and 14 individuals. The median of the board size of these listed family firms is 8.5. The empirical studies about corporate governance structure of companies are rather controversial, and there is no general agreement on the effects of most governance variables on financial performance, such as the optimal size of the board of directors. Some studies find a negative relationship between board size and financial performance (Sahin et al., 2011), especially due to agency problems, as a larger board incurs more agency costs, while other studies find a positive relationship, as a larger board brings in more knowledge, experience, and opinions (Ciftci et al., 2019; Isik & Ince, 2016; Kula, 2005; Topal & Doğan, 2014). Moreover, there are also some studies that find no relationship between the size of the board of directors and the company's performance (Bayrakdaroglu et al., 2012; Bektaş & Kaymak, 2009; Topak, 2011). The situation is somewhat different for family businesses. This is because it is assumed that the common agency problem may be less serious in family businesses than in nonfamily businesses (Chrisman et al., 2004). In Turkey, there is a mandatory minimum board size for listed companies and companies can form a board of directors, which in any case must consist of at least five individuals (Capital Markets Board of Türkiye, 2011).

Regarding *independent directors*, a survey of the Turkish literature also shows that there is a relationship between the number of independent directors on the board and the company's financial performance, although the results on this relationship are also mixed. Some studies conclude that a company's financial performance increases when the number of independent directors increases (Topçu, 2020), while other studies find a negative or no relationship between the presence of independent directors on the board and the company's performance (Ararat et al., 2010; Kaymak & Bektas, 2008). In Turkish corporate governance principles, there is as well a provision for the independent members of the board of directors. The independent members cannot be less than one-third of the total number of members (Capital Markets Board of Türkiye, 2011). In the 10 largest listed family companies, the average rate of independent members on the board is about 32%. One possible explanation for this low ratio could be that family members want to have a greater say in decision-making. In most family businesses, the family members who also control the management and participate in decision-making dominate the holding company's board of directors. It can be said that owner-families are intensely involved in the governance of these businesses, so the family involvement in the governance structure of these FBGs is high.

Table 5.6. Corporate Governance Characteristics of 10 Big Listed Family Firms.

Company	Board Size	CEO Duality	Family CEO	Gender Diversity (Women/Total)	Board Independency (Independent Members/Total)
Ford Otomotiv Sanayi A.Ş.	14	CEO and chairman of the board are different persons	No	2/14	2/14
Enka İnşaat ve Sanayi A.Ş.	5	CEO and chairman of the board are different persons	Yes	0	2/5
SASA Polyester Sanayi A.Ş.	8	CEO and chairman of the board are different persons	No	0	3/8
Akbank T.A.Ş.	10	CEO and chairman of the board are different persons	No	1/10	3/10
Anadolu Efes Biracılık ve Malt Sanayii A.Ş.	11	CEO and chairman of the board are different persons	No	1/11	4/11
Aksa Enerji Üretim A.Ş.	8	CEO and chairman of the board are same person	Yes	1/8	3/8
Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.	7	CEO and chairman of the board are different persons	No	3/7	3/7
Aksa Akrilik Kimya Sanayii A.Ş.	9	CEO and chairman of the board are different persons	No	4/9	3/9
Akfen Gayrimenkul Yatırım Ortaklığı A.Ş.	9	CEO and chairman of the board are different persons	Yes	2/9	3/9
Başkent Doğalgaz Dağıtım Gayrimenkul Yatırım Ortaklığı A.Ş.	7	CEO and chairman of the board are different persons	No	0	2/7

Source: Public Disclosure Platform (2022). <https://www.kap.org.tr/en/>.

CEO duality, another important element of corporate governance, exists when the same person holds both the roles of CEO and chairman in a company, and separating the roles of chairman and CEO is believed to have a significant positive impact on corporate financial performance (Aygün & İç, 2010). In almost all of the 10 largest listed Turkish family-owned companies, the chairmen and the CEOs are different people, and nearly all companies work with a nonfamily CEO. The other important aspect of corporate governance, *gender diversity*, is also investigated in listed Turkish firms. Some studies say that financial performance increases as the number of women on boards increases (Kılıç & Kuzey, 2016), while other studies claim the opposite, saying that the number of women and company performance are negatively related (Ataünal & Aybars, 2018; Menteş, 2011). The representation of women on the boards of Turkish listed family businesses is quite low. Although at least one female board member is mandatory, some of the family businesses examined do not have a female board member. It is also recommended that 25% of the members should be female (Capital Markets Board of Türkiye, 2014). The average percentage of women on the boards of the 10 largest listed Turkish family businesses is about 16%.

In order to identify any differences in the corporate governance structure of listed family businesses versus listed nonfamily businesses, the 10 largest Turkish listed family businesses were compared with the 10 largest Turkish listed nonfamily businesses. These nonfamily firms were determined according to their market capitalization values in December 2021 in USD. The size of the board of directors of nonfamily-owned listed Turkish companies varies between 6 and 11, with a median of nine. The share of independent directors on the board is about 31%, and the share of women on the board is 13%. As shown in Table 5.7, there is not much difference between the corporate governance structures of listed family companies and nonfamily companies.

5.4. Family Council and Constitution in Listed Turkish Family Companies

Family firms are typically assumed to adopt rational governance mechanisms once they are listed, which is in contrast to the “non-rational behavior” typically associated with family firm governance dynamics (Baldacchino et al., 2019), and the recognition that management in family firms differs substantially from that in nonfamily firms has only recently gained acceptance (Carney, 2005). Compared to the governance of nonfamily businesses, the governance of family businesses must take into account also the complexity of family relationships that have grown over generations. For this reason, family businesses should have governance that encompasses both family relations governance and corporate governance. Well-designed family governance primarily aims to enable the family to come together and establish a formal communication channel to share the family’s values, mission, long-term vision, and rules and decisions that could impact the benefits of family members (IFC, 2018), and provides clear answers to the question of how to balance family and business.

Table 5.7. Corporate Governance Characteristics of 10 Big Listed Nonfamily Firms.

Company	Board Size	CEO Duality	Gender Diversity (Women/Total)	Board Independency (Independent Members/Total)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	8	CEO and chairman of the board are different persons	2/8	2/8
İskenderun Demir ve Çelik A.Ş.	8	CEO and chairman of the board are different persons	2/8	2/8
Aselsan Elektronik Sanayi ve Ticaret A.Ş.	9	CEO and chairman of the board are different persons	1/9	3/8
Türkiye Garanti Bankası A.Ş.	11	CEO and chairman of the board are different persons	2/11	4/11
Türkiye Şişe ve Cam Fabrikaları A.Ş.	9	CEO and chairman of the board are different persons	2/9	3/9
BİM Birleşik Mağazaları A.Ş.	6	CEO and chairman of the board are same person	0	2/6
Turkcell İletişim Hizmetleri A.Ş.	9	CEO and chairman of the board are different persons	1/9	3/9
Türk Telekomünikasyon A.Ş.	9	CEO and chairman of the board are different persons	0	3/9
Türkiye İş Bankası A.Ş.	11	CEO and chairman of the board are different persons	1/11	3/11
Türk Hava Yolları A.O.	9	CEO and chairman of the board are different persons	1/9	3/9

Source: Public Disclosure Platform (2022). <https://www.kap.org.tr/en/>.

As shown in Fig. 5.3, for the institutionalization and formalization of family businesses, not only the rules and principles for the operation of the business are sufficient, but also the internal relations of the family and the relations of the family members with the business must be institutionalized and shaped. In other words, family businesses must be managed in an accountable, transparent, fair and responsible manner, but the relationships between family members must also be transparent, effective and responsible. The most important components of a family governance structure are the family constitution and the family council (IFC, 2018).

A *family council*, also known as the “family supervisory council,” “inner council,” and “family board,” is a working body that discusses family business issues (IFC, 2018). This governing body primarily promotes communication and creates a channel for resolving family conflicts. It provides the best platform to achieve and maintain an optimal balance between ownership, family and management that supports positive interaction between family and business (Poza Valle, 2021). Family council is a forum for all family owners to discuss family and ownership issues (PwC, 2014). Like any well-functioning body, the family council needs to be of a manageable size of five to nine individuals and meet two to six times a year, depending on the complexity of the issues facing the family (IFC, 2018). According to the Finnish Family Firms Association (2009), the number of members of the family council should not exceed 10 people. The members of the family council can form working groups, which can include other members from the family lines, and these working groups should work according to separately determined time periods and goals. However, Ankara Chamber of Industry (2021) specifies that the members of the council, regardless of whether they are involved in the management of the company or not, should consist of family members who own shares in the company and their descendants who are older than 15 years. It is also noted that the terms of membership of other family members in the council should be determined by the family members. In order to increase the effectiveness of the council’s activities, nonfamily advisors may be included in the council

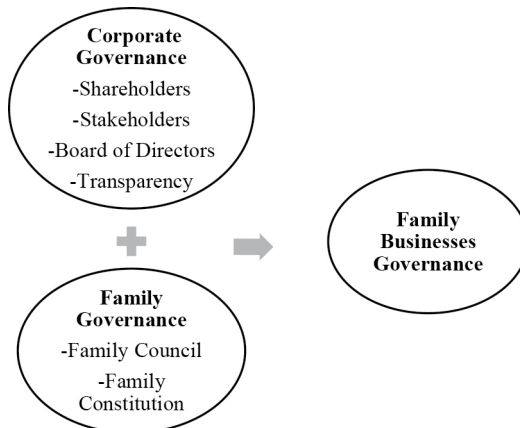


Fig. 5.3. Family Business Governance.

with the consent of all members. Although the family council is not a commonly used mechanism in Turkey, family members in almost all family businesses meet regularly under the title of “family meetings” or “family dinners,” both of which are considered fundamental to Turkish customs and business life. These meetings are not held under the title of “family council,” but they produce results that are consistent with the purpose of family council meetings (Deloitte Turkey, 2019).

A *family constitution*, on the other hand, which may also be referred to as the “family creed,” “family charter” or “family agreement” (KPMG, 2010), is a written document that provides a record of the family’s legacy, culture, goals, and ambitions for future success, together with a plan for how to achieve them (Taylor Wessing, 2014). Family constitutions are protocols that serve to create unity among family members. For this reason, without the participation of working groups formed by family members, without long discussions and evaluations, they will not create a sense of togetherness among family members and there will be no applicable texts for the family. This is why it is certain that the documents created only by lawyers and consultants will not be living, applicable and long-term documents (İlter, 2013). Although a good family constitution occupies an important place in family management, it is neither the first nor the only step to be taken. Furthermore, if family dynamics are not taken into account, the family constitution cannot be expected to lead to successful family management across generations. According to the KPMG report (2017), the most important advantage of a family constitution is that it creates clarity and transparency, and families know what to do when disagreements arise. It also strengthens the bonds of the families because they write the family constitution together.

These written documents, which are living documents that evolve as the family and its business evolve (IFC, 2018), are non-legally binding documents (see Fleischer (2024) on the legal nature of family constitutions) that set out the mission, vision, values and strategy of family members in relation to the ownership and governance of family businesses (Latham & Watkins, 2020). It is used in family businesses as a set of rules that establishes the internal policies that family members agree to follow during the life of the business. Stewart (2013), on the other hand, defines the family constitution as a decision-making tool used to keep the family together and prosperous over more than three generations. Since each family business is unique, any family constitution adopted must also reflect the unique characteristics of the business and the family to which it belongs. However, because some topics are common in the context of family businesses, several issues are frequently addressed in family constitutions. It can be said that issues such as mission and vision, change/transfer of responsibilities, training of family members and their participation in management, selection criteria for board members, and performance evaluation are commonly included in family constitutions (Deloitte, 2007).

With the family constitution, a third text has entered the field of company law alongside the articles of association and the shareholders’ agreement (Kirca, 2019). However, these texts are not typical contracts regulated by Turkish law, but atypical contracts that must be evaluated in the context of the principle of freedom of contract under the Code of Obligations (Deloitte Turkey, 2019; EY,

2017; İltter, 2013). The family constitution is not binding on family members and shareholders of family businesses who are not parties to the contract. However, for those who have signed the contract and become a party, the family constitution has the effect of a contract of obligation. The family constitution is not subject to the requirement of form, as it is subject to freedom of contract. On the other hand, it is important that it be drawn up in writing for reasons of proof and application. Each family member – regardless of whether he or she is a partner in the company – is potentially a party to the contract or at least affected by its execution. This is why the focus should not be on whether the family constitution is legally binding, but whether it is a social consensus text that is accepted by the entire family and can be expected to be imposed on future generations (Deloitte Turkey, 2019; İltter, 2013).

The preparation of family constitutions by Turkish family businesses began with the initiatives of large family businesses in the late 1970s, but the process became widespread in the first decade of the 2000s (Dirin & Tutan, 2015). In 2003, the Corporate Governance Association of Turkey held a workshop on family constitution, explaining the concept and providing a legal framework. After that a guide on family constitution was prepared and published by the Ankara Chamber of Industry in 2005 and it is the first compact publication indicating which sub-items should be included in family constitutions. It was updated in May 2021 and consists of five sections, namely fundamentals of the constitution, management structure, working relations, ownership and revision, and 16 main headings, which are listed in Table 5.8. This constitution is easily accessible and can also be downloaded from the website of the Ankara Chamber of Industry. It can be used as a template and can be easily adapted to the conditions and needs of a particular family business. Moreover, this constitution is not tailored to Turkish family business culture, but rather brings together the possible events and difficulties faced by any family business around the world, so it can be used as a template for any country or business.

According to this guide, the *fundamentals of the constitution* should clearly define the reason for the family constitution, the elements that serve as the basis for the elaboration of the family constitution, and the ultimate goal to be achieved. This part also includes the vision, mission and core values of the family business. The vision of the company should be simple and long-term. The mission, on the other hand, expresses the reason for the company's existence and should be formulated in a clear and understandable way. The mission statement should be explained, taught and adopted by all employees of the company, especially the younger generations. In addition, the values that are most important to the family and the company, the way of life they aspire to for themselves and for future generations, that is, how they want to be remembered and seen, should be included in the family constitution.

The second part of the family constitution guide deals with the *management structure* and includes the functioning and tasks of the family council. This part sets out the principles of operation, such as how the family council should be formed, who should be on the council, how often the council should meet, how the chair of the council should be elected, how long the chair's term should be,

Table 5.8. Family Constitution Guide.

The fundamentals of the constitution	Reason
	Aim
	History
	Vision
	Mission
	Basic Values
Management structure	Functioning and tasks of the family council
Working relations	Relationship of family members to the company
	Relationship of family members-managers to the company
	Income of the family members
	Relationships between family members and professionals
	Education and career planning of family members
	General working principles
Ownership	Family and company property
	Share transfer/sale
Revision	Amendments to the Constitution

Source: Ankara Chamber of Industry (2021).

whether the chair has veto power, and how decisions made in the family council are implemented. This section should also establish procedures and guidelines for convening the council and making decisions in extraordinary situations.

The third part of the guide is about *working relations*. The relationships of the family members with the company, the relationships of the managing family members with the company, the income of the family members, the relationships of the family members with professionals, the training and career planning of the family members and the general employment policy are dealt with in this section. For example, in the context of family members' relations with the company, the scope of the measure and the applicable sanction should be clearly indicated if one of the family members is addicted to gambling, taking into account that this situation may financially affect the company and, consequently, other family members. As another example, to prevent the people running the business from being injured or killed at the same time in a traffic accident, measures should be taken to prevent these people from traveling together in the same vehicle. In addition, this section also mentions, for instance, some conditions that family members must fulfill in order to be able to work in the company. It should be specified which criteria must be met in order for family members to work in the company, for example, work experience in other companies, foreign language skills and promotion levels. Human resources management should be responsible for assessing

and monitoring whether a family member has leadership skills and the required knowledge, and any family members whose performance and leadership skills are inadequate should be trained. The terms for providing training and support should be determined also by the human resources department and specified in the relationship between family member leaders and the company. With regard to the income of family members, another important issue, for example, a regulation of the salaries of family members employed in the company depending on the work they perform should be established. In addition, the methods and procedures for determining the salaries of family members should be defined, and the status of persons benefiting from family privileges should be clearly established. Another important point is to determine how and in what amount the profit generated by the company's activities will be distributed to family members at the end of the year.

According to the Ankara Chamber of Industry Family Constitution Guide, the constitution should clearly state that relations between family members and employees be as respectful, courteous, conciliatory and tolerant as possible. Measures should also be taken to prevent family members from receiving financial benefits from the company other than salaries and dividends that differ from those of employees. Under the general working principles, the employment status of the persons who are later included in the family through marriage should be clarified within the company. It should be determined what procedures and policies apply to the position and work of company employees who are related to one of their family members. Whether the cost of events, such as weddings, engagements and circumcisions of family members, will be borne by the family or the company should be specified.

The part on *ownership* in the guide to the family constitution contains the rules on the ownership of the family and the company, as well as on the transfer and sale of shares. The principles by which ownership of other businesses currently owned by the family and to be established by the family in the future will remain in the family should be determined. It should also be determined in advance how much the partners who are family members will pay for their individual investments, how much of their regular annual income they can invest, and how they will organize their investments. This part should also specify that family members must consult the family council when they make a personal investment, and procedures and forms should be specified. It should be ensured that decisions made by family members, such as changing the capital structure of the business, that affect the status of family members are made by the family council. The part on transfer and sale of shares provides for legal measures and sanctions in the event that the family members holding shares in the business sell them to a third party who is not a family member. It should be clearly regulated how to determine the person or persons who will take over the business. In the event of the death of one of the family members involved in the management of the business, how the position of the heirs will be determined should be also clearly regulated. And the last part of the guide to the family constitution includes the *revision* of the procedures and principles for the changes to be made in the constitution, as well as their effective form and conditions (Ankara Chamber of Industry, 2021).

The Deloitte Global Family Business Survey (Deloitte, 2019), which interviewed 791 family business leaders from 58 countries around the world, indicates that respondents are taking a variety of approaches to family governance. Accordingly, the use of family forums is relatively widespread, as is the use of family councils (35% of respondents have formal councils and 44% have informal councils) and family constitutions (44% of respondents). These figures show that family governance issues have become very important in both developed and developing countries. The “Governance Code for Family Businesses” (INTES Academy for Family Businesses, FBN Deutschland & Die Familienunternehmer, 2021) is an example of a guideline for the management of family businesses that was formulated for German family companies in 2004. It was developed by a commission that included several well-known family business owners and academics. Comparing the Turkish Guide to Family Constitution with the German Governance Code for Family Businesses, it can be seen that the Turkish Guide to Family Constitution contains concrete considerations, while the German Governance Code for Family Businesses considers various possibilities and contains recommendations. The aim of the Turkish guide is to define the framework for relations between family members and with the business and employees with regard to the future of the family and the business, and to indicate mutual duties, powers, and responsibilities (Ankara Chamber of Industry, 2005). The German Governance Code for Family Businesses, on the other hand, is designed to help families ask the relevant questions and find answers individually tailored to their company, asset, and family-specific situation, which can then be recorded in their own family code. In addition, the German Governance Code for Family Businesses was developed with the aim of providing an alternative to the corporate governance principles applicable for listed companies. It can be seen that the German Governance Code for Family Businesses contains the topics required for good corporate governance in family businesses to a far greater extent than the topics of family relationship governance (Kılıç, 2019).

The family constitution drafted by the Ankara Chamber of Commerce and Industry saves Turkish family businesses the costly process of drafting a family constitution, as they do not have to spend money on lawyers and consultants when drafting the constitution. It is cost-effective to use the template provided by the Ankara Chamber of Commerce as a starting point and adapt it for the own family business. On the other hand, in some countries there are government grants for family businesses that want to draft a family constitution. In Spain, for example, family businesses have also adopted tools such as family protocols to regulate family members’ relationships with the business, and in Valencia, public aid (Ayudas a Empresas familiares para la Realización de Protocolos Familiares) has been granted for the creation of family protocols in family businesses to ensure the continuity of the business over several generations. This support was only granted to companies in the Valencia region and was based on a regional foundation. In order to benefit from this aid, the company had to be an SME according to the EU definition and a family business according to the definition, where a physical person holds at least 50% of the share capital and participates in the management, or a family group with at least 20% of the share

capital, where a member of the family group also participates in the management of the company. This public aid is intended to cover external costs, including advisory and consultation activities related to specific issues such as the organization of the board of directors, procedures for determining heirs, rules for the distribution of dividends, employment and training of relatives, and the evaluation and review of family constitutions ([Austrian Institute for SME Research, 2008](#); [Lithuanian Innovation Centre, 2020](#)).

In addition, using a pre-written family constitution as a template and customizing it to your own needs not only has the advantage of being inexpensive but also several other benefits, such as avoiding confusion in deciding what to include. In their study, [Yükselen and Yıldız \(2014\)](#) examined four different Turkish family businesses that went through the process of creating a family constitution from scratch instead of adapting a template and mentioned some difficulties they experienced. For example, when drafting the family constitution, the founders of two family businesses tried to evaluate and rewrite some points of the constitution according to their own ideas so that they would be accepted by the other family members. As company founders, they believe they have more rights than anyone else, and they wanted to dictate the articles when the constitution was being drafted. Another problem is that in drafting the family constitution, the founders try to change the views of the other family members and dominate the process, making a special effort to convey the message “I am leading the company and will continue to lead it.” It is expected that a guide will eliminate some of these problems that family businesses may face in drafting written rules.

Although family governance issues have become extremely relevant, the effects of a family constitution on the financial performance of family firms have not yet been extensively empirically studied, an exception is [Graves et al. \(2024\)](#). However, family constitutions are expected to improve financial performance. This is because these written rules specify how family members can meaningfully participate in the management of their business. In other words, these rules specify how family members should effectively cooperate with each other and with other nonfamily members in running the business, and they help family businesses function well, and it is well-known that a well-functioning business also performs well financially. According to a study by [KPMG \(2017\)](#), the family constitution also has an impact on the financial performance of family companies. They performed a study with German family businesses and showed that the family businesses with at least three shareholders and a constitution had an annual return of more than 5%, while the businesses without a family constitution had an annual return of less than 5%. In another study, [Arteaga and Menendez-Requejo \(2014\)](#) analyze the performance of 264 Asturian family firms in Spain between 2005 and 2011 to assess the potential impact of family constitution on firms' financial performance as measured by return on investments, return on equity, and indebtedness. The results of their study indicate a positive impact for companies with a family constitution. Their findings show significant performance differences in favor of companies that implement the family constitution, and companies that agree to a family constitution have better economic and financial performance both one and two years after their implementation. Such a study for Turkish

family businesses has not yet been conducted. A study comparing the financial performance of Turkish family businesses with and without a family constitution would be an important contribution to the literature. Prigge and Mengers (2024) provide a recent survey of the extant international empirical evidence.

The presence of family constitution and family council in 10 large listed Turkish family firms is shown in Table 5.9.¹ In the Koç family (Ford Otomotiv Sanayi A.Ş.), one of the Turkish companies that started to prepare the family

Table 5.9. Family Constitutions and Family Councils in 10 Large Listed Turkish Family Firms.

Company	Family Council	Family Constitution
Ford Otomotiv Sanayi A.Ş.	Has a family council	Has a family constitution
Enka İnşaat ve Sanayi A.Ş.	Information not available	Has a family constitution
SASA Polyester Sanayi A.Ş.	Information not available	Does not have a family constitution and has no intention of creating one
Akbank T.A.Ş.	Has a family council	Has a family constitution
Anadolu Efes Biraçılık ve Malt Sanayii A.Ş.	Information not available	Has a family constitution
Aksa Enerji Üretim A.Ş.	Information not available	Information not available
Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.	Information not available	Has a family constitution
Aksa Akrilik Kimya Sanayii A.Ş.	Information not available	Information not available
Akfen Gayrimenkul Yatırım Ortaklığı A.Ş.	Don't have a family council	Has a family constitution
Başkent Doğalgaz Dağıtım Gayrimenkul Yatırım Ortaklığı A.Ş.	Information not available	Information not available

¹There is no mention of the existence of family constitutions and family councils on the websites, in the financial reports or in the corporate governance reports of these companies, and most of this information was obtained only from some statements of the managers of family companies. According to the information obtained from various internet sources, 6 of the 10 largest family companies traded on Borsa Istanbul have family constitutions. For the other companies, there is no information about the existence of family constitutions. Internet sources: <https://www.capital.com.tr/yonetim/liderlik/her-aileye-bir-anayasa>, <https://www.albertsolino.com/blog/aile-anayasasi-nedir>, <https://www.karar.com/uc-kardes-aile-anayasasi-yaptik-648674>.

constitution in the early 1980s, the job evaluation of the family members is part of the family constitution and is done through the performance evaluation of the subordinates and supervisors. This means that family members must go through the procedure that applies to all workers. They believe that the family constitution systematically implements career planning and development programs for future generations, and therefore have no problems with delegation of authority. Sabancı Holding (Akbank T.A.Ş.) also has a family constitution and a family council. In Sabancı Holding, a person must own a certain share in the family business to become a member of the family council. Siblings, spouses, children and grooms are members of this council, which meets every three months. The family council has set its own rules and created a structure that functions according to certain principles. And with the family constitution, the Sabancı family enacts certain rules for the employment of family members. For example, the constitution specifies how many years a family member with a university degree can become deputy general manager. However, the Erdemoğlu family (SASA Polyester Sanayi A.Ş.) is characterized by a different approach to the future of the company. Unlike traditional family businesses, the Erdemoğlu family will not set up a family constitution or an inheritance distribution plan. The reason they give is that they do not want to install the system only with their children. A board member who is part of the second generation of Akfen Holding, another listed family company, explains that there are regular meetings with the family members who work in the company. They inform each other about their tasks and the decisions they make, make decisions for problems that have arisen or may arise later, and solve the problems easily and quickly, having the advantage of strong communication that comes from close family ties. She also states that her older brother, father, and herself hold regular monthly meetings where matters related to administrative issues are evaluated. Although they do not refer to these meetings as a family council, she adds that these meetings can also be considered a family council, explaining that they do not need to form a separate family council at this stage because her father is still alive and has taken over the task (Deloitte Turkey, 2019).

5.5. Conclusion

Since the majority of all businesses in Turkey are family businesses and thus represent an important source of labor, production, and exports in the national economy, they deserve special attention. A special type of management for these companies is an issue that needs to be considered, and it is of great importance to be aware of the power struggles between successors and the distribution of assets and control, as well as the transfer between generations. All listed Turkish family businesses have adopted a set of general corporate governance principles to improve relations between management, the board of directors, shareholders, and other stakeholders, and consequently to enhance the performance of their businesses. However, few have formal mechanisms for regulating family relations, and most are unaware of the existence and usefulness of some written rules governing internal family relations and family members' interaction with the company. In

addition to standardized corporate governance principles, it is also very important to establish some principles for family businesses that govern the relationships between family members. It is well-known that family businesses, regardless of their size and stage of development, face greater difficulties in institutionalization due to their unique characteristics. Therefore, family councils and family constitutions in listed Turkish family businesses are recommended as instruments of good family governance to solve institutionalization problems and ensure a more competitive and sustainable future.

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