

THE ROLE OF PUBLIC RELATIONS ON CORPORATE GOVERNANCE

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Abstract:Effective communication of a corporation with all its stakeholders is very important in order to obtain corporate governance quality. It is quite possible to transmit a corporation's transparency, clarity, suitability for law and social responsibility to its stakeholders through public relations (PR) activities. On the other hand, the feedback of stakeholders is also considered an important input for the corporate governance quality. In this study, first of all, corporate governance concept, and the role of PR in obtaining corporate governance quality would be explored. In the second part of the study, Turkcell's corporate governance activities would be evaluated in terms of PR management.

Key Words: *Corporate Governance, Communication, Public Relations.*

1. INTRODUCTION

Due to globalization and rapid changes in information communication technologies, it is no more possible for corporations to isolate themselves from their environment. Society has various expectations from a corporation besides of its products or services. In this sense, corporate governance is a concept which has been gaining importance from the point of stakeholders within a society.

Corporate governance is an understanding which is based on the values of responsibility, openness, being supportive of participatory approach, and accountability. The core of corporate governance lies at the heart of directing the corporation's employees in a way which takes both the corporations' and the stakeholders' interest into consideration. Therefore, the corporations which have embraced the concept are expected to be open, transparent, egalitarian, responsible, and accountable. Corporate governance is crucial for both private and public corporations in terms of competitive competency of corporations.

Maintaining mutual lines of communication is quite important for corporations. This communication includes both communications within the corporation as well as out of the corporation (Vittal,2001). PR management acts as a bridge between corporations and their stakeholders. This "bridge role" makes PR management much more important from the point of governance quality. So as to enhance governance quality, it is an obligation for management to learn what stakeholders think about the corporation and what they expect from the corporation.

2. LITERATURE REVIEW

2.1 The Concept and Importance of Corporate Governance

Globalization and transformations in the ownership structure of firms (because of the growth of institutional investors, privatization, and rising shareholder activism) have increased the perceived need for more effective monitoring mechanisms and appropriate incentive schemes in order to improve corporate governance (Aguilera and Cuervo-Cazurra,2004:416). As Markarian et al. (2007:294) state with the growth of the modern corporation to a scale making investor oversight unlikely, the issue is whether management can be trusted to maximize a firm's long-run economic performance. Modern corporations are not simply victims of external conditions that have imposed corporate governance on them but also created the very circumstances that made corporate governance imperative (Rossouw,2005:32).

Table 1. Corporate Governance Definitions

| <i>Author/Authors</i> | <i>Definitions</i> |
|------------------------|--|
| Donker and Zahir, 2008 | Internal and external monitoring mechanisms that have an impact on the decision of managers in the context of separation of ownership and control. |
| Krafft and Ravix, 2008 | The general system by which firms are owned and managed. |
| Judge et al., 2008 | A mechanism by which laws are enacted and enforced. |
| Abor, 2007 | How companies ought to be run, directed and controlled. |
| Chiang and Lin, 2007 | A set of relationships among a company’s management, its board, its shareholders and other stakeholders. |
| Markarian et al., 2007 | The “relationship” among various participants in determining the direction and performance of corporations. |

Corporate governance is a complex and dynamic issue as it deals with cultural, political, technological, and market variations (Donker and Zahir,2008:92) and it may be perceived as the set of interlocking rules by which corporations, shareholders and management govern their behavior. The rules are individual firm attributes and the factors that allow companies to maintain sound governance practices even where public institutions are relatively weak (Comelius,2005:12). Corporate governance brings forth more efficient management style and it is a term describing good, efficient management and supervision of companies on the basis of internationally recognized standards in the interests of the company’s owners and its social environment (Cromme,2005:366).

Corporate governance ensures competitive advantage and organizations need good governance practices to sustain their competitive position and it is top priority on the agenda of policy makers, institutional investors, managers, media, and academics (Enrione et al.,2006:961). Organizations eventually fail if they do not meet expectations of appropriate performance or are unable to accommodate powerful constituencies. Therefore, governance structures directly affect an organization’s survival prospects (Greenwood and Empson,2003:912).

Corporate governance delimits the distribution of rights and duties amongst the different participants in the firm, and sets rules and procedures for making decisions. Moreover, corporate governance provides structures via which aims and objectives are set, and through which monitoring is carried out (Zheka,2005:452). In today’s information society, corporate governance means making corporate decision making transparent which in turn will increase investor confidence and greatly contributes to more efficient company management (Cromme,2005:366)

2.2 The Role of Public Relations Management on Corporate Governance

“PR is a distinctive management function which helps establish and maintain mutual lines of communication, understanding, acceptance and operation between an organization and its publics; involves the management of problems or issues; helps management to keep informed on and responsive to public opinion; defines and emphasizes the responsibility of management to serve the public interest; helps management keep abreast of and effectively utilize change, serving as an early warning system to help anticipate trends; and uses research and sound and ethical communication techniques as its principal tools” (Hutton,1999:200–201). PR management comes in especially when the corporation has to interact with the rest of the society. In fact, public relations management is the face of the corporation to the society (Vittal,2001). Actually public relations management acts as a bridge between a corporation and its stakeholders and this “bridge role” makes public relations management much more important from the point of governance quality. In order to obtain governance quality, it is an obligation for management to learn what stakeholders think about the corporation and what they expect from the corporation. Because gaining the support and participation of stakeholders is an important objective of corporate governance. The two functions of public relations – to know the environment better and let the environment know you better – makes a distinctive contribution to the realization of corporate governance principles such as openness, transparency, clarity, responsibility and accountability. In this sense, public relations management has to maintain effective communication channels which are the prerequisites of good governance.

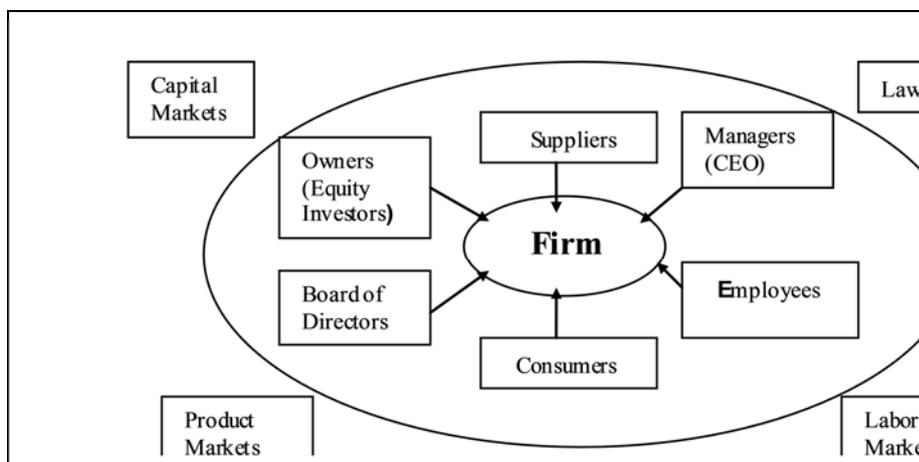
Meso et al. (2007:187) mentioned that governance is responsible for creating an environment that enables the participants in all aspects of the economy to easily evolve, learn and adapt while being publicly and openly accountable. Corporations have realized that effective corporate governance programs must include a broad, proactive communication program that maximizes the effectiveness of traditional forms of communication (<http://www.issproxy.com>, 2005). It is obvious that the concept of governance underlines the transformation from up-to-down management philosophy to bilateral interactive management philosophy (Argüden,2008). Thus

the basis of corporate governance is interactivity. In other words, if a corporation is not in an interactive communication process with its stakeholders, then it is impossible to talk about the governance quality of that corporation. Governance quality can only be obtained through an effective communication process with the stakeholders and public relations management is a strategic tool that can fulfill that function.

According to Commonwealth Association for Corporate Governance (1999) good corporate governance requires that the board must govern the corporation with integrity and enterprise in a manner which entrenches and enhances the licence it has to operate. This licence is not only regulatory but embraces the corporation's interaction with its shareholders and other stakeholders such as the communities in which it operates, bankers and other suppliers of finance and credit, customers, the media, public opinion makers and pressure groups. PR Management has a quite important role in the conduct of long term relations which are necessary for governance quality with these publics and it also improves corporate governance quality through communication efforts.

According to OECD Principles (2004) employees and other stakeholders play an important role in contributing to the long-term success and performance of the corporation, and governments establish the overall institutional and legal framework for corporate governance. Partnership approaches to compliance and enforcement provide many opportunities to create a climate of good governance through a coherent approach with good communications between all parties, so long as they are also proportional, open, participatory, effective and accountable (Harman,2005:8). As Gregory (2001:6) mentioned that corporate governance involves a network of relationships between corporate managers, directors, and providers of equity—or more broadly, the relationship of the corporation to stakeholders and society. Corporate governance indicates a set of relationships among a company's management, its board, its shareholders and other stakeholders (Chiang and Lin,2007:768). If corporate governance is addressed to stakeholders and the whole society, then corporate communication must also be addressed to them and this communication must be based on a two-way symmetrical model. The main aim of public relations is to create and maintain good/positive relations, and a constructive dialogue between a corporation and its stakeholders through a balanced information flow. In other words, it is not an assimilation of one side below other but it is rather a bilateral communication and information flow in where both parties are equal to each other.

Figure-1: Socio-Political View of Corporate Governance



Source: Aguilera et al.,2006:150.

As seen in the figure, corporations are under social and political impact which they can not be abstracted from. So the quality of corporate governance is dependent on stakeholder relations, and all the decisions and operations are formed according to these relations. In other words, various stakeholders such as managers, employees, suppliers, consumers all influence the quality of corporate governance. Within that context, communication and public relations efforts devoted at internal and external stakeholders undertake a vital role in order to improve and sustain the quality of corporate governance.

Regarding internal stakeholders, corporate governance can actually be improved through the involvement and participation of workers in good governance practices (Welford,2007:50). Regarding external stakeholders, providing information to stakeholders, especially the public (including minority groups), is also key to good governance allowing transparency and visibility (Harman,2005:8). Communicating strategic direction to them increases the stakeholders' understanding of the motives of the organization and may also facilitate the creation of alliances, since potential alliance partners have a greater ability to judge the existence of common goals (Parum,2006:559).

Transparency concerning how a company is managed is an essential condition for ensuring that a company's stakeholders are able to evaluate and relate to the company. In this sense, transparency can contribute to constructive interaction with the company (Parum,2006:561). Companies can gain corporate governance quality to the extent that they can be transparent on all issues to their stakeholders. Thus functioning as a bridge between a corporation and its stakeholders, public relations undertakes vital responsibilities for a sustainable constructive interaction through a two-way symmetrical information flow. This would, in the long run improve and sustain corporate governance quality through consistent and continuous public relations efforts.

3. THE CASE OF TURKCELL

3.1 The Background of Turkcell²

Turkcell started its operations in February 1994; December 31, 2010, with its 33.5 million subscribers, Turkcell is not only the leading operator in Turkey, but is also the third biggest GSM operator in Europe in terms of subscriber numbers. Turkcell's shares have been traded on Istanbul Stock Exchange (IMKB) and New York Stock Exchange (NYSE) since July 11, 2000 and it is the first and only Turkish company ever to be listed on NYSE. The World Finance Magazine granted "Best Corporate Governance in Turkey" award to Turkcell in 2010. Capital Magazine and Adecco also granted "The Most Admired Turkish Company" award to Turkcell depending on the Most Admired Turkish Companies Survey.

3.2 Turkcell's Corporate Governance Activities³

Turkcell's Compliance with Corporate Governance Principles Report 2009 consists of four sections. It is apparent that PR Management's point of view is quite well reflected and carried out within all four sections.

Shareholders: Investor and international media relations department pursuant to existing regulations hold regular meetings with analysts and investors to share developments in company strategy and operations, and the market, industry and legal environment in which Turkcell operates. In order for shareholders to obtain information concerning the company easily and without discrimination, all publicly disclosed information is available on Turkcell website in Turkish and English in the investor relations section for the use by Turkish and foreign shareholders equally. Besides, all public announcements are distributed by e-mail to addresses registered in the company's database. Inquiries, verbal or written, made to the investor and international media relations department are replied as quickly as possible within the scope of publicly disclosed information. The company makes disclosures when the board of directors take a decision regarding the general assembly meeting and its agenda and in addition regarding the resolutions of the general assembly following the general assembly meeting. During the general assembly, shareholders exercised their right to ask questions and these were answered by the executive officers.

Public Disclosure and Transparency: The purpose of Turkcell's disclosure policy is to ensure an active and transparent communication which is complete, fair, correct, timely, clear, and cost effectively and equally accessible for all stakeholders. Turkcell's disclosure policy contains guidelines concerning the Blackout Period Practice relating to insider trading issues. In accordance with these guidelines, employees are prohibited from selling or purchasing Turkcell securities during the blackout period. Turkcell employees with access to inside information that can affect the price of capital market instruments are restricted from selling or purchasing Turkcell securities regardless of blackout periods.

Stakeholders: In addition to the legislation that is currently in effect, company policies and procedures have been created to inform employees and stakeholders. While there is no special provision concerning the participation of stakeholders in management, relevant information is shared with Turkcell's business partners, staff and other stakeholders through defined and regular meetings. Turkcell's priority regarding its human resources strategy is to be the most admired and most preferred company as a place of employment and as a result to recruit and retain the best personnel. Turkcell uses an approach in line with global quality standards wherever the company has contact with and/or provides services to its customers. The company tests all products and services with the customer's perspective in mind so as to better understand and feel customers' experiences, to determine the inefficiencies in the system, processes, and human resources, and if necessary to make timely

² This information was collected from Turkcell's corporate web site (www.turkcell.com.tr).

³ This information was collected from Turkcell's Compliance with Corporate Governance Principles Report 2009.

corrective adjustments to systems or processes related to that specific experience. Turkcell believes that support provided to individuals and to society contributes to Turkey. In order to improve the quality of life of society and create a more sustainable world, Turkcell contributes to economic, environmental, cultural and social development of the country.

Board of Directors: All the members of the board of directors are non-executives. The qualifications of the members of the board of directors are specified in the corporate governance guidelines as adopted by the company's board of directors. The vision and strategic targets of Turkcell are on Turkcell's web site under "About Turkcell" and in the annual report. A corporate governance secretariat has been created to coordinate information flow between the members of the board. Turkcell's common values and code of ethics and all regulations are announced to all Turkcell managers and employees. The Turkcell Code of Ethics is introduced to all new recruits through an orientation program. Employees must sign a declaration stating that this code is an inseparable part of their employment contract. Revisions of the common values and code of ethics are shared with Turkcell employees via internal communication channels. An outline of this code is published on the company's website in the investors relations section under corporate governance.

3.3 The Role of Turkcell's Public Relations on Corporate Governance

Regarding shareholders, Turkcell seems to have planned and continuous communication with its shareholders almost on every issue. It is reported that investor and international media relations department has a reputation of quick response to all questions channeled to that department. Turkish and foreign shareholders are regularly informed via various media. Diffusion of information is secured as much as possible through oral and written communication techniques such as regular meetings, web-sites and e-mails. Depending on its disclosure policy, Turkcell announces general assembly meeting, its agenda and the resolutions of the general assembly following the general assembly meeting. During the general assembly, shareholders exercise their right to ask questions and these are answered by the executive officers. Shareholders can also raise their advises on any matter. Hence, the company tries to secure two-way information flow and bilateral relations with its shareholders from the PR's point of view.

Regarding public disclosure and transparency, Turkcell has a disclosure policy in order to ensure an active and transparent communication with its stakeholders. The official web-site of the company includes detailed information about corporate governance practices. The company attaches great importance to continuous information exchange with its stakeholders and tries to revise its corporate governance practices depending on the feedback taken from the stakeholders. This also improves the quality of corporate governance and increase the effectiveness of stakeholder relationships. Depending on the disclosure and transparency policy of Turkcell, PR management carries out all its activities depending on two-way symmetrical information flow that aims to create a bilateral understanding.

Regarding stakeholders, Turkcell has created policies and procedures in order to inform all its stakeholders through various PR activities such as Staff Communication Meetings, Supplier Day for the supply chain, Business Partner Day for the firms Turkcell works with on value-added services, and dealer meetings. Since the company has the chance not only to inform its stakeholders but also learn from its stakeholders, these PR activities seem to have a considerable contribution to corporate governance quality. Turkcell executes various activities for different stakeholder groups. For instance, human resources is a priority for this company and the company tries to be the most admired and most preferred company as a place of employment. The company also tries to keep close contact with its customers so as to better understand and feel customers' experiences, to determine the inefficiencies in the system, processes and to make timely corrective adjustments. Turkcell also tries to improve the quality of life and create a more sustainable world by contributing to economic, environmental, cultural and social development by various corporate social responsibility projects such as The Snowdrops, The Bridge of Hearts, and Under Those Running to the Future.

Regarding board of directors, all the information about the board of directors (structure and creation of the board of directors and independent members, qualifications of the members of the board of directors) can be found on the official web-site of the company. Turkcell also provides information flow about Turkcell vision and strategic objectives, risk management and internal control mechanisms, authority and responsibilities of the members of the board of directors and executives, activities of the board of directors, prohibition on carrying out transactions with the company and prohibition on competition, number, structure and independence of the committees established on the board of directors. Another considerable point is the announcement of Turkcell's common values and code of ethics and all regulations to all Turkcell managers and employees via internal communication channels which is an inseparable part of their employment contract.

4. CONCLUSION

In a competitive environment, stakeholders have had expectations from the corporations other than their products and services namely as transparency, openness, social responsibility in all its operations. The survival of the corporations depends on to what degree they have met these expectations. Moreover, the corporations' ability to differentiate themselves and cope with their competitors is conditional upon satisfying these expectations. In this context, corporate governance has become an increasingly vital concept for the corporations pursuing the success.

The survival of the businesses depends on continuous interaction with their environment and the ability of meeting expectations and demands of stakeholders. Businesses which have adopted the corporate governance principles consider both the interests of the corporation and the stakeholders at the same time. As a result of this, their corporate efficiency has increased. The fundamentals of corporate governance understanding is consisted of being transparent and clear in all activities, having a social responsibility consciousness, being accountable for anything and supporting the participation of all stakeholders.

Effective communication of a corporation with its stakeholders is very important in providing corporate governance quality. In other words, the quality of corporate governance depends on the quality of corporate communication. Within this perspective, public relations undertakes a key role both in adopting corporate governance understanding within a corporation and also in channeling successful communication with all its stakeholders. Two-way symmetrical communication which is the focus center of modern public relations understanding has a critical role in obtaining the dialogue and constructive interaction that are considered as the fundamentals of corporate governance. Within this understanding, it is quite possible to transmit a corporation's transparency, clarity, suitability for law, social responsibility to its stakeholders through public relations efforts. On the other hand, the feedback of stakeholders is also considered an important input for the corporate governance quality. Due to these feedbacks, corporations have the opportunity to remove the deficiencies and weaknesses of corporate governance process and strengthen the positive sides.

As indicated above, PR management undertakes a vital responsibility through the corporate governance practices of Turkcell. Corporate governance practices necessitate stakeholder relations and continuous information flow. The fulfillment of corporate governance principles such as openness, transparency, clarity, responsibility and accountability is only feasible through two-way symmetrical information flow. Taking into account Turkcell's Compliance with Corporate Governance Principles Report 2009, it is apparently observed that PR management has a vital role in managing the bilateral relations with employees, shareholders, customers and does contribute to the quality of corporate governance through various PR activities and communication techniques. In other words, by strategic planning and managing the relations with various stakeholders, PR management has the chance to contribute to the quality of corporate governance. After all, it is also necessary to highlight the secondary role of PR management in communicating and promoting the success of corporate governance practices and relevant awards through media relations and PR activities. Consequently, PR has a dual contribution to corporate governance practices.

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