EVALUATING THE IMPACT OF CORPORATE GOVERNANCE ON FIRM PERFORMANCE USING BOARD INDEX

Master’s Degree Thesis

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Eskişehir, 2016

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MASTER'S THESIS

Finance Program/ Department of Business Administration

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Anadolu University,

Institute of Social Sciences

August, 2016

This thesis was accepted and supported by the BAP Commission under Project number 1601E015.

JÜRİ VE ENSTİTÜ ONAYI

Basil Oluoch OKOTH'ın "Evaluating The Impact of Corporate Governance on Firm Performance Using Board Index" başlıklı tezi **12 Ağustos 2016** tarihinde, aşağıdaki jüri tarafından Lisansüstü Eğitim Öğretim ve Sınav Yönetmeliğinin ilgili maddeleri uyarınca toplanan **İşletme (Finansman)** Anabilim Dalında, **yüksek lisans tezi** olarak değerlendirilerek kabul edilmiştir.

İmza

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ÖZET

YÖNETİM KURULU INDEX KULLANARAK FİRMA PERFORMANSI ÜZERİNDEKİ KURUMSAL YÖNETİM ETKİSİNİ DEĞERLENDİRMEK

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SPK, 2013 yılında, Borsa İstanbul bünyesinde hesaplanan Kurumsal Yönetim İndeksinin Yönetim Kurulu bileşeninin ağırlığını %25'ten %35'e çıkarmıştır. Bu karar, hissedarların varlıklarını yöneten ve firmayı kurumsal olarak şekillendiren yönetim kuruluna, Borsa İstanbul şirketlerinde verilen önemini vurgulamaktadır. Yönetim kurulundaki kadın üyelerin rolüne daha fazla odaklanılarak ve pek çok farklı yönetim kurulunda görevli üyelerin (birisinde başkan) yönetim ve şirketi gözetleme performansı dikkate alınarak Abdioğlu ve Kılıç (2015)'ın bu konudaki benzer çalışması genişletilmeye çalışılmıştır. Ayrıca, yönetim kurulu indeksinin performansla ilişkisi araştırılırken, muhasebe ölçütleri olan ROE ve ROA'ya ek olarak farklı bir performans değerleme yöntemi olan EVA uygulanmıştır.

Sonuçlar, oluşturulan indeks ile EVA performans ölçütü arasında güçlü ve pozitif yönde bir ilişki ortaya koymuştur. Elde edilen sonuçlardan yola çıkarak kurumsal yönetimin bir firmanın performansını belirlemede çok önemli bir yere sahip olduğu söylenebilir. Çalışmanın Abdioğlu ve Kılıç (2015)'ın çalışmasına göre tutarlı bir sonucu da; kullanılan performans ölçüm metodunun farklılığının önem arz ettiğini ortaya koymakta olup ROE ve ROA performans ölçüm yöntemleri ile indeks arasında bir ilişkinin tespit edilememiş olmasıdır.

Anahtar Sözcükler: Kurumsal Yönetim, EVA, Yönetim Kurulu, Yönetim Kurulu İndeksi

ABSTRACT

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Supervisor: Assoc. Prof. Metin COŞKUN

In 2013, the CMB at the İstanbul Stock Exchange increased the weight assigned to the Board of Directors component of its Corporate Governance index to 35% from the previous 25%. This did more than underscore the importance the exchange attaches to the role of the Board of Directors in the management of the shareholder' wealth and by extension shaping up the firm. Interpreting this as a recognition of the vital role of the board, I sought to expand on the work of Abdıoğlu and Kılıç (2015) by putting more focus on the role of women in the boards and the effect of the busy chairman as well as the presence of outside directors on the ability of the board to perform their monitoring function. I also employ a different method of evaluating performance (EVA) together with the accounting measures of ROE and ROA, which I regress against the Board index - formulated for the firms included in the BİST 100 index (excluding financial firms).

The results reveal a strong positive relationship between the index created and EVA measured performance. Leading to the conclusion that corporate governance is vital in determining the performance of the firm. However, the index did not have any relationship with neither ROA nor ROE measured performance. This contrast points to the difference in the methods used to measure performance.

Keywords: Corporate Governance, EVA, Board of Directors, Board Index,

In the context of this article, the terms 'outside director' and 'independent director' are used interchangeably even though in theory these two terms tend to have slightly varied meanings depending on the defining body.

PREFACE

Corporate Governance represents a system through which an organization is managed and monitored for the benefits of all stakeholders in its environment. The concept concerns the relationship between the company itself, its shareholders, the Board of Directors, the management and other stakeholders. At the apex, of Corporate Governance, sits the Board of Directors which is tasked with control and monitoring of the activities of the management to ensure that the company is run in line with the predetermined objectives and in the interest of the shareholders.

The aim of this study was to determine how the constitution of the Turkish Board of Directors affect the financial performance of the firm. Given the fact that Corporate Governance does not apply evenly in all countries, the interest in the Turkish corporate structure was based on its complex nature with respect to the role of the busy chairman, female directors and outside directors among others.

I would like to express my sincere gratitude to my supervisor, Assoc. Prof. Metin Coşkun for all the support through the entire thesis project. I would also like to thank my family for their prayers, support, and their faith in me.

12/08/2016

ETIK ILKE VE KURALLARA UYGUNLUK BEYANNAMESI

Bu tezin bana ait, özgün bir çalışma olduğunu; çalışmamın hazinlik, veri toplama, analiz ve bilgilerin sunumu olmak üzere tüm aşamalardan bilimsel etik ilke ve kurallara uygun davrandığımı; bu çalışma kapsamında elde edilemeyen tüm veri ve bilgiler için kaynak gösterdiğimi ve bu kaynaklara kaynakçada yer verdiğimi; bu çalışmanın Anadolu Üniversitesi tarafından kullanılan "bilimsel intihal tespit programıyla tarandığını ve hiçbir şekilde "intihal içermediğini" beyan ederim. Herhangi bir zamanda, çalışmamla ilgili yaptığım bu beyana aykırı bir durumun saptanması durumunda, ortaya çıkacak tüm ahlaki ve hukuki sonuçlara razı olduğumu bildiririm.

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CONTENTS

LIST OF ABBREVIATIONS

TKYD : Türkiye Kurumsal Yönetim Derneği (Corporate Governance Association of Turkey)

TUSIAD : Türk Sanayicileri ve İşadamları Derneği (Turkish Industrialists' and Businessmen's Association)

OECD : Organization for Economic Co-operation and Development

XKURY : BIST Kurumsal Yönetim Endeksi (Corporate Governance Index)

CEO : Chief Executive Officer

EVA : Economic Value Added

PDP : Public Disclosure Platform

TCC : Turkish Commercial Code

ROA : Return on Assets

ROE : Return on Equity

ISE : Istanbul Stock Exchange

BIST : Borsa İstanbul (Istanbul Stock Exchange)

NASDAQ : The NASDAQ Stock Market

NYSE : New York Stock Exchange

FTSE 100 : Financial Times Stock Exchange 100

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1. INTRODUCTION

The ever increasing globalization of trade has exposed corporations to opportunities and risks that were previously considered out of reach. Customers are adequately informed on the quality and trends of services, and the investors now have access to numerous avenues to expend their funds. Studies have shown that more and more investors are willing to pay a premium to a company with a good Corporate Governance structure as opposed to a similar one with a weaker Corporate Governance system. The increase in the intensity of these demands makes it the onus of the management of every firm to ensure that their affairs are run in such a way that does not only meet the standards of expectations of the shareholders, but also keep them in the know as frequently as necessary. This may explain the increased focus on Corporate Governance as represented by the intense focus on improving the Corporate Governance codes and principles observed since the start of the millennium.

Economic crises and various headline-catching company scandals (Enron and WorldCom) have caused renewed interest in Corporate Governance with every such occurrence acting as a reminder of the importance of Corporate Governance, often always followed by a series of steps of actions to be taken. Corporate Governance has since ceased to be a topic of interest only to academicians, but has also become a subject of discussion in the media and other public fora with phrases like Corporate Fraud, organization failure, excessive compensation, Corporate Social Responsibility and lately, environmental responsibility taking up lots of discussion room.

With so many studies already extant on Corporate Governance, one may wonder the need or the contribution that one more such study would offer to the pool of knowledge. I would reiterate that Corporate Governance studies are as necessary as ever in the ever-expanding global economy. There is demand for more accountability, more demand for stakeholder representation and demand for more diversity in the management and boards of companies. Studies continue to interrogate the effects of these demands on the effectiveness and financial performance or value of the companies. Similarly, this study was intended for the Turkish corporate structure which has developed without losing the complexity in its structure of ownerships and board memberships. Gender diversity in Turkey has become a mandatory issue and coupled with several gender campaigns, companies have been forced to appoint into their boards, female directors without considering the general impact it will have on value, profitability or operating performance. Company ownerships still run in the families and their close associates, meaning that Board members are appointed at the behest of the family members to represent their own interests (which gives room to the possibility of violation of the rights of minority shareholders). My original contribution to literature is the consideration of the role of a busy chairman and how the number of directorships he holds affect his ability to run the board. In addition, I look at the impact of the average age of the board on the performance of Turkish boards. But, what really constitutes Corporate Governance and why is it relevant in this age when all the principles of best practice are already out there, and almost all firms are aware of their responsibility to all their stakeholders? Well, this is part of the bigger picture that this study sought to discuss and take a stand on. Various definitions have been advanced for Corporate Governance with the basic foundation anchored on the relationship between the management of a firm, the board of directors and the shareholders, and the other stakeholders.

The Corporate Governance Association of Turkey (TKYD) defines Corporate Governance as a set of standards that determine how a company is managed and controlled (monitored) in terms of policies and procedures, specifying the power play and roles of the management, the BOD and the shareholders. In introducing the concept of the New Corporate Governance, Hlib (2005, p. 9) defines Corporate Governance as "*a system by which companies are strategically directed, interactively managed and holistically controlled in an entrepreneurial and ethical way and in a manner appropriate to each particular context*." Larcker and Tayan (2011, p. 4) refers to a series of control measures meant to curb the detrimental activities to shareholders by self-serving managers. On top of the usual factors like the BOD, the management and the shareholders considered in other definitions, they include external auditors who are called upon to ascertain the financial statements produced by the firm.

A more elaborate definition of Corporate Governance is advanced by the Organization of Economic Cooperation and Development (OECD) which defines it as a "*set of relationships between a company's management, its board, its shareholders and other stakeholders".* That, it *"provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance* *are determined".* It also points that good Corporate Governance practice dictates the existence of a relationship between the Management and the Board that seeks to accomplish the goals of the company and shareholders while remaining open to effective monitoring.

The definitions alluded to above, like many others already advanced in literature, make reference to the management and their responsibility of satisfying the demands of the stakeholders, and the possibility of their deviation from that mission; and the BOD and their duties with regard to monitoring the activities of the management as well as their responsibilities in protecting the position of the shareholders and their ever growing demands. It is, however, difficult to decide on a single prescription for the universal definition of good governance practices. This is why regulators in different countries have come up with codes and principles that define and regulate what qualifies as good practices given the nature of the economy and the general business culture of the economy in question. The Turkish Capital Markets Board (CMB), for instance, designed their principles and codes (in 2004), to regulate the governance practices of companies, and these principles have undergone a few amendments over time.

The 2013 CMB regulations (act 36231672-410.99 (KBRT) - 267/3854) changed the Corporate Governance compliance weighting scheme for the four components of GC for the purpose of calculation of the index. The scheme hitherto ranked the components as Shareholders (25%), Disclosure and Transparency (35%), Stakeholders (15%) and Board of Governance (25%). However, the change effected 12.04.2013 changed the weights to Shareholders (25%), Disclosure and Transparency (25%), Stakeholders (15%) and Board of Governance (35%). This change did more to underscore the importance the board attaches to the role of the Board of Directors in the management of the shareholders' wealth and, by extension, shaping up the firm. Is the BOD really that vital to the performance of the firm?

In this study, I investigate an area that has been discussed widely in various studies from different angles with varying results. My research seeks to apply the findings from the literature to answer three pertinent questions: To what extent (if any) does the number of women in the BOD affect the performance of the firm? How much influence does a busy chairman have on the performance of the BOD? And, does the age of directors in the BOD affect the performance of the BOD and the firm at large? The BOD acts as an agent with a fiduciary duty to the investors, by acting as a supervisory and monitoring authority on their behalf, over the management. They are in charge of recruiting and hiring the most suitable management team, and in case the team underperforms, they may be fired.

1.1. Statement of the Problem

The difference in the economy and circumstances notwithstanding, the features of a good board structure in prior works have traditionally been pegged on size, independence of the directors, number and functions of the committees, separation of CEO and chair positions and director qualifications and development. However, over time, these characteristics have evolved and the role of the female board member has received its fair share of attention. This role has however not spurred much curiosity in the Turkish market as far as extant literature is concerned. Despite the numerous cases of multiple and interlocking directorships that abound in the Turkish corporate system, these aspects of the board structure have not been adequately explored in the literature. The chairman being the determiner of the direction the board , the performance of the BOD heavily hinges on his availability and ability to perform his duties.

1.2. Purpose of Study

This study was intended to add to the existing pool of knowledge by taking a different approach to understanding an aspect of Corporate Governance that has not received much attention with regards to the Turkish economy. Most studies in this area have focused on the familiar board characteristics and measured performance using the same old Tobin's Q. But given the perceived weaknesses of this methodology as will be discussed later in this study, I will seek to use the more exhaustive EVA as the measure of firm performance. I also point out a few limitations in this study on the correction upon which a comprehensive study needs to be carried out.

1.3. Outline the paper

The rest of this paper is arranged as follows: In the second chapter, I review the extant literature on Corporate Governance in general, what it means to corporations, its evolution over time worldwide and with specific interest to Turkey and the most recent developments in the Turkish Corporate Governance. I look at the various theories of corporations, as well as the principles and codes of Corporate Governance. I also look at the impact of Corporate Governance on the performance of firms before it narrows down to the single aspect of the board characteristics and its place in shaping up the firm's performance. I highlight the hypotheses of the study in the third chapter by envisaging the expected interaction between the set out variables to be tested in the study.

The fourth chapter is for data and methodology. I outline the sample and data used as well as the data sources, and define the variables at this stage. Of specific interest and adequately discussed is the Economic Value Added (EVA) which is the variable representing firm performance. I also describe into details the process of formulation of the board index (BINDEX) which is the variable representing corporate governance efficiency. I then present the findings in the fifth chapter accompanied by the relevant descriptive statistics and the various regression analysis. In this chapter, I also have the discussion of the findings, summarizing the research and how the findings answer the questions proposed for the study. I draw conclusions from the findings and the significance of the study is reiterated as well as the limitations of the study, making room for suggestions for further research.

2. LITERATURE REVIEW

2.1. Introduction

The relationship between corporate governance and performance in both the developed and the developing economies has been the subject of many studies. The major components of both external and internal Corporate Governance have been dissected and examined individually on how they affect the performance of an entity. The diversified studies are all in agreement that corporate governance, its components and its principles are different across different economies and thus have focused on different aspects and components depending on the economy in question. In this section, I examined various studies with respect to how they handled the various factors in corporate governance right form the development of corporate governance to associated theories as well as its impact on the performance of a firm.

2.2. The Major Corporate Scandals

Several grand corporate scandals have been registered in the global economies in the past two decades leading to investors losing their money, employees losing jobs and in some cases even creditors losing their funds. The collapse of these businesses has pointed to the challenges and shortcomings on how corporations are run. Failure by executives to foresee and curtail risks or executives getting into flatly risky project (the case of Barring Bank) as well as the inability of the boards to understand and/or predict the risks and adjust by designing appropriate management mechanisms, and reign in on the executives in such circumstances are some of the major culprit cause of fails. Some of the major scandals registered include the following; (Mallin, 2013, p. 1.)

2.2.1. Enron

Considered as the largest bankruptcy in the history of the US at the time, the 2001 collapse of a top ten fortune bank was considered a '*painstakingly -planned accounting fraud*' and was associated with dishonest and self-centered directors and a general lack of a strong accountable board. Investors lost their money and life savings when the stock price dropped from \$90 to \$0.50.

2.2.2. WorldCom

WorldCom's bankruptcy replaced Enron's as the largest in US history. Lack of adequate controls was the main suspect in this case as fraudulent accounting methods were employed by the executive to conceal the falling of earnings and uphold the share prices. Shareholder loss of over $ 180 billion dollars and loss of over 30,000 jobs was the result of this fraud, which ironically enough, was discovered by the company's own internal auditing department.

2.2.3. Royal Bank of Scotland

Management deficiencies, poor governance and sustained poor decisions led to the collapse of one of the world's largest companies. Lack of proper risk assessment mechanisms, excessive board, and executive remuneration as well as the position of a powerful CEO are some of the other reasons. It has however returned to operations and restructured with the help of the UK government.

It is clear to see from the foregoing that it is only by strengthening the controls and accountability that the confidence in companies and the financial markets can be improved, and this is what brings the focus to Corporate Governance. Within the context of the above scandals, Corporate Governance could reasonably be defined as a way for shareholders to monitor the risks their investments are exposed to and assure themselves of the returns. In a more inclusive scale, the definition would include the role of other stakeholders in the organization mix and their interest in the success of the company. As enumerated by Mallin, (2013, p. 8), Corporate Governance is essential in guaranteeing the state of the control system in the company thereby providing security for shareholders' investments, and that everything is done in the interest of the shareholders and the other stakeholders; prevents concentration of power on a single individual; seeks to stabilize the relationship between the shareholders, the company and the board of directors.

2.3. Development of Corporate Governance around the World

The development of Corporate Governance has always been synonymous with certain names. These are mostly committees that participated in formulating major principles or codes used in Corporate Governance in different countries. In this section, I will review some of these names and associated principles and codes.

2.3.1. The Cadbury Committee Report (1992)

In the aftermath of the astonishingly memorable scandals that beleaguered the UK *(Maxwell Communication, Coloroll and Ferranti* among others), the Financial Reporting Council, the London Stock Exchange and the accountancy profession formed the 'Cadbury Committee' in 1991 to raise the general standards of Corporate Governance thereby increasing the confidence of investors in the financial system. The committee headed by Sir Adrian Cadbury committed to focusing on;

- the responsibilities of the executive and non-executive directors for reviewing and reporting on performance to shareholders, and other financially interested parties;
- the case for audit committees of the board, including their composition and role;
- the principal responsibilities of auditors and the extent and value of the audit;
- the links between shareholders, boards and auditors;
- any other relevant matters" (Cadbury Report, 1992, p. 61)

Their report was released a year later in 1992 as a recommendation to be applied depending on the circumstances of the company, i.e. the 'comply or explain' mantra was born. The committee further recommended that companies file annual reports of compliance and/or provide explanations for non-compliance. This report informs investors about non-compliance and its justification so that they can make proper decisions. Below is a summary of some of the contents of the Code of Best Practice presented by the committee with regards to the board of director (Boyd, 1996, p. 179):

- The board should be in charge of the whole company, exercising effective control over the executive, and should meet regularly to achieve this objective.
- Too much power should not be bestowed upon a single individual, and even where there is CEO duality, the board should be able to retain its independence.
- There should be non-executive members of the board in sufficient numbers as to wield significant weight in their views, which should be regarded as independent views.

- The board should establish an audit committee with at least three non-executive directors two of whom must be independent; a nomination committee to make proposals to the board regarding selections, and a remuneration committee to help define the remuneration packages of the executive. The audit committee was strengthened and given more active role in determining the control mechanisms.

The Corporate Governance environment in the UK has since been decorated by other guidelines like Greenbury Report (1995), Hampel Report (1998) and a series of the Combined Code among other reports and statutory Acts.

2.3.2. OECD Principles of Corporate Governance (1999)

Following the Asian financial crisis of 1997, the OECD council requested for the development of Corporate Governance standards and guidelines. The OECD, in collaboration with governments of member states and the private sector designed what has eventually become the international benchmark for Corporate Governance standards policy makers and other stakeholders in OECD and non-OECD member states (Mallin, 2013, p. 42; Bouchez, 2007, p. 109). The first version of the OECD Corporate Governance Principles (otherwise known as "the Principles") was completed and approved in 1999.

OECD recognized the fact that no one model of Corporate Governance could be suitable for all economic and legal circumstances. The principles were therefore meant only to provide a source of reference for policy makers when they develop their own Corporate Governance regulatory guidelines while considering their own economic, social, cultural and legal circumstances (*OECD 1999, p. 11*). Bouchez (2007, p. 109) contends that other parties like investors, companies and stock exchanges could also derive some guidance from the principles. The Principles have been adopted in many countries worldwide and have been included as one of the 12 key standards for sound financial systems of the Financial Stability Board (FSB) and also applied by the World Bank in the making of the Report on Observance of Standards and Codes.

A review of the principles was endorsed by the OECD in 2004, after the WorldCom and Enron scandals, to stay consistent with new developments based on a survey of the Corporate Governance practices of member countries. The review was conducted with a much wider participation and considerable consultations with several international institutions including International Monetary Fund, the World Bank and the European Union among others. This revision, just like later ones left the non-mandatory nature of the Principles unchanged (ROSC) (Bouchez, 2007, p.110).

The latest revision of the Principles, which have been appropriately renamed the "G20/OECD Principles of Corporate Governance" to reflect the inclusive review by all the G20 nations, was released in 2015. This revision has made a few fundamental changes to the 2004 release but generally remained the same in format and spirit.

The structure of the Principles is designed to contain six chapters (OECD 2015, p. 13-61).

I. *Ensuring the basis for an effective corporate governance framework*: The corporate governance framework should promote transparent and fair markets and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement.

   This role of the framework is further explained in the following sub-sections

   A. The need for market integrity through the promotion of transparency and functionality that will appeal to and encourage the market participants.
   B. The consistency of the Corporate Governance regulations and their enforceability within the relevant laws
   C. Establishment of a clear division of responsibility and authority to avoid conflicts and overlaps as well as aid in the effective utilization of the skills of the 'complementary' bodies. It is also important that the delegated authority is applied with absolute transparency and fairness and within the provisions of the law for the good of all parties.
   D. The establishment and enforcement of regulation and standards as well as the implementation of facilities that promote the effectiveness of the Corporate Governance and uphold the interest of the participants.
   E. The bodies bestowed with the authorities to regulate and supervise should be independent and accountable, and be able to perform their tasks with integrity. These bodies should be endowed with sufficient resources in order to effectively and efficiently perform their oversight and regulatory duties.

F. Promotion and establishment of **cross-border collaboration** among the regulators with the aim of exchanging information.

II. *The rights and equitable treatment of shareholders and key ownership functions*: The corporate governance framework should protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights

III. *Institutional investors, stock markets and other intermediaries:* The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.

IV. *The role of stakeholders in corporate governance:* The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

V. *Disclosure and transparency:* The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

VI. *The responsibilities of the board*: The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. Under the responsibilities of the board, the following sub-sections were highlighted:

A. All board actions should be based on full and sound information, and should be carried out with due loyalty to the company and shareholders. This implies that the board itself should be in possession of all the relevant information accurately in a timely fashion.

B. In instances of selective applications of the decision with regards to shareholders, the board should uphold the principle of fairness and not take sides.

C. The decisions of the board should be ethically beyond reproach
D. The board should be sure to achieve its roles which include: aiding in the setting and monitoring of corporate strategy; appointing executives and monitoring their performance and remunerating them according to company and shareholders interest; reducing the potential for conflict among the shareholders and managing with integrity any that may arise; guaranteeing the integrity of the financial and risk management system as well as the **probity** of the financial reports released by the company.
E. The decisions of the board should be made with adequate independence and absolute objectivity with regards to the shareholders and ownership structure of the company. This can be better achieved through; including in its ranks a sufficient number of non-executive members and assigning them tasks that are prone to bringing conflict among the stakeholders; formulating specialized support committees with clearly defined mandate and working procedures; appraising itself to ensure lasting presence of the requisite divergence of skills and competence.
F. Employee representation may be required on the board. In such circumstances, the board is obliged to provide these representatives with all the relevant tools they need to make constructive contribution including timely information and training where necessary.

2.3.3. The Sarbanes-Oxley Act 2002

As a result of the series of spectacular and widely covered corporate scandals (like Enron and WorldCom) that befell the US economy in the early 2000, in which investors lost billions owing to their trust in the integrity of the accounting and financial reporting, the US congress passed the Sarbanes-Oxley Act (SOX) in 2002 with the main intention of protecting investors from the fraudulent activities and accounting errors by corporations, and to restore confidence in the financial markets. The SOX has greatly impacted the Corporate Governance environment of the United States in the years following its inception and beyond, and has also been used as a reference and a framework in designing Corporate Governance guidelines in other economies. The Act, to be administered by the Securities and Exchange Commission (SEC) for compliance, was designed with eleven sections and focusses on the responsibilities of the BOD, the independence of auditors and the reporting and disclosure responsibilities of the company as well as a prescription for more and stricter penalties for financial fraud.

The Act paved the way for the creation of the Public Company Accounting Oversight Board (PCAOB) which monitors the operations of accounting firms in discharging their duties. Below is a summary of the sections of the Act[1]:

I. PCAOB
II. Auditor Independence
III. Corporate Responsibility
IV. Enhanced Financial Disclosures
V. Analyst Conflicts of Interest
VI. Commission Resources and Authority
VII. Studies and Reports
VIII. Corporate and Criminal Fraud Accountability
IX. White Collar Crime Penalty Enhancement
X. Corporate Tax Returns
XI. Corporate Fraud Accountability

There have been other committees and resolutions regarding Corporate Governance in the US like New York Stock Exchange (NYSE) Corporate Governance Rules (2003) and the NYSE Commission on Corporate Governance (2010) among others and the impacts have been visible in terms of measures put in place for investor protection and quality of disclosure.

2.3.4. Conclusion

The developments in Corporate Governance aimed at improving investor confidence in the markets have come a long way as a combined effort of governments and the private sector. According to Mallin (2013, p. 9), these concerted efforts (of demanding accountability from the board and more roles for outside directors as well as a strengthened audit committee as key to protecting shareholders interest) are evidently

[1] PUBLIC LAW 107–204—JULY 30, 2002, 116 STAT. 745

not sufficient enough as exposed by the recent financial crisis. Some of the open gaps pointed out include: the apparent ability of some powerful individuals to exert control without restraint; the inability of the boards to understand and evaluate the risks that the company faces; despite the right number of independent (outside) non-executive directors, most of them still lack the requisite monitoring skills and cannot handle objective review and critique of financial reports from the company; some executives still receive compensation that cannot be supported by their performance records. The biggest challenge noted so far, is the non-mandatory nature of most of these codes, giving companies a way out with their "comply or explain" approach (Mallin, 2013; 59).

The contributions made by the Cadbury Code, the OECD Principles and the Sarbanes-Oxley Act are invaluable to Corporate Governance, but as observed above, more needs to be done through research and with consideration to country-specific characteristics.

2.4. The Development of the Turkish Corporate Governance

The Turkish corporate business structure is best described by OECD as being

> '...dominated by family-controlled, complex financial-industrial company groups, usually comprising both publicly held and privately held companies. Pyramidal structures are common and there is often a high degree of cross-ownership within the groups. Controlling shareholders often hold shares with nomination privileges and/or multiple voting rights'[2]

These sentiments are shared by Yurtoğlu (2000, p. 217) who observes a high degree of affiliations (in terms of ownership) between companies within a given company group where resources and personnel can be easily shifted among them. He further observes that the monitoring systems are mostly geared towards protecting the rights of the owner families. The owner families represent a single family or a few allied families. This, in the long run, leads to conflicting interests when the smaller shareholders are ignored.

There has been very little literature highlighting the development of corporate governance in Turkey. However, the talk of corporate governance in Turkey, dates back to 2002. The economic crises of the early 2000s and desire to hasten the integration to the

[2] OECD, 2006, Corporate Governance in Turkey: A Pilot Study, p. 37

EU informed most the economic decisions at the time. After the crises, similar to other regions of the world, there was need to establish fiscal stability as well as investor protection. Ararat and Uğur (2003, p. 58) note that the failures in the macroeconomic environment and the international debate on Corporate Governance somewhat had a *pull effect* on Turkish companies and policy makers.

The failure by Turkey to attract any meaningful FDI through the 1990s and the early 2000s proved to be of great concern especially after a reports by Price Waterhouse Coopers (2001) and McKinsey (2002) associated the Turkish financial system with lack of transparency, oversight and investor protection.

The initial steps to a formal Corporate Governance system were led by the Turkish Industry and Business Association (TUSIAD) through the adoption of the OECD principles in 2002. Later the same year, through their own initiated research, they designed a country-appropriate Corporate Governance guide based majorly on the single aspect of Board of Directors[3], known as "Corporate Governance: The Best Practice Code". The Capital Markets Board used the codes as well as their own analysis of the goings on in the international Corporate Governance environment (especially making specific reference to the OECD Corporate Governance principles of 1999) to come up with Turkey's first Corporate Governance Principles in 2003. This is also the year in which the Corporate Governance Association of Turkey (TKYD) was formed to help create awareness and improve adherence to the Corporate Governance standards. The principles were non-mandatory (voluntary recommendations) to be applied as '*comply or explain'*[4]. In 2004, it became a requirement that all the companies include a 'Corporate Governance Compliance Report' in the Annual reports. It is also worthy to note at this point that even though the Corporate Governance principles were majorly designed with

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[3] Karacar and Muştu- Corporate Governance in Turkey: Corporate Governance Association of Turkey (TKYD), http://ethicalboardroom.com/global-news/corporate-governance-turkey/

[4] The 'comply or explain' principle is derived from the UK CG code, initially included in the Cadbury code of 1992. The code works to limit the inapplicability of the 'one size fits all' approach by allow firms to show how much they have complied with the principles, and provide reasons for any case of non-compliance. This principle provides that while the listed companies should always try abide and apply the codes, they should not be penalized for failure to abide due an extenuating circumstance that they can provide reasons for (Seidl, Sanderson and Roberts, 2009, p. 5). The principles however provide that the given explanations should include plans to ensure future compliance.

public companies in mind at the time, they were both appropriate and applicable for non-listed companies as well. The onus of creating awareness and encouraging compliance has always been on the CMB, but the perceived reluctance by the CMB to assert its authority in this respect has led to the slow compliance rate by the Turkish firms.

In 2011, Turkey shifted from the voluntary application of the standards to a system that made it mandatory for some listed (some corporations were exempted) firms to comply with most of the guidelines. The CMB regulatory mandate however only became effective through the official gazette notice in 2012 under the Turkish Commercial Code (TCC) No. 6102 in the article 17 of the Capital Markets Code No. 6362.

BİST incorporated within its ranks, in 2007, a corporate governance index to measure performance in terms of price and returns of firms that claim compliance with the principles. The index includes firms with a minimum Corporate Governance score of 7/10 and at least 6.5 in each of the main sections. The rating, as discussed in a later chapter, is done by institutions incorporated by the CMB as agencies of determining the level of compliance[5] with the regulations provided by the CMB.

Taking a cue from Corporate Governance developments in the international arena, the principles have been updated a few times (2005, 2010, 2011, 2012 and 2013), the last being in 2014 through the Communiqué on Corporate Governance (II, 17.1). This last communiqué consequently led to the repealing of *Communiqué on Determination and Implementation of the Principles of Corporate Governance (Serial: IV, No: 56)* and *Communiqué on Principles to be Followed by Joint Stock Corporations subject to Capital Markets Law (Serial: IV, No: 41)*.

The sections of the principles are four, including shareholders, disclosure and transparency, stakeholders and board of directors[6]. The content of each of these sections as detailed in the principles are as follows:

a) Section one describes the rights of shareholders, including rights to equal treatment, right to information, right to vote and the preservation of minority rights.

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[5] CORPORATE GOVERNANCE INDEX, http://www.borsaistanbul.com/en/indexes/bist-stock-indexes/corporate-governance-index

[6] Capital Markets Board of Turkey, 2003

b) The second section is about the company's policies on information disclosure standards and how they comply with these policies when they issue their periodic statements.
c) The interaction between the company and its stakeholders and how such interactions are regulated is covered in the third section.
d) The final section concerns the board of directors with regards to matters such as structure, duties and remuneration among others.

2.5. Communiqué on Corporate Governance (II-17.1)

The new communiqué made a clear distinction between the principles that it considered as recommendations and those that are compulsory for all firms. The parts of the principles mostly as considered mandatory are those that deal with shareholder rights and the organization and structure of the board. The communiqué outlines the authority and the nature of actions that the CMB may take to enforce compliance or seek an explanation in the case of non-adherence[7]. Annual reports of compliance (Corporate Governance Principles Compliance Report) accompanied by explanations for non-compliance and plans to make alterations in future to remedy the compliance shall be required of all firms according to this communiqué. For the first time, the communiqué introduced guidelines on the treatment of third parties[8], and common and continuous transactions. It also provided for the establishment of the Investor Relations Department (formally the Shareholders Relations Department) to handle the communications between the company and investors among other expanded responsibilities and duties. Some of the designated duties include: ensuring the safety and updating of all correspondences and all documents shared between the company and investors; responding to written requests for information by shareholders of the company; monitor and ensuring that the company fulfills its obligations with regards to liabilities resulting from CMB regulations on Corporate Governance and public disclosures. The department shall operate under the general manager or his deputy with a report on its operations being forwarded to the board of directors at least once annually[9].

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[7] Communiqué on Corporate Governance II-17.1, art. 7
[8] Communiqué on Corporate Governance II-17.1, art. 9
[9] Article 11

This communiqué also introduced a host of other articles and amendments which we shall discuss with respect to their sections:

2.5.1. Shareholders

The communiqué reiterates the firm's responsibility to provide clear, efficient and timely information to its shareholders. Any information that may affect the activities and actions of the investors shall be updated and uploaded on the Company's website for use by all investors. The newly refurbished Investor Relations Department has a major role in ensuring the upholding of the rights of shareholders.

The next area with amendments concerns the General Assembly. The communiqué points out the right of the shareholders to timely prior information and a fair chance to participate in the annual shareholders' meeting. The shareholders are allowed (after receiving the company's list of intended agenda) to put in their own requests for inclusion through Investor Relations department and should be given explanations should their request not be accepted, pursuant to principle 1.3.1, ç. It also provides for the answering directly of all questions posed by shareholders at the meeting and a written response within 15 days in case one cannot be given at the meeting. This section also includes treatment of transactions of the corporations entailing the manner of calculation of rates involved in purchase of assets or transfer of obligations (1.3.9).

2.5.2. Public Disclosure and Transparency

The company should maintain a corporate website that, other than the information mandated by the statutes, discloses the updated shareholder and management structure, updated version of the articles of association and financial statements and other similar information that may be of interest to investors. The website should contain information on operations for at least the last five years.

Financial statements (except for material events and notes) should be presented on the website in both Turkish and English (in PDF) in a true and accurate reflection of each other. Also for the sake of international investors, the website should include a foreign language (other than English) based on demand.

2.5.3. Stakeholders

The communiqué modifies the definition of stakeholders (replacing *trade unions* in the older versions with *syndicates*) and provides a wider avenue for the protection of their rights, and makes it necessary to seek the opinions of the stakeholders on significant matters that may affect their positions. The rights of the employees to obtain adequate training from the organization as well as their freedom to establish or join associations have been reiterated as well.

2.5.4. Board of Directors

The communiqué recognizes the role of the board as the principle maker of strategies and the determiner of the manpower and resources required to achieve the strategies. With regards to reducing the risk exposure of the shareholders, the board is mandated (in consultation with the relevant committees of the BOD) to establish internal control systems with adequate information systems and effective risk management mechanisms. It is further required of the board to perform a review of the control systems in place and report on their conditions in their annual report.

The communiqué provides that the boards should be structured as to have a number of directors (not less than five) that will conduct their roles in a productive, timely and efficient manner, stating further that the majority of the board members should be non-executive with at least a third (and not less than two) being independent. The expanded criteria for independence is provided in Principle 4.3.6., with regulations to handle the loss of independence sufficiently indicated. The communiqué, however, allows several exemptions especially with regards to the independence nature of the board. For instance, as indicated in article 6, one may be considered an independent director even when they do not comply with one or few of the independence criteria provided that the non-compliance is disclosed at the public disclosure platform and their term not exceed one year. Also included in the exemptions are firms considered in the communiqué as being in group three (traded on the National Market, Second National Market, and Collective Products Market but have a market value of less than 1 billion TRY and actual circulation below 250 million TRY) as well as most joint stocks. These firms do not have to comply with the principle on the number of independent directors. Principle 4.3.9, which may be considered by most scholars as a bold and positive move is the provision that compels companies to establish a target (not less than 25%) for women directors on their boards and a target time for achieving this target. The BOD should annually evaluate the development towards achieving this.

Principle 4.2.5: The responsibility of the Chairman and CEO should not be bestowed upon the same individual, but should it determined so in the articles of association, the same should be disclosed at the PDP with its grounds.

Principle 4.2.8 introduces an insurance amounting to more than 25% of the company's capital to cover damages that may result from faults of the BOD during the course of their duties, and such should be reported in the PDP.

For the effective performance of their roles, it is recommended that the BOD establishes an Audit Committee, an Early Detection of Risk Committee, a Corporate Governance Committee, a Nomination Committee and a Compensation Committee whose memberships and procedures must be disclosed at the PDP. The committees should have at least two members, the majority of who must be non-executive directors and they must be chaired by an independent director, with all the members of the audit committee being independent. Most importantly, no single director is supposed to have a duty on more than one committee. The committees may invite persons from without the organization into their sessions who they feel may aid in the efficient performance of their duties, and the frequency of the committee meetings is pegged on what they feel is necessary for effective performance of their duties.

The roles of the committees as are indicated in the schedule[10]:

2.5.4.1. Audit committee

The committee is mandated with the following duties:

- Supervision of the company's accounting and the internal control systems, and the process of independent audit
- Determining the audit firm and the nature of services they will perform in the company

[10] Communiqué on Corporate Governance II-17.1, 4.5.9-4.5.13

- Reviewing under confidentiality the concerns of employees of the company with regards to the accounting and internal control systems of the company.
- Relay in writing the results of its evaluation of the financial reports as well as other findings within their areas responsibility to the board.

2.5.4.2. Corporate governance committee

'The Corporate governance committee shall determine as to whether principles of corporate governance apply, if not applied its grounds and state the conflict of interest which arises for not complying with these principles and give advice to the board of directors in order to enhance the implementation of corporate governance and supervise the work of the investor relations department.'

2.5.4.3. Nomination committee

a) 'Be in charge of forming a transparent system on the determination, evaluation and training of the candidates suitable for the positions of the board of directors and executives and to determine policies and strategies with this regard,'

b) 'Evaluate regularly the structure and productivity of the board of directors and submit its recommendations to the board of directors regarding possible amendments in this respect.'

2.5.4.4. Committee on early detection of risk

'The Committee of early detection of risk shall be responsible for early detection of the risks which poses a threat to the existence, development and continuation of the corporation, taking the necessary measures with respect to detected risks and working on risk management. The Committee of early detection of risk shall review the risk management systems at least once a year.'

2.5.4.5. Remuneration committee

'Be in charge of designations of the principles, criteria and implementations to be used in the remuneration of the members of the board of directors and the executives, considering the long term targets of the corporation and supervision thereof.'

2.5.5. Conclusions

Turkey has worked to improve its Corporate Governance image which can be seen through various legislative and institutional transformations (Ararat and Uğur, 2006, p. 207), as well as the adoption of the international trends and incorporating them into the specifics of the country. Some of the laudable developments in the Corporate Governance environment include[11] the strengthening of CMB through legislations by the TCC and the CMB giving the mandate for enforcement and prescribing penalties; the expanded role of the independent directors like in the audit committees (this also provides the board with a pool of new skills and experience committed to the job); the contribution by private organizations like TUSIAD and TKYD through studies and surveys that are meant to improve the quality of Corporate Governance; and the introduction of the Corporate Governance Index by the CMB to encourage compliance and a means for the companies to improve their own performance (YazıcıLegal, 2015). There is, however, several areas that need improvement for Turkey to be considered fully developed with respect to Corporate Governance. There is concern that given the ownership structure of most Turkish companies, the controlling shareholders could easily hand pick the "independent" directors. Also of great concern is the inability or rather delay by the CMB to act on issues of non-compliance cases.

2.6. Corporate Governance Indexes

Corporate Governance is viewed as a dynamic and continuous progress which must be improved to adapt to the changes in the political, social, economic and cultural environments of the respective countries. Transparency and fairness in the governance of organizations attract continuous foreign investment other than improving the performance of the company. However, just having a great set of codes for Corporate Governance is not good enough. The regulators must find ways to enforce compliance otherwise all the effort goes to waste. Some regulatory bodies and governments have taken a step ahead and established indexes that admit companies that demonstrate higher level consideration for shareholder rights, BOD regulations among other aspects of

[11] Corporate Governance Overview of Publicly Held Companies, YaziciLegal Hukuk Bürosu, http://www.yazicilegal.com/18_y_Corporate-Governance-Overview-of-Publicly-Held-Companies.htm

Corporate Governance. In the past decade, eight stock exchanges around the world (Brazil, China, Italy, Mexico, Peru, South Africa, South Korea and Turkey), according to a study by *The Word Bank,* (Grimminger and Di Benedetta, 2013) have established Corporate Governance indexes mainly with the aim of encouraging compliance and track progress. Some of the issues highlighted in this study are considered below with bias to Turkey.

Three major reasons are identified for the establishment of these indexes: as a means of raising the level of Corporate Governance by providing support to the existing set of regulations, as means for companies to acquire a distinctive edge in the market, and as a means of drawing in investors' funds especially into emerging economies. With regards to the type and inclusion into the index, the Turkish index is built on a system of voluntary applications by the companies. The entry is however set on a rating cap at 7 out of 10 Corporate Governance rating, and at least 6.5 in each of the sections with regards to the level of adherence to the Corporate Governance principle in its entirety (the rating is provided by firms licensed by the CMB and upon the request of the company). Companies willing to join the index can do so at any time they wish; provided they have attained the entry requirements, and all constituent companies are subject to annual re-evaluation. This index which began in 2007 with only 7 companies and an initial value of *48,082.17* currently has more than 50 registered companies, and a peak value of over *82,000* in 2013. The index has also been found (according to a research conducted by the International Bank for Reconstruction and Development) to outperform the BİST 100 main index at the İstanbul Stock Exchange since 2009 as shown in figure 1 below.

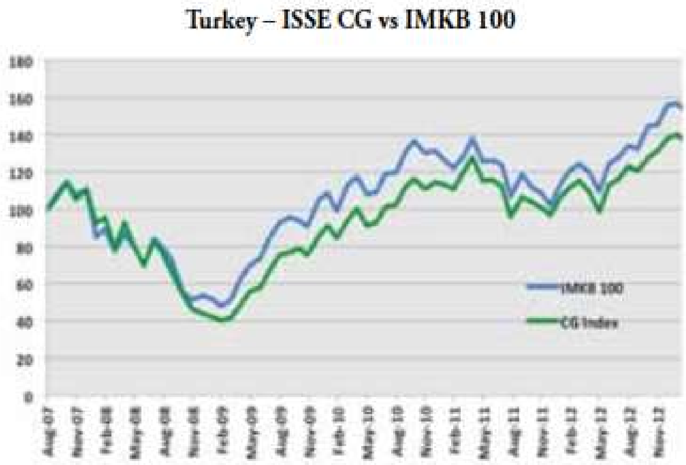

Figure 2.2. *Performance of the Turkish CGI against BIST 100*
Source: *Grimminger and Di Benedetta, 2013, p. 19*

The study, supported by World Bank, profiles the indexes in areas like the scope and methodologies used among other items as indicated in figure 2 below:

TURKEY	
Name	ISE Corporate Governance Index
Launch date	August 2007
Geographic market	Turkey
Ownership structure	Istanbul Stock Exchange (ISE)
Scope of Index	
Components, weighting	Pure CG index
Governance criteria/ factors, origin	Based on the Corporate Governance Principles issued by Capital Markets Board of Turkey (CMB), which, in turn, are modeled after the OECD Principles. Companies are assessed against the four Chapters of the Principles addressing Shareholder Rights, Stakeholders, Transparency and Disclosure, and Board of Directors. For the calculation of the overall company score, the following weights are applied: Shareholder principles 25 percent, Stakeholders 15 percent, Disclosure 35 percent, and Board 25 percent.
Selection of companies; benchmark	Companies have to engage rating companies to be assessed. Any company on the Istanbul Stock Exchange (ISE) is eligible. Companies with a corporate-governance rating of a minimum of 7 out of 10 are selected for index.
Exclusion of companies	Company is excluded when its rating falls below 7 or when it stops contracting rating companies to be assessed.
Market-based criteria	No additional free float or market capitalization requirements
Methodology & Data Collection	
Type of information	Rating agencies base rating on public information supplemented by additional information provided by companies upon request, as well as interviews.
Evaluator	Rating institutions incorporated by CMB in its list of rating agencies
Evaluation methodology	Each rating agency has its own rating methodology within parameters (factor weighting) set by the CMB.
Index calculation	Istanbul Stock Exchange
Monitoring/Updates	Companies are required to get rated at least once a year.
Supervision	Istanbul Stock Exchange
Verification/Audit of information and third-party providers	No verification beyond accreditation of rating agencies by CMB.
Disclosure & Transparency of Index	
Level of detail of disclosure	Full rating reports of companies included in Corporate Governance Index are posted on the website of the Turkish Corporate Governance Association.
Methodology	The rating agencies disclose their rating methodologies on their websites in Turkish.
Ease of disclosure	Companies announce their CG ratings on Public Disclosure Platform (www.kap.gov.tr) in Turkish and link to their websites for the full report. All reports are also available on the website of the Turkish Corporate Governance Association.
Performance	
Number of companies	45 as of February 2013
Additions/Exclusions	No exclusions so far. Index started with 7 companies in 2007. Additions: 2008 (6); 2009 (11); 2010 (7); 2011 (7); 2012 (7)
Performance	Practically identical to main market index IMKB
Financial products	Currently none

Figure 1.2. *Profile of the Turkish CGI*
Source: *Grimminger and Di Benedetta, 2013, p. 35*

2.6.1. Corporate Governance rating in Turkey

The nature of Turkish business is that of a consortium of different businesses forming a holding and often controlled by families. In this method of family control, it is typical for most boards to be under the control of families with members being from the owner-family and their close associates. It is also a common trend for different families to have members in each other's companies. This makes it a network of intertwined board membership with extreme cases of multiple directorships. There is an associated trend to this system known in literature as the busy chairman. In these firms, the chairman of one board could hold the same chairman position or that of a director in more than ten firms.

The CMB introduced within its ranks in 2007 a Corporate Governance index that measures the performance of firms with at least a 7 in their Corporate Governance rating. The rating was entrusted to rating institutions approved by the board. CG ratings are mainly meant to help investors (institutional or otherwise) identify and follow up on the potential governance risks an organization is faced with before they make further investment decisions.

The rating is based on all the four sections of the Corporate Governance code issued by the board i.e. shareholders, stakeholders, transparency and disclosure and board of directors. The agencies utilize their own methodologies in the rating process while applying the weights provided by the CMB for the components. The following are some of the agencies approved by the board[12] to carry out the rating activities.

- SAHA Corporate Governance and Credit Rating Services Inc.
- Kobirate International Credit Rating and Corporate Governance Services Inc.
- JCR Eurasia Rating

Of the three, SAHA was the first to be certified in 2006 and currently rates most of the firms registered in the index. JCR was granted its license in 2007 and Kobirate later in 2008. Working within the Corporate Governance Principles of the CMB and in line with international standards, these agencies have their own logarithms (systems they use to calculate the rates), methodologies and processes. The methodologies used are usually included in the rating reports. For instance, SAHA analyses the Board component of the Principles by considering the following headings:

- The function of the Board of Directors: Is the Board consistent as the strategic decision maker, monitor and supervisor as well as an arbitrator in case of disputes?
- The principle of activities of the Board of Directors: Do they conduct their activities in a fair, transparent, accountable and reliable manner?

[12] http://www.spk.gov.tr/indexcont.aspx?action=showpage&menuid=6&pid=10&subid=1

- The structure of the Board of Directors: Is the make-up of the Board designed to achieve optimal efficiency?
- Conduct of Meetings of the Board of Directors: Is the threshold on preparation for, attendance, frequency and participation in the meetings met?
- Committees Established by the Board of Directors: Does the number of committees and their composition agree with the provisions of the Principles with respect to independence and the number of non-executive members?
- Remuneration of Board of Directors and Senior Managers: Is the remuneration plan incentive based and not giving an unfair advantage to the members?

2.6.2. Academic Corporate Governance indexes

Several scholars have designed different academic Corporate Governance indexes with which they have compared with the performance of companies to establish the existence of any relationships. The most famous of these indexes is the governance index (G-index) created by Gompers, İshii and Metrick, (2003). The index took into account 24 distinct Corporate Governance provisions with a sample of about 1500 firms per year for the decade starting 1990. The objective of the study was to analyze the relationship between the formulated index (acting as a proxy for Corporate Governance in the form of balance of power between the executive and the shareholders) and corporate performance. The Corporate Governance provisions were divided into five groups including *DELAY* (provisions designed for delaying hostile takeovers), *VOTING* (shareholders' voting rights), *PROTECTION* (of directors/officers against job-related liabilities), *OTHER* (other takeover defenses) and *STATE* (state laws). These provisions are scored by adding one to any that increases managerial power, and then summing all the scores from the individual provisions to obtain the G-index, ranking them as either 'dictatorship portfolio'-weakest shareholder rights - or 'democracy portfolio'- stronger shareholder rights. In conclusion, a significant relationship was found between the G-index and performance with firms falling in the 'democracy portfolio' outperforming the 'dictatorship portfolio' companies.

The other popular academic Corporate Governance index is the 'Entrenchment Index' (E-index) created by Bebchuk, Cohen, and Ferrell (2004). Borrowing from the G-index by Gompers et al. (2003), they picked six Corporate Governance provisions that they considered to be of more importance and that were correlated to either reduced firm valuation or negative abnormal returns. The provisions including staggered boards, limits to shareholder by-law amendments, poison pills, golden parachutes, and supermajority requirements for mergers and charter amendments are scored for all companies found in the database of the Investor Responsibility Research Center (IRRC), between 1990 and 2003 with higher scores found to be associated with lower Tobin's Q values.

Bushee, Carter and Joseph (2013) also borrow from the G-Index of Gompers et al. (2003) as a measure of shareholder rights, which they combine with their own index (DINDX) acting as a proxy for board characteristics. They sought to investigate the behavior of institutional investors towards Corporate Governance practices. The parameters in their index are made up of BOD characteristics that are associated with ineffective Corporate Governance, including the size of the board (LNDIR), CEO duality (CEO), non-independent directors (PNID), interlocking directors (DLOCK) and bad meeting attendance (DBAD). The process of creation of the index is similar to the ones provided in earlier studies where one point is added in the existence of factors considered ineffective (CEO and DLOCK) and 0 otherwise. DBAD is scored with 1 added in cases of more than 75% absenteeism from meetings by any one director. The log of the size of the board is taken as the score for LNDIR and percentage of independent directors for PNID. Their results, using data from 1995-2004 from the IRRC database, prove that institutional investors, especially those with larger portfolio stocks are highly sensitive to Corporate Governance while making investment decisions as they associate better-governed firms with lower costs of monitoring and better board characteristics are associated with higher growth opportunities.

CG governance research in Turkey has also led to the creation of indexes that have been used to analyze the relationship between Corporate Governance and various aspects of companies. Needles et al (2012) constructed an index based on 54 parameters of Corporate Governance and used it to examine the Corporate Governance practices of companies considered as 30 High-Performance Companies (HPC) as paired with compliance norms of 30 lower performing ordinary companies (ORDs) for 2010. The parameters were grouped into Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors, and were set as dummy variables of 'yes' and 'no', with 'yes' responses being awarded one point score. The results revealed that HPCs adhere more to the requirements of Corporate Governance than ORDs. Abdıoğlu and Kılıç (2015) similarly created an index they called the directors' index (D-index) following the works of Bushee et al. (2010). The index utilized the five different characteristics of the board (board size, the percentage of independent directors, CEO-chairman duality, the presence of board interlocks, and the existence of corporate governance committee) as its parameters. Considering companies listed in the BIST 100 between 2009 and 2013, they found no relationship between the index and performance. However, an analysis of different industries revealed that the performance of firms in the electricity industry is positively related to the quality of Corporate Governance.

2.7. Theories of Corporate Governance

The complex nature of the concept of Corporate Governance and the subsequent failure to reach a concrete common definition has led to researchers from various disciplines putting forward theories that are intended to help solve the mystery of Corporate Governance. These are theories dedicated to understanding the characteristics of the board of directors and their interaction with the management, their roles and how they influence the firm's corporate performance; the position of the shareholders as the wealth owners and the management as either agents or stewards of the shareholders. In this part of the study, I reviewed, from literature, the most popular theories of Corporate Governance presented so far.

2.7.1. Agency theory

Agency theory is so far the most popular of the Corporate Governance theories and one from which most studies on the subject borrow (Daily, Dalton and Cannella, 2003, p. 372). An agency relationship refers to … "a contract under which one or more persons (the principal) engage another person (the agent) to perform some services on their behalf which involves delegating some decision-making authority to the agent (Jensen and Meckling, 1976, p. 311)". The delegated authority gives the agent (the management, in this case) the authority to run the company like his own. However, there often arises a conflict of interest between the managers and the shareholders, given the inherent self-serving interests of the management (Eisenhardt, 1989, p. 58). While shareholders seek their own wealth maximization, the management is on the lookout for job security and higher salaries among other self-directed incentives despite the fact that none of their wealth is actually at risk. The two factors that create the agency problem are; a) The divergence of the goals of the agent and the principal and, b) the inability or difficulty of the principle to monitor or control the actions of the agent (Eisenhardt, 1989, p. 58).

Shareholders view Corporate Governance as a means of self-assurance that the activities of the managers will be kept in check and in line with their own interests. The general idea of the theory as shown in the study by Walsh and Seward (1990) is that, altering the basis of the incentives of individuals (management) has the ability to redirect their efforts and goals to match those of the shareholders. The theory thus tasks the board with reviewing the decisions of the management (to ensure they allow only an acceptable level of risk) and monitoring the implementation of the decisions. This puts the board in a position to reduce the agency conflicts (and associated costs) and protect the rights of the shareholders (Yusoff and Alhaji, 2012, p. 54; Eisenhardt, 1989, p. 65). Their presence in the company helps reduce the information asymmetry that exists between the management and shareholders (Fama and Jensen, 1983, p. 335; Eisenhardt, 1989, p.65). Acting in the interest of the shareholders, (Jensen and Meckling, 1976, p. 323) the board will adjust the management incentives with the objective of influencing their behavior and enhance their performance to achieve the objectives of the shareholders, a concept Walsh and Seward (1990) equates to bonding the welfare of the management to the welfare of the firm. Designing incentive methodologies that tie the remuneration to the executive behavior and performance (e.g. profit or stock price) is a means of transferring some of the risks to the management (Eisenhardt, 1989, p. 61). And since the management cannot be fully trusted not to act in their own self-interest, it is critical that the board representing the shareholders is independent of the influence of the management if it is to work, and in order to do this, as Muth and Donaldson, (1998, p. 5) put it, the board must be able to separate the two divides of the decision process, i.e. the decision initiation and implementation should be separated from the side that monitors and controls the decisions. From the foregoing it is clear that the monitoring and advising role of the board is adequately covered in this theory. Hendry and Kiel (2004, p. 500) however point out that the position of the board with regard to strategy is not as clear.

Conclusion

The agency theory focuses on governance mechanisms that are intended to protect the interests of the shareholders by minimizing or eradicating the agency costs and reducing the divergence of the interests of the management and the shareholders. The contract here exists between the shareholders and the Board of Directors who is the agent.

2.7.2. Resource dependence theory

This theory arises from the inherent need by a company to connect with the environment outside of its shareholders. The theory positions the directors of the board as the breakers of the barrier between the organization and its environment, with the role of helping the firm gain access to resources it may need for growth and survival from this environment (Yusoff and Alhaji, 2012, p. 56). To sustain operations as desired by shareholders, an organization will need the requisite resources, and since no organization is self-sufficient there will be a need to establish relationships with the environment in such a way as to reduce uncertainties, and if possible control the environment. According to Hendry and Kiel (2004), the role of the board in this theory is to act as the firm's external link that connects it to the external environment (where it obtains the necessary resources) and protects it from the negative aspects of the environment. The level of dependence will be determined by the importance of the required resource to the firm as well as its availability in the environment (Yusoff and Alhaji, 2012, p.56). To satisfy its resource requirements and ensure long-term sustainability, the firm depends on its board, especially outside directors and interlocked directors to provide information, capital and the necessary skills (Gales and Kesner, 1994, p. 277; Hendry and Kiel, 2004). They believe that interlocking directors stand in a good position to maximize the firm's performance with their numerous connections (Letting et al., 2012, p. 784). It is, therefore, reasonable to say that the firm will alter the composition and structure of its board to reflect the events in its environment (Hillman, Canella and Paetzold, 2000). The theory thus helps to determine (with reference to the level of dependence and uncertainty) the composition of the board in terms of size and number of outside directors (Letting et al., 2012, p. 784).

Conclusion

This theory rests on the idea that a company lacking essential resources would likely form alliances with other companies to get the needed resources, hence leading them to depend on the other companies. However, it is the desire of every company to reduce this dependence and instead increase the independence of the organizations on them. Directors of the board are tasked with connecting the company with the relevant essential resources.

2.7.3. Stewardship theory

This theory goes to contradict the self-seeking attitude of the managers presented in the agency theory by recognizing that managers are motivated to perform specific tasks and show utmost responsibility in exercising authority with the aim of gaining recognition in the eyes of the shareholders (Donaldson, 1990, p. 375). The theory is set on the assumption that the stewards (the management) value the interests of the shareholders, and their idea of success is tied to the success of the firm, implying that efforts by the stewards usually lead to maximization of shareholders' wealth (Yusoff and Alhaji, 2012, p. 57). This theory essentially advocates for more internal directors on the board (some scholars accept more executive members), and as Davis et al. (1997) puts it, it also supports CEO duality on the account that since there is a balance of interests here, the formulation and implementation of strategy would be better in the hands of one person. The theory, they say seeks to empower the steward and not monitor or control them. In this structure, the board's role is to provide an enabling environment through support and advice (Davis, 1991 as referenced by Letting et al., 2012, p. 57).

Conclusion

As stewards of the company, this theory argues that, directors are motivated to work for the shareholders, performing their tasks and responsibilities in the interest of the shareholders.

2.7.4. Stakeholder theory

This theory looks at the company from a larger perspective of stakeholders who have claims and expectations in it (Letting et al., 2012, p. 783). It looks at the interests of investors, employees, customers and creditors among other constituencies that are directly or otherwise affected by the production process and/or results of the firm. This theory is anchored on the fact that the company operates within a larger external environment other than just the shareholders; an environment that it needs to be accountable for as well (Yusoff and Alhaji, 2012, p. 55). Stakeholder theorists believe that the rights of all the stakeholders have intrinsic values and none should take precedence of the other, and the management should thus take this into account during decision making (Yusoff and Alhaji, 2012, p. 55).

Conclusion

In this theory, the board is responsible for a larger environment and their decisions should not only focus on the shareholders but rather the entire internal and the external environment that the company operates in.

2.7.5. Managerial Hegemony theory

This is a theory about predominant power which argues that the management, and not the shareholders nor the board of directors, hold the superior control of companies (Hough, McGregor-Lowndes and Ryan, 2005, p. 26). It seeks to explain the domineering behavior of CEOs over the board, for instance, with the CEOs access to more information and a better understanding of the structures of the company. If the CEO or the management has a hand in the appointment of directors, then the board must only conform to the requirements of the management to retain its position (Hough et al., 2005, p. 26). Hung (1998, p. 107) considers the boards in the system as mere 'rubber stamps' since all the strategic decisions are made by the professional managers. He references Mace (1971)[13] saying that the board will only get involved in strategic decisions in case of a crisis. In a different spectrum, Worth (2014, p. 73) finds that in the nonprofit sector, the board plays a rather passive role of simply passing the CEO's proposals without much of

[13] P 106

an inquiry. He points out that the CEO's immense power is derived from the fact that he is a full time professional as opposed to the 'part-time amateur' board members.

2.7.6. Conclusion

CG is a relatively new and still developing field and thus depends on theories borrowed from different disciplines to explain different events (Mallin, 2013, p. 23). Mallin, (2013, p. 23) advises that the developments of Corporate Governance in the future should take into account the various parts that make the whole system of Corporate Governance including the business forms, the legal implications involved and the players (shareholders, management, BOD and stakeholders). Each of the theories presented above represents a particular aspect of the board, and thus Hung (1998, p. 108) advises against using just a single theory to explain the whole concept of corporate governance. He gives an example of using the agency theory to explain the control role of the board over the management activities. Agency theory, however, would fail to explain the role of the board as a link between the company and the external environment.

2.8. Corporate Governance and Firm Performance

Bushee, Carter and Gerakos, (2013, p. 1) suggested that different firms may require different levels of governance, observing that in terms of governance sensitivity, investors with larger portfolio of stocks and preference for growth firms are more governance sensitive, a likely indication of the ability of governance to reduce the monitoring costs to an investor.

Gompers, Ishii and Metrick, (2003, p. 41) observe a strengthening of the significance in the relationship between valuation and performance over the decade covered in their study noting a rise in the decline of Tobin's Q associated with a single point increase G from 2.2% at the beginning of the sample period to 11.4 %. (An increasing G implies reducing shareholder rights thus weaker governance).

Abdıoğlu and Kılıç (2015, p. 265), found no relationship between their own D-Index (a proxy for the effectiveness of the board) and firm performance, neither do the individual components of the index (CEO-chairman duality, the presence of board interlocks, existence of corporate governance committee, board size and the percentage of independent directors). They, however, recorded a positive correlation with firms in the electricity industry and a negative relationship in the manufacturing industry, citing the ability of the electricity firms to adapt to changes by constantly renovating. A similar study by Coşkun and Sayılır, (2012, p. 62) found no correlation between corporate governance and firm performance, though they attributed this lack of relationship to the use of accounting measures of performance, a case of firms with better corporate governance conservatively reporting their earnings hence concealing the effect. The value of a company's shares and the level of satisfaction of other stakeholders was determined to be related to the quality of Corporate Governance (Matić and Papac, 2014, p. 789)

Several studies (Gompers et al., 2003; Bebcuk, Cohen and Ferrell, 2004, and Black et al., 2010) have formulated corporate governance indexes to determine if 'better governed' firms have any advantages in terms of market value, firm value and general firm performance.

2.9. Board Characteristics

In this subsection I looked at the structure of the board, focusing majorly on the characteristics that inform the purpose of my research. The ability of a board of directors to perform their functions depend largely on the characteristics and composition of the board itself. Their qualifications in terms of skills, experience and reputation; their election process; their affiliations and motives, and how they fit into the structure and strategic goal of the company among a host of other factors should be considered into great details when looking at the roles of the board. On this, we start from the position fronted by Kiel and Nicholson, (2003, p. 193) that larger companies tend to have equally larger boards, more directors holding multiple directorates, more outside directors and also tend to separate the positions of the chairman and CEO. Turkish boards are generally made up of members of the controlling family or shareholder and closer associates as well as former politicians.

2.9.1. Board size

Board size stands as the most researched characteristic of BOD due to the contrasting views on just what constitutes the right size for effective operations. Past literature has discussed this aspect with no concrete unitary conclusion. While most of the studies cite lack of effective communication, increased costs and conflicts as the negative aspects of larger boards, smaller ones fail to reach the bar due to lack of enough necessary skills and experience. However, putting aside the delayed non-cohesive decisions and possible additional costs, larger boards have the capacity to 'accelerate' the performance of the company, especially in developing countries Malik et al. (2014, p. 1403). Similarly, larger boards (sampled in Japan) are associated with lower volatility in performance and lower bankruptcy risks though this is linked to the investment and growth opportunities available to the firm (Nakano and Nguyen, 2012, p. 3). Their study was majorly based on the decision-making process, examining how boards (large and small) evaluate decisions regarding the opportunities that the firm is presented with. This is an opinion shared by Cheng (2008, p. 175) who finds reduced variability in the firm's general performance (determined in terms of stock returns, ROA, Tobin's q among other measures) with increased board size despite potential agency problems. Firm size, its diversification and the size of its leverage determines the size of its board, as these factors are associated with the advice requirement of the firm. More complex firms (bigger, more diversified and highly leveraged) therefore have the need for more expertise advice (Yermack, 1996, p. 193 and Sheikh et al., 2012, p. 248). The role of advice or monitoring by the board is mostly assigned to subcommittees of the board, and Upadhyay, Bhargava and Faircloth, (2014, p. 1492) take their argument within this aspect. They posit that a larger board has reduced instances of committee interlocks hence directors have enough time to focus on their specific tasks leading to more effective monitoring. Guest (2009, p. 388) argues for a smaller number (tentatively less than ten) and finds a stronger negative relationship between size and performance especially in larger firms. An optimal size of between eight and nine (with a ratio of two to one of the independent directors to *related directors)* allows for a close cordial relationship between the directors giving room for free and inclusive contributions from all directors hence effective deliberations and concrete decisions. The higher number of independent directors should provide the diversity of perspectives required in a board (Lipton and Lorsch, 1992, p. 68). (Gavrea and Stegerean, 2012) find a negatively significant relationship between the board size and the firm's ROE and ROA, whereas Pathan (2009, p. 1346) associates small sized boards with strength and considers them as more representative of the interest of the shareholders. These boards are less restrictive to the shareholders' demands for increased risk and are thus positively relate to the risk taking of the company. These findings generally support several proposals and actions by regulatory authorities to limit the size of the board. Yermack (1996, p. 210) for instance finds merit in this, as his study results reveal that the size of the board negatively affects firm value, profitability and other operating efficiencies. He observed that investors prefer smaller boards hence firms that announce a significant reduction in the board size often experience improved stock returns around the announcement periods. Eisenberg, Sundgren and Wells, (1998, p. 51) however observe that the negative relationship between board size and performance is not only a preserve of larger boards but is rather a complex process that may also be experienced in small firms with smaller boards as observed in the Finnish market. They posit that the board size reflects the nature of the firm as well the composition of the board. Larger boards tend to consist of more outsiders who are relied upon to experienced and highly expert decisions. The idea of skills mix is a point repeatedly referenced to by Kiel and Nicholson, (2003, p. 202). They quip that the board dynamics is not just all about numbers but the combination of appropriate skills that will suit the firm at its stage of growth.

The Turkish perspective

The lack consensus on the relationship between the size of the board and performance persists in studies based on Turkish companies. For instance Aygün, Taşdemir and Çavdar, (2010, p. 76) and Doğan and Yıldız, (2013, p.130) registering a negative relationship between size of the board of directors and the performance of Turkish banks, while Okan, Sarı and Nas, (2014, p. 65) found a positive relationship. Acaravcı, Kandır and Zelka, (2015, p. 181) put to test the effect of the size of the board on the firm performance among 126 manufacturing firms at the BİST and came to the conclusion that a larger board is associated with better and more diversified investment decisions and thus positively related to the corporate performance of the firm. Using data that spans ten years for 51 BIST 100 firms, Ersoy, Bayrakdaroğlu, and Şamiloğlu, (2011, p. 81) similarly found a corresponding rise in the firm's Tobin's q to the size of the board.

2.9.2. CEO duality

CEO duality is viewed mostly with respect to the resting place of the ultimate power. The main responsibilities of the chairman of the board can be divided into two broad categories. The first aspect includes overseeing and evaluating the activities of the board to ensure they are geared towards achieving the mission of the firm. In this role he chairs board meetings and ensures that all the necessary issues are included in the agenda, meetings are called as regular as necessary, members are made aware of impending meetings and given ample and timely information to make informed decisions during such meetings. The second aspect involves acting as the point of liaison between the Board and the management. In this capacity, he offers independent counsel to the CEO and they collaborate in setting the agenda and dates of meetings. The CEO runs the operations of the company. It is therefore not a surprise that the issue of CEO duality has divided opinions. A dual CEO (A CEO who also chairs the board) is often viewed as an all-powerful director, a position viewed as a source of many agency problems on one side (where the board cannot effectively monitor the activities of the company), and as a source of effectiveness on the other hand (excess board autonomy may be seen as limiting on the tactics applied by the management in running the firm (Amba, 2014, p. 7). In addition, the CEO is considered to have gained enough insight into the operations of the firm, an advantage which makes his contributions as the chairman of the board quite essential compared to an outside chairman. The study finds a non-significant but negative correlation between CEO duality and ROA of the firm, and concludes that the duality is the likely cause of many agency problems. Goyal and Park (2002, p. 52) posit that CEO turnover has little effect on the performance of a firm if the CEO doubles up as the chairman of the board, and that it is very difficult for the board to dismiss an underperforming CEO (which is part of their mandate) if he happens to be the chairman. There is a side of the argument that finds CEO duality beneficial to smaller boards where it is seen in terms of strong leadership, whereas in a large board, a powerful CEO may influence the selection of his preferred directors hence hinder the ability of the BOD to perform its functions (Bathula, 2008, p. 89). It is therefore suggested in this regard that there is need for the separation of the CEO-Chair roles as the board size increases. Gavrea and Stegerean, (2012) registered a positive relationship between duality and performance only when ROE was used as the proxy of performance. Brickley, Cole and Jarrel, (1997, p. 192) associated separation of the roles with an increase in costs such as information costs and inconsistent decision making. Bhagat and Bolton, (2008, p. 271), however, find a significant positive correlation between the operation performance and the separation of chairman and CEO positions. The choice of board leadership structure of a company should be done only after an intensive analysis of the costs and benefits (within the economic environment of the business) associated with both structures as opposed to subscribing to the general notion that one is worse than the other.

The Spencer Stuart report of 2014 states that the separation of roles is a vital step in the maintenance of the rights of minority shareholders in the case of family firms. As it were, the chairman in most family firms is a family member and therefore to ensure that the position of the other shareholders is represented, the CEO position should be held by a different person, possibly an outsider to ensure that attention is not only given to matters affecting the family, but that dissenting voices and differing opinions are also integrated into the decision-making process.

Although not the focus of this study, the premise of a sitting CEO sitting on the board of his own company or that of another, is another key issue that deserves in-depth analysis. Larcker (2004, p. 97) lightly touches on this premise and argues that an individual with CEO-level experience may be quite valuable to the board with his broad knowledge on management, oversight, strategy and risk management. They, however, contend that with the ever expanding business environment and the accompanying responsibilities, it would be very difficult for a sitting CEO to effectively serve on a board that is not his own. Also on the negative, a CEO who happens to serve on the board of another company will always tend to introduce ideas that have worked for his own company on the assumption that it will similarly work for the second company.

Turkey's Perspective

Aygün and İç, (2010, p. 200) find a negative and statistically significant relationship between dual CEO and financial performance in line with Agency theory. They report even more significance when market-based performance indicators are used. Acaravcı et al. (2015, p. 181) study, not CEO duality per se but rather, the presence of the CEO on the board of 126 manufacturing firms and find an association with better performance. Another study that looks at both the CEO's involvement in the board as well as doubling up as the chairman is that carried out by Ersoy et al. (2011, p. 81) which finds both these positions positively related to the firm's Tobin's q. The Corporate Governance Association of Turkey (TKYD) supports CEO/Chairman separation as one of the good Corporate Governance practices claiming potential risks when the CEO performs both roles. A single individual exercising both executive and auditing authorities may spell gloom to the company in terms of long-term profitability and growth prospects (TKYD, 2011; 32).

Conclusion

Whichever leadership structure a company chooses, Carter and Lorsch (2004; 189) state that there needs to be a strong working relationship between the Chair and the CEO based on support and understanding of the objectives of the firm. They, however, state their preference for the separate roles. Sentiments that had been earlier expressed in the Cadbury's Report (The Financial Aspects of Corporate Governance) which stated that the two roles combined represented 'a considerable concentration of power', and thus their separation recommended, but that in case they are vested in one individual, then the board in question must have a strong and independent element.

2.9.3. Gender diversity on the boards

There is a general consensus in the literature that the level of diversity in the company's BOD has the potential to influence the monitoring role of the board as well as the value of the firm. Gender is just a single aspect (and the most easily distinguishable) of the diversity spectrum. The inclusion of women in a BOD brings different perspectives and points of view on issues hence the potential to increase the value for shareholders according to the work of Campbell and Mínguez-Vera, (2007, p. 440). They, however, stress that even though it is socially immoral to exclude women from the corporate boards on the account of their gender, the appointment of women only as an ethical case as motivated by societal pressure for gender equality may, in fact, affect the companies negatively in terms of the quality of advice rendered. This is a point that should be heeded by firms that only bring women to their boards in an attempt to 'balance out things' or comply with codes. Generally, the number of women tend to depend on the size of the board, with larger boards having more room for women compared to smaller ones. With respect to performance, Terjesen, Couto and Francisco, (2015, p. 1) matched more female directors to higher firm performance as measured by Tobin's Q and ROA, and that such a firm is regarded to have higher ethical behavior. Lückerath-Rovers (2013, p. 8) also finds a consistent and significant positive relationship between the firms' ROE and the presence of women on the board. It is however observed further that most of the female directors are non-executive and are often the only woman on the board making it difficult to determine with certainty if their presence alone is enough to influence performance. However, the trend in literature that the presence of women on the board is a sign of a modern and a more transparent company is upheld by the study which considered firms in the Dutch Female Board Index. A company with female board members exudes an image of innovation, modernity and a better understanding of the stakeholders, thus enjoys a raised standing. Female employees also feel motivated when their company boards contain women, and in general, firms that diversify their boards by having more women have been known to similarly increase the proportion of minorities in those boards (Carter, Simkins and Simpsons, 2002, p. 18). A report by McKinsey and Company (2007, p. 16) found that firms with women on their executive committee and at least two women on their BOD outperform their peers by over 1.1% in returns on equity. From a research carried by the company among corporations in Europe, America and Asia, companies with more than three women in their higher echelons were found to perform better in a series of organizational dimensions. The high scores were only, however, visible in cases of a certain threshold of the proportion of women to the entire team considered, leading to the conclusion that significant performance can be achieved only after attaining a certain critical mass. This gives credence to the minimum requirements imposed by some market authorities. Although Adams and Ferreira, (2009, p. 292) find a negative relationship between gender diversity and firm performance (except in firms with weaker governance), they observe that women on BODs have better attendance records than their male counterparts, and that, men will have reduced attendance problems in a more gender-diverse board. They, however, decline to endorse the enforcement of gender quotas citing the possibility of a decrease in shareholder value. Similar findings are found in a study of the Oslo Stock Exchange[14] between 2006 and 2013. Voß, (2015, p. 9) concludes that there is no significant evidence of improved firm performance as a result of inclusion of women in the boards, and actually finds a negative relationship between gender diversity and performance of firms as measured by Tobin's Q. (Norway introduced a gender quota on board membership of 40% in 2003 to be enforced by 2008). There are other studies in the Norwegian market that also reach the conclusion that the introduction of the gender quotas may not be positive for the firm value after all. Ahern and Dittmar (2012, p. 33) found evidence of drops in stock prices, a decline in Tobin's Q as well as a general decrease in operating performance of firms as a result of the quota. They associated this with the appointment of younger and less experienced women by the companies with the sole intent of achieving compliance. On the other hand, however, Lückerath-Rovers, (2009, p. 16) disagrees with results that only ties the contribution of women on boards to profitability and excluding other meaningful contributions like 'satisfaction of relevant stakeholders'. She observes that female directors on the boards act to provide legitimacy to the outside world on how much the firm values diversity. This study also comes to the conclusion that factors like the size of the firm, the industry and the segment of the exchange it operates in have great influence on whether it will have a woman on its board. Another divergent approach is by Schmid and Urban (2015, p. 25) which focuses on the reactions of the stock markets upon the exit of a female director due death or illness to determine the impact of female directors (appointed voluntarily by companies as opposed to those filling mandatory quotas) on firm value. With a dataset spanning 53 countries and over 35,000 firms, they came to the finding that the stock markets react more negatively to the exogenous departure of female directors (as opposed to male directors), especially when the departing female director is replaced by a male director. They thus come to the conclusion that the appointment of women to the board, especially voluntarily, has positive effects on firm value.

Other than just raising the quality of the Corporate Governance and improving the performance of the firm, the inclusion of women on the board also brings the added

[14] Norway is one of the earliest to introduce the gender quota (2003) and therefore has attracted a lot of studies on this topic over time.

advantage of widening the talent pool that the company has access to, and an increased responsiveness to the market (as women influence the majority of household purchase decisions). The Davies report 2011, upon the realization of the benefits of inclusion of women in boards and senior management of firms, recommended that companies registered in the FTSE 100 have a minimum of 25% women representation on their boards by 2015 and that all the companies on the London Stock exchange should annually disclose the ratio of women on their boards. *Ernest and Young Report* indicates that as of 2013, 85% of the board positions of the S&P 1500 companies are occupied by men, and The *Spencer Stuart Turkey Board Index survey* of 2014 found that in the BIST 30 companies, only 9% of the board members are female; and out of this, 52% are members of the families that own these companies. These numbers fall way lower compared to other nations, hence, the report recommends that the only reliable way of rectifying this is to employ enforced gender quotas as has been done in other countries like Norway and France among others[15].

The Turkish perspective

The role of women in Turkish corporate boards has not been explored much in studies but the few that exist only help to propagate the existing conflict. Ararat, Aksu and Çetin (2010) for instance look at how board diversity relates to the quality of monitoring and the performance in the firms trading at the *ISE.* Diversity, represented by a few attributes including gender is designed into an index and found to effectively impact the quality of monitoring, which in turn positively affect performance. A 2014 report (authored by Ararat, Alkan and Aytekin) by Independent Women Directors Project in Turkey lists some of the perceived benefits of including women on the board. The research contends that the different perspectives provided by the female directors lead to a better assessment of risks, better understanding of the markets and even enhances innovation (Ararat et al, 2014, p. 6). The report indicates further than most firms (36% in 2013 and 40% in 2014) claim ignorance of the CMB recommendation on gender diversity. The representation of women in boards of BIST companies as found in their report shown in Figure 3.

[15] Norway, 40%, 2006; Germany, 30%, 2016; Turkey, 25%, 2014

	2014		2013		2012	
	Number (#)	% of companies	Number (#)	% of companies	Number (#)	% of companies
Number of companies	422	-	427	-	412	-
Companies with at least 1 female member	236	55.9%	237	55.5%	218	52.9%
Companies with at least 3 female members	26	6.2%	30	7.0%	25	6.1%
Companies with no female members	186	44.1%	190	44.5%	194	47.1%
Companies with female chair	25	5.9%	25	5.9%	23	5.6%
Companies with female board member CEO	13	3.1%	12	2.8%	20	4.9%
Companies with female independent members	76	18%	67	15.7%	46	11.2%

Figure 2.1. *Overview of BIST companies with female directors in 2014, 2013 and 2012*

Source: *Ararat et al, 2014, p. 10*

2.9.4. Independent directors

The position of outside independent directors on the board has been used by scholars of Corporate Governance as the ultimate measure of transparency in the board's role in monitoring the activities of management. Well qualified and knowledgeable in their respective fields, outside directors are often seen as independent minds whose perspectives inject new blood into the decision-making process as well as deter collusive relationships in the board and management. However, how this transparency is achieved and the recommended proportion of independent directors on the board is still an issue that lacks consensus. First off, how a firm achieves the required number of independent directors (according to their respective Corporate Governance codes) is a vital factor of consideration of the ascribed impartiality - whether by adding more board members and independent directors or by replacing or reducing the non-independent directors (Armstrong, Core and Guay, 2014, p. 3). Min (2013, p. 40) only records strong positive effects of independent directors on performance when there is a considerable increase in the number of outside (independent) directors in a board predominated by insiders.

Armstrong et al. (2014, p. 3) conclude that more independent directors lead to more corporate transparency in the firm. This may be attributed to the fact that these outside directors seek to maintain and protect their reputation as monitors and advisors hence will do everything within their powers to ensure the firms are efficiently managed to reduce chances of poor performance and corporate failures (Yatim, 2010, p. 32). But the management must facilitate this by allowing free flow of information; in a non-friendly environment, the management may decide to withhold the relevant information making the monitoring work of the independent directors quite difficult as suggested by Adams and Ferriera (2007, p. 219) thus reducing shareholder value. Also despite recording positive financial performance over a decade among firms with more independent directors, Baysinger and Butler (1985, p. 121) would rather a firm decide on the proportion of independence it requires depending on its own organizational structure and market factors as opposed to being pegged by codes and regulations to a specific ratio. A more appropriate avenue to take, as shown by the investigations by Miwa and Ramseye (2002, p. 22) on the role of outside directors in Japan (in comparison to America), would be to determine the number of outside directors with respect to the requirements of the firm. Firms that require more competence and expertise are better off with more experienced inside directors, whereas a firm with more independence needs will require more outside directors. Market constraints and firm characteristics determine the composition of the board in terms of independent directors, and this has no significant relationship with firm performance. Kim and Lim (2012, p. 285) post positive findings on the effect of the proportion of independent directors on performance, but posit that the profession of the individuals appointed as directors also matters. Accountants and those with prior financial experience, they point out, negatively affect firm valuation. The positive effect is attributed to outside directors is more significant if the director is considered busy (more reputable and with more managerial experience) in terms of directorates held.

As to the professional qualifications of the outside director, Balsmeier, Buchwald and Stiebale, (2014, p. 3) suggest that ‘technical proximity’ is key. They recorded an increase in the number of patent applications in firms where the outside director is from an innovative company similar to the one in which he is appointed as a director. Wang, Jin and Yang, (2015, p. 409) and Adams and Jiang (2016, p. 39) similarly do not find significance solely in the percentage of outsiders, but rather in the financial expertise (*professional qualifications*) of these outside directors which combines well with the financial skills of the executive to bring significant financial returns in the insurance industry.

Many regulations setting the amount of independence required in terms of outsiders on a board are not always objective since they rely on a one-size-fits-all module. The conclusion by Leung, Richardson and Jaggi, (2014, p.17), for instance, contends that this independence does not prove useful to family firms as it is to non-family firms given difference in the variety of agency conflict that exists, and that such requirements for a specific level of independence are not especially suitable for emerging economies. The findings according to Duchin, Matsusaka and Ozbas, (2010, p. 212) suggest that outside directors may have both positive and negative effects on the performance of the firm depending on the costs involved in relaying firm related information to them. Inside directors are helpful in the relay of information, and the cost of information thus rises with an increase in the number of outsiders. They point that focus should be placed on a combination of inside and outside directors that maximizes on their strengths, thus taking in more outsiders just to satisfy regulations may actually be detrimental to the firm. Similarly, Klein (1998, p.277; 2002, p. 376) points to the role played by inside directors in the stock market performance of a company, especially when they are included in committees in charge of investment strategies of the firm. At the same time, he points out that as the board gets more independent from the CEO, their ability to effectively monitor the management improves. Lee, Bossworth and Kudo, (2016, p. 25) make reference to the latest requirement by NASDAQ and NYSE for 100% independence of the compensation committee claiming that, while directors with connections to the company or the management could be influenced and make decisions promoting their own interests, independent directors offer improved monitoring and will certainly question any suspicious decisions by the management.

Bhagat and Bolton (2008, p. 259) note a negative relationship between board independence and future operating performance, and conclude that it would only be relevant if it is meant as a means of disciplining non-performing CEO. They, however, find conflicting results when they divide their periods to pre and post 2002, with a significant negative relationship pre-2002 and a significant positive relationship post.

Turkey's perspective

The Turkish Commercial Code imposes a quota of one-third of the board for independent directors of a public company, with the minimum at two for any board. According to the works of Şengür and Püskül (2011, p. 46), the presence of independent directors on the board has a negative effect on the firm's ROA and ROE with regards to studies carried out in firms in the Corporate Governance index of the ISE by the end of 2009. They extend this negative relationship to the chairmanship of the committees being held by independent directors or just the mere presence of independent directors on the committees of the boards. The *Spencer Stuart Turkey Board Index survey* puts the percentage of independent directorships in the BİST 30 companies at 34% which is a far cry from the 85% posted by Switzerland.

Despite there being codes that specify the qualification of independent directors, there are cases in the sampled group of companies where a former employee or an associate director later becomes an independent director in direct contravention of the set codes.

2.9.5. Busy chairman

The chairman is responsible for the running of the board and ensuring that its operations are effective and in sync with the objectives of the shareholders. In collaboration with the COE (in the case of a separated board structure) the chairman ensures that all the matters pertinent to the monitoring of the organization are included in the agenda to be discussed by the board, and that the meetings are run efficiently- encouraging all members to express their views. The chairman should always practice refrain and seek to listen to the views of all directors before stating his own opinion to avoid unduly influencing the discussion (Cadbury, 2003). He also ensures that all directors get all the information they need to participate in the decision making in a timely order. Essentially, according to Cadbury, the chairman is an 'administrative convenience' meant to ensure meetings are properly conducted. In this role, he, however, notes that

"*Although board chairmen have no statutory position, the choice of who is to fill that post is crucial to board effectiveness. Broadening the point, when we attend a meeting of any kind, we can almost sense from the start whether the chairman is* *competent or not… The lead which boards are there to give to their companies, stems from the leadership which chairmen give to their boards*" (p. 35).

Other than these, the chairman has a responsibility to the shareholders, a role he accomplishes by adequately linking the management to the board for effective monitoring activities (The Combined Report, 2006, 2008). In order to play all these roles, the chairman needs to be armed with sufficient expertise and experience and provide adequate time allowance for the company. The main concern of Research has always been when a director (chairman) takes up positions in other companies as well. How does this affect his performance in the focus company? Whereas a chairman with several directorships (or chairmanship) engagements may not be an effective monitor of the firm, his breath of experience from his other engagements are a source of immense value as an advisor to the CEO and the board. Many codes provide that the chairman's other commitments should be disclosed on appointment, whereas the combined code (2006) clearly specifies that no one individual should hold two chairmanships of FTSE 100 companies. As for directors, the Council of Institutional Investors (2003) provides that no one person should serve in more than five for-profit company boards, and those with full-time jobs should not serve on more than two boards. The company should, however, make public all the other external engagements of its directors. While one side of the argument goes to value interlocked directors for their inherent influential decision-making abilities brought about by the acquisition of cross-firm experience, expertise, business contact (denser networks) and reputation, there is a side that sees too much agency problems in their busyness (Tarkovska, 2012, p. 5). They conclude that in general, busy boards are only less risky up to a threshold level after which the level of risk rises with an increase in busyness. While treating director interlock mostly as a conduit for the transfer of information between firms, Larcker and Tayan (2011, p. 463) quips that "*Directors with extensive personal and professional networks facilitate the flow of information between companies. This can lead to improved decision making by both allowing for the transfer of best practices and acting as a source of important business relationships".* Hashim and Rahman (2011, p. 142) expresses similar views of a nonlinear relationship between the level of interlock and quality of earnings and monitoring, where they reiterate the strength of the interlocked directors in terms of knowledge, skills and a stronger drive to achieve more. Jiraporn, Singh and Lee, (2009,

p. 821*)* find a relationship between multiple board membership and committee memberships, and that at higher levels of multiple board memberships, directors are engaged in more committee works, a factor that confirms the reputation hypothesis. This is also based on the need to tap into the expertise acquired in their numerous engagements. At lower levels, however, multiple board memberships are associated with reduced committee work. Hauser (2013, p. 8) however only finds the effect of multiple directorships on performance only in circumstances where the individuals are in their earlier years of directorships (a factor that may be attributed to the learning curve, as it self-corrects as the director gathers more experience), or are geographically removed from the firm.

Newly public firms have a great need for experienced directors on their boards and hence would benefit greatly from the advice of interlocked directors who are engaged in already traded firms. However, bigger and established firms may not be very keen on the services (advice) of these directors as they require more monitoring than advising (Field, Lowry and Mktrchyan, 2013, p. 65). In a similar argument, Clements, Neill and Wertheim, (2015, p. 594) find enhanced corporate effectiveness when the interlocks are associated with smaller firms as opposed to bigger firms. They, however, advice that the new (extra) board assignments be in similar industries to encourage the flow of information. Investors react positively to news of resignation (from a different firm) of a director who also serves in their own firm, especially when the said director is considered to be of higher quality. Investors view this as more time for the director to concentrate more on the affairs of their firm, and the decision to retain his position in their firm as an endorsement of the firm's value hence positive abnormal returns.

Fich and Shivdasani (2006, p. 691) associate busy directors with comparatively significantly inferior market-to-book ratios and operational performance as well as reduced ability to take action against poor performing CEOs. They, however, submit that well-performing directors tend to be rewarded by the market with more directorships. And with the continuous trend of the gradually growing and already handsome pay offer for directors, it may not be difficult to predict the desire for multiple directorships after all. The annual pay for directors of the S&P 500 companies in 2012 averaged $251,000 according to a Bloomberg report[16]. A report by Spencer Stuart in 2008 based on interviews with executives and CEOs provides insights into the intensity of the chairmanship[17]. They categorize the general responsibilities of the chairman to include managing the board, and leading in its evaluation, facilitating the communication between the board and the management as well as participating in the CEO succession plan. These roles need a lot of time investment and personal commitment as they are, and taking up other roles by the chairman would not spur any confidence from any of the stakeholder groups.

Busy independent directors are seen by controlling shareholders as a strategy or a means of consolidating control. Given a typical annual commitment of between 250-300 hours (the chairman certainly has more time commitment than ordinary directors), a director with more than five appointments, for instance, would often be too preoccupied with work and would be less prepared for and inactive at meetings (ordinary or committee). This would reduce effort devoted to any of the boards and their capacity to offer any intelligent critique on issues presented by the management and often are utilized to rubberstamp matters brought on by the management. Too many of these directorates by a director actually lead to declining earnings and performance of the firm (Cashman, Gillan and Jun, 2012, p. 3249). Hashim and Rahman (2011, p. 138) used their results of negative correlation to emphasize the need for limits on the number of directorates that should be held by a director if their monitoring and oversight role is to be performed with the requisite efficiency.

The Turkish perspective

The Turkish corporate structure is characterized by a series of hierarchical ownerships centered on Business Groups and holding companies, owned by a few families and their associates. In this method of family control, it is typical for most boards to be under the control of families with members being from the owner-family and their close associates. It is also a common trend for different families to have members in each other's companies. This makes it a network of intertwined board membership and cases

[16] http://www.bloomberg.com/news/articles/2013-05-30/board-director-pay-hits-record-251-000-for-250-hours

[17] Cornerstone of the Board: The Nonexecutive Chairman; Offering New Solutions

of multiple directorships. There is an associated trend to this system known in the literature as the busy chairman. In these firms, the chairman of one board could hold the same chairman position or that of a director in more than ten firms.

Very little literature (none to the best of my knowledge) has explicitly associated a busy chairman to the performance of the board and that of the firm by extension.

2.9.6. Average age

Most corporate boards have been described as a 'country club for old boys' with a mostly white, male and a fairly aged membership over the years. In terms of diversity, gender and race as well ethnicity have received their fair share of interest in research. But with the rise questions like those asked by (Cochran, Wartick, and Wood, 1984, p. 57) ("To what extent is the age of members of a board of directors related to a firm's financial performance? Should age be a factor in selecting and retaining directors?"), companies have been trying to find a perfect fit in the age balance to determine an optimal average that satisfies both their needs for monitoring, oversight and advice. A report by Korn/Ferry International in 2011 revealed an aging trend in the Canadian boards with only 8% of the directors being above 71 in 1997 and rising to 15% in 2010 while the 61-70 age bracket rising from 39% to 45% within the same period[18]. Proponents of older boards according to Cochran et al. (1984, p. 58) claim that business judgment, acquired experience and the mental capacity should be used instead of age to determine their contribution to the company. The three main reasons cited for the continuous existence of older boards include wisdom obtained through experience, the ability of older directors to relate to the history of the company and connect the present to older decisions and directions, and the fact that firms consider retired executives as the most qualified directors. Relative to the performance of the firm, they find a positive link between younger directors with more growth opportunities for the firm as younger directors are perceived to be less risk averse compared to their older counterparts.

Boards operate on the principles of any social group hence all the factors that are essential to these other groups should be transferable to the board situation. Factors that

[18] Korn/Ferry International in Partnership with Patrick O'Callaghan and Associates: Retirement Age and Term Policies – A New Focus, Special Survey 2011

act as a motivation for effectiveness for any team should similarly apply for the board (McIntyre, Murphy and Mitchell, 2007, p. 549). It, therefore, follows that the results obtained by Wegge et al. (2008, p. 1301) of a positive correlation between age diversity and performance in teams tasked with making complex decisions should be viewed also in the aspect of the board. This diversity is what Nickel-Kailing (2009) refers to as an appropriate mix of 'experience and youthful perspectives', and which leads to a good balance between the experience and wisdom of the older directors and the energy, fresh ideas the future orientation of the younger ones (Ferrero-Ferrero, Fernández-Izquierdo and MuñozTorres, 2015, p. 266). Ferrero-Ferrero et al. (2015, p. 266) register positive impact of generational diversity on corporate performance (of firms across different European markets), citing the ability of the different age groups to access different pools of information that lead to varied views on issues and hence more effective decisions. This is a phenomenon simply captured by Harrison and Klein (2007, p. 1213) as "different age cohorts learn and know qualitatively different things that might contribute to a unit". This goes to validate their earlier results, based on which they proposed an increase in the age diversity to achieve better board effectivity (Ferrero-Ferrero et al., 2012, p. 135), sentiments that had been expressed by Dagsson and Larsson (2011) who proposed equal consideration of age diversity in deciding the composition of any corporate board. Basing their arguments on resource dependence theory and human and social capital theories, they found age diversity to be positively related to firm performance as measured by the ROA, but only in smaller firms.

Extreme age diversity, however, also has the potential to lead to increased team conflicts, communication breakdowns and higher turnover rates (Wegge et al. 2008). An older board will take strategy measures that focus on the present profitability and that are more conservative, whereas a younger board will be more open to risks and opportunities and future-oriented reports, and may put more focus on the younger segment of the market. It is, therefore, important that when constituting the board, the objectives of the company in terms of strategy and growth requirements should be determined, and appointments to the board made in line with these objectives, and (among other characteristics) the average age of the market which they are intended to serve.

Turkish companies do not include a declaration of the age of directors in their public disclosures making it difficult to determine the average age of the board and almost none of them have a retirement age in their policies. Also, no research currently exists that examines the impact of age on any aspect of the firm in Turkey to the best of my knowledge.

2.9.7. Board committees

When discussions are made about board composition and characteristics, the focus is always light on the internal organization of the board and how the monitoring function of the board is delegated to its sub-committees. Following several highly publicized corporate scandals, companies have increased the proportion of independent directors on their boards and especially on the monitoring committees. Most boards find efficiency and effectivity in delegating some, if not most, of their duties to committees. Other than for the simple reason of division of work, committees function to better utilize the expertise and skills of the directors and improve the participation of members as well as expedite the rate at which various activities are carried out. The committees can also make time to thoroughly focus on their duties. These events accumulate into promoting what Harrison (1987, p. 110) referred to as 'corporate legitimacy'- a means for an organızation to justify its existence. The authority, responsibility and mandate of the committees are given by the board, depending on the intended functions of the specific committee, and they report their findings to the board. Directors are seconded to these committees depending on their skills and experiences.

Harrison (1987, p. 109) classifies the committees as either operating (advising the management and the board on business decisions) or monitoring (protecting shareholders by providing critical views on corporate activities). The most active committees found in many board structures include Audit, risk management, remuneration, nomination and corporate governance committee. Many other committees could be found on different boards, and they could be standing or ad hoc depending on the reason for the formation and the company cycle.

The key elements of a committee presented in the literature as relevant in their monitoring role include the size of the committee as indicated by the number of directors, the level of independence and the frequency of meetings of the committee.

Harrison further views committees as a way of reducing the liability of the entire board to just the members of a specific committee. He argues that since most committees are made of a majority of independent directors, who in many cases are specialists in their fields, the board is insulated from liabilities resulting from the actions of such committees.

Upadhyay et al., (2014, p. 1487) find (using data from S&P 1500) that firms whose boards are organized in more than three committees are likely to register improved operating performance. They use this view to voice their support for larger boards, claiming that committees provide firms with a way of checking the costs associated with larger boards while still maintaining the efficiency and effectivity of the boards. Faleye, et al., (2011, p. 4) however find that the push for intensive monitoring- a course that is strengthened by more independent directors and more monitoring committees- is often associated with an ineffective board, as the commitment to extensive oversight ignores the equally important advising role of the board. They report a reduced innovation and acquisition in such firms, traits that could spell reduced firm value.

The *audit committee* is mandated to oversee the audit process, review the financial statements and the other internal control processes to eradicate bias and deter management from manipulating the results of the report (Larcker and Tayan 2011, p.72). They recommend to the board a suitable external auditor whom they monitor against interference from the management. Many corporate failures and scandals have been attributed to the inability of the audit committee to perform its functions, and as Martinov-Bennie et al. (2015, p. 730) reports, the perfect response to these scandals has been to change the structure and/ or the composition of the committee. The optimal audit committee is often perceived in terms of the level of independence (determined by the number of outside directors), the level of financial expertise in the committee and the frequency of the committee meetings.

Creditors depend on the financial statements of the firm to determine how they handle further engagements. Anderson, Mansi and Reeb, (2004, p. 317) point out that creditors evaluate a firm on the effectivity and level of independence of its audit committee and thus larger audit committees (which they associated with better monitoring capacity) are associated with the reduced cost of debt for the firm. Ersoy et al. (2011, p. 81) find no relation between the presence of an audit committee with the performance in Turkish corporations, a position corroborated by Şengür and Püskül (2011, p. 46) with regards to the returns on shares of 24 firms in the Corporate Governance index in 2009.

An effective *remuneration (compensation) committee* fits very well into the agency theory by intervening in the issue of top executive compensation by setting the parameters of their compensation, for instance, tying most of it to their performance. The committee is charged with setting and reviewing the amounts paid to the company executives such that they fit into the goals of the firm. Several studies have tied incentive based compensation to an improved agency relationship between managers and shareholders hence the possibility of improved performance. Shared compensation in the UK, for example, has been associated with higher productivity (Conyon and Freeman, 2004, p. 116). This is one of the committees whose independence is a key issue in the agency relationship as well as the performance of a firm. Lee et al. (2016, p. 29) report that 100% independence of the compensation committee especially of smaller firms is vital for firm performance.

The *risk management committee* (RMC) has for a long time been integrated as part of the audit committee, but the latest corporate scandals have necessitated the separation of these committees with RMC focusing more on reviewing, monitoring and making appropriate recommendations on the company's risk exposures and tolerance. In conjunction with the management, the committee comes up with risk assessment and management guidelines for the company. The nature of the control environment of a firm is sometimes viewed by the existence of the risk management committee. Yatim (2010, p. 21) finds that, it is often boards with more independent directors that have risk management committee. This he attributes to the desire by the directors to retain their reputation as expert advisors and monitors, and they view the formation of this committee as a demonstration of their commitment to building an internal control mechanism that limits financial and reputational risks. Some would also argue that independent directors would see the formation of the risk management committee as a way of limiting their liability to certain risks that may result from failure of the internal control. Yatim (2010, p. 17) thus associates the formation of the risk management committee with a stronger board structure. The ability of the committee to foresee and protect a company from exposure is highly dependent on the level of financial expertise in the committee based on the nature of advisors they retain (Malin, 2013, p.178). The committee should ensure the efficiency of the internal and external risk management mechanisms at all times. Ng, Chong and Ismail, (2012, p. 73) find a close relationship between the presence of an RMC and the underwriting risks of insurance companies. They posit that the size of the RMC is also vital as a bigger committee creates more room for independent directors, which means more effective supervision and monitoring hence drastically reducing risk exposure. However, the presence and/or size of the committee is also subject to the size of the firm. Yatim (2010, p. 29) further associates bigger firms with stringent risk management controls, hence the belief that bigger firms tend to have a risk management committee on their boards.

They point further that the presence of the committee alone is not enough to prevent corporate failure, but that the independence of the committee chairman and the process of appointing the directors in the committee (and the board at large) will be a major factor in determining the effectivity of the committee. This is contradictory to Brick and Chidambaran (2010, p. 535) who find no relationship between committee independence and firm value. They conclude that while an increase in committee independence does not increase firm value, it similarly does not lead to a tangible decline in the value as well.

All board committees are supposed to be headed by independent directors, and that no one director is supposed to head more than one committee. However, most of the firms in this sample have only two independent directors. This implies that there should be a proportionate rise in the number of independent directors with the introduction of new committees to the board (as recommended by the codes). This is still a challenge to most of the sampled firms with a maximum of two directors thereby forcing them to hold multiple committee chairmanships in contrary to the principles. Klein (2002, p. 376) finds a negative relationship between the level of independence of the audit committee and abnormal accruals.

3. DEVELOPMENT OF HYPOTHESIS

3.1. Introduction

Although the board of directors, as an aspect of Corporate Governance, has been studied extensively, not so much has been done with respect to Turkish companies. And given the special nature of Turkish corporations especially in terms of ownership, the role of the board is likely to be different from that observed in other economies. I base my hypothesis along some of these features I deem unique to the Turkish corporate structure.

3.2. Hypotheses

A well-constituted board of directors is key to effective corporate governance. The nature of decisions that will move the company forward and the amount of confidence the shareholders will have on the firm will depend on the quality of the directors they have as their agents. An index (BINDEX) constructed from these characteristics of the make-up of the board should therefore directly be related to the operational performance of the firm.

H_1: *The BINDEX has a positive relationship with firm performance (EVA).*

The chairman, in consultation with the CEO, sets the agenda of Board meetings, decides the date of the board meeting and manages the meetings as well harmonize the activities of board subcommittees. As such, the role of the chairman is a time-consuming engagement, and having two such engagements is quite taxing to an individual. But Turkey has several cases of multiple directorships involving the board chairman which would be presumed to have undermining effects on his ability to efficiently perform his tasks. This then forms the basis of our second hypothesis.

H_2: *A busy chairman has a negative relationship with company performance (EVA)***.**

An effectively composed board means an effective Corporate Governance since the Board forms the most important aspect of Corporate Governance components by weight (according to the latest Turkish Corporate Governance codes). A well-governed firm implies the shareholders' wealth is being utilized effectively, thus, our hypothesis becomes;

H3*:* *There is a positive relationship between Corporate Governance and Company performances (EVA).*

A 2015 report by *Deloitte on Women in the Boardroom* puts Turkey at only 10%, way below countries like Norway that have over 36% women representation on the board. Turkey, however, is among the best performers when in terms of female chairs of boards coming fifth among 49 countries sampled with about 7%. Most of these, however, are members of the owning families. The question thus remains, what impact the proportion of women on the quality of decisions and the operational performance of the firm.

H4: *The proportion of women on the board positively impacts the firm's performance (EVA).*

H5: *There is a positive relationship between Corporate Governance and Accounting measures of performance (ROA and ROE).*

4. DATA AND METHODOLOGY

4.1. Introduction

This chapter describes the sample taken and the kind of data used in the study and their various sources. It also discusses the methodology by outlining all the variables as well as specifications of the models used in testing the hypothesis.

4.2. Sample and Data

In this study, I sought to construct a directors' index based on the characteristics of the board of directors of firms in the BIST 100, and then examine whether this index has any effect on the performance of companies. The relationship (or lack of thereof) between the index (acting as a proxy for general corporate governance) and firm performance (as represented by EVA, ROA and ROE) should be able to point to the benefits of having a sufficiently governed firm in terms of board characteristics.

This study draws its sample from firms registered at the BIST 100 index of the Istanbul Stock Exchange. I excluded firms in the financial sector (banks, insurance companies and different funds) and real estate companies on account of the existence different governance codes under which they operate. Also excluded are holding companies which are a common form business structure in the Turkish company structures. I focused the sample only to the years in which I could obtain complete data for all the variables in the study. The data covers the period between 2009 and 2013, and includes 52 companies hence about 260 observable periods.

Data for this study was obtained from publicly available sources including companies' Board Annual Operating Reports, Corporate Governance Compliance Reports and Financial Statements obtained from the respective company websites, the Public Disclosure Platform (KAP) of the Istanbul Stock Exchange and some were obtained in an open internet search. For instance, historical data related to the BIST 100 index returns were obtained from Yahoo Finance and Investing.com, while most of the data on companies historical stock prices were obtained from *bigpara*[19].

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[19] http://www.bigpara.com/borsa/gecmis-kapanislar/

4.3. Variables

4.3.1. EVA

Instead of the often used Tobin's Q, this study uses the more representative EVA as a means of evaluating the management efficiency and a measure of board effectiveness. Introduced by Stewart in 1991, EVA acts as an indicator for both retrospective and prospective evaluation of performance. It is considered to have advantages over other methodologies like Tobin's Q due to its ability to assess both the managerial and financial efficiency of an entity. Proponents of EVA prefer it based on its inclusive aspect of incorporating all costs of capital, both debt and equity. This essentially covers the inadequacies of other methodologies that only consider operational or net profits at the expense of the capital structure of the company (Akbaş, 2011). With respect to shareholders, a method would, therefore, be preferred that establishes a relationship between the earnings (after tax) from operations and the cost of capital expended in earning them, and thus a company that generates more earnings from a given level of cost of capital is considered to have a higher economic value. Akbaş, (2011) argues that for a company to be considered profitable and improve shareholders' wealth, its net earnings after tax must be able to offset its total capital cost as indicated by a positive EVA. Efficient management of capital leads to reduced costs associated with such capital, which then translates to increased firm value. The correct calculation of EVA involves a series of adjustments made to the profit values obtained from financial statements like R&D expenses, goodwill and deferred tax Bastı and Yılmaz (2013, p. 57). The formula used to calculate EVA in the study is similar to that used by Bastı and Yılmaz (2013, p. 59).

$$EVA = NOPAT - WACC \ x \ Capital \ Invested$$

Where, $NOPAT$ is Net Operating Profit after Tax, WACC is Weighted Average Cost of Capital. NOPAT is calculated by deducting tax from the Earnings before Tax and Interest.

$$NOPAT = EBIT - Taxes$$

The invested capital is calculated by deducting all non-financial short term liabilities from total liabilities;

$$Capital\ Invested = Total\ Liabilities - \ Non\ Financial\ Short\ Term\ Liabilities$$

NB: In the context of this study, non-financial short term liabilities is determined as what is left after deducting short-term financial debts from total short-term liabilities.

WACC takes into account the values of equity and debt and combines them into the formula;

$$WACC = \frac{Equity}{Debt + Equity} K_e + \frac{Debt}{Debt + Equity} K_d (1 - \ Taxes)$$

To calculate the Weighted Average Cost of Capital (WACC), there is need to first obtain the values for cost of equity and cost of debt. The most popular method among researchers in calculating the cost of equity with regards to EVA is the CAPM method. The ability of CAPM to incorporate the company's level of systematic risk relevant to its stock prices makes it a more superior model over others like the dividend growth model. The calculation of CAPM requires inputs like the risk-free rate of return, the market return, the equity beta and the equity risk premium as suggested in the formula below.

$$K_e = k_{rf} + ß\ (k_m - k_{rf})$$

Where;

K_e = Cost of equity

k_{rf} = Risk free rate of return

ß = Company equity beta

k_m = market return

The risk-free rate of return has been taken to be the average interest rate for government debt instruments (DİBS) and treasury bonds and government securities by

Akbaş, (2011) and Bastı and Yılmaz (2013, p. 60) respectively. The expected market return is the BIST 100 index annual average return.

The cost of debt is calculated according to the formula below;

$$\begin{aligned}\text{Cost of Debt} = {} & (Short\ term\ financial\ debts \\ & \times\ short\ term\ trade\ interest\ rates) \\ & + (Long\ term\ financial\ debts\ \times\ long\ term\ trade\ interest\ rates) \\ & \times\ (1 - Tax)\end{aligned}$$

The rates used in the above formula are derived from the short and long term interest rates (respectively) charged on credits by the Turkish Development Bank.

The beta is calculated based on the closing prices of companies obtained from *investing.com* through the study period. The calculation was made in line with the formula below.

$$\text{Beta } (\beta) = \frac{Covariance.P(Company\ Returns, BIST\ 100\ Returns)}{Variance(BIST\ 100\ Returns)}$$

The values used in the models are the natural logarithms of the calculated EVAs. Other than EVA, both ROA and ROE are also used as measures of performance, where ROA is calculated as Net Income divided by Total Assets and ROE calculated by dividing net earnings by total equity.

The independent variables used in the study are derived from the features of the company BOD as here described.

4.3.2. BINDEX (Board Index)

The *Board index* is modeled following the works of Kiliç and Abdioğlu (2015) and Bushee et al (2010) by including seven different characteristics of the board (Board Size, CEO Duality, Gender Diversity, Independent Directors, Busy Chairman, Age and Board Committees) as proxies for Corporate Governance.

Larger boards are associated with ineffective communication, increased costs and conflicts while smaller boards optimally between eight and nine allow for a close cordial relationship between the directors *(*Guest, 2009). The *SIZE* proxy is thus modeled around the given (Guest, 2009 and Tarkovska, 2012) optimal with boards sized at 8 or 9 awarded 1 point, 10 and 11 awarded 0.5 whereas 12 and above results to zero points. Similarly, 6 and 7 are awarded 0.5 while 5 and below are awarded zero. A dual CEO is considered to be an all-powerful authority who has the ability to appoint his own preferred directors to the board hence control his own monitoring (Bathula, 2008). The index thus accepts CEO as a dummy variable represented by 1 in the case of a separate structure and 0 when the same individual performs both roles of the CEO and the Chairman. Gender diversity counts as an addition of wide breadth of experience and knowledge as well as a way of socially legitimatizing the company. The proxy for Gender Diversity, therefore, is taken as the proportion of the number of female directors in the board (PFEM). Independent Directors are a source of strong monitoring and bring in fresh breath and perspective to the board. The proportion of independent directors is therefore taken as the proxy for independence (PNID). The chairman's engagement in more than one board expands the breadth of his knowledge and improves the flow of information. However, beyond a given limit, multiple engagements begin to hinder his ability to effectively perform his roles. The Busy Chairman (BCHAR) is modeled to reflect the Turkish structure where as many as fifteen multiple cases exist. Between 0-3 directorates is awarded 1 point, 4-7, 0.75 and 8-10, 0.5. 11. Above 10 directorates is awarded 0 as beyond this point the chairman is in beyond his capacity to effectively participate in any of those boards. AGE represents the proportion of the directors who are above the age of 60. Board Committee represents the number of committees on the board and whether the said committee is headed by an independent director. Each of these factors is awarded a point each.

4.3.3. Busy chairman

The variable for the busy chairman is represented by the number of directorship positions that the Chairman of the board has taken outside of his core position of a stated company.

4.3.4. Proportion of female directors (PFEM)

The variable that investigates if the number of women on the board affects the firm's performance is represented by the proportion of the number of women to the overall size of the board.

4.3.5. Size of the board (SIZE)

This variable represents the actual count of the number of directors on the board.

The control variables used in the study include sales and firm age. The firm age refers to the duration in years from the time the firm was listed in the ISE.

4.4. Analytical Procedure

The variables are modeled into a suitable panel dataset as represented in the following linear representation equation:

$$y_{it} = \sum_{k=1}^{k} x_{kit}\beta_{kit} + \in_{it} \quad i = 1, \ldots N, t = 1, \ldots T$$

where N is the number of individuals and T is the number of periods.

The data used is from a sample where there *N* observations exist for all the *T* under consideration constituting a *balanced panel*.

To establish the nature of the relationship that exists between the performance of the firms and the index, we regress EVA (the proxy of firm performance) against the BINDEX and three of the identified variables (PFEM, SIZE, and BCHAR) according to the model below:

$$EVA_{it} = \text{C} + BINDEX_{it} + PFEM_{it} + BCHAR_{it} + SIZE_{it} + SALES_{it} + AGE_{it} + \varepsilon$$

Where BINDEX represents the board index, PFEM is the proportion of female directors on the board, BCHAR is the proxy for a busy chairman with regards to the number of boards in which he has responsibilities either as chairman, executive or ordinary director. SIZE represents the number of directors on the board designed around an optimum number of 8 or 9 directors. SALES and AGE are the control variables, with the sales value being a representative of size and AGE is the duration the firm has been listed in the exchange.

Two models are formed to determine the relationship between the BINDEX and the accounting measures of performance while keeping the other variables like PFEM, BCHAR and SIZE. The models are as follows:

$$ROA_{it} = \mathrm{C} + BINDEX_{it} + PFEM_{it} + BCHAR_{it} + SIZE_{it} + SALES_{it} + AGE_{it} + \varepsilon$$

$$ROE_{it} = \mathrm{C} + BINDEX_{it} + PFEM_{it} + BCHAR_{it} + SIZE_{it} + SALES_{it} + AGE_{it} + \varepsilon$$

Panel-Corrected Standard Error (PCSE) which assumes that the disturbances are, by default, heteroscedastic and contemporaneously correlated across panels was used.

5. EMPIRICAL RESULTS AND CONCLUSION

In this section, I present the findings of the study through the various tables derived from *Stata* as well as commentaries on the said results in my conclusion. I conclude this section by providing my own recommendation for further studies in this area of corporate governance.

5.1. Results and Discussions

Table 5.1 below is the summary statistics of the sample showing an average score of around 11 on the BINDEX score from a maximum of around 18. The worst performing company in terms of BINDEX scored a mere 3. The average company has about 9% of its board made of up of women while the 42% represents the highest representation of women on any boards. It, however, should be noted that these numbers are way below international figures. The typical chairman holds on average 5 other directorship positions with a maximum recorded at 22 positions for a single chairman. Another point to note here is that the Chairmen with the most positions are engaged so in companies that are part of a group or are in some kind of partnership with the chairman's company. The smallest board has 5 directors while the largest has 15 making the average around 8. While the most independent board consists of 50% outside directors, the average proportion is about 15%. Most of these companies have managers aged over 60 years and above with a few instances of the whole board being above this age. The average is however about 32%.

Table 5.1 *Descriptive Statistics*

Variable	Min	Mean	P50	Sd	Max
EVALOG	-24.7223	-1.49461	-16.3363	18.8952	21.85099
ROA	-0.61239	0.057581	0.062238	0.085798	0.250515
ROE	-17.9678	0.091261	0.119504	1.231254	7.572479
BINDEX	3.288985	10.98335	11.66157	3.333677	15.88021
PFEM	0	0.087988	0	0.106041	0.428571
BCHAR1	0	4.965385	3	5.165481	22
SIZE1	5	8.338462	8	1.972999	15
PID	0	0.146071	0.166667	0.148318	0.5
AGE	0	0.319764	0.285714	0.221588	1
SALES	3.27E+07	3.56E+09	1.39E+09	5.83E+09	4.70E+10

NB: This table summarizes the statistics of the variables used in the study. *BINDEX* refers to the board index formulated for this study that was regressed against the performance of the firms. *PFEM* represents the proportion of female directors on the board. *BCHAR* is the variable representation of a busy chairman, which refers to the number of other directorship positions held by the chairman. *SIZE* is the variable for the number of directors making up the board. PID represents the proportion of outside directors on the board while age is the proportion of directors aged above 60 on the board. EVALOG represented the logarithm of the EVA calculated for each company and is used in the model as a more representative measure of the firms' performance. ROA and ROE are the accounting measures of performance that are included in the second and third models respectively. SALES is used as a control variable in the analysis.

Table 5.2 shows the result of the Hausman test performed on the first model to determine the nature of regression to be applied. The results indicate that the null hypothesis should be rejected and the alternative hypothesis of Fixed-effect be adopted for the model.

Table 5.3 shows further tests carried out for the model including the Wooldridge test for autocorrelation and Breusch-Pagan / Cook-Weisberg test for heteroscedasticity. The two tests reveal the presence of both first order linear autocorrelation and heteroscedasticity as shown in the tables. For this reason, the regression model chosen for the first model is one that accepts samples corrected for autocorrelation and heteroscedasticity.

$$\boldsymbol{EVA_{it}} = \mathrm{C} + \boldsymbol{BINDEX_{it}} + \boldsymbol{PFEM_{it}} + \boldsymbol{BCHAR_{it}} + \boldsymbol{SIZE_{it}} + \boldsymbol{PID_{it}} + \boldsymbol{AGE_{it}} + \boldsymbol{SALES_{it}} + \boldsymbol{\varepsilon}$$

Table 5.2 *EVAlog Hausman Test*

	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	fix	ran	Difference	SE
BINDEX	2.126623	1.913117	0.213506	0.433131
SIZE1	-0.75276	0.055868	-0.80863	1.085494
PFEM	-32.5184	-12.2211	-20.2973	15.15276
BCHAR1	-0.6643	0.247286	-0.91159	1.071757
PID	-22.2036	-18.8266	-3.37709	13.03269
AGE	-6.12738	-0.90836	-5.21902	11.6439
SALES	3.64E-10	2.85E-10	7.86E-11	6.34E-10
Prob>chi2 = 0.1758				

__Table 5.3__ Autocorrelation and Heteroscedasticity Tests

Wooldridge test for autocorrelation in panel data
H0: no first order autocorrelation
F(1, 51) = 19.559
Prob > F = 0.0001
Null hypothesis rejected. There is first order autocorrelation
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of evalog
chi2(1) = 5.38
Prob > chi2 = 0.0204
Null hypothesis rejected. There is heteroscedasticity

The results in the table above for autocorrelation and heteroscedasticity necessitated the use of Prais–Winsten regression which calculates the panel-corrected standard error (PCSE) estimates used to perform regressions in instances of first order serial correlation and heteroscedasticity. The model for the first order autoregressive model is as shown below:

$$EVALOG_t = BINDEX_t + PFEM_t + BCHAR_t + SIZE_t + SALES_t + AGE_t + u_t$$

The results of the regression are shown in table 5.4 below. In this model, I tested whether BINDEX and a host of Board characteristics have any effect on the performance of a firm measured in the model using EVALOG. The results in Table 5.4 below shows that only BINDEX and SALES have significant relationships with *EVALOG*. I conclude from this that Corporate Governance (as represented by the BINDEX) has significant and positive effect on the operational performance of a company measured in terms of EVA. However, none of the individual characteristics of the board has any significant effect on the performance of the firm.

Table 5.4 EVALOG - *Pais-Winsten and Cochrane-Orcutt AR(1) Regression*

Group variable: company		Number of obs	= 260
Time variable: year		Number of groups	= 52
Panels: heteroskedastic (balanced)		Obs per group: min	= 5
Autocorrelation: common AR(1)		avg	= 5
		max	= 5
Estimated covariances	= 52	R-squared	= 0.2184
Estimated autocorrelations	= 1	Wald chi2(6)	= 70.15
Estimated coefficients	= 8	Prob > chi2	= 0.0000

EVALOG	Coef.	Std. Err.	z	P>z	[95%Conf.	Interval]
BINDEX	1.512566	0.346034	4.37	0.000	0.834351	2.19078
SIZE1	0.202263	0.403632	0.50	0.616	-0.58884	0.993367
PFEM	-7.43186	7.378487	-1.01	0.314	-21.8934	7.029707
BCHAR1	0.262094	0.156098	1.68	0.093	-0.04385	0.568041
PID	-14.5407	7.706956	-1.89	0.059	-29.6461	0.564634
AGE	-1.78949	3.919713	-0.46	0.648	-9.47199	5.893008
SALES	2.81E-10	1.43E-10	1.97	0.049	8.09E-13	5.62E-10
_CONS	-18.9912	6.474138	-2.93	0.003	-31.6803	-6.30213
rho	-0.39672					

NB: *BINDEX* refers to the board index formulated for this study that was regressed against the performance of the firms. *PFEM* represents the proportion of female directors on the board. *BCHAR* is the variable representation of a busy chairman, which refers to the number of other directorship positions held by the chairman. *SIZE* is the variable for the number of directors making up the board. PID represents the proportion of outside directors on the board while age is the proportion of directors aged above 60 on the board. EVALOG represented the logarithm of the EVA calculated for each company and is used in the model as a more representative measure of the firms' performance. ROA and ROE are the accounting measures of performance that are included in the second and third models respectively. SALES is used as a control variable in the analysis.

In the second and third models, I examined the effect of the BINDEX on operational performance using both ROA (like Abdıoğlu and Kılıç (2015) and ROE. The results, as reported in tables 5.5 and 5.6 below show that neither the BINDEX nor the individual characteristics of the board has any significant relationship with the performance of the firm.

Table 5.5. *ROE - Fixed-effects (within) Regression*

ROE	Coef.	Robust Std. Err.	z	P>z	[95% Conf.	Interval]
BINDEX	0.039545	0.049076	0.81	0.42	-0.05664	0.135732
SIZE1	-0.00373	0.011772	-0.32	0.751	-0.02681	0.01934
PFEM	0.307649	0.693011	0.44	0.657	-1.05063	1.665925
BCHAR1	-0.00127	0.010997	-0.12	0.908	-0.02282	0.020287
PID	0.499716	0.506111	0.99	0.323	-0.49224	1.491675
SALES	7.08E-12	7.55E-12	0.94	0.349	-7.72E-12	2.19E-11
AGE	0.518819	0.660714	0.79	0.432	-0.77616	1.813794
_CONS	-0.59678	0.949611	-0.63	0.53	-2.45798	1.264426
sigma_e	3737621					
sigma_u	1.2011059					
Rho	0.882850					

NB: *BINDEX* refers to the board index formulated for this study that was regressed against the performance of the firms. *PFEM* represents the proportion of female directors on the board. *BCHAR* is the variable representation of a busy chairman, which refers to the number of other directorship positions held by the chairman. *SIZE* is the variable for the number of directors making up the board. PID represents the proportion of outside directors on the board while age is the proportion of directors aged above 60 on the board. EVALOG represented the logarithm of the EVA calculated for each company and is used in the model as a more representative measure of the firms' performance. ROA and ROE are the accounting measures of performance that are included in the second and third models respectively. SALES is used as a control variable in the analysis.

Table 5.6. *ROA - Random-effects GLS Regression*

ROA	Coef.	Robust Std. Err.	z	P>z	[95% Conf.	Interval]
BINDEX	-0.00103	0.002381	-0.43	0.667	-0.00569	0.00364
SIZE1	0.002925	0.00248	1.18	0.238	-0.00194	0.007786
PFEM	0.066828	0.048156	1.39	0.165	-0.02755	0.161211
BCHAR1	-0.00039	0.001232	-0.32	0.751	-0.0028	0.002024
PID	-0.05049	0.03825	-1.32	0.187	-0.12546	0.02448
AGE	0.020158	0.043685	0.46	0.644	-0.06546	0.105779
SALES	1.22E-12	9.99E-13	1.22	0.224	-7.42E-13	3.17E-12
_CONS	0.037117	0.052838	0.7	0.482	-0.06644	0.140677
Sigma_u	0.061883					
Sigma_e	0.061868					
Rho	0.500122					

NB: *BINDEX* refers to the board index formulated for this study that was regressed against the performance of the firms. *PFEM* represents the proportion of female directors on the board. *BCHAR* is the variable representation of a busy chairman, which refers to the number of other directorship positions held by the chairman. *SIZE* is the variable for the number of directors making up the board. PID represents the proportion of outside directors on the board while age is the proportion of directors aged above 60 on the board. EVALOG represented the logarithm of the EVA calculated for each company and is used in the model as a more representative measure of the firms' performance. ROA and ROE are the accounting measures of performance that are included in the second and third models respectively. SALES is used as a control variable in the analysis.

5.2. Summary of Findings

In conclusion, the findings of this study allude to the important role of Corporate Governance in determining the performance of a company while at the same time pointing to the effect that different methods of calculating the performance of a company will determine its relationship with governance issues.

The results allow for the adoption of the first hypothesis since they return a significantly strong relationship between BINDEX and EVALOG, an indication that Effective Corporate Governance positively impacts operational performance of a company. This is similar to the results obtained by *Gompers et al, (2003*), *Acaravcı, Kandır, and Zelka* (2015). However, all the other characteristics of the board I included did not have any significant relationship with performance leading to the rejection of hypotheses 2, 3 and 4.

In the second and third models, I examined the impact that BINDEX and the characteristics of the board have on the firms' ROA and ROE. The results indicate that none of these variables (BINDEX, PFEM, BCHAR, PID, AGE and SALE) has any significant relationship with either ROA or ROE, hence similarly rejecting the fifth hypothesis. These results are similar to those obtained by Abdioğlu and Kılıç (2015), Coşkun and Sayılır, (2012).

5.3. Conclusion

The objective of every shareholder is to increase the return on their investment and maximize their wealth. Wealth maximization is achieved when their organization's value and position in the market changes favorably. However, not all shareholders have the chance to directly participate in the decision-making process that leads to the changes in their fortunes as they leave the task of running the companies to the management. More often than not, however, the management falls short of their duty to the shareholders. As pointed in literature, the management of financially solid companies has often acted in bad faith leading to the loss of billions of shareholders worth and even bankruptcy of these organization.

Corporate governance structures provide a system that transforms the relationship between the management and the shareholders into one that ensures that the shareholders' wealth is expended in a transparent and efficient manner. At the center of the corporate governance structure is the board of directors whose role is to ensure that the objectives of the agents (management) do not diverge from those of the principals. Corporate governance thus comes a relationship of delicate balance between the shareholders, the board and the management.

As the point of linkage between the investors and the management, the board of directors essentially have authority over the entire running of the organization. They control the strategy, policies and the resources necessary for achieving those strategies, as well as oversee the performance of the management in performing their duties. The ability of the board to perform its role effectively is based on the various attributes that arise from its composition. Factors like size, independence and diversity among other factors help determine the quality of decision coming from every board. For a board to be considered effective, it must be able to (among others) come up with strategic policies that give the company a competitive edge and spur growth and engage an immensely equipped executive team that is transparent and committed to serving the stakeholders.

In this study, I examined the impact of Corporate Governance measured using characteristics of the board on the performance of the firm. The main measure of the firm's performance I considered was the EVA that is regarded in literature as more effective in measuring operational performance of the firm due to its ability to assess both the managerial and financial efficiency as compared to other methodologies that only focus only on operational or net profits (Akbaş, 2011). However, similar to Abdıoğlu and Kılıç, (2015), I also included accounting methods, ROA and ROE as alternative measures of firm performance. To measure Corporate Governance efficiency, I constructed a board index (BINDEX) based on the characteristics of the board, similar to that used by Bushee et al (2010), with consideration to Turkey specific characteristics like the Busy Chairman. This use of the index is based on the perception that the board is (out of the four sections of the codes of Corporate Governance) the most vital part of the code. This is founded on the recent changes made in 2013 on the weighting of the components of Corporate Governance in the code that increased Board of Directors from a weight of 25% to 35%. Black et al (2010) made a similar observation when they found that the Korean Corporate Governance Index was majorly driven by the board structure component. Furthermore, I included four other individual characteristics of the board to regress against the measures of performance. The selected characteristics include busy chairman, size of the board, female directors, proportion of independent directors and proportion of directors aged above 60 years.

In the first model, I found that BINDEX is strongly and positively related to operational performance of the firm. This is a confirmation of the importance of corporate governance efficiency, especially with respect to the board composition in determining the level of efficiency of the firm in both its financial and managerial quality. An efficiently constituted board will most likely lead to an improved performance indicated by an increase in the share value of the firms as similarly pointed out by Black et al, (2010) and Karamustafa et al, (2009). However, factors like the size of the board, number of female directors, busyness of the chairman, number of outside directors as well as the general age of the board do not seem to have any effect on the efficiency of Turkish boards, and by extension have no significant effect on the performance of the firm.

Measuring performance using the accounting measurement techniques like ROA and ROE did not result in any significant outcome with neither BINDEX nor the individual board characteristics. This reflects the results obtained by Abdıoğlu and Kılıç, (2015) who used ROA as their measure of performance and an index similar to that used by Bushee et al (2010). The mixed results from using these different performance measures point to the importance of each particular aspect of measurement. It also goes to point to the superiority of EVA as a true measure of the efficiency of the firm. Similarly, the lack of significant results when using the individual board characteristics as opposed the index leads to the conclusion that the collective interaction of these characteristics has more to contribute to corporate governance and the firm's performance as opposed to singular consideration. Bhagat and Bolton, (2008) suggest assigning appropriate weight to the Board Composition as the key to calculating Corporate Governance index more accurately.

My original contribution to literature is the consideration of the role of a busy chairman and how the number of directorship affects his ability to run the board. In addition, I look at the impact of an age on the performance of Turkish boards.

5.4. Limitations and Recommendations

This study was largely hindered by a lack of sufficient data to perform some of its intended analyses, and thus the scope had to be modulated to fit the available data. For instance, neither the operational reports nor the websites of most of the companies considered have information regarding the number of meetings held by the boards, the attendance rate at those meetings as well as their other engagements. The variables used in the final tally were those obtainable from publicly available reports, company websites or the Istanbul stock exchange platform.

To validate the results of this study, I would recommend (subject to the availability of the data which may be difficult from public sources) an expansion of the period of study to create a larger panel. Moreover, a sectoral perspective (Abdioğlu and Kılıç, 2015) under the expanded period may also generate useful results. Given the 2013 change to move Board of Directors in weighting ranks, I would suggest a study that investigates the exact contribution of the board component of corporate governance as a part of the index comprising of all the Corporate Governance components.

The ability of women in the board to influence any change is contingent on the number of women in that particular board. However, those that do (most of the firms under consideration have no women on the boards) have only one or two who eventually lead to no observable effect on the general performance of the firm.

Great steps are being taken to improve the imbalance in the boards of companies with most notable efforts by the Independent Women Directors (IWD) Project, an initiative of Sabancı University and Egon Zehnder International Turkey, which seeks to petition companies to consider women as a priority when nominating independent directors. They seek to achieve this as a means to get more women involved in the decision-making process in Corporate Turkey. Campaigns by this project are credited, in some quarters, with the change in CMB ruling that mandated the setting of a target of at least 25% of women representation in the boards within a set period by the organization. 23x2023 project. However, engaging in what Ahern and Dimittar, (2012) call '*Mandated Female Board Representation*' only leads to the appointment to the board of less experienced women to the boards to meet compliance and this often leads to a decline in performance and negating the need. Turkey is an example of a continually changing economy in the standards of Baysinger and Butler, (1985), and therefore any proposal of mandatory corporate governance practices should be rigorously reviewed before being presented for full implementation.

The corporate governance principles are applied on the ‘comply or explain’ basis meaning that as yet not so much can be done to enforce policy and even in instances where the policies are legally backed, very little has been done so far in instances of failure to comply. In lieu of this, most companies, for instance, have not taken keenly to the issue of tenure. The composition of most of the boards stayed the same throughout the entire duration of the study and even those that changed did were not large enough to influence the results.

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