CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF SELECTED QUOTED COMPANIES IN TURKEY*

Doç. Dr. Şükran GÜNGÖR TANÇ[a]
Tuğba ÇETİNEL[b]

Ampirik Araştırma
(Empirical Research)

Muhasebe ve Vergi Uygulamaları Dergisi
Kasım 2020; 13 (3): 819-828

ABSTRACT

The effect of corporate governance on business output is unevitable. It is possible to maximize coordination and performance by evaluating the connection between corporate governance and business output correctly. In corporate governance, fairness, reliability, accountability, objectivity and transparency are required to stand out. The primary purpose of this work is to reveal the connection between corporate governance and business output. This is to enable to make a healthier assessment by revealing the positive and negative aspects of the relationship and to provide solutions to the problems that may arise when necessary.

It examines corporate governance variables and analyses if they affect on firm performance as measured by return on presence (ROA) and return on equity (ROE). According to the review of literature, we select four corporate governance variables. These are; board members, CEO and chairman, board structure and ownership concentration which assisted as the independent variables and the dependent variable is firm performance. The linear multiple regression was used to assess the connection between corporate governance and firm performance.

In this article data for 179 manufacturing firms from ISE are collected from 2018 in order to determine how is the relation between corparate governance and business performance. As a result of the analyzes, it is reach that there is positive and meaningful relation between board members, board structure, ownership concentration and firm performance. But findings from the study show that there is no meaningful relationship between CEO chairman and firm performance.

Keywords: Corporate Governance, Firm Performance, Financial Performance.

JEL Codes: M40, M41.

APA Stili Kaynak Gösterimi:

Güngör Tanç, Ş., Çetinel, T. (2020). Corporate Governance and Financial Performance of Selected Quoted Companies in Turkey. *Muhasebe ve Vergi Uygulamaları Dergisi*. 13 (3), 819-828.

* *Makalenin gönderim tarihi: 10.08.2020; Kabul tarihi: 31.08.2020, iThenticate benzerlik oranı %12*
[a] *Nevşehir Hacı Bektaş Veli Üniversitesi, Sosyal Bilimler Fakültesi, sukrangungortanc@gmail.com*
ORCID: 0000-0002-0675-2479
[b] *Nevşehir Hacı Bektaş Veli Üniversitesi, Sosyal Bilimler Fakültesi, tuba.14_@hotmail.com*
ORCID: 0000-0003-3579-6347

KURUMSAL YÖNETİM VE FİRMA PERFORMANSI: BORSA İSTANBUL'DA BİR ARAŞTIRMA

ÖZ

Kurumsal yönetimin firma performansı üzerindeki etkisi kaçınılmazdır. Kurumsal yönetim ile firma performansı arasındaki ilişkinin doğru değerlendirilmesi ile koordinasyon ve performans artırımı mümkündür. Adalet, güvenilirlik, hesap verilebilirlik, tarafsızlık ve şeffaflık kurumsal yönetimin unsurlarıdır. Çalışmadaki temel amaç; kurumsal yönetim ile firma performansı ilişkisini ortaya koyabilmektir. Amaç; İlişkideki olumlu ve olumsuz tarafları ortaya çıkararak karşılaşılabilecek problemleri bertaraf edebilecek çözümler üretmektir.

Çalışmada aktif kârlılık ve öz kaynak kârlılığı verileri kullanılarak kurumsal yönetim değişkenlerinin firma performansını etkileme gücü araştırılmaktadır. Literatür incelendiğinde öne çıkan dört kurumsal yönetim değişkeni söz konusudur. Bunlar; Yönetim Kurulu üye sayısı, ayrıklık, bağımsız üye sayısı ve mülkiyet yapısıdır. Bağımsız değişken kurumsal yönetim değişkenleri iken bağımlı değişken firma performansıdır. Kurumsal yönetim ile firma performansı ilişkisini ölçebilmek amacıyla çoklu doğrusal regresyon tekniği kullanılmıştır.

İlişkiyi belirlemede 179 imalat sanayi şirket verileri kullanılmıştır. Sonuçta; yönetim kurulu üye sayısı, bağımsız üye sayısı ve mülkiyet ile firma performansının anlamlı ve pozitif bir ilişkisi olduğu tespit edilmiştir. Fakat ayrıklık ile firma performansı ile ilgili herhangi bir ilişkiye rastlanmamıştır.

Anahtar Sözcükler: Kurumsal Yönetim, Firma Performansı, Finansal Performans.

JEL Kodları: M40, M41.

1. INTRODUCTION

Corporate governance is an organization which assures its owners as stakeholders are getting an equitable return on their investment (Clarkson and Deck,1997). Furthermore; corporate governance is an approach to provide companies performance and control and to organize the relationship between firm owners and stakeholders (Luo,2005:2).

Due to the economic crisis and accounting manupulations in recently, suppliers of finance lose their confidence against to firms (Yenice and Dölen,2013:200). For renovation of markets, researchers emphasize the importance of corporate governance. Corporate governance should be considered as a necessity instead of obligation. A good corporate governence organization means better market value, better business management and more earnings (Ege, Topaloğlu and Özyamanoğlu,2013:101).

Our results are significant for financiers and others who consider that good corporate governance is significant for raising investor reliance and market liquity (Donaldson,2003).

2.RESEARCH HYPOTHESES

i.There is an important connection between board members and firms' fianancial performance.

ii.There is an important connection between CEO and chairman and firms' financial performance.

iii.There is an important connection between board structure and firms' financial performance.

iiii. There is an important connection between ownership concentration and firms' financial performance.

3.CORPORATE GOVERNANCE VARIABLES

Board Members

There is a convergenge of contract on the argument that bord members is connected with firm performance (Adekunle and Aghedo,2014:55). Vafeas (2000) found an important connection between small board members and firms profitability. Furthermore, Mak and Yuanto (2001) also found the same results according to the analyses performed in Singapore and Malaysia. Bonn and the others (2004) found a negative connection between board members and firms performance for Australia and Japan companies. Lipton, Lorsch (1992) and Jensen (1993) claimed that limiting board members is believed to improve firm performance because of the poorer communication in larger boards.As a result of these all research examined in detail we have concluded that there is a negative connection between board members and firm performance.

CEO and Chairman

Another important monitoring device is the segregation of the responsibilities of CEO from chairman (William et al.,2003). Several studies have analyzed the segregation of CEO and chairman, presume that agency problems are more when the same person holds both positions, Yermack (1996) indicates that companies are more worthy when the CEO and board chair positions are separate. In addition, Zubaidah think that CEO and Chairman will deteriorate board's independency and monitoring management . Core, Holthausen and Larcker (1999) also indicate that if the CEO and board chair positions are seperate, the CEO compansation is weaker.

Board Structure

Board structure explains the proportion of independent members relative to the total number of board members (Zubaidah,2009). Thanks to the board members is one of the most important device to monitor the management, board structure become a important subject (Abdullah,2004). Zubaidah thinks that boards with the more independant members preserve the stokeholder interests better than boards with executive directors. Moreover, Dahya and McConnell (2003) and Dehaene et al. (2001) argued that among Belgian companies there is a possitive connection between the ration of independant member and company performance. However, Fosberg (1989) claimed that there is no connection between the number of independent and firm performance.

Ownership Concentration

There are lots of studies regarding the connection between ownership concentration and firms performance. But among the researchers this issue continue to be an arguement point (Bayraktaroğlu,2010:12). Some of researchers claim that a high level of ownership concentration tends to make more pressure on directors for maximizing the value of company (Adekunle and Aghedo,2014:55). Berle and Means (1932) explained that a low concentration of shores will be associated with a raising of firm value.

4.METHODOLOGY

This work interested in the connection between firm performance and corporate governance variations. The work uses 179 quoted companies from ISE for getting the best solutions. The linear multiple regression was used to evaluate the connection between these two variations mentioned before. The multiple regression analysis is performed on the dependent variables, ROA and ROE, to test the connection between the independent variables with firm performance. Table 1 shows the variables and description in this work. The regression models utilized to test the connection between the board characteristics and firm performance are as follows:

ROA: β0 + β1BOARDSIZE + β2DUAL+ β3BIND+ β4OWNCON+ €

ROE: β0 + β1BOARDSIZE + β2DUAL+ β3BIND+ β4OWNCON+ €

Table 1: Variables

VARIABLES	DESCRIPTION	MEASUREMENT
BOARDSIZE	Board members	Number of directors on the board.
DUAL	CEO and chairman	Seperation of the roles of CEO from chairman.
BIND	Board structure	The rate of independent non-executive directors relative to the total number of directors.
OWNCON	Ownership concentration	Percantage of major shareholding.
ROA	Return on assets	Net income / total assets
ROE	Return on equity	Net income / total equity

5.FINDING AND DISCUSSION

A Pearson correlation analysis is achieved on the variables to control for the degree of multicollinearity within variables (Gujarati, 1992). The finding of the pearson correlation analysis in Table 2 proves that there is an important connection between board members, board structure, ownership structure and firm performance. But there is no connection between CEO and chairman and firm performance.

Table 2: Pearson Correlation Analysis Results

VARIABLES	MEAN	STD.DEVIATION	1	2	3	4	5	6
1.Board Members	6,70	2,13	1					
2. CEO and Chairman	1,97	0 ,40	-,222**	1				
3.Board Structure	1,88	0,87	,452**	-,170*	1			
4.Ownership Structure	65,45	26,25	,131	-,152	-,072	1		
5.Return on Asset	1,57	0,61	,250**	-,147	,225**	,312**	1	
6.Return on Equity	1,75	0,82	,275**	-,156	,252**	,334**	,220**	1

**: Correlation is important at the 0,01 level (2-tailed).

* :Correlation is important at the 0,05 level (2-tailed).

Tablo 3: Regression Analysis

Dependent Variables	Un-standardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Standart Error	B			Tolerance	VIF
(Constant)	0,912	0,180		5,163	0,000		
1. Board Members	0,033	0,010	0,192*	2,332	0,000	0,743	1,377
2. CEO and Chairman	-0,001	0,069	-0,007	-0,009	0,664	0,976	1,056
3. Board Structure	0,088	0,033	0,169*	2,203	0,022	0,772	1,222
4. Ownership Structure	0,006	0,001	0,341**	4,794	0,000	0,988	1,055
R	0,481						
R^2	0,231						
Adjusted R^2	0,211						
Std. Error of the Estimate	0,357						
F (4-179)	11,566						
Sig.	0,000						
Durbin-Watson	1,872						

Dependent Variable: Firm Performance **p<0,01, *<0,05

As can be seen in the above finding of regression analysis when the independent variables; board members, CEO and chairman, board structure and ownership structure were regressed on Return On Asset and Return On Equity, R-squared value of 0,231 is noticed. Given the value of adjusted R-squared of 0,211 indicates that the independent variables collectively show 21,1% of the systematic variation in the dependent variable. The results show that board members is important at p< 0,192 with positive sign, board structure is also important at p< 0,169 with positive sign, and ownership structure also important at p< 0,341 with positive sign. However, CEO and chairman has no important connection with firm performance. The F-statistic of 11,566 is important for the model respectively. This shows that there is a statictical important connection between the independent variables and the dependent variable as a group. Also the durbin-watson statistic of 1,872 for the model respectively reveal the obsence of first order serial correlation.

6. CONCLUSION

This work researced the connection between corporate governance and firm performance of quoted companies on the ISE. As we know, when we use return on asset and return on equity as dependent variable, firm size, board structure and ownership structure are significant. But just CEO and chairman hasn't any relation with firm performance. It means for the value maximizing, companies should have large board size, more independent board structure and higher concentration of shares.

REFERENCES

Abdullah, S.N. (2004). Board Composition, CEO duality and Performance among Malaysian listed companies. *Corporate Governance,* 4(4), 47-61.

Adekunle, S.A. ve Aghedo, E.M. (2014). Corporate Governance and Financial Performance of Selected Quoted Companies in Nigeria. *Euopean Journal of Business and Management*, 6(9), 53-59.

Agbonifoh, B.A. (1999). Business Ethics. In *A.U. Inegbenebor - B.E. Osaze Introduction to business.*

Aktan, C. C. (2006). Kurumsal Şirket Yönetimi. *SPK Kurumsal Araştırmalar Serisi*, 4(196).

Bayrakdaroğlu, A. (2010). Mülkiyet Yapısı ve Finansal Performans: İMKB Örneği. *Ekonomi Bilimleri Dergisi*, 2(2), 12.

Berle, A. ve Means, G. (1932). The Modern Corporate and Private Property. *McMillian, New York, NY*.

Bonn, I.,Yoshikowa,T. ve Phan, P.H. (2004) Effects of Board Structure on Firm Performance: A Comparison between Japan and Australia. *Asia Business – Management*, 3,105-125

Clarkson, R.- Deck, A. (1997). Effective governance of micro finance industry: Estimating a micro finance industry.

Core, J., W. Guay, ve T. Rusticus. (2004). Does weak governance cause weak stock returns? An examination of firm operating performance and analysts expectations. *Working Paper, University of Pennsylvania*.

Dahya, J. ve McConnell J.J. (2003). Outside Directors and Corporate Board Decisions. *Journal of Corporate Finance,* Article in Press, Corrected Proof.

Donaldson, W. (2003). Congressional Testimony Concerning the Implementation of the Sarkones-Oxley Act of 2002.

Ege, İ., Topaloğlu, E. E. ve Özyamanoğlu, M. (2013). Finansal Performans ile Kurumsal Yönetim Notları Arasındaki İlişki: BIST Üzerine Bir Uygulama. *Akademik Araştırmalar ve Çalışmalar Dergisi*, 5(9), 101.

Fosberg, R. (1989). Outside directors and managerial monitoring. *Akron Business and Economic Review 20,* 24-32.

Glossary , P. (2013) . Glossary a definition of corporate governance. 14(40).

Gujarati, D., (1992). Essentials of Econometrics. *Singapore: McGraw-Hill.*

Jensen, M. (1993). The modern industrial revolution,exit, and the failure of internal control systems. *Journal of Finance*, 48(831-880).

Lipton, M. ve Lorsch J., (1992). A Modest Proposal for Improved Corporate Governance. *Business Lawyer*, 59 (59-77).

Love, I. (2011). Corporate Governance and Performance around the World: What we know and What we don't know. *The World Bank Research Observer*, 261, (42-70)

Luo, Y. (2005). Corporate Governance And Accountability In MultinationalEnterprises: Concepts And Agenda. *Journal of International Management*, 11(1), 1-18.

Mak, Y.T., Yuanto, K., (2001). Size really matters: Further evidence on the negatife relationship between board size and firm value. *Pasific-Bosin Finance Journal*, 13, (301-318).

Memiş, M.Ü. ve Çetenak, E.H. (2012). Kurumsal Yönetimin Kazanç Yönetimi Uygulamaları Üzerine Etkisi: İMKB'de İşlem Gören Şirketler Üzerine Uygulama. *Ç. Ü. Sosyal Bilimler Enstitüsü Dergisi*, 21(3), 205-224.

Vafeas, N. (2000). Board structure and the informativeness of earnings. *Journal of Accounting and Public Policy*, 19(2), (139-160).

William, Q., Judge, Naoumova I. ve Koutzevol, N. (2003). Corporate Governace and Firm Performance in Russia: an empirical study.. *Journal of World Business, 38(385-396).*

Yenice, S. ve Dölen, T. (2013). İMKB'de İşlem Gören Firmaların Kurumsal Yönetim İlkelerine Uyumunun Firma Değeri Üzerindeki Etkisi. *Uluslararası Yönetim İktisat ve İşletme Dergisi*, 9(19), .200-214.

Yermack, D. (1996). Higher market valuation for firms with a small board of directors. *Journal of Financial Economics,* 40, (185-211).

Zubaidah, Z.A., Nurmala, M.K. ve Kamaruzaman J. (2009). Board Structure and Corporate Performance in Malaysia. *International Journal of Economic and Finance*, 1(1), (150-164).