CORPORATE GOVERNANCE AND PERFORMANCE: THE DIVERGENCE OF OPERATING AND SHARE PERFORMANCE

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Abstract

Corporate governance principles are trying to ensure reliable and well-functioning firms and sound financial systems, thus well-governed firms are expected to be performing better than their counterparts. The aim of this paper is to analyze the impact of corporate governance applications on operating performance and share performance of companies that are traded in Borsa Istanbul for the period 2007-2014. In order to understand the impact of corporate governance traits on share performance, we assume that we buy and hold the stock for 1 year and sell it at the end of the accounting period to match it with the accounting data and panel regressions are run to analyze the factors that have significant explanatory power over operating and share performance. According to the results, the corporate governance traits do not affect stock returns, but have a significant explanatory power over operating performance, measured by ROA and ROE. This divergence shows that good governance results with superior operating performance; however governance benefits are not priced by the investors. The paper has significant implications since it analyses one of the most attractive emerging equity markets, namely Borsa Istanbul which has approximately sixty percent share of foreign investors. The results are important for both policy makers and for the broad range of investors that are players in the market.

Keywords: Corporate Governance, Share Performance, Operating Performance, Stock Returns, Shareholder Rights

JEL Classification: G3, G17, G30

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1. Introduction

Corporate governance emerged as a tool for protecting shareholders' rights and minority shareholders. Following the corporate scandals all around the world, there has been a need to set rules to govern companies in a transparent and accountable manner. Corporate governance practices are seen as a means to stabilize corporations, financial markets and economy as a whole.

In order to assure trust to the financial system, Cadbury Report (1992) and Organization for Economic Co-operation and Development (hereafter OECD) Corporate Governance Principles (1999) were initiated and further revised (2004). Those principles are laid on four pillars; namely, transparency, accountability, fairness and responsibility. The principles were aimed to provide insurance that all stakeholders attain sufficient, reliable and timely information.

Several theories explain the corporate governance concept: most significant ones are the stewardship theory, the agency theory and the market theory. The stewardship theory states that, the people are assumed to act in the public good in general and the managers will act in the profit of their companies' shareholders in particular (Donaldson and Davis 1991). It is expected that the companies should establish administrative and authority framework which will provide integrated command mechanism, smooth the way for autarchic decision making and allow the company to take action quickly and resolutely to market opportunities. This perspective results in unifying the roles of chairman and CEO and for audit committees to be either tenuous or incompetent. According to the agency theory, agents will seek to act for their own interest and will incline to maximize their wealth, position in company and other fringe benefits. Agents should be monitored and controlled to guarantee that the managers' undivided attention and performance is served (Shleifer and Vishny 1997). Nowadays, corporate governance activities are mostly relied on this theory. The market theory of corporate governance states that there is no difference whether managers of a company see themselves agents or stewards, because the investors (shareholders) will unambiguously sell the shares of such company in the market whose directors are not put out the sufficient effort for their investment (see Calder 2008). This theory is not actually very correct, because in most of the corporate scandals it was seen that the investors are not capable of realizing the bad governance of the companies and they ended up with shares with obsolete values. When we evaluate these three theories the agency theory is found to be the one that best explains the structures of today, so our paper is grounded on this theory.

Corporate governance traits are considered as structures of monitoring devices that coordinate and control the interests of principles and agents (Farinha 2003). From this point of view, many studies relate those traits with some characteristics of firm like performance, efficiency, productivity, firm value etc. Despite the vast amount of studies on performance and firm value, papers focusing on the relation between share performance and the corporate governance characteristics is relatively few (Gompers et al. 2003; Core et al. 2004; Johnson et al. 2009). The aim of this paper is to fill this gap by analyzing the effect of corporate governance traits on share performance and operating performance on the non-financial companies that are traded in Borsa Istanbul of Turkey for the period between 2007 and 2014.

Turkey stands as one of the most attractive emerging markets and in the recent history there are many severe crises and corporate scandals. The transformation of the governance systems and the recovery of the economy make the Turkish case interesting and a good case for those countries which are on the edge of initiating application of corporate governance principles. The shares of foreign investors in Borsa Istanbul are greater than 60 percent and have dominance on the market. The results are also important to point to the tendency of foreign investors to markets with more compliance to corporate governance codes. The rest of the paper is organized as follows: Section 1 will provide brief information about the corporate governance practices in Turkey, Section 2 will give an overview of the literature, Section 3 will explain the methodology, Section 4 will present the data and the empirical results, finally last section will conclude.

2. Corporate Governance Practices in Turkey

Borsa Istanbul, which was established at the end of 1985, stands as the unique stock market in Turkey. Turkish economy experienced severe crisis in 1994, 2000 and 2001. During the crisis periods, some corporate scandals have also emerged and with the IMF restructuring process, new economic road maps were planned. Moreover, the reform program proposed elements to ensure sound and stable financial system. Recently, Borsa Istanbul has been standing as one of the most attractive emerging stock markets.

Capital Markets Board of Turkey (CMB hereafter) published Turkish Corporate Governance Codes in 2003. These codes, which were later revised in 2005 and 2011, are based on OECD principles of corporate governance and while regulating those codes particular conditions of the country were taken into account.

The corporate governance principles of CMB predominantly

attend to publicly traded joint stock companies and organizations that are actively doing business in public or public sector, may also put into practice these principles. Implementing these principles is optional for companies. Nevertheless, the clarification regarding the implementation level of the principles is not properly done, due to insufficient implementation of these principles, conflicts arisen and explanation became essential about the projected plan for the adaptation of company's corporate governance practices in the annual report and disclose to the public. Based on the obligatory regulations by CMB, the rating of corporate governance is evaluated by rating organizations to appraise the implementation status of the principles.

The first section of CMB Codes of Corporate Governance mentions the equal behavior towards shareholders and principles of their rights. Topics such as shareholders' right to acquire and assess data, entitlement to vote in the general shareholders' meeting, the rights of minority shareholders and right to obtain dividend are discussed exhaustively in this section. Subjects such as archiving journals of shareholders, sales of shares and the free transferability of shares are also referred under the very first section.

The second section examines the principles associated with transparency of information and disclosure. Within this context, fundamentals for setting up articulated information policies concerning shareholders and the obedience of companies to these policies are mentioned. The atmosphere of globally integrated financial systems and set of conditions challenged in Turkey should have been taken into account while implementing single standards and procedures for smooth information flow via annual financial reports and income statements and specifying aforementioned standards through deliberation of performance.

The third section is primarily focused on stakeholders. In that section, stakeholder defined as a person, organization or a group, which is connected with the business related activities of a company in some way or another. The company's shareholders, its employees, banks which lends the company, suppliers, customers, trade unions, numerous non-governmental organizations, the government of a country, and prospective investors which may examine to invest in the company in future are called as stakeholders. This section covers the tenets of the relationship between the company and its stakeholders.

The fourth section comprises principles regarding function, responsibilities, assignments, operations and constitution of the board of directors, the committees that will be initiated in future to support the

board functions, executives and remuneration of them and the board of directors.

Borsa Istanbul provides a means to measure the compliance of the companies to corporate governance codes and provide a corporate governance index measure. Being listed under corporate governance index is not obligatory, but still the exchange offers huge discounts on the shelf registration and registration fees if the company is listed in the aforementioned index.

Two independent rating agencies monitor the compliance of the companies with the corporate governance practices. First, the rating agency analyzes the current and past shareholder structure. Existence of block shareholders is determined and the existence of a business interest with the block shareholders is investigated. The equal and timely dissemination of information to all shareholders is another factor to increase the governance rating of the company. Further, protection of the minority shareholders is examined. Companies with cumulative voting systems and where the minority interests are considered get higher ratings. Companies that announce the general meeting to their shareholders at least one month before the meeting starts in web sites as well as national magazines and those who organize the event at city centers where it is accessible by the majority of the shareholders will get better credits. Having a consistent dividend policy and distributing fair amount of dividends is another evaluated criterion. The meeting frequency and the attendance of the board members to the meeting of board of directors is another rating factor. The selection of independent members in the board, their background and qualifications and their relationship with other corporations is and the number of members in the board is of crucial importance. The entire criteria are also evaluated regularly after being included in the corporate governance index.

Based on the above mentioned criterion the companies are rated over a 0-10 scale, and companies who have the total compliance with the governance codes are rated 10. Companies should at least have an overall rating scale of 7 to be included in the corporate governance index of Borsa Istanbul. As of June 2014 48 companies are evaluated under corporate governance index.

3. Literature Review and Hypothesis Development

The literature mostly considers corporate governance concept from the viewpoint of agency theory and describe corporate governance as a tool for controlling managers to act in their own interest and protecting shareholders' rights (Shleifer and Vishny 1997; Dennis and McConneli 2003; Nanka-Bruce 2011). Considering the theory, the literature lists

different aspects as corporate governance traits, namely, ownership structure, board structure and board independence and also firm specific factors like firm size and age stands as important characteristics affecting the performance and good governance of firms.

The established laws and regulations in the system are other elements to protect the rights of minority shareholders. It is expected that investors feeling safer about their rights, tend to invest in such markets. Renders, Gaeremynck and Sercu (2010) studied this relationship and concluded that in countries with laws and regulations backing shareholder rights, firms have higher governance ratings which are not reflected in superior firm performance. On the other hand, in countries with weak shareholder protections, companies with good governance traits tend to be performing better than the firms lacking those traits.

3.1. Board Structure and Independence

Boards stand as a key in the development of a firm with their roles of delegating and monitoring firm's activities. Fama and Jensen (1983) explain that the operations of a company are complicated and thus when the operations of the company are expanded, more members are needed in the board to monitor them. Boone et al. (2007) reach to similar conclusions and concluded that when the company is opened to other geographical regions or production lines are enlarged, new members will be needed to control those operations. Accordingly, some papers favor the increase in the number of board members (Dalton et al. 1999; Abidin et al. 2009; Isshaq 2009) some others reject and disclose that firm performance declines as the number of board members increases (Yermack 1996; Bhagat and Black 2002; Huang et al. 2011; Nanka-Bruce 2011).

Isshaq (2009) indicate a positive relationship between the size of the board and share performance. Dalton, Johnson and Ellstrand (1999) explain this positive relation with resource dependence theory. According to this theory, bigger boards have larger networks and thus lead the firm to more resources. Moreover, these boards' effectiveness will increase with an authoritarian CEO. Dalton, Daily, Ellstrand and Johnson (1998) point that bigger boards are the only way to monitor managers when the ownership is dispersed among many small shareholders or when the biggest shareholder ignores the minority shareholders.

Conversely, Yermack (1996) conclude that larger boards are more difficult to coordinate and members will communicate less and will have less power over CEO, thus smaller boards are more effective and result

in greater performance. Similarly, Jensen (1993), Eisenberg, Sundgren, Wells (1998) and Mak and Yuanto (2002) express that smaller boards with less monitoring activities will end up with higher firm performance and exclaim that the members in bigger boards will have more conflict of interest and decision making will be slower in those boards.

Kumar and Sivaramakrishnan (2008) note that the monitoring performance of independent directors will be diminished when they become less dependent to the CEO. Hence, a company board dominated by independent directors will work less effective than the contrary case.

In this paper the relevance of resource dependence theory in Turkish stock market will be analyzed. Thus, the first hypothesis posits that the board size increase the operating performance of the company, by linking it to greater and better sources. The share prices of companies with better operating performance are more likely to increase, resulting in a superior share performance. Thus we hypothesize that larger boards have a positive effect on the share performance and operating performance of firms.

Hypothesis 1.
H_{1a0}: Board size has a positive effect on operating performance of firms.
H_{1b0}: Board size has a positive effect on share performance of firms.

In addition to board size, board independence stands as an indispensable trait that a firm has to possess to maintain an efficient corporate governance mechanism. The existence of independent board members and an independent audit committee and separation of the role of the CEO as the chairman of the board will affect the independence of the board (Ryan and Wiggins 2004). Even the Cadbury Report recommended for the boards to carry at least 3 independent board members. The share of the members with no relation with management and with no ownership in the firms' will increase the productivity (Chakroun 2013). Besides that, constituting a structure of external directors or establishing an audit committee for intra firm activities is a path through decentralized board and verifies that the board operates its liabilities fluently (Kang and Kim 2012). A board with independent members will result with a more effective monitoring of the CEO (Laux 2008). Moreover, remuneration and incentives of independent directors should be cautiously identified. However, there is no consensus regarding the remuneration of independent directors and it is difficult to

mention of an established regulation in detail among different countries (Zattoni and Cuomo 2010).

The Turkish laws necessitate the existence of independent board members in the board since 2012. According to the Capital Markets Law of Turkey, the number of independent members within the board should be no lower than the one third of the total members and independent of the board size, each board should carry at least 2 independent members. Since it is not obligatory to have independent members before 2012, companies do not report this information. It is seen that the members that are reported as independent after 2012 were considered as regular members of the board before 2012. This raises suspicions about the real independence of these members and the lack of data creates a difficulty in analyzing and interpreting this criterion so evaluation of the independent members had to be dismissed.

Another criterion that determines the independence of the board is CEO-duality. CEO-duality refers to the set of circumstances when the CEO also performs duties as the chairman of the board (Rechner and Dalton 1991). According to the agency theory CEO-duality embraces the CEO with super powers, thus will end up with the inability of the board to monitor the CEO (Finkelstein and D'aveni 1994; Gul and Leung 2004). On the other hand, some papers also note that centralization of authority increase the efficiency and result in superior performance (Lipton and Lorsch 1992; Elyased 2007; Ramdani and Witteloostuijn 2010).

Hypothesis 2.

H_{2a0}: The existence of CEO-duality has a positive significant effect on the operating performance.

H_{2b0}: The existence of CEO-duality has a positive significant effect on the share performance.

3.2. Ownership Structure

The owners of a corporation, the biggest shareholder, dispersed shareholders or institutional investors will affect the monitoring of the managers and will influence the operations of the managers. Thus, the owners with better monitoring activities will have an increasing effect on the efficiency of the management.

The monitoring activities of the largest shareholder may not be proper all the time; those owners may violate the rights of minority shareholders for their own interest (Shleifer and Vishny 1986). On the other hand, if the largest shareholders have managerial skills, they may

be keen on transferring their skills and information that will further improve the firm performance. Moreover, the largest shareholder will have the power to monitor the activities of the managers and thus agency costs will be minimized (Shleifer and Vishny 1997). When the shares are dispersed, it is observed that managers do not act in accordance with the shareholders' interest and they may not perform their duties properly (Demsetz and Lehn 1985). Ullah (2017) investigates 1362 firms that are listed in Tokyo Stock Exchange. He claimed that ownership structure has strong effects on corporate performance. When managers do not manage the firm well this will decrease the performance of the company which will lead to unfavorable financial results. Gonenc and Aybar (2006) also confirmed that in Turkey especially in the financial crisis period, firms with concentrated ownership showed substantially lower return performance.

The share of the second largest shareholders is also of significance, since they also monitor the largest shareholder's activities. As Gugler and Yurtoglu (2003) notes the presence of a second large owner probably assure inspect on the largest shareholder lowering the risk of take over. We build the third hypothesis that the second largest shareholder has an impact on corporate performance.

Hypothesis 3.

H_{3a0}: The share of largest shareholder has a positive significant effect on share performance.

H_{3b0}: The share of largest shareholder has a positive significant effect on operating performance.

H_{3c0}: The share of second largest shareholder has a positive significant effect on share performance.

H_{3d0}: The share of second largest shareholder has a positive significant effect on operating performance.

The ownership status of the firm also has an effect on the performance of the company. If the firm is a public corporation, political interests will be considered instead of the performance of the firm. In addition, social policies will be counted more instead of profitability of the firm (Boubakri et al. 2005). Besides, some researchers found that free float rate of a firm has statistically significant effect on firm's financial performance and profitability (Karaca and Eksi 2012; Dogan and Yildiz 2013). Additionally, the bigger cost accounts and inefficient allocation of the resources in public companies will end up with unprofitable results (Sun et al. 2002). Correspondingly, the effect of

foreign owners on the firm performance is considered to positive most of the time (Douma et al. 2006). Javorcik (2004) also confirmed that foreign owners increase the performance and efficiency through the increased access to resources. Foreign shareholders also may bring in new technology and know-how, which will differentiate the firm's products/services and further will increase the profitability of the firm.

Hypothesis 4.

H_{4a0}: The public ownership of the company has a negative significant effect on share performance.

H_{4b0}: The public ownership of the company has a negative significant effect on operating performance.

H_{4c0}: The foreign ownership of the company has a positive significant effect on share performance.

H_{4d0}: The foreign ownership of the company has a positive significant effect on operating performance.

H_{4e0}: The share of the company open to public has a positive significant effect on share performance.

H_{4f0}: The share of the company open to public has a positive significant effect on operating performance.

3.3. Experience and Size of the Firm

Experience of the firm is assumed to be dependent on the firm age or the amount of time the firm's shares are traded in the stock market. Firm age is defined as the amount of time that passed from the first establishment of the company. Loderer and Waelchli (2011) conclude that older firms find it more difficult to access to critical resources and hence will be beaten by its competitors. They also proved that there is a non-linear and inverse relationship between age and profitability of the firm. There is still an inverse relationship when they repeated their study by defining the age of the firm from the moment after it was quoted to the stock exchange as Shumway (2001) described it. Nevertheless, decreasing of the profitability of the firms when they get old does not mean that there is more possibility in terms of making losses for the firms. It is observed that probability of making losses of the firms' decreases in an inversely correlated fashion when experience, network and easy nature of accessing the resource are considered. (Loderer and Waelchli 2010).

Firm size is generally considered as the sales revenues and total number of employees (Westhead 1995). European Commission (2005) defines the firm size as the number of employees, volume of business or

total assets of the company. Kitov (2009) describe the firm size as the number of employees and financial returns in a financial period.

Some papers in the literature define size of the firm by the amount of total assets (or fixed assets) a firm owns. It has been considered that effective management of assets and profitability over thus assets or in other words, performance defined by the active profitability would increase as well. Studies showed that firms reach to economies of scale with the growth therefore; they cut out their expenditure and increase their profit margins. In the light of these findings it is been suggested that relationship between the size of the firm and performance has the same direction (Zeleynuk and Zheka 2006; Lin et al. 2009).

Hypothesis 5.

H_{5a0}: The age of the company has a positive significant effect on share performance.

H_{5b0}: The age of the company has a positive significant effect on operating performance.

H_{5c0}: The size of the company has a positive significant effect on share performance.

H_{5d0}: The size of the company has a positive significant effect on operating performance.

4. Methodology

To understand the impact of corporate governance traits on share performance, we assume that we buy and hold the stock for 1 year and sell it at the end of the accounting period to match it with the accounting data. So for each share yearly holding period returns are calculated with the following formula:

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}$$

The abnormal returns are also calculated with the intention to observe the returns over the market. Borsa Istanbul 100 index is the most common market indicator in Turkey so the yearly BIST-100 Index buy and hold return is deducted from the stock returns as follows:

$$r_{i,t} = R_{i,t} - R_{BIST-100,t}$$

Panel regressions are run to analyze the factors that have significant explanatory power over share performance:

$$return_{i,t} = c_{i,t} + \beta_1 \sum CGT_{i,t} + \beta_2 \sum FSF_{i,t} + \beta_3 OP_{i,t} + \varepsilon_{i,t} \qquad \textbf{\textit{Model 1}}$$

Where *return* represents the stock return and excess return, *CGT* represents the corporate governance traits of companies which include the largest share, second largest share, CEO-duality, board size, firm age, number of years in stock market, public ownership dummy that takes the value of 1 if the company is a publicly owned company, free float rate and share of foreigners, *FSF* represents size and liquidity ratios of the companies and *OP* symbolize the operating performance which is represented by return on assets (ROA) and return on equity (ROE).

Further regressions are performed to address the impact of corporate governance practices on operating performance.

$$OP_{i,t} = c_{i,t} + \beta_1 \sum CGT_{i,t} + \beta_2 \sum FSF_{i,t} + + \varepsilon_{i,t} \qquad \textbf{\textit{Model 2}}$$

5. Data Analysis and Empirical Results

The data regarding the corporate governance traits of companies and financial statements is collected from the website of "Public Disclosure Platform of Turkey". The data related to stock prices and the stock market index is collected from the website of Borsa Istanbul. The analysis covers the period between 2007 and 2014 for the non-financial companies that are traded in Borsa Istanbul. Financial firms excluded because of the different legal regulations and complex balance sheet structures. The firms with missing information about corporate governance are removed from the analysis.

Table 1 presents the data used in the analysis. For the first model, the dependent variable is the stock return, which assumes one year holding period and the excess return, namely the difference between the stock return and the market return. Since investors consider the ROA and ROE as a performance indicator, it is expected that these variables are also a determinant for Model 1. On the other hand, ROA and ROE are adopted as proxies of operating performance. The corporate governance variables used in both models are headed under board independence, firm experience and ownership structure.

Table 1: Definition of the data used in the analysis

Performance Variables	
Return on Assets	Net Income divided by Total Assets (used also as a determinant of stock return)
Return on Equity	Net Income divided by Total Shareholders' Equity Assets (used also as a determinant of stock return)
Return	The rate of return for the stock for a 1-year holding period
Excess Return	The return for the stock in excess of the market return (BIST-100 index return)
Corporate Governance Characteristics	
Board Structure and Independence	
Largest Share	The percentage share of the biggest shareholder
Second Largest Share	The percentage share of the second biggest shareholder
CEO-duality	Dummy that takes a value of 1 if the CEO is also the chairman of the board, 0 otherwise.
Board Size	Total number of members in the board
Firm Experience	
Firm age	The number of years that passed from the first establishment of the company
Number of years in stock market	The number of years that the firms is traded in the Borsa Istanbul
Ownership Structure	
D-Public	Dummy that takes the value of 1 if the company is public, 0 otherwise
Free Float Rate	The percentage of shares that are open to public
Foreign Ownership	The percentage of shares that are owned by foreigners
Firm Specific Factors	
Firm Size	Natural logarithm of the firms' total assets

Table 2: Summary Statistics of Key Variables for the Period 2007-2014

	Mean	Maximum	Minimum	Std. Dev.	Obs.
Largest Share	0.516	0.994	0.015	0.225	989
Second Largest Share	0,110	0,490	0,000	0,131	989
Firm Age	39,455	71.000	9.000	12.354	989
CEO-Duality	0.431	1.000	0.000	0.495	989
Free Float Rate	0.326	1,000	0.003	0.192	989
Number of years in stock market	18,41	29.000	1.000	6,068	989
Stock Return	0.292	7.833	-0.840	0.768	989
Excess Return	0,100	6,867	-1,366	0,619	989
Dummy Public	0.065	1.000	0.000	0.246	989
Return on Assets	0.039	1,056	-1.295	0.124	989
Return on Equity	0.034	2.051	-4.775	0.431	989
Firm Size	19.474	23.830	15.058	1.525	989
Board Size	6.949	15.000	3.000	2.115	989
Foreign Ownership	14,955	99.460	0.000	28,469	989

The panel regression results for Model 1 are reported in Table 3. The regression results show that none of the corporate governance traits has a statistically significant effect on the stock returns of the companies. In all of the regression where return is the dependent variable ROA and ROE has been found to have a positive effect on the returns. When the dependent variable is the excess return it is seen that ROA has a statistically significant and positive effect. The analysis of the relationship between corporate governance and business performance is also researched on Romanian economy, and similarly the results suggest a statistically significant relationship between corporate governance and ROA of the company (Achim et al. 2015). Size is also a significant variable in all of the regressions except for one, pointing to a positive relation between returns and size. This is contrary to most findings noted as size effect in the literature (Banz 1981; Reinganum 1981; Brown et al. 1983; Fama and French 1992). However, the literature further points to the disappearance of size effect; see for example Dichev (1998), Chan et al. (2000), Horowitz et al. (2000) and Van Dijk (2011) also explained that these extreme returns could be due to several biases including investor behavior. We also think that the investors have a more tendency to invest in bigger firms, which further causes an increased demand for these shares and thus higher returns. The general conclusion we can

draw from Model 1 is that the corporate governance traits in general fail to explain the movements in the stock returns. Thus, the null hypothesis 1a, 2a, 3a, 4a and 5a is rejected.

Table 3: Stock Performance Regression Results

Dependent Variable	Return	Return	Return	Return	Excess	Excess	Excess	Excess
Explanatory Variables								
Largest Share	0.0006 (0.5918)	0.0005 (0.5090)	0.0005 (0.4376)	0.0004 (0.3444)	-0,0000 (-0.0014)	-0.0001 (-0.1088)	-0.0001 (-0.1093)	-0.0002 (-0.2228)
Second Largest	0,00009 (0.0682)	0.0002 (0.1315)	-0.0002 (-0.1468)	-0,0001 (-0.0798)	-0.0004 (-0.3425)	-0.0003 (-0.2753)	-0.0006 (-0.4782)	-0.0005 (-0.4091)
Age	-0.0001 (-0.0857)		-0.0001 (-0.0633		-0.0003 (-0.1919)		-0.0003 (-0.1823)	
Age_Stockm		0.0027 (0.7410)		0.0028 (0.8218)		0.0027 (0.7663)		0.0028 (0.8063)
Board Size	0.0035 (0.3929)	0.0034 (0.3853)	0.0019 (0.2151)	0.0018 (0.2115)	-0.0005 (-0.0558)	-0.0007 (-0.0763)	-0.0013 (-0.1535)	-0.0014 (-0.1689)
Duality	-0.0130 (-0.3765)	-0.0145 (-0.4331)	-0.0159 (-0.4697)	-0.0175 (-0.5323)	-0.0089 (-0.2608)	-0.0109 (-0.3279)	-0.0107 (-0.3164)	-0.0127 (-0.3884)
Foreign Share	-0.0003 (-0.5553)	-0.0004 (-0.6958)	-0.0002 (-0.4226)	-0.0003 (-0.5858)	-0.0002 (-0.3403)	-0.0003 (-0.4944)	-0.0001 (-0.2636)	-0.0002 (-0.4293)
Free Float	-0.0566 (-0.4952)	-0.0574 (-0.5279)	-0.0540 (-0.4858)	-0.0556 (-0.5234)	-0.1369 (-1.4069)	-0.1360 (-1.4599)	-0.1356 (-1.4124)	-0.1351 (-1.4680)
D-Public	-0.0128 (-0.2390)	-0.0255 (-0.4475)	-0.0260 (-0.4731)	-0.0396 (-0.6756)	-0.0092 (-0.1745)	-0.0228 (-0.4065)	-0.0168 (-0.3147)	-0.0309 (-0.5419)
ROA	0.0029** (2.1717)	0.0032** (2.3274)			0.0021* (1.7607)	0.0025* (1.9487)		
ROE			0.1124* (1.7513)	0.1136* (1.7798)			0.0654 (1.2681)	0.0666 (1.3036)
Size	0.0212** (1.9215)	0.0200* (1.8375)	0.0185* (1.7306)	0.0172 (1.6222)	0.0247** (2.2276)	0.0232** (2.1236)	0.0230** (2.1346)	0.0213** (2.0091)
C	-0.1447 (-0.7260)	-0.1670 (-0.8472)	-0.0734 (-0.3836)	-0.0946 (-0.5019)	-0.3082 (-1.5972)	-0.3319* (-1.7326)	-0.2645 (-1.4129)	-0.2863 (-1.5476)
R-squared Adjusted R-squared	0.3045 0.2923	0.3048 0.2926	0.3081 0.2960	0.3085 0.2964	0.0878 0.0719	0.0883 0.0724	0.0897 0.0738	0.0902 0.0743
F-statistic Prob(F-statistic)	25.0065 0.0000	25.0446 0.0000	25.4378 0.0000	25.4822 0.0000	5.5005 0.0000	5.5341 0.0000	5.6284 0.0000	5.6649 0.0000

***, ** and * represent statistical significance at 1%, 5% and 10%, respectively. The numbers in parenthesis represent the t-statistics of the coefficients.

The results for the determinants of operating performance appear in Table 4. According to the results, the share of the largest shareholder has a negative effect on ROA and the share of the second largest shareholder has a deteriorating effect on ROE. Thus, Hypothesis 3a and

3c are rejected. Age of the firm and the number of years in stock market are found as significant determinants and it supports Hypothesis 5. Age and age in stock market has a positive and statistically significant effect on ROA at 1% significance level and at 10% significance level on ROE. This finding shows that as the firm gets older, its experience increase and result in favorable results for operating performance. This finding is in harmony with the traditional neoclassical view of the firm. Since older firms may get a better interest rate, may specialize in the division of labor and division of fixed costs across large number of units, their profitability may be higher (Pervan and Visic 2012). Free float has been found as a factor effecting both ROA and ROE negatively in all regressions. As the outstanding shares of the firm increases, the operating performance of the firm declines. This finding emphasizes the lack of shareholders' control on the management.

Among the corporate governance traits, CEO-duality tends to have a positive statistical significance in explaining ROA. This finding is in line with the idea that centralization of authority increases the efficiency (Lipton and Lorsch 1992; Elyased 2007; Ramdani and Witteloostuijn 2010). Firms with foreign ownership generate higher returns on assets, which is also noted in the literature that foreign firms provide better access to capital and technology (Caves 1996; Perez-Gonzalez 2005). In line with the literature, the results suggest that foreign ownership of the companies increase the ROA by almost 1% at 10% significance level. Firm size, on the other hand, is negatively affecting ROA at 1% significance level.

Table 4: Operating Performance Regression Results

Dependent Variable	ROA	ROA	ROE	ROE
Largest Share	-0.0250* (-1.6827)	-0.0251* (-1.6821)	0,0000 (0.1302)	0,0000 (0.1273)
Second Largest Share	0.0076 (0.6301)	0.0073 (0.5965)	-0.0011* (-1.7415)	-0.0011* (-1.7582)
Age	0.5351*** (2.9601)		0.0056* (1.9001)	
Age_Stockm		0.5361*** (2.9540)		0.0056* (1.9327)
Free Float	-1.9705*** (-3.6618)	-1.9708*** (-3.6721)	-0.0383* (-1.7752)	-0.0380* (-1.7623)
Board Size	0.0787 (1.1762)	0.0783 (1.1765)	0.0051 (1.6426)	0.0050* (1.6231)
Duality	0.1894* (1.9307)	0.2012** (2.0352)	-0.0076 (-1.2962)	-0.0077 (-1.3134)
D-Public	0.0708 (0.1911)	0.0730 (0.1961)	-0.0007 (-0.0215)	-0.0004 (-0.0138)
Foreign Share	0.0092* (1.6482)	0.0092* (1.6497)	0.0002 (0.2358)	0.0002 (0.2360)
Size	-6.2188*** (-2.7551)	-6.2219*** (-2.7547)	0.0013 (0.2695)	0.0013 (0.2692)
C	101.15*** (2.7019)	112.47*** (2.7265)	-0.2269 (-1.1816)	-0.1099 (-0.7764)
R-squared	0.5666	0.5668	0.6412	0.6405
Adjusted R-squared	0.4980	0.4983	0.5844	0.5837
F-statistic	8.2627	8.2700	11.292	11.262
Prob(F-statistic)	0.0000	0.0000	0.0000	0.0000

***, ** and * represent statistical significance at 1%, 5% and 10%, respectively. The numbers in parenthesis represent the t-statistics of the coefficients.

6. Conclusion

Following the corporate scandals, there has been a need to reassure trust to the financial system. Thus, new regulations and new standards to the corporations have become obligatory in many countries, to ensure that all the investors and stakeholders receive timely and reliable information about the firm's financial position. These standards also include aspects to protect all the shareholder's rights that may be violated due to agency problems and furthermore they ensure that big shareholders abuse their power and do not act for their own interest.

The literature notes several traits to measure the degree of good governance. These traits can be summed under board independence, firm

size and age and owner structure. Firms that possess these traits will prevent managers and bigger shareholders to take advantage of their power.

The motivation of this paper is to analyze the impact of corporate governance traits on both the operating performance and share performance of the 129 non-financial firms in Borsa Istanbul for the 2007 and 2014 period. To consider the share performance, we assume that we have a one year holding period, so yearly returns and excess returns from Borsa Istanbul 100 index are calculated for each stock. We performed panel regressions and run CEO-duality, board size, largest share, second largest share, firm age, public company dummy, foreign owners' share, free float rate and firm size as independent variables. The results convey that none of the corporate governance traits has a significant effect on the stock returns of the companies.

The second part of the paper focuses on the effects of corporate governance on operating performance. As a representation for operating performance return on assets (ROA) and return on equity (ROE) is adopted. The results of the regression show that both performance measures are affected from some of the corporate governance traits. Firm age and number of years in stock market affect both ROA and ROE positively and significantly. The experience of the firm has a positive influence on the performance, since firms with more information about the processes, also may have brand loyalty than the new ones and end up with higher returns. Board size is also found as increasing the ROA of firms, which is in line with the resource dependence theory. When the number of the members in the board increase, the ability of the firm to reach to resources and information increases. Contrary to the agency theory, CEO-duality improves the ROA of firms. When CEO is also the board chair, centralization of the authority improves the performance of the firms. It is thought that manager being also the chairman of the board and thus takes more responsibility in managing the firm and endeavor more. Among the owner structure foreign ownership is found to have a positive impact on ROA. The impact of foreign ownership is sizably noted in the literature that foreign partners increase the firms' ability to access capital and technology, thus result in superior performance. Size has also explanatory power over ROA. Firms with higher equity tend to be more profitable and bigger firms also are more likely to be profitable.

Overall results infer that corporate governance characteristics do not have a direct effect on stock returns but rather on operating returns. Governance traits to ensure board independence and managerial

effectiveness prove fruitful, with statistical significance on the performance of companies. On the other hand, it is seen that none of these traits have power over stock returns. This divergence of the effect of corporate governance traits on operating and share performance can be explained with the investors' prospects. Since stock returns are basically based on investor expectations, we can conclude that these traits are not priced by the investors in Borsa Istanbul. The traders in the stock market do not consider too much about the board characteristics or ownership structure of the companies. Given that the corporate governance principles' main aim is to protect the minority shareholders, it is possible to conclude that the investors do not regard these yet. Hence, the motivation of the investors in the stock market should be analyzed in depth. It is assumed that the financial literacy of the investors is limited. The legal authorities should ensure that the investors are aware of their voting rights and rights that are tried to be supported with the corporate governance principles. In addition, the investors should realize that they are not only investors trying to realize a capital gain, but instead they are owners of the firms with their shares and they have power over the firms' managers to act in their own interest, by increasing their returns. The managers should also realize that these principles do not only favor the investors, but the application of these principles end up with superior performance results.

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