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The Effects of Corporate Governance Implementations on Financial Performance: An Evidence from Turkey

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Abstract

In this study, the relationship between corporate governance, board committees, ownership structure and financial performance is examined 104 listed firms in the BIST Industrial Index from 2012 to 2019. The data set of the study was obtained from the annual reports of the companies. System Dynamic panel data analysis method (SGMM) was used in the study. As a result of the analysis; there is no relationship between the board size, the board independence, the gender diversity, the largest shareholder ratio, the meeting frequency, the audit committee size, the audit committee meeting frequency and financial performance; It has been determined that there is a positive relationship between the risk committee size and risk committee meeting frequency and financial performance.

Key words: Corporate Governance; Financial Performance; Panel Data Analysis.

JEL Code: C22, G02

1. Introduction

Depending on the increasing importance of globalization and the developments in communication technologies, capital markets get their share of such changes. Such development in both globalization and communication enables international funds to be ventured in different countries. By courtesy of these opportunities, international compliance is required in order to mitigate the problems that may arise regarding the management and communication of the investors (Capital Markets Board, 2005). Such a requirement has highlighted the concept of corporate governance. Corporate governance is described as a set of practices and rules that regulate the connections between shareholders and managers within the business and the shareholders of the business (creditors, employees, etc.) (Jesover and Kirkpatrick, 2005). According to the "Corporate Governance Principles" report published by the OECD in 2004, good corporate governance is expressed as a structure that assists the board of directors and managers in maintaining the right incentives and effective control mechanism to pursue the goals that favor the interests of the company and its shareholders.

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Corporate governance aims to improve long-term investments and financial stability and to ensure economic growth by generating an environment of trust, transparency, and accountability (OECD, 2016). The Organization for Economic Co-operation and Development (OECD) defined corporate governance as the directory of relationships among a firm's management, the board of directors, shareholders, and other stakeholders. Besides, corporate governance involves a structure related to the mechanisms by which stakeholders control the management of the firm in such a way to uphold their interests (John and Senbet, 1998).

In order for corporate governance to be assimilated by companies, a mechanism that fulfills the requirements of corporate governance is required. The board of directors is a mechanism that is constituted independently of managers and shareholders. The presence of the board facilitates the comprehension of corporate governance regulations. The board of directors ensures that the company increases in value and maintains its existence by preventing the conflict of interests of shareholders and managers. These roles emphasize the significance of the board. Another factor that renders the board of directors important is that the board provides the managers with consultancy and leadership. Subsequently, the board of directors prevents injustices that may arise by ensuring internal control (Hermalin and Weisbach, 2001). Basic functions of the board of directors include establishing the company's long-term strategy, monitoring the performance of the senior management and the company's compliance with the legislation, ensuring that the company has a sound risk management process, and effective management of the relations with the shareholders (Gözüm, 2012).

Corporate governance reveals mechanisms that help to reduce the agency problems that arise as a result of the separation of ownership and control. The mechanisms set forth by corporate governance tend to differ according to counties. The corporate governance mechanism embraced in Turkey exhibits the characteristics of the Continental European system. The corporate governance mechanisms are conducted by the internal mechanism in the form of intensive ownership concentration and board of directors since external mechanisms embraced by the Anglo-Saxon and Anglo-American systems have been weak in Turkey with an excessive number of family businesses (Selekler Gökşen and Karataş, 2008; Ilhan Nas et al., 2013). The purpose of agency theory is to minimize conflicts between the principal and the agent. Nonetheless, the principal-agent conflict may occur in structures where the ownership concentration is dispersed. In developing countries such as Turkey, companies with less dispersed ownership concentrations are more likely to experience the principal-principal conflict between controlling shareholders and minority shareholders rather than the principal-agent conflict (Üsdiken and Yıldırım Öktem, 2008; Young et al., 2008; Karoğlu, 2016).

Corporate governance involves a context-specific process. Each context has a unique structure. In this regard, regulations and practices of managerial systems regarding corporate governance may differ from country to country (Aguilera and Jackson, 2010). This research study is conducted within the context of Turkey. In this study, there are several reasons that account for adopting Turkey as a context. Turkey has much in common with other developing countries of the institutional domain (Cavusgil et al., 2002). For instance, experiencing the Type II agency conflict (principal-principal)

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conflicts of interest between majority and minority shareholders due to a high prevalence of family ownership in companies operating in Turkey (families acquire two-thirds of the companies), reflecting prominent features of poor corporate governance environment, and being a country with weak legal sanctions (Ararat, 2011; Demirağ and Serter, 2003; Yurtoğlu, 2003). In this respect, the internal mechanisms such as the board of directors have been becoming even more crucial in terms of corporate governance due to poor external mechanisms aimed at managerial control in Turkey (Ilhan-Nas et al., 2018). This study investigates the relationships between the structure of the board of directors and committees, which are considered as the internal mechanism (number of board members, the ratio of independent members, the ratio of female members, auditing committee, and risk committee) and firm performance utilizing the data obtained from companies included in BIST Industry Index over the period 2012-2019. The current study aims to fill the gap in the literature by explicating the relationship between corporate governance and firm performance for companies traded in Borsa Istanbul (BIST).

2. Corporate Governance in Turkey

Corporate governance practices have begun in Turkey at the dawn of the 2000s. Worldwide financial crises and corporate bankruptcies experienced in the international markets, regulations made in the field of corporate governance in the European countries and guidelines published by the OECD have been effective in initiating corporate governance activities in Turkey (Yenice and Dölen, 2013; Zengin and Yılmaz, 2017). The first of many corporate governance regulations that have been made in Turkey is the report prepared as a proposal by the Turkish Industry and Business Association (TÜSİAD) as of 2002. These are the regulations that have been made by the Capital Markets Board (SEC) of Turkey since 2003, which should be followed by public companies trading in Borsa Istanbul with various amendments in 2005, 2011, and 2014.

According to the regulation made in 2014; the main function of the board of directors is to observe the long-term interests of the company by controlling the performance of the company's management, which has a crucial role in determining the company's strategic goals and financial resources. Also, this regulation emphasized that the powers of the chairman of the board and the general manager should be separated, if the chairman of the board and the general manager happen to be the same person in the company, the reason for this should be stated. According to the regulation; it has been stated that in order for the board of directors to make constructive and fast decisions, and to ensure the formation of committees soundly, the board should consist of at least 5 members, and the majority of these members should not be appointed in executive positions. With this regulation, it was emphasized that a target ratio should be determined on the condition that the ratio of female members in the board of companies should not be lower than 25%, and that targeted duration and policy should be established to fulfill this ratio (SPK, 2014).

According to the regulation made as of 2014; it was emphasized that there should be independent members among the members of the board of directors who are not assigned to the executive positions within the company. It was stated that those independent members should constitute at least 1/3 of the total number of the board members. After 3 years' tenure of office, the independent members in the board of directors may be re-elected by being nominated again. Moreover, the board members are qualified as independent if they (or their relatives up to the third degree) are not assigned as managers or do not acquire more than 5% ownership of the affiliate owned by the company, and if they have not been assigned as a manager or a board member in the auditing firm of the company for more than 5 years, have not been a board member for more than 6 years (SPK, 2014).

This regulation emphasized that committees such as the Audit Committee, Corporate Governance Committee, and the Early Detection of Risk Committee should be established in order for the board of directors to fulfill its duties and responsibilities properly. The Audit Committee is the committee that ensures the reliability of the company's accounting system and financial data, discloses these data to the public, and determines the independent auditing firm. This committee should consist of at least 2 members. If the committee consists of 2 members, both of those members should be non-executive board members, whereas the majority of the members should be non-executive board members if the committee consists of more than 2 members. The chairman of the committee should be an independent board member. The audit committee should convene at least 4 times a year, every 3 months. The chairman of the board of directors or the general manager cannot be assigned to the audit committee. Besides, at least one of the members to take part in the Audit Committee should have 5 years of experience in the field of auditing and accounting. The corporate governance committee is the committee that advises the board of directors for the improvement of corporate governance practices by determining whether or not the corporate governance principles are abided by in the company, the reasons if they are not, and the conflicts of interest that may arise in case of non-compliance with these principles. Similar to the audit committee, this committee consists of at least 2 members who are not involved in the management of the company, and the chairman of this committee should be elected among the independent members of the board. The Early Detection of Risk Committee is the committee responsible for detecting the risks that would endanger the presence, development, and permanence of the company in advance, and to make efforts for taking necessary precautions regarding these identified risks. This committee should convene at least once a year. The committee should consist of at least 2 members, and its chairman should be an independent member of the board (SEC, 2014).

These regulations made in the sense of corporate governance are conducted in order to render the board of directors of companies independent. The basis of this independence is the principal-agent (agency) theory. The main purpose of these regulations is to ensure that the boards of directors can be audited by those who actually manage the company. According to the agency theory; the control over the conflicts that may occur between principals (company owners) and agents (managers) as well as the impacts of the insider and outsider member ratios on the company's board of directors are predicted. The concept of insider members is used for the employees of the company in executive positions, the retirees of the company, and the families of the employees, as well as the executives who are actually top-level managers in the board of directors. Outsider members are defined as non-executive members outside the concept of insider members. Furthermore, outsider members can be classified as affiliated and independent members. Affiliated members are the ones who have a business affiliation with the company, whereas independent members the ones who have no business affiliation with the company other than being a board member. In this context, the basic view of agency theory suggests that increasing the ratio of independent members would also increase the ability to control the company's managers (Üsdiken and Yıldırım Öktem, 2008; Yıldırım Öktem and Üsdiken, 2010).

Corporate governance has two main control aspects, namely; external and internal mechanisms (Cremers and Nair, 2005). External mechanisms include an external monitoring system such as the country's legislative system and market controls, whereas internal mechanisms refer to the board of directors as well as the subcommittees of the board that oversee the behavior and actions of corporate executives (Khanchel, 2007; Shleifer and Vishny, 1997). Ownership structures, as well as the board and subcommittees of the board of directors, can also generate an important corporate governance mechanism that balances the rights and interests of shareholders and ensures fair sharing of all shareholders (Cremers and Nair, 2005). Within the context of Turkey, Kula (2005), Selekler and Karataş (2008), Ocak (2013), Elitaş et al. (2009), and Karoğlu (2016) examined the relationship between corporate governance and firm performance. Nonetheless, the subcommittees of the board of directors, which are considered as internal mechanisms, were not taken into consideration in these studies. Therefore, this study concentrates on internal corporate governance mechanisms and, especially on the board of directors, subcommittees of the board, and ownership structures. In this regard, it would reflect the extent to which internal mechanisms affect firm performance.

3. Literature Review and Hypothesis Development

Corporate governance practices can be considered with perspectives such as agency theory, stewardship theory, and resource dependence theory (Kagzi & Guha, 2018).

The agency theory concentrates on the supervisory role of the board of directors. It suggests that there should be a balance between independent and non-independent members in the board of directors, and within this balance, the board of directors would fulfill its supervisory function more effectively (Ocak, 2013). The agency theory is the most advanced and most preferred perspective in corporate governance studies, which is often utilized to explain the extent to which the contributions offered by the board affect business performance (Daily et al., 2003; Dalton et al., 2003). Since agency theory is based on the relationship between shareholders (principal) and managers (agent), it suggests that separating ownership and control would lead to activities in favor of the managers' interests (Doğan et al., 2021). According to the agency theory, the main duty of the board of directors is to monitor the managers, and it is possible to prevent arbitrary decisions to be made by the directors by courtesy of independent members known as the outsider members. Accordingly, the agency theory argues that the number of board members and the ratio of independent members should be higher in order to prevent the dominance of managers (Selekler and Karataş, 2008). In this context, agency conflicts in companies may differ in terms of the countries (developed and developing). In this context, Jensen and Meckling (1976) concentrated on the conflicts between shareholders (principal) and managers (agent) (Type I) in developed countries where legal mechanisms are developed, shareholders are protected, and ownership and control are separated from each other. This theory aims to mitigate the conflicts between principal and agent. However, agency conflicts in developing countries may pose different perspectives. The poor external mechanisms in developing countries such as Turkey and intensive ownership structures (usually prevalent family ownership) account for conflict between the minority shareholders and major shareholders. Intensive ownership or family ownership cannot be effective in mitigating agency conflicts within the company. This leads to Type II (principal) agency conflicts in developing countries where minority shareholders are remotely protected (Al Farooque et al., 2020). On the other hand, the principal-agent conflict in developed countries turns into a principal-principal (Type II) conflict between major shareholders and minority shareholders in developing countries.

Board Size and Financial Performance

The board of directors monitors the company's level of achievement of its goals, activities, and past performances. It is also responsible for the company's risk management and internal control. The board is the heart of an organization, and its effectiveness is crucial to the management of the institution. The board of directors, which runs the business successfully and has an effective monitoring system, ensures good governance and stakeholder value (Tariq et al., 2014). Besides, the board is an important mechanism that monitors managers' behavior and advises them on strategy formulation and implementation. Various characteristics of the board, such as the size, composition, or function of the board, can be good for effectively monitoring and advising managers. In the light of these evaluations, it can be claimed that the boards of directors without a large number of members are ineffective, and those with a large number of members are effective. A large number of boards of directors would prevent the CEO from influencing the board of directors (Mak and Roush, 2000). Nevertheless, the high number of members in the board of directors may cause some problems to arise. In this case, it may cause communication, coordination, and decision-making problems, therefore the ability of the board of directors to control the management may decrease (Eisenberg et al., 1998). Moreover, the large number of members of the board of directors may cause prolongation of the decision-making process (Dehaene et al., 2001). Upon analyzing the size of the board of directors in terms of agency theory; it is claimed that as the number of people on boards of directors increases, the agency costs would decrease (Karoğlu, 2016). There have been different ascertainments in the literature regarding the relationship between the number of board members and firm performance. The relationship between the size of the board of directors and firm performance may differ not only due to business characteristics but also due to national institutional characteristics. Therefore, the relationship between the board of directors and firm performance is expected to differ (Guest, 2009). In this context, there are some studies asserting evidence for either positive relationships, or negative relationships, or no relationships at all. In this context; Bhagat and Black (2002), Hillman and Dalziel (2003), Florackis (2005), Choi et al., (2007), Fauzi and Locke (2012), Kumar and Singh (2013), Kılıç (2014), Romano and Guerrini (2014), Ali and Nasır (2015), Gaur et al., (2015) stated a positive relationship between the number of board members and financial performance; whereas Kao et al. (2018) claimed a negative relationship between the number of board members and financial performance;

Lam and Lee (2010), Ujunwa (2012), Bhatt and Bhattacharya (2015), Darko et al., (2016), Allam (2018), Tleubayev et al. (2020) asserted no relationship between the number of board members and financial performance. The direction of the relationship between board size and financial performance may differ upon considering in the context of Turkey (Okan et al., 2013). The reason is that Turkey, as a developing country, experiences Type II (principal-principal) agency conflicts (Kaymak and Bektaş, 2008). The majority of corporate shares of companies are held by the shareholders in developing countries such as Turkey. Therefore, Type I agency conflicts (principal-agent) tend to lose ground within this structure. This situation renders the function of the board of directors, in protecting the rights of minority shareholders, quite controversial. In the Turkish business system, enterprises or companies are prevalently owned and controlled by particular families (Yurtoğlu, 2000; Demirağ and Serter, 2003; Buğra, 2007; Üsdiken and Öktem, 2008). Upon considering the agency theory in this context, the conflicts of interest between minority shareholders and founding family members who hold the majority of the shares emerge as the main issue (Kaymak and Bektaş, 2008). The function of the boards of directors in conflicts of interest is closely associated with the formation and structure of the boards. The board of directors of the enterprises, which are the predominant economic actors in the Turkish business system, either the main companies or their affiliates, are controlled by the family members with capital ownership (Buğra, 2018; Gökşen and Öktem, 2009). Accordingly, it is inconceivable that the decisions to be made by the boards of directors within such a structure are beyond the control and will of the predominant families (Yurtoğlu, 2003; Buğra, 2018; Gökşen and Karataş, 2008). In the context of Turkey; Okan et al. (2014), Şahin et al. (2015), Akıncı (2011), and Kılıç (2014) stated that a positive relationship existed between the number of board members and financial performance; Kılıç and Kuzey (2016) stated that a negative relationship existed between the number of board members and financial performance; whereas Kula (2005), Selekler and Karataş (2008), Ocak (2013), Elitaş et al. (2009) stated that no relationship was present between the number of board members and financial performance. Based on this literature review, it is assumed that the size of the board of directors would mitigate the agency costs and the financial performance of the company would flourish as the number of people on the board of directors increases. Hence, the following hypotheses are to be tested.

H1: There is a positive relationship between the number of board members and financial performance.

Independent Member and Financial Performance

Independent members on the board of directors are the members who have no family ties or financial relationship with the company owners and make recommendations to the company (Puni and Anlesinya, 2020). Independent members act more courageously toward company executives when necessary, and present a new perspective in the formation of strategies under the light of their own knowledge and experience, thus making a significant contribution to the achievement of the financial and business goals of companies (Delotti, 2007). According to the agency theory, the increase in the ratio of independent members on the company's board of directors would enable better monitoring of the actions of the managers in the company, as well as the control of the decisions to be made in the company (Haat et al., 2008). In modern companies, boards of directors are responsible for monitoring management activities. This is especially true for independent outsider managers. Non-independent executives may not feel very comfortable opposing the CEO. In this case, it can be stated that independent managers are in a better position to monitor management activities (Choi et al., 2007). Independent executives in the boards of directors can also achieve a high degree of corporate transparency if they abide by the rules, and act responsibly. This situation can be effective in the formation of corporate reputation (Cuadrado-Ballesteros et al., 2015). Also, information asymmetry may occur due to the low ratio of independent executives in the boards of directors (Chen, 2014). The high ratio of independent members in the board of directors can be more significant in agency problems that may arise in the company (Gaur et al., 2015). In this context, as the ratio of independent member increases, the quality of monitoring of the board of directors also improves (Bekiris, 2013; Faleye et al., 2011). In the literature, there have been different ascertainments regarding the relationship between the ratio of independent members and firm performance. There is evidence that these relationships are positive in some studies, or negative in other studies, and no relationship in some other studies. In this context; Pearce and Zahra (1992), Ezzamel and Watson (1993), Dehaene et al., (2001), Hossain et al., (2001), Andres and Valleldo (2008), Luan and Tang (2007), Choi et al. (2007), Lefort and Urzúa (2008), Ekşi (2009), Kao et al., (2018) stated a positive relationship between independent member ratio and financial performance; whereas Darko et al. (2016), Kılıç and Kuzey (2016) claimed a negative relationship between independent member ratio and financial performance; and Lam and Lee (2010), Roudaki (2018), Allam (2018) revealed no relationship between independent member ratio and financial performance. Based on this literature, the presence of independent directors in the boards of directors or the high ratio of independent directors in the boards would make it easier to monitor managers and reduce agency costs. Moreover, there are also studies examining the extent to which independent members work in the context of Turkey. As it is well-known, the degree of independence of independent members may differ according to countries (Mi Choi et al, 2012; Üsdiken and Yıldırım Öktem, 2008). Especially upon evaluating in terms of business systems (Whitley, 1994), it is an analogy of Turkish and Korean Business Systems. It is claimed that independent directors do not act as independent in Korea (Mi Choi et al., 2012). Additionally, there are also studies which revealed that the independent directors in the context of Turkey do not act as independent. In the context of Turkey, Kaymak and Bektaş (2008), Kula (2005), Üsdiken and Yıldırım Öktem (2008), and Karoğlu (2016) asserted that no relationship existed between financial performance and independent members and that the independent members did not act independently. In this context, the following hypothesis is tested.

H2: There is a positive relationship between the ratio of independent members in the board of directors and financial performance.

Female Member and Financial Performance

Studies on the demographic differences of board members revealed that the presence of members of different genders in the board members would lead to a better understanding of the market, increased creativity, innovation, and effective resolution of problems. Diversity in the board of directors in terms of gender increases the independence of the board of directors, thereby ensuring a balanced board of directors to be constituted and not making decisions on behalf of any individual or group (Carter et al., 2003). Increasing the diversity of the board of directors in terms of gender, ethnicity and cultural infrastructure improves the independence of the board (Ayuso and Argandona, 2007). In terms of agency theory, it is stated that women would approach complex situations with new perspectives which enable them to exhibit appropriate informational bias in strategy development and problem-solving (Francoeur et al., 2008; Peçen & Kaya, 2013).

The representation of women in the board of directors has begun to increase gradually. Along with the regulations made in 2014, goals have been established for companies in the context of Turkey to constitute at least 25% of their boards of directors with female members (CMB, 2014). The main purpose of this regulation is to encourage women to participate in the board of directors of companies and to create an effective board that can uphold the interests of shareholders (Kılıç and Kuzey, 2016). The companies in the Turkish business system are, in general, family-owned businesses. In this context, company owners aim to ensure both the permanence of the company and family control by providing their children with good business training. Furthermore, in order to ensure the permanence of family control in the company, it is aimed to ensure that daughters are married to the relatives of the managers who have a say in the company, as well as to ensure that the daughters are on the board of directors (Buğra, 2018). Accordingly, both the continuation of family activity and the ratio of female managers would increase in the companies' boards of directors. In the literature, there have been various ascertainments regarding the relationship between female members and firm performance. There is evidence that these relationships are positive in some studies, negative in some studies, and no relationship is found in some other studies. Accordingly; Carter et al., (2003), Tleubayev et al. (2020) detected a positive relationship between female members and financial performance; whereas Shrader et al., (1997), Adams and Ferreira (2009), Ahern and Dittmar (2012) stated a negative relationship between female member ratio and financial performance; and Miller and Del CarmenTriana (2009), Carter et al., (2010) found no relationship between female members and financial performance. In the context of Turkey, distinct relationships are detected between the ratio of female members and firm performance. Ocak (2013), Tekin and Demirel (2017), Otluoğlu et al. (2016), and Solakoğlu and Demir (2016) stated that a positive relationship existed between the ratio of female members and firm performance; whereas Yurt (2020) and Taşkın and Mandacı (2017) detected no such relationship. In this context, the following hypothesis is tested.

H3: There is a positive relationship between the ratio of female members and financial performance.

Board Committees and Financial Performance

The duties of the committees established within the scope of corporate governance practices are to audit and review the financial statements, to identify the risks that the company may encounter, and to inform the board of directors on the issue (Yammeesri and Herath, 2010). The audit committee involves a structure consisting of independent members that oversee the functioning and effectiveness of the company's internal audit and internal control mechanism, and ensures that financial reports are generated accurately and according to accounting standards (CMB, 2014). Since the audit committee consists of independent members, company executives would be effectively monitored, resulting in better firm performance. Audit committee members hold meetings on a regular basis. In these meetings, the company's financial reports are assessed, managers are monitored, and policies for the practices of managers are determined. Frequent meetings of the audit committee can contribute to the improvement of company performance (Al Farooque et al., 2020; Puni and Anlesinya, 2020). The risk committee is the committee responsible for identifying the financial risks that would endanger the presence and development of the company, and taking necessary measures. Therefore, the risk committee, which is described as an internal mechanism formed within the board of directors, can have a positive impact on firm performance. Because this committee can play a crucial role in the more effective management of company assets by detecting negative situations that may hamper the profitability of the company (Aytekin and Sönmez, 2019). There is no evidence in the literature regarding the relationship of the number of risk committee members and the number of risk committee meetings with firm performance. Nonetheless, there have been different ascertainments regarding the relationship of the number of audit committee members and the number of audit committee meetings with firm performance. In this context; Abbott et al. (2000) stated a positive relationship between the number of audit committee meetings and firm performance; and Darko et al., (2016) detected a negative relationship between the number of audit committee meetings and firm performance; whereas Al Farooque et al. (2020) found no relationship between the number of audit committee meetings and firm performance. On the other hand; Tornyeva and Wereko (2012) stated a positive relationship between the number of audit committee members and firm performance; and AlVafeas (1999) claimed a negative relationship between the number of audit committee members and firm performance; whereas Brick and Chidambaran (2010), Darko et al., (2016), Zhou et al., (2018), Al Farooque et al., (2020), Puni and Anselinya (2020) found no relationship between the number of audit committee members and firm performance. In this context, the following hypotheses are tested.

H4: There is a positive relationship between the number of audit committee members and financial performance.

H5: There is a positive relationship between the number of audit committee meetings and financial performance.

H6: There is a positive relationship between the number of risk committee members and financial performance.

H7: There is a positive relationship between the number of risk committee meetings and financial performance.

Meeting Frequency and Financial Performance

Board meetings provide board members with an opportunity to come together and discuss and exchange ideas about organizational problems that may arise. Board meetings enable the assessment and development of the company's activities and the performance of the executives. Decisions made during the board meetings can be effective in minimizing conflicts of interest and agency costs. Frequency of board meetings may also have a positive impact on firm performance since it can fulfill the control over the executives and the advisory function of the board (Haji & Mubaraq, 2015; Al Farooque et al., 2020; Vafeas, 1999). There have been various ascertainments in the literature regarding the relationship between the number of meetings and firm performance. There is evidence that these relationships are negative in some studies, whereas no relationship is found in some other studies. Accordingly; Haji and Mubaraq (2015), stated a negative relationship between the number of meetings and firm performance; whereas Bhaat and Bhattacharya (2015), Al Farooque et al. (2020), Puni and Anselinya (2020) found no relationship between the number of meetings and firm performance. In this context, the following hypothesis is tested.

H8: There is a positive relationship between the number of board meetings and financial performance.

Ownership Concentration and Financial Performance

Ownership concentration is one of the determinants of corporate governance practices in the company (Kao et al., 2019). Ownership concentration can be classified as both block share holder ownership and state ownership (Darko et al., 2016). When an effective ownership concentration exists in the company, there would be no power that can individually affect the decision-making process or the direction of the company activities. All shareholders within the company have the right to vote on the firm performance commensurate with their shares. Notwithstanding, the shareholders holding the majority of the shares may act in a way to affect the performance of the company since they have intensive ownership concentration (Al Farooque et al., 2020). Moreover, the intensive ownership concentration can reduce the agency problems that may arise in the company (Darko et al., 2016). If those who hold the majority of the shares can appoint their own candidates to executive positions or board of directors, they can control both those in the board of directors and the directors. Since this would reduce the conflict between company owners and managers, the firm performance may increase (Al Farooque et al., 2020; Puni and Anlesinye, 2020). There have been various ascertainments regarding the relationship between the largest shareholder ratio and firm performance in the literature. There is evidence that these relationships are positive in some studies, whereas negative in some other studies. Accordingly; Claessens ve Djankov (1999), Chen (2000), Wiwattanakantang (2001), Buachoom (2018) stated a positive relationship between the largest shareholder ratio and firm performance; whereas La Porta et al., (1999), Demsetz and Villalonga (2001), Lefort and Urzua (2008) found a negative relationship between the largest shareholder ratio and firm performance. In this context, the following hypothesis is tested.

H9: There is a positive relationship between the largest shareholder ratio and financial performance.

4. Methodology

Dataset, Variables and Research Model

This research study includes the data of 104 companies of the Industrial Index (usually operating in the manufacturing sector) trading in BIST obtained over the period 2012-2019. According to the information received from the Public Disclosure Platform (PDP), there are 161 companies in the "Industrial Index" as of 2019. However, 57 of these companies are not included in the study since their data between the specified years could not be retrieved. According to this; the number of observations of the study was 728. The data regarding the financial performance and corporate governance of the companies that form the scope of this study are obtained from the financial statements and annual reports published on the Public Disclosure Platform (www.kap.org.tr) website. This study aims to investigate the relationship between corporate governance practices and the financial performance of companies.

Table 1. Variables and Description

Dependent Variable	**Definition**
Return on Assets (ROA)	The percentage of net income to total assets
Independent Variables	**Definition**
Board Size (BSIZE)	Total number of members on board of directors
Board Independence (BI)	Proportion of independent members on board of directors
Gender Diversity (GD)	The proportion of female directors
Ownership Concentration (OC)	The largest shareholders' ownership (%)
Board Meeting Frequency (BMEETF)	Number of board meetings in a fiscal year
Audit Committee Size (ACS)	Total number of members on the audit committee
Risk Committee Size (RCS)	Total number of members on the risk committee
Audit Committee Meeting (ACMEETF) Frequency	Number of audit committee meetings in a fiscal year
Risk Committee Meeting (RCMEETF) Frequency	Number of risk committeemeetings in a fiscalyear
Control Variables	**Definition**

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Size (LnSIZE)	The naural logarithm of total assets
Sales (LnSALES)	The natural logarithm of toal sales

Source: Authors' calculations

Table 1 introduces the dependent and independent variables included in the research model and their explanations. Accordingly; the dependent variable of the study is the return on assets (ROA), the independent variables are the number of board members, the ratio of independent members, the ratio of female members, the largest shareholder ratio, the frequency of board meetings, the number of audit committee members, the number of risk committee members, the number of audit committee meetings, and the number of risk committee meetings. Total Assets and Total Sales are included in the model as control variables.

In this study, the relationship between corporate governance and financial performance is investigated using the System GMM analysis method. The balanced panel dataset is utilized in the research. The model used in the study is as follows:

$$ROAit = \beta 0 + \beta 1BSIZEit + \beta 2BIit + \beta 3GDit + \beta 4OCit + \beta 5BMEETFit + \beta 6ACSit + \beta 7RCSit + \beta 8ACMEETFit + \beta 9RCMEETFit + \beta 10LnSALESit + \varepsilon it \quad (1)$$

Here, ROA denotes the dependent variable; BSIZE, BI, GD, OC, BMEETF, ACS, RCS, ACMEETF, RCMEETF denote the independent variables, whereas LnSALES denote the control variable.

Analysis

Descriptive Statistics

Table 2 presents the descriptive statistics of the variables in the model regarding the relationship between corporate governance practices and firm performance. The mean value of returns on assets of the companies included in the Industrial Index in Turkey is 5.2%.

The mean values of the variables regarding corporate governance; namely, the number of board members, the ratio of independent members, the ratio of female members, the largest shareholder ratio, the meeting frequency, the number of audit committee members, the number of the risk committee members, the audit committee meeting frequency, and the risk committee meeting frequency are 7.51, 31%, 12.1%, 52.1%, 23.47, 2.03, 2.62, 4.47, and 5.49; respectively. The mean values of both control variables, namely, Total Assets and Total Sales are 20.134, and 19.872, respectively. Upon evaluating these results in terms of the regulation published in 2014; it was stated that the number of members of the board of directors should be at least 5. Accordingly, the boards of directors of the companies included in the Industrial Index consist of an average of 7.51 people, and it can be claimed that they comply with the criteria specified in the regulation. Upon evaluating in terms of independent member ratio; it was stated in the regulation that 1/3 of the independent members should be in the board of directors, and the ratio of 31% obtained as a result of the study does not comply with the ratio specified in the regulation. Similarly, in the 2014 regulation, a target ratio was specified for companies to have at least 25% female members in their boards of directors. The ratio of female members in the boards of these companies operating in Turkey is detected as 12%. In this context, it cannot be claimed that companies fully achieve the specified target ratio. In the regulation, it was stated that the audit committee is obliged to convene at least 4 times a year, and the risk committee 6 times a year. Accordingly; it can be asserted that the number of meetings of the audit committee (4.47) and the number of meetings of the risk committee (5.49) comply with the determined criteria.

Table 2. Descriptive Statistics

Variables	Mean	Std.Dev.	Min	Max
Return on Asset (ROA)	.052	.1	-.354	.995
Board Size	7.51	2.185	3	15
Board Independence	.31	.07	0	.667
Gender Diversity	.121	.124	0	.6
Ownership Conc.	.521	.222	.056	.978
Board Meeting frequency	23.468	13.743	0	110
Audit committee size	2.03	.215	2	6
Risk committee size	2.62	.755	2	6
Audit committee meeting frequency	4.477	1.068	0	12
Risk committee meeting frequency	5.492	1.446	0	11
Total Assets (LnSIZE)	20.134	1.551	16.908	24.739
Total Sales (LnSALES)	19.872	1.713	11.400	25.218

Source: Authors' calculations

Correlation Analysis

Table 3 includes the correlation analysis conducted for the dependent and independent variables in the model to determine the relationship between corporate governance practices and firm performance. In Table 3, it is determined that a high correlation exists between the ratio of independent members and the number of board members (-0.638). However, the correlation coefficient between the specified variables is not at the level of 0.80, which may cause multicollinearity. Therefore, the variables are included in the research model. There is a high correlation between LnSIZE and LnSALES (0.921) control variables. Since this may cause multicollinearity, the LnSIZE variable was excluded from the model. As a result of the correlation analysis; no correlation is detected between the ratio of female members and the ratio of independent members, between the frequency of board meetings and ownership concentration, between the number of members of the audit committee and the number of members of the board of directors, and between the ratio of independent members and the frequency of meetings. Furthermore, there is a positive relationship between the ratio of female members and the number of board members, a negative relationship between board meetings and the number of board meetings, a positive relationship between female members and meeting frequency, and a negative relationship between the largest shareholder ratio (OC) and the number of board members. It is determined that there is a positive relationship between the ratio of independent members and the ratio of female members and the largest shareholder ratio (OC), a negative relationship between the risk committee and the ratio of independent members, a positive relationship between the risk committee and the number of board members and the number of members of the audit committee.

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Table 3. Correlation Analysis

	ROA	BSIZE	BI	GD	OC	BMEETF	ACS	RCS	ACMEETF	RCMEETF	LnSIZE	LnSALES
ROA	1											
BSIZE	0.0551	1										
BI	-0.0665	-0.638***	1									
GD	0.0245	-0.132***	-0.00699	1								
OC	0.160***	-0.184***	0.0859*	0.111**	1							
BMEETF	-0.0573	-0.186***	-0.0285	0.194***	0.0538	1						
ACS	-0.0348	0.0623	-0.0173	-0.0747*	-0.106**	-0.0133	1					
RCS	-0.0456	0.261***	-0.282***	0.0198	-0.0391	-0.0167	0.115***	1				
ACMMETF	-0.0679	0.0803*	0.0155	-0.0717*	-0.0370	0.00438	-0.0259	-0.0451	1			
RCMEETF	0.00717	-0.0409	-0.00415	0.0318	-0.0110	0.127***	0.0105	-0.0128	0.161***	1		
LnSIZE	0.0833*	0.487***	-0.149***	-0.0188	0.105**	-0.0150	0.00314	0.0856*	0.0822*	0.0327	1	
LnSALES	0.0998**	0.477***	-0.180***	-0.00195	0.105**	-0.0118	0.0458	0.112**	0.0758*	0.0128	0.921***	1
*** p<0.05, ** p<0.01, *** p<0.001**												

Source: Authors' calculations

Empirical Results

In this study, the system GMM (Generalized method of moments), which is one of the dynamic panel data analysis, is chosen to determine the relationship between corporate governance and firm performance. The reason for choosing this method is that econometric methods such as “ordinary least square”, “fixed effect” and “quasi-generalized least squares” do not allow efficient estimates in studies conducted on corporate governance. However, it would be more appropriate to use the GMM (Generalized method of moments) method proposed by Arellano and Bond (1991) and later developed by Arellano and Bover (1995) and Blundell and Bond (1998) to make better estimations. Specifically, in the System GMM method, it was first proven to improve in terms of bias and root mean square error, since the first difference model is transformed using the instrumental variable matrix. This method solves the problem of endogeneity by controlling individual and temporal effects as well as providing solutions to problems caused by simultaneous bias, reverse causality (especially between the board of directors, ownership concentration, and profitability), and neglected variables (Djebali and Zaghdoudi, 2020). The analysis results that reveal the relationship between corporate governance and firm performance are presented in Table 4.

Table 4. Regression Analysis Results

ROA	Coef.	St.Err	t-value	p-value	Sig.
L.ROA(-1)	.1587682	.0266902	5.95	0.000	***
BSIZE	.0049568	.0030213	1.64	0.101	
BI	.0816016	.0790761	1.03	0.302	
GD	.0273476	.0276486	0.99	0.323	
OC	.0542047	.0489991	1.11	0.269	
BMEETF	.0001464	.0002714	0.54	0.590	
ACS	-.0005937	.0092225	-0.06	0.949	
RCS	.0090266	.005153	1.75	0.080	*
ACMEETF	-.0016937	.0026063	-0.65	0.516	
RCMEETF	.0059235	.0020239	2.93	0.003	***
LnSALES	-.0068067	.0026795	-2.54	0.011	***
Wald		119.93			
P-Value		0.000			
AR (1)		-2.053			
P-Value		0.0401			
AR (2)		-.1022			
P-Value		0.9186			
Sargan Test		33.06624			
P-Value		0.1602			

Mean dependent var	0.053	**SD dependent var**	0.102
Number of obs	728	**Chi-square**	119.93

*** p<0.01, ** p<0.05, * p<0.1

Source: Authors' calculations

Table 4 presents the System GMM (SGMM) analysis results regarding the model generated for the relationship between corporate governance practices and firm performance. The lagged value of the dependent variable is used as an instrument variable while conducting the analysis. In the system GMM analysis method, the lagged value of the dependent variable is used as an independent variable in the model. Accordingly, the significance of the lagged value obtained explains the change in the dependent variable. In this context, the lagged value of ROA (L.ROA) describes the change in the dependent variable ROA (0.1587, p-value: 0.000).

According to the System GMM estimator results in Table 4, no relationship between board size (BSIZE) and ROA (0.0049, p-value: 0.101). According to this result, the H1 hypothesis (the positive relationship between the number of board members and firm performance) is rejected. In other words, changes in the number of board members of companies would not affect financial performance. But this result supported by Kula (2005), Selekler and Karataş (2008), Ocak (2013), Elitaş et al. (2009), Lam and Lee (2010), Ujunwa (2012), Bhatt and Bhattacharya (2015), Darko et al. (2015), Allam (2018), Tleubayev et al. (2020).

The finding of no relationship between the ratio of independent director (BI) and firm performance (0.0816, p-value: 0.302) in Turkish-Listed firms is similar to the findings documented in other studies such as Lam and Lee (2010), Allam (2018), Kaymak and Bektaş (2008), Kula (2005), Üsdiken and Yıldırım Öktem (2008), Karoğlu (2016). H2 hypothesis (the positive relationship between the rate of independent board members and firm performance) is not accepted. This result indicated that independent members in Turkey do not act independently.

Also, Gender diversity (proportion of female members) is not related to financial performance (0.027, p-value: 0.323). Therefore, the H3 hypothesis (the positive relationship between the rate of female members and firm performance) is rejected. This result is supported by Randoy et al. (2006), Miller ve Del CarmenTriana (2009), Carter et al. (2010), Fianoski et al. (2014). Furthermore, these results in the context of Turkey are also supported by Yurt (2020), Taşkın ve Mandacı (2017). These results indicate that a sufficient number of decisions are made concerning the fact that no female members in Turkey demonstrate that the boards of directors play an effective role.

No relationship between ownership concentration (The largest shareholders' ownership) and firm performance (0.054, p-value: 0.269). According to this result, the H9 hypothesis (the positive relationship between the largest shareholders rate and firm performance) is rejected. This result indicates that it would be possible to say that the eldest members or the founders of the family businesses operating in Turkey tend to direct the companies' operations in favor of their own interests rather than the companies' interests since they are the largest shareholders holding the majority of the companies' shares.

The finding of no relationship between board meeting frequency (BMEETF) and firm performance (0.00014, p-value: 0.590) in Turkish-Listed firms is similar to the findings documented in other studies such as Vafeas (1999), Bhaat and Bhattacharya (2015), Al Farooque et al. (2020), Puni and Anselinya (2020). The H8 hypothesis (the positive relationship between board meeting frequency and firm performance) is not accepted. In other words, the frequency of the meetings held by the companies does not affect firm performance.

We have argued that the audit committee will have a positive impact on the financial performance of Turkish listed firms. The empirical results, however, surprisingly revealed that the presence of the AC does not have any impact on the firm performance of listed firms in Turkey (-0. 00059, p-value: 0.949). Therefore, the H4 hypothesis (the positive relationship between the number of audit committee members and financial performance) is rejected. But this result supported by Brick and Chidambaran (2010), Romano et al. (2012), Hamdan et al. (2013), Darko et al. (2016), Kowalewski (2016), Borlea et al. (2017), Mardnly (2018), Zhou et al. (2018), Al Farooque et al. (2020), Puni and Anselinya (2020). Besides, there was no relationship between the audit committee meeting frequency and firm performance of listed firms in Turkey (-0. 00169, p-value: 0.516). The H5 hypothesis (the positive relationship between audit committee meeting frequency and financial performance) is not accepted. Also, these results are supported by Rebeiz ve Salameh (2006), Sharma et al. (2009), Al Farooque et al. (2020). No relationship between the audit committee meeting frequency and the firm performance can be attributed to the disagreement between the audit committee and the managers, and the emergence of different opinions in the meetings held frequently.

According to the analysis results, there is a positive relationship between the risk committee size (RCS) and the financial performance at the 10% significance level (0. 0090, p-value: 0.080). In this context, the H6 hypothesis (the positive relationship between the number of risk committee members and financial performance) is accepted. The change in the number of risk committee members can positively affect the firm performance (ROA). Moreover, there is a positive relationship between the risk committee meeting frequency and financial performance at a 1% significance level (0.00592, p-value: 0.003). Accordingly, the H7 hypothesis (the positive relationship between risk committee meeting frequency and financial performance) is accepted. In this case, it can be claimed that the more often the risk committee convenes, the higher the firm performance (ROA) would be positively affected, and the committee makes effective decisions to increase the firm performance. There is no evidence regarding the relationship between these variables in the literature.

It is determined that a negative relationship exists between Sales (LnSALES), which is control variable, and ROA at a 1% significance level.

As a result of the specification tests, the Wald statistic is significant (0.000, $p < 0.05$), and it can be asserted that the independent variables explain the dependent variables. Furthermore, it can be claimed that there is no second-order autocorrelation in the model, the instrumental variables are valid ($p = 0.1602$) according to the Sargan test results, and there is no endogeneity problem in the model. So overidentifying restrictions are valid.

Conclusion

Upon overall evaluation, it is concluded that no relationship of the number of board members, the ratio of independent members, the ratio of female members, the ownership concentration, the frequency of board meetings, the number of audit committee members, the frequency of audit committee meetings with the firm performance is found, whereas there is a positive and significant relationship of the number of risk committee members and the frequency of the risk committee meetings with firm performance.

No relationship has been found between the number of board members and firm performance regarding the relationship between the variables of corporate governance practices analyzed within the scope of the research and firm performance. In other words, changes in the number of board members of companies would not affect financial performance. Although there is a great deal of evidence regarding the existence of a relationship between the number of board members and financial performance, it could not be detected in this study. However, the obtained result is supported by the literature. For example; Selekler and Karataş (2008), Lam and Lee (2010), Ujunwa (2012), Bhatt and Bhattacharya (2015), Darko et al. (2015), Allam (2018), Tleubayev et al. (2020), stated no relationship between the number of board members and financial performance.

In the study, no relationship is detected between the ratio of independent members and firm performance. The proportion of the independent members in the board of directors may differ according to countries. This situation has also been noted in academic studies (Mi Choi et al., 2012; Üsdiken & Yıldırım Öktem, 2008). Especially upon evaluating the business systems point of view, the Turkish and Korean Business Systems are in perfect similarity (Whitley, 1994). Accordingly, similarities of national business systems, as well as company group structures in Turkey and Korea, would lead to an analogy regarding the independent members of the boards of directors (Karoğlu, 2016). Besides, it is thought that independent managers in family businesses are in close contact with family members (Cuadrado-Ballesteros et al.,2015, p.892). This situation may cause independent members in the board of directors to be influenced by the opinions of family members (Chen & Jaggi, 2000). Therefore, the independence of independent members is also disputable in companies with intense family control. This situation is confirmed by academic studies. For example; there are studies revealing that independent directors do not act as independent and many independent members are dependent in the context of Turkey (Kaymak and Bektaş, 2008: 559; Üsdiken and Yıldırım Öktem, 2008; Karoğlu, 2016). Therefore, it is not surprising that the H2 hypothesis is not accepted. The analysis results confirm that independent members in Turkey do not act independently. The relevant literature supports the obtained results. Lam and Lee (2010), Allam (2018) assert evidence that there is no relationship between independent member ratio and firm performance.

As a result of the research, it is determined that no relationship exists between the ratio of female members and firm performance. It is stated in the literature that the ratio of female members has increased (Isidro & Sobral, 2014; Virtanen, 2010). In the context of Turkey, however, the number of female members is increasing (Menteş, 2010). Moreover, in the communiqué published by the CMB in 2014, a goal was set for companies to constitute at least 25% of their board of directors with female members. Nevertheless, as a result of the study, it is seen that some companies could not achieve this goal. This situation indicates that the regulations regarding the ratio of female members are not institutionalized in the context of Turkey. Besides, it is thought that the female member ratio in the boards of directors is considered to be at the desired level for companies operating in Turkey due to the fact that the companies have concentrated family ownership concentration and the families do not prefer to include any unrelated individuals to the boards of directors since they do not have daughters. Also, the insufficient number of female members without an effective role in decisions made in boards of directors in Turkey may account for the nonexistence of such relationships while female members are expected to have a positive impact on firm performance. The obtained analysis results are supported by the relevant literature. Miller and Del CarmenTriana (2009), Carter et al. (2010) revealed no relationship between the ratio of female members and firm performance.

The present study concludes that no significant relationship exists between board meeting frequency and firm performance. In other words, the frequency of the meetings held by the companies does not affect firm performance. This situation complies with Vafeas (1999), Bhatt and Bhattacharya (2015), Al Farooque et al. (2020), Puni and Anselinya (2020).

Ownership concentration refers to the share of the shareholder holding the most shares in the company. The increase in the ratio of that shareholder's shares would not have an impact on firm performance. Although the agency problems that may occur in companies with concentrated ownership concentration are expected to decrease (Darko et al., 2016: 262), the fact that those who hold most of the shares are in managerial positions or are in the board of directors would have no impact on the decrease of possible conflicts between shareholders and managers, and on the firm performance. Furthermore, it would be possible to say that the eldest members or the founders of the family businesses operating in Turkey tend to direct the companies' operations in favor of their own interests rather than the companies' interests since they are the largest shareholders holding the majority of the companies' shares.

In the study, no significant relationship is found between the number of audit committee members and firm performance. There have been various studies supporting this situation in the relevant literature. For instance; Brick and Chidambaran (2010), Romano et al. (2012), Darko et al. (2016), Al Farooque et al. (2020), Puni and Anselinya (2020) found no relationship between the number of audit committee members and financial performance. Similarly, the absence of a relationship between the audit committee meeting frequency and the firm performance can be attributed to the disagreement between the audit committee and the managers, and the emergence of different opinions in the meetings held frequently. The fact that the audit committee consists of independent members and the current study does not find a significant relationship between the number of independent members and the firm performance is an antecedent to the fact that no relationship exists between the audit committee meeting frequency and the firm performance. Although Al Farooque et al. (2020) and Pini and Anlesinya (2020) asserted that frequently held audit committee meetings would contribute to the improvement of the firm performance, frequent audit committee meetings of the companies trading in BIST in Turkey does not have any impact on firm performance.

The analysis result asserts a positive relationship of the number of risk committee members and the frequency of the risk committee meetings with the firm performance. In this case, it can be claimed that this committee constituted within the scope of corporate governance practices and the meetings held by this committee have a positive impact on firm performance. It also indicates that this committee fulfills its duties stated in the communiqué and has positive impacts on the company. In other words, it ensures that the company is guided correctly by contributing to financial management policies. There is no evidence regarding the relationship between these variables in the literature.

This study is conducted only on the companies registered in Borsa Istanbul and included in the Industrial Index. This situation is considered as a limitation of the study. Secondly, data obtained over the period 2012-2019 are utilized in the study. Although it is not thought that there have been noteworthy changes in the boards of directors of the companies following the communique of the CMB in 2011 and 2014, this situation is considered as a constraint.

According to the results of this study; we believe that it is one of the comprehensive studies in terms of the scope of corporate governance mechanisms determined by the Capital Markets Board of Turkey (CMB) as well as financial performance. We are under the impression that the results of this research study would improve the corporate governance practices in Turkey. As it is well-known, corporate governance has two main control aspects: external and internal mechanisms. In this context, the rights of minority shareholders are being tried to be protected by internal mechanisms since the external mechanisms have not been fully improved in developing countries such as Turkey. Nevertheless, the presence of highly prevalent family-owned companies operating in developing countries such as Turkey and the effectiveness of the family members in the decision-making process lead to the disregard of minority shareholders. This situation leads to the emergence of Type II agency conflicts. The research results also support the situation mentioned above. Therefore, companies and investors traded in Turkey should consider their corporate governance practices to improve their market values and ensure higher returns. Finally, it can be claimed that these results are also valid for developing countries with similar corporate governance practices and characteristics. This is due to the fact that developing countries have failed to generate adequate external mechanisms for protecting the rights of investors and Type II agency conflicts arising as a result of highly prevalent ownership of family members as well as other predominant shareholders. It is thought that the utilization of different sectors, period intervals, variables, and analysis methods in future studies would contribute to the literature as well as the formation of different perspectives on this subject.

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