Corporate Governance Practices in Turkey: Board Structure and Gender Issues

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ABSTRACT

The objective of this study is to investigate the relationship between board structure characteristics and corporate governance practices with performance in Turkish firms. Board structure elements, including board size, duality, the board's level of independence, and gender diversity are examined from agency theory perspective. The corporations' age are used as a control variable, Turkey's largest 50 companies whose shares are listed on the Istanbul Stock Exchange for the year 2011 are studied, and the ROA as the profitability indicator has been measured to explore the relevant relationships. Based on the analysis conducted in this research the only variable that is statistically significant and influences the ROA of Turkish corporations is board independence. This study uncovers that profitability declines in accordance with increasing the number of outsiders in the board. The study's weaknesses and avenues for future research are also explored.

Keywords: Board Structure, Gender, Corporate Performance

ÖZ

Bu çalışmanın amacı Türk firmaların performansı ile yönetişim uygulamaları arasındaki ilişkileri araştırmaktır. Yönetim kurulunun yapısını incelerken vekalet teorisi kullanılıp, yönetim kurulun üye sayısı, bağımsızlığı, cinsiyet çeşitliliği ve genel müdürün yönetim kurulu başkanı da olup olmadığına bakılmıştır. Şirketlerin yaşı kontrol değişkeni olarak kullanılmıştır. Hisseleri 2011 senesinde İstanbul Menkul Kıymetler Borsasında işlem gören en büyük 50 şirket incelenmiştir ve karlılık göstergesi olarak aktif karlılıgı ölçülmüştür. Bu araştırmadaki yapılan analizlere dayanarak istatistiksel olarak anlamlı olan ve Türk şirketlerin aktif karlılığını etkileyen tek değişken yönetim kurulu bağımsızlığıdır. Bağımsız üye saysını arttıkça karlılıkta bir düşüs meydana gelmektedir. İlerideki çalışmalar için öneriler ve bu çalışmanın zayıf yönleri de incelenmiştir.

Anahtar Kelimeler: Yönetim Kurulu Yapısı, Cinsiyet, Şirket Performansı

To my family for their love and support

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Chapter 1

INTRODUCTION

1.1 Corporate Governance and Agency Theory

Corporate governance is a systematic analysis of the series of rules and regulations in which a company's managers, board of directors, shareholders and other beneficiaries establish relationships and how control mechanisms are used to monitor their behavior.

In modern business settings, corporate governance practices and implications have become a vital concern especially for the affected parties inside and outside the corporations. Based on contemporary definitions, inside stakeholders refer to internal members such as organization's managers, board of directors and the employees, where outside stakeholders consist of external members including suppliers, creditors, shareholders, customers and any group of people who may influenced by the firm's activity. Campbell and Minguez-Vera (2008) believe that an effective corporate governance structure will benefit organizations because all constituents' benefits could be aligned. Allen and Gale (2001) stated that one of the fundamental aspects of corporate governance considers the inevitable conflicts between the owners and the managers, which could be decreased via separation of ownership and management.

Based on the agency theory approach, interest divergence between the corporations' owners, known as "principals", and the managers, known as "agents", is an inescapable phenomenon. The cornerstone of agency theory relies on securing shareholders' interests and mitigating possible conflicts with management. Interest gaps between agent and principal may arise from mainly two reasons: First, when their goals and concerns differ in directing the firm and the extent to which shareholders could verify managers' activities, and, second, their different reaction and inclination toward risks, especially in uncertain situations (Eisenhardt, 1989).

1.1.1 Board of Directors Composition

Board of directors is one of the predominant elements of corporations' governance structure, who are employed and empowered to oversee the management behavior and monitor the organization on behalf of the shareholders. Assigning a board of directors with a monitoring component of corporate governance structure may soften the intensity of agency problems, as well as balance agents and principals' interests and concerns (Fama, 1980). The main responsibility delegated to the board of directors is to ensure they protect the shareholders' important priorities and concerns, which in fact should be carried out in an optimal and economical manner. Consequently, the extents to which boards are composed have become important to scrutinize. Numerous studies have been carried out in different contexts and national settings to explore and uncover the most optimal and practical corporate governance mechanisms and the board of directors' structure.

Deciding on the board of director's size has received significant attention from many researchers and is considered to be an indicator of the performance level of corporations. However, no solid conclusion has surfaced from the numerous studies so far, but each has their own justification and reasoning. Some scholars believe in having small board of directors due to communication and coordination difficulties between the board members that may detract the firm's performance. While, advocates of larger boards like Dalton and Dalton (2005) claim that, the more directors on the board, the better the flow of effective and creative ideas between members which will positively affect the ultimate performance of the company.

Another issue of contention in the board of director's composition is board independence. One position maintains that directors need adequate power and autonomy to be able to monitor and judge the managers' activity and make unbiased decisions. Outside (independent) directors are the ones who are employed from outside the company and have neither a financial relationship with the company, nor own any shares of it. Although, many believe that inside directors (dependent) are better in keeping and transferring crucial information since their detailed knowledge about the firm's activity will help them to be more effective. They argue that independent directors are not necessarily the objective decision makers they are posited to be, since there are many situations in which outside directors have special ties with the executive managers which may neutralize this positive stance (Coles et al., 2008). In fact, decisions on the level of board independency depend on the firms' specific corporate governance mechanism and may require both strategies (Butler and Baysinger, 1985).

Another subject dealing with board composition is CEO duality. It occurs when the CEO of a corporation is also assigned as the chairperson of board of directors. The critical point in such situations is whether a CEO who simultaneously functions on the board can objectively evaluate and monitor his/her own performance (Daily and Dalton, 1992). Some researchers like Davis et al. (1997) support CEO duality for its possible merits assuming that with greater control power of the CEOs, potential conflicts may be dispelled easier. On the other hand, various evidence show the negative influence of duality on the firms' performance and declare that it constrains accurate evaluation of managers' behavior and causes problematic situations.

Arguments about board diversity in recent years have recently included gender issues. Female representation on the boards and the subsequent improvements in the firms' performance make this topic of study an area worthy of further investigation. Lots of empirical evidence has revealed that the presence of women on the boards results in financial success (Oba and Fodio, 2013). Smith et al. (2006), and Robinson and Dechant (1997) argue that the involvement of women with diverse perspectives helps corporations reach more comprehensive decisions, positively influences customer attitudes, and enhances market penetration. Opposing arguments toward gender diversity claim that homogeneous boards may perform better in terms of communication. They support their position by pointing out that women exhibit more turnover and have a higher absenteeism rate which negatively affects performance (Earley and Mosakowski, 2000; Cox and Blake, 1991).

Each of these corporate governance elements has its own merits and drawbacks. Undoubtedly, different country-specific principles, policies and mechanisms have different implications on the corporate governance of organizations. Therefore, no single prescription is feasible and generalization of findings could be misleading or impractical.

Turkey with its prevailing economic growth over recent years has attracted considerable attention from inside and outside the country by groups who find it worthwhile to evaluate its investment opportunities. Although, Turkey’s unique corporate characteristic with mainly family-owned systems and centralized governance mechanism, along with its weak regulatory principles, make the analyses more complex (Ozatac, 2011).

Chapter 2

LITERATURE REVIEW

2.1 Corporate Governance

Corporate governance deals with a structural system of a company at which management, board of directors and its shareholders interact through the firms' regulations and seek to meet its objectives. Corporate governance concerns the way in which shareholders of the companies who supply funds to the corporation protect their investment. Cadbury (1992) defined corporate governance as a mechanism that organizations can utilize to regulate and manage their beneficiaries. According to Campbell and Minguez-Vera (2008) corporate governance is a tool in which all constituents from managers to the board of directors, and from dominant to minor shareholders are brought into line. Accordingly, this conformity of interest would satisfy all the parties inside and outside of the organization.

2.1.1 Agency Theory and Problem

Theoretically, in a company two sources of powers engage each other. Agency theory defines these two cooperating parties as principals, who are the shareholders of the company, and, on the other side, there are the managers titled as the agents whose responsibility is to work on shareholders behalf and function as protectors of their concerns. The predominant question is, whether shareholders could feel secure about the managers' reliability of pursuing their return and gain? Why has controlling and monitoring mechanisms at corporations have become a complicated

phenomenon? (Shleifer and Vishny, 1997). The 1960s to 1970s was the period in which phenomenon of risk sharing across people in society was introduced and discussed by the some economists such as Robert B. Wilson and Kenneth Joseph Arrow (Eisenhardt, 1989). Afterward, Eisenhardt (1989) used agency theory with this view that existence of possible risk sharing between collaborating parties has been naturally laid in this theory formation so that agents and principals pursue different objectives which in fact are based on dissimilar perspective toward management and company's direction.

In real sense there are always inevitable deficiencies which occur in governance control systems like information asymmetry, moral hazard, power and selection conflicts, to name but a few. Possible remedies of such problems have been allocated in the system of corporate governance by assigning a board of directors, forming external controlling units and developing managers' incentives programs or even by centralizing the firms' structures (Bonazzi and Islam, 2007). Bonazzi and Islam (2007) believe that assigning an efficient board of directors, who can function in a useful manner, could be the best alternative for the purpose of reaching an optimum corporate governance structure. Hence, the board of directors' function and position becomes significant in organizations, as they attempt to balance the rights and interests of shareholders. Indeed, the structure and composition of this unit gain a major attention in corporate governance topic (Fama, 1980). Baysinger and Butler (1985) described the role of board of directors as being responsible to carry out hiring and firing arrangements, a rewarding process, and a capable force for utilizing the company's activity through cost effective tools which benefit both principals and agents.

The identification of agency design and structure, principals and agents' concerns and interests are assumed to be at odds. There are several mechanisms that shareholders use in order to direct and control the action of the managers to prevent possible divergence from a company's fundamental objectives. Nevertheless, divergence of interest has been always an inseparable issue in agency contracts even if shareholders exert strategies such as equity or share granting programs which in fact may lead to excessive costs (Jensen and Meckling, 1976; Ross, 1973; Hill and Jones, 1992).

Basically, corporate governance relies on the agency perspective which is separation of control and ownership and is extremely important. Based on Allen and Gale's (2001) interpretation, a corporation can be defined as the segregation of the unit of control from ownership. The more efficient the corporation balances this separation, better the performance of the managers would be in preservation of shareholder rights. Nordberg (2008) elaborated that public companies whose shares are publicly traded differ from privately-held ones in terms of governance and structure. What is realized as the separation of owners and managers' right which is the cornerstone of agency problem is relatively different. In order to mitigate the potential divergence, public companies' shareholders benefit from hiring board of directors who are supposed to control and inspect the managers' behavior. Meanwhile, the conduct of board of directors will raise further complication in the agency relationships which require their own precision in selection and coordination.

Following the discussion about divergence of interests between agents and principals, Sheikh (2012) mentioned the critical matter when shareholders attempt to propagate their gain and face moral hazard. Basically, this incident arises when

managers rather than boosting the overall wealth, want to maintain their individual power and benefits.

Although agency problems and conflicts are unavoidable in a corporate governance mechanism, they can be managed in an optimal way. Along with the strategies that both parties use to balance the interaction, there is no doubt that logical thinking by managers in protecting shareholders rights, not only benefits the principals but also the payoffs for being reliable and conscientious are even more beneficial for themselves. As a result they can achieve a win-win strategy (Nordberg, 2008).

Different attitudes toward corporate governance ideal mechanism exist even in developed economies around the world. According to Shleifer and Vishny (1997) Germany, United States, United Kingdom and Japan have the most developed corporate governance systems. Cultural discrepancy, financial ruling system, and legal conducts among nations are the yardsticks of how the corporate governance can be shaped and organized (Licht, 2001). Young et al. (2008) argue that in emerging markets interest divergence mostly occurs between the shareholders themselves, called the principal-principal, problem where the dominant shareholders try to take advantage of the minor shareholders. Kaymak and Bektas (2008) explained the noticeable causation for such disarrangement in emerging markets. They mentioned opaque legal systems, ambiguous objectives of firms and managers, traditional barriers, and the absence of sufficient official and governmental remedies leading to the abuse of minority shareholder.

2.1.2 Turkey's Corporate Governance Characteristics

Turkish Corporate Governance laws were announced by the Capital Market Board (CMB) in 2003 which have been revised in February 2012. The purpose of new amendments is to comply more with European and international standards on capital markets .Based on these amendments, independent directors must now comprise one-third of the board of directors while they cannot be less than 2 members. Furthermore, Turkish listed companies are required to assign at least one woman to their board of directors. Moreover, shareholders who also engage in management control, board of directors, and executive positions must inform the general assembly in case of any transactions that might bring conflict to the subsidiaries. (Amendment to Corporate Governance, 2012)

In general, equality, transparency, accountability and the responsibility are the core ideas at which these laws and principles are built on. These principles are valid concepts already accepted internationally (Shleifer and Vishny, 1997). Equality considers equal management behavior and conduct toward the other shareholders and stakeholders in order to avoid any possible conflict. Transparency is the principle in which companies disclose their related non-confidential financial or general information to the public. The information must be accurate, comprehensive, timely, and easy to use at reasonable cost. Accountability relates to the boards' responsibility toward the company and the shareholders as the important role within the corporation. Finally, responsibility means the firms' obligation to conform of all their activities with the external rules and legislations, internal policies and the audit principles (Yuksel, 2008).

Companies whose shares are listed on the ISE (Istanbul Stock Exchange) are obligated to publish an annual report on their corporate governance practices which will be used as an evidence of their conformity or nonconformity to the basic principles. Undoubtedly, any misrepresentation or faulty information by the directors and managers would make them even more accountable to the shareholders (Nilsson, 2007). Although, the rules of the OECD (Organization for Economic Co-operation and Development) are the cornerstone of Turkey's corporate governance principles any country or company can apply this system in setting up a governance configuration. According to Roe's (2003) argument there is no standard corporate governance approach which is applicable in every country.

Turkey is a good example of an emerging market where, along with inevitable global tendency toward globalization and international advancements, there is a flexible and adaptable approach towards corporate governance mechanisms (Kaymak and Bektas, 2008). Turkey's particular Asian-European geographic situation has turned this country into a critical spot in terms of strategic, political and commercial matters, along with a rapidly growing economy. Continuing negotiations about Turkey's intention to join the European Union (Nilsson, 2007) is another fundamental issue in importance of the studies on this country. Moreover, much attention to Turkey's corporate governance system stem from increasing numbers of foreign investors who have found this country lucrative, which in fact will increase the likelihood of internal and external pressure to adopt internationally accepted corporate governance practices (Kaymak and Bektas, 2008).

Yurtoglu (2003) noted that more than 70 percent of Turkish public companies whose shares are traded on stock exchange are owned by family members with feeble

control systems. Principal-principal problem presented by Young et al. (2008) has been exposed by Bektas and Kaymak (2009) in their discussion of the Turkish governance mechanism. They mentioned that distinctive cultural and country-specific traits in emerging markets like Turkey evoke more horizontal problems within the corporations named as principal-principal conflict. La Porta et al. (2002) scrutinized this situation by considering the improper use of western corporate governance systems in emerging market environments. Oba et al. (2010) presented Turkish corporate ownership system as highly concentrated, which is mainly governed by a group of families with interlocking firms known as a pyramid system of governance. It has been also mentioned in this piece of research that weak regulatory framework in privately owned firms in Turkey has worsened the situation. Basically, Turkish companies are owned by family groups, and thus do not face fundamental agency problems due to involvement of the family members in almost all decision making. As a result, board of directors' power to play as a safeguard of minority shareholders is weakened. In such companies, board members who are dependent members of the firm only function as consultants and generally do not disagree with the ultimate decision made by the family owners. The predominant duties assigned for board of the directors would be only approving the official practices as well as defining optimal strategies for the company which is not in line with the controlling nature of boards' responsibility (Kula and Tatoglu, 2006).

Demirag and Serter (2003) stated that in Turkey the family-owned companies' governance mechanism has been an extremely centralized structure named as "insider system". The dominance of family ownership over large number of Turkish companies not only has covered the private businesses but also occupies large corporations too (Gunduz and Tatoglu, 2003).

In general, the composition of board of directors as a building block of corporate governance is one of the critical subjects and many researches have illustrated substantial correlation with the performance of the companies and boards structure (Oba et al., 2010). As indicated in Black et al. (2005) in Korea and Russia the board composition is a major indicator of performance and company value.

Next, I will discuss four dimensions that have been greatly explored by numerous studies to measure the relationship between board composition and corporate performance. These dimensions consist of board size, board independence, CEO duality and gender diversity.

2.1.3 Board Size

Board size is one of the fundamental aspects of corporate governance composition and the extent to which it influences on the firm's performance has become an essential subject of study. The numerous discussions about the affiliation between board size and performance reveals the importance of examining this construed in different contexts.

Prior literature on board size and corporate governance has not reached a single conclusion. Many researchers including Yermack (1996), and Eisenberg, Sundgren, and Wells (1998) in their studies found a negative relationship between corporate performance and the size of board of directors.

Many suggested that a larger board size leads to communication difficulties between members and will find it hard to attain a cohesive decision. Accordingly, the final decisions by the organization and its management unit will be suboptimal. In such

situations the final judgment may be more kind of self-sacrifice from decision makers and would be less precise (Sah and Stiglitz, 1991). As such, in companies where larger boards are assigned, the agency problems occur due to nonproductive interactions (Cheng, 2008).

Jensen (1993) illustrated that under agency problem the environment in which board's size is large, decisions are less comprehensive and CEOs would feel more righteous to be autonomous as well as be able to control boards' activities and hamper improvisation. He also added that small board face lesser bureaucratic complications and are more comfortable and accountable in monitoring procedures. Adam, Alemeida, and Ferreira (2005) believe that when CEOs become more powerful in companies with large boards, their influence on the firm's performance is indeterminate. The gains that possibly could be achieved through selecting a larger number of directors, will be suppressed by agency problems cost and the communication conflicts in organizations, leading to weak corporate performance.
Some of the researchers like Baysinger and Butler (1985), Hermalin and Weisbach (1991) in their work on board size and the possible correlation with performance, found no significant result. Vafeas (2000) uncovered that five members on the board of directors would be the best and optimal choice. Under this circumstance, conditions allowed the directors to be more knowledgeable about the internal situation of the firm and as a result profitability was enhanced and led to higher level of performance.

In addition, Adam and Mehran (2005), Kiel and Nicholson (2002) support large board size because they believe that more people on the board go along with a more diverse environment which germinate with a variety of skills and methods and

confirmed the idea of having a large board and justified it with the opportunistic results such as better conditions for directors to network and share their creative opinions which result in superior performance.

Opposing small-board supporters, Sheikh et al (2012) and Coles et al. (2008) in their studies showed that companies with more complicated structures in which deliberative needs are required more, a larger board size is better. Along with their positive correlation finding between board size and performance, they base this correlation on some factors like the company, industry and the overall economic setting in which organizations function. Moreover, they claim that depending on the extent to which the company is going forward, the willingness of board to increase or decrease the board size will differ. As the company weakens in performance, more likely the board size diminishes and vice versa.

According to Lipton and Lorsch (1992) companies try to reach an optimal selection of board size so long as balancing the achieved benefits with incurred costs of having more directors on the board. Since the board's main implication is to control and supervise managers' activities, the matter of adding or reducing directors would simply affect the organization's controlling mechanism which is associated with ultimate performance. From a financial aspect, the empirical finding of Yermack (1996) shows a reverse relation between board size and market valuation. The evidence reveals that smaller boards will lead to higher return on asset and return on sale. Furthermore, Eisenberg, Sundgren and Wells (1998) studied Finnish companies with large board and observed a negative correlation with their market value.

Staikouras et al (2007) found that Turkish banks have a board size of 17 members on average, whereas Adam and Mehran (2005) report the European and US banks with 17 and 18 board members respectively. Choosing a small board of directors in Turkey may reveal the transparency problem which will be intensified under this condition. Information circulation between small group of people with formulated relationship and controlling power is a fundamental characteristic of such centralized systems (Thompson, 1967). Kaymak and Bektas (2008) explained the banking sector as highly ordered and opaque which in fact more directors could negate the effects of negligent decision making cause by a closed structure. Although, large boards could hinder the process of smooth coordination and negotiation between board of directors and the executive managers.

Turkey's political and economic environment has been characterized as diffuse and fluctuating over time. The strategy of building larger board of directors in corporations may help to build sustainable coordination with more creative perspective and motivation among the members and within the firms (Bektas and Kaymak, 2009). In the same context, North (2005) believes that informal interconnections and external negotiation could be feasible in countries where poor procedural policies and laws are a dominant characteristic.

2.1.4 Director's Independence

There are two types of director on the boards. Insiders (dependents) are the previous member of the boards who are the current employees of the company. They are credited for their inner knowledge about the firm and for their potential influences on its key decisions. Outside (independent) directors are employed from the outside of

the corporation and are not the current or previous employees. They are mainly known for their objective judgments on the corporations' activity and performance.

Decision making in critical activities needs the independency of directors which is one of the most controversial subjects in corporate governance. Allocation of "protecting shareholders' rights" and "monitoring managers" to the board of director requires them having adequate autonomy to be an effective force (Sheikh et al., 2012). Many studies including Weisbach (1998) and Byrd and Hickman (1992) have reported a positive relationship between board autonomy with corporate performance due to their ability to pursue the optimal and unbiased choices.

Insiders, or in other word dependent directors, are believed to be better members in handling internal information within the firms. The importance of this responsibility will be intensified when the information is critical and valuable to the board and the company. Situations in which the outside directors lacking necessary knowledge about the company, insiders with sufficient information could encourage the uninformed outsiders to become more conversant and prevent the possibility of information loss which sometimes is more costly than agency problems (Harris and Raviv, 2008).

An example of the U.S. regulation known as Sarbanes-Oxely Act which implies the investors' protection in terms of accuracy and credibility of corporate exposure has been ratified to support the existence of outsiders or independent audit representatives. However, Harris and Raviv (2008) concluded that outsiders could be worthless in the corporate control mechanism. In the discussion of board independence, basically there are three views which perceive and analyze the concept

differently. Coles et al. (2008) explain the “Window Dressing” viewpoint at which the application of outsiders for the sake of rules and regulations would be worthless. In this presumption, the practice of boards is considered as mostly obscure. Besides, the integrity of boards’ independency is also under question since they could simultaneously be close friends of executive managers. Hence, this viewpoint believes in no effect of board independency and corporate governance.

Other concept known as the “Entrenchment” view assumes that without benefiting from outsiders’ control and affiliated regulations like Sarbane-Oxley act mentioned earlier, the firms are not able to enhance their performance (Duchin et al, 2010). Johnson et al. (1996) also described the employment of outside directors as effective, as they are better in recognizing the important opportunities and threats that stem from their beneficial ties with external settings. “Optimization” is the last viewpoint inferring a win-win situation at which outsiders and insiders will be aligned to aggregate the maximum value of the firm. The cornerstone of this concept is based on an idea that increasing outside directors more than the optimal level would harm the firm and lead to low performance (Raheja, 2005). Bozcuk (2011) in his findings concludes that the “Entrenchment” concept would be an effective conduct assuming that applying outsiders in the board does enhance the firm’s performance but the “Optimization” view should be also put into consideration to prevent irrational selection of board size.

Fama and Jensen (1983) and Williamson (1975) mentioned that despite the institutional and legislation emphasis toward employing independent directors, many other forces believe in embedding more dependent boards based on an idea that insiders are more informed about firm’s essentials especially under risky

circumstances. Conceptually, independent director application in the corporate governance mechanism is based on an assumption by which performance of the firms will be positively affected and the monitoring and biased-free judgment of outside directors may protect the shareholders' rights and benefits. This assumption is not necessarily accurate and even sometimes is flawed in the practical sense. The existence of inevitable factors such as national laws and regulations, capital market, firms' cultural and political structure and to name but a few, automatically influence the governance mechanism and easily unfold the heterogeneous corporate governance system amongst organizations. All these factors and many others might substitute the independent director necessity (Williamson, 1983).

Some boards have prior psychological dependence, financial connections or familial relations with the senior management. These linkages lead the system to be more complex to manage and may diminish the primary responsibility and autonomy of the boards to implement the management evaluation and inspection (Eisenberg, 1976). Butler and Baysinger (1985) came to a conclusion that a mixture of dependent and independent directors along with considering corporate governance instruments and pursuant implications provide the most effective structure. They also mentioned that either way the specific county and company characteristics and conditions play a critical role in applying any strategy.

Petra (2005) explained the problem independent directors may cause by mentioning a critical point that outsiders, unlike the insider directors, are less involved with companies' routines and standard activities which is fundamental for the future planning and direction. Unfamiliarity and lack of knowledge about firms' daily

activity could be a predominant barrier for the executive management in conducting the corporation successfully.

Empirical studies show us that there are mixed results regarding the examination of corporate performance and board independency (Petra, 2005). Howsoever, studies show that, in general, independent members in the board benefit the firms and shareholders especially in situations where tender bids are concerned as Byrd and Hickman (1992) mentioned. Moreover, some firms' structures has been investigated by Beasley (1996) which had failed for the reason of management domination and existence of outside directors with special connection with the managers.

Petra (2005) stated that the dichotomy of results and evidence is readily observable in the example of the bankrupt Enron Corporation with its majority of outsiders, and on the other side, WorldCom, which failed while insider directors and management were dominant at controlling and monitoring the board. Vafeas (2000) questioned the usefulness of outside directors for the incident which had occurred in some well-known organizations which went bankrupt and raised a great suspicion from the public toward independent directors. Suspicious thoughts relate to whether directors are reluctant or incompetent in protecting the shareholders' interests as well as inspecting and controlling manager's activities and cause greater expectation on outsiders' productivity and efficiency. But, these doubts are sometimes contrary to some of the investors' demands who are ready to bear more costs and even buy the corporations' shares in which the majority of the directors on the board are independent outsiders with no prior ties with the managers. It shows that, although skepticism toward independent directors' effectiveness exists, shareholders' rights can be regarded and protected in well governed corporations (McKinsey, 2000).

Kula and Tatoglu (2006) reported that Turkey's structure in the case of outsider involvement in decision making and monitoring process is negligible. The majority of insiders in Turkish companies have the most influence on firms' performance due to their beneficial accessibility to critical information. Turkey's corporate governance system and the management monitoring mechanism can be mostly defined as insider dominated (Nilsson, 2007). Other work by Yermack (1996) showed a negative correlation between the existence of more outsiders and corporate performance as calculated by Tobin's Q measurement. In a country like Turkey with a strong cultural collectivist system, absence of neat supervisory structure and centralized holding dominated organizations, private relationships and connections would be considered as a lucrative asset. Therefore, insiders may be the best members to be fully informed and effective monitors (Wasti, 1998; Kaymak and Bektas, 2008).

2.1.5 Duality

Duality refers to the cases where the firms' CEOs are assigned to the board's chairperson position and perform these responsibilities simultaneously. Basically, the chairperson is the one who is responsible to lead the board of directors and relevant duties such as hiring, firing, compensating, management monitoring and to help set firm's strategy. A common practice by many firms is to delegate the chairperson position to the CEO of the company who would in fact be responsible for such activities. Obviously, this duality in position and pursuant responsibilities raise an important controversy in which its desirability and morality will be concerned. In situations, where a CEO is assigned to both positions, therefore the evaluation and monitoring function of board will be accomplished by him/herself. Under these circumstances, the lack or absence of objectivity in decision making and evaluations

bring the firm into conflict or even chaos. Ever since CEO duality has been practiced, many researchers are at the side of separation of these two positions, as well supporting the independence of the chairperson (Daily and Dalton, 1992).
Molz (1988) declared that some tentative evidences have not shown any substantial improvement in corporate governance performance as a result of the CEO separation from chairing the board. Multifarious empirical results from studies looking at the possible relationship between duality and performance have analyzed this important issue. Moreover, previous results show negative performances while duality of CEO was applied (Elsayed, 2007). According to Boyd's (1995) study, General Motors has been criticized for its inferior performance due to the same reason. Dayton (1984) and Levy (1981) defend their position by believing that CEO duality may weaken the monitoring ability of the boards and lead to poor performance. As well stated by Alchian and Demsetz (1972) "Who monitors the monitor?". CEO duality inhibits the objective judgment and decision making of the directors (Daily and Schwenk, 1996). Salmon (1993) pointed out that shareholders' rights may be violated due to biased and selfish evaluation of managers who concern their own benefits in advance.

On the contrary, Davis et al. (1997) and some other researchers have been supporting CEO duality presuming that their higher level of control opportunity may dispel the potential conflicts within the company. For instance Kiel and Nicholson (2003) in their Tobin's Q measurement found a positive duality relationship with performance. As it was mentioned earlier, the divergence and contradictory empirical and theoretical conclusions about CEO duality led many other authors like Boyd (1995) and Brickley et al. (1997) to conclude that duality may or may not influence the performance of the firms and it depends on the different status and situations of the firms.

The duality controversy in Turkey is inconclusive and needs to be scrutinized more. Although, a high degree of power distance as discussed by Hofstede (1984) embedded in country's culture leads to a tendency toward duality in corporations (Bektas and Kaymak, 2009).

2.1.6 Gender

Board diversity has been always the topic of controversy and studies due to its potential influence on corporate governance (Carter, Simkins, and Simpson, 2003). As stated by Milliken and Martins (1996) the primary dimensions of diversity concern gender, race, age and ethnic characteristics. The majority of studies claim that diversity reinforces decision making and positively influences performance. A recent research trend has been to pay a vast attention to gender diversity issues due to a concern about having more equal workforces. Consequently, it is been debated not only over many institutional and regulatory frameworks, but also among the firms shareholders, academic researchers and other interested units (Rhode and Peckel, 2010).

Over recent years, there have been many intensive academic researches on gender diversity relationship with the firm performance. Carter et al (2003) are considered as the first analysts of this research area and it followed by more analyses by many other studies. As revealed in a Bernardi and Threadgill (2010) study, financial improvement in firms can be achieved by having more female members on the board which is connected to having more point of views during the decision making process. For instance, Nguyen and Faff (2007) examined the presence of females in the board in Australian companies and uncovered a positive relationship. Likewise,

an analysis in Spain shows the similar relationship between firms' financial success and female presence on the board (Campbell and Minguez-Vera, 2008).

Female involvement on boards has many followers and advocates who discuss its positive results on performance. Much evidence confirms these claims by presenting persuading outcomes (Oba & Fodio, 2013). Smith et al (2006) in their study on Danish companies pointed out the potential competitive advantage that gender diversity creates for the firms in situations at which the behavior of the customer could be positively influenced.

As far as financial performance is concerned, we can refer to Catalyst (1997) who examined 500 Fortune companies and observed that the 100 top firms in terms of revenue are more likely to accommodate women on the board compared to the 100 companies on bottom of the list. Also, research conducted by Kang, Ding, and Charoenwong (2010) confirmed investors overall positively respond when women are appointed as directors in Singapore.

Robinson and Dechant (1997) look at the optimum level of diversity in workplaces and in boards, and argue that different perspectives could provide more comprehensive knowledge of the diverse customers and the marketplace's needs, hence promote market penetration easier.

On the other side, there are negative or neutral conclusions about gender diversity's efficacy on performance (Adams and Ferreira, 2009, Wang and Clift, 2009). Likewise the Shrader, Blackbum, and Iied (1997) findings of 200 large firms which were examined from the Wall Street Journal database found no substantial profit

ratio change in accordance with women presence on the board, while Darmadi (2011) also found a negative association using ROA as performance indicator in Indonesian firms. Furthermore, Farrel and Hersch (2005) justified their supporting ideas for gender diversity controversy in that women may perform superior on the boards when they realize that the selection policy is biased-free regarding gender issue, as directors are appointed for their qualifications.

Ideally women can benefit the company and shareholders' value by rendering novel or unprecedented ideas and making the decision making process more effective. Looking from another angle, women could harm the companies if their presence on the board is obligated by external forces such as social or governmental institutions aiming for more equal workforces. As such, the United States has increased women appointments on boards in recent years to meet the board diversity standards as well as ascertaining the positive attitudes toward female participation (Campbell and Minguez-Vera, 2008). The most enthusiastic movement toward gender diversity has been practiced in Norway since 2008, stipulating that companies should have a female quota in the boards of 40 percent; otherwise the corporation will be annulled (Adam and Ferreira, 2009).

Although, women participation has been growing in the labor market in recent decades, still in many European countries females' presence in labor force is less than males (Curdova, 2005). Oba and Fodio (2013) argue that women representation on boards and top management segments is generally insignificant, especially in developing countries. Counter arguments regarding gender diversity possess different point of views. As declared by Earley and Mosakowski (2000) a homogeneous board of directors is considered to be more effective in terms of communication and

collaboration. It is been argued that uniform gender boards are generally more harmonious in making critical decisions which lead to efficient time saving (Lau and Murnighan, 1998). Opposing discussions followed with Jianakoplos and Bernasek (1998) who concluded that women are considered to be more risk averse than men, and Cox and Blake (1991) observe poorer performance of companies which had a female presence, with higher rate of turnovers and absenteeism causing the firms to have higher costs. Adam and Ferreira (2003), along with their totally negative result between percentage of female on the board and the firm's stock return suggested that homogeneity in board members especially in unstable and fluid situations would be more beneficial.

In the case of Turkey, a scarcity of studies on female participation in boards and management positions added with the complex family-centered corporate governance structure make the analysis more complicated (Ozatac, 2011). Although, in an analysis of Turkish banks by Ozatac (2011), the presence of women in the boards and managerial positions led the ROA to decline which may reveal the existence of tokenism which is still a practice in Turkey's corporate governance environment. The inevitable divergence in empirical results may be caused by some factors like considering different time spans, country-specific regulatory/cultural habits, dissimilar approaches in estimation and disregarding control variables such as industry or firm size to name but a few (Campbell and Minguez-Vera, 2008).

Chapter 3

HYPOTHESES DEVELOPMENT

3.1 Proposed Hypotheses

The primarily aim of this inquiry is to examine whether the financial performance of the largest 50 listed Turkish corporations are influenced by corporate governance variables such as board size, duality, board independence and the gender diversity issues. There are contradictory findings on each of these topics in previous research and literature which make further research worthy to take on, since more examinations under different frameworks may add value to the overall subject of study. Following what has proposed in the literature, the hypotheses of this study to be tested presented below:

The belief behind having small boards as suggested by some researchers like Sah and Stiglitz, (1991), Jensen (1993), and Cheng, (2008) has justified that large boards cause coordination conflicts, lead to decision making to be disagreeable and results in low performance. The first hypothesis regarding the board size efficacy in Turkish centralized corporate structure will be constructed as:

H1) Board size in Turkish corporations is negatively associated with financial performance.

According to Duchin et al's (2010) entrenchment view and Bozcuk's (2011) discussion, the belief in benefiting from outsiders' objective judgments of management practices with enhanced corporate performance leads to the second hypothesis of this study as:

H2) The proportion of independent directors is positively related with the financial performance of Turkish corporations.

CEO duality has been disapproved by many researchers like Alchian and Demsetz (1972), Dayton (1984), and Salmon (1993) concluding that the subjective evaluation of CEOs functioning in both positions hinders the directors' ability in making accurate and unbiased decisions which may make performance decline. New governance laws in Turkey prevent firms from having duality structures. However, we do witness firms placing their CEOs on the board of directors as well. This arrangement may also perpetuate the conditions associated with duality. Here, I am adapting the strict definition of duality to the Turkish setting. This study measures duality by looking at whether the CEO is a board member, and not necessarily the chairperson. Therefore, the third hypothesis is proposed as:

H3) Corporations in which the CEOs also function in the board of directors will be negatively associated with the financial performance of firms in Turkey.

Based on Oba and Fodio's (2013) claim regarding infrequent female representation in upper corporate positions especially in developing countries, and Ozatac's (2011) conclusion on negligible female participation in Turkey, the fourth hypothesis is presented as following. Note that this is a null hypothesis:

H4) Female presence on the boards and top managements has no relation with the financial performance of Turkish firms.

Chapter 4

METHODOLOGY AND ANALYSIS AND FINDINGS

4.1 Methodology

This study aims to analyze four dimensions that represent corporate governance practices in Turkey. The BIST50 (Borsa Istanbul) index, which includes Turkey's top 50 corporations by market capitalization, is by and large a sufficient representative of the economy which conforms to standard corporate governance principle. Turkey's tendency to comply with the international economy as well as its passionate desire to join the European Union, require this country to apply global predefined codes and regulations to its corporate governance practices. This is a necessary condition for the regulators and businesspeople if they want to achieve further developments with advanced performances on a global level. This research is conducted on the premise that variables like board size, board duality, board independence and gender diversity may influence the corporate performance of Turkish corporations.

4.1.1 Research Sample and Measures

All the necessary data was obtained from the Istanbul Stock Exchange official website. This website is known as the Kamuyu Aydinlatma Platformu (KAP), (Public Disclosure Platform) and contains the database which is easily accessible and available to the public. Each listed company on the database encompasses relevant information to the variables that are going to be examined in this research.

BIST 50 financial data for different time periods are also obtainable from the same source. The research measures the corporate performance using ROA (return on asset) measurement which is one of the most common approaches for evaluating corporate performance and profitability of firms. ROA considers the assets that are used to help the company conducts its activities. It indicates whether the company is capable of generating a sufficient return on its assets and the extent to which the management is efficient in using them.

The examined sample of this research study contains only 41 corporations drawn from BIST50 corporations since 9 banks have been eliminated from the list. The reason is since financial institutions have different regulatory and financial mechanism with diverse corporate governance approaches as compared to other sectors, they are not included in the analysis.

Generally, variables are categorized as independent and dependent variables which have been collected and are subsequently entered into an excel spread sheet. The four independent variables of this study mentioned earlier include board size, board duality, board independence and gender diversity. The list of directors and top managers with their relevant information concerning their duties at the corporations are disclosed in their individual page on the KAP's database. Therefore, each firm's board size has been easily determined by simply counting the listed directors.

The researcher specified the existence of board duality by checking whether the members of top management also function in the board of directors or not. The answer to this question categorizes as "Yes or No" which makes it a mutually exclusive data. A dummy variable is a numerical variable that will be assigned "0" or

“1” value to represent the absence or presence of a certain phenomenon which may influence the outcome. The presence of duality takes “1” and the absence takes “0” in this study’s data analysis.

Whether the directors are dependent members or independent outsiders, are clearly stated in the board of directors’ general information on the KAP website. So the ratio of board independency could be calculated by dividing the number of independent members by the total number of directors performing at the boards.

The second dummy and the fourth independent variable in this study is the gender diversity which is a qualitative variable confined by a member being identified as female or male (mutually exclusive variable). The researcher has reviewed the first names of directors on the board and top management positions in order to identify female representation on the boards for the gender diversity analysis. The value “1” is assigned for presence of women on the board, and “0” if it is otherwise.

This research chose ROA (performance indicator) measurement which is the dependent variable of this study and will be tested to see whether it will be affected by the four aforementioned independent variables or not. It has been calculated by dividing the companies’ annual net incomes by their total assets taken from the financial report of BIST50 firms which is available on the same website.

Moreover, there is a control variable that by its definition is the variable which remains unchanged in an analysis procedure since it can influence the other independent variables. So while keeping the control variable constant we can test the relative power of independent variables in the experiment. In this study, age of

corporations is considered as the control variable. The relationship between firms' age and their profitability has attracted significant attention due to its possible economic impact. Many researchers like Bahk and Gort (1993) and Jovanovic (1982) assert its importance with the belief that as firms getting older and mature they become more capable of learning from their environment and more capable in handling their investments by realizing their own potentials which is only possible when they start to age. Hopenhayn (1992) claimed that aged firms under such feasible situations will benefit from higher profits and achieve superior performance. On the other hand, Loderer and Waelchli (2010) in their study of 10,930 listed firms from 1978 to 2004 of different industries, found a negative relationship between firms' age and profitability examined by ROA, profit margins and the Tobin's Q analyses.

After collecting all the data and recording them into an Excel spread sheet, they have been transferred into the SPSS 20th version software which is used for the statistical analysis. In order to examine the relationship between the board characteristics of this research sample and the desired performance, regression and a correlation analyses have been applied.

4.2 Descriptive statistics

The 41 Turkish listed corporations have been studied by examining the effects of board size, independency, duality, gender diversity, and the firms' age on corporate performance.

Descriptive statistics are presented in Table 1. According to the table, firms have on average 10 directors on the boards with a minimum of 5 and a maximum of 16 directors. The average ratio of independent directors measured by the number of

outsiders to the total directors is 24%, with 50% as the maximum and 10% as the minimum. Two dummy variables, including duality and gender diversity (female representation), also show the maximum of "1" for their existence and minimum of "0" for non-existence. The mean of ROA as the performance indicator of firms is 6% with a range between -26% and 43%. The age of the corporation is measured as the control variable with the average of 37 years, and 77 and 5 years for maximum and minimum respectively.

Table 1**:** Descriptive Statistic (*n* = 41)

Variables	Mean	Minimum	Maximum	SD
BS	10.73	5.00	16.00	2.674
DU	0.51	0.00	1.00	0.506
IND	0.2449	0.13	0.50	0.07953
GD	0.61	0.00	1.00	0.494
ROA	0.0676	-0.26	0.43	0.10611
AGE	37.46	5.00	77.00	17.723

Notes: BS is board size; DU is duality (dummy variable); IND is independence level (ratio of outsiders); GD is gender diversity (female representation, dummy variable); ROA is return on asset; AGE is age of corporations.

4.3 Results of the Tests for the Proposed Hypotheses

Table 2: Correlation Matrix Analysis

Variables	BS	DU	IND	GD	AGE	ROA
BS	1.00					
DU	**-0.321***	1.00				
IND	**-0.328***	**0.315***	1.00			
GD	-0.100	-0.0181	0.081	1.00		
AGE	0.158	0.079	0.062	0.210	1.00	
ROA	-0.076	0.042	-0.225	-0.076	0.083	1.00

Note: * significant at significance level of P < 0.05(2-tailed).
BS is board size; DU is duality (dummy variable); IND is independence level (ratio of outsiders); GD is gender diversity (female representation, dummy variable); ROA is return on asset; AGE is age of corporations.

The bivariate correlation analysis for analyzing the relationship between the independent variables and the dependent ROA is presented in Table 2. It can be seen from the correlation results that the relationship between board size and ROA is negative and non-significant (r = -.076, p< .05). Correlation results show a positive non-significant relationship between duality and the ROA (r = .042, p< .05,). The board independence and ROA correlation value is found to be negative and non-significant (r = -.225, p<.05). The correlation between female presence and ROA is found to be negative and non-significant (r = -.076, p<.05). Lastly, the correlation result regarding firms' age (as the control variable) and its relationship with the performance shows a positive non-significant relationship (r = .083, p<.05).

However, apart from the aforementioned correlations between the independent variables and ROA, we also witness significant correlations between some of the independent variables. The results presented in the correlation table, show a

significant negative correlation between the board size and duality at a significance level of $p < .05$ ($r = -.321^*$). Moreover, the correlation results show a negative correlation between the board size and independence level in Turkish firms at a significance level of $p < .05$ ($r = -.328^*$). The other significant correlation is the positive relationship between duality and the board independence at a significance level of $p < .05$ ($r = -.315^*$).

The VIF (variance inflation factor) analysis indicates that there is no correlation between the predictor variables since no sign of multicollinearity is observed in the result. In our analysis none of the measured VIF values exceeded 1.5 which is far lower than multicolinearity limit of 4 which warrants further consideration and serious limit of 10 which indicates serious correlation between independent variables.

Table 3: Linear regression analysis with ROA as dependent variable

Independent Variables	Coefficients	t-statistics
BS	-0.194	-1.065
DU	0.048	0.265
IND	-0.308	-1.742^*
GD	-0.093	-0.539
AGE	0.148	0.871
R^2	0.105	

Notes: * significant at significance level of p<0.10; all the coefficients are standardized beta.
BS is board size; DU is duality (dummy variable); IND is independence level (ratio of outsiders); GD is gender diversity (female representation, dummy variable); ROA is return on asset; AGE is age of corporations.

Also, the researcher has employed a linear regression analysis to analyze the proposed hypotheses which are presented in Tables 3. The regression analysis indicates that the independent (board composition) variables only explain 0.105 percent (R^2) of the variance of corporate profitability (ROA).

The t-test result in the regression analysis shows no support for the negative effect of board size on ROA which is stated in the first hypothesis, since it fails to reach statistical significance level of ($p < .10$).

The second hypothesis was developed to measure whether there is a positive relationship between the proportion of independent directors and the financial performance. Result of the t-test in regression analysis indicates that the ROA of the firms slightly differ in response to proportion of outsiders but not positively. Therefore the second hypothesis is partially supported with statistical significance level of ($p < .10$).

The third hypothesis was proposed to analyze the negative relationship between duality and the financial performance. The t-test in the regression analysis do not support the third hypothesis either since it fails to reach statistical significance level of ($p < .10$).

The fourth hypothesis has suggested that there is no relationship between female presence on the boards with the financial performance. As we mentioned before, we are testing a null hypothesis predicting no effect between these variables. The result of the t-test in the regression analysis fails to reach statistical significance level of

($p < .10$) Therefore, our fourth hypothesis is supported and leads us to conclude that the null hypothesis is acceptable.

Also, in the regression analysis the statistical insignificant result does not uncover any relationship between the firm’s age and performance of the Turkish firms.

Chapter 5

DISCUSSION

In our study the hypothesis regarding that board size and performance will have a negative relationship in Turkish corporations was not supported due to insufficient evidence. Review of some prior findings by Baysinger and Butler (1985), and Hermalin and Weisbach (1991) who found that the board size and performance have no significant association may be considered as an account for such a conclusion. The critical issue is that the role of board size and the extent to which it affects other variables depends on each company's arrangement, industry's characteristics and the country's overall economic condition in which the firms operate (Sheikh et al., 2012, Coles et al., 2008). The fluctuating unstable political and economic situation in Turkey stated by Bektas & Kaymek (2009) with poor bureaucratic structure mentioned by North (2005) may prevent the corporations to apply uniform policy on selecting their board size. The selection of optimal board size in Turkey is defined by different ways that corporations use in order to maximize their profit and keep the controlling mechanism balanced.

According to our correlation test, the negative relationship between board size and duality may require a different kind of explanation. In general, larger boards are associated with more diverse ideas which require a higher degree of autonomy to apply these ideas into practice without managers' intervention. It may be inferred that Turkish firms with larger boards are less likely to assign the management as the

member of board of directors (duality). In order to make accurate decisions larger boards with their higher collaborative capability stated by Dalton and Dalton (2005), may want to adjust themselves to the principle of "power separation" which is supported by many researchers like Daily and Dalton (1992) more seriously. Therefore, they may consider duality as an element which weakens the performance of directors' decision making in the board.

Many researchers like Weisbach (1998); and Byrd and Hickman (1992) found a positive relationship between performance and board independence, as we proposed in our second hypothesis, and argued that outsiders are able to make objective decisions which lead the corporations to operate transparently and gain financial benefits. However, our result in the regression analysis shows negative relationship in which increasing number of outsiders on the board makes the performance to decline. Basically, Turkish firms' application of outside directors on their board is rare and insignificant (Kula and Tatoglu, 2006). The governance system of Turkish corporations is characterized as insider-dominated in which independent directors possess minor role and authority (Nilsson, 2007). Moreover, existence of familial ties between members with informal relations and existence of prior dependence of some independent board members with top management can be considered as an account for such conclusion. Under these circumstances inside directors are more welcomed who are more knowledgeable and are assumed to be better handler of critical information. Transparency problem, weak supervisory system, opaque classification of board independence and embedded collectivist culture in Turkey may cause the failure of independent directors to enhance the firms' performances.

In the correlation test, we also witness a negative relationship between independence level and board size. Considering Dalton and Dalton's (2005) positive attitude toward larger boards in which firms will benefit from networking opportunity among the directors with different perspectives and the ensuing financial advances, they may avoid or be less likely to employ outsiders to prevent the occurrence of conflicts due to high diversity of opinions between insiders and outsiders. On the other side, the decreasing tendency of Turkish corporations in using outsiders on their board composition where the number of directors is considerably large, can be justified by Kula and Tatoglu's (2006), and Nilsson's (2007) studies mentioning that insiders are the most powerful decision makers in Turkish corporations which characterized their corporate governance as an insider-dominated structure. Therefore, the involvement of independent directors in situations at which insiders' power in the board is considerable will be negligible, as their positions are mostly symbolic in nature.

The divergence of evidence regarding the influence of duality on performance has led many researchers like Boyd (1995); and Brickley et al. (1997) to conclude that the probable relationship between these two corporate elements depends on different factors including each firm's specific structure and characteristic so duality may or may not affect the firms' performance. In this study the proposed relationship between duality in the board and performance is not supported due to insignificant results. Duality is a common practice in Turkish corporations which derives from its centralized structure with high degree of power distances (Bektas and Kaymak, 2009). The tendency of CEOs to be involved in both positions reveals an unsystematic monitoring mechanism embedded in Turkish corporate governance practices. Therefore, this unsystematic structure leads each firm to experience

different findings according to its individual rules and traditions which justify the inconclusiveness of this study's result.

Rationally, it could be assumed that the presence of duality in the firms reveals the corporation's higher inclination to control and inspect the board of directors' activities, which may stem from the mistrust of managers in directors' actions. So, this mindset of management of being involved and powerful in both positions may inhibit the entrance of outsiders who generally function as the unbiased monitors into the board of directors. However, the positive correlation found in this study between duality and the board independence shows an inverse relationship in which the propensity of employing outsiders on the board of directors is higher when duality exists. The optimistic reasoning from this correlation could be the Turkey's attempts to practice and calibrate more international principles to its corporate governance mechanism. Independent directors are believed to be unbiased monitors who positively affect performance (Weisbach, 1998, Byrd and Hickman, 1992). Therefore, more independent directors in the board may negate the negative impact of duality which hinders the decision making to be optimal and objective as it mentioned by Daily and Schwenk (1996).

The negative and insignificant relationship between gender diversity and profitability (ROA) proposed in the last hypothesis implies the negligible influence of women on Turkish corporate governance practices. From Ozatac's (2011) findings regarding women presence in Turkish banks and Oba and Fodio's (2013) report of rare female representation in developing countries, it was expected that women's role and influence in Turkish firms would be insufficient and not really welcomed. Even in many European countries, male participation in labor market outstrips female

participation by a large extent (Curdova, 2005). Financial findings of some researchers including Shrader, Blackbum, and Iied (1997) have shown the same result in which no significant change in profitability occurred with female presence on the board. Homogeneous boards are believed to be more effective in decision making since they can collaborate and communicate easier so results will be more organized and consisted (Earley and Mosakowski, 2000). Homogeneity is also suggested by Adam and Ferreira (2003) in countries where the regulatory and governance systems are insecure and unstable. Although, in order to adjust to international governance principle Turkey may force the firms to assign more female on their boards but the lack of systematic regulations in such a centralized mechanism will negate the positive influence of female presence on the performance. From the socio-cultural point of view women are being used as tokens, and especially in Turkey, the presence of women in corporations and management positions is more based on familial ties. Therefore, the actual influence and power of women presence in Turkish corporations must be studied more in order to investigate the unseen arrangements that may hinder female improvement and achievement in upper positions.

In this study, as mentioned before, only 41 Turkish corporations have been analyzed. The sample is chosen from Turkey's top 50 corporations by market capitalization. However, the conclusiveness of the final results of larger sample may be a better representative of a country's economy and corporate governance mechanism since sample size is an important indicator to determine the statistical power and to change the relative inferences it could be made about a population. For instance, female participation on boards and their influence power on financial performance might become statistically significant while studying 100 listed corporations instead of 50.

So we may conclude that in analyzing the gender diversity not enough variation is met by the sample size which may have led to the insignificant relationship in accordance with the profitability.

Moreover, in this study the relationship between variables are examined for the year 2011 while in most of academic researches the panel data technique is used for a minimum three to five years. Consequently, observing one year data for this analysis may be considered as statistical artifact in which findings are based on inadequate evidence.

As opposed to countries like the United States in which the Anglo-Saxon outsider model is applied in their corporate governance structures and the classification of insider/outsider is based on a standardized framework, Turkey's approach in classifying board independence is arbitrary and opaque. Turkish corporations do not follow a systematic conduct in categorizing their dependent and independent directors. Consequently, the database available on the related website may not represent the actual practice of Turkish firms on their independence issue.

Duality in Anglo-American corporate governance model refers to situations in which the CEO serves as chairperson of the board at the same time. Measuring duality in this study has been done differently from its original definition. Due to lack of clarity in the database of Turkish corporations' general reports we defined existence of duality when members of top management simultaneously perform on the board of directors which contradicts with the original western classification of duality.

In our study the only financial variable which is used as the profitability indicator is ROA (ratio of net income to total asset) calculated for one year basis (2011). Although, ROA is the most commonly used performance measurement, in many literature and prior studies other performance variables like Tobin's Q and ROE are also being used on a three or four year basis in order to make the analysis more credible.

What we have analyzed and concluded in this study could not be generalized to other situations, settings, time periods and specially to other countries. The result of a study on Turkish corporate governance may not applicable in other countries with different structures and mechanisms. Therefore, researchers must be cautious about the way they want to generalize a particular finding.

Chapter 6

CONCLUSION

Studying corporate governance practices have become an interesting area of study since the effectiveness of corporate conduct depends on how well the governance mechanism functions. This study is an effort to analyze the corporate governance elements of Turkish corporations and their relationships with performance as measured with ROA.

This study employs the agency problem concept, in which the separation of ownership and control is concerned. Analyzing the board of director's composition is the cornerstone of this study which is an inseparable constituent of both corporate governance and the agency theory. What compelled us to focus on Turkey's top 50 corporations is the impressive economic growth this country as an emerging market has displayed over the last years. This has also led foreign investors and many researchers to be interested in investigating this country's potential more extensively. However, Turkey's weak regulatory and unstable governance characteristics along with its firms' preference for centralized structure make the analysis challenging and different. This study targeted five board characteristics as the independent variables to examine how much the corporate performance of the firms may be influenced by these elements.

The findings suggest that the board size has nothing to do with the studied firms' performance, which is in line with Baysinger & Butler (1985), and Hermalin & Weisbach (1991) studies of board size. Results also shows CEO duality does not influence the firms' profitability wherein corporations have a high tendency toward assigning top management on board of directors. It suggests that other factors such as overall economy and industry conditions, high power distance, weak monitoring mechanisms, and the unstable political situation may have a more determinative role in influencing the financial performance, so they will offset the effect of duality.

Results confirm that board independence inversely affect the Turkish firms' performance mainly due to closed insider-dominated structure of corporations. Regardless of independent directors' ability to make objective and unbiased decisions, Turkish orientation shows a preference of firms to employ more insiders to their boards in order to benefit from their critical internal information and knowledge which may be hard for outsiders to gather. Besides, the weaknesses in Turkey's corporate governance and economy's structure, as appose to its corporate laws and principles announced in recent amendments, may necessitate using more insider on the board in order to moderate the probable financial loss that may derive from these deficiencies with this belief that insiders have a better understanding to cope with these problems.

Moreover, the insignificant role played by females in Turkish corporations' performance, as was mentioned in Oba & Fodio's (2013) discussion of rare women presence in developing countries, tell us that homogeneous workplaces are still more preferable especially in corporate governance system such as found in Turkey. Gender diversity in Turkish corporations with the majority of family owned

holdings, is still an issue not seen as important governance element. Women are being used as tokens and there are many scio-cultural forces and unseen arrangements that impede any improvement regardless of inevitable potentials that women possess.

6.1 Implications for Managers

The findings of this study may help managers and decision makers in Turkey from small private companies to the large public corporations, to realize the extent to which the mentioned corporate governance elements will influence the corporate performance of the firms. The evidence shows that board size and duality have no significant effect on corporate performance due to unsystematic structure of corporations and the opaque regulatory system. Therefore, managers must be aware of effectiveness of a structure in terms of board size and existence of duality at which the firm is more efficient and also try to adjust themselves to the external changes.

In case of board independence, the negative effect of outsiders on financial performance of Turkish corporation in this study may reveal lack of necessary supervision on outsiders' behavior and qualification who are supposed to be the rational decision makers on the boards. So, the first step for managers would be enacting new policies to oversee the outsiders' performance and productivity as well as trying to apply more standardized classification of board independence in order to prevent any financial deficiencies in the long run. With this realization, managers can start introducing more independent directors on boards and maximize their gain and profit.

Finally, the finding of this study reveals that gender diversity on boards does not provide any significant change in Turkish firms' profitability. Corporations employ women to meet the principles announced by the CMB's (Capital Market Board) new regulations, but the negligible evidence contradicts with the positive attitudes toward female representation in boards and executive positions. It may imply an insufficient number of women on the boards, thus they cannot potentially influence decision making. Women representation should be increased to be able to argue about the consequences more clearly.

6.2 Areas for Future Research

This analysis lacks conclusiveness in some areas which can be solved by further studies analyzing the issues in more detail and by considering broader implications. Focusing on multi country corporate governance practices with different frameworks and structures on a multiyear basis may reduce the problem of generalization and inconclusiveness as we discussed earlier in this study. For instance, in the future multiple developing countries' could be studied to reach a more integrated conclusion about corporate governance mechanisms in emerging markets. Moreover, analyzing a larger number of companies in future studies may fill the statistical gap as well as the variance problem derived from having insufficient sample size and also will improve the analyses' reliability.

Finally, in order to have more precise inference about overall corporate governance effectiveness in a country, future analyses should include among different industries operating in an economy to uncover any sectoral differences. Therefore, these

analyses can give better understanding of overall corporate governance conducting in an economy.

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APPENDIX

Company	Board size	Duality No=0, Yes=1	Outsider Ratio	Male=0,Female=1	Age	ROA
1. ANADOLU EFES	11	1	0.363636	0	47	0.05
2.AKENR	12	1	0.166667	1	24	-0.09
3.Arçelik	14	0	0.285714	1	58	0.06
4.ASELSAN	11	0	0.272727	1	38	0.07
5.AYGAZ	11	0	0.272727	1	52	0.14
6.BAGFAŞ	10	1	0.2	1	43	0.21
7.BİM	8	1	0.25	0	18	0.17
8.BIZIM shops	12	0	0.166667	0	12	0.10
9.Doğan Holding	11	0	0.272727	1	33	-0.09
10.Doğan Yayin Holding	8	1	0.25	1	33	-0.26
11.EİS Pharmaceutical	8	0	0.25	1	62	0.03
12.ENKA construction	5	1	0.4	1	55	0.06
13.Ereğli Iron & Steel	11	1	0.272727	1	53	0.08
14.Fenerbahçe Football	12	0	0.166667	0	15	0.02
15.Ford	12	1	0.166667	0	54	0.15
16.Galatasaray sport	9	0	0.222222	1	15	-0.06
17.GÜBRE factories	11	1	0.181818	0	62	0.04
18.İHLAS holding	12	0	0.25	0	33	-0.04
19.İPEK Energy	6	1	0.5	0	45	0.06
20.KARTONSAN	12	0	0.166667	1	46	0.16
21.KOÇ holding	16	0	0.3125	1	50	0.02
22.KONYA Cement	13	0	0.153846	0	59	0.07
23.KOZA metal & mining	6	1	0.333333	1	28	0.11
24.KOZA ALTIN	7	0	0.142857	1	32	0.43
25.KARDEMİR KARABÜK	13	0	0.153846	0	18	0.11
26..Migros	9	1	0.333333	0	5	-0.03
27.Netaş telecommunication	12	0	0.166667	1	46	0.03
28.PETKİM Petrochemical	12	0	0.166667	0	29	0.04
29.PARK elec & Mining	10	1	0.2	1	19	0.21
30.HACI ÖMER sabanci holding	11	1	0.272727	1	46	0.01
31.Türkey Bottle & Glass	11	1	0.272727	1	77	0.08
32.Sinpaş Real Estate	6	1	0.333333	0	6	0.07
33.TAV Airports holding	14	0	0.285714	1	16	0.02
34.TURKCELL	7	0	0.142857	1	20	0.07
35.Turkish Airline	11	0	0.272727	1	57	0.00
36.TEKFEN holding	13	1	0.307692	1	42	0.06
37.TOFAŞ	15	1	0.133333	0	45	0.08
38.TRAKYA Glass	8	1	0.25	1	35	0.10
39.Türk telecommunication	13	1	0.307692	0	19	0.13
40.Turkish Tractor & Agriculture Machinery	12	1	0.166667	0	59	0.22
41.Tupraş Turkish Petroleum Refineries	15	0	0.266667	1	30	0.08