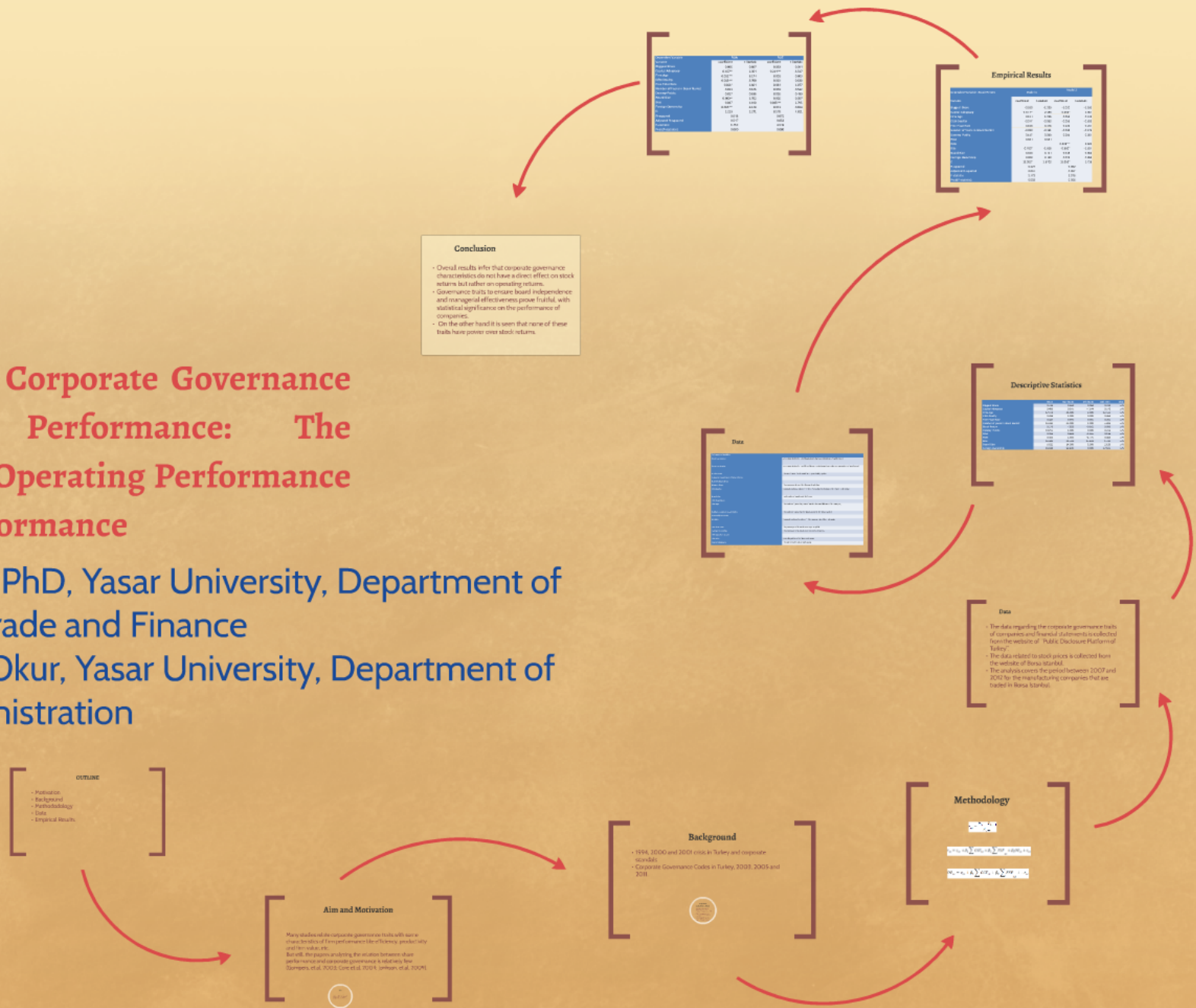


The Impact of Corporate Governance Traits on Performance: The Divergence of Operating Performance and Share Performance

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OUTLINE

- Motivation
- Background
- Methododology
- Data
- Empirical Results

Aim and Motivation

Many studies relate corporate governance traits with some characteristics of firm performance like efficiency, productivity and firm value, etc.

But still, the papers analyzing the relation between share performance and corporate governance is relatively few (Gompers, et.al, 2003; Core et.al, 2004; Jonhson, et.al, 2009).

Aim

The aim of this paper is to fill this gap by analyzing the effect of corporate governance traits on operating performance and share performance

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Background

- 1994, 2000 and 2001 crisis in Turkey and corporate scandals
- Corporate Governance Codes in Turkey, 2003, 2005 and 2011.

Corporate Governance Traits

- Board Structure and Board Independence: Board Size, Independent Board Members, CEO Duality
- Owner Structure: Dispersion of shares, ownership status, foreign ownership
- Size and Age of the Firm: Total assets, total volume of business, number of years in stock market

Corporate Governance Traits

- **Board Structure and Board Independence:** Board Size, Independent Board Members, CEO Duality
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Methodology

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

$$r_{i,t} = c_{i,t} + \beta_1 \sum CGT_{i,t} + \beta_2 \sum_{i,t} FSF + \beta_3 OP_{i,t} + \varepsilon_{i,t}$$

$$OP_{i,t} = c_{i,t} + \beta_1 \sum CGT_{i,t} + \beta_2 \sum_{i,t} FSF + \varepsilon_{i,t}$$

Data

- The data regarding the corporate governance traits of companies and financial statements is collected from the website of “Public Disclosure Platform of Turkey”.
- The data related to stock prices is collected from the website of Borsa Istanbul.
- The analysis covers the period between 2007 and 2012 for the manufacturing companies that are traded in Borsa Istanbul.

Descriptive Statistics

	Mean	Maximum	Minimum	Std. Dev.	Obs.
Biggest Share	0.519	0.994	0.034	0.211	579
Capital Adequacy	0.499	0.975	-7.674	0.573	579
Firm Age	37.678	68.000	9.000	12.522	579
CEO-Duality	0.414	1.000	0.000	0.493	579
Free Float Rate	0.337	0.996	0.005	0.205	579
Number of years in stock market	16.932	26.000	1.000	5.809	579
Stock Return	0.279	7.833	-0.962	0.909	579
Dummy_Public	0.0725	1.000	0.000	0.259	579
ROA	0.029	0.893	-1.295	0.118	579
ROE	0.026	2.050	-4.775	0.380	579
Size	19.446	23.563	15.863	1.512	579
Board Size	6.832	14.000	3.000	2.139	579
Foreign Ownership	13.838	99.460	0.000	27.185	579

Performance Variables

Return on Assets

Net Income divided by Total Assets (used also as a determinant of stock return)

Return on Equity

Net Income divided by Total Shareholders' Equity Assets (used also as a determinant of stock return)

Stock Return

The rate of return for the stock for a 1-year holding period

Corporate Governance Characteristics

Board Independence

Biggest Share

The percentage share of the biggest shareholder

CEO-duality

Dummy that takes a value of 1 if the CEO is also the chairman of the board, 0 otherwise.

Board Size

Total number of members in the board

Firm Experience

Firm age

The number of years that passed from the first establishment of the company

Number of years in stock market

The number of years that the firms is traded in the Borsa Istanbul

Ownership Structure

D-Public

Dummy that takes the value of 1 if the company is public, 0 otherwise

Free Float Rate

The percentage of shares that are open to public

Foreign Ownership

The percentage of shares that are owned by foreigners

Firm Specific Factors

Firm Size

Natural logarithm of the firms' total assets

Capital Adequacy

The ratio of total equity to total assets

Dependent Variable: Stock Return		Model 1		Model 2	
		Coefficient	t-Statistic	Coefficient	t-Statistic
Variable					
Biggest Share		-0.913	-1.039	-1.020	-1.181
Capital Adequacy		0.344**	2.180	0.259*	1.954
Firm Age		0.114	1.026	0.095	0.942
CEO-Duality		-0.047	-0.392	-0.099	-0.812
Free Float Rate		0.103	0.176	0.129	0.214
Number of Years in Stock Market		-0.030	-0.161	-0.033	-0.179
Dummy_Public		0.117	0.399	0.081	0.264
ROA		0.534	0.934		
ROE				0.326***	2.621
Size		-0.760*	-1.816	-0.680*	-1.814
Board Size		0.019	0.414	0.018	0.392
Foreign Ownership		0.003	0.450	0.002	0.395
C		12.052*	1.6702	11.393*	1.716
R-squared		0.127		0.082	
Adjusted R-squared		0.094		0.057	
F-statistic		2.473		2.376	
Prob(F-statistic)		0.003		0.006	

Dependent Variable Variable	ROA		ROE	
	Coefficient	t-Statistic	Coefficient	t-Statistic
Biggest Share	-0.006	-0.087	-0.033	-0.394
Capital Adequacy	0.157**	2.354	0.214***	3.517
Firm Age	0.011***	6.174	0.001	0.809
CEO-Duality	-0.013***	-3.700	0.019	0.638
Free Float Rate	-0.021*	-1.684	-0.084	-1.077
Number of Years in Stock Market	-0.011	-0.646	0.001	0.532
Dummy-Public	0.017	0.636	0.026	0.433
Board Size	0.003**	1.782	0.002	0.357
Size	0.037	1.198	0.035***	2.795
Foreign Ownership	0.095***	3.148	-0.041	-0.653
C	-1.213	-2.271	-0.978	-4.021
R-squared	0.648		0.072	
Adjusted R-squared	0.547		0.053	
F-statistic	6.459		3.943	
Prob(F-statistic)	0.000		0.000	

Conclusion

- Overall results infer that corporate governance characteristics do not have a direct effect on stock returns but rather on operating returns.
- Governance traits to ensure board independence and managerial effectiveness prove fruitful, with statistical significance on the performance of companies.
- On the other hand it is seen that none of these traits have power over stock returns.

