# A RESEARCH ON RELATIONSHIP BETWEEN CORPORATE GOVERNANCE RATINGS OF BANKS LISTED IN ISTANBUL STOCK EXCHANGE (BIST) CORPORATE GOVERNANCE INDEX AND SOME OF THEIR CHARACTERISTICS

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**Abstract**
*Capital Markets Board of Turkey principles of corporate governance consist of four categories: Shareholders, Public Disclosure and Transparency, Stakeholders, Board of Directors. The corporate governance rating is determined by the rating institutions incorporated by Capital Markets Board of Turkey in its list of rating agencies as a result of their assessment of the company's compliance with the corporate governance principles. Publicly held corporations are listed in BIST Corporate Governance Index depending on their degree of corporate governance rating. In our study, we will examine banks in BIST Corporate Governance Index by utilizing some of their ratios and characteristics. Finally we will analyze the relations between corporate governance index degrees of these banks and their characteristics.*

**Key words:** *Corporate governance, corporate governance in banks, corporate governance rating*

## 1. INTRODUCTION

According to some researchers, the history of the corporate governance concept goes back to past centuries while others claim it goes back to recent decades (Berghe and Ridder, 1999: p.21). Based on the view of Adam Smith, we can say that the corporate governance concept dates back to 1700s. Adam Smith states that "The directors of such companies, however, being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company." (http://www.econlib.org/library/Smith/smWN20.html#B.V**).**

In 1930s, the book written by Berle and Means with the title of "The Modern Corporation and Private Property" was considered as the first work on corporate governance terms (Doğan, 2007:p.55). In their books, Berle and Means reported that the capital distributes among small shareholders; however, professional senior executives keep hold of governance and control in modern company structure (Darman, 2009: p.8).

Seeking an answer to the question of "What is the corporate governance?" in our study, we can encounter a great number of definitions made by both researchers and some institutions. The definition made by Monks and Minow can be considered as the most simple one of all. In short, corporate governance is the relationship among various participants in determining the direction and performance of corporations. These participants are shareholders, governance and board of directors. They are named as the tripod of a company. Other participants are employees, customers, suppliers, creditors and the community (Monks and Minow,1996: p.1). Gürbüz and Ergincan (2004) state that the corporate governance reflects the relationship system between the ownership and governance of the company.

Considering the aforementioned definitions, we can see that the definition of corporate governance is made in different perspectives and different ways. In regulatory perspective, corporate governance is "the system of laws, rules and factors that control operations at company". In terms of legal concept, corporate governance is actually the power balance between accountability and shareholders, governance and directors. In more explicit terms, the definition of corporate governance in regulation (legal definition) is the association between corporate governance and rules, principles which focus on ensuring the rights of shareholders and regulating the power relationship between owners

(shareholders), directors and managers (Rezaee, 2007: p.22). The OECD defines corporate governance as a regime which guarantees to use the capital of companies efficiently, enables companies to consider the interests of their society, brings responsibility of accounting to the board of directors against stakeholders and ensures that the companies will carry on business for the benefit of society, earns the trust of national and foreign investors and facilitates to attract the long-term capital (Tusiad,2000).

In practice, effective corporate governance is defined as a sound check and balance set which is based on the responsibilities, requires accountability and enforces the results (Rezaee, 2007:p.22).

In any event, it is mentioned that the conflict of interests between the company owner and governance shapes the development of corporate governance (Berghe and Ridder,1999: p.21).

## 2. THE STRUCTURE OF BANKS AND CORPORATE GOVERNANCE IN BANKS

Being one of the most important and fragile institution of the economy and finance sector and having one of the highest shares in the sector, banks have more different functions than other sectors have. The financial intermediation service of banks brings together economic units having fund surplus and those having funding gap through the agency of deposits and loans which have two fundamental functions. Bank loans and deposits have great role in finance investments and activate the demand. They undertake the risk of the parties while performing this function and guarantee to materialize the expectations of the parties in due time (Eriş,2013:p.3). Furthermore, these institutions have a distinctive place in both finance sector and other sectors as they ensure the functioning of payment system, have the power of creating deposit money, encourage savings and investments, offer a wide spectrum of products to the society (Beyaz,2003: p.6).

Banks which give “confidence” with the works and duties they perform, encounter strict regulations on capital and risk management. For this particular reason, corporate governance practices of banks which have mutual and multiple impacts on economy and society have great importance. This is because of the fact that a negative condition in bank sector is powerful enough to affect all economy. Therefore, corporate governance practices of banks are regulated in accordance with some articles in Turkish Banking Law, regulations published by the Banking Regulation and Supervision Agency (BRSA) being a both regulatory and supervisory authority and statement of Capital Market Board of Turkey (CMB) on corporate governance. In addition, corporate governance principles of Basel Committee are taken into account by banks.

One of the most important characteristics that distinguish banks from other companies is the proportional lowness of capital within statement and the performance of bank activities by means of external sources to be supplied by stakeholders. The focus point is generally to protect the rights of shareholders in non-bank companies while it is specially important to protect rights of depositors and stakeholders in banks. Board of directors and senior banking management will pay greater attention to the rights of depositors with the proliferation of corporate governance practices (Candan and Özün, 2009: p.30).

In case that an efficient corporate governance cannot be practiced, supervision and audit mechanism of banking will not function. In order to make this mechanism function, there should be an authority and responsibility distribution and control systems at suitable levels in each bank. Clearly defined and applied efficient corporate governance activities and practices help both internal and external supervisors to fulfill their duties very easily. An efficient corporate governance also contributes to improve the cooperation between bank governance and supervision and audit authorities of bank (Bankacılar, 2000).

Under these circumstances, what can be the reasons behind the lack of practice in corporate governance of banks? The reason can be the structure of banks.

*2.1. Opaqueness of Banks*

Banks make it hard to follow bank directors for capital owners and lenders due to the asymmetic information between those inside and outside. This structure facilitates the use of control powers of directors and major investors in line with their own interests (Levine, 2003:p.7). Asymmetric information creates two types of problems in financial markets being adverse selection and moral hazard. Adverse selection refers to the phenomenon that one of the parties gives wrong information and misleads the other party before the economic transaction is performed. Due to the asymmetric information, low-quality products are preferred and high-quality ones pull out of the market. The adverse selection problem is based on the hidden information concept. The following situation can set an example from banking sector: Of two people who request loan, the one who is able to pay the debt and the one who is not, cannot be distinguished at the end of various investigation. The moral hazard which is another result of asymmetric information refers to the contractor's behaviors that conflict with the agreement. For example, a loan customer of a bank does not pay the same attention that s/he paid before taking the loan and starts to exhibit risky actions and behaviors after s/he receives the loan (Beyaz, 2003:p.8).

The effect of this opaqueness can be seen between bank and loan customer or bank and deposit customer; it can also be seen between governance and shareholders which are emphasized in agency theory of corporate governance. In addition, the opaqueness is effective in the relationships between shareholders, creditors, audit authority and bank. It is obligated to form supervisor and regulatory committees (internal control, internal audit etc.) in banks where the activities and status of board of directors are defined in line with the principles of corporate governance, authorities and boundaries of senior officials are determined. Furthermore, an emphasis is put on shareholders, stakeholders and public disclosure in order to reveal the opaqueness of banks and reduce information asymmetry.

*2.2 Deposit Insurance*

Deposit insurance is a system created to make depositors feel their deposits in banks are under guarantee (Koch and MacDonalds, 2003:p.46). Applied in almost each and every country, this system guarantees that a certain amount of the deposit of a depositor shall be paid back in case of an adverse condition in financial markets.

The aim of deposit insurance is to direct savings to banks and prevent economic effects of bank failures as stated above. The bank management takes the advantage of this situation by taking more risks or in other words, gets motivated to take more risks. For that reason, deposit insurance plays role in failure of banks and it is considered as the source of moral hazard (Tuna,2013: p.52). Considering the situation in terms of corporate governance in banks, depositors (including creditors) who do not have any information about the risk condition of the bank and do not need any meticulous assessment on the bank put their deposits in the bank with the assurance of deposit insurance due to the asymmetric information. In addition, bank directors can also make risky investments with the assurance of deposit insurance (Levine, 2003: p.11).

## 3. VARIOUS REGULATIONS IN CORPORATE GOVERNANCE

*3.1 Capital Market Board of Turkey (CMB) Principles of Corporate Governance*

On the basis of Principles of Corporate Governance issued by OECD, principles of corporate governance have been formed and applied in many countries. In Turkey, principles of corporate governance were prepared by Capital Market Board in 2003 and revised in 2005. In following years, they took place in the Act on Capital Market and many statements. The most recent statement was issued in January 3, 2014.

Not only countries but also companies pay attention to corporate governance in order to sustain their growth, get funding means in international terms, have ability to live and compete in this competitive world, prevent financial crises and company scandals, attract direct investments etc. in the environment of competition which increases with globalization.

Although principles of corporate governance differ by the quality of markets and countries, the fundamental components of good practices in corporate governance are "fairness", "transparency", "accountability" and responsibility." **Fairness;** refers to the equal treatment of company management towards shareholders and stakeholders in each and every activity and prevention of conflicts of interests. **Transparency;** refers to public disclosure of financial and non-financial company information except for business secrets and undisclosed information accurately, completely, clearly, interpretably and accessibly with low costs in due time. **Accountability;** refers to board members' obligation of accounting to legal entity of joint stock company and so to shareholders. **Responsibility;** refers to the conformity of all activities conducted by company governance on behalf of the joint stock company with the regulations, main agreement and inter corporate regulations and the supervision of these activities (Akbulak, 2011:pp.114-115).

The principles of CMB corporate governance consist of sections being shareholders, public disclosure and transparency, stakeholders and board of directors. The **shareholders** section refers to the rights of shareholders, the structure which facilitates the use of these rights and the structure of general assembly. The **public disclosure and transparency** section refers to the company's regulations on website and the content of activity reports. The **stakeholders** section refers to the policy of the company towards the stakeholders, human resources policy towards employees, the relationships with customers and suppliers who are stakeholders, ethic rules and social responsibility principles. The **board of directors** section defines the activities of the board of directors, principles of sustaining these activities, ideal structure of board of directors, meetings of the board of directors, necessary committees to take place within the body of board of directors and financial rights to be granted to board members and directors who have administrative responsibility (CMB, Corporate Governance Statement, January 3, 2014).

*3.2 Principles of Corporate Governance in Banking Law*

The third section of the Banking Law is allocated for the principles of corporate governance. These principles regulate issues such as qualities of board members and senior management, structure and responsibility of supervisory committee, internal systems of bank being internal audit, internal control, risk management, independent auditing firms, valuation and rating institutions, outsourcing institutions and liability insurance (Banking Law No. 5411, Article 22,23,24,25,26,27,28,29,30,31,32,32,34,35,36).

*3.3 Banking Regulation and Supervision Agency (BRSA) Principles of Corporate Governance*

The structure and processes of banks on corporate governance are gathered under seven principles published by *Banking Regulation and Supervision Agency* on November 1, 2006 and revised on 09.06.2011 in addition to the CMB corporate governance statement. To summarize these principles;

**i. Corporate values and strategic aims should be defined within the bank:** This principle refers to the responsibility of board of directors and senior management to define bank's vision, mission, strategies to direct sustainable activities, corporate values and ethic rules and the necessity of public disclosure of all the abovelisted. According to this principle, the board of directors should assess the bank's degree to reach the goals continuously and effectively, activities and performance. The board of directors should monitor the conformity of bank activities with the Act, regulations, main agreement, in-bank regulations and the defined policies and should take precautions where necessary.

**ii. Authorities and responsibilities should be defined clearly and applied in bank:** The board of directors should define the authorities and responsibilities of board members and senior management and detect the conformity of activities with these authorities and responsibilities. The senior management should define authorities and responsibilities for personnel and control whether they are applied or not. A corporate governance committee should be formed in order to monitor the conformity of the bank with the corporate governance principles and make reformations on this point. The chairman of the committee should be a member of the board who is not an executor.

**iii. Board members should have characteristics to perform their duties efficiently, should be aware of their roles in corporate governance and be able to make independent assessment on**

**bank activities:** Board members should fulfill their duties staying loyal to bank and shareholders. The board members should allocate sufficient time to bank activities. They should have information about the regulations to which the bank is liable and enable the relationship between the bank and regulatory and supervision authorities to be effective. They should not go down to pressures that can bring adverse results against the bank and should not accept any financial interest to this end. They should avoid giving imperfect and biased information. The board of directors should perform their performances on the basis of fairness, transparency, accountability and responsibility; should interrogate the senior management of the bank and should be able to take satisfactory information from the management. The board of directors should be formed in sufficient number and composition so as to be able to take independent decisions away from any kind of impact and conflict of interest. The number of members should be available to conduct efficient and constructive activities, take rapid and rational decisions and create necessary committees. The board should avoid being involved in responsibilities and conflict of interest with other institutions. Regular meetings should be organized with senior management in order to form bank policies and intercorporate communication channels and realize corporate aims.

**iv. Senior management should have qualities to fulfill their duties efficiently and should be aware of the fact that they undertake the corporate governance:** The senior management should manage their duties fairly, transparently, accountably and responsibly. The senior management should ensure bank activities to be conducted within the framework of mission, vision, aims and policies and act in accordance with the financial and operation plans approved by the board of directors, obey the Act, regulations, main agreement and in-bank regulations while fulfilling their duties. The senior management should not accept any gifts related to the bank activities and should avoid unfair advantage. The senior management should protect the customer rights during the marketing of bank products and services and service relationship. The senior management should take necessary precautions to prevent unfair relationships between bank and customers and to monitor the conformity of the relationship between parties with the provisions of the agreement.

**v. The activities of bank inspectors and independent audit personnel should be used efficiently:** The senior management should comprehend the importance of risk management, internal control and internal audit systems of the bank. The board of directors should use the findings of bank inspectors and independent audit personnel to controlss the accuracy information taken from senior management about bank activities and performance.

**vi. Wages policies should be in conformity with ethic values, strategic targets and internal balances:** Pricing policy should be inconformity with the scope, structure, strategies, long-term goals and risk management structures of bank activities and should prevent excessive risk taking and contribute to the efficient risk management. Pricing committee should consist of minimum 2 people. Pricing committee should assess pricing policy and practices within the framework of risk management and submit to the board of directors every year.

**vii. Transparency should be ensured in corporate governance:** The bank should give sufficient information about the structure and aims of the bank to shareholders, depositors, market participants and the public. The information should be submitted to the use of the public accurately, completely, clearly, objectively, easily-accessibly and equally in due time so as to help relevant persons and institutions to take decisions. The main partnerships should endeavor to inform the public by means of consolidating the financial tables of affiliate companies and participants on the basis of Turkish Accounting Standards at the end of year and in March, June, September. The website of the bank should be active for public disclosure.

*3.4 Corporate Governance Principles of Basel Committee*

Basel Committee issued a guideline to create effective corporate governance in banks taking the example by the OECD principles of corporate governance in 1999. It was revised in 2006 and 2010. To summarize these principles (https://www.bis.org/publ/bcbs168.pdf);

**Board of directors (board)**

**Principle 1:** The whole responsibility of the bank including the approval and monitoring of bank's strategic targets, risk strategies, corporate governance, corporate values belongs to the board of directors. The Board is also responsible for the monitoring of the senior management.

**Principle 2**: Board members should have satisfactory qualifications including training for related positions and this condition should be protected. Board members should comprehend their roles in corporate governance clearly and should be able to take effective and objective decisions about bank activities.

**Principle 3**: The Board should recognize the suitable governance practices for their own activities and should have necessary tools to monitor and review these practices periodically for reformation.

**Principle 4:** In a group structures, the main organization is the Board. The Board is responsible to apply sufficient corporate governance in the group, enable the group and participants to have corporate policies and mechanisms in line with their structure, business and risks.

**Senior management**

**Principle 5**: Under the leadership of the Board, senior management should enable the bank activities to be in conformity with the business strategy, risk tolerance/appetite and policies approved by the Board.

**Risk management and internal control**

**Principle 6:** Banks should have sufficient authority, dignity, independency, resource and an independent risk management function which can access to the Board (CRO-Chairman of Risk Management or equivalent).

**Principle 7**: Risks should be defined and monitored on the basis of the institutions within whole bank continuously; banks should adapt to the complexity of risk management and internal control infrastructures, all changes in risk profiles (including growth) and changes in external risk world.

**Principle 8:** An effective risk management requires a strong communication through reporting to both the whole bank and the Board and senior management about the risk within the bank.

**Principle 9**: The Board and senior management should use the activities conducted by internal audit function, external auditors and internal control functions.

**Pricing**

**Principle 10**: The Board should actively monitor the design and functioning of pricing systems; review and audit the system to make it function as required.

**Principle 11**: The wage of an employee should be determined in proportion to the undertaken risk. Pricing should be made by risk types; wage result/outputs should be in parallel with risk result/outputs; wages payment plans should be sensitive to the expanding time of risks; wage payments in cash, property or other types should be in conformity with the risk distribution.

**Complex or opaque corporate structures**

**Principle12**: The Board and senior management should know and comprehend the operational structure of the bank and its risks.

**Principle 13**: The Board and senior management should understand the aim, structure and special risks of the activities conducted in special-purpose banks or those banks which are active in certain structures or those which do not permit transparency or do not comply with international banking standards. In addition, they should endevour to reduce defined risks.

**Disclosure and transperancy**

**Principle14**: The corporate governance of the bank should have satisfactory transparency for shareholders, depositors, relevant stakeholders and market participants.

**The role of supervisors**

1-Supervisors should guide banks about expectations on efficient corporate audit.

2- Supervisors should assess corporate governance policies and practices of banks regularly in a comprehensive way.

3-Supervisors should support their regular assessments on corporate governance policies and practices of banks with a combination of internal reports and precautionary reports.

4- Supervisors should ask for effective and timely reformatory measures in order to cover financial deficiencies in corporate governance policies and practices of banks and should have necessary tools to this end.

5-Supervisors should cooperate with other related supervisor authorities in other regions on corporate governance policies and practices. Cooperation agreements, supervisory colleges and periodic meetings of the supervisors can take place among tools for this purpose.

## 4. CORPORATE GOVERNANCE RATING AND CORPORATE GOVERNANCE INDEX

Corporate governance rating is the degree to which companies apply corporate governance principles. In other words; it is the rating activity which interrogates the governance quality of banks instead of their financial condition differently from traditional credit rating and protects the rights of stakeholders (Sandıkcıoğlu, 2005:p.9). In another perspective, it is the score of companies submitted to the public after the assessment of the importance they attach to all stakeholders and activities of the board of directors and public disclosure activities within the framework of corporate governance principles. It is a view on companies' general creditability and relationships with shareholders and other stakeholders (http://www.denetimnet.net/Pages/kurumsalyonetimendeksiileilgilibilgiler.aspx ).

In corporate governance rating, conformity degree of the corporate governance or the score of a company is defined through qualitative data rather than the quantitive ones (Sandıkcıoğlu, 2005:p.9 ). Shareholders and other stakeholders gain insight about the company considering their corporate governance rating.

Companies that are responsible for applying corporate governance principles must get their own rating made by rating agencies (approved by Capital Markets Board). Corporate governance rating agencies assess and grade the conformity of corporate governance principles of companies as a whole under four separate sections (Shareholders, Disclosure and Transparency, Stakeholders, Board of Directors.). The grades are between 1 and 10; they are calculated in line with the methods of the rating agencies (CMB, Statement no:VII/76).

Companies are placed or not placed within Istanbul Stock Exchange (BIST) Corporate Governance Index depending on their rating. There should be at least 5 companies which comply with the index criteria in BIST so as to calculate an index. Although corporate governance principles have been issued in Turkey since 2003, first corporate governance index was measured on 31.08.2007. A company must be traded at Istanbul Stock Exchange, have minimum 7 point from corporate governance rating and 6.5 point from each section so as to be listed in BIST corporate governance index. The renewal of the rating each year or approval of previous rating is compulsory. On condition that a company which has stocks within the scope of BIST Corporate Governance Index takes over one company/companies, it shall stay in the scope of the index. On condition that a company which has stocks within the scope of BIST Corporate Governance Index is taken over by another company, the assignee company shall be excluded from the index (http://www. borsaistanbul.com/data/ Genelge/gn2013432.pdf). By the date of March 2013, there are 46 companies within BIST Corporate Governance Index. 7 of these companies are banks.

CMB corporate governance principles and Banking Regulation and Supervision Agency (BRSA)'s "Regulation on Corporate Governance Principles of Banks" are considered in corporate governance rating of banks. For example, 357 criteria in first-group banks treated at BIST, 350 criteria in second-

group banks, 347 criteria in third-group banks, 334 criteria in banks which are not treated at BIST are used in order to measure the conformity of banks with corporate governance principles during the rating made by Kobirate rating company. Afterwards, criteria which are determined with a special software program are transformed into question sets for corporate governance rating and the obtained information are weighed and graded as follows; 25% for the effect of shareholders section, 25% for the effect of disclosure and transparency section, 15% for the effect of stakeholders and 35% for the effect of board of directors section (http://www.kobirate. com.tr).

The inclusion of a company into Corporate Governance Index is useful both for the company and all stakeholders. This inclusion is an indicator of the fact that there are "good corporate governance" practices in the company. In Istanbul Stock Exchange, companies included in Corporate Governance Index are awarded with discount over the quotation fees. This situation encourages other companies for corporate governance practices. Investors primarily consider those companies in corporate governance index while forming their portfolio. Because, in accordance with the transparency principle in corporate governance; companies share accurate, clear, comparable information with public in due time and this will enable investor to direct the resources to suitable companies. Furthermore, investors should consider whether the companies to which they will direct their savings are managed well in addition to financial reports of these companies. They can detect those companies which have "good corporate governance" practices when they invest through Corporate Governance Index (http://www.denetimnet.net/Pages/kurumsalyonetimendeksiileilgilibilgiler.aspx).

## 5. THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE RATING AND SOME VARIABLES

### *5.1 The Aim and Scope of the Research*

A total of 16 banks are treated at Istanbul Stock Exchange (BIST) Banking Index. Some of these are public, private, development & investment and participation banks. Open-to-public banks take place in BIST Corporate Governance Index by their corporate governance rating. 7 of the banks in BIST Banking Index are also listed in Corporate Governance Index. This study will investigate whether there is a relationship between corporate governance rating of the banks in BIST Corporate Governance Index and certain financial ratios and characteristics of these banks and the degree of this relationship.

### *5.2 Method*

Correlation analysis was made through SPSS package program in this study. The correlation analysis is conducted to test a linear relationship between two variables or the relationship of a variable with one variable/variables. If there is relationship between variables, the direction and degree of the relationship are determined. Correlation coefficient differs between -1 and +1. The correlation does not refer to cause-effect relationship. In other words, the correlation in a model with two variables such as A and B does not mean that A causes B or vice versa. In this study, Pearson correlation was used. The Pearson correlation coefficient is used to measure the degree of the linear relationship between two continuous variables. In other terms, it seeks answer to the question whether there is a significant relationship between two variables (Kalaycı,2010: pp.115-116).

The interpretation of Pearson coefficient between two variables is as follows:

| **Correlation coefficient** | **Relationship** |
|---|---|
| 0.00-0.25 | very poor |
| 0.26-0.49 | poor |
| 0.50-0.69 | fair |
| 0.70-0.89 | good |
| 0.90-1.00 | very good |

Confidence interval was determined as 95% in the test of hypotheses and significance value is expected to be (P), $\alpha < 0.05$. Pearson correlation coefficients were considered for significant relationships.

Some ratios and characteristics detected for 7 banks were associated with the corporate governance rating of the banks in this study. The data of September 2013 were used. In general, Websites of The Banks Association of Turkey, Participation Banks Association of Turkey, Corporate Governance Association of Turkey and banks were used.

*5.3 Test of Hypotheses*

**1. Investigation of the relationship between free float rate and corporate governance rating of banks ;**

$H_0$= There is no relationship between free float rate and corporate governance rating of banks.

$H_1$ = There is a relationship between free float rate and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is -0.095 and significance value is (p) 0.839. As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted.

**2.Investigation of the relationship between free float period and corporate governance rating of banks ;**

$H_0$= There is no relationship between free float period and corporate governance rating of banks.

$H_1$ = There is a relationship between free float period and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is 0.786 and significance value is (p) 0.036. As the significance value is (p) < 0.05; it can be said that the relationship between the variables is statistically significant and $H_1$ hypothesis is accepted. There is a strong, linear relationship between the variables in same direction.

**3.Investigation of the relationship between foreign owner and corporate governance rating of banks ;**

$H_0$= There is no relationship between foreign owner and corporate governance rating of banks.

$H_1$ = There is a relationship between foreign owner and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is -0.552 and significance value is (p) 0.19 . As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted .

**4.Investigation of the relationship between activity period and corporate governance rating of banks ;**

$H_0$= There is no relationship between activity period and corporate governance rating of banks.

$H_1$ = There is a relationship between activity period and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is 0.930 and significance value is (p) 0.002 . As the significance value is (p) < 0.05; it can be said that the relationship between the variables is statistically significant and $H_1$ hypothesis is accepted. There is a strong, linear relationship between the variables in same direction.

**5. Investigation of the relationship between number of branches and corporate governance rating of banks ;**

$H_0$= There is no relationship between number of branches and corporate governance rating of banks.

$H_1$ = There is a relationship between number of branches and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is 0.407 and significance value is (p) 0.365 . As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted.

**6.Investigation of the relationship between number of employees and corporate governance rating of banks ;**

$H_0$= There is no relationship between number of employees and corporate governance rating of banks.

$H_1$ = There is a relationship between number of employees and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is 0.394 and significance value is (p) 0.382 . As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted .

**7.Investigation of the relationship between capital adequency ratio and corporate governance rating of banks ;**

$H_0$= There is no relationship between capital adequency ratio and corporate governance rating of banks.

$H_1$ = There is a relationship between capital adequency ratio and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is 0.501 and significance value is (p) 0.252. As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted.

**8.Investigation of the relationship between retun on assets and corporate governance rating of banks ;**

$H_0$= There is no relationship between retun on assets and corporate governance rating of banks.

$H_1$ = There is a relationship between retun on assets and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is 0.800 and significance value is (p) 0.031. As the significance value is (p)< 0.05; it can be said that the relationship between the variables is statistically significant and $H_1$ hypothesis is accepted. There is a strong, linear relationship between the variables in same direction.

**9. Investigation of the relationship "total loans+receivables/ total deposit" ratio and corporate governance rating of banks;**

$H_0$= There is no relationship between" total loans+receivables/ total deposit" ratio and corporate governance rating of banks.

$H_1$ = There is a relationship between "total loans+receivables/ total deposit" ratio and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is -0.894 and significance value is (p) 0.016. As the significance value is (p)< 0.05; it can be said that the relationship between the variables is statistically significant and $H_1$ hypothesis is accepted. There is a very strong, linear relationship between the variables in reverse direction. This refers that one variable increases while the other one decreases (or vice versa).

**10. Investigation on the relationship " total loans+receivables/ total assets" ratio and corporate governance rating of banks;**

$H_0$= There is no relationship between **"**total loans+receivables/ total assets" ratio and corporate governance rating of banks.

$H_1$ = There is a relationship between "total loans+receivables/ total assets" ratio and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is -0.954 and significance value is (p) 0.001 . As the significance value is (p)<> 0.05; it can be said that the relationship between the variables is statistically significant and $H_1$ hypothesis is accepted. There is a very strong, linear relationship between the variables in reverse direction. This refers that one variable increases while the other one decreases (or vice versa).

**11. Investigation of the relationship between net income and corporate governance rating of banks;**

$H_0$= There is no relationship between net income and corporate governance rating of banks.

$H_1$ = There is a relationship between net income and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is 0.559 and significance value is (p) 0.192. As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted.

**12. Investigation of the relationship between "liquid assets/total assets" ratio and corporate governance rating of banks;**

$H_0$= There is no relationship between "liquid assets/total assets ratio" and corporate governance rating of banks.

$H_1$ = There is a relationship between " liquid assets/total assets" ratio and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is 0.551 and significance value is (p) 0.200 . As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted.

**13.Investigation of the relationship between " shareholders'equity/total assets" ratio and corporate governance rating of banks ;**

$H_0$= There is no relationship between "shareholders'equity/total assets" ratio and corporate governance rating of banks.

$H_1$ = There is a relationship between "shareholders'equity/total assets" ratio and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is 0.854 and significance value is (p) 0.015. As the significance value is (p)< 0.05; it can be said that the relationship between the variables is statistically significant and $H_1$ hypothesis is accepted. There is a strong, linear relationship between the variables in same direction.

**14. Investigation of the relationship between return on equity and corporate governance rating of banks ;**

$H_0$= There is no relationship between return on equity and corporate governance rating of banks.

$H_1$ = There is a relationship between return on equity and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is -0.340 and significance value is (p) 0.455 . As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted.

**15. Investigation of the relationship between "total deposit/ total assets "ratio and corporate governance rating of banks ;**

$H_0$= There is no relationship between " total deposit/ total assets" ratio and corporate governance rating of banks.

$H_1$ = There is a relationship between " total deposit/ total assets ratio" and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is -0.577 and significance value is (p) 0.175. As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted.

**16. Investigation of the relationship between " non performing loans/total loans+ receivables" ratio and corporate governance rating of banks ;**

$H_0$= There is no relationship between "non performing loans/total loans+ receivables" ratio and corporate governance rating of banks.

$H_1$ = There is a relationship between " non performing loans/total loans+ receivables" ratio and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is -0.496 and significance value is (p) 0.258. As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted.

**17. Investigation of the relationship between total assets and corporate governance rating of banks ;**

$H_0$= There is no relationship between total assets and corporate governance rating of banks.

$H_1$ = There is a relationship between total assets and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is 0.578 and significance value is (p) 0.174. As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted.

**18. Investigation of the relationship between market value and corporate governance rating of banks;**

$H_0$= There is no relationship between market value and corporate governance rating of banks.

$H_1$ = There is a relationship between market value and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is 0.534 and significance value is (p) 0.217. As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted.

**19.Investigation of the relationship between earning per share (EPS) ratio and corporate governance rating of banks ;**

$H_0$= There is no relationship between earning per share (EPS) ratio and corporate governance rating of banks.

$H_1$ = There is a relationship between earning per share (EPS) ratio and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is 0.334 and significance value is (p) 0.464. As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted .

**20. Investigation of the relationship between Price/Earning (P/E) ratio and corporate governance rating of banks ;**

$H_0$= There is no relationship between Price/Earning (P/E) ratio and corporate governance rating of banks.

$H_1$ = There is a relationship between Price/Earning (P/E) ratio and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is 0.142 and significance value is (p) 0.762. As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted.

**21. Investigation of the relationship between Market Value/Book Value ratio and corporate governance rating of banks;**

$H_0$= There is no relationship between Market Value/Book Value ratio and corporate governance rating of banks.

$H_1$ = There is a relationship between Market Value/Book Value ratio and corporate governance rating of banks.

According to the analysis; it was found that

Pearson coefficient is 0.700 and significance value is (p) 0.080 . As the significance value is (p) > 0.05; it can be said that the relationship between the variables is not statistically significant and $H_0$ hypothesis is accepted.

## CONCLUSION

This study was conducted with seven banks listed in BIST Corporate Governance Index. Four of these bank are deposit banks, one is development and investment bank and two are participation banks. The study aimed to determine whether there is a relationship between certain variables and corporate governance rating and the direction of the relationship, if exists. To this end, 21 variables were selected and correlation analysis was conducted with SPSS.

It was found that 6 of 21 variables calculated for banks in corporate governance index are associated with corporate governance ratings and the relationship was found to be strong. Four of these variables have strong relationship with corporate governance rating in same direction. These variables are **free float period** (the period from the public offering up to now); **activity period** (the period from the date the activity started up to now); **return on asset, shareholders'equity/total assets ratio**. For example, as the free float period of banks increases, their corporate governance ratings increase as well or as their return on assets increase; their corporate governance ratings increase as well or vice versa. .

In addition, two other variables associated with the corporate governance rating are "**total loans+receivables/ total deposit"** and " **total loans +receivables/total assets"** ratios. It was found that the relationship between these two ratios (**total loans+receivables/ total deposit** and **total loans+receivables/total assets)** and corporate governance rating was in reverse direction. For example, as the **total loans +receivables/total assets** ratio increases (the amount of loan and debts in actives increases), the corporate governance rating of the banks will decrease. It can also be said that if "**total loans+receivables/ total deposit"** ratio decreases, corporate governance rating of the banks will increase. It goes without further saying that the loan increase is important for banks. However, in terms of corporate governance, loan amount should be in conformity with deposits. Because excessive loan amount will increase the risk of the bank.

These observations listed above comprise the corporate governance principles and they are also taken into account in the calculation of corporate governance rating. Especially quantative variables constitute a risk factor for both shareholders and stakeholders of the bank. Other non-quantative variables confirm the corporate structure and goodwill of the bank in this sense. The inclusion of numerous banks in BIST Corporate Governance Index in following years will increase the variety of variables in analyses and thus the outputs of these analysis will be more associated with corporate governance practices.

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## APPENDIX 1: SOME BANKING RATIOS AND SOME OF THEIR CHARACTERISTICS

| BANKS | AKBANK | SEKER | HALK | TSKB | YKB | ALTURK | ASYA |
|---|---|---|---|---|---|---|---|
| CORPORATE GOVERNANCE RATING | 9.24 | 9.09 | 9.20 | 9.40 | 9.32 | 8.62 | 8.61 |
| FREE FLOAT PERIOD (YEAR) | 24 | 17 | 7 | 28 | 27 | 7 | 8 |
| FREE FLOAT RATE (%) | 41.2 | 10 | 48.86 | 40.77 | 18.2 | 23.05 | 53.47 |
| FOREIGN SHARE (%) | 9.9 | 33 | 0 | 0 | 0 | 66.1 | 0 |
| ACTIVITY PERIOD (YEAR) | 66 | 61 | 76 | 64 | 70 | 29 | 18 |
| NUMBER OF BRANCHES | 987 | 312 | 867 | 3 | 949 | 166 | 282 |
| NUMBER OF EMPLOYEES | 16,315 | 3,565 | 14,669 | 345 | 16,682 | 2,961 | 5,169 |
| CAPITAL ADEQUENCY RATIO | 15.11 | 13.39 | 14.02 | 18.32 | 16.43 | 15.08 | 14.22 |
| RETURN OF ASSET(ROA)(%) | 1.30 | 0.7 | 1.6 | 2.0 | 2.0 | 0.98 | 0.56 |
| TOTAL LOANS+RECEIVABLES/ TOTAL DEPOSIT | 102.6 | 106.2 | 88.54 | - | 112.2 | 141.84 | 148.64 |
| TOTAL LOANS+RECEIVABLES/ TOTAL ASSETS | 58.9 | 70.9 | 62.36 | 68.5 | 63.4 | 138.87 | 140.11 |
| NET INCOME (000,000) | 2,345 | 131 | 2,010 | 245 | 2,789 | 152 | 160.89 |
| LIQUID ASSETS/TOTAL ASSETS | 38.41 | 17.2 | 24.0 | 28.4 | 25.7 | 19.84 | 20.76 |
| EQUITY/TOTAL ASSETS | 11.67 | 11.0 | 10.24 | 14.95 | 12.1 | 2.69 | 8.79 |
| RETURN ON EQUITY(ROE) | 11.15 | 6.7 | 15.3 | 13.4 | 16.2 | 36.53 | 6.44 |
| TOTAL DEPOSIT/ TOTAL ASSETS | 57.41 | 66.8 | 70.43 | 0 | 56.51 | 70.71 | 68.55 |
| NON PERFORMING LOANS/ TOTAL LOANS+ RECEİVABLES | 0.1 | 2.9 | 0.49 | 0 | 1.3 | 0.29 | 4.08 |
| TOTAL ASSETS (000,000) | 180,254 | 17,806 | 128,480 | 12,207 | 142,706 | 15,420 | 28 |
| MARKET VALUE (000,000) | 23,560 | 2,400 | 14,312.5 | 2,275 | 14,736.50 | 1,350 | 1,125 |
| EARNING PER SHARE (EPS) | 0.74 | 0.21 | 2.20 | 0.25 | 0.74 | 0.27 | 0.22 |
| PRICE/EARNING RATIO | 8.01 | 11.42 | 5.20 | 6.98 | 4.6 | 5.59 | 5.71 |
| MARKET VALUE/BOOK VALUE | 1.1 | 1.17 | 1.17 | 1.2 | 0.85 | 0.9 | 0.45 |

## APPENDIX 2: CORRELATION ANALYSIS WITH CORPORATE GOVERNANCE RATING

| **VARIABLES** | **PEARSON correlation coefficient** | **SIGNIFICANCE** |
|---|---|---|
| Free float period | 0.786 | 0.036 |
| Free float rate | -0.095 | 0.839 |
| Foreign shares | -0.552 | 0.199 |
| Activity Period | 0.93 | 0.002 |
| Number of branches | 0.407 | 0.365 |
| Number of employees | 0.394 | 0.382 |
| Capital adequency ratio | 0.501 | 0.252 |
| Return on assets | 0.800 | 0.031 |
| Total loans +receivables/total deposit | -0.894 | 0.016 |
| Total loans +receivables/ total assets | -0.954 | 0.001 |
| Net income | 0.559 | 0.192 |
| Liquid assets/ total assets | 0.551 | 0.200 |
| Equity/Total assets | 0.854 | 0.015 |
| Return on Equity | -0.34 | 0.455 |
| Total deposit/ total assets | -0.577 | 0.175 |
| Non performıng loans/total loans+ receivables | -0.496 | 0.258 |
| Total assets | 0.578 | 0.174 |
| Market value | 0.534 | 0.217 |
| Earning Per Share (EPS) | 0.334 | 0.464 |
| Price/Earning ratio | 0.142 | 0.762 |
| Market value/Book value | 0.700 | 0.080 |