



Working together
www.rcis.ro

Revista de cercetare și intervenție socială

ISSN: 1583-3410 (print), ISSN: 1584-5397 (electronic)

Selected by coverage in Social Sciences Citation Index, ISI databases

CORPORATE GOVERNANCE: A COMPARATIVE STUDY OF FIRMS IN NORTHERN CYPRUS AND TURKEY

Mustafa AVCIN, Hasret BALCIOGLU

Revista de cercetare și intervenție socială, 2017, vol. 57, pp. 182-201

The online version of this article can be found at:

www.rcis.ro, www.doaj.org and www.scopus.com

Published by:

Expert Projects Publishing House



On behalf of:

„Alexandru Ioan Cuza” University,

Department of Sociology and Social Work

and

Holt Romania Foundation

REVISTA DE CERCETARE SI INTERVENTIE SOCIALA

is indexed by ISI Thomson Reuters - Social Sciences Citation Index

(Sociology and Social Work Domains)



Working together
www.rciis.ro

Corporate Governance: A Comparative Study of Firms in Northern Cyprus and Turkey

Mustafa AVCIN¹, Hasret BALCIOGLU²

Abstract

This paper investigates and compares whether, implementing proper Internal and External governance provisions and practicing Corporate Governance Principles have positive association with corporate performance and profitability. First, the study investigates the impact of the corporate market culture elements (internal governance mechanism – firm based performance) and corporate capital market culture elements (external governance mechanism – capital market based performance) on unlisted firms' performance in Northern Cyprus where, Collaboration, Control, Creativity and Compete are designated as corporate market culture elements in inducing Corporate Market Culture behaviour and the impact of Board of Directors Managerial Incentives, Capital Structure Provisions and Control Systems, Law and Regulations and Capital Markets are designated as corporate capital market culture elements reflecting Corporate Capital Market Culture behaviour. Secondly, investigates the performance of corporate governance index firms in the Istanbul Stock Exchange practicing the Corporate Governance Principles of Turkey make difference in listed firms' performance. The Return on Assets and Return on Equity are designated as firm based performance and Tobin's q as capital market based performance. The empirical evidence give support to the view that, the Internal and External governance provisions are complementary and positively associated with corporate performance then Return on Assets, Return on Equity and Tobin's q.

Keywords: corporate governance, return on assets, return on equity, Tobin's q, internal governance, external governance, North Cyprus, Turkey.

¹ Cyprus International University, Faculty of Economics and Administrative Sciences, Nicosia, NORTH CYPRUS. E-mail: mavcin@hotmail.com

² Cyprus International University, Faculty of Economics and Administrative Sciences, Nicosia, NORTH CYPRUS. E-mail: hbenar@ciu.edu.tr

Introduction

Many corporate failures and collapse of well established companies in the last decade have forced the politicians, regulators to review and establish new ways of improving corporate governance. In the USA, the Sarbanes–Oxley Act (2002) was implemented exhibiting that, law and politics (law and regulations) have important effect on how firms operate and governed. Similarly in the EU the emphasis was on the need for a modern and an efficient law and a system of corporate governance adapted to the expectations of the whole society and to the rapid change of the economic environment. Furthermore, in the UK the Financial Reporting Council (FRC) / (2012; 2014) has published the corporate governance code of practice to facilitate effective and efficient management of companies in the long run. Moreover, the Capital Market Board of Turkey has taken a leading role determining the right code of practice of corporate governance for companies in financial markets in Turkey.

In the last decade corporate governance in Turkey in terms of corporate culture and corporate legality has improved due to the implementation of the Capital Markets Law and Corporate Governance principles issued in 2003 and amended in 2005. The implementation is based on ‘‘comply and explain’’ aimed to improve shareholder involvement and governance reporting and ‘‘say on pay’’ to establish a strong shareholder involvement as also was proposed by the European Commission (EC), (2012) 740 final action plan and EC-IP/14/396, (2014).

The Capital Markets Board of Turkey (CMBT) established four main sections about corporate governance principles. These sections are as follow: (1) Shareholders Treatment - voting rights and the involvement of shareholders; (2) Disclosure and Transparency - Accountability and transparency of disclosing information; (3) Stakeholders - Protection of all shareholders, ethical rules and social responsibility; (4) Board of Directors - The role, duties and responsibilities of the Board of Directors.

It is argued that proper implementation of corporate governance principles may facilitate effective control and help expand investment strengthen firm value and improve profitability (Sengur 2012). In comparison to Turkey in Northern Cyprus most of the large businesses are family businesses as in the ownership type of limited company (LTD) and there is a Stock Exchange but not currently active. According to (devplan.org and cyprusive.com, 2015) North Cyprus has established a liberal economy since was founded in 1983 and under this system, the provisions of goods and services have been mostly provided by the private sector with less intervention of public sector organizations. In North Cyprus there have been huge developments in the Economy since 2000 and there are potential opportunities for further development especially in the private sector of the economy (cyprusive.com, 2015). This paper compares the role played by

corporate governance elements (corporate market culture and corporate legality elements) and corporate governance principles in the establishment of the quality corporate market culture behaviour (firm based performance) and corporate capital market culture behaviour (capital market based performance).

The Case of Turkey

Corporate Governance in Turkey

Corporate governance has strongly captured the attention of Turkish policy makers, regulators and corporations to establish and implement modern corporate codes of practices as the Turkish capital markets evolved in recent decade (Coşkun and Sayilir. 2012:59). The development is said to be related to the reforms regarding the membership negotiations with the EU and the attempts to implement international accounting and auditing standards. However, according to Ararat and Ugur (2003), the capital market in Turkey is characterized by low liquidity, low firm valuation and forming new capital is limited. They have found out that, deficiencies in the corporate legality and controlling framework has made investment risky.

The vast majority of the Turkish companies have a paternalistic background where by culture and tradition ownership and control are not separated because decision making is dominated by the family (owners) and there is short-termism (Oba, Özsoy, & Atakan, 2010 as cited by Coşkun and Sayilir 2012:60).

Companies practicing corporate governance principles in the Istanbul Stock Exchange (ISEX100) are examined based on four Corporate Governance Principles (treatment of shareholders; disclosure and transparency; protection of stakeholders and the role and duties of the Board of Directors) by independent Corporate Rating Agencies and are given Corporate Governance scores for the year ending. These scores are announced by the Corporate Governance Association of Turkey.

Construction of Corporate Governance Score in Turkey

These ratings are constructed based on the following weights established by the Capital Market Board of Turkey: (1) Shareholders - %25; (2) Disclosure and Transparency - %35; (3) Stakeholders - %15; (4) Board of Directors - %25. A rating between 1 and 10 is assigned to the overall level of compliance with the principles of corporate governance as well as to the four main sectors of corporate governance; A rating of 1 (one) represents the weakest profile and a rating of 10 (ten) represents the highest quality; A rating of 6 or more is required to be included in the Istanbul Stock Exchange Index (ISE - CGIndex). The following are the

independent agencies that give scores to listed companies in the Borsa Istanbul (BIST); Saha Rating (<http://www.saharating.com/>); Kobirate (<http://www.kobirate.com.tr/>); JCR Avrasya Rating (<http://www.jcravrsyarating.com/>).

Table 1 illustrates the corporate governance scores matching the appropriate rating definitions.

Table 1. Rating definitions

9 - 10	The company performs very well in terms of Capital Markets Board's corporate governance principles.. The company's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated.
7 - 8	The company performs good in terms of Capital Markets Board's corporate Governance principles. During the rating process, minor deficiencies were found in one or two of the areas rated.
6	The company performs fair in terms of Capital Markets Board's corporate governance principles. Management accountability is considered in accordance with national standards but may be lagging behind international best practice.
4 - 5	The company performs weakly as a result of poor corporate governance policies and practices.. Assurance mechanisms are weak. The rating has identified significant deficiencies in a number (but not the majority) of areas rated.
<4	The company performs very weakly and its corporate governance policies and practices are overall very poor. Significant deficiencies are apparent in the majority of areas rated and have led to significant material loss and investor concern.

Source: Adapted from <http://saharating.com/ckfinder/userfiles/files>

The Case of North Cyprus

Family Businesses in North Cyprus

In Northern Cyprus most of the large businesses are family businesses as in the ownership type of limited company (LTD). Northern Cyprus has a Stock Exchange and currently is inactive and has only one Member Company which is the Turkish Bank. Recently, there have been some debates about privatizing of some businesses owned and controlled by the state and by individuals but yet there is no consensus, to whether privatization should go on or not. All family businesses in Cyprus are registered by the Company House and are members of the Turkish Cypriot Chamber of Commerce.

Economy in North Cyprus

According to devplan.org (2015), the Gross National Product in 2000 has been 1,039.39 US\$ million. Four most important sectors that contributed to the GNP were the Public services; trade and tourism, transport and communication and

industry. On the other hand, North Cyprus has been in the middle income category where in 2000 income per person (GNP per capita) has been 4,978 US\$.

The distribution of the labour force was with 20.2% Public services and the rest in the private sector and the official unemployment rate was 1,6% for the year 2000 (devplan.org, 2015).

In North Cyprus there have been huge developments in the Economy since 2000 and figures 1 and 2 illustrate the sectors contributed to GNP from 2003 to 2007 and the average percentage contribution of sectors to GDP from 2008 to 2013.

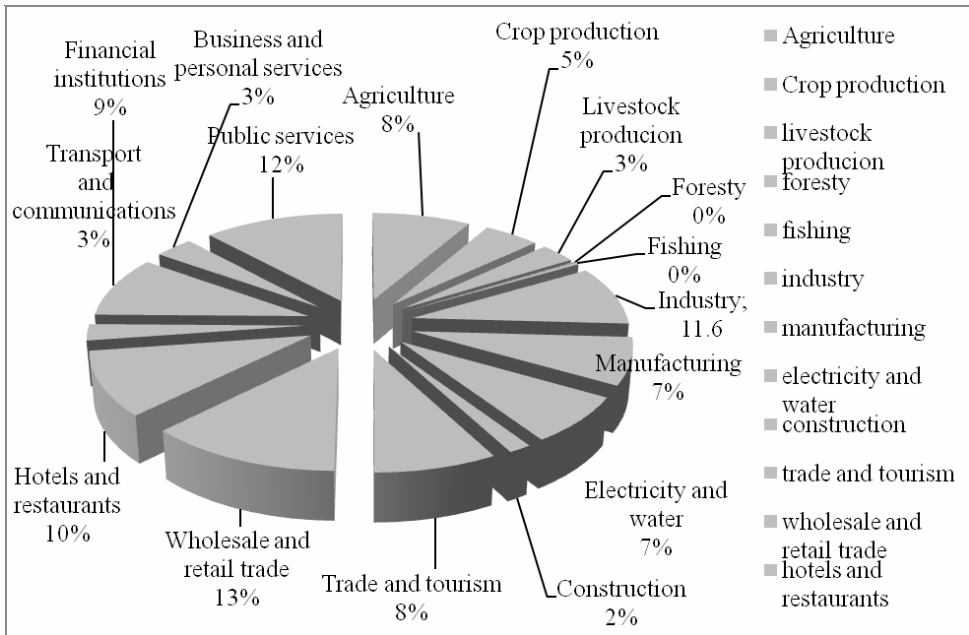


Figure 1. Contribution of sectors to GDP in North Cyprus from 2003 to 2008
 Source: Adapted from North Cyprus State Planning Organization (2015).

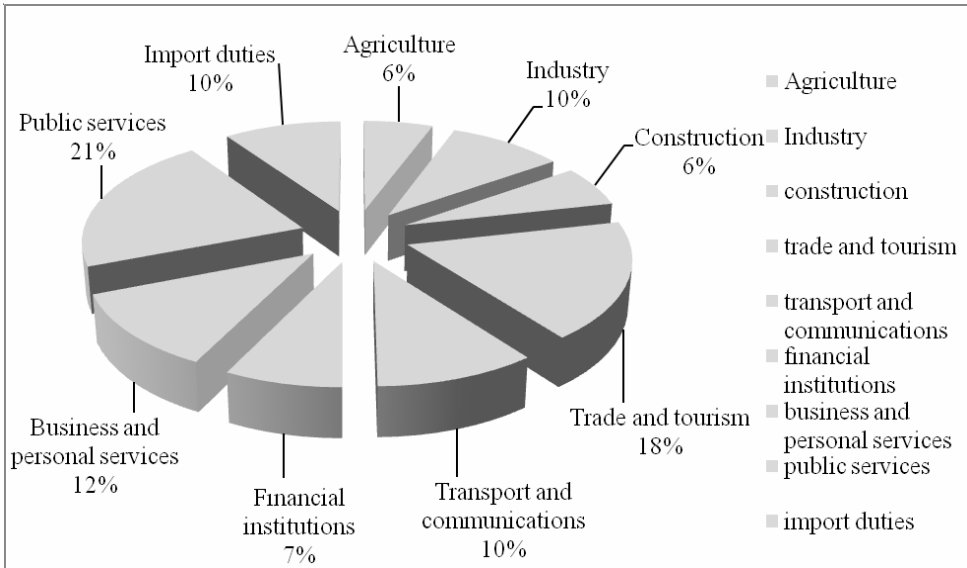


Figure 2. Contribution of sectors to GDP in North Cyprus from 2008 to 2013
 Source: Adapted from North Cyprus State Planning Organization (2015).

Literature Review

A lot of research have been conducted throughout the world to find the relationship between good corporate governance and corporate performance and recently Klapper and Love (2004) have found out that at firm level better corporate governance and operating performance is correlated but was not intended for Turkey but there is a strong support to the general theory that, there is a positive relationship between corporate governance and corporate performance (Needless *et al.*, 2012:513).

On the other hand, Gurbuz *et al.*, (2010) considered the issue of institutional ownership in order to examine the effect of corporate governance on financial performance in Turkey by using a sample of 164 firms listed in the Istanbul Stock Exchange between 2005 and 2008. They found that, practicing corporate governance principles raise the corporate financial value more than those firms not listed on the index. Moreover, Sengur (2012), have investigated if corporate governance principles are implemented rightly will make a difference in firms (index and non index) performance in Turkey and has found out that, there is no significant difference between these firms measured in terms of Return on Assets (ROA) and Market to Book Value (MBV) Tobin's q.

This paper argues that, corporate culture represents a decent orientation in the core variables of the Competing Values Framework Cameron *et al.*, (2003; 2006),

and Corporate Legality Framework Gillan (2006) leading to a better corporate performance. Culture starts with what the organizations norms and values are and, the founders' personality is embedded in the culture when the organization achieves success (Robbins & Judge 2012).

This paper states that, a firm can establish a market culture if it can compete. Therefore, the compete element is consistent with market culture that will be influenced by maintaining decent collaboration, control and creativity. Thus, a firm will establish a capital market culture if it can compete with the external environment. Therefore, the capital market element is consistent with capital market culture that is influenced by maintaining the right board of directors and managerial incentives, capital structure provisions and control systems, law and regulations. The examination into these elements, corporate governance principles of the Capital Market Board of Turkey (CMBT) and the existing literature have formed the structures for the establishment of the model and the hypotheses. A *figure 3* illustrates the quadrants of the Competing Values Framework (CVF) adapted from Cameron et al., (2006). Hence, *Figure 4* shows corporate governance beyond the balance sheet model adapted from Gillan (2006).

<i>Individuality flexibility</i>	
Culture type: CLAN Orientation: COLLABORATE Leader type: Facilitator Mentor Team builder Value drivers: Commitment Communication Development	Culture type: ADHOCRACY Orientation: CREATE Leader type: Innovator Entrepreneur Visionary Value drivers: Innovative outputs Transformation Agility
<i>Internal</i>	<i>External</i>
Culture type: HIERARCHY Orientation: CONTROL Leader type: Coordinator Monitor Organizer Value drivers: Efficiency Timeliness Consistency and uniformity	Culture type: MARKET Orientation: COMPETE Leader type: Hard-driver Competitor Producer Value drivers: Market share Goal achievement Profitability
<i>Stability control</i>	

Figure 3. The Competing Values Framework – Culture, Leadership, Value Drivers, and effectiveness – Value Creation

Source: Adapted from Cameron *et al.*, (2006:32)

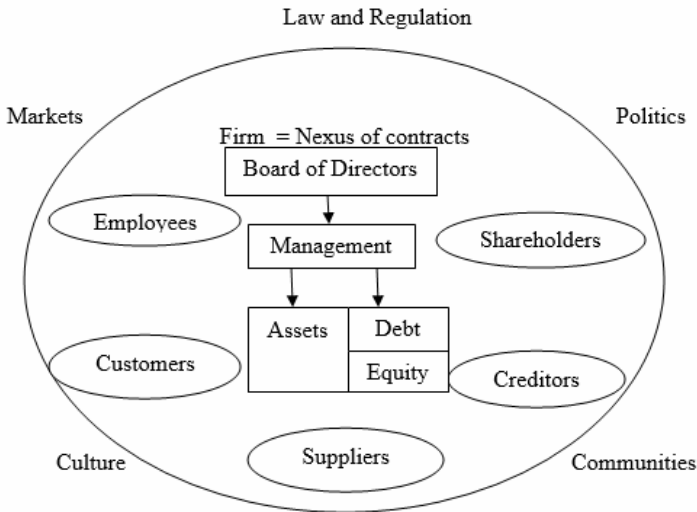


Figure 4. Corporate governance: beyond the balance sheet model.
 Source: Adapted from Gillan, (2006:383)

Methodology

This paper argues that, the constructed research model of corporate governance in Figure 5 below is a better way of measuring and predicting corporate performance and profitability of listed firms and non listed firms. This paper explores the relationship between the corporate governance and firm value and the relationship between corporate governance with profitability of 30 listed companies in the Istanbul Stock Exchange. Their corporate governance scores, stock market information and financial reports were examined. Several panel data were created in order to proceed with testing the Hypotheses.

For Cyprus a questionnaire is designed to examine and determine the level of corporate governance behaviour. The survey questions consisted of two sections and, the first set of 44 questions was distributed to the employees and the second set of 45 questions to the employers and members of the board of directors to complete. (See Appendix)

Out of the 380 questionnaires sent, 320 were completed in total.

The model for our study is represented by the following equation:

$$Y = a + b_1 * X_1 + b_2 * X_2 + \dots + b_i * X_i$$

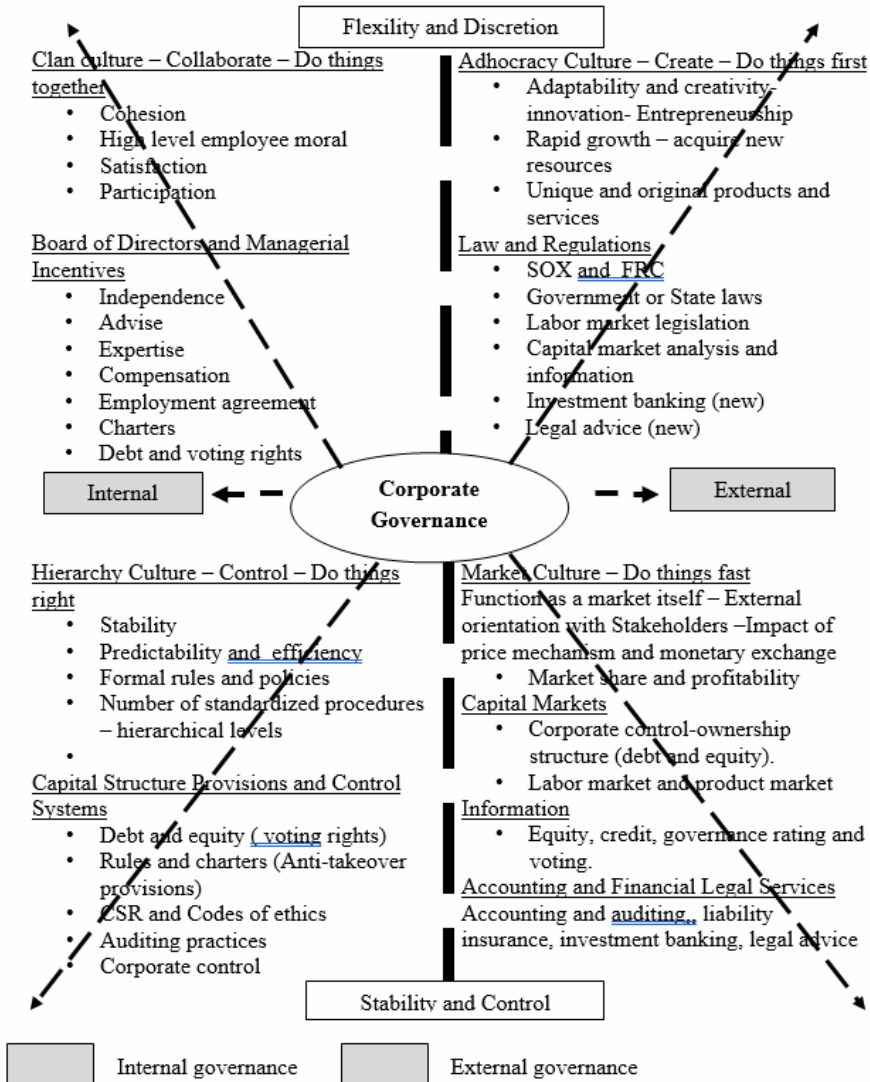


Figure 5. A more comprehensive model of Corporate Governance –Research model

In the final investigation the researcher considered the market culture for internal governance to be measured by the variables collaboration, control, and creativity and the capital market culture for external governance to be measured by the variables board of directors and managerial incentives, corporate structure provisions and control systems and law and regulations. ANOVA test was carried

out to examine whether the means of groups were equal or unequal as illustrated below in *Table 2*.

Table 2. Anova Tests

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7,278	3	2,426	265,557	,000 ^b
	Residual	1,169	128	,009		
	Total	8,447	131			

a. Dependent Variable: Capital Markets (CM)

b. Predictors: (Constant), Law and Regulations (LR), Board of Directors and Managerial Incentives (BDMI), Capital Structure Provisions and Control Systems (CSCS)

Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	,083	1	,083	1,459	,230 ^b
	Residual	6,716	118	,057		
	Total	6,799	119			

a. Dependent Variable: Market Culture (MC)

b. Predictors: (Constant), Capital Markets (CM)

Model		Sum of Squares	df	Mean Square	F	Sig.
3	Regression	5,686	3	1,895	61,501	,000 ^b
	Residual	5,640	183	,031		
	Total	11,326	186			

a. Dependent Variable: Market Culture (MC)

b. Predictors: (Constant), Collaboration (CL), Creativity (CR), Control (CT)

Data

The dataset employed in this study for Turkey consists of corporate governance scores of 30 companies published by Corporate Governance Association of Turkey for the years 2013 and 2014 and contains 60 observations and for North Cyprus the data obtained from the survey for unlisted firms was used to test all hypotheses.

To test the following attributes for listed companies in Turkey their financial statements were examined and a panel data was created: (1) MBV - (Tobin's q): (Market Value of Equity + Book Value of Liabilities) / Book Value of Assets ; (2) ROE: Net Profit / Equity; (3) ROA: Gross Profit / Assets; (4) To expand the investigation between Corporate Governance Scores (CGS), Market to Book Value (MBV), Return on Assets (ROA) and Return on Equity (ROE) two panel data have been created as shown in Tables 3 and 4 respectively.

Table 3. This table illustrates the constructed panel data for companies listed in the Istanbul Stock Exchange (ISEX100) as at December 2014.

BISTX100	CGS13	CGS14	MTBTQ 14	BETAS 14	ROA 14	ROE 14
AKSA	9,10	9,22	1,84	0,85	0,067	0,024
A EFES	9,33	9,42	1,74	0,42	0,10	-0,005
AKBANK.	9,24	9,48	1,29	1,42	0,043	0,023
ARÇELİK	9,28	9,41	2,24	0,63	0,205	0,015
ASELSAN	9,07	9,09	2,98	0,62	0,073	-0,006
AYGAZ	9,27	9,29	1,32	0,61	0,063	0,017
C COLA	9,20	9,25	3,32	0,57	0,127	-0,008
DOGAN HOLD	9,18	9,35	0,61	0,42	0,07	-0,026
ENKA	9,20	9,02	1,47	0,45	0,04	0,016
EGELI A.S.	9,08	9,24	0,56	0,53	0,005	-0,004
GLOBAL YAT.	8,86	8,88	0,84	0,36	-0,05	-0,077
HURRIYET	9,09	9,30	0,91	0,63	0,149	0,016
IS Y. O.	9,11	9,07	0,64	0,37	0,007	0,008
IHLAS HOL	8,15	7,84	0,38	0,54	0,046	0,013
IS GAYRI M.	8,89	9,09	1,04	0,82	0,014	0,005
OTOKAR	9,10	9,20	12,76	1,03	0,017	-0,001
PEGASUS	8,13	8,80	2,32	1,01	-0,032	-0,029
PETKIM	8,91	9,10	1,71	0,69	0,038	0,012
SEKERBANK	9,09	9,10	0,82	0,44	0,162	0,015
TURKIYE GB	9,09	9,20	1,32	1,52	0,073	0,022
TURKIYE HB	9,21	9,19	0,88	1,52	0,129	0,037
TURKIYE Ş.C.	9,10	9,28	0,98	1,05	0,083	0,024
TOFAS	9,14	9,01	4,42	0,68	0,143	0,022
TUPRAS	9,34	9,31	2,57	0,85	0,08	0,037
T.TELECOM.	8,80	8,72	5,49	0,65	0,387	0,024
TSKBK	9,40	9,44	1,34	0,58	0,086	0
T. TRAKTOR	9,40	9,05	6,61	0,48	0,214	0,011
YAPI K.B.	9,32	9,25	0,87	1,31	0,072	0,031
YAZICILAR	9,07	9,13	0,91	0,35	0,032	-0,004
VESTEL	9,95	8,95	1,15	1,66	0,308	-0,046

Sources: Adapted from SAHA Rating agency and from <http://www.bigpara.com/borsa/share-prices-/detail/financial-tables>

Table 4. This table illustrates the constructed panel data for companies listed in the Istanbul Stock Exchange (ISEX100) as at December 2015.

ISEX100	CGS13	CGS14	MBVTQ 15	BETAS 15	ROA 15	ROE 15
AKSA	9,10	9,22	1,81	0,99	0,24	0,07
ANADOLU EF.	9,33	9,42	2,21	1,02	0,42	-0,02
AKBANK A.S.	9,24	9,48	1,06	1,26	0,13	0,08
ARÇELİK	9,28	9,41	2,96	0,82	0,68	0,07
ASELSAN	9,07	9,09	4,65	0,80	0,21	-0,01
AYGAZ	9,27	9,29	1,40	0,76	0,20	0,09
COCA COLA	9,20	9,25	3,47	0,86	0,52	0,01
DOGAN HOL.	9,18	9,35	1,14	0,12	0,27	-0,18
ENKA	9,20	9,02	1,31	0,57	0,11	0,07
EGELI T.G.Y.O	9,08	9,24	0,80	0,47	-0,01	-0,11
GLOBAL YAT.	8,86	8,88	0,40	0,61	0,48	-0,19
HURRIYET A.S.	9,09	9,30	1,15	0,54	-0,44	0,00
IS YO LEASING	9,11	9,07	0,47	0,30	0,04	0,03
IHLAS HOL.	8,15	7,84	2,22	0,88	0,22	-0,70
IS GAYRI M	8,89	9,09	0,75	0,84	0,05	0,18
OTOKAR	9,10	9,20	14,11	0,74	1,17	0,01
PEGASUS A. S	8,13	8,80	2,07	1,14	0,28	0,12
PETKIM A.S	8,91	9,10	1,90	0,75	0,03	0,11
SEKERBANK	9,09	9,10	0,81	0,91	0,31	0,04
GARANTI	9,09	9,20	1,05	1,35	0,23	0,09
HALK BANK	9,21	9,19	0,85	1,56	0,23	0,13
SISE CAM A.S.	9,10	9,28	1,55	0,98	0,26	0,11
TOFAS A. S.	9,14	9,01	5,59	0,88	0,42	0,06
TUPRAS	9,34	9,31	3,68	0,70	0,40	0,10
TURK TEL. A.S.	8,80	8,72	7,82	0,74	1,31	-0,01
TSKBK SINAI	9,40	9,44	1,06	1,08	0,19	0,12
T. TRAKTOR AS	9,40	9,05	6,13	0,80	0,65	0,05
YAPI KREDI	9,32	9,25	0,85	1,28	0,22	0,09
YAZICILAR.A.S.	9,07	9,13	1,38	0,87	0,12	-0,16
VESTEL	9,95	8,95	1,96	1,88	1,14	-0,05

Source: Adapted from SAHA Rating agency and from <http://www.bigpara.com/borsa/share-prices-/detail/financial-tables>

Hypotheses

H1. Return on equity and return on assets exhibit a statistically significant relationship with average corporate governance scores of ISE 100 (ISEX100 firms).

H2. Markets to Book Value (Tobin's q) have a statistically significant relationship with average corporate governance scores of ISE 100 (ISEX100) firms.

H3. Higher Market to Book Value (Tobin's q) is associated with better return on equity and return on assets of ISE 100 (ISEX100) firms.

H4. Higher return on equity and return on assets are associated with higher corporate governance scores of ISE 100 (ISEX100) firms.

H5. Competing Values Framework and Corporate Legality Framework elements are better predictor variables of measuring firm performance behaviour and capital based performance behaviour than return on assets, return on equity and Tobin's q

Results

Results of table 5 imply that, return on equity and return on assets and market to book value (Tobin's q) do not exhibit a statistically significant relationship with average corporate governance scores of listed companies in the ISE 100. *H1* and *H2* are rejected.

Table 5. Regression results for *Hypotheses 1* and *2*

Dependent variable: Average Corporate Governance Scores (ACGS)							
Independent variables	Hyp.	Intercept	R ²	F stat.	t	p-value	Standardized coefficients β
Return on assets (ROA)					0.606	0.550	0.366
Return on equity (ROE)	<i>H1</i>	9.077	0.014	0.192	0.005	0.996	0.011
Market to Book Value (Tobin's q) (MBV) 2014	<i>H2</i>	9.098	0.002	0.069	0.263	0.970	0.004
Market to Book Value (Tobin's q) (MBV) 2015		9.097	0.002	0.034	0.024	0.981	0.002
<i>Number of observations 30</i>							

To determine the relationship between the companies' performance and their profitability, *Hypotheses 3* has been tested. It is expected that higher company performance is positively associated with better return on equity and return on assets. On the other hand, to find out the relationship between higher firm performance and profitability with corporate governance scores of listed companies in the ISE 100 *Hypothesis 4* has also been tested. Results are presented in Table 6 respectively.

Table 6. Regression results for *Hypotheses 3* and *4*

Dependent variable: Market to Book Value (Tobin's q) (MBV)							
Independent variables	Hyp.	Intercept	R2	F stat.	t	p-value	Standardized coefficients β
Return on assets (ROA) <i>H3</i>		1.690			1.028	0.313	5.244
Return on equity (ROE)			0.040	0.566	0.064	0.949	1.247
<i>Number of observations 30</i>							
Dependent variables: Corporate Governance Scores year 2013 and year 2014 (CGS13) and (CGS14)							
Return on assets (ROA) <i>H4</i>		9.131	0.029	0.262	-0.343	0.735	-0.224
Return on equity (ROE)					0.868	0.393	2.117
Market to Book Value (Tobin's q) (MTBV)					0.010	0.992	0.002
<i>Number of observations 30</i>							

Results of table 5 and 6 imply that, Average Corporate Governance Scores (ACGS) for year 2013 and 2014 do not exhibit a statistically significant relationship with Return on Equity (ROE) and Return on Assets (ROA) of listed companies in the Istanbul Stock Exchange (ISEX100) confirming rejection of *Hypotheses 3* and *4*.

Next in the investigation involve the samples *t – test* regarding the *Hypothesis 3* and *Hypothesis 4*. Results are illustrated in *Table 7* and *Table 8* respectively.

Table 7. Results of Paired Samples t-test

The two tailed probability results imply that there is no significant difference in ISEX100 firms' means between 2014 and 2015.

	N	Mean	Standard Deviation	t	df	p
Corporate Governance Scores 2013 – 2014 (CGS13 – CGS14)	30	-0.01933	0.26620	-0.398	29	0.694
Return on assets 2014 – 2015 (ROA14 – ROA15)	30	-0.24430	0.31847	-4.202	29	0.000
Return on equity 2014 -2015 (ROE14 – ROE15)	30	-0.00133	0.15626	-0.040	29	0.969
Market to Book Value (Tobin's q) (MBV14 – MBV15)	30	-0.37600	0.71966	-2.862	29	0.008

The *t statistics values* in table 7 exhibit that, in 2014 Corporate Governance Index companies had a lower return on assets, return on equity and stock market investment value than 2015.

The investigation further is expanded by testing *Hypothesis 5*. A multiple factor regression model is being used to test whether the Competing Values Framework elements and the Corporate Legality Framework elements have positive association with firm based performance behaviour and capital based performance behaviour.

Table 8. Regression results (Multiple factors) of non Corporate Governance Index Companies for the year 2015 – North Cyprus firms

Dependent variable:	Hyp.	Intercept	R	R ²	F stat.	t	p-value	Unstandardized coefficients β
Market Culture (MC)								
Collaboration (CL)						4.289	0.000	0.300
Control (CT)	H5	0.251	0.709	0.502	61.501	5.279	0.000	0.340
Creativity (CR)						4.393		0.203
<i>Number of observations 188</i>								
Capital Market Culture (CMC)								
Board of Directors and Managerial Incentives (BDMI)						5.991		0.341
Capital Structure Provisions and Control Systems (CSCS)	H5	-0.510	0.928	0.862	265.557		0.000	
Law and Regulations (LR)						12.162		0.833
						3.541		0.230
<i>Number of observations 132</i>								
* p .05; ** p .01; *** p .001								

Tables 9 and 10 illustrate the descriptive statistics for the year 2015.

Table 9. Non Corporate Governance Index Companies for the year 2015 – North Cyprus firms

Non Corporate Governance Index Companies for the year 2015 – North Cyprus firms							
	N	Minimum	Maximum	Mean	Std. Deviation	Variance	
Collaboration (CL)	188	1.00	2.00	1.503	0.225	0.051	
Control (CT)	188	1.00	1.78	1.255	0.241	0.058	
Creativity (CR)	188	1.00	2.00	1.475	0.326	0.107	
Market culture (MC)	132	1.06	1.83	1.446	0.182	0.033	
Board of Directors and Managerial Incentives (BDMI)	132	1.17	1.75	1.437	0.213	0.046	
Capital Structure Provisions and Control Systems (CSCS)	132	1.18	1.82	1.454	0.186	0.035	
Capital markets (CM)	132	1.09	1.82	1.462	0.253	0,064	
Law and regulations (LR)	132	1.00	1.45	1.174	0.155	0,024	
Average Corporate Governance score (ACGS) unlisted companies North Cyprus	13	4.54	6.80	6.018	0.592	0,351	
Valid N (listwise)	13						

Table 10. Corporate Governance Index Companies for the year 2015 – Turkey firms

Corporate Governance Index Companies for the year 2015 – Turkey firms						
	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Average Corporate governance scores for X100	30	8.00	9.45	9.1103	0.289	0.084
Market to Book Value 2015	30	0.40	14.11	2.5537	2.827	7.995
Return On Assets 2015	30	-0.44	1.31	0.3360	0.363	0.132
Return On Equity 2015	30	-0.70	0.18	0.0067	0.162	0.026
Valid N (listwise)	30					
Average Corporate governance scores for X100	30	8.00	9.45	9.110	0.289	0.084

The results exhibit that, the key elements of Competing Values Framework and Corporate Legality Framework are better predictor variables of measuring firm performance behaviour and capital based performance behaviour than Return on Assets, Return on Equity and Tobin’s q. Therefore, *Hypothesis 5* is confirmed. Hence, the paired samples correlations of Table 12 imply that Corporate Governance Scores (CGS) have no association with firm performance and profitability. Corporate Governance Indexed (CGI) companies’ scores are negatively correlated with Market to Book Value (MBV), Return on Assets (ROA) and Return on Equity (ROE). However, the paired samples correlations of Table 11 exhibit that, the key elements of corporate culture and corporate legality have a positive association with Market Culture (MC) behaviour (market based performance) and Capital Market Culture (CMC) behaviour (capital based performance) and are positively correlated. Results confirm *Hypothesis 5*.

Table 11. Non Corporate Governance Index Companies North Cyprus Firms

	N	Correlation	Sig.
Pair 1 Market culture & Collaboration	188	0.323	0.000
Pair 2 Market culture & Control	188	0.434	0.000
Pair 3 Market culture & Creativity	188	0.625	0.000
Pair 4 Capital markets & Directors and managerial incentives	132	0.795	0.000
Pair 5 Capital markets & Capital structure provisions and control systems	132	0.895	0.000
Pair 6 Capital markets & Law and Reg.	132	0.616	0.000

Table 12. Corporate Governance Index Companies that are listed in Istanbul Stock Exchange (ISEX100) Turkey Firms

Paired Samples Correlations		N	Correlation	Sig.
Pair 1	Corporate governance score for 2014 & Market to Book Value 2014	30	-0.003	0.988
Pair 2	Corporate governance score for 2014 & Market to Book Value 2015	30	-0.107	0.575
Pair 3	Corporate governance score for 2014 & Return On Assets 2014	30	-0.035	0.856
Pair 4	Corporate governance score for 2014 & Return On Assets 2015	30	-0.168	0.376
Pair 5	Corporate governance score for 2014 & Return On equity 2014	30	0.158	0.405
Pair 6	Corporate governance score for 2014 & Return On Equity 2015	30	0.701	0.000

Discussion

The aim in exploring the quality of firm’s Market Culture (MC) - (internal governance) behaviour and Capital Markets Culture (CMC) - (external governance) behaviour in North Cyprus and investigation into the companies practicing corporate governance principles listed in the Istanbul Stock Exchange (ISTX100) Turkey has been achieved. The main implications of the findings has proven that properly governing corporate behaviour is associated with the complementarity of the key elements of corporate culture and corporate legality than practicing corporate governance principles of Turkey.

Conclusion

Results exhibit that corporate culture elements and legality elements have significant positive association with Corporate Market Culture (MC) behaviour (firm based performance) and Corporate Capital Market Culture (CMC) behaviour (capital market based performance). However, practicing Corporate Governance Principles have no association with firm based performance and capital market based performance. The paper offers new and an insightful research that may contribute to the global understanding that corporate governance is not just an opportunity of creating financial outcome to individuals and shareholders but also is a system that helps firms to adopt a management orientation, organization form (culture type) by embedding decent, effective, consistent corporate market culture (MC) (internal governance) and corporate capital market culture (CMC) (external governance) behaviour to create *social value and financial value for the whole society*.

Limitations of the Study

The investigation does not attempt to address external factors during financial crisis that may have adverse effect on firms. However, it stresses the importance of maintaining decent management orientation and implementing the right value drivers and having the right control variables which may help firms to be always prepared for such issues may arise. The constructed model of corporate governance in *Figure 5* provides direction for firms to establish good corporate governance provisions but do not attempt to address political issues that may affect firms activities. Hence, it is unsure whether the model may fit for specific countries and the study does not refer to the long-term effects of poor quality Corporate Governance (CG) which opens up new ways of further research.

References

- Ararat, M. & Orbay, H. (2006). *Corporate Governance in Turkey: Implications for investments and growth*; Background Paper for Turkey's Investment Climate Assessment 2006. Electronic copy available at: <http://ssrn.com/abstract=2375767>. (Accessed as at 25 SEP. 2015:20.18)
- Ararat, M., & Ugur, M. (2003). "Corporate governance in Turkey, an overview and some policy recommendations" *Corporate Governance; The international journal of business and society*, 3, 58-75.
- Cameron, K., Quinn, E.R., DeGraff, J., & Thakor, J.A. (2003). *The Competing Values Framework: Creating Value through Purpose, Practices, and People*. Washington University, USA: New Horizons in Management.
- Cameron, K., Quinn, E.R., DeGraff, J., Thakor, J. A. (2006). *Competing Values Leadership Create Value in Organizations*. Washington University, USA: New Horizons in Management.
- Capital Markets Board of Turkey (2003). *Corporate Governance Principles*; Amended, February, 2005.
- Coskun, M., & Sayilir, O. (2012). Relationship between Corporate Governance and Financial Performance of Turkish Companies, *International Journal of Business and Social Science*, 3(14), 59.
- Gillan, L.S. (2006). Recent Developments in Corporate Governance *Journal of Corporate Finance*, 12, 381-402.
- Gurbuz, A. O., Aybars, A., & Ozlem, K. (2010) Corporate Governance and Financial Performance with a Perspective on Institutional Ownership: Empirical Evidence from Turkey. *Journal of Applied Management Accounting Research*, 8(2), 21-37.
- Klapper, F.L., & Love, I. (2004). Corporate governance, investor protection, and performance in emerging markets; *Journal of Corporate Finance*, 10, 703-728.
- Needles, J.E.B., Turel, A., Sengur, D.E., & Turel, A. (2012). Corporate governance in Turkey: Issues and practices of high – performance companies. *Accounting and Management Information Systems*, 11(4), 510-531.

- North Cyprus State Planning Organization (2015). <http://www.devplan.org/Frame-eng.html>. [Accessed at 20 MAR 2015]
- Robbins P.S., & Judge, A.T. (2012). *Organizational Behaviour* Pearson 15th Edition
- Sengur, D.E. (2011). Do Corporate Governance Index Companies Outperform others? : Evidence from Turkey. *International Journal of Business and Social Science*, 2(14), 254-260.
- The European Commission Action Plan (2012). European company law and corporate governance, a modern legal framework for more engaged shareholders and sustainable companies Strasbourg, 12.12.2012.
- The U. K., Financial Reporting Council. (2012). *The UK Corporate Governance Code*: Aldwych House, 71-91 Aldwych, London WC2B 4HN.
- The U. K., Financial Reporting Council. (2014). *Proposed Revisions to the UK Corporate Governance Code Consultation Document*: Aldwych House, 71-91 Aldwych, London WC2B 4HN.
- Ugur, M. & Ararat, M. (2004). Imperfect information and corporate governance: some policy implications. *Global Business and Economics Review*, 192-203.