THE EFFECT OF CORPORATE GOVERNANCE INDEX INCLUSION ON STOCK PERFORMANCE IN BORSA İSTANBUL

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DECLARATION OF ORIGINALITY

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- I am the sole author of this thesis and that I have fully acknowledged and documented in my thesis all sources of ideas and words, including digital resources, which have been produced or published by another person or institution;
- this thesis contains no material that has been submitted or accepted for a degree or diploma in any other educational institution;
- this is a true copy of the thesis approved by my advisor and thesis committee at Boğaziçi University, including final revisions required by them.

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ABSTRACT

The Effect of Corporate Governance Index Inclusion

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Listed companies have several stakeholders such as shareholders, managers, employees, investors and even customers. Adopting corporate governance principles help companies draw a framework for written rules and standards that will be followed during the decision-making and management processes in order to ensure that the companies are governed in a way that is optimal for all its stakeholders. In Türkiye, companies that are benchmarked in terms of their adoption of corporate governance practices are tracked through BIST Corporate Governance Index (XKURY). This study takes 73 companies that are listed under XKURY in order to find out if starting to be rated in terms of corporate governance and entering XKURY has an effect on the stock performance of the companies through an event study analysis.

ÖZET

Borsa İstanbul'da Kurumsal Yönetim Endeks Dahiliyetinin

Hisse Performansına Etkisi

Halka açık şirketlerin hissedarlar, yöneticiler, çalışanlar, yatırımcılar ve hatta müşteriler gibi birçok paydaşı bulunmaktadır. Kurumsal yönetim ilkelerinin benimsenmesi, şirketlerin karar alma ve yönetim süreçlerinde uyulacak yazılı kurallar ve standartlar çerçevesi çizerek, tüm paydaşlar için en uygun şekilde yönetilmelerini sağlamaya yardımcı olur. Türkiye'de, kurumsal yönetim uygulamalarını benimseme açısından karşılaştırmalı olarak izlenen şirketler BIST Kurumsal Yönetim Endeksi (XKURY) aracılığıyla takip edilmektedir. Bu çalışma, XKURY kapsamında yer alan 73 şirketi ele alarak, kurumsal yönetim açısından derecelendirilmeye başlanmanın ve XKURY'ye dahil olmanın şirketlerin hisse senedi performansları üzerinde bir etkisi olup olmadığını olay çalışması (event study) yöntemiyle analiz etmeyi amaçlamaktadır.

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CHAPTER 1

INTRODUCTION

1.1 The definition and importance of corporate governance

Even though corporate governance is defined in different ways by different researchers, in general, it stands for the set of written rules and practices that should be followed during decision-making and management processes of the companies which ensures that the company is managed in a way that is optimal for all the stakeholders of the company including shareholders, managers, employees, investors and even customers. Thus, the broadest definition that can be given for corporate governance is governing the companies in a way that is optimal for all the stakeholders of that particular company. Corporate governance becomes important especially in developing countries where most of the businesses are family businesses that are in the transformation phase towards becoming corporate companies with several owners and stakeholders. One of these developing countries where the businesses are going under the mentioned transformation phases is Türkiye. According to Arkeon Consulting, a company that gives advisory on solving management problems and on helping companies adopt new ways of management, 95% of all the companies in Türkiye are family businesses. Even if these family businesses are successful during the management of first generation of the family, only 30% of these family businesses can last long enough to the second generation, 12% of them can last until the third generation and only 3% of these family businesses can be inherited to the fourth generation (Arkeon Consulting, 2022). In that respect, when the life expectancies of the family businesses are analyzed, it can be inferred that there is definitely a problem with the way of governing these companies. Also, since family businesses constitute the 95% of all the companies in Türkiye, this statement may be used as a generalization. Thus, it should be investigated if adopting the principles of corporate governance into these businesses, most of which do not have a structured way of governing the businesses, can make a change on the performance of these companies and make them more sustainable businesses or not.

In addition to family businesses, the importance of corporate governance should be analyzed within the context of initial public offerings as well. A considerable number of the above-mentioned family businesses open to public after coming to a certain level of maturity. In Türkiye, there are around 700 listed companies in Türkiye as of April 2025 (Public Disclosure Platform, 2025) and 54 of these companies had their initial public offering in Borsa İstanbul in 2023 while 34 companies were offered to public in 2024 in Borsa İstanbul (KPMG Türkiye, 2025). Thus, it is evident that there is an increasing trend within family companies to get listed on stock exchange markets in Türkiye and it can be inferred that there is an even increasing need for having a written framework about how this companies are governed in order to increase investor confidence in Turkish companies.

Before opening to public, the performance of these family companies is only a matter for the owners of the company, which is just a particular family but after opening to public, there will be thousands or maybe millions of small shareholders and the company will be held responsible towards these small shareholders for the actions and management decisions taken regarding the company. For instance, as stated earlier, 54 companies started to get listed on Borsa İstanbul in 2023 and 34 in 2024 whereas the biggest IPO of Türkiye was realized in 2023 with the IPO of TAB Gıda Yatırımları AŞ where 4.95 million investors participated, 265 of which was composed of institutional investors. With the latest IPOs in Türkiye, the number of investors in Borsa İstanbul increased to 6.9 million in December 2024, which stands above the last 5-years average of the number of investors (KPMG Türkiye, 2025). Furthermore, in Turkiye, in addition to the hike in the number of companies listed on Borsa İstanbul, another hike has been observed in the number of investors that participated in stock markets as well. According to Central Registry Agency of Türkiye, the number of investors that invests in stocks listed on Borsa İstanbul has nearly doubled from 4 million investors in January 2023 to 8.2 million investors in March 2024, whereas it stands at 6.7 million investors as of March 2025 (MKK, 2025). Thus, these numbers indicate that there will be a hike in the number of stakeholders of these companies and the results of the performance of the companies will be a concern for a much greater number of parties where the companies will be held responsible for informing their customers about the activities of the companies in a well-structured method where the investors are made sure that all the activities of the company are based on written rules and values.

In that sense, the importance of corporate governance becomes even more since, the companies will have to have a set of rules and standards in terms of decision-making processes and the top management of the company in order to make all the stakeholders sure that the company is governed based on solid rules and standards. In that way, the company can induce all the stakeholders about the fact that their rights are being conserved by certain standards which will pave the way to access to funding both from individual and institutional investors since the written rules and regulations that the companies go by during their activities will be a guarantee for the investors which makes them more comfortable about the fact that the funds that they invest in a particular company are being used by the company in a secure and trustworthy way, which prevents any bad intentions such as any kinds of fraud. It may also be stated as the guarantee of the investors that their investments are made in a company that is well managed with certain standards. Considering these effects of adopting corporate governance in companies in terms of managing the companies in a just way for all the stakeholders, it should be analyzed if investors value adopting the principles of corporate governance in their investment decisions and as a consequence, if the stock performances of the companies are positively affected as a result of having a written management framework.

1.2 Development of corporate governance in Türkiye

In Türkiye, the first solid step taken towards corporate governance is the publication of the report titled "Corporate Governance Code of Best Practice: Composition and Functioning of the Board of Directories" in December 2002 by Turkish Industry & Business Association (TÜSİAD) (TÜSİAD, 2002). As the title indicates, this report focused only on the "Board of Directiors" section of the corporate governance principles, explaining issues such as the responsibilities of the board of directors, member selection criteria, role of the chairman of the board and the members, decision-making mechanism and structure of the board including the meetings held by the board of directors. This was followed by the foundation of Corporate Governance Association of Türkiye (Türkiye Kurumsal Yönetim Derneği – TKYD) in 2003, which defines itself as "a non-profit organization aiming to develop and promote adherence to corporate governance standards and guidelines in Türkiye" (Corporate Governance Association of Türkiye, 2024).

The first formal step taken by a Turkish government organization is the publication of Corporate Governance Principles by Capital Markets Board of Türkiye (CMB) in June 2003 where CMB introduces the four sections of corporate governance principles for the first time as shareholders, public disclosure and transparency, stakeholders and board of directors (Capital Markets Board of Türkiye, 2005) which was followed by the foundation of a corporate governance index by Borsa İstanbul under the name of BIST Corporate Governance Index in August 2007 (Borsa İstanbul, 2024) with the ticker of XKURY.

In 2007, only 5 companies in Türkiye were rated for their corporate governance practices, namely Vestel Elektronik Sanayi ve Ticaret AŞ, TOFAŞ Türk Otomobil Fabrikaları AŞ, Türk Traktör ve Ziraat Makineleri AŞ, Hürriyet Gazetecilik ve Matbaacılık AŞ and Tüpraş Türkiye Petrol Rafineleri AŞ. As of the first quarter of 2025 (31.03.2025), there are 77 companies that receives corporate governance rating on an annual basis and listed under BIST Corporate Governance Index.

In order for a company to be listed under BIST Corporate Governance Index, the companies need to be rated by Corporate Governance Rating Companies that are licensed by the Capital Market Board of Türkiye (CMB). Currently, there are three CMB licensed companies that are actively working or in other words that cover at least 1 company in terms of giving corporate governance rating services in Türkiye which are SAHA Rating, KOBIRATE and JCR Eurasia Rating (Corporate Governance Association of Türkiye, 2024).

According to Borsa İstanbul, in order for a company to be listed under BIST Corporate Governance Index, it should be traded under either one of the BIST Stars, BIST Main and BIST Submarket indices and it should have an overall corporate governance rating of at least 8/10 and it should be rated with at least 7/10 in each section of the rating (Borsa İstanbul, 2024).

Corporate Governance Rating in Türkiye is composed of 4 different rating sections as; Shareholders (with 25% weight in overall rating), Public Disclosure and Transparency (with 25% weight in overall rating), Stakeholders (with 15% weight in overall rating) and Board of Directors (35% weight in overall rating). In each section, the companies fill the questionnaire provided by the rating companies and rated out of 10.

Every company under BIST Corporate Governance Index is rated annually. The date of the rating differs for each company as the companies are rated on their anniversary of the first rating. Thus, while analyzing the companies in the Corporate Governance Index, it should be noted that the ratings of some companies are more current compared to others. As of the end of 2024, the top 10 companies listed under BIST Corporate Governance Index in terms of their corporate governance rating are as follows;

Table 1. Corporate Governance Rankings of the Top 10 Companies in BIST Corporate Governance Index as of the end of 2024

Rank	Company	Rating
1	Türkiye Garanti Bankası A.Ş.	99,08
2	Aksa Akrilik Kimya Sanayi A.Ş.	97,72
3	Doğuş Otomotiv Servis ve Ticaret A.Ş.	97,60
4	Yapı ve Kredi Bankası A.Ş	97,15
5	Arçelik A.Ş.	97,02
6	Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	97,00
7	İskenderun Demir ve Çelik A.Ş.	97,00
8	TAV Havalimanları Holding A.Ş.	96,88
9	Tüpraş Türkiye Petrol Rafinerileri A.Ş.	96,80
10	Anadolu Efes Biracılık ve Malt Sanayi A.Ş.	96,78

1.3 Corporate governance rating principles in Türkiye

In Türkiye, the framework of the corporate governance principles is drawn by the Capital Markets Board of Türkiye (CMB) with its "Communiqué on Corporate Governance" which was published in the Official Gazzette edition 28871 on January 3, 2014. The Communiqué on Corporate Governance (Capital Markets Board of Türkiye, 2014) was prepared in reliance upon Article 17 of the Capital Markets Law numbered 6362.

Accordingly, as stated earlier, four main sections are decided upon as Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors. The subsections in each title are given as below by the Communiqué on Corporate Governance (Capital Markets Board of Türkiye, 2014). The titles and the key requirements of the subsections are listed below in summary in order to give the general overview of what is being evaluated within corporate governance principles in Türkiye through Communiqué on Corporate Governance. In order to see the details of each subsection, one should review the Communiqué on Corporate Governance. A concise summary of the Communiqué on Corporate Governance has been presented in the below report in order to create a better understanding of the topics being subject to good corporate governance.

Please see the appendix titled "Summary of Communiqué on Corporate Governance".

1.4 Development of corporate governance rating scores in Türkiye

This section makes an analysis of the average rating of all the Turkish companies that receive a corporate governance rating through years in order to understand the publicly traded companies' compliance to the principles of corporate governance in Türkiye.

As stated earlier, corporate governance rating in Türkiye started with 5 companies in 2007. The names, individual scores in 2007 and 2024 and the averages of these scores are presented in the below table:

Table 2. Corporate Governance Rankings of the First Five Constituents of the BIST Corporate Governance Index as of 2007 and 2024

	2007	2024
Vestel Elektronik Sanayi ve Ticaret A.Ş.	75.91	96.22
Tofaş Türk Otomobil Fabrikası A.Ş.	75.72	92.71
Türk Traktör ve Ziraat Makineleri A.Ş.	75.17	94.78
Hürriyet Gazetecilik ve Matbaacılık A.Ş.	79.67	94.17
Tüpraş Türkiye Petrol Rafinerileri A.Ş.	79.12	97.15
Average	77.1	95.0

The data in the above table is retrieved from Corporate Governance Association of Türkiye (Corporate Governance Association of Türkiye, 2024). Accordingly, looking at the data which shows more than 23% increase in the corporate rating companies of the first 5 constituents of BIST Corporate Governance Index, it can be stated that the companies that started their corporate governance journey in 2007 has gone a long way in terms of their corporate governance practices. Also, considering the fact that corporate governance ratings are given out of 100 points, these 5 companies comply with the corporate governance rating principles in Türkiye by 95% of their activities, while this ratio was only 77% in 2007.

When all the 77 companies in BIST Corporate Governance Index (XKURY) are taken into consideration, it is seen that the average corporate governance rating score of XKURY increased from 77.1/100 in 2007 to 92.81 as of the first quarter of 2025, which is still a significant improvement in terms of compliance of the whole Index with the corporate governance principles.

The rise in the average corporate governance rating in the BIST Corporate Governance Index from 77.1 in 2007 to an impressive 92.81 in 2025 and the increasing average ratings of the first constituents of the BIST Corporate Governance Index from 77.1 in 2007 to 95.0 in 2025 marks a profound transformation in the Turkish corporate landscape. This 15.71 points increase is not merely a statistical improvement—it's a signal of deep institutional maturity, increased transparency, and strengthened investor confidence. It reflects how companies have increasingly embraced best practices in terms of corporate governance principles published by the Capital Markets Board of Türkiye, aligning with international standards in accountability, risk management, and shareholder rights.

For investors, this shift reduces perceived risk and enhances the appeal of Turkish firms in global capital markets. For the broader economy, it suggests a more resilient, sustainable corporate environment where long-term value creation is prioritized over short-term gains. In a world where ESG and governance factors are no longer optional, this steady climb would be expected to position the 77 companies in BIST Corporate Governance Index as credible, future-ready players on the international stage.

1.5 G20/OECD principles of corporate governance

The OECD Principles of Corporate Governance were approved by the OECD Council of Ministers in 1999 (OECD, 1999), and since then, they have become an international point of reference for decision-makers, investors, companies, and other stakeholders around the world. Since their adoption, the OECD Principles of Corporate Governance have kept the concept of corporate governance on the agenda and have served as a guide for legislative and regulatory initiatives both in OECD member countries and in other nations.

Accordingly, the OECD Principles of Corporate Governance are given under the below titles;

- "Ensuring the Basis for an Effective Corporate Governance Framework
- The Rights of Shareholders and Key Ownership Functions
- The Equitable Treatment of Shareholders
- The Role of Stakeholders in Corporate Governance
- Disclosure and Transparency
- The Responsibilities of the Board"

The OECD Principles were reviewed in 2002 by the OECD Steering Group on Corporate Governance under the auspices of the OECD Council of Ministers. This review included a comprehensive study on how member countries addressed the challenges they faced in corporate governance practices. Extensive consultation meetings were held with representatives from international organizations, the private sector, trade unions, civil society, and non-member countries of the OECD. After the draft was made available for public comment online, the revised Principles were published in 2004 (OECD, 2004). In Türkiye, the Capital Markets Board (CMB), which regulates the activities of publicly held companies, published the Corporate Governance Principles in 2003 based on the OECD Principles, and in February 2005, it incorporated the changes made in the revised OECD Principles through an additional regulation (Capital Markets Board of Türkiye, 2005).

The corporate governance principles in Türkiye are largely aligned with the OECD Principles, marking a significant step toward meeting international standards. In 2003, the Capital Markets Board (CMB) introduced its own Corporate Governance Principles based on the OECD framework, aiming to regulate the governance structures of publicly held companies. Following the revision of the OECD Principles in 2004, the CMB promptly updated its own guidelines to reflect these changes. This demonstrates Türkiye's commitment to harmonizing its corporate governance practices with globally accepted norms. Moreover, Türkiye actively participated in the consultation processes alongside non-OECD countries, ensuring that the principles were adopted through a broad and inclusive approach. This alignment indicates that corporate governance practices in Türkiye are built on principles that hold both national and international relevance. As a result, Türkiye's corporate governance system has evolved to emphasize transparency, accountability, fairness, and responsibility. This progress is expected to positively to investor confidence and the development of capital markets in the country.

CHAPTER 2

LITERATURE REVIEW

As stated earlier, this paper intends to analyze the relationship between adapting corporate governance principles through inclusion in Corporate Governance Index of Borsa İstanbul and the stock prices of the companies. Yet, in order to create an understanding of the importance of corporate governance in companies, this paper will review the literature in two other aspects in addition to the effect of corporate governance principles on stock prices. The two aspects that will be analyzed in this regard are the effect of independent board of directors on firm performance and the effect of adopting corporate governance principles on the family businesess and ownership problems within the companies. It has been earlier pointed in this paper that the life expectancy of family businesses in Türkiye are quite short and the literature will be reviewed in order to find out evidence if adoption of corporate governance principles can be a cure for the problems faced in family businesses.

2.1 Independent board of directors and firm performance

It has been stated earlier in this paper that companies that are open to public are responsible for ensuring their investors about the fact that the company is being managed in a way that is optimal for all the stakeholders. This can be done by ensuring the investors that there are independent members in the management team of the company who have the power to reach all the information related with the company and who can make a just evaluation about the use of resources within the company. Thus, it can be stated that having independent members in the board of directors of the company is one of the most important principles of corporate governance which is expected to have a direct or indirect effect on the financial performance of the company. This idea is supported by (Arosa et al., 2010) which makes a research on the effect of ‘outsiders’ in family-run companies in terms of its financial performance and concludes that the independent and affiliated directors have a crucial role in family businesses in terms of enhancing the financial success of the companies due to their advising and monitoring roles which shapes the crucial management decision making processes. (Huang, 2010) makes an analysis on the relationship between corporate governance, firm performance and corporate social performance by taking 297 firms operating in Taiwan into consideration. The research uses R&D intensity, globalization, firm size and controlling stockholders as controlling variables so that the research can draw conclusions which reflect only the effects of corporate governance. It is concluded by the research that corporate governance affects firm performance in several different ways. Independent board of directors is one of the major concerns of corporate governance. The first finding of the article is related with independent board of directors and states that presence of independent directors has a positive impact on social performance of the company in terms of employees, suppliers and customers. Additively, the other conclusion of the study is again related with directors which suggest that ownership of domestic financial-institution shareholders and foreign institutional shareholders and independent directors are related with better financial performance of companies. While giving these findings, it is stated in the article that the findings are in line with other articles working on the relationship between corporate governance and firm performance. This article by Chi-Jui Huang is an important contribution to the literature since it combines financial performance and social performance in one pot and analyzes the topic accordingly. In addition, since a vast number of companies is included in the data collection process and the fact that article is quite current, it can be stated that the article represents a picture of how corporate governance affects Taiwanese companies. Thus, it was at first evaluated in this paper that the appearance of independent members in the top management of the company can increase the trust of stakeholders about the just governance of the company but it is given by (Huang, 2010) that it has additional effects on the financial performance of the company as well. So, it is possible to conclude that having an independent board of directors not only increase the faith of stakeholders in the company but also increase financial performance of the company as the independent members ensure that actions are taken only if they are for the best interest of the company.

The findings of (Huang, 2010) about the importance of presence of independent members in the board of directors are supported by (Agrawal & Chadha, 2005) in the article titled “Corporate Governance and Accounting Scandals”. As the title implies, the article searches for the relationship between decreasing accounting scandals and the adoption of corporate governance principles. The article conducts a research based on 318 U.S. public companies, 159 of which restated their earnings during 2000-2021 period and 159 of which did not restate their earnings after the first earnings announcement. The article takes the governance principles of these companies into consideration in order find if there is a link between a solid set of principles and the decreasing need for restating the earlier announced earnings. The article finds out that “Independent directors are believed to be better able to monitor managers. Firms with boards that are more independent also have a lower incidence of accounting fraud and earnings management. Both the Sarbanes-Oxley Act and the recent stock market rules on corporate governance assume that outside directors are more effective in monitoring management” (Agrawal & Chadha, 2005). Thus, it is once again stated that when the companies adopt corporate governance principles and employ independent members in the board of directors, the company performance increases due to less chances of accounting mistakes and frauds in addition to the above mentioned correct choices of management decisions. This idea is backed by (Love, 2011) by stating that “Independent directors might be invited to join the board, while executive directors are asked to vacate chairmanships; accounting practices might be improved by inviting an independent auditor or by establishing an audit committee; and incentive mechanisms might be installed to prevent self-dealing and other mismanagement”. So, having an independent board of directors seems to be a key to minimizing any issues in the accounting practices of the companies, which will eventually end up in increasing the overall performance of the company. Additively, in terms of independent members in the board of directors, (Baysinger & Butler, 1985) states that at least the majority of board of directors in US companies should consist of independent directors in order to make sure about the independent management attitudes of the company. Also, (Ashbaugh-Skaifea et al., 2006) states that increasing the amount of independent members in the board of directors help the companies enjoy lower bond yields as well as receiving higher credit rating notes on their new issues of debt. At this point, enjoying lower bond yields is an important issue to be analyzed because it is a metric that the company can go under more profitable processes of borrowing, which can be considered as a sign that adopting corporate governance principles increases the profitability of the company by increasing the rates at which the company borrows. In addition to increasing profitability, the trust of investors for the company increases with the adoption of corporate governance principles because of the increasing ratings given to the company by professional rating companies. Furthermore, inclusion of independent members in the board of directors of the companies can increase the overall experience of the board of directors and thus enhance the success of the decision-making progress if the independent members are chosen based on merit and have the necessary qualifications to contribute to board decisions. (Wheeler, 2012) finds out that the presence of qualified independent members in the board of directors adds more critical thinking to the decision-making process and results in higher quality decision making consequently, which can also be interpreted as every independent member represents an idea or way of thinking added to the decision-making process, which leads to more successful decisions based on evaluating the issues with different points of view.

Up to this point, this paper has evaluated how independent members of the board of directors affect the performance of the company. But the independency of the members of the board of directors has never been questioned. (Bhagat & Black, 2001) brings some arguments for independent board of directors by stating that the independent members of the board of directors are usually not that independent as they are chosen from the circle of the owners of the company or the CEO of the company. In that sense, it can be stated that if such an issue occurs, the independent members of the board of directors no longer serve as an authority who can critically evaluate the processes and the performance of the company and instead, they become some kind of advisors who are paid to get some ideas for the company. Thus, as a result, in order for the companies who claim to adopt the principles of corporate governance to enjoy the perks of having an independent board of directors, it should be made sure that the board of directors is truly independent without any intervention from the C-level management of the company or the owners of the company. Additively, the inclusion of independent members in the board of directors may not necessarily be a sign that the financial performance of the company is affected positively by this presence of independent directors. As an example, (Prasanna, 2006) states that the empirical research made within the study could not reach any solid evidence that corporate governance activities enhances the financial performance of the companies. On the other hand, it should also be noted that the research was done in 2006, taking a dataset that covers only the years 2002-2005 when the concept of corporate governance just emerged and the companies had not fully adopted the corporate governance principles or the results of corporate governance adoption were not started to be seen yet.

2.2 Family businesses, ownership-control problems and corporate governance

In the earlier parts of this paper, it was argued that especially in developing countries, most of the companies are in the form of family businesses and these businesses are in the search of transforming into corporate companies. For the case of Türkiye, a record-high number of family businesses are opening to public and even if they want or not, they are obliged to adopt the principles of corporate governance as well. Thus, it is a must to observe the effects of corporate governance in solving management issues in family businesses and contributing to their overall firm performance. This paper made an analysis on family businesses only in the context of family businesses in developing countries in general and family businesses in Türkiye in private but (Mayer, 1997) extends this idea to developed countries and makes an analysis on the effects of corporate governance practices in family businesses both in The United Kingdom and in developing countries. The article makes an analysis about corporate governance taking only finance-related metrics into consideration and touching upon the problems of ownership in companies. The effects of corporate governance are searched for in terms of the restructuring of firms, commitment, trust, finance and investment and managerial incentives. It is stated by (Mayer, 1997) that the major stakeholders of companies in The United Kingdom and in The United States are mostly financial institutions but in other countries most of the companies are in the form of family companies. In that respect, it is observed that corporate governance is needed more in the countries with the dominance of family companies, implying that corporate governance is a key to solve the ownership and control problems in companies. In addition, in terms of firm performance, the article finds out that faster action can be taken by the companies that have independent board members towards any poor performance metrics of the companies. This idea is supported in the article by using the finding that CEO turnover is much higher in companies with independent board members which is seen as an indication of just evaluation of the executives of the company. Overall, it can be stated that (Mayer, 1997) is consistent with the ideas represented in the first section of this literature review and the hypothesis of this literature review which suggests that corporate governance has a positive impact on firm performance and it is a way to solve ownership problems especially in family businesses. Taking the importance of ownership to another level, (Baysinger & Butler, 1985) argues that solving the ownership problems in corporate companies is directly related with independent directors who can represent the rights of different owners of the company in a just and equal way. It is stated that the independent members of the board of directors will be a monitor for the general behavior of the management of the company for different owners of the company. Thus, especially in family companies, since the biggest shareholder of the company will be the family members, the other shareholders of the company will eventually want to be represented in the company and this will be through the independent members of the board of directors of the company. Thus, it can be stated that the solution for the ownership problems of the companies are also directly linked with the presence of an independent board of directors, which once again may be taken as a proof that independent board of directors is one of the most important principle of the whole corporate governance idea. It is made clear by referring to several studies which argue that adopting corporate governance principles is the key to solve ownership problems in companies but the level of ownership has never been mentioned. According to (Abdallah & Ismail, 2017), parallel to other articles analyzed till now, corporate governance plays a key role in terms of solving ownership problems but as the level of ownership increases, the role of corporate governance decreases. For instance, if there is ownership of hundreds or thousands of owners with less than 1% of ownership in the company, it is inevitable to adopt corporate governance principles for effective management of the companies but if the ownership levels are more than 20%, adopting corporate governance principles are not necessarily effective on solving ownership problems. Thus, the study concludes that if the concentration of ownership is at low levels, which means if there are a greater number of shareholders of companies, governance quality increases through having a framework of governing the company.

Additively, some findings in the literature show that the effect of corporate governance on the financial performance of the companies may differ depending on the generation that controls the family business. Arosa et al., (2010) states that corporate governance is important for the family businesses that are run by the first generation of the family in terms of increasing the financial improvement and success of the company but it gets less to zero importance when it comes the second and the later generations of the family that run the company. Even though the study does not favor the effect of corporate governance on firm performance of family businesses, it should be noted that the study is done on relatively small sized companies, which are non-listed on stock exchange markets, and the study puts a limitation in order to assess the size of the companies based on number of employees, which is set to be more than 50 employees and which can be regarded as a low limitation in order to categorize a company as medium or higher sized.

2.3 Corporate governance and stock performance

In addition to the financial performance of the company, the relationship between corporate governance and stock performance should also be a point of analysis since stock performance is one of the most important metrics of a company's wellbeing and since this paper analyzes the relationship between corporate governance and stock performance. Before referring to any solid data or research, it can be stated that we expect to have a positive relationship between corporate governance and stock performance.

This is mainly because if the firm's adoption of corporate governance is at high levels and if this adoption level of corporate governance can be reflected clearly to the existing and potential investors of the company, there will be a greater trust by the investors towards the company and this is expected to have a positive impact on firm's performance on the stock market.

Hsu & Liao, 2022 analyzes the stock performance of the companies during the COVID-19 pandemic by taking their adoption levels of corporate governance. The paper takes a wide sample of US companies and consists of every constituent of NYSE and NASDAQ and analyzes the stock behaviors in three levels as volatility in stock prices, trading volumes and returns on stocks by using descriptive statistics. In terms of variables of corporate governance, the research uses three variables for board of directors as board size, number of independent board members and CEO duality and four variables of ownership as foreign shareholders, institutional investors, managerial ownership and the largest shareholders (Hsu & Liao, 2022). According to the article, it is found out that even though adopting corporate governance practices at high levels is not a certain reason for increasing stock prices and high returns of stock profits, corporate governance is directly related with the volatility of stocks and trading volumes by stating that “good corporate governance could help to mitigate the negative impact of COVID-19 on stock price volatility and trading volume. However, corporate governance may not be helpful for alleviating the impact of COVID-19 on stock returns” (Hsu & Liao, 2022). Thus, this finding of the article can be commented on as corporate governance principles increases the trust of investors towards the company and even at crisis times such as Covid-19 pandemic, the investors of the company do not create high levels of volatility which means they do not buy and sell much based on momentary decisions, there is a certain level of trust towards the company as it is believed that the company is managed for the benefit of all stakeholders and also the company is going to overcome an unexpected and unusual period as Covid-19. This article is an important study in terms of finding out the relationship between corporate governance and stock prices as it takes a one of the most important issues in the world during the past years that affected the operations of the company to a great extent. Parallel to this research, Cotter et al. (2011) makes an analysis on the stock performance of the Canadian companies and their relation with corporate governance for the period between 2005 and 2009 based on the Corporate Governance Quotiant scores assigned to companies by Institutional Shareholder Services (ISS) and runs regression models on the dependent variables of one-month stock returns, three-months stock returns and Tobin's Q and comes up with similar findings suggesting that corporate governance cannot be linked with stock performance at all, due to lack of data supporting the positive relationship during the given period. As an important possible reason drawn for this conclusion, it is stated that the investors may be seeing corporate governance as a standard principle that all the companies should follow and many companies are today actually following or starting to adopt corporate governance standards, so that following corporate governance principles does not put companies in an advantageous position in the eyes of the investors and it is seen just as a standard procedure to be followed.

As a result, taking the findings of the two articles into consideration, we can state that corporate governance does not have a direct effect on the stock returns but considering the stock performances during Covid-19 pandemic given by (Hsu & Liao, 2022), it can be stated that corporate governance is linked with higher trust toward the stocks of the company and thus less volatility in the stocks during the times of shock.

Additionaly, some studies that examine the relationship between stock returns and corporate governance in developed countries should also be a subject of this review in order to see if any differences between the patterns of findings, if any, can be inferred. The study by Bauer et al. (2004) examines the relationship between corporate governance and stock performance, firm value, and profitability in Europe. Using Deminor Corporate Governance Ratings for firms included in the FTSE Eurofirst 300, the study follows the methodology of (Gompers et al., 2001) to construct portfolios of well-governed and poorly governed companies and compare their stock returns. The research also evaluates the effect of corporate governance on firm valuation, measured by Tobin's Q, and performance indicators such as net profit margin (NPM) and return on equity (ROE). The dataset covers 2000 and 2001, and the study assumes constant governance ratings for a few prior years to extend the analysis. Findings indicate a positive relationship between corporate governance and stock returns, though this effect weakens after adjusting for country differences. The UK market showed higher excess returns for well-governed firms, while the Eurozone exhibited a stronger link between corporate governance and firm valuation. Surprisingly, the study found a negative relationship between corporate governance and profitability ratios (NPM and ROE), contrary to US-based research. This suggests that firms with higher governance standards might report more conservative earnings or that poorly governed firms inflate their financial performance. The study highlights the importance of corporate governance in investment decisions, while also acknowledging regional variations and potential accounting biases in evaluating firm performance.

Wahab et al. (2007) examines the impact of the Malaysian Code on Corporate Governance (MCCG) which was introduced in 2001, on corporate governance compliance, institutional investors, and stock performance. Using panel data from 440 firms listed on Bursa Malaysia between 1999 and 2002, the study finds that governance practices improved significantly after the MCCG was integrated into listing rules. Firms with higher institutional ownership, particularly those owned by the Employees Provident Fund (EPF), showed stronger governance compliance. The study employs Seemingly Unrelated Regressions (SUR) analysis to assess how institutional ownership influences governance and stock performance. Findings indicate that institutional investors play a key role in strengthening governance, especially in politically connected firms where governance practices tend to be weaker. Stock performance improved following the governance reforms, with an estimated 4.8% increase in returns.

However, the study finds no evidence that politically connected firms performed better and confirms that political ties negatively affect governance, though this effect is mitigated by institutional ownership. Overall, the research highlights the success of the MCCG in improving governance, the critical role of institutional investors the challenges posed by political connections in corporate governance and the effect of introducing MCCG on stock prices. Wahab et al. (2007) is considered as an important article to be reviewed within this research as it aims the companies in a developing country as Malaysia.

Another study which is conducted in a developing-country context, (Kurniati, 2019) examines the influence of good corporate governance (GCG) on corporate value, with stock returns and financial performance acting as mediating variables in Indonesia. The research focuses on companies listed on the Indonesia Stock Exchange (IDX) from 2011 to 2017, specifically those included in the LQ45 index, which consists of highly liquid and well-performing firms. Using a purposive sampling approach, the study selects 25 companies, resulting in 175 firm-year observations. The analysis is conducted using WarpPLS, applying a formative indicator approach to examine relationships between variables. The findings indicate that good corporate governance negatively affects short-term stock returns, suggesting that firms with stronger governance prioritize long-term stability over short-term gains. Additionally, good corporate governance does not significantly influence financial performance or corporate value.However, stock returns positively influence financial performance, and vice versa, demonstrating a reciprocal relationship. Furthermore, stock returns and financial performance significantly contribute to corporate value, implying that market perceptions and profitability are key drivers of firm valuation.

Despite its insights, the research acknowledges limitations, such as small managerial ownership proportions, which may limit the direct impact of governance mechanisms. Overall, the findings emphasize the complex and context-dependent nature of corporate governance's influence on firm value, highlighting the need for further exploration of industry-specific and market-based governance dynamics.

Karamoy & Tulung, 2020 conducted a quantitative, associative study to examine the impact of financial performance and corporate governance on stock prices within Indonesia's non-bank financial industry. The research focused on 37 companies listed on the Indonesia Stock Exchange (IDX) during the period 2012–2016, using purposive sampling based on the availability of annual reports. The study utilized secondary panel data comprising variables such as return on assets (ROA), managerial ownership, institutional ownership, and the proportion of independent commissioners, with earnings per share (EPS) serving as the proxy for stock price. Employing multiple linear regression analysis, the authors found that none of the independent variables—financial performance (ROA), managerial ownership, institutional ownership, or the composition of independent commissioners—had a statistically significant influence on stock prices, either individually or collectively. Despite the theoretical framework suggesting that these factors should affect investor confidence and thereby stock value, the empirical results indicated otherwise.

The authors acknowledged limitations in their sample size and scope, suggesting future research should incorporate non-listed and fintech firms and explore additional governance and digitalization-related variables. Their findings contribute to the ongoing discourse on the nuanced relationship between governance, performance metrics, and market valuation in emerging economies (Karamoy & Tulung, 2020).

In addition to studies that focus solely on stock performance, (Love, 2011) presents a comprehensive literature review examining the relationship between corporate governance and firm performance, drawing from a wide array of empirical studies across different countries and economic contexts. Rather than relying on a single research method or dataset, the study synthesizes existing research using both cross-country and within-country firm-level data. The central focus is on whether corporate governance practices—particularly those voluntarily adopted by firms—are associated with firm performance as measured by market valuation (e.g., Tobin's Q), operating outcomes (e.g., ROA, ROE), or stock returns. The review acknowledges that most empirical findings suggest a positive association between good governance and higher firm valuation, although the relationship with operating performance and stock returns is less consistent. Importantly, Love underscores the critical issue of endogeneity in this line of research, noting that it remains unclear whether good governance leads to better performance or if successful firms are simply more likely to adopt strong governance structures. Several methodological approaches are discussed to address this issue, including fixed effects, instrumental variables, and difference-in-difference designs. (Love, 2011) also proposes the use of randomized experiments as a future avenue for establishing causality more convincingly. The article highlights that governance often evolves endogenously, shaped by firm-specific and environmental factors, and emphasizes the need for further research to determine which governance provisions matter most under varying circumstances. Overall, the paper offers a balanced and insightful evaluation of the governance-performance nexus, calling for more robust methods to address causality and uncover context-dependent effects (Love, 2011).

While analyzing the importance and effects of corporate governance on stock performance, it is important to make a comparison between developed countries with different dynamics. (Kaplan, 1997) presents a comparative empirical analysis of corporate governance systems in Germany, Japan, and the United States, focusing on the relationship between governance structures and corporate performance. The study analyzes data from 42 German firms, 119 Japanese firms, and 146 U.S. firms over the 1980–1988 period, emphasizing top management turnover and compensation as indicators of how governance systems incentivize executives. Using regression analysis, Kaplan examines how firm performance metrics—including stock returns, sales growth, and changes in pre-tax income—relate to executive job loss and compensation changes. The findings reveal that across all three countries, poor stock performance and earnings losses are significantly associated with higher executive turnover and reduced compensation. Contrary to the popular notion that German and Japanese managers are more insulated from short-term performance pressures, the study finds that managerial incentives and punishments are similarly tied to short-term financial indicators in all three governance systems. Furthermore, Kaplan identifies the roles played by banks and large shareholders in Japan and Germany, who intensify their governance oversight—evidenced by board appointments—in response to declining firm performance. These relationships often serve both monitoring and disciplinary functions, paralleling the market-driven mechanisms prevalent in the U.S. system. Despite structural differences in governance—such as ownership concentration, board composition, and capital market liquidity—the three systems yield similar managerial incentives due to competitive market forces. Kaplan concludes that while each system has its contextual strengths, the U.S. system provides more effective mechanisms for curbing overinvestment in already successful firms, primarily through stronger equity-based incentives and flexible mechanisms for returning capital to shareholders (Kaplan, 1997).

While focusing on the contexts of different countries both on developed and developing levels, this literature review aims to focus on the regions based on proximity to Türkiye as well. With that aim, it is seen important to analyze the reactions of stock prices of the companies to the adoption of corporate governance principles in the countries in MENA region as well. In that regard, the study by Rostami et al. (2016) explores the impact of corporate governance components on the financial performance of companies listed on the Tehran Stock Exchange, focusing on return on assets (ROA) and stock return as performance metrics. The researchers employed a descriptive and correlational research design, utilizing multivariate regression models to test their hypotheses. The sample consisted of 469 firm-year observations from 67 companies over a seven-year period (2006–2012), selected through systematic elimination to ensure consistency in fiscal year-end and exclusion of certain financial sectors like banks and insurance companies. The study examined six internal corporate governance components—ownership concentration, institutional ownership, board independence, board size, CEO duality, and CEO tenure—as independent variables, with market value of equity and book-to-market ratio as control variables. The findings, based on the estimated generalized least squares method, revealed significant relationships between these governance components and financial performance. Specifically, ownership concentration, board independence, CEO duality, and CEO tenure exhibited a positive and significant relationship with ROA, while institutional ownership and board size showed a negative correlation. Conversely, institutional ownership, board independence, CEO duality, and CEO tenure were positively associated with stock return, whereas ownership concentration and board size had a negative impact. It is stated that these results align with prior studies suggesting that effective corporate governance can enhance firm performance, though the impact varies across different governance mechanisms and performance criteria. The study also draws on international literature, that found that robust governance practices positively influence financial performance in Indian and South Korean firms, that linked governance aspects like board composition to reduced stock return variability. In the Iranian context, some other studies are referenced that reported a significant relationship between ownership concentration and ROA, consistent with the findings of (Rostami et al., 2016), though no link was found with other metrics like return on equity. The study underscores the unique governance challenges in Iran, a developing market with less shareholder protection compared to developed economies. By focusing exclusively on internal governance components due to the absence of a corporate control market in Iran, the research provides valuable insights into how governance structures influence performance in a specific institutional setting.

Additionally, in the MENA context, the study by (Farooq & Youssef, 2012) investigates the relationship between corporate governance mechanisms and firm performance in the Middle East and North Africa (MENA) region during the global financial crisis, specifically from July to December 2008. Focusing on Morocco, Egypt, Saudi Arabia, United Arab Emirates, Jordan, Kuwait, and Bahrain, the researchers used dividend policy, choice of auditors, and transactional complexity as proxies for corporate governance, with stock price performance, measured by market-adjusted returns, as the dependent variable. The sample data was drawn from Infinancials, Datastream, and Worldscope, covering firms across various industries, with descriptive statistics revealing high transactional complexity in North African firms (e.g., 0.47 for Morocco) but also high dividend payout ratios (e.g., 45.33% in Morocco). The study employed regression analysis, controlling for firm-specific characteristics like return on assets, earnings per share, sales growth, market value, and leverage, to test hypotheses that firms with big-four auditors, higher dividend payouts, and lower transactional complexity outperform others during the crisis. Findings confirmed that firms audited by big-four auditors outperformed others by 0.0853 basis points, dividend-paying firms surpassed non-dividend-paying firms by 0.1679 basis points, and firms with higher transactional complexity experienced a performance decline of 0.3019 units per unit increase in complexity. These results suggest that robust governance mechanisms reduce agency problems, enhancing transparency and limiting expropriation by controlling shareholders, which aligns with prior studies that found similar governance effects during the Asian financial crisis. The study also resonates with the studies that view dividends as a tool to mitigate agency conflicts, and highlight the credibility of big-four auditors. In the MENA context, where weak governance is noted due to concentrated ownership and ineffective enforcement, the findings underscore the protective role of firm-level governance against crisis-induced capital flight. The robustness analysis, combining all governance variables, reaffirmed the positive impact of dividends and negative effect of complexity, though the auditor effect became insignificant, suggesting potential interactions among governance factors. This research contributes to the broader discourse on governance in emerging markets, supporting arguments that strong governance mitigates crisis impacts, and highlights the need for improved disclosure to bolster investor confidence.

When the above-mentioned studies in the literature is analyzed, it is clearly seen that there is no consensus in the literature about having a direct positive effect of corporate governance on stock performance. This literature review is expected to reflect a trustable pattern as it takes the markets of both developed and developing countries into consideration. In conclusion, the literature on corporate governance and stock performance reveals a complex and multifaceted relationship influenced by contextual factors such as market maturity, ownership structures, and regulatory environments. While the roles of independent board members and ownership-control dynamics provide critical insights into firm performance, the most directly relevant issue analyzed is the link between levels of adoption of corporate governance principles and stock performance. Studies conducted across both developed and developing economies, as well as in culturally and geographically proximate regions such as MENA, underscore the variability of these effects, where this literature review does not come to a certain conclusion in what way corporate governance principles adoption affects stock prices of the companies. The diversity of methodologies employed, that ranges from panel data analyses to event studies, further enriches the understanding of how governance structures impact investor confidence and market outcomes. This broad and comparative perspective establishes a strong foundation for exploring the Turkish context, when assessing the effects of corporate governance adoption on stock performance in Türkiye.

CHAPTER 3

RESEARCH METHOD

3.1 Research objective

In Türkiye, companies in BIST may receive corporate governance ratings and accordingly, they may enter the Corporate Governance Index of BIST. In this study, an event study analysis has been conducted targeting to find out if entering BIST Corporate Governance Index affects the stock price and thus the investment appetite towards these companies.

3.2 An overview of event study analysis

Event study analyses aim to find out the effects of a particular event on the direction of the development of a particular issue. (Mackinlay, 1997) mentions the goal of using event studies in economics and finance as “to measure the effects of an economic event on the value of firms” and furthermore states that event studies are expected to reflect the effects of an event regarding a particular company in the security prices of that company. Thus, in order to conduct an event study, one should take the security prices during and around the time the event subject to the research happens.

The total timespan of the research during when the event is being analyzed in the event studies are called “event window”. The event window includes the time intervals used for pre-event, during event and post-event series. For instance, if a researcher is conducting a research for the effects of making a special agreement for a company, the announcement of the agreement to the public is considered as the event that is subject to the analysis and the date of the announcement would become the midpoint of the event window where the prices during a certain number of days before and after the event would be subject to the research in order to find out how the agreement signed affects the prices within the event window. (Mackinlay, 1997) suggests to “to define the event window to be larger than the specific period of interest”. Thus, considering the above example, the event window should not include only 1 day before and after the event but a reasonably longer timespan in order to see the effects of the event on the price in a clearer way. In this study, an event study has been conducted for an event window of 9-days (4 days before and 4 days after the event, including the event day), 15-days (7 days before and 7 days after the event, including the event day) and 21-days (10 days before and 10 days after the event, including the event day). This has been done in order to find out the reaction of the market against taking a formal step towards the adoption of corporate governance principles in different timespans.

3.3 Event study analysis by using R

This study uses “R” software language with the Integrated Development Environment (IDE) named RStudio. An Integrated Development Environment is a software that is used to compile, edit or upload a code for a particular software language on which (Alizadehsani, 2022) states that “Integrated Development Environments (IDEs) are well-known tools that have brought together the features of various tools within one package. Modern IDEs include the advantages of Artificial Intelligence (AI) and Cloud Computing. These technologies can help the developer overcome the complexities associated with multi-platform software products” (Alizadehsani, 2022).

This study uses a package on R named “eventstudyr”. The eventstudyr package is created based on the recommendations given by (Freyaldenhoven et al., 2021), thus, before starting narrating the application done through the eventudyr package, one should understand the recommendations that the eventudyr package is based on.

According to (Freyaldenhoven et al., 2021), an event study helps analyze how a policy or event affects an outcome over time. The process starts with setting up a model, where the researcher tracks changes in an outcome like employment or prices before and after the event. Fixed effects to control for differences across groups and time are included and adjusted for possible outside influences. Next comes identification, which means making sure that the research is actually measuring the event’s effect and not something else. This can involve checking for trends that started before the event or using statistical techniques like fixed effects or instrumental variables. Lastly, the analysis estimates the effect using mathematical models and visualize it with event-study plots. These plots show how the outcome changes around the event and help us see patterns. To make them clear, researchers often highlight key points, add confidence intervals to show uncertainty, and compare results to pre-event trends.

Eventstudyr package is created based on the above-described rules and recommendations and the actions taken by the codes in the Eventstudyr package in order to conduct the event study will be touched upon later in the report.

3.4 Research question

How does starting to receive Corporate Governance Rating and becoming a constituent of the Borsa İstanbul Corporate Governance Index (XKURY) affect the stock prices of the particular company relative to the price of BIST-100 (XU100)?

The above research question is targeted to be analyzed through using event study. This study uses 73 constituents of Borsa İstanbul Corporate Governance Index. Accordingly, the earliest data point in the dataset is 01.03.2007, when Vestel Elektronik Sanayi ve Ticaret A.Ş. received its first corporate governance rating from SAHA Rating and the latest data point is 18.08.2024, which belongs to Arzum Elektrikli Ev Aletleri A.Ş.. For the above stated research question, as stated earlier, this study basis its analysis on 4, 7 and 10 days before and after the event, which is receiving the first corporate governance rating in order to enter XKURY. The event windows are represented as [-4, +4], [-7, +7] and [-10, +10]. Thus, this research refers to event as the announcement of the first corporate governance rating of the companies published on Public Disclosure Platform (PDP). The list of all the companies and the dates of getting their first Corporate Governance Rating are retrieved from the website of Corporate Governance Association of Türkiye (TKYD) (Corporate Governance Association of Türkiye, 2024). The list of companies and the dates of their first corporate governance rating are presented in the below table;

Table 3. List of the 73 Companies Used in This Study and Their Date of Receiving Their First Corporate Governance Rating

Ticker	1st Rating Date	Ticker	1st Rating Date	Ticker	1st Rating Date
VESTL	5.03.2007	DOAS	7.02.2011	ISDMR	25.08.2020
TOASO	28.05.2007	PNSUT	24.11.2011	AKSEN	2.07.2021
TTRAK	23.08.2007	HALKB	19.12.2011	QUAGR	10.09.2021
HURGZ	3.09.2007	GLYHO	28.12.2011	VKGYO	30.09.2021
TUPRS	8.10.2007	GARFA	23.08.2012	ALARK	1.10.2021
OTKAR	20.03.2008	ENKAI	26.11.2012	SEKFK	27.10.2021
AEFES	11.06.2008	PETUN	7.12.2012	AYDEM	20.04.2022
YKBNK	29.12.2008	ASELS	13.12.2012	KMPUR	24.08.2022
SKBNK	27.02.2009	CRDFA	24.06.2013	KONTR	11.11.2022
CCOLA	1.07.2009	PINSU	4.12.2013	GWIND	20.12.2022
ARCLK	30.07.2009	PGSUS	6.01.2014	VAKBN	28.02.2023
TAVHL	4.09.2009	AKSA	5.08.2014	BIOEN	13.04.2023
TSKB	20.10.2009	AKSGY	21.11.2014	CONSE	3.05.2023
DOHOL	9.11.2009	GARAN	11.12.2014	ASUZU	12.06.2023
LOGO	22.12.2009	SISE	29.12.2014	FROTO	21.06.2023
ISFIN	28.12.2009	DGGYO	7.07.2015	AKENR	14.07.2023
TTKOM	28.12.2009	EREGL	29.07.2015	YYLGD	20.07.2023
PRKAB	29.12.2009	ANSGR	6.11.2015	SUNTK	22.08.2023
TRCAS	12.03.2010	MGROS	30.12.2015	KFEIN	11.09.2023
PRKME	9.06.2010	AKMGY	6.12.2016	YUNSA	21.09.2023
AYGAZ	30.06.2010	HLGYO	30.11.2017	KLKIM	1.12.2023
ALBRK	21.10.2010	TATGD	29.12.2017	SELVA	16.01.2024
AGHOL	8.11.2010	BTCIM	30.07.2019	ARZUM	16.08.2024
IHEVA	28.12.2010	ENJSA	19.12.2019		
IHLAS	28.12.2010	TURSG	22.07.2020		

3.5 Event study application methodology

The first step in this event study is to identify the dates of entry into Borsa İstanbul Corporate Governance Index for each and every 73 constituents of XKURY. The dates were captured from the official list of Corporate Governance Association of Türkiye (Corporate Governance Association of Türkiye, 2024) and listed on Microsoft Office Excel as the main source of the study and then it was referred to in the RStudio platform. Afterwards, the historical prices were fetched from Yahoo Finance by using R both for each constituent of the index and for XU100. The data covers the period between 01.01.2006 and 31.12.2024. The adjusted returns for the daily stock prices and the daily prices of the BIST100 were calculated as below;

$$R_t = \begin{cases} 0 & \text{if } t = 0 \\ \log(P_t) - \log(P_{t-1}) = \log\left(\frac{P_t}{P_{t-1}}\right) & \text{if } t > 0 \end{cases}$$

P_t: adjusted closing price of the stock or XU100 at time t

R_t : log return at time t

After calculating adjusted returns through using R, Index data is retrieved and then index returns and adjusted stock returns are joint together based on date. Abnormal Returns (AR) for each stock for each date between 01.01.2006 and 31.12.2024 are calculated based on the below formula;

$$AR_t = \mathrm{R}_t^{stock} - \mathrm{R}_t^{index}$$

R_t^{stock} : adjusted return of the stock at time t

R_t^{index} : index return at time t

AR_t: abnormal return at time t

This study uses abnormal returns in order to find out the stock movements around the event time which is entering the corporate governance index in order to avoid any changes related with the movements of the BIST-100 index.

After finding the abnormal returns for each company, the abnormal returns are listed from January 2006 to December 2024 with an ascending order by date. If the IPO of a particular company was made after January 2006, the adjusted returns data starts from the IPO until December 2024. Each data point for adjusted returns for each company are ordered starting from 1. The order of the event date, which is the date of entering BIST Corporate Governance Index, is written in a different column for each line as “event date” and the data for the event window is decided by taking the difference between the date of the adjusted returns and the event date.

After the calculation of the event window and the abnormal returns, Eventstudyr package on R with Eventstudy() function is applied to the adjusted returns. As stated earlier, Eventstudyr package facilitates estimating linear panel event study models and creates event study plots by relying on the suggestions stated by (Freyaldenhoven et al., 2021),

which was analyzed in the literature review section of this study.

By using the Eventstudyr package on R, the abnormal returns in the data set are analyzed through the below model;

$$AR_{it} = \sum_{k \neq -1} \beta_k D_{it}^{(k)} + \alpha_i + \lambda_t + \varepsilon_{it}$$

AR_{it} : Stands for the dependent variable, representing how much a stock’s return deviates from expected market return around the event (index inclusion).

$D_{it}^{(k)}$: A dummy variable that equals 1 if firm i is k days away from the event, and 0 otherwise.

β_k : The coefficient estimating the effect of index inclusion on abnormal return at day k relative to the event.

k : Reference pediod. Day $k = -1$ is omitted from the regression, so all β_k coefficients are interpreted relative to the day before the event.

α_i : Firm fixed-effects. Controls for firm characteristics that could influence abnormal returns.

λ_t : Control for market-wide shocks or trends that affect all firms on day t.

ε_{it} : The error term, capturing all other unobserved factors that influence abnormal returns but are not included in the model.

3.6 Summary of the event study analysis

Table 4. Summary of the Event Study Analysis

Companies	73 companies that are included in Borsa İstanbul Corporate Governance Index
Events	73 events in total, one for each company. Events are the first Corporate Governance Rating Announcement made on Public Disclosure Platform which are checked with the dates announced by Corporate Governance Association of Türkiye.
Event Window	The analysis covers three different event windows as 9-days, 15-days and 21-days, which are represented as [-4, +4], [-7, +7] and [-10, +10] respectively.
Steps of Event Study	1. Calculate daily returns for the 73 stocks and BIST-100 index 2. Using the above calculated values, calculate the abnormal returns for each stock 3. Use Eventstudy() function of the 'eventstudyr' package on r software language in order to estimate a linear panel event study model with ordinary least squares regression model.

CHAPTER 4

DATA INTERPRETATION & RESULTS

This paper aims to explore whether the announcement BIST Corporate Governance Rating Inclusion has a significant impact on firm stock prices. Specifically, the analysis is guided by two questions:

- Is there a statistically significant increase in stock returns on the day a firm receives its first Corporate Governance Rating and enters the BIST Corporate Governance Index?
- Is there evidence of systematic abnormal returns in the days leading up to or following the event?

The data is first implemented for the event window of [-4, +4]. After the implementation of the data, the below graph is plotted. The details of the application of Eventstudy will be stated using this graph;

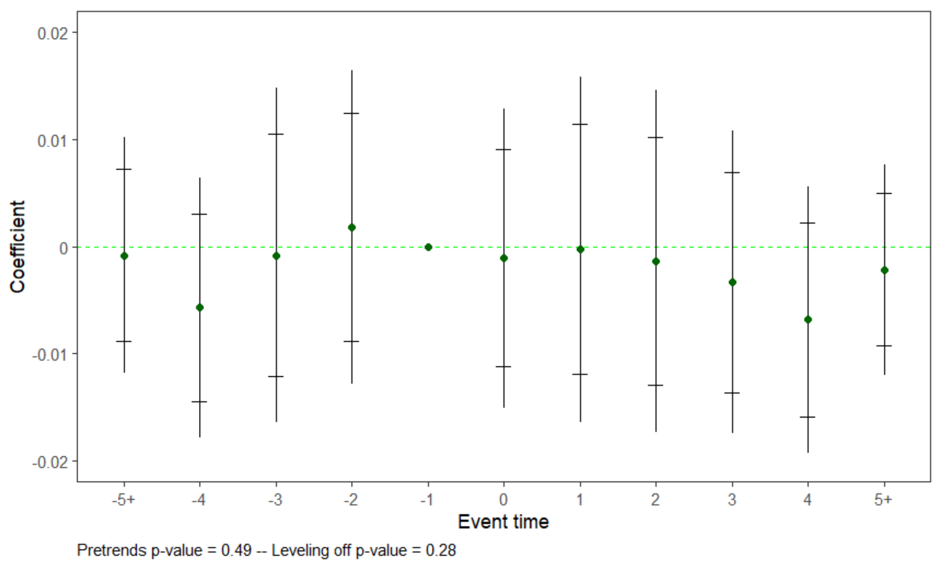

Figure 1. The plot of the event study analysis for the event window of [-4, +4]

The above graph displays event-time coefficients from the abnormal returns regression where the x-axis shows the event time, which is entering the BIST Corporate Governance Index, with pre and post events and the y-axis shows the estimated abnormal return coefficients and the coefficients are shown by the green dots on the graph. The green line that passes through the coefficient at time -1 shown as a result of the normalization of the 1-day before event coefficient. Lastly, the black arrows on each day shows the 95% confidence intervals. As seen in the graph, all the confidence intervals including the event time includes the line of normalization which passes through the zero-coefficient level. The Eventstudyr package implements Ordinary Least Squares regression to the abnormal returns for the stocks. In the event study analysis, Ordinary Least Squares is used to estimate the effect of the event on abnormal returns at different time periods. The confidence interval of each coefficient includes the normalized line which represents the zero effect on abnormal returns.

Accordingly, the corresponding data in the below table is retrieved from the event study and interpretation of the data for each and every point of time in the event window are interpreted in the same table.

Table 5. Interpretation of the Statistical Results for Each Data Point in the Event Window of [-4, +4]

Time	Estimate	P-Value	Interpretation
-4	-0.0008	0.841	near-zero abnormal return, not statistically significant
-3	-0.0057	0.206	small negative return, not statistically significant
-2	-0.0008	0.885	very small negative return, not significant
-1	+0.0018	0.743	very slight positive return, but not statistically meaningful
0	-0.0011	0.832	slight negative return, not statistically significant
+1	-0.0003	0.962	effectively zero return, not significant
+2	-0.0014	0.814	small negative return, not statistically significant
+3	-0.0033	0.528	slight decline, not significant
+4	-0.0069	0.142	small negative return, closer to significance but still above 0.05

When the above estimates are analyzed and as the interpretations stated for each estimate in the table are shown, it is seen that none of these estimates are statistically significant, which means, there is no meaningful reaction of the market before and after 4-days of the event towards the firms receiving Corporate Governance Rating for the first time and entering the BIST Corporate Governance index. The Multiple R-squared for the 9-days event window has been calculated as 0.5628, which indicates that the model explains the 56.28% of the variation in abnormal stock returns surrounding the event. Additionally, F-statistics of the model has been calculated as 0.7786, which indicates that pre-event day coefficients are not jointly significant.

As the data for the event window of [-4, +4] does not represent any statistically significant results that indicate any positive or negative results, the event study analysis is repeated with the same data for an event window of [-7, +7]. Accordingly, the below graph has been plotted for the 15-days event window.

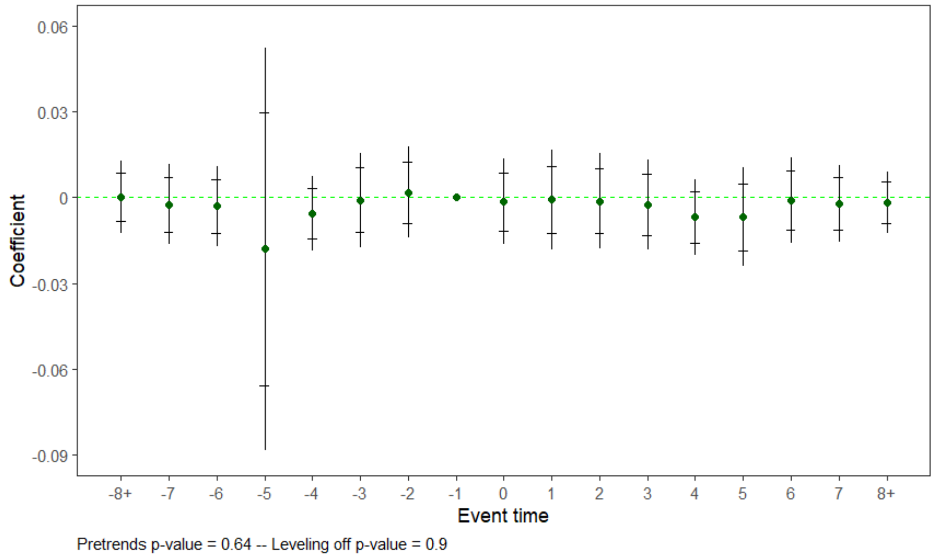

Figure 2. The plot of the event study analysis for the event window of [-7, +7]

The data presented in the graph for the 15-days event window can be interpreted as below;

Table 6. Interpretation of the Statistical Results for Each Data Point in the Event Window of [-7, +7]

Time	Estimate	P-Value	Interpretation
-7	+0.0001	0.975	no abnormal return, not significant
-6	-0.0024	0.619	small negative return, not significant
-5	-0.0030	0.536	small negative return, not significant
-4	-0.0180	0.464	moderate negative return, not significant
-3	-0.0056	0.220	small negative return, not significant
-2	-0.0008	0.883	near-zero abnormal return, not significant
-1	+0.0019	0.731	very small positive return, not significant
0	-0.0014	0.789	slight negative return, not statistically significant
+1	-0.0008	0.899	effectively zero return, not significant
+2	-0.0012	0.840	small negative return, not significant
+3	-0.0026	0.634	slight decline, not statistically significant
+4	-0.0069	0.141	moderate decline, closer to significance but still above 0.05
+5	-0.0069	0.256	moderate decline, not statistically significant
+6	-0.0010	0.851	very small decline, not significant
+7	-0.0021	0.660	small decline, not significant

When the above estimates are analyzed and as the interpretations stated for each estimate in the table are shown, it is seen that none of these estimates are statistically significant, which means, there is no meaningful reaction of the market before and after 7-days of the event towards the firms receiving Corporate Governance Rating for the first time and entering the BIST Corporate Governance index, similar to the results for the event window of [-4, +4]. The Multiple R-squared for the 15-days event window has been calculated as 0.5657, which indicates that the model explains the 56.57% of the variation in abnormal stock returns surrounding the event. Additionally, F-statistics of the model has been calculated as 0.8326, which indicates that pre-event day coefficients are not jointly significant.

After not finding a statistically significant results for the event windows of both [-4, +4] and [-7, +7], the event study is conducted in the same way once more for the event window of [-10, +10]. Accordingly, the below graph was plotted for the 21-days event window;

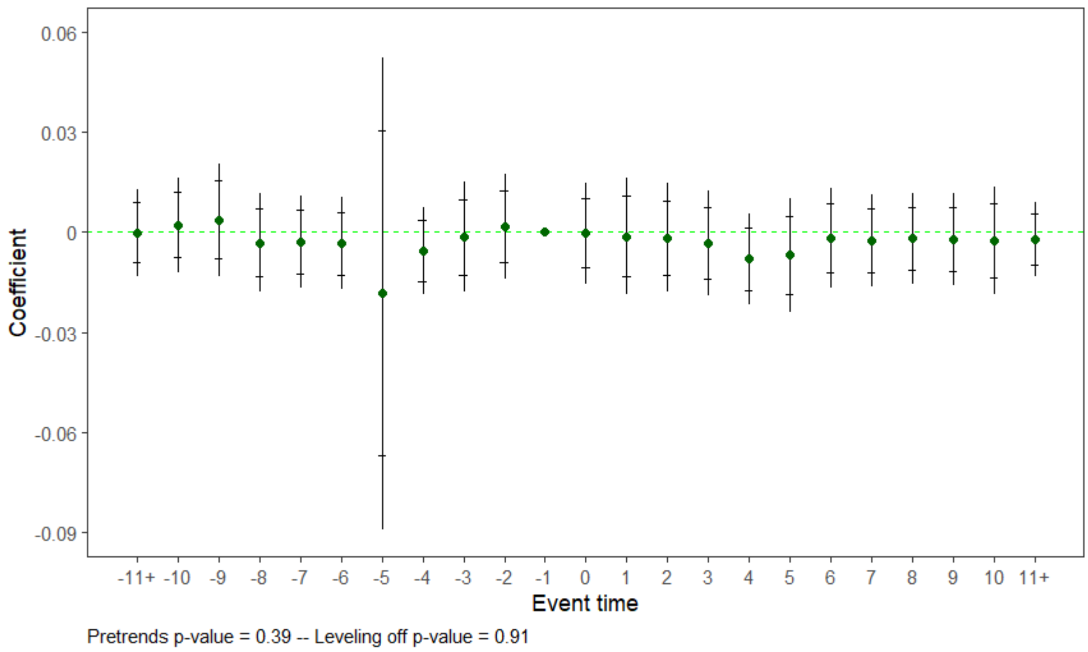

Figure 3. The plot of the event study analysis for the event window of [-10, +10]

The plot for the event window of [-10, +10] also does not show any significant results and each day in the event window are interpreted in the below table;

Table 7. Interpretation of the Statistical Results for Each Data Point in the Event Window of [-10, +10]

Time	Estimate	P-Value	Interpretation
-10	-0.0001	0.988	no abnormal return, not significant
-9	+0.0022	0.658	small positive return, not significant
-8	+0.0038	0.524	small positive return, not significant
-7	-0.0031	0.550	small negative return, not significant
-6	-0.0029	0.556	small negative return, not significant
-5	-0.0034	0.486	small negative return, not significant
-4	-0.0184	0.463	moderate negative return, not significant
-3	-0.0056	0.233	small negative return, not significant
-2	-0.0014	0.807	near-zero abnormal return, not significant
-1	+0.0017	0.760	small positive return, not significant
0	-0.0003	0.955	near-zero abnormal return, not significant
+1	-0.0012	0.843	very small negative return, not significant
+2	-0.0017	0.773	small negative return, not significant
+3	-0.0033	0.549	small decline, not significant
+4	-0.0080	0.095	moderate decline, approaching significance
+5	-0.0068	0.262	moderate decline, not significant
+6	-0.0018	0.739	very small decline, not significant
+7	-0.0025	0.608	small decline, not significant
+8	-0.0019	0.693	small decline, not significant
+9	-0.0021	0.667	small decline, not significant
+10	-0.0026	0.650	small decline, not significant

When the interpretation of the data is analyzed, it is seen that the results for the event window of [-10, +10] is quite similar to [-7, +7] and [-4, +4] as neither of the results show a statistically significant result. The Multiple R-squared for the 21-days event window has been calculated as 0.568, which indicates that the model explains the 56.8% of the variation in abnormal stock returns surrounding the event. Additionally, F-statistics of the model has been calculated as 1.277, which indicates that pre-event day coefficients are not jointly significant.

In order to answer the above-stated research question, an event study methodology was employed using the R package named “eventstudyr” for three different event windows as stated earlier in this paper. The dataset includes 73 firms listed on Borsa Istanbul that entered the BIST Corporate Governance Index at various points in time. Stock price data were collected via the tidyquant package which fetches stock pricecs from Yahoo Finance, while the BIST 100 Index (XU100) was used as the market benchmark. Daily abnormal returns were computed by subtracting market returns from firm-specific log returns. A two-way fixed effects model (firm and time fixed effects) was used to estimate event-time coefficients across the three event windows that includes data from 4,7 and 10 days before and after receiving the first corporate governance rating. The model incorporated lag and lead indicators of the event to observe both pre-event trends and post-event effects.

The event study analysis that was conducted using event windows of 9, 15 and 21 days around the date of receiving the first corporate governance rating and inclusion into the BIST Corporate Governance Index, reveals no statistically significant abnormal returns associated with the event. The estimated coefficients for the event date (t = 0) across all windows were statistically insignificant. As an example, an estimate of -0.03% with a p-value of 0.96 in the 21-days window, indicating no meaningful deviation from expected returns. Abnormal returns in the days leading up to and following the event date remained non-significant.

These findings indicate that the market did not anticipate or respond to the event. Overall, the analysis provides no evidence of a stock price reaction to receiving the first corporate governance rating, suggesting that the events of formally announcing the adoption of corporate governance principles are neutral in the short term in the context of Borsa İstanbul.

The event study plot visually supports the regression results. All estimated coefficients fall within 95% confidence intervals that include zero, with no visible increase or decrease around the event date. This implies that the market does not reward or penalize firms upon their entry into the BIST Corporate Governance Index, at least within the 9-days, 15-days and 21-days event windows that were subject to this analysis.

The absence of statistically significant abnormal returns shows that the hypothesis that BİST Corporate Governance Index inclusion serves as a market-moving event in Türkiye cannot be accepted. Any potential valuation adjustment may have already occurred gradually or prior to the event window studied. The investors may view the BIST Corporate Governance Index as symbolic index rather than an important index that helps differentiating between the corporate governance adoption levels of companies.

As a robustness check, event study methodology was applied to weekly returns and results found were similar to the three event windows of 9-days, 15-days and 21-days that has been presented in this study which has shown no significant empirical findings.

CHAPTER 5

DISCUSSION

In this study, several researches have been identified and reviewed that study the relation between corporate governance and stock performance and no consensus in the literature have been reached neither suggesting a positive nor a negative effect. The research done by (Hsu & Liao, 2022) states that the companies that adopt corporate governance principles showed lower volatility compared to those that did not, which is commented on as an indication of higher investor trust during financial instability towards the company, which can be linked with a positive relationship between corporate governance and stock prices but yet not providing necessary empirical evidence which directly supports this data. As stated earlier in the literature review part of the study, the mixed findings about the relationship between corporate governance and stock performance have been echoed across diverse contexts, including Europe (Bauer et al., 2004), Canada (Cotter et al., 2011), the United States (Hsu & Liao, 2022) and emerging markets in the MENA region (Farooq & Youssef, 2012).

In contrast to much of this literature, the findings from the event study conducted in this thesis do not provide statistically significant evidence that corporate governance events produced abnormal stock returns. The event study, which analyzed 73 firms and employed a two-way fixed effects model with firm-level clustering, revealed no significant pre-trend, which supports the parallel trends assumption. However, across the three event windows none of the abnormal return estimates were statistically significant at the 5% level.

The results show that there was no significant change in stock prices on the day companies received their first corporate governance rating. The estimated effect at the event time (t = 0) was small and not statistically important in any of the three event windows. Stock returns after the event also stayed close to zero and did not follow any clear trend. The overall test for all event days gave p-values above conventional significance levels, which means there was no strong evidence that stock prices were affected by the index inclusion. Overall, the findings show that joining the index did not lead to noticeable changes in stock prices during the periods studied.

One possible explanation for the discrepancy in this thesis regarding the lack of statistical evidence supporting the positive link between corporate governance could be that the governance events that has been highlighted were not perceived by investors as sufficiently material or credible to increase expectations about future performance. Also, corporate governance adoption may be evaluated by the investors as more of a sign of long-term better governance of the companies, which may have resulted in a lack of instant increase in investment appetite towards the companies as soon as the news about entering the corporate governance index are heard in the market. Additionally, differences in regional market dynamics or corporate governance mechanisms may play a role, as highlighted by (Love, 2011) and (Kaplan, 1997).

As a conclusion of this discussion, parallel to the literature has mixed findings about the direct relationship between good governance and stock performance, the empirical findings of this thesis suggest that some governance-related events such as inclusion in governance related indices in the stock market, are not priced by investors, at least not in the short run.

CHAPTER 6

RECOMMENDATIONS FOR FUTURE STUDIES

The findings of this thesis contribute to the mixed understanding of the direct relationship between corporate governance and stock performance. For the future research, researchers may conduct studies with yearly abnormal returns in order to focus more on how corporate governance affects stock performance in the long run. Also, the researchers that will evaluate the relationship between corporate governance and stock performance may focus on the perception of Turkish investors on corporate governance practices, how they evaluate these practices and how significant they think these practices are. Thus, the importance of corporate governance as perceived by Turkish investors may be a topic for further research. As a final recommendation, since this study has calculated all the possible short-term reactions in its empirical tests and during the robustness checks, researchers may lean on exploring the same trends in different indices of Borsa İstanbul, such as BIST Dividend Index. Having a direct effect on the potential returns and targeting a certain investor group that attaches importance on dividend distribution, entry and removal from the BIST Dividend Index may be more effective on investor sentiment and thus on stock prices. Researchers may use the same method as in this study and apply the methodology to BIST Dividend Index. In this research on BIST Dividend Index, working on a two-way effect that takes both entries and removals from the index would be an indicative study for the reactions on the stock exchange market.

CHAPTER 7

CONCLUSION

Corporate governance refers to the set of rules, principles, and processes by which companies are directed and controlled. Appropriate and good corporate governance structures are crucial for maintaining investor confidence, reducing agency conflicts, and ensuring transparency and accountability in decision-making. Over the last few decades, numerous countries have established corporate governance indices to incentivize firms to adopt best practices and provide investors with a benchmark of well-governed companies. In Türkiye, the BIST Corporate Governance Index (XKURY) was launched by Borsa Istanbul (BIST) to group and track the performance of listed companies that implement good corporate governance as assessed by independent corporate governance rating agencies.

In theory, inclusion in a corporate governance index should signal improved corporate oversight, reduced risk and future earnings potential which would be expected to turn into a positive market reaction. However, the actual impact of corporate governance index inclusion on stock performance is an empirical question and this study empirically investigated through an event study whether there is an abnormal stock return pattern associated with firms being added to the BIST Corporate Governance Index or not.

Previous empirical research on the market effects of adopting corporate governance standards has produced mixed findings. In the Turkish context, empirical studies conducted in this research haven't shown satisfactory positive results regarding the impact of XKURY inclusion on stock performance. This suggests that the relationship between governance adoption and market response is complex and there is no clear pattern in terms of seeing an instantly higher investor appetite towards a company's stocks. Accordingly, there is no consensus in the literature on whether such events generate consistent abnormal returns.

Following the literature on the effects of adoption of corporate governance principles on stock prices, this study set out to investigate whether the inclusion of firms in the BIST Corporate Governance Index leads to abnormal stock returns, particularly around the event date. Using an event study methodology across 73 firms and analyzing three event windows of 9-days, 15-days and 21-days, the results reveal no statistically significant increase in stock prices either on the day of inclusion or in the days right after the event date. These findings suggest that the market does not perceive index entry as a major informational shock. While some literature reports a positive relationship between corporate governance adoption and firm value, the lack of consensus in the literature is reflected in this study's outcome, which finds no consistent market response. These results contribute to the broader understanding that the effects of corporate governance reforms on stock performance may be context-dependent and not universally strong across all settings, like in the context of Turkish capital markets.

APPENDIX

SUMMARY OF COMMUNIQUÉ ON CORPORATE GOVERNANCE

1. Shareholders	
1.1 Facilitating the Exercise of Shareholders Rights	. Investment Relations department ensures the rights to request or obtain information of the shareholders in order to examine for their investment decisions and also making public disclosures on a timely manner.
1.2 Right to Obtain Information and to Examine	Company Management should avoid going under transactions that would make the audit processes complicated.
1.3 General Assembly	Companies should make necessary announcements and preparations regarding the General Assembly within the durations stated by the Communiqué on Corporate Governance together with the documents including invitation to the general assembly, meeting agenda, proxy documents and minutes of the meeting.
1.4 Voting Rights	Companies should avoid any complications regarding the

	shareholders' right to use their voting rights.
1.5 Minority Rights	Minority rights should be defined openly in the Articles of Association of the companies.
1.6 Dividend Rights	The dividend distribution policies of the companies should be clear and consistent and it should be approved by the shareholders during the General Assembly.
1.7 Transfer of Shares	Companies should avoid any action that would create any complications regarding the free transfer of shares.
2. Public Disclosure & Transparency	
2.1 Corporate Website	The corporate websites of the companies should be reachable by everyone and it should provide the visitors with material event disclosures, general assembly documents, shareholding and management structure of the company, company policies, financial information documents such as financial statements and annual report and all the documents should contain information for at least the past 5 years.

2.2 Annual Report	Annual report should include detailed information on the company which draws a complete picture of the company that would include true information for the investment decisions of the public.
3. Stakeholders	
3.1 Corporation’s Policy on Stakeholders	. Stakeholders are defined as “persons, institutions or interest groups that are related with the achievement of goals or activities of the corporation such as employees, creditors, clients, suppliers, trade unions, various non-profit organizations” (Capital Markets Board of Türkiye, 2014). Companies should protect the rights of stakeholders in each and every transaction and activity that take place within the company.
3.2 Supporting the Participation of the Stakeholders in the Corporation’s Management	While taking significant decisions, the companies should take the opinions of their stakeholders and they should support the participation of their stakeholders, primarily employees in management.

3.3 Human Resources Policy of the Corporation	Companies should provide career paths with equal opportunities and they should have a written framework for their recruitment criteria.
3.4 Relations with Customers and Suppliers	Companies should pay utmost attention to customer satisfaction in general, handle customer requests in a quick manner and comply with quality standards.
3.5 Ethical Rules and Social Responsibility	Companies should handle their operations based on ethical rules, be sensitive regarding social responsibilities and comply with rules and regulations regarding public health, environment and consumers.
4. Board of Directors	
4.1 Functions of the Board of Directors	Board of Directors should manage the company with a responsible risk management view in line with the long-term goals of the companies and define the strategic framework of the company.
. 4.2 Principles of Activity of the Board of Directors	The Board of Directors should be transparent, fair, responsible and accountable with the duties of each member presented on the Annual

	Report. Additively, the Board of Directors should establish a risk management system and monitor the results where the actions of each member of the Board of Directors should be insured.
4.3 Structure of the Board of Directors	There should be no less than 5 members in the Board of Directors, majority of the members should not have any executive duty, independent board members should constitute at least one-third of the Board of Directors and the term of each member and each member should have necessary education and experience in order to fulfill their duties.
4.4 Procedure of Board of Directors Meetings	The Board of Directors should meet frequent enough in order to fulfill their duties, where the Chairperson of the Board of Directors should decide on the agenda and where each member has one voting right.
. 4.5 Committees Established under the Board of Directors	Board of directors shall form an “Audit Committee” (except for banks), “Early

	Detection of Risk Committee" (except for banks), "Corporate Governance Committee", "Nomination Committee, Compensation Committee" (except for banks) in order to fulfill its duties and responsibilities in a reliable way" (Capital Markets Board of Türkiye, 2014). The framework and the duties of each committee established under the Board of Directors should be decided in a written form and should be announced on the Public Disclosure Platform and also the corporate website.
4.6 Financial Rights Provided for Members of the Board of Directors and Executives	Remuneration of the Board should be approved by the shareholders during the General Assembly and disclosed within the annual report to the public.

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