

# **CORPORATE GOVERNANCE IN FINANCIAL INSTITUTIONS: AN APPLICATION ON THE ISTANBUL STOCK EXCHANGE\***

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## **Abstract**

Corporate governance forms a system in which the objectives of the firm is determined, and points out the ways to achieve these aims and how performance is to be assessed. An efficient corporate governance system both at firm-level and economy in general will provide trust, which is necessary for the market economy to operate properly. Especially negative effects of the problems on economy which can result from deficiencies in the corporate governance of financial institutions urge that special care to be given to corporate governance of financial institutions. Effective corporate governance applications are indispensable component of proper functioning of finance sector and the economy on the whole. In this study, firstly the extent to which financial institutions traded on the ISE National 100 Index comply with corporate governance principles published by the Capital Markets Board of Turkey (CMB) was assessed and each institution was given corporate governance rating notes according to assessment results. Based on the results of corporate governance ratings, panel data analysis was used to determine whether there is a relation between the application level of corporate governance principles and financial performance. According to the results of the study, a significant and positive relationship was found between the level of firms' compatibility with the corporate governance principles and their return on assets and return on equity. Financial institutions with high level of corporate governance principles have higher return on assets and return on equity than others.

**Keywords:** Corporate Governance, Financial Institutions, Financial Performance, Turkey

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