The Impact of Corporate Governance Structures on the Corporate Investment Performance in Turkey

Hakan Orbay and B. Burcin Yurtoglu*

In spite of the fact that most research has concentrated on the typical agency problem between managers and dispersed shareholders, in many countries large shareholders are much more frequently observed than firms with dispersed ownership structures. While large shareholders are perceived as a potential solution to the typical agency problem between managers and dispersed shareholders, less research has been done on the costs of large shareholders. One important issue in this literature is that deviations of cash flow rights from voting rights often result in substantial value discounts. In this paper we test for the impact of such deviations on corporate investment performance in Turkey. To measure corporate investment performance we estimate returns on investment relative to company costs of capital, a methodology that overcomes the endogeneity problem, which is known to contaminate results in the empirical corporate governance literature. Consistent with existing studies, we find that the average Turkish listed company has a return on investment which is less than its cost of capital. We also report significantly better investment performance for companies that do not deviate from one share–one vote by using pyramidal ownership structures, dual-class shares and other devices that enhance the control power of large shareholders beyond their cash flow rights. We also find that business group membership improves the investment performance and relative market valuation of companies.

Keywords: Corporate governance, investment performance, marginal *q*, Turkey