

## Relationship between effectiveness of the committees established within the board of directors and financial performance

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### Keywords

Audit Committee, Corporate Governance Committee, Early Detection of Risk Committee, Board of Directors, Financial Performance

### Abstract

*The experience of developments in the economic and social fields, increasing competition, rapid advancement of technology via globalization have led compulsory to make strategic decisions and managing risks of enterprises. The existence of an effective internal control system, development of information systems, corporate governance practices and a strong internal auditing system in the development of enterprises appear as an important issue in front of us. The board of directors should conduct these activities in a fair, transparent, accountable and responsible manner. Committees are formed within the board of directors in order to clearly identify the board of directors' duties and responsibilities. (Communiqué on Implementation and Determination of Corporate Governance Principles with Serial: IV, No: 56). The most important of these committees are audit committee, corporate governance committee and early detection of risk committee.*

*In this study, it is examined relationship between the effectiveness of the committee established within the board of directors and financial performance. The sample of this study includes manufacturing companies in the Corporate Governance Index (XKURY) in Turkey, between the years of 2004-2014.*

*In the measurement of the financial performance, return on assets (ROA), return on equity (ROE), return on sales (ROS) and debt/assets ratio (DAR) parameters are used as dependent variables. In determining the characteristics of the committees, independence of committees, number of expert people in committees about accounting, number of committee meetings, number of members in the committee and number of woman members in the committee are used as independent variables. The number of members on the board of directors are taken into account as control variable. Similar study has been carried out for only auditing committee by Aanu, Odianonsen and Foyeke (2014).*

The hypotheses are following:

1.  $H_0$ : There is no relationship between the independence of committees and ROA, ROE, ROS, DAR.  
 $H_1$ : There is relationship between the independence of committees and ROA, ROE, ROS, DAR.
2.  $H_0$ : There is no relationship between the number of expert people in the committees and ROA, ROE, ROS, DAR.  
 $H_1$ : There is relationship between the number of expert people in the committees and ROA, ROE, ROS, DAR.
3.  $H_0$ : There is no relationship between the number of committee meetings and ROA, ROE, ROS, DAR.  
 $H_1$ : There is relationship between the number of committee meetings and ROA, ROE, ROS, DAR.
4.  $H_0$ : There is no relationship between the number of members in the committees and ROA, ROE, ROS, DAR.  
 $H_1$ : There is relationship between the number of members in the committees and ROA, ROE, ROS, DAR.
5.  $H_0$ : There is no relationship between the number of woman members in the committees and ROA, ROE, ROS, DAR.

$H_1$ : There is relationship between the number of woman members in the committees and ROA, ROE, ROS, DAR.

In this study panel data analysis is used. Econometric models are following:

$$ROA_{it} = \beta_0 + \beta_1 Independence_{it} + \beta_2 ExpertPeople_{it} + \beta_3 Meetings_{it} + \beta_4 Members_{it} + \beta_5 WomanMembers_{it} + BoardMembers_{it} + ErrorTerm_{it}$$

$$ROE_{it} = \beta_0 + \beta_1 Independence_{it} + \beta_2 ExpertPeople_{it} + \beta_3 Meetings_{it} + \beta_4 Members_{it} + \beta_5 WomanMembers_{it} + BoardMembers_{it} + ErrorTerm_{it}$$

$$ROS_{it} = \beta_0 + \beta_1 Independence_{it} + \beta_2 ExpertPeople_{it} + \beta_3 Meetings_{it} + \beta_4 Members_{it} + \beta_5 WomanMembers_{it} + BoardMembers_{it} + ErrorTerm_{it}$$

$$DAR_{it} = \beta_0 + \beta_1 Independence_{it} + \beta_2 ExpertPeople_{it} + \beta_3 Meetings_{it} + \beta_4 Members_{it} + \beta_5 WomanMembers_{it} + BoardMembers_{it} + ErrorTerm_{it}$$