Measurement of the effect of corporate governance index on intellectual capital: Turkey application example

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Abstract

Equity companies have to gain the trust of the market and the investors in order to provide funds to long term investments. The acquisition of trust in national and international markets and proving the business ethics becomes the most important task of the corporate executives of companies that want to grow. Hence, corporate governance is a good tool. Corporate Governance Principles also provide the necessary foundation for the development of the rights of stakeholders and the company assets.

Discussions developed as part of the Corporate Governance Principles led to the questioning of the company management structuring in countries where company scandals were experienced. For example, Enron, which is the 7th largest company among the largest 500 companies in USA (Fortune 500) as of 2000 was founded when several companies merged in 1985. The fact that the company announced bankruptcy in December 2001 and the fact that it was the bankruptcy case with the highest amount in the history of USA puts forth the effect of this incident. OECD established a study group for handling corporate governance in 1998 when company scandals started to increase. OECDMinisterial Council approved the Corporate Governance Principles in 1999. Since the time of its approval, OECD member countries take the Corporate Governance Principles as the basis for legislation and the arrangement of relevant regulations. G20Ministers and Central Bank Governors meeting was last organized in Turkey during December 4-5, 2015. The objective was to take the G20/OECD Corporate Governance Principles as basis and make contributions by guiding the companies, to develop new principles as well as additional clarity.

The success of the executive management of a company might not always be as a result of the application of Corporate Governance Principles. A successful company might also need to carry out market value increasing activities. In short, it is an important indicator for a company that it proves the existence of the Intellectual Capital and its trend to increase with a successful management approach. Because, Intellectual Capital is a concept that provides competition advantage to the company in the market, enables it to be stronger when faced with financial crises and enables its market share to increase. OECD also carries out activities related with Intellectual Capital since 1980.

The objective of the study was to put forth whether the Corporate Governance Index has any effect on Intellectual Capital or not. In order to do this, the financial statements of 39 companies open to public which are traded in BIST (Borsa Istanbul – Stock Exchange Istanbul) and 4 companies that are not open to public with regular Corporate Governance Index in Turkey since 2007 were used. Their Intellectual Capitals before and after having Corporate Governance Index were calculated and 'Intangible Value Method' was used. Data related with the Balance Sheets and Statements of Income for the years between 2004-2006 and 2013-2015 were evaluated and calculations were made.

It was determined according to the acquired result that there were changes in the Intellectual Capitals of these companies. One of the 4 companies that are not open to public was affected positively from the Corporate Governance Index. The Intellectual Capitals of 51 % of the 39companies open to public remained below sector average. According to the analysis result, the Corporate Governance Index had a 27 % positive and 34 % negative impact on all companies. In total, it was determined that the Corporate Governance Index did not have an effect on the Intellectual Capital at a percentage of 39 %.

In conclusion, it was determined that the Corporate Governance Index has a 27 % positive impact on the Intellectual Capital of companies. Indeed, it is clearly observed that there were significant increases in the Intellectual Capitals of 6 companies following Corporate Governance Index applications.