**The Effect of Directors’ Index on Firm Performance: Evidence from BIST100 Firms**

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***Abstract:*** *Following corporate scandals including those effecting Enron, Tyco, and WorldCom, the implications of corporate governance principles have played a critical role in determining the success of the companies around the world. Turkish Capital Market Board also issued corporate governance principles with the aim of enhancing the corporate governance regulations in July 2003. This study shed lights on the relation between corporate governance quality and firm performance of firms listed in Borsa İstanbul 100 indexes (BIST100). With accepting corporate governance as a mechanism to reduce the agency conflicts between managers and shareholders, we assume that this reduction results with increased firm performance. We differentiate this study from the existing literature by accepting directors’ index (DINDEX) as a proxy for corporate governance quality for the companies existed in Bist100. We follow Bushee et al. (2010) to create DINDEX. This index examines the strength of board characteristics for a particular firm and includes five different dimensions: CEO-chairman duality, the presence of board interlocks, attendance of board meetings, board size and the percentage of independent directors.*

*We examine the relation between corporate governance quality and firm performance for the firms listed in BIST100 1999-2013. We have 328 observations of firms per year in our Panel-data set. ‘Return on Assets’ is our proxy for firm performance. We use following specific characteristics of firms: total firm assets, operating expenses, liquidity, leverage, firm age and research and development expenditures. We use ‘Fixed Effect Panel Regressions’ in our analysis so that we account for time-invariant firm-level omitted variables that could bias our results. Our findings indicate that DINDEX does not have any effect on corporate performance of BIST100 firms. As a second step, we examine the relation between firm performance and DINDEX for each industry in our dataset. We find that among the firms in electricity industry, those that have high level of corporate governance quality also have high level of firm performance. We explain this result with the quick adjustments of these firms to the changes in corporate governance.*

***Keywords:*** *Firm Performance, DINDEX, Corporate Governance Quality, BIST100, Panel Data.*