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BOARD MEMBERS' AND BOARD CHARACTERISTICS' EFFECT ON BANK PERFORMANCE IN TURKEY *

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Abstract

This study analyzes the effect of board member's characteristics (political, national and gender) and board characteristics (board size, CEO-chairman duality) on bank performance, with the main attention being on the political board directors, in Turkey. By making use of a sample of 31 commercial banks in Turkey, during the period of 2002-2013, our empirical evidence shows that political board directors have a significantly negative impact on bank performance. We found new evidence that not only political board directors inhibit bank performance, but politically connected banks also have less accounting performance than their non-connected counterparts. Similarly, our results indicate that foreign board directors also affect negatively bank performance. Furthermore, our results demonstrate that gender diversity, board size and CEO-Chairman duality has no impact on bank performance. Our results are robust to the alternative time-period and estimation models.

Keywords: Board members's characteristics, Political connection, Political board director, Corporate governance, Bank performance

Yönetim Kurulu Üyelerinin ve Yönetim Kurulu Özelliklerinin Türkiye'de Banka Performansı Üzerine Etkisi

Öz

Bu çalışma, temel odağı politik bağlantılı yönetim kurulu üyeleri olmak üzere, yönetim kurulu üyelerinin özelliklerinin (politik, uyruk ve cinsiyet) ve yönetim kurulu özelliklerinin (yönetim kurulu büyüklüğü, yönetim kurulu başkanı ile genel müdürün aynılığı) Türkiye'de banka performansı üzerine etkisini analiz etmektedir. 2002-2013 yılları arasında, Türkiye'de yer alan 31 adet ticari bankanın kullanılmasıyla meydana gelen örnekten oluşan çalışmamız göstermektedir ki, politik yönetim kurulu üyeleri bulundukları bankanın performansını olumsuz şekilde etkilemektedir. Çalışmanın bulguları, politik yönetim kurulu üyelerinin yönetim kurulu üyesi bulundukları bankalarının performansını olumsuz etkilemesinin yanısıra, politik bağlantılı bankaların politik bağlantılı olmayan bankalara nazaran finansal performans açısından daha düşük olduğunu ortaya koymaktadır. Benzer şekilde, çalışmanın bulguları, yabancı uyruklu yönetim kurulu üyelerinin yönetim kurulu üyesi bulundukları bankaların performansını olumsuz şekilde etkilediğini işaret etmektedir. Buna ek olarak, çalışmanın bulguları, cinsiyet farklılığının, yönetim kurulu büyüklüğünün ve genel müdür ve yönetim kurulu başkanının aynılığının bankanın performansı üzerinde etkisi olmadığını göstermektedir. Çalışmanın bulguları farklı zaman dilimleri ve farklı tahmin modellerince sabittir.

Anahtar Sözcükler: Yönetim kurulu üyelerinin özellikleri, Politik bağlantı, Politik yönetim kurulu üyesi, Şirket yönetimi, Banka performansı

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Board Members' and Board Characteristics' Effect on Bank Performance in Turkey*

Introduction

Over the last two decades, the relationship between corporate governance and performance in the banking sector has been analyzed throughout the world by many scholars. Existing empirical studies analyzing the relation between board characteristics and performance in the banking sector include both developed (the USA, the UK, Italy etc.) and developing countries (Bangladesh, China, Turkey etc.). In addition, there have been many studies examining this relation in cross country samples. The great majority of the existing empirical studies in the literature give special attention to the impact of board size and CEO-chairman duality on bank performance. More recently, the impact of board diversity, namely gender diversity and national diversity captures an attention of many scholars. Additionally, there have been a few studies examining the impact of political connection on performance in banks.

The main aim of this paper is to analyze the impact of board member's characteristics on performance in Turkish banking sector, with special attention is attributed to the political board directors. In more detail, this paper addresses the following questions. First, does the proportion of political board directors have any impact on bank performance? Our second and third questions are related with board member's characteristics and they are as follow; do a fraction of foreign board directors has any impact on bank performance, and do a fraction of female board directors has any effect on bank performance? Last but not the least, the paper considers the impact of board characteristics (board size and CEO-chairman duality) on performance in banks. Thus, our fourth and fifth questions are as follows; does board size has any impact on bank performance and do banks opting for CEO-chairman duality perform better than others?

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* This study is based on the Ph.D. dissertation thesis, The Role of Political Connections in the Turkish Banking Sector, completed in King's College London, United Kingdom in 2016.

These analyses on the effect of board member's characteristics and board characteristics on performance in banks pay special attention to the political directors. There have been several main reasons for that. First and most importantly, an impact of political board directors on performance in the banking sector needs to be better understand. From a theoretical point of view, there are contradicting theoretical approaches explaining this relation but little has been known empirically. Thus, there is a great need to present empirical evidence whether political board directors have any impact on performance in the banking sector.

Secondly, during the period of our investigation, ownership structure, as well as the structure of the board of directors of some Turkish banks have shifted from domestic to foreign. Thus, whether the increasing number of foreign board directors in the Turkish banking sector has any impact on bank performance becomes a substantial empirical question that needs to be analyzed. Similarly, the number of female members on the board of directors has been increased over the last decade and it becomes an empirical question whether the proportion of female directors has any impact on bank performance. Lastly, one of the aims of this paper is to increase our understanding of whether board size and CEO duality have any impact on bank performance since earlier findings present ambiguous results.

The paper contributes to the literature mainly in two ways. To the best of my knowledge, this would be the first empirical study in the banking sector to analyzes the effect of political, foreign and female board directors on performance in the banking sector in one of the Organization for Economic Co-operation and Development (OECD) countries, in Turkey. It is important to highlight that capturing the effect of different diversities on performance at the same time also gives us a chance to compare our results with one another. Secondly, this study extends the research on the impact of board member's characteristics on performance in the banking sector (Garcia-Meca et al., 2015; Liang et al., 2013; Pathan and Faff, 2013; de Andres and Vallelado, 2008) including political directors.

The remainder of this paper is structured as follows: Section 1 presents the brief literature review about impact of board member's characteristics on bank performance, focusing on both theoretical and empirical studies; Section 2 shows used data and methodology; the main empirical results are reported and discussed in Section 3; and finally, the last section concludes the paper.

1. Literature Review: Theoretical Framework and Empirical Analysis

1.1. Politically Connected Board Directors

A growing body of literature examines the role of political connection and documents its significant impact on firm performance and firm value (Chen et al., 2014; Perez et al., 2014; Braggion and Moore, 2013; Carretta et al., 2012; Menozzi et al., 2011; Wu et al., 2010; Charumilind et al., 2006). From the theoretical point of view, it is argued that political connection might have both positive or negative impacts on firm performance. From the theoretical lens of resource dependency theory, having an incumbent or former politician on the board of directors might enable the company to access key resources such as easier access to bank credit and to cope with various external uncertainties, thereby positively affecting the performance of a connected firm (You and Du, 2012: 180-181). In contrast, it is claimed that politically connected boards might be open to the interference of a government in a firm's decision making. Firms with political connections may have lower managerial incentives since they are likely to pursue the objectives of politicians and might transfer the resources of connected companies to their supporters (Boubakri et al., 2008: 669). Regarding the role of political connection and its impact on firm performance, there are conflicting findings in the literature. It has been found that firms with political board directors perform better than others (Perez et al., 2014: 238; Boubakri et al., 2012: 409; Goldman et al., 2009: 2344; Aburime, 2009: 67-68) provide supporting evidence for resource dependence theory. On the contrary, others have found negative relation between political board directors and firm performance (Liang et al., 2013: 2962; Menozzi et al., 2011: 686; Bertrand et al., 2007: 13), provide supporting evidence for the idea that politicians are self-interested and they are likely to divert the resource of connected companies especially to their supporters. Taking the previous existing empirical findings into consideration, our hypothesis about the relationship between the presence of politician and bank performance is as follow,

H1: Political connection has a negative impact on performance in banks, in Turkey.

1.2. Foreign Board Directors

In the literature, on the one hand, it is argued that having a foreign board of directors might have a positive impact on firm performance for several reasons. For instance, Masulis et al., (2012: 528) assert that companies that are

expanding their foreign operation might confront several problems such as facing unfamiliar political landscapes, cultural and social norms, consumer preferences, regulatory environment and industry structures. They further argue that for those companies, foreign board directors' knowledge of their home countries or regions, their close connection to political, social and business circles might be beneficial. Additionally, with a foreign board of directors, a domestic company may increase the financing opportunities and a pool of potential investors.

On the other hand, it also is argued that having a foreign board of directors might have a negative impact on firm performance because of being less effective monitors, for several reasons. Masulis et al., (2012: 528) contend that foreign board directors might be less familiar with national law and regulations, accounting rules, governance standards and managerial methods, making it more difficult for them to evaluate performance or challenge managerial decisions. Furthermore, Ruigrok et al., (2007: 546) argue that relation-related diversity, for instance, national diversity on boards, can lead to negative communication and effective consequences such as lower decision speed, misunderstanding and conflict.

Although there have been a few contradicting findings (Masulis et al., 2012), studies used non-financial sector data generally find that there is a positive association between foreign board directors and performance (Choi et al., 2007; Carter et al., 2003; Oxelheim and Randoy 2003). There have been a few studies examining the impact of foreign board directors on performance in banks (Garcia-Meca et al., 2015; Laing et al., 2013). Unlike the non-financial sector, empirical findings in the banking sector indicate that the presence of foreign board director is associated with poor performance. Taking the previous existing empirical findings into consideration, our hypothesis about the relationship between the presence of foreign board directors and bank performance is as follow,

H2: Foreign board directors have a negative impact on performance in banks, in Turkey.

1.3. Female Board Directors

Female representation in corporate decision making has become an important issue for policymakers. Some countries establish quotas for state-owned or publicly traded companies and many others merely offer guidelines for gender diversity on a board's composition. For instance, Norway is one of the first countries to impose a quota of at least 40 % female directors by 2008 for listed companies (Visser, 2011).

From an agency theory perspective, it is argued that female board directors often bring fresh perspectives on complex issues, thereby enabling boards to solve certain problems easily. Pathan and Faff (2013: 1576) argue that compared to their male counterparts, female board directors are more prepared for board meetings. Regarding resource dependence theory, it is argued that female board directors bring unique and valuable resources and connections to their boards (Terjesen et al., 2015; Terjesen et al., 2009). For instance, female board directors are more likely to have more diverse networks and they might understand certain consumers better than their male counterparts (Terjesen et al., 2015; Terjesen et al., 2009). Hence, diverse networks, and being competent in certain markets might increase the financial performance of a firm.

In relation to the non-financial sectors, although the great majority of the existing empirical studies conclude that gender diversity has a positive impact on firm performance (Terjesen et al., 2015; 465; Carter et al., 2003: 49; Erhardt et al., 2003: 107), there have been a few empirical studies contradicting these findings (Shrader et al., 1997: 364). Regarding the financial sector, although the considerable theoretical rationale, existing empirical studies have provided mixed evidence (Garica-Meca et al., 2015: 206; Mamatzakis and Bermpei, 2015; Liang et al., 2013; Pathan and Faff, 2013; Romano et al., 2012: 20). Taking the existing empirical studies in the banking sector into consideration, our hypothesis about the relationship between female board directors and bank performance is as follow,

H3: Performance of Turkish commercial banks are positively (negatively) associated with female board directors.

1.4. Board Size

Scholars who are in favour of a small number of board directors argue that as boards grow, they are less likely to function efficiently (Lipton and Lorsch, 1992). Lipton and Lorsch (1992: 68) argue that large boards are likely to have communication problems. What is meant by communication problems here is that it is relatively difficult for each member to express their opinions at the board meeting given the limited time they have. They also assert that boards with less than ten board directors are more efficient. In contrast, other scholars argue that large boards are likely to monitor and control the activities of a firm efficiently (Dalton et al., 1999: 675; Dalton et al., 1998). As board grows, the number of board directors with relevant and complementary expertise and skills will increase. Hence, increased monitors may result in better firm performance. Additionally, resource dependency theory emphasizes that increasing the size and diversity of a board enables a firm to have a link with the external

environment and critical resources (Goodstein et al., 1994; Pearce and Zahra, 1992).

With specific reference to the non-financial sector, existing empirical studies examining the relation between board size and firm performance have not achieved a consensus as to whether large boards are associated with better performance. While some scholars find that a greater number of board directors has a negative impact on firm performance (Bonn et al., 2004: 118; Conyon and Peck, 1998: 302; Eisenber et al., 1998: 43; Yermack, 1996: 194), others show that there is a positive relation between board size and firm performance (Kiel and Nicholson, 2003: 200). Additionally, there are some other studies showing that board size has no impact on firm performance (Dalton et al., 1999: 678).

Similar to the non-financial sectors, existing empirical studies from the banking sector also provide inconclusive results on the issue of whether board size has any impact on bank performance. While some studies find a negative relation between board size and bank performance (Pathan and Faff, 2013: 1583; Liang et al., 2013: 2961; Staikouras et al., 2007: 19), others contradict these findings and show that board size has a positive impact on bank performance (Garcia-Meca et al., 2015: 208; Adams and Mehran, 2008:12). There are also empirical studies that have not found any relation between board size and bank performance (Belkhir, 2009: 13). Since there is no consensus in the previous literature as to whether board size affects bank performance, we set up our fourth hypothesis as follow:

H4: Performance of Turkish commercial banks are not significantly related to the size of the board of directors.

1.5. CEO Duality

The issue of CEO duality relates to the leadership structure of a firm. The leadership structure of a firm can be dual or independent. CEO duality can be defined as 'CEO wears two hats', one as CEO of the firm and the other as chairman of the board of directors (Rechner and Dalton, 1991: 155). The alternative can be the independent board leadership structure in which case these two positions are held by two different individuals.

The advocates of agency theory argue that one of the primary responsibilities of the CEO is to initiate and implement strategic decisions whereas one of the responsibilities of the board of directors is to ratify and monitor the decisions of the CEO (Boyd, 1995: 302). The combination of the CEO's and chairman's positions in one manager may weaken the monitoring duty of the board. CEO duality may lead to an excessive concentration of power.

Exponents of agency theory argue that not separating the roles of CEO and the chairman of the board is likely to increase an agency cost since CEO (agent) may behave on behalf of himself/herself rather than maximizing the value of shareholders (principals). Hence supporters of independent leadership structure argue that CEO duality may negatively affect firm performance.

In contrast, advocates of stewardship theory argue that CEO duality should have a positive impact on firm performance. It is argued that with the CEO duality leadership structure, a company has a single focal point for leadership. Anderson and Anthony (1986) argue that in terms of CEO duality there is never any question about who is the boss or who is responsible. With specific reference to the non-financial sector, there have been conflicting empirical findings as to whether COE duality has a positive or negative impact on firm performance (Tian and Lau, 2001; Johnson et al., 1996; Boyd, 1995; Rechner and Dalton, 1991). Similarly, leadership structure studies in the banking sector have also produced contradictory findings (Garcia-Meca et al., 2015: 207; Liang et al., 2013: Nyamongo and Temesgen 2013: 243; 2962; Hassainein and Wahsh, 2012; Grove et al., 2011: 430; Zulkafli et al., 2010: 173; Belkhir, 2009: 14; Pi and Timme, 1993: 529). Taking the previous contradicting empirical findings into account, our hypothesis about the relationship between CEO duality and bank performance is as follow,

H5: Performance of Turkish commercial banks are not significantly related to CEO duality.

1.6. The Banking Sector in Turkey

The financial sector in Turkey has been historically controlled by banking activities which consist of approximately three-quarters of financial activities (Aysan and Ceyhan, 2008). State-owned, domestic private, foreign banks and a few jointly owned banks have carried out banking activities in Turkey since the early years of the Republic. Over the period of our investigation, the number of state-owned banks has remained stable, however, the share of total assets of them have gradually declined. Although the number of state-owned commercial banks was one-tenth of the existing commercial banks, they constituted almost one-third of the share of total assets of all the banking sector (29.5%) in 2013.

Table 1: Number of Turkish Banks and Shares of Banks Assets, 2001 - 2013

Year	Number of Banks						Share of Total Assets					
	Commercial Banks			Development and Investment Banks			Commercial Banks			Development and Investment Banks		
	SO	DB	FB	SO	DB	FB	SO	DB	FB	SO	DB	FB
2001	3	28	15	3	9	3	0.320	0.602	0.031	0.038	0.008	0.001
2002	3	22	15	3	8	3	0.319	0.606	0.031	0.032	0.010	0.002
2003	3	20	13	3	8	3	0.333	0.599	0.029	0.030	0.009	0.002
2004	3	19	13	3	7	3	0.349	0.580	0.034	0.026	0.009	0.001
2005	3	18	13	3	7	3	0.314	0.602	0.052	0.020	0.010	0.002
2006	3	14	15	3	7	3	0.296	0.549	0.122	0.020	0.012	0.001
2007	3	11	18	3	7	3	0.292	0.524	0.150	0.019	0.014	0.001
2008	3	11	17	3	7	3	0.294	0.524	0.148	0.018	0.014	0.002
2009	3	11	17	3	7	3	0.313	0.518	0.135	0.020	0.014	0.001
2010	3	11	17	3	7	3	0.310	0.517	0.141	0.018	0.013	0.001
2011	3	11	16	3	7	3	0.294	0.534	0.136	0.021	0.014	0.001
2012	3	12	16	3	7	3	0.289	0.536	0.134	0.024	0.015	0.002
2013	3	11	17	3	7	3	0.295	0.508	0.153	0.026	0.016	0.002

Source: The Banks Association of Turkey.

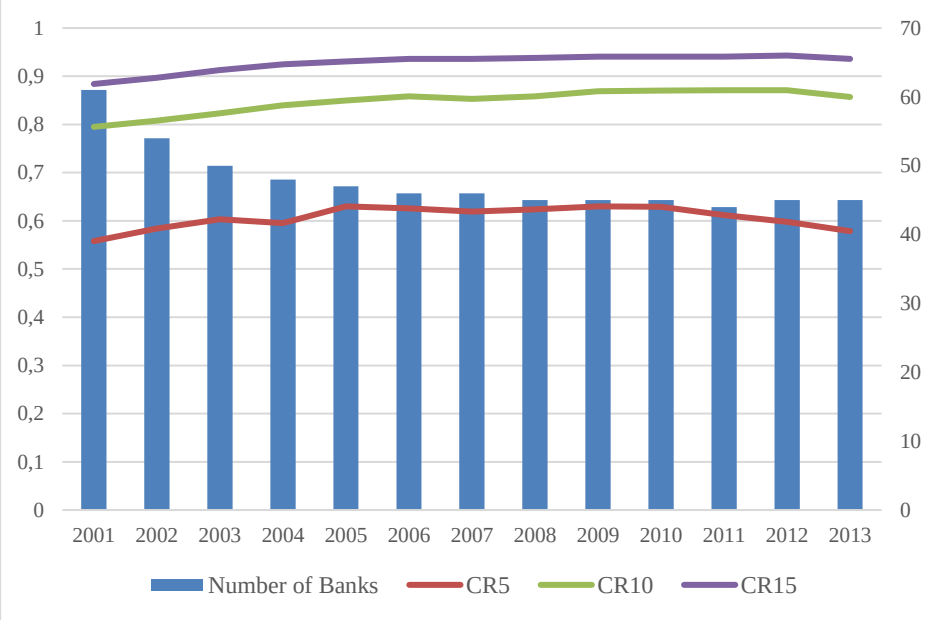
Note: SO, DB, FB stand for state-owned banks, domestic banks and foreign banks, respectively.

Foreign competitors have arrived at the Turkish banking sectors from various countries including, Greece, Germany, the UK, and the US to operate in Turkey. Although the number of foreign banks is quite stable; their share of total assets has gradually increased compared to others. The share of total assets of foreign banks increased from 3% to 15% from 2001 to 2013, respectively.

Domestic private banks (especially major ones) are closely linked to the major conglomerates. For example, Akbank is owned by Sabanci Group, Yapi ve Kredi Bankasi is owned by Koc group and, Garanti is owned by Dogus Group. The number of domestically owned private banks has substantially decreased from 28 to 11, between 2001 and 2013.

When we look at the concentration level of the Turkish banking sector, summarized in figure 1, we see that the 5 largest banks control around 40% of the total assets of the Turkish banking sector between 2001 and 2013. It might be argued that, concentration ratio of the largest 5 banks is quite similar to other European countries including France, and the UK, where it was 45% and 42% respectively, in 2012 (Pawlowska, 2015).

Figure 1: Concentration Rates of the Turkish Banking Sector (2001-2013)



Source: The Banks Association of Turkey.
Note: CR5, CR10 and CR15 stand for concentration rate of the larges 5 banks, concentration rate of the larges 10 banks, concentration rate of the larges 15 banks, respectively.

The number of banks operates in Turkey has steadily decreased mainly because some of them went into bankruptcy after the 2001 financial crises, however, merger activities also slightly affected the number of banks. The Turkish Competition Authority is responsible to monitor the merger and acquisition activities in Turkey. According to the Act of Protecting Competition, if total assets of the two banks that intend to merge is higher than 20 % of the Turkish banking sector, then the Competition Authority has a right not to approve this merger activity to take place (Colak, 2000).

2. Data and Methodology

2.1. Data

Our data is an unbalanced panel of 31 Turkish commercial banks during the period of 2002 – 2013. We have 360 bank-year observations across 31 different commercial banks. Data on detailed board structure was hand collected from the individual banks' annual reports and other sources including the archive of the Grand National Assembly of Turkey. To identify whether a member of the board of directors was a politician before being appointed as a board member, data about names of politicians need to be accessed. Data about the names of politicians was accessed from the website of the Grand National Assembly of Turkey. Names of the board of directors that were matched with the names of politician are considered as political directors after making a double check from other sources. One source of checking this is the annual reports of the banks. Secondly, we use alternative sources such as main-stream newspapers including, Hurriyet, Milliyet, Sabah. Information about other board characteristics including foreign board directors, female board directors, board size and CEO-chairman duality is accessed by the annual report of each individual banks. The economic and financial data used to measure bank performance, bank assets, bank capital, bank liquidity, bank non-performing loans and bank employee expenditure were obtained from the Banks Association of Turkey.

2.2. Empirical Methodology

Our main static model set up is specified as following:

$$(\text{Performance})_{i,t} = \alpha + (\text{Board Characteristics})_{i,t} + (\text{Control})_{i,t} + (\text{Year})_t + u_i + \varepsilon_{i,t}$$

Where *i* goes from bank 1 to 31 and *t* takes the values of the year from 2002 to 2013, u_i is an individual banks specific effects, and $\varepsilon_{i,t}$ is the error term.

Dependent Variables: Bank Performance Measurement

In our main estimation models, ROA is used as a proxy for accounting performance measurement[1]. As highlighted recently by Grove et al., (2011: 424) ROA is the most widely used performance measurement in the banking sector.

Independent Variables: Board Characteristics

Our main variables of interest are variables related to political directors. The proportion of politically connected directors in the board (Politician (%)) where the politically connected director is the board director who was a member of parliament. The proportion of politically connected directors from an incumbent governing political party (Incumbent (%)) where the board of directors included a member of parliament from the incumbent governing political party. The proportion of politically connected directors from opposition political parties (Opposition (%)) where the board of directors included a member of parliament but not from the incumbent governing political party. Regarding other board characteristics; Foreign (%) is the percentage of total directors that are foreign nationals. Female (%) is the percentage of total directors on the board that are female. Board size is described by the number of directors on the board of each bank at the end of each examined financial year. Duality is a dummy variable and takes value one if CEO is also the chairman of the board, and zero otherwise.

Control Variables: Bank Specific Variables

With regard to the performance of the banking sector, characteristics of board composition are not the sole explanatory variables. The banks' specific characteristics tend to play a crucial role in the performance of the banking sector. Following the previous literature, we employ a set of control variables including size, capital, liquidity, non-performing loans, and employee expenses.

Size: Following the previous literature, size is used to control for differences in bank size and defined as the natural logarithm of the booked value of total assets. Smirlock (1985) argues that banks size might have an impact on the profitability of a bank due to the fact that large banks are more likely to have greater product and loan diversification. He argues that increased loan diversification implies less risk. There is mixed empirical evidence in the literature across the world with regard to the impact of size on the performance

1 ROE is also used as a proxy for accounting performance measurement. For the sake of space, I did not report those tables. It is worth stressing that results of ROE are in line with the results of ROA. Results of ROE are available upon request.

of a bank. While some find positive association between the size of a bank and profitability (Garcia-Mecca et al., 2015; Pathan and Faff, 2013; Tanna et al., 2011; Akhavein, et al., 1997), some others find that there is a negative relationship between size and profitability (Peni and Vahamaa, 2012; de Andres and Vallelado, 2008; Boyd and Runkle, 1993; Smirlock, 1985). In addition, some other studies find that there is no relation between size and profitability (Kutubi, 2011; Lin and Zhang, 2009; Staikouras et al., 2007).

Capital: Variable capital is defined as a ratio of equity to total assets and is used as a proxy for the capital strength. Equity to total assets ratio as well as a loan to the total assets ratio is used as a proxy for risk. Due to the fact that the lower ratio suggests a relatively risky position, one might expect a negative association between this independent variable and the performance variables. On the contrary, higher ratio suggests a lower need for external funding. Hence the cheaper cost of capital may lead to better performance. Thus, a higher capital ratio is likely to have a positive impact on the performance of a bank (Staikouras et al., 2007). Indeed, existing empirical studies have shown that banks with sound financial adequacy ratio tend to perform relatively better than others. Existing empirical studies have found that equity to total assets ratio has a positive impact on the performance of a bank (Athanasoglou et al., 2008; Athanasoglou et al., 2006; Lloyd-Williams et al., 1994; Molyneux and Thornton, 1992; Bourke, 1989).

Liquidity: Variable liquidity is defined as a ratio of loans to total assets and is used as a proxy for the liquidity. As Staikouras et al., (2007) state that loans represent a significant part of a bank's total assets, and they are the least liquid assets after fixed assets, in a bank's balance sheet. As they argue, a low ratio of loans to total assets indicates a relatively liquid bank, which means that a bank has an excess stored liquidity. On the contrary, a high ratio indicates a relatively illiquid bank. Bourke (1989) argues that one might expect a positive relation between loan to assets ratio and accounting performance. In contrast, Molyneux and Thornton (1992) argue that banks that have a rapid increase in loan portfolio are likely to pay a higher cost for their funding requirements. Increasing loan to assets ratio as well as cost of funding might reduce the positive impact on accounting performance. Existing empirical studies provide ambiguous results on the impact of the loan to total assets on performance (Garcia-Meca et al., 2015; Peni and Vahamaa, 2012).

Non-Performing Loans: Variable non-performing loans (NPL) are defined as a ratio of non-performing loans to total assets, and is used as a proxy for bad loans. As one would expect the higher the ratio of NPL, the higher will be the bad loans. Duca and McLaughlin (1990) argue that bank profitability is associated negatively with the NPL ratio. Existing empirical studies from the Turkish banking sector demonstrate that NPL ratio has a negative impact on

accounting performance measurement, including both ROA and ROE (Aygun et al., 2010; Kaya, 2002).

Employee expenditure: It has been argued that one of the determinants of profitability is operating expenses which are related closely with efficient management (Stakiouras, et al., 2007). Following the previous literature, we use employee expenditure to total assets as a proxy for operating cost efficiency (Fries and Taci, 2005; Molyneux and Thornton, 1992; Bourke, 1989). Generally speaking, it is argued that increasing employee cost has a detrimental impact on profitability. Hence, the lower the ratio of cost of employee expenditure over total assets, the more profitable will be the bank. However, existing empirical studies such as Molyneux and Thornton (1992) find a positive relation between a ratio of personnel expenses over total assets and profitability

Table 2 below presents the descriptive statistics used in this study. First, we see that an average ratio of political directors over the board of directors of banks for the years between 2002 and 2013 was around 3.5%. In addition, 1% of the board of directors are connected with the incumbent governing political party and 2.5% of them connected with opposition political parties. The average value of foreign board directors over the total number of board of directors for banks for the years between 2002 and 2013 was around 28%. Regarding the mean value of foreign board directors, there is a distinct difference before and after 2007. This can be explained in a way that especially after 2006, several Turkish commercial banks, some partially some others are in total, become foreign-owned commercial banks. Increasing number of foreign banks have also had an impact on the number of foreign board directors to be increased. Comparing with other countries, the proportion of foreign board of directors in Turkey is considerably higher than others-, with approximately 18 percent of board directors are foreign in developed countries (Garcia-Meca et al., 2015: 205) and only 6% of board directors are foreign in China (Liang et al., 2013: 2959).

An average ratio of female directors over board directors for Turkish commercial banks for the years between 2002 and 2013 was approximately 10%. It is worth noticing that an average ratio of female directors over board size has gradually increased from 7.6 % in 2002 to just above 13 %, in 2013. An average ratio of female board directors for Turkish commercial banks is not different from other countries. For instance, Pathan and Faff (2013: 1579) find that 8% of a board of directors of the US bank holding companies is female, and 11% of the board of directors of the US investment banks is female. In addition, Garcia-Meca et al., (2015: 205) show that the average number of female board directors in developed countries is around 10%, although this number may go down to 3% in Italy (Romano et al., 2012: 20).

Table 2: Descriptive Statistics

Variable	Observation	Mean	SD	Min	Max
Panel A: Board structure variable					
Politician (%)	351	3.482	8.336	0	37.5
Incumbent (%)	351	0.943	5.014	0	37.5
Opposition (%)	351	2.539	7.011	0	36.3
Foreign (%)	351	28.457	27.575	0	100
Female (%)	351	11.260	16.003	0	80
Board Size	351	7.820	2.627	3	14
Duality	351	0.119	0.325	0	1
Panel B: Bank specific variable					
Size	360	15.197	2.233	8.985	19.165
Capital (%)	360	17.459	13.987	1.145	98.894
Liquidity	360	42.082	21.516	0	84.716
NPL	356	2.165	1.894	0	12.579
Employee Expenditure	356	2.184	2.676	0.174	35.969
Panel C: Bank performance measures					
ROA	324	1.80	2.792	-28.418	15.816

Year	Observation	Politician	Incumbent	Opposition	Foreign Female	Board	Size	Duality
Panel D: Year by year board structure variables								
2002	32	3.844	1.666	2.178	21.250	7.626	6.843	18.75
2003	29	3.615	0.626	2.988	14.901	7.955	6.965	27.586
2004	30	3.670	0.370	3.300	18.146	8.194	7.133	26.666
2005	31	3.247	0	3.247	23.512	14.007	7.225	19.354
2006	30	2.031	0	2.031	26.393	11.701	7.266	13.333
2007	30	2.161	0	2.161	33.914	10.768	7.933	10.000
2008	29	3.145	0	3.145	34.454	9.941	8.069	6.896
2009	29	3.52	0.383	3.145	36.059	11.531	8.137	6.896
2010	29	4.057	1.149	2.908	34.843	12.202	8.275	6.896
2011	28	3.938	2.232	1.706	33.282	11.667	8.285	3.571
2012	27	4.318	2.623	1.694	34.228	13.198	8.740	0
2013	27	4.443	2.623	1.819	32.420	13.133	9.185	0

This table shows the distribution of each variable by presenting the mean, standard deviation (SD), minimum (Min) and maximum (Max). This table also reports the mean value in each year for board variables in Panel D.

The average board size of Turkish commercial banks is strikingly different from their European, US and Asian counterparts. Turkey has an average of only eight board directors in comparison with an average of approximately 20 board members for Canadian banks, 17 board members for French Banks, (de Andres and Vallelado, 2008: 2574), 18 board members for the US banks (Adams and Mehran 2008: 8), 12 board members for the UK banks (Tanna et al., 2011: 450), 13 board members for Thai banks and 12 board members for Singapore banks (Zulkafli et al., 2010: 170).

The mean value of CEO-chairman duality in our sample is just above the 11%. When we look at Panel D of Table 2, we see that CEO-Chairman duality has decreased considerably over the period under our investigation, from 28 in 2003 to seven in 2013. Comparing the mean value of CEO-chairman duality with other studies, we see that Turkish commercial banks have a lower ratio. For instance, CEO-chairman duality ratio of Chinese commercial bank is 30% (Liang et al., 2013: 2959), while it is approximately 21% for other Asian countries (Zulkafli, et al., 2010: 169).

Regarding the dependent variable, an average ratio of ROA of Turkish commercial banks for the years between 2002 and 2013 is 1.8. This number is greater than many other countries. For instance, an average ROA for six members of the OECD countries, including Canada, the United States, the United Kingdom, Spain, France, and Italy is slightly higher than 1% (de Andres and Vallelado, 2008: 2574).

Table 3 presents the comparison of dependent and independent variables of board structure variables and banks' specific characteristics between politically connected banks and non-politically connected counterparts. The mean value of the percentage of foreign directors is significantly lower for politically connected banks, compared to others. Results indicate that the mean value of the proportion of female board directors is lower for the politically connected banks, in comparison to their non-connected counterparts. In relation to the board size, our results show that politically connected banks have a higher board size compared to their non-connected counterparts. Consequently, on average the number of board of directors for politically connected banks is 8.5, while it is 7.7 for non-connected banks. In terms of leadership structure, results show that the mean value of CEO-chairman duality is lower for politically connected banks compared to their non-connected counterparts.

Table 3: Descriptive Statistics, Differences Between Politically Connected and Non-connected Banks

	Politically connected banks					Non-connected banks					Mean-difference
	Obs	mean	stdev	min	max	obs	mean	stdev	min	max	(t-statistics)
Panel A: Board structure variable											
Foreign (%)	63	0.112	0.192	0	0.556	288	0.322	0.277	0	1	5.725***
Female (%)	63	0.073	0.081	0	0.333	288	0.121	0.171	0	0.800	2.131**
Board Size	63	8.476	2.161	3	12	288	7.677	2.700	3	14	-2.189**
Duality	63	0.047	0.214	0	1	288	0.135	0.342	0	1	1.949*
Panel B Bank specific variable											
Size	63	16.884	1.486	14.036	19.150	288	14.871	2.199	8.985	19.165	-6.925***
Capital	63	0.120	0.035	0.032	0.219	288	0.182	0.148	0.114	0.988	3.309***
Liquidity	63	0.508	0.156	0.117	0.777	288	0.406	0.219	0	0.847	-3.494***
NPL	63	0.023	0.014	0.002	0.059	288	0.021	0.019	0	0.125	-0.820
Employee Expenditure	63	0.014	0.005	0.007	0.028	288	0.023	0.029	0.001	0.359	2.379**
Panel C: Bank Performance Measures											
ROA	57	0.016	0.021	-0.123	0.049	263	0.019	0.021	-0.066	0.158	0.867

Mean is the average value of the related variables, St. Dev stands for standard deviation, Min and Max are the minimum and maximum value of the related variables, respectively

* Significant at 10%, ** significant at 5%, *** significant at 1%

3. Empirical Results

3.1. Fixed Effects

The main objective of this section is to analyze empirically the impact of various board characteristics, especially the proportion of politicians on board, on commercial bank performance. Following the literature, the model is estimated using the fixed effects estimators with robust standard errors clustered at the bank level (Pathan and Faff, 2013). In addition, year dummies are also included to account for the common shocks in the market or regulatory environment in each year. For the sake of brevity, we do not report year dummies.

Table 4 presents the result of regression analysis which examines the effect of board characteristics on bank performance measured by ROA. Table 4 columns (1) to (4) examine the impact of the proportion of political directors on bank performance. Firstly, we find that the proportion of political directors has a negative but insignificant impact on bank performance. We divided the proportion of political directors into two sub-categories, namely those connected to the incumbent governing political party and those connected to the opposition political party. Table 4 columns (2) and (3) presents the result of the impact of the proportion of political directors from the incumbent governing political party, and columns (2) and (4) show the result of impact of proportion of political directors from opposition political parties on bank performance.

We find new evidence that the proportion of politically connected directors from the incumbent governing party, has a negative and statistically significant relation with ROA, at 5% level. The economic magnitude of the effect of being connected to the incumbent political party through board of directors is quite significant. Regarding Table 4 columns (2) or (3) an increase in the proportion of incumbent political directors by one standard deviation is associated with a decrease in ROA by 6.96 %[2].

2 This number is calculated as follow: we multiply the standard deviation of incumbent (%) (See table 2) by the coefficient of incumbent (%) in Table 4 of column 3 (5.014*0.025 = 0.125). The result represents how much return on assets changes, given that incumbent (%) changes by one standard deviation. The average return on assets in our sample is 1.80. Hence, a change in return on assets of 0.125 represents percentage change of 6.96% of the average return on assets (0.125/1.80 = 6.96 %). The economic significance of other variables is also calculated in the same manner. It is also worth stressing that the calculation of the economic significance of the variables is consistent with earlier empirical studies (Laing et al., 2013; Pathan and Faff, 2013).

Table 4: Board Characteristics and Bank Performance (ROA)

	(1) ROA	(2) ROA	(3) ROA	(4) ROA	(5) ROA	(6) ROA	(7) ROA	(8) ROA	(9) ROA
Constant	-0.238***	-0.241***	-0.239***	-0.242***	-0.253***	-0.252***	-0.246***	-0.249***	-0.261**
	(0.079)	(0.078)	(0.079)	(0.079)	(0.073)	(0.081)	(0.079)	(0.079)	(0.073)
Politician (%)	-0.010								
	(0.016)								
Incumbent (%)		-0.025**	-0.025**						-0.029**
		(0.010)	(0.010)						(0.013)
Opposition (%)		0.006		0.006					-0.007
		(0.024)		(0.024)					(0.025)
Foreign (%)					-0.019***				-0.018**
					(0.006)				(0.008)
Female (%)						0.016			0.011
						(0.024)			(0.025)
Board Size							-0.000		-0.000
							(0.000)		(0.000)
Duality								-0.004	-0.001
								(0.004)	(0.004)
Size	0.016***	0.016***	0.016***	0.016***	0.017***	0.017***	0.017***	0.017***	0.018***
	(0.005)	(0.005)	(0.005)	(0.005)	(0.004)	(0.005)	(0.005)	(0.005)	(0.005)
Capital	0.092***	0.092***	0.092***	0.092***	0.090***	0.092***	0.093***	0.092***	0.089***
	(0.012)	(0.012)	(0.012)	(0.012)	(0.011)	(0.012)	(0.013)	(0.012)	(0.011)
Liquidity	0.032**	0.033**	0.033**	0.031**	0.030**	0.032**	0.032**	0.034***	0.033***
	(0.012)	(0.013)	(0.013)	(0.012)	(0.012)	(0.013)	(0.013)	(0.011)	(0.011)
NPL	-0.309***	-0.309***	-0.309***	-0.308***	-0.280**	-0.321***	-0.296**	-0.314***	-0.292**
	(0.111)	(0.110)	(0.110)	(0.111)	(0.116)	(0.110)	(0.113)	(0.107)	(0.114)
Employee Exp	0.270**	0.275**	0.274**	0.271**	0.288***	0.289***	0.268**	0.286***	0.310***
	(0.103)	(0.103)	(0.103)	(0.103)	(0.102)	(0.097)	(0.102)	(0.099)	(0.094)
Year Dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R^2 within	0.249	0.251	0.248	0.279	0.240	0.254	0.252	0.252	0.288
Observations	319	319	319	319	319	319	319	319	319
N. of Banks	31	31	31	31	31	31	31	31	31
Prob > F	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Notes: * Significant at 10%, ** significant at 5%, *** significant at 1%. Robust standard errors clustered at bank level are given in brackets.

The negative effect suggests that the boards that are employing politicians from incumbent governing political parties might allow government intervention, whereby they may not have incentives to maximize shareholders' value and improve overall bank performance. The negative impact is consistent with the approach that politicians are self-interested and pursue their political objectives rather than increasing value to the shareholders. It is worth stressing that our findings are in line with a stream of literature that uses banking sector samples (e.g. Liang et al., 2013) and non-banking sector samples (Boubakri et al., 2008; Bertrand et al., 2007). Furthermore, the proportion of opposition is positive but not statistically significant in any models. This means that being connected to opposition political parties seems to have no impact on the performance of banks.

In Table 4 we find that the proportion of foreign board directors has a negative, significant effect on ROA. This finding is consistent with earlier studies (Garcia-Meca et al., 2015: 206). This result is not only statistically but also economically quite important. Regarding Table 4 column (7), the result indicates that an increase in the proportion of foreign directors by one standard deviation is associated with a decrease in ROA by 30%. This might be explained by the fact that foreign board directors might be less familiar with national law and regulations, accounting rules, governance standards and managerial methods, making it more difficult for them to evaluate performance or challenge managerial decisions.

We observed that the coefficient of female (%) is positive but not statistically significant. The findings suggest that the proportion of female directors has no impact on bank performance. These findings contradict findings of Garcia-Meca et al., (2015) and Pathan and Faff (2013), but are in line with findings of Mamatzakis and Bermpei, (2015) and Liang et al., (2013). Although the majority of the existing theoretical and empirical studies suggest that a higher proportion of female directors has a positive impact on bank performance, our result does not provide support for this argument.

Looking at the other two characteristics of the board (board size and CEO-chairman duality) we find that board size has no impact on bank performance which is consistent with several empirical studies (Romano et al., 2012; Zulkafli et al., 2010; Belkhir, 2009). Our results do not provide evidence for the claim that large boards are likely to be inefficient due to the coordination, communication and free-rider problem. However, we also could not find any support for the idea that large boards tend to be more efficient since they are more likely to reach external resources which may lead to a better performance.

We also observe a similar relationship between CEO-chairman duality and performance of Turkish commercial banks. The results presented in Table 4 in columns (8) and (9) indicate that banks relying on CEO-chairman leadership have a lower performance than those banks that are opting for independent

leadership strategy. However, this finding is also not statistically significant at the conventional level. In other words, results suggest that CEO-chairman duality has no impact on bank performance which is consistent with many existing empirical studies in the literature (Liang et al., 2013; Nyamongo and Temesgen 2013; Belkhir, 2009).

3.2. Alternative Definition of Politically Connected Variables

Regarding existing empirical studies in the literature, it might be claimed that the great majority of them examine differences between politically connected companies and non-politically connected companies. In terms of empirical studies, scholars generally use dummy variables to distinguish a connected company from its non-connected counterparts. In this sub-section, we also employ the same method and rather than using the percentage of political directors, we used a dummy instead. Therefore, a bank is considered as politically connected if at least one of the board directors of a bank was a politician, and zero otherwise. Incumbent (opposition) is a dummy variable and takes value one, if at least one of the board directors of a bank was a politician from incumbent governing (opposition political) parties, and zero otherwise. Using dummy variables, rather than the percentage of them, we are comparing politically connected bank with their non-connected counterparts not how much percentage change has an impact on bank performance.

Table 5 presents the results of regression analysis which examines the impact of political connection on bank performance measured by ROA. First, looking at Table 5, column (1), we find that the coefficients of *polcon* are negative suggesting to us that politically connected banks are less profitable compared to their non-connected counterparts. However, this result suffers from statistical significance. Secondly, looking at Table 5, columns (2) and (3), we observe that the performance of those banks that are connected to the incumbent governing political party is lower than those banks that are not employing a politician from the incumbent governing political party, the result is being statistically significant at 10% level. These results suggest that banks connected with incumbent governing political parties through the board of directors are less profitable compared to others. It is important to highlight that our findings remain robust after shifting the political connection variable from percentage to dummy. Consistent with Faccio 2010, Boubakri et al., 2008 and Bertrand et al., 2007, our core findings challenge the findings of Perez et al., 2014 and Goldman et al., 2009 who find support for the resource dependence theory. Thirdly, we observe that having a connection with a politician from an opposition political party does not have any impact on bank performance.

Table 5: Performance of Politically Connected Banks (2002 – 2013)

	Dependent Variable is ROA			
	(1)	(2)	(3)	(4)
	ROA	ROA	ROA	ROA
Constant	-0.232***	-0.233***	-0.236***	-0.231***
	(0.079)	(0.077)	(0.077)	(0.078)
Polcon	-0.005			
	(0.005)			
Incumbent		-0.006*	-0.006*	
		(0.003)	(0.003)	
Opposition		-0.004		-0.004
		(0.009)		(0.008)
Size	0.016***	0.016***	0.016***	0.015***
	(0.005)	(0.005)	(0.005)	(0.005)
Capital	0.095***	0.096***	0.096***	0.095***
	(0.013)	(0.013)	(0.013)	(0.013)
Liquidity	0.032**	0.032**	0.032**	0.031**
	(0.013)	(0.013)	(0.013)	(0.013)
NPL	-0.304**	-0.303**	-0.305**	-0.310***
	(0.110)	(0.11)	(0.112)	(0.111)
Emplpyee Exp	0.261**	0.262**	0.265**	0.262**
	(0.099)	(0.100)	(0.100)	(0.100)
Year Dummy	Yes	Yes	Yes	Yes
Bank Fixed Effects	Yes	Yes	Yes	Yes
R^2 within	0.262	0.262	0.260	0.259
Observations	319	319	319	319
Number of Banks	31	31	31	31
Prob > F	0.000	0.000	0.000	0.000

Notes: * Significant at 10%, ** significant at 5%, *** significant at 1%. Robust standard errors clustered at bank level are given in brackets

3.3. Alternative Time-period

In this sub-section, we analyze the effect of political connection in a wider time-period. The main reason for that is it is worth investigating whether the regression results are sensitive to the choice of time-period. Due to the data availability issue, we take only CEO and chairman into consideration. Board characteristics variables used as a percentage in main analysis are used as a dummy variable in this analysis. In more detail, *Polcon* is a dummy variable and takes value one, if CEO or chairman of the bank was a member of parliament and zero otherwise. *Rulingideo* (*Oppositeideo*) is a dummy variable and takes one if CEO or chairman of a bank was a politician and shares the same political ideology with the incumbent governing political party (opposition political party) and zero otherwise[3]. Foreign is a dummy variable and takes value one if CEO or chairman of a bank is a foreign, and zero otherwise. Female is a dummy variable and takes value one, if CEO or chairman of a bank is a female, and zero otherwise. Duality is a dummy variable and takes value one, if COE is also the chairman of a bank and zero otherwise.

Table 6 presents the results of regression analysis which examines the impact of characteristics and diversity of CEO or chairman on bank performance. First, the performance of politically connected banks is lower than their non-connected counterparts, but this result is not statistically significant. Interestingly, we observe that banks that are managed either by a politically connected CEO or chairman sharing the same political ideology with incumbent governing political parties are less profitable compared to others. Furthermore, the magnitude of the coefficients of *rulingideo* in table 6 columns (3), (4), and (8) is quite similar with the magnitude of the coefficients of *incumbent* dummies in table 5 columns (2) and (3). Taken all these together, it might be argued that in terms of accounting performance, banks connected to the incumbent through board of directors, and banks connected to the incumbent ideologically through CEO or chairman are quite similar. These results confirm that our core findings in relation to the political connection variables are not sensitive to the choice of time-period.

In relation to the foreign and female managers, results in table 6 indicate that neither the banks managed by a foreign director nor the banks managed by a female are more profitable than others. Finally, consistent with our earlier findings we find that CEO-chairman duality has a negative impact on bank performance, but results are suffering from being statistically significant. Thus it might be argued that the findings presented in table 6 are quite similar with findings presented in table 4, suggesting that our core findings are not sensitive to the choice of time-period.

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3 Data about political party ideology is accessed by the database of Political Institutions (Beck et al., 2001).

Table 6: Performance of Politically Connected Banks Connection through Chairman or CEO (ROA) (1963 – 2013)

	(1) ROA	(2) ROA	(3) ROA	(4) ROA	(5) ROA	(6) ROA	(7) ROA	(8) ROA
Constant	-0.036	-0.037	-0.037	-0.037	-0.035	-0.036	-0.035	-0.033
	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)
Polcon	-0.006							
	(0.004)							
Rulingideo		-0.008**	-0.007***					-0.009***
		(0.003)	(0.002)					(0.003)
Oppositideo		-0.003		-0.000				-0.004
		(0.006)		(0.005)				(0.005)
Foreign					-0.005			-0.004
					(0.005)			(0.004)
Female						-0.004		-0.008
						(0.009)		(0.009)
Duality							-0.011	-0.012
							(0.007)	(0.007)
Size	0.007**	0.007**	0.007**	0.007**	0.007**	0.007**	0.007**	0.007**
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Capital	0.231***	0.231***	0.231***	0.231***	0.231***	0.231***	0.231***	0.213***
	(0.056)	(0.056)	(0.056)	(0.056)	(0.056)	(0.056)	(0.056)	(0.056)
Liquidity	0.008	0.009	0.008	0.008	.009	0.008	0.010	0.011
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
Employee Exp	-0.703***	-0.704***	-0.705***	-0.709***	-0.706***	-0.713***	-0.700***	-0.694***
	(0.206)	(0.206)	(0.206)	(0.207)	(0.207)	(0.209)	(0.202)	(0.203)
Year Dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bank Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R^2 within	0.345	0.345	0.345	0.344	0.344	0.344	0.347	0.349
Observations	2042	2042	2042	2042	2042	2042	2042	2042
Number of Banks	82	82	82	82	82	82	82	82

3.4. Dynamic Panel Data (GMM Approach)

Hermalin and Weisbach (2001) argue that all board related-variables are assumed to be endogenously related to firm performance. Not only has the choice of the board structure affected firm performance, but also the performance of a firm has affected the choice of the board structure. In the case of endogeneity fixed effects estimate becomes biased (Wintoki et al., 2012) and inconsistent (de Andres and Vallelado, 2008). To deal with the endogeneity problem, consistent with existing empirical studies (Laing et al., 2013; Pathan and Faff, 2013; Garcia-Meca et al., 2008) we use the GMM estimator with adjusted standard errors for potential heteroscedasticity proposed by (Blundell and Bond, 1998). In GMM estimation lag differences are used as an instrument for level equations, and lag levels are used as an instrument for differenced equations.

Results received from GMM estimation model provides support for our core findings. In more detail, we find that incumbent (%) and foreign (%) are related negatively to bank performance[4]. Results are almost identical with the result presented in Table 4 apart from the magnitude of the coefficient of the incumbent (%) and foreign (%). Thereby, it might be claimed that our results are also robust to different model specifications.

Conclusion

In this paper, we examine the impact of board characteristics, with the focus being on political directors, on bank performance, in the context of the Turkish banking sector. Apart from political board directors, following the literature, we also take the proportion of foreign directors and the proportion of female directors into consideration in our analysis. Our core findings reveal that the presence of political directors from the incumbent governing political party has a detrimental impact on bank performance. In addition, with the longer time-period dataset, we examine the impact of political connection through CEO and chairman on the performance in banks. Our core findings demonstrate that banks connected to the incumbent ideologically are less profitable compared to their non-connected counterparts. It is important to stress that our findings are robust to the alternative definitions of politically connected banks, alternative time periods and most importantly alternative estimation models.

We also show that there is a significant negative relationship between the proportion of foreign directors and bank performance. Furthermore, although

4 For the sake of space, I did not report this table. Results are available upon request.

existing theoretical and empirical studies generally find a positive relationship between the proportion of female directors and firm performance, our results could not provide empirical support for that. Finally, our results indicate that board size and CEO-chairman duality has no impact on the performance of the Turkish banking sector.

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