# The Reliability of Financial Reporting within Corporate Governance: Evidence from Turkey

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***ABSTRACT***

*The reliability of financial reporting provides shareholders, partners, investors and other stakeholders in order to make correct decisions. While determining the relationship between the reliability of financial reporting and operating type of firms, the number of employee, operating years and manager position, the questionnaire which was carried out to the businesses dependent on Corporate Governance Index that is enrolled to Istanbul Stock Exchange (BIST) was evaluated. This article adds to the literature by estimating whether the reliability of financial reporting increase by promoting the effectiveness level of control structure in the enterprise through corporate governance practices.*

***Keywords:*** *Corporate Governance, Financial Reporting, Financial Statements Manipulation.*

***Jel Classification****: G30, M40, M41.*

***Kurumsal Yönetim Kapsamında Finansal Raporlamanın Güvenirliliği: Türkiye'den Örnek Olay***

***ÖZET***

*Finansal raporlamanın güvenirliliği; hissedarların, ortakların, yatırımcıların ve diğer paydaşların daha doğru kararlar almalarına yardımcı olmaktadır. Çalışmada, kurumsal yönetim çerçevesinde finansal raporlamanın güvenilirliği ile işletmelerin faaliyet türü, çalışan sayısı, faaliyet yılları ve yönetici pozisyonu arasındaki ilişki incelenmiştir. Bu ilişkinin belirlenmesinde Borsa İstanbul (BİST)'a kayıtlı Kurumsal Yönetim Endeksine tabi işletmelere uygulanan anket değerlendirilmiştir. Bu makale, işletmelerde kurumsal yönetim uygulamaları doğrultusunda kontrol yapısının etkinlik düzeyini artırarak, finansal raporlamanın güvenirliliğini artırıp artırmadığını belirleyerek literatüre katkı sağlaması beklenmektedir.*

***Anahtar Kelimeler:*** *Kurumsal Yönetim, Finansal Raporlama, Finansal Tablo Manipülasyonu.*

***JEL Sınıflandırması:*** *G30, M40, M41.*

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## 1. INTRODUCTION

Financial reporting and corporate governance mechanisms are indeed highly interrelated. In particular, financial reporting constitutes an important element of the corporate governance mechanism, as it can potentially mitigate the information asymmetry and corporate outsiders (Melis, 2004; Melis and Carta, 2010).

Some prior empirical studies focus on whether to investigate the relationship between a set of governance mechanisms, board composition affect financial reporting quality and voluntary disclosure (Nelson et al., 2010; Kent and Stewart, 2008; Gallery et al., 2008; Beekes and Brown, 2006; Ajinkya et al., 2005; Karamanou and Vafeas, 2005; and Imhoff, 2003), corporate governance and information disclosure (Song and Thakor, 2006), and audited financial reporting and voluntary disclosure (Ball et al., 2012).

Other studies examine the impact of international financial reporting standards (IFRS) adoption on corporate governance (Cuijpers and Buijink, 2005; Christensen et al., 2007; Barth et al., 2008; Garcia Lara et al., 2009). Cuijpers and Buijink (2005), for example, find for a firm's governance structure to be negatively related to non-local GAAP adoption. In contrast to Imhoff (2003) find that governance problems are no relationship between accounting quality and the integrity of financial reporting. Gallery et al. (2008) examine the quality of disclosures by large Australian companies regarding the financial reporting impact of IFRS adoption. This study focus on the reliability of financial reporting within corporate governance context.

There has been growing research to build reliability on financial reporting in global scale. Like in many countries, legal arrangements on corporate governance have been made in Turkey. In 2007, BIST Corporate Governance Index was begun to be calculated within the Capital Markets Board of Turkey. Furthermore, Turkish Commercial Code required financial reporting according to IFRS, which will contribute to provision of corporate governance in 2013. Considering different objectives of financial statements users in terms of corporate governance, compulsory practice of Turkish Accounting Standards (TAS) and Turkey Financial Reporting Standards (TFRS) will lead to unavoidable significant impacts of financial reporting of enterprises. This study adds to this empirical literature by analyzing the influence of the process involving the effects of corporate governance practices on the reliability of financial reporting on BIST Corporate Governance Index.

The remainder of this paper is structured as follows. The next section offers an overview of the conceptual framework of corporate governance and development of hypotheses. Section 3 we provide a summary of relevant strands of the extant literature. Section 4 presents the research design, purpose of the research and data source. Section 5 describes the empirical results and analysis. Finally, a conclusion follows.

## 2. BACKGROUND AND HYPOTHESES

### 2.1. Conceptual Framework of Corporate Governance

Due to high profile corporate failures in the US companies such as Enron, World Com, Tyco, Imclone, Adelphia and Global Crossing in 2002, to improve corporate governance practices in the country (Mintz, 2005; Benz and Frey, 2007), the significance of corporate governance principles, which included serious solutions since 1934 Securities Exchange Act, was revealed by the Sarbanes-Oxley Act (SOA). These huge scandals, which concerned fraud in bookkeeping, caused to the collapse of stock markets and gain of assets of corporate sectors. The governance which failed to prevent these scandals led to widespread use of corporate governance mechanisms (Benz and Frey, 2007). Thus, improvement in corporate governance refers to seeking arrangements as stipulated SOA, which consider the advanced developments in corporate governance systems.

Because of the financial scandals, reliability of financial reporting have fallen under a shadow of suspicion, and the role of the audit committee in the financial reporting process has received increased regulatory attention (Pucheta-Martínez and de Fuentes, 2007). The aim of these paper is to present an analysis of the association between reliability of financial reporting and financial reporting quality on corporate governance.

Corporate governance is a concept, which determines the limits of the structure of rights and responsibilities of company managers, board, shareholders and stakeholders (Aguilera and Jackson, 2003). Corporate governance refers to reaching a conclusion based on the principles of objectivity or responsibility, in case of management risk of manager defects, presence of corporate governors in the management and behaviors in legal tendency (Ryan, 2005). According to Cheung and Chan (2004), corporate governance is defined to the system by which the behavioral of a company is monitored and controlled.

Corporate governance also shapes the activities around business ethics. Business ethics will gain importance as an indispensable part of corporate governance following enterprise policies, principles, procedures and collective bargaining of an enterprise with a directly and controlled management (Terblanche et al., 2008). Corporate governance policies contribute to increasing the reliability of financial reporting by mandating accounting standards, which provide large participation of all stakeholders aiming to have financial information from the company and the application of financial reporting standards. The enterprises present reliable financial information to their stakeholders via the financial reporting and financial statements they prepare. The method of making financial information reliable involves adoption and implementation of corporate governance principles. In this context, financial information presented by the companies, which adopt corporate governance principles will increase the reliability of financial reporting as they will have these properties.

If the financial reporting process is not affected from the behaviors of managers, accountability responsibility of shareholders in enterprises decreases. However, even if accountability responsibility is neutral in social reporting, the problem of fully neutralizing the problem in terms of accountability still continues (Hess, 2007). The responsibility of corporate performance increase shareholder value and the reliability of financial reporting. Furthermore, it reveals a structure, in which company goals are determined and provides how the performance to be used will be followed. Corporate governance involves the factors based on the management structures of enterprises with their management principles and base principles; it should also include internationally mandated arrangements which consider financial reporting of enterprises.

The difference in accounting systems of enterprises and the use of different sets of accounting standards, hampering the comparability and reliability of issued financial data, requiring the adaption of accounting standards (Alexander et al, 2009). As per the principle of transparency of corporate governance, adaptation of accounting standards increase the understandability and comparability of financial data for the stakeholders.

Reliability in financial reporting system is necessary for helping all stakeholders in the financial information system, to observe public interest and to ensure proper functioning of the system. Reliability depends on the transparency or accuracy of financial reporting (Enderle, 2012).

### 2.2. Hypotheses Development

Some studies suggest that financial reporting is viewed as an important part of accountability, but the sector identifies deficiencies in the current regime in terms of consistency, efficiency and transparency (Palmer, 2013). Company specific characteristics have been suggested as important contributors for understanding differences in the use of corporate governance mechanisms. For example, companies can differ in a number of ways including such characteristics as size, age, strategy, industry, governance structure, and ownership composition (Holm and Schøler, 2010). Similarly, these study tested hypotheses with several alternatives. Alternative hypotheses were evaluated as accepted or rejected based on statistical analyses. The hypotheses of this study are as listed below. The first testable hypothesis will be stated as follows:

H1= Reliability and quality of financial reporting within the scope of corporate governance significantly varies according to the enterprise type of the participants.

Heaney et al. (2007) examine the relationship between pre-and post- performance and changes in the size and the stability of the firm’s executives. They find that a positive correlation between post-performance and changes in size. Barako et al. (2006) find firm size

was significantly link with voluntary disclosure practices. Similarly, Klapper and Love (2004) finding of firm size effect of the firm-level governance measure, and also find positive correlations between market valuation and operating performance. Holm and Schøler (2010) find that international exposure by listed companies is mitigated by firm size effects. Hence, El Mehdi (2007) suggest that large-size firms are more likely to achieve better performance as indicated by the significant coefficient of firm size.

Collis et al. (2004) examine the number of employees' size criteria in company legislation are appropriate and sufficient proxies for the demand for the audit. Mintz (2005) suggests that employee involvement in corporate governance can work as a potentially powerful additional mechanism to control managerial opportunism. This leads to our second testable hypothesis:

H2= Reliability and quality of financial reporting within the scope of corporate governance significantly varies according to number of employees in the participating firms.

According to Farooque et al. (2007) firm age, board salary ratio and firm size have a negative impact on board ownership. In contrast, Barako et al. (2006) find firm size are significantly and positively link with voluntary disclosure practices, namely corporate financial reporting. Firm age was computed by subtracting from the data year the number of years elapsed since the firm was founded (Chung and Luo, 2013). This leads to our third hypothesis:

H3= Reliability and quality of financial reporting within the scope of corporate governance significantly varies according to the activity year of the participating firms.

Armstrong et al. (2010) find the financial reporting transparency in reducing governance-related agency conflicts among top management team. Cohen et al. (2002) suggest that highlight the interactive relationship among management, the board, and the audit committee. Hudaib and Cooke (2005) find that a firm with poor corporate governance has a higher possibility of the combination of executives.

Sharma (2004) find a positive relationship between the duality of management positions and corporate frauds, and so enhance the monitoring role of the corporate governance mechanism (Wilkinson & Clements, 2006; Lee et al., 2004; Cohen et al., 2002). More importantly, Lin and Liu (2009) suggest that a well-designed corporate governance mechanism may reduce the agency conflicts (Lin and Liu, 2009). This leads to our fourth testable hypothesis:

H4= Reliability and quality of financial reporting within the scope of corporate governance significantly varies according to manager positions of the participating firms.

To test the hypotheses that reliability and quality of financial reporting within the scope of corporate governance is determined by firm size enterprise type of the participants, number of employees in the participating firms, the activity year of the participating firms and manager positions of the participating firms, we estimate a series of firm-fixed effects Anova F test, Mann Whitney U test and Kruskal-Wallis test on a panel data set consisting of the 29 firms. Anova F test was performed using the variables to support the hypotheses. In addition, Mann Whitney U test was used for two groups and Kruskal-Wallis test was used for more than two groups to compare the variables according to groups.

### 2.3. Related Literature Review

Despite the large number of previous of empirical research on corporate governance, this study will only concentrate on those that handled with the reliability of financial reporting within corporate governance. Prior study by Bushman and Smith (2003) reported that, within corporate governance concept, financial accounting information provides promising investment opportunities for the investors by giving more accurate information and provided the managers with a discipline mechanism by distinguishing a beneficial project from a useless one.

Bushman et al. (2004) examine cross-sectional relations between corporate governance systems and both earnings timeliness and organizational complexity of firms. In this study, investigated how ownership concentration, directors' and executive's incentives, and board structure vary with: earnings timeliness, and organizational complexity measured as geographic and product line diversification.

Agrawal and Chadha (2005) analyze corporate governance characteristics of the mentioned companies. It was reported that, the enterprises having a board which adopted corporate governance principles, independent auditors committee and internal independent auditing specialist contained more reliable financial reporting and that their profits were declared more realistically when compared to the enterprises which are managed by a family member coordinator.

Bhat et al. (2006) examine how the principles of transparency, which affects estimation of accurate analysis of companies. The study divided country-level factors into two as corporate transparency and financial transparency and analyzed whether they affected corporate governance information in accurate estimation of financial information and profits. Analysis of financial transparency and other factors revealed that there was a positive relationship between corporate transparency and accurate analysis of analysis.

Ferreira and Laux (2007) examine the relationship between corporate governance and special risk. Switzer (2007) examine that thanks to financial reporting within the scope of corporate governance, firm performance was positively affected and that the relationship between firm owners and CEOs showed a positive development. Arı (2007) examine the relationship between arrangements for corporate governance and perceptions towards the

reliability of financial statements within the scope of source reliability theory, to increase the reliability towards financial reporting.

Aguilera et al. (2008) examine the relationships between corporate governance practices and firm performance measurement; however, they suggest that the relationship between different environment and organizations, which cause variations under the influence of different corporate practices was neglected. Aras and Crowther (2008) analyze FTSE 100 companied and their corporate governance policies and determined the relationship between corporate governance and sustainability. Bowen et al. (2008) examine accountability level of economic variables such as enterprise size, debt leverage, growth opportunities, risk performance and share of shareholders and investigated the relationship between corporate quality and accountability and total index. They find that there is a significance negative relationship between corporate quality and accountability for enterprise performance. Wong (2009) examine the assessment of corporate governance reforms in the framework of SOA by the national and international organizations.

Baba (2011) find that there was a strong positive relationship between financial reporting quality and firm structure of manufacturing enterprises. Similarly, Uwuigbe (2011) find that a positive association existed between a firm’s characteristics and the level of corporate social disclosure. Klai and Omri (2011) examine increased quality and reliability of financial reporting and the perceptions of managers. Agoglia et al. (2011) examine the shift in the role of auditing committee and the tendency to adopt principle-based accounting instead of rule-based accounting in the enterprises within the scope of corporate governance because of accounting scandals.

Armstrong et al. (2012) examine the relationship between corporate governance and information frame of companies. They suggest that corporate governance mechanism was important to analyze the relationship between corporate governance structure and financial reporting information. Alali et al. (2012) focus on whether corporate governance influences credit value and whether it contributed to realization of enterprise investments. Hunton and Rose (2012) suggest that increased board transparency can create more accountability for board members, and executives.

Rose et al. (2013) suggest that directors who own stock were less likely to agree with management’s aggressive financial reporting if board discussions were more transparent, compared to less transparent. Ghosh and Lee (2013) find that for the pre-disclosure period, firms financial reporting internal control weaknesses under SOA, had structural problems and had low financial reporting quality. Clatworthy and Peel (2013) examine the relationship between audit and corporate governance characteristics of companies. Their findings shed light on the effects of companies’ governance characteristics on the reliability of their financial accounting information.

Patrick et al. (2015) find that corporate governance practices such as board size and firm size have significant influence on earnings management practices.

## 3. RESEARCH METHOD

Corporate governance practices significantly affect corporate enterprises and the reporting of their financial statements in Turkey, like in global accounting practices. Furthermore, since corporate governance will increase the reliability of the information in financial statements of the entity, the study aims to determine the validity of the view that financial statements of the enterprises with corporate governance structure will be more reliable.

The study analyzes whether there are significant intergroup differences based on the data on the reliability of financial reporting, enterprise data and manager position data. There is a large body of empirical research on corporate governance. In parallel to the mentioned studies, a review of the literature found no study on the reliability of financial reporting in terms of corporate governance and BIST Corporate Governance Index.

A questionnaire was administered to a total of 48 companies listed in BIST corporate governance index as of January 2015. Data obtained from the questionnaire, which was sent to company top managers and firm analysis via e-mails and responded by 48 of them. Whereas, 29 companies executives responded to it thorough phone calls and e-mails.

## 4. EMPIRICAL RESULTS

5-item Likert type scale was used in the questionnaire. The questionnaire concentrated on a general evaluation of determining the reliability of financial reporting of enterprises in terms of corporate governance practices. The evaluation consists of the analyses involving behavioral evaluations of enterprise directors.

The questionnaire used 5-item Likert type scale ranging from (1) Strongly Disagree, (2) Disagree (3) Undecided, (4) Agree, (5) Strongly Agree. Frequency distributions on the accuracy and reliability of financial reporting are presented in Table 1.

**Table 1:** Frequency Distributions on the Accuracy and Reliability of Financial Reporting (%)

| | **5** | **4** | **3** | **2** | **1** | **Toplam** |
|---|---|---|---|---|---|---|
| (1)Financial information which is made public undergo independent audit by practicing Corporate Governance (CG) principles in the enterprises (equality, accountability, transparency and responsibility); and this solves reliance issues in financial reporting | 48 | 42 | 7 | 3 | 0 | 100 |
| (4) Since CG provides establishment of internal audit systems in enterprises, reliance by the public towards | 21 | 42 | 17 | 17 | 3 | 100 |

| | | | | | | |
|---|---|---|---|---|---|---|
| accounting auditing increases | | | | | | |
| (5) CG increases the reliability of financial reporting in enterprises | 17 | 55 | 22 | 3 | 3 | 100 |
| (6) CG increases reliance of the investors towards financial reporting tools | 28 | 55 | 14 | 0 | 3 | 100 |
| (9) CG shapes financial reports and statements under a standard; increases reliability for domestic and international investors | 38 | 45 | 14 | 0 | 3 | 100 |
| (10)CG makes financial reports and statements more understandable, appropriate for needs, comparable and reliable | 52 | 38 | 7 | 0 | 3 | 100 |
| (14)CG model uses the common financial reporting language code with the IFRS and makes a positive impact on the reliability of financial reporting | 38 | 56 | 3 | 3 | 0 | 100 |
| (15)CG requires the preparation of the reports prepared by internal audit unit instead of the top management, which increases the reliability of the mentioned reports. | 34 | 53 | 7 | 3 | 3 | 100 |
| (16)CG requires signing certificate of responsibility between the managers to ensure the accuracy and legality of all transactions, and thus the increase of reliability | 45 | 35 | 17 | 0 | 3 | 100 |

"Strongly agree" and "agree" answers to the evaluation question "CG model uses the common financial reporting language with the IFRS and makes a positive impact on the reliability of financial reporting" had the highest frequency distribution. "Financial information which is made public undergo independent audit by practicing Corporate Governance (CG) principles and this solves trust issues in financial reporting;" and "CG makes financial reports and statements more understandable, appropriate for needs, comparable and reliable" had the second highest frequency distribution. Another interesting finding in the questionnaire was that collective analysis of the options "undecided" and "disagree" showed that "Since CG provides establishment of internal audit systems in enterprises, trust by the public towards accounting auditing increases" had 34% frequency distribution.

**Table 2:** Frequency Distributions on the Quality of Financial Reporting (%)

| | **5** | **4** | **3** | **2** | **1** | **Toplam** |
|---|---|---|---|---|---|---|
| (2)Since the practice of CG principles affects the level, content and accuracy of the information that independent auditors will use for their audit reports, quality of auditor reports will increase | 34 | 38 | 25 | 0 | 3 | 100 |
| (3)The accuracy and quality of the reports made public by the CG companies will increase | 34 | 46 | 17 | 0 | 3 | 100 |
| (7)CG enterprises increase the possibility of providing lower cost and desired level resources | 28 | 31 | 31 | 10 | 0 | 100 |
| (8)CG companies increase the possibility of reaching regular, reliable and comparable information for the shareholders and potential investors about management practices | 45 | 38 | 14 | 0 | 3 | 100 |
| (11)CG contributes to protection of the interests of all stakeholders | 52 | 42 | 3 | 0 | 3 | 100 |

| | | | | | | |
|---|---|---|---|---|---|---|
| (12)The use of common financial reporting language with the IFRS, which is one of the important requirements of the CG model facilitates the development course of companies in analysis of financial statements | 34 | 63 | 0 | 0 | 3 | 100 |
| (13)Since the IFRS helps facilitating auditing activities of companies, it increases the effectiveness of financial reporting | 38 | 56 | 3 | 0 | 3 | 100 |

According to Table 2, collective analysis of the options "strongly agree" and "agree" showed that 97% of participants agreed with the view "The use of common financial reporting language with the IFRS, which is one of the important requirements of the CG model, facilitates the development course of companies in analysis of financial statements". It was found that 94% of participants agreed with the view "CG contributes to protection of the interests of all stakeholders" and "since the IFRS helps facilitating auditing activities of companies, it increases the effectiveness of financial reporting". Another interesting point was that collective analysis of "undecided" and "disagree" options showed that 41% of the participants agreed with "CG enterprises increase the possibility of providing lower cost and desired level resources" option.

**Table 3:** According to Enterprise Type

| | **Industry (14)** | | **Service (15)** | | **test p value** | |
|---|---|---|---|---|---|---|
| **variables** | **mean** | **st.deviation** | **mean** | **st.deviation** | **anova** | **mwu** |
| 1 | 4.357 | 0.633 | 4.333 | 0.900 | 0.935 | 0.772 |
| 2 | 4.000 | 0.784 | 4.000 | 1.134 | 1.000 | 0.712 |
| 3 | 4.214 | 0.699 | 3.933 | 1.100 | 0.423 | 0.589 |
| 4 | 3.929 | 0.829 | 3.267 | 1.280 | 0.113 | 0.150 |
| 5 | 3.929 | 0.616 | 3.667 | 1.113 | 0.444 | 0.664 |
| 6 | 4.000 | 0.555 | 4.067 | 1.100 | 0.840 | 0.410 |
| 7 | 3.500 | 1.092 | 4.000 | 0.845 | 0.178 | 0.211 |
| **8** | 4.000 | 0.555 | 4.400 | 1.183 | 0.260 | **0.026** |
| 9 | 4.214 | 0.699 | 4.067 | 1.100 | 0.672 | 0.962 |
| 10 | 4.429 | 0.514 | 4.267 | 1.163 | 0.636 | 0.771 |
| 11 | 4.429 | 0.514 | 4.333 | 1.113 | 0.772 | 0.624 |
| 12 | 4.357 | 0.497 | 4.133 | 0.990 | 0.454 | 0.719 |
| 13 | 4.357 | 0.497 | 4.133 | 1.060 | 0.478 | 0.824 |
| 14 | 4.357 | 0.497 | 4.200 | 0.862 | 0.556 | 0.824 |
| 15 | 4.143 | 0.535 | 4.067 | 1.223 | 0.832 | 0.531 |
| 16 | 4.214 | 0.802 | 4.133 | 1.125 | 0.826 | 0.907 |
| **total** | 66.429 | 5.867 | 65.000 | 12.467 | 0.700 | 0.810 |
| **reliability** | 37.571 | 3.298 | 36.067 | 7.923 | 0.516 | 0.843 |
| **quality** | 28.857 | 2.742 | 28.933 | 4.906 | 0.960 | 0.554 |

According to Table 3, considering Anova F test and Mann-Whitney U test H1 hypothesis should be rejected at p=%10 significance level. Considering that p=%10<0,700 for Anova F test and p=%10 <0,810 for Mann-Whitney U test, there was no significance between the reliability and quality of financial reporting between enterprise types. In other words, the reliability and quality of financial reporting within the scope of CG doesn't show a significant difference according to enterprise types of participants. As a result, it can be concluded that corporate governance practices doesn't vary according to enterprise type and industry group and that there are principle decisions the enterprise should follow.

However, considering p=%10>0,0026 for Mann-Whitney U test performed for identifying "CG companies increase the possibility of reaching regular, reliable and comparable information for the shareholders and potential investors about management practices", there is a significance between the groups in terms of the reliability and quality of financial reporting. Based on analysis results, we can state that more enterprises in service sector have the opportunity of "reaching regular, reliable and comparable information for the shareholders and potential investors about management practices".

**Table 4:** According to Number of Employees

| | **25-100 (6)** | | **101-250 (10)** | | **Over 250 (13)** | | **test p value** | |
|---|---|---|---|---|---|---|---|---|
| **variables** | **mean** | **st.deviation** | **mean** | **st.deviation** | **mean** | **st.deviation** | **anova** | **kwallis** |
| 1 | 4.333 | 1.211 | 4.200 | 0.632 | 4.462 | 0.660 | 0.735 | 0.495 |
| 2 | 4.000 | 1.549 | 3.800 | 0.789 | 4.154 | 0.801 | 0.699 | 0.459 |
| 3 | 3.667 | 1.366 | 4.400 | 0.699 | 4.000 | 0.816 | 0.297 | 0.363 |
| 4 | 3.333 | 1.633 | 3.800 | 0.919 | 3.538 | 1.050 | 0.721 | 0.831 |
| 5 | 3.167 | 1.169 | 3.900 | 0.994 | 4.000 | 0.577 | 0.157 | 0.236 |
| 6 | 3.500 | 1.378 | 4.000 | 0.816 | 4.308 | 0.480 | 0.167 | 0.319 |
| 7 | 4.000 | 0.894 | 3.600 | 1.075 | 3.769 | 1.013 | 0.748 | 0.785 |
| 8 | 4.000 | 1.549 | 4.200 | 0.789 | 4.308 | 0.751 | 0.814 | 0.941 |
| 9 | 3.333 | 1.366 | 4.200 | 0.789 | 4.462 | 0.519 | **0.036** | 0.107 |
| 10 | 3.833 | 1.602 | 4.400 | 0.516 | 4.538 | 0.660 | 0.283 | 0.611 |
| 11 | 3.833 | 1.472 | 4.400 | 0.699 | 4.615 | 0.506 | 0.187 | 0.392 |
| 12 | 3.500 | 1.225 | 4.500 | 0.527 | 4.385 | 0.506 | **0.026** | **0.060** |
| 13 | 3.667 | 1.366 | 4.500 | 0.707 | 4.308 | 0.480 | 0.140 | 0.231 |
| 14 | 4.000 | 1.265 | 4.400 | 0.516 | 4.308 | 0.480 | 0.548 | 0.891 |
| 15 | 3.333 | 1.506 | 4.500 | 0.527 | 4.154 | 0.689 | **0.047** | 0.151 |
| 16 | 3.667 | 1.506 | 4.200 | 0.789 | 4.385 | 0.768 | 0.332 | 0.550 |
| **Total** | 59.167 | 16.678 | 67.000 | 6.342 | 67.692 | 6.836 | 0.181 | 0.620 |
| **Reliability** | 32.500 | 10.559 | 37.600 | 3.950 | 38.154 | 4.059 | 0.149 | 0.583 |
| **Quality** | 26.667 | 6.154 | 29.400 | 3.273 | 29.538 | 3.045 | 0.307 | 0.674 |

According to Table 4, considering Anova F test and Kruskal-Wallis test H2 hypothesis should be rejected according to p=%10 significance level. Since p=%10 < 0,307 for Anova F test and p=%10 < 0,674 for Kruskal-Wallis test at p=%10 significance level, the reliability and quality of financial reporting doesn't vary according to number of employees of the participating enterprises. Thus, the fact that corporate governance doesn't vary according to number of employees in enterprises suggest that rather than number of people, by practicing the goals in strategic plans for these principle decisions, the enterprises should follow their goals to achieve these goals.

However, since p=%10>0,036 for Anova F test according to "CG shapes financial reports and statements around a standard; increases reliability for domestic and international investors" it can be stated that there was a significant difference according to number of employees of the participating enterprises.

Wong (2009) suggests to encourage corporate governance practices in companies, however, pointed out to the deficiencies and weakness of reforms. He also show that international accounting and audit standards of companies should be supportive. According to Table 4, since p=%10 > 0,026 for Anova F test at p=10% significance level and p=%10 > 0,060 for Kruskall-Wallis test for "the use of common financial reporting language with the IFRS, which is one of the important requirements of the CG model facilitates the development course of companies in analysis of financial statements" it can be stated that there was a significant difference according to number of employees.

Since p=%10>0,047 for Anova F test conducted for "CG requires the preparation of the reports prepared by internal audit unit instead of the upper management, which increases the reliability of the mentioned reports" it can be stated that there is a significant difference according to number of employees of the participating enterprises. Based on the above mentioned variables, H2 hypothesis should be partially accepted.

**Table 5:** According to Activity Year

| | **0-25 year (11)** | | **26-75 year (18)** | | **test p value** | |
|---|---|---|---|---|---|---|
| **variables** | **Mean** | **st.deviation** | **Mean** | **st.deviation** | **anova** | **mwu** |
| 1 | 4.182 | 1.079 | 4.444 | 0.511 | 0.382 | 0.804 |
| 2 | 3.636 | 1.120 | 4.222 | 0.808 | 0.114 | 0.153 |
| 3 | 3.727 | 1.104 | 4.278 | 0.752 | 0.121 | 0.161 |
| 4 | 3.182 | 1.168 | 3.833 | 1.043 | 0.130 | 0.126 |
| 5 | 3.818 | 1.079 | 3.778 | 0.808 | 0.909 | 0.585 |
| 6 | 3.818 | 1.168 | 4.167 | 0.618 | 0.301 | 0.516 |
| 7 | 3.727 | 1.009 | 3.778 | 1.003 | 0.897 | 0.870 |
| 8 | 4.182 | 1.250 | 4.222 | 0.732 | 0.913 | 0.610 |
| **9** | 3.727 | 1.191 | 4.389 | 0.608 | **0.057** | 0.103 |
| 10 | 4.091 | 1.221 | 4.500 | 0.618 | 0.240 | 0.438 |
| **11** | 3.909 | 1.136 | 4.667 | 0.485 | **0.019** | **0.023** |

| 12 | 4.000 | 1.095 | 4.389 | 0.502 | 0.202 | 0.368 |
|---|---|---|---|---|---|---|
| **13** | 3.818 | 1.079 | 4.500 | 0.515 | **0.029** | **0.039** |
| 14 | 4.091 | 0.944 | 4.389 | 0.502 | 0.275 | 0.492 |
| 15 | 4.000 | 1.342 | 4.167 | 0.618 | 0.651 | 0.673 |
| 16 | 3.909 | 1.221 | 4.333 | 0.767 | 0.259 | 0.384 |
| **Total** | 61.818 | 13.688 | 68.056 | 5.418 | **0.093** | 0.156 |
| **Reliability** | 34.818 | 8.704 | 38.000 | 3.515 | 0.176 | 0.331 |
| **Quality** | 27.000 | 5.177 | 30.056 | 2.461 | **0.040** | **0.047** |

According to Anova F test and Mann-Whitney U tests, H3 hypothesis should be accepted at according to p=%10 significance level. In other words, reliability and quality of financial reporting within the scope of CG shows a significant variation according to activity years of the participating firms. In addition, p=%10 > 0,040 for Anova F test and p=%10 > 0,047 for Mann-Whitney U test at p=%10 significance level make the variables for the quality of financial reporting significant.

Imhoff (2003) suggests that accounting, audit and corporate governance encounter significant challenges in terms of the accuracy of financial reporting and the quality of accounting information. Thus, accounting and audit are only the elements of corporate governance system and the quality of financial reporting isn't changed in a constant situation within the process of corporate governance.

Ryan (2005) suggests that in corporate governance cases, judges can extrapolate from principles as fiduciary duty or fairness to determine if a behavior is against the spirit of the law. In case of serious faults of company managers; CG directors and board can identify those from the principles of CG as accuracy or responsibility. Gill (2008) suggests that, in such case, CG is a set of norms and principles in taking enterprise decisions to distribute the relationships between the managers, shareholders and board in addition to solving business disputes.

There was a more significant variation in the enterprises listed in ISE Corporate Governance index with longer activity year in terms of the following:

- Since the practice of CG principles affects the level, content and accuracy of the information that independent auditors will use for their audit reports, quality of auditor reports will increase

- The accuracy and quality of the reports made public by the CG companies will increase
- CG companies increase the possibility of reaching regular, reliable and comparable information for the shareholders and potential investors about management practices
- Since the IFRS helps facilitating auditing activities of companies, it increases the effectiveness of financial reporting
- CG model facilitates the development course of companies in analysis of financial statements
- CG contributes to protection of the interests of all stakeholders
- CG enterprises increase the possibility of providing lower cost and desired level resources

**Table 6:** According to Position

| | **Manager (9)** | | **CG Director-Chairman and board member (12)** | | **gen. Manager and vice manager (8)** | | **test p value** | |
|---|---|---|---|---|---|---|---|---|
| **variables** | **mean** | **st.deviation** | **mean** | **St.deviation** | **mean** | **st.deviation** | **anova** | **kwallis** |
| 1 | 4.111 | 0.928 | 4.250 | 0.754 | 4.750 | 0.463 | 0.203 | 0.180 |
| 2 | 3.778 | 1.302 | 3.833 | 0.835 | 4.500 | 0.535 | 0.230 | 0.202 |
| 3 | 3.778 | 1.302 | 4.000 | 0.739 | 4.500 | 0.535 | 0.267 | 0.289 |
| 4 | 3.444 | 1.236 | 3.333 | 1.155 | 4.125 | 0.835 | 0.280 | 0.293 |
| **5** | 3.333 | 1.225 | 3.750 | 0.622 | 4.375 | 0.518 | **0.052** | **0.055** |
| 6 | 3.667 | 1.225 | 4.167 | 0.577 | 4.250 | 0.707 | 0.312 | 0.490 |
| 7 | 3.556 | 0.726 | 3.667 | 1.155 | 4.125 | 0.991 | 0.469 | 0.374 |
| **8** | 4.333 | 1.323 | 3.667 | 0.492 | 4.875 | 0.354 | **0.011** | **0.001** |
| 9 | 3.778 | 1.202 | 4.167 | 0.718 | 4.500 | 0.756 | 0.273 | 0.291 |
| **10** | 3.556 | 1.130 | 4.667 | 0.492 | 4.750 | 0.463 | **0.003** | **0.005** |
| 11 | 4.000 | 1.323 | 4.500 | 0.522 | 4.625 | 0.518 | 0.278 | 0.549 |
| **12** | 3.778 | 1.093 | 4.333 | 0.492 | 4.625 | 0.518 | **0.069** | **0.063** |
| 13 | 3.889 | 1.269 | 4.333 | 0.492 | 4.500 | 0.535 | 0.290 | 0.508 |
| **14** | 3.778 | 0.833 | 4.250 | 0.452 | 4.875 | 0.354 | **0.002** | **0.003** |
| 15 | 3.667 | 1.323 | 4.083 | 0.515 | 4.625 | 0.744 | 0.107 | **0.070** |
| **16** | 3.556 | 1.236 | 4.250 | 0.754 | 4.750 | 0.463 | **0.030** | **0.041** |
| **total** | 60.000 | 13.323 | 65.250 | 5.987 | 72.750 | 4.334 | **0.019** | **0.005** |
| **reliability** | 32.889 | 8.433 | 36.917 | 3.502 | 41.000 | 2.777 | **0.017** | **0.005** |
| **quality** | 27.111 | 5.465 | 28.333 | 2.640 | 31.750 | 1.753 | **0.037** | **0.021** |

According to Aguilera (2005), corporate governance is a system which provides managerial control for legal arrangements to guarantee maximization of the value of various interest groups and shareholders. Masulis et al. (2012) show that, in a corporate governance system, corporate governance board and director had two important roles including monitoring the management and presenting recommendations to the management in strategic decisions of the enterprise. Klai and Omri (2011) find that there is a relationship between corporate governance and the quality of financial reporting in the enterprises in Tunisia according to the positions of the managers.

According to Table 6, based on Anova F test and Kruskal-Wallis tests **$H_4$** hypotheses should be accepted at p=%10 significance level. In other words, the reliability and quality of financial reporting within the scope of CG showed a significant variation according to management positions of the participating firms. In addition, considering p=%10 > 0,019 for Anova F test and p=%10 > 0,005 for Kruskal-Wallis test at p=%10 significance level makes the variables for the reliability and quality of financial reporting significant.

Thus, when compared to the general managers, chairman’s of the board, board members and corporate governance directors have a more prudential approach in terms of the following:

- Practice of CG principles increases the reliability of financial reporting in enterprises
- CG companies increase the possibility of reaching regular, reliable and comparable information for the shareholders and potential investors about management practices

It was found that chairman’s of the board, board members and corporate governance directors in the enterprises which are listed in BIST Corporate Governance index were found that show less participation in the following than the general managers:

- CG makes financial reports and statements more understandable, appropriate for needs, comparable and reliable,
- CG model uses the common financial reporting language with the IFRS and makes a positive impact on the reliability of financial reporting,
- CG model facilitates the development course of companies in analysis of financial statements,
- CG requires signing certificate of responsibility between the managers to ensure the accuracy and legality of all transactions, and thus the increase of reliability.

## 5. CONCLUSION

Different accounting systems prevent comparison of financial data of companies and a reliable financial reporting of these data due to the use of different accounting standards. This study analyzes the relationship between the reliability of financial reporting and type of

activity, number of employees, and activity year and management position of the enterprises listed in BIST Corporate Governance Index. It is concluded that intergroup participation to questionnaire is high; however the hypotheses for the type of activity and number of employees are rejected while the hypotheses for activity year and management positions were accepted.

The objective of this study report was to determine whether there is an association between reliability of financial reporting within the enterprise type, number of employees, firm activity year and management position. Using total firms' demographic data from listed companies in BIST Corporate Governance Index. These analyses consequently offer important insights than prior research on Corporate Governance Index. Firstly, for example, according to the enterprise type and number of employees in the participant firms, the findings suggest that there is a significant intergroup difference in terms of the reliability and quality of financial reporting. Thus, it can be stated that type and activity and number of employees are not intergroup determinative factors in fulfilling the corporate governance procedures and that these procedures are a factor of enterprise-specific strategic plan and objectives.

Finally, the empirical findings from this study suggest that operating in BIST corporate governance index firms have significant variation according to activity year and management positions of the participating firms. Thus, high intergroup participation from the enterprises listed in BIST Corporate Governance Index, having longer activity year to the questionnaire is important in terms of emphasizing the factor of experience. Furthermore, lower participation to the questionnaire among the chairman's, members and corporate governance directors than the general managers can suggest more prudent attitudes of CG directors since they are the actual executives of the CG process.

Significantly, the findings of this study have also shown that reliability of financial reporting within corporate governance has an influence on management positions. In this regard, one of the most important responsibilities of the management positions from a financial information users perspective is oversight of financial reporting. Because information users rely on financial reporting based covenants in corporate agreements, they can have concerns with management committee monitoring of the financial reporting process. Consistent with this idea, I suggest that management positions are a crucial important element of the financial reporting process.

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