UNIVERSITEIT GENT

FACULTEIT ECONOMIE
EN BEDRIJFSKUNDE

TWEEKERKENSTRAAT 2
B-9000 GENT
Tel. : 32 - (0)9 – 264.34.61
Fax. : 32 - (0)9 – 264.35.92

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Corporate governance, opaque bank activities, and risk/return efficiency: Pre- and post-crisis evidence from Turkey[1]

Olivier De Jonghe[2]

Mustafa Disli[3]

Koen Schoors[4]

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[2] Olivier De Jonghe, CentER, European Banking Center, Tilburg University, Warandelaan 2, Tilburg, The Netherlands. (o.dejonghe@uvt.nl).
[3] Mustafa Disli (Corresponding author), University College Ghent & Ghent University, Faculty of Business Administration, Voskenslaan 270, 9000 Ghent, Belgium (mustafa.disli@hogent.be).
[4] Koen Schoors, Department of Economics, Ghent University (koen.schoors@ugent.be).

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Corporate governance, opaque bank activities, and risk/return efficiency:

Pre- and post-crisis evidence from Turkey

Abstract Does better corporate governance unambiguously improve the risk/return efficiency of banks? Or does either a re-orientation of banks' revenue mix towards more opaque products, an economic downturn, or tighter supervision create off-setting or reinforcing effects? The authors relate bank efficiency to shortfalls from a stochastic risk/return frontier. They analyze how internal governance mechanisms (CEO duality, board experience, political connections, and education profile) and external governance mechanisms (discipline exerted by shareholders, depositors, or skilled employees) determine efficiency in a sample of Turkish banks. The 2000 financial crisis was a wake-up call for bank efficiency and corporate governance. As a result, better corporate governance mechanisms have been able to improve risk/return efficiency when the economic, regulatory, and supervisory environments are more stable and bank products are more complex.

Keywords corporate governance • bank risk • noninterest income • crisis • frontier

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