



European Bank
for Reconstruction and Development

**DEVELOPMENT OF A ROAD MAP FOR THE PROMOTION OF GENDER
DIVERSITY ON CORPORATE BOARDS IN TURKEY¹**

The Status of Women on Corporate Boards in Turkey
From “**PROJECT INCEPTION REPORT**”

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THE STATUS OF WOMEN ON CORPORATE BOARDS IN TURKEY

Overall Picture

Turkey's Corporate landscape is characterised by highly concentrated ownership, low floatation rates with legal rules and institutions that have given firms great flexibility to choose their governance practices. Access to finance is an important constraint on growth for many Turkish firms. Foreign investment – both direct and portfolio investment – is extremely important; foreign investors' share ownership in the last decade has been in the range of 62%-66% of the market capitalization of the Turkey stock market. IPOs are rare and local institutional investment industry is underdeveloped. Majority of the local investors in the stock market are individual day-traders.

Many Turkish firms are members of large, diversified business groups, most of which are controlled by prominent families. Business group membership affects firm-level governance and also influences market value, access to resources and profitability. Better governance can help firms achieve better access to capital but may also restrict the control powers of the dominant shareholders.

Corporate Governance practices of listed firms and banks are regulated by the Capital Markets Board (CMBT) and Banking Regulation and Supervisory Agency (BRSA). Commercial Code and Corporate Governance Principles issued by the CMBT include both mandatory and voluntary principles. Principles apply to companies specified by CMBT as Group 1 and Group 2 and Group 3 companies.² Listed companies must have a board of directors (hereinafter also "board") consisting of at least 5 members. At least 1/3 of the board members - a minimum of 2, must be independent from the management and the controlling shareholders, for those companies that the Principles apply. Independent board members can serve a maximum tenure of 6 years before disqualifying for independence. Boards must set up an Audit Committee, Corporate Governance (CG) Committee and Early Detection of Risk Committee. Audit Committee must consist of independent members and chaired by an independent member whereas the independence requirement for other committees is limited to the chair of the committee. Nomination Committee and Compensation Committee are also mandatory, but their responsibilities can be delegated to the CG Committee.

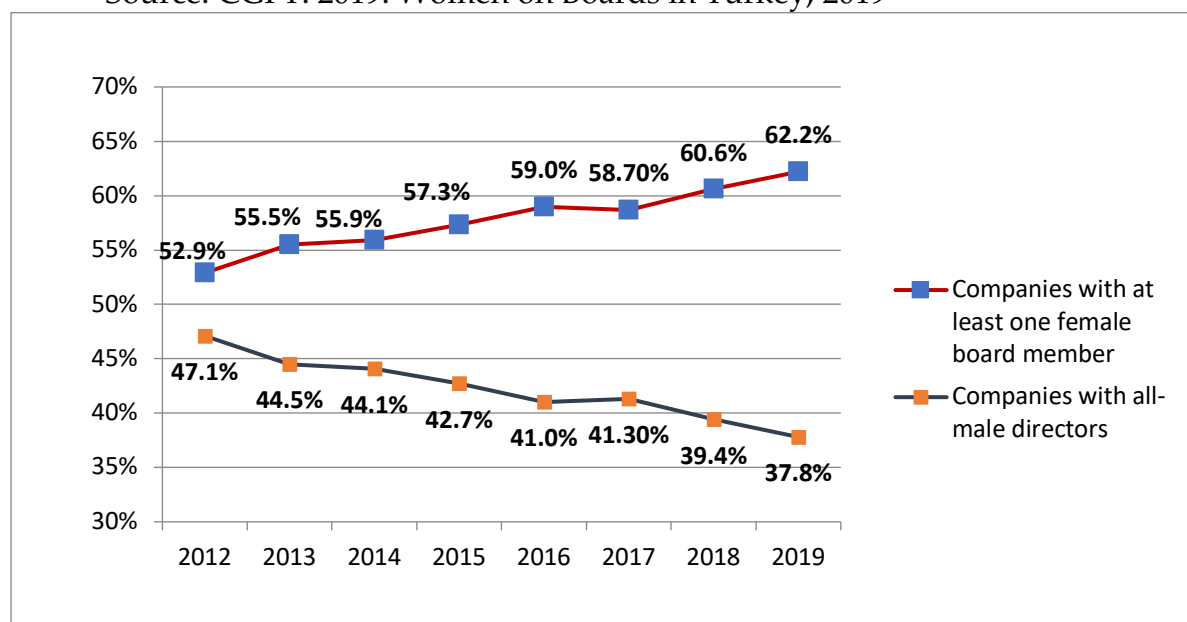
There are no mandatory requirements about the gender composition of the boards. CG Principles recommend a minimum of 25% women on boards and require

² Companies are classified into three groups every year by CMBT with respect to their marketcap and the total value of their trading shares. These groups have differentiated obligations with respect to complying with the Corporate Governance Principles. Principles do not apply to companies whose shares are not traded in BIST or are in the Watchlist.

that companies set a target percentage of women on boards no less than 25%, and a target date to achieve. As with other non-mandatory parts of the CG Principles, this provision, which was introduced in 2012, is to be applied on a “comply or explain” basis. As of 2018, only one company had disclosed both a target percentage and a target date for including women on their boards (CGFT, 2018).

Sabancı University Corporate Governance Forum (CGFT) has been tracking the status of representation of women on the boards of companies listed on Borsa Istanbul (BIST), since 2012. According to the forthcoming “Women Directors in Turkey, 2019” report by CGFT, the percentage of women on corporate boards has increased from 11.5% in 2012 to only 15.9% in 2019 despite CMBT’s recommendation that boards should target a percentage of at least 25% women. In 2012, 47.1%, of all BIST companies had male-only boards. This figure was decreased to only 37.8% in 2019 corresponding to 152 companies with all male boards as shown in Figure 1 below.

Figure 1: Percentage of BIST companies with and without female members
 Source: CGFT. 2019. Women on Boards in Turkey, 2019



In Turkey families control majority of listed companies most of which are organised in business group structures with a holding company at the apex. In 2019, out of 2734 board seats, 29% were occupied by male or female members of controlling families. While only 22% of all male directors are family affiliated, 43% of all female directors are members of controlling families. This means that only 246 women were able to break the glass ceiling corresponding to 9% of all board seats.

Due to the direct presence of controlling shareholders, corporate boards in Turkey are entrenched. Because non-independent board seats are mostly given to members of the families, the only entry point for outsiders, including women non-

family members, is through appointments to independent director posts. Accordingly, independent female director appointments have been the main source of the marginal increase in gender diversity in company boards. This is reflected in the figures; while only 7,7% of all independent directors were female in 2012, this ratio is increased to 17.6% in 2019. Women in executive director roles are uncommon. Only 77 women constituting 2.8% of all directors are executive directors. This figure was only 52 in 2012. Figure 2 and 3 below presents the marginal increase in the percentage of women on boards and their breakdown since 2012 when board independence is regulated and gender diversity is recommended by the CMBT.

Figure 2: Percentage of Female Directors on Boards (2012-2019).

Source: CGFT. (2019). Women on Board in Turkey, 2019

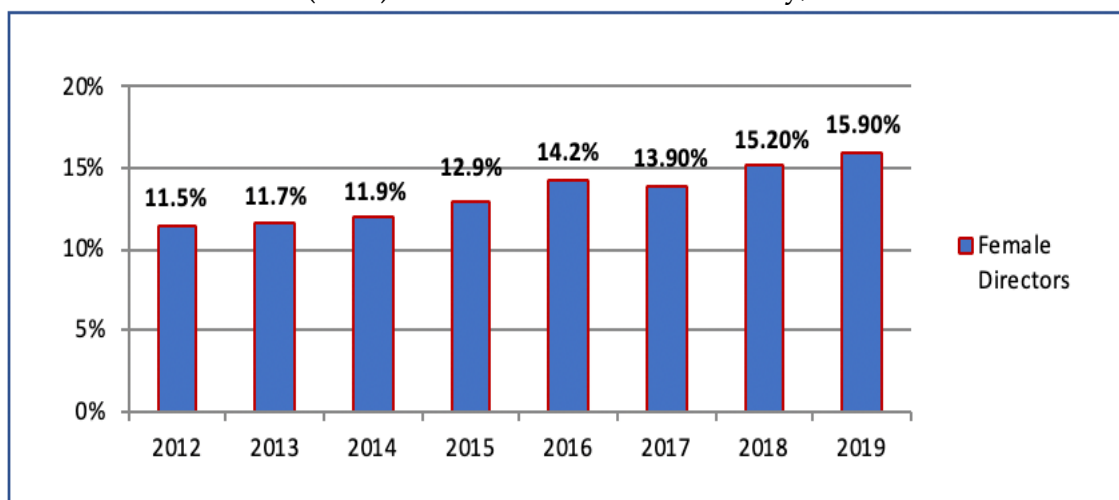
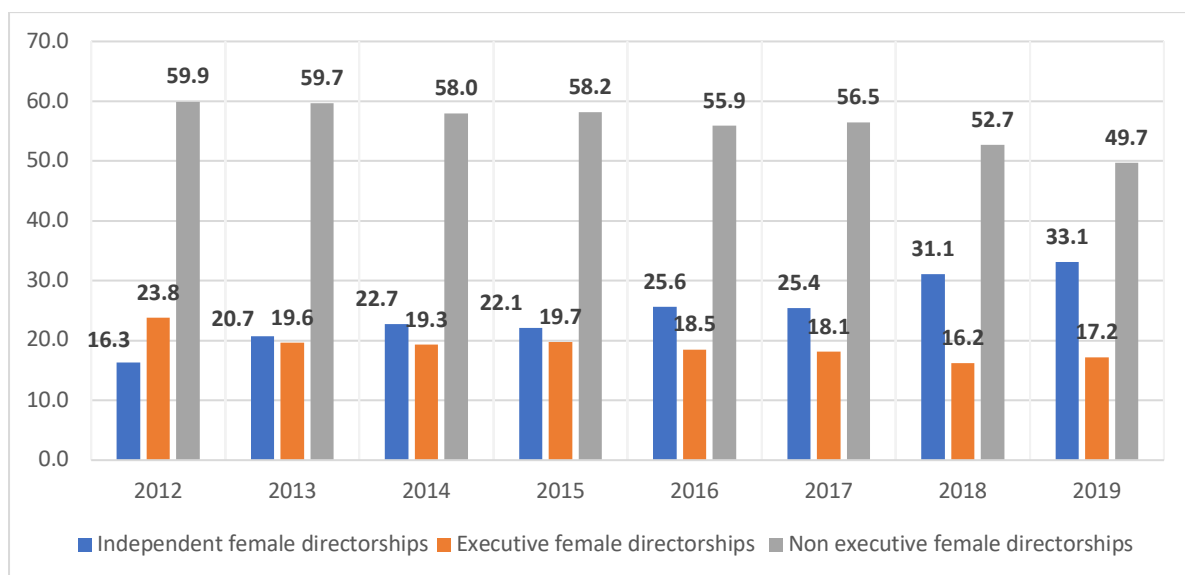


Figure 3: Percentage Breakdown of Female Directors in BIST Companies

Source: CGFT. (2019). Women on Board in Turkey, 2019



As seen in Figure 3, the main entry point for women into boards is through independent directorship positions. Percentage of women in CEO or Board Chair roles is lower. Only 39 companies, out of 402, have a chairwoman. 29 of them are members of the controlling families. The number of female CEOs is as low as 14, corresponding to 3.5% of all companies.

Women were marginally more likely to be appointed to board committees in 2019 compared to men. The percentage of female committee members is 16.3%, slightly higher than 15.9%, the average percentage of women on boards and close to the percentage of women among independent directors at 17.6%. More than 80% of all independent woman directors have a seat in Audit Committees. The percentage of female chair of Corporate Governance and Audit Committees are similar to the percentage of female members in those committees. These figures suggest that women are not discriminated once they are on the committees. Recent research shows that women's presence in Audit and CG Committees have a significant positive effect on firms' financial performance and sustainability disclosure (Ararat, Yurtoglu, 2019; Ararat, Sayidy, 2019)

This slow progress in boards' gender diversity in Turkey is remarkable when one considers the number of initiatives that promote gender diversity in corporate boards domestically and around the World. It is also surprising when one considers Turkey's egalitarian educational system which facilitates roughly equal number of men and women to be accepted to tertiary education through central placement exams. The problem seems to be the *leaking pipeline*. It is not possible to identify at what point disparity takes off since there are no disclosure requirements for gender diversity in companies at any level.

Reasons for Low Gender Diversity in Boards

A search meeting held by CGFT in 2018 with the participation of male directors who sit in all male boards aimed to identify the reasons for the low board gender diversity figures in Turkey. The discussions revealed that the main obstacle for gender diversity is board entrenchment. CGFT statistics show that Board members rarely change in Turkey since family members and affiliated directors are more or less permanent members of the board. The only means of refreshing the board is through appointment of new independent directors, however; most independent directors serve until they reach the tenure limit of 6 years before they disqualify for independence. Even then, frequently, the companies request an exemption for the tenure limit from the regulator and the exemption is generally granted. Some independent directors move from one subsidiary to another within the same business group as trusted outsiders although their independence from controlling shareholders is compromised after 6 years for the whole business group controlled by the same

shareholder. CEOs change more frequently but about 30% of the companies do not include their top executive in the board.³

The search meeting discussions revealed that one other reason for low diversity is male-only business networks. Simply put, in a male dominated business elite circle, men know men. Female candidates are less known or not known at all to controlling shareholders and this creates a problem of trust. A follow up search meeting was organised by CGFT in October 2019 with the participation of 25 independent female directors to develop an insight into the nomination process. Participating directors were asked to explain how they were selected for nomination. It was not surprising that none of them was selected through a professional search and none had a formal orientation program when they joined the board. The participants unanimously agreed that the most important criterion for their nomination was previous relations with the company or the shareholders that helped to build trust.

A third problem arises from multipoint competition between diversified business groups in Turkey. Due to this broad base competition, the controlling shareholders do not give permission to their executives to serve as independent board members in companies that are affiliated with a competing business group or a company that may be a current or potential competitor. This structure results in a pool of independent directors who are either retired from executive roles or have chosen a career in consultancy. The discussions around this topic have also pointed out that the controlling shareholders don't consider board experience a valuable attribute of their executives since most boards are ineffective organs which basically fulfill the statutory requirements.

Overall, the empirical and anecdotal evidences reveal the fundamental issues around the role of the boards in Turkey. In business group organisations that prevail in Turkey, key decisions about the subsidiaries are made at the parent /holding level. Some business groups establish group wide committees (frequently called Holding Executive Committee) whose members include the executive chairmen of the subsidiary companies. Strategic decisions made at the parent level are then conveyed to the subsidiaries through the members of the committee. Investment and financing decisions, decisions about mergers and acquisitions, appointment of board members and the CEOs are made at the parent level. This practice suggest that the parent board, or a parent level body, effectively acts as the board of subsidiary companies. In this setting, subsidiary boards are largely rubber stamping organs.⁴

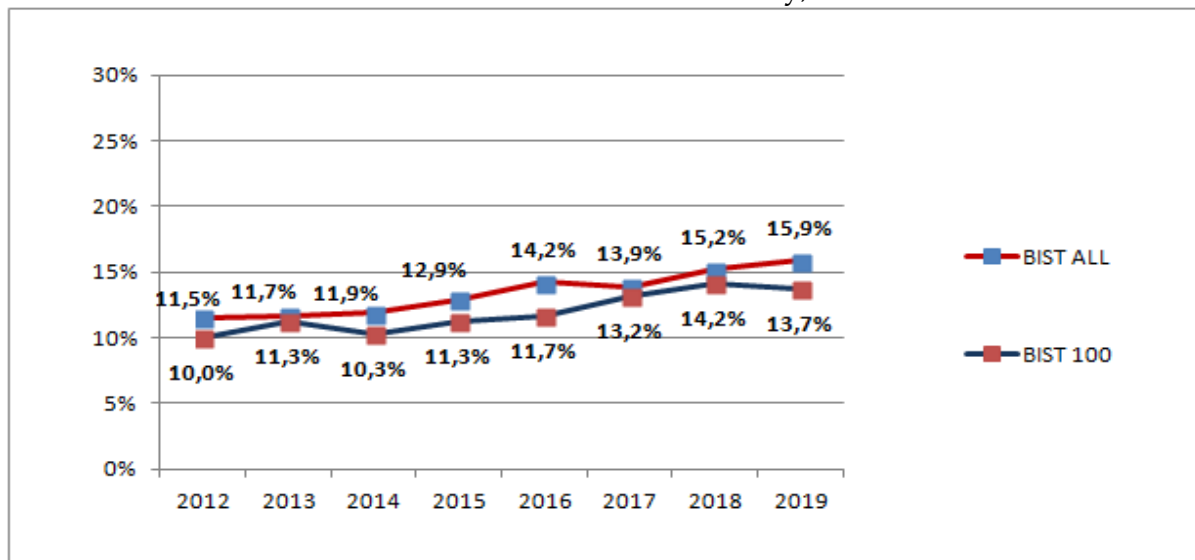
³ Regulations only require the banks to include their CEO in the board.

⁴ For a discussion on business group level governance please refer to: Ararat, M. Black, B. S. and Yurtoglu, B. "Corporate Governance, Business Groups, and Market Value: Time-Series Evidence from Turkey" (June 11, 2014). Northwestern Law & Econ Research Paper No. 13-19; Available a SSRN: <https://ssrn.com/abstract=2277768> or <http://dx.doi.org/10.2139/ssrn.2277768>)

Largest companies that are older and constitute BIST-100 index are worse diversity performers with lower ratios of women on boards. Figure 4 below presents the differences between percentage of women in BIST-100 companies and the percentage of women in all BIST companies.

Figure 4: Comparison of BIST -100 and all BIST companies companies

Source: CGFT. 2019. Women on Boards in Turkey, 2019



Above analysis suggest that strategies that aim to improve gender diversity in corporate boards should also focus on the pipeline to understand at what point and for what reasons women leave the workforce or stay behind. Women in senior management are potential board directors. Supporting these women to enhance their capabilities and their visibility may be an effective route to increasing gender diversity in corporate boards. Data availability is an issue. The Roadmap may include efforts to deal with this issue in cooperation with 30% Club who is working on developing a Gender Disclosure Project.

There is no data on whether female members of controlling families are given equal opportunities as their male counterparts to develop their skills and competencies to participate in business and in board level decision making. If there is evidence that female members are discriminated, the Project may also want to adress this as an issue since female family members may also add to the diversity of the boards and have a cumulative effect by promoting professional women to be nominated.

International experience demonstrate that the fastest improvements in board gender diversity happens through legal quotas (e.g. Norway and France) or where the government plays an active role in advocacy and supports voluntary initiatives (e.g. 30% Club in the UK). In others, the driving force seems to be commercial ratings which are used in building indices and financial information intermediaries (e.g. MSCI and Bloomberg).

Legal and Regulatory Framework

Company Law and Capital Markets Law

The Company Law (TTK, 2011) mandates all joint stock companies to have a board (minimum one member), but it is silent on its composition and the qualifications of directors. Companies however can bind themselves with rules in their articles of association. Company Law refers to Capital Markets Law and Banking Law as the further governing legislation for listed companies and banks.

Capital Markets Law requires that the board consists of at least 5 members and authorizes the CMB as the regulator of board and board membership matters. Accordingly, the decree issued by CMB in 2014, the majority of the board members must be non-executive directors. CMB classifies listed companies into three groups and further requires that 1/3 of the board members of the first and second group of companies must be independent. The third group of companies must have at least 2 independent board members. Banking Law also requires that the bank boards are composed of at least 5 members and the CEO is a natural board member with a relevant university degree and 10 years of professional experience. Insurance Law has similar requirements. There is no legal requirement for gender diversity or representation of women on boards.

Corporate Governance Principles

CMB's Corporate Governance Principles include both mandatory and recommended principles. In 2014, CMB has introduced a new principle related with representation of women on boards. Accordingly, companies are recommended to set a target ratio of women no less than 25%, set a target date to reach the target ratio and develop policies to achieve these targets. The principles also recommend that the companies assess their progress annually.⁵ Compliance with recommended principles is not monitored and disclosure of non-compliance is not enforced.

Eleventh Development Plan

Eleventh Development Plan (2019-2023) has set tone of its primary goals as eliminating all forms of discrimination against women and ensuring that they exercise all the rights and opportunities equally. Accordingly it defines a number of policies to this end including participation of women in decision making mechanisms in all spheres of life including economic life; launching projects and offering training to strengthen women's participation in economy; supporting woman entrepreneurs by offering advisory services and developing methods to create awareness and incentives for "private sector to have a higher ratio of women in management and decision making bodies". The plan also sets targets for

⁵ A survey conducted by CMB and CGFT in 2017 revealed that only one company had set both a target date and a target ratio for gender diversity in their boards

increasing women's participation in the workforce from 34.2% in 2018 to 38.5% in 2023. No targets are set for ratio of women in management or decision-making bodies probably because there is no base line data. The Plan also aspires to improve the status of women in the society.

Government

In 2017, the government considered introducing legally binding quotas for women on corporate boards. The presidential referendum has crowded out the political agenda and led to changes in the state organization, hence no concrete steps were taken.

Ministry of Family, Labour and Social Services

The Ministry (formerly named as Ministry of *Women* and Social Policies) has been an active supporter of women empowerment over the years, however the emphasis has shifted to the role of women in family recently which is reflected in replacing the word "women" with "family" in the name of the ministry. In 2018, the Ministry has published a Strategy Document and Action Plan for Empowering Women. The Document included a target date of 2022 for a quota for one woman on corporate boards and specified CMB as the institution that they would work together to realize this target.⁶

The Union of Chambers and Commodity Exchanges of Turkey (TOBB)

With a board consisting of 21 male directors, TOBB has not been an active contender in this space. A separate Women Entrepreneurs Board focuses on gender issues.

BIST Sustainability Index: BIST Sustainability Index is built upon the scores assigned to BIST 100 companies according to the criteria set by EIRIS-Vigeo. The criteria include gender diversity in boards but has no significance in the final scoring. EIRIS-Vigeo's new methodology that will be used as of 2020 in Turkey as well if they continue to serve BIST includes more comprehensive criteria on gender diversity including percentage of women on board, in C-suit positions, in management, and the existence of a gender diversity policy.

Civil Initiatives

Independent Women Directors Project (IWD)

IWD project has been initiated by CGFT together with EZ to collect, analyze and report data on women on board in Turkey and develop a database of board qualified women. For details, see CGFT in this report.

⁶http://www.sp.gov.tr/upload/xSPTemelBelge/files/RySPo+KADININ_GUCLENMESI_STRATEJI_BELGESI_VE_EYLEM_PLANI_2018-2023_.pdf

Association of Women on Boards (Yönetim Kurulunda Kadın Derneği)

Established in 2017, YKKD focuses on mentoring women with the objective of placing them on corporate boards. Companies become institutional members and propose a mentor and a mentee. The association matches mentors with mentees. YKKD also offers training and certification to mentees. Many mentees are appointed to NGO boards or unlisted company boards.

30% Club Turkey Chapter

30% Club Turkey Chapter is launched in 2017 as a spin off from IWD project by CGFT. Its activities are coordinated by CGFT and governed by a Steering Committee consisting of the representatives of founding members. In 2019 it had approximately 40 members. It aims to increase the percentage of women on boards to 30% by 2025 and target zero all male boards in BIST-100.

Women Corporate Directors (WCD) Turkey Chapter

The chapter was initially very active, but activities suspended recently since the President of WCD was appointed to the Economic Policies Board. A change in leadership is expected.

United Nations Global Compact Turkey Network

The GC Turkey Network is the most effective GC Network in the region. Its president is also the country leader of 30% Club. The board has identified Gender Equality as one of the key areas of focus for 2019-2022.

UN WEPs Turkey Signatories

The group has been very active under the coordination of GC Turkey Network until recently when WEPs has been assigned to UN Women. Many members are also GC members.

Association of Women Entrepreneurs (KAGIDER)

The association is a not for profit company and an influential organization. They have been supportive of all gender equality initiatives. Its membership base is a source of female directors.

Association of Women Returning to Work (Yeniden Biz)

The successful NGO focused on supporting women returning to work after a break. The President is an Egon Zehnder partner.

Turkish Win

A network initiative of educated Turkish women and female university students around the world. It has developed a number of programs very successfully using social media effectively.

KADEM

A women's rights and support association with a focus on women's role in the family.

Professional Women Network (PWN) Turkey Chapter

Turkey chapter of a European Network. Members are potential directors.

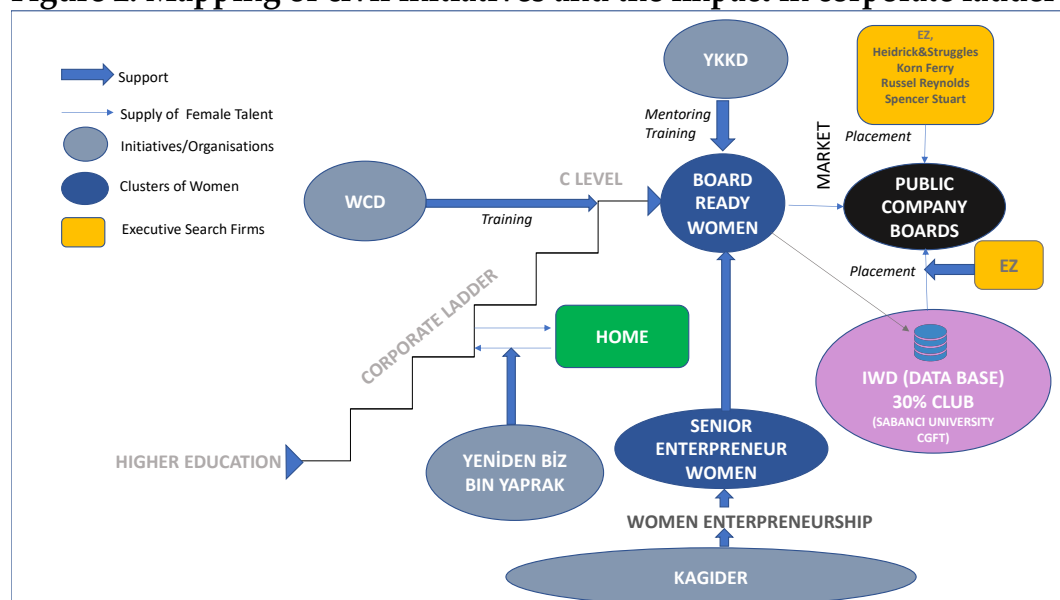
Association of Men Supporting Women (Yanındayız)

Association aims for gender equality by activating men's participation in the discussion, founded by the x-spokeswoman of UN Women in Turkey. The members are men in good standing in Turkey.

Executive Search Firms (signatories of a joint declaration)

Executive search firms have shown interest in increasing gender diversity in corporate boards and management levels primarily because it represents a new source of income for them as well as being a social cause. Egon Zehnder has been most active in this field and has led the efforts to create a code of conduct to prevent unconscious biases in identifying candidates and making sure that a gender balanced list is presented to their clients. The code of conduct is signed by Korn Ferry, Russel Reynolds, Spencer Stuart and Heidrick and Struggles in addition to Egon Zehnder.

Figure 2. Mapping of civil initiatives and the impact in corporate ladder



Abbreviations:

AFD	: Agence Française de Développement
BIST	: Borsa Istanbul
CGFT	: Sabancı University Corporate Governance Forum
CMB	: Capital Markets Board
FMO	: Dutch Development Bank
IFC	: International Finance Corporation
IWD	: Independent Women Directors
KADEM	: Women and Democracy Association
KAGİDER	: Women Entrepreneurs Association
SI	: Sustainability Index
TKYD	: Corporate Governance Association of Turkey
TOBB	: Turkey Chambers of Commerce and Commodity Exchanges
UN GC	: United Nations Global Compact
WCD	: Women Corporate Directors
YKKD	: Women on Boards Association