



The Board of Directors Barometer of Türkiye 2022



BAIN & COMPANY 

The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

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The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

Information on the Board Directors Association (YUD/BDA) and Bain & Company

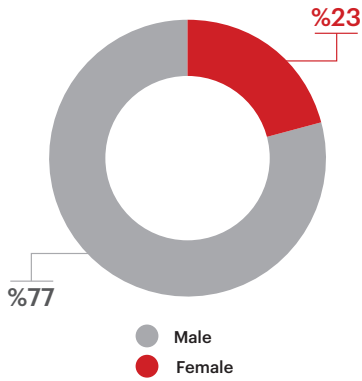
The Board Directors Association (YUD/BDA)

The Board Directors Association (YUD/BDA) was established in December 2017 to become an “active and professional board of directors organization for sustainable growth.” YUD/BDA emphasizes the increasing importance of active boards based upon the framework of “Corporate Governance and Sustainability” and carries out related activities.

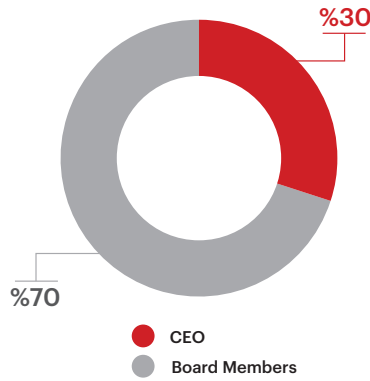
YUD/BDA aims to develop key competencies such as the composition, agenda, authority to create and operate committees, and the capacity to evaluate risks or opportunities, as well as the transparency and accountability, and sustainable growth of the boards of directors authorized to determine the fate of a company. All individual members of YUD/BDA are CEOs and Board members. Corporate membership also became valid as of January 2022.

Some indicators of YUD/BDA as of August 2022 are as follows:

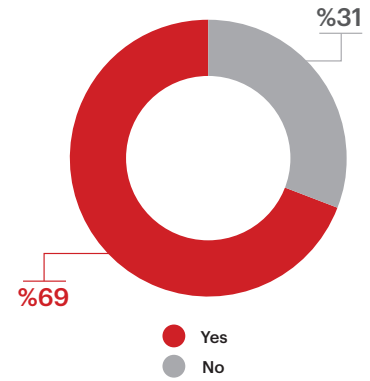
Female/Male Member Rate



CEO / Board Member Rate



Members with Family Business Experience a



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The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

Foreword

Mehmet Sami –Board Directors Association (YUD/BDA)

The rules of the game are changing; there is no perfect model yet, but significant work is being done toward improving global standards

In recent years, companies and their shareholders in western countries have begun to realize the tangible benefits and advantages of corporate governance. It is becoming increasingly important to position well and establish trust in the eyes of corporate and social stakeholders. However, trust does not develop on its own. Two main factors encourage this: First, the authorities, such as regulators of the capital markets continue to evolve and develop important legal regulations pertaining to corporate governance. Secondly, institutional investors have now begun to examine and measure the performance of companies according to these rules, and can apply discounts or premiums that impact company valuations accordingly.

The transition from corporate governance to ESG

Increasing climate change awareness is also mobilizing regulators and investors. Given the data from the Intergovernmental Panel on Climate Change (“IPCC”), of which 195 countries are members, experts clearly state that “it is time to act, not to talk.” In this context, the work done by companies is evolving from corporate governance to a broader framework, namely Environment, Social, and Governance (“ESG”), which includes environmental and social factors, and in which stakeholders also have a say. Non-financial alongside financial results are now important in the reporting of institutions and are expected to become increasingly significant. Many standards/frameworks have been formulated over time regarding ESG reporting. The process itself was institutionalized by the 17 main Sustainable Development Goals (SDGs) drafted by the United Nations. However, a perfect global standard that can readily be evaluated has yet to be established.

Global standards are on the way

The IFRS (“IFRS”) Foundation, a leading financial reporting provider, announced the establishment of the International Sustainability Board at COP26 in 2021. The board aims to develop a comprehensive global sustainability reporting standard for financial markets called the IFRS Sustainability Disclosure Standards.

...So let’s not be caught out

In an interconnected world, regulatory changes - whether voluntary or imposed - will change the preferences and valuation criteria of credit and investment institutions. As the investment landscape changes, companies cannot ignore the fact that the rules of the game are changing too. What happens next depends on Board Directors’ ability to address and embrace the related risks and opportunities. In order not to be caught unprepared for the future, companies must establish their ESG strategy at the Board of Directors level and grasp (or provide oversight for the) ESG governance within their organizations.

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Volkan Kara – Bain & Company

The increasing risk of “de-globalization,” in addition to recent events such as Brexit, Covid-19, and most recently, the Russia-Ukraine war, affects the economy and order that Türkiye and the world are part of; and can create uncertainties that are difficult to predict. In addition to these uncertainties, companies are also affected by macro trends such as the evolution of ecosystems, the future of data analysis, and sustainability, which we can also call slow-burning disruptions. All these uncertainties and macro trends increase the importance of correctly structured, effective, and transparent boards of directors to manage better the elements that can seriously impact companies.

In this uncertain environment, we have conducted a joint study with the Board Directors Association (YUD/BDA) to measure the pulse of the boards of directors in Türkiye, to understand their agendas, and to identify areas of change and improvement.

The Board of Directors Effectiveness Score, which enables us to measure the effectiveness of the boards of directors, is being used for the first time as a result of this valuable study and will be enlightening in terms of the effectiveness of the boards of directors over the coming years.

In light of the study, the two most important headings are correctly selecting the agendas of the boards of directors and their structuring according to the right operating models. While sustainability stands out as an issue to which boards of directors devote relatively little time, and “it is believed that more time should be allocated,” the “European Green Deal and carbon tax are identified as issues to which the least amount of time is dedicated by the board of directors.

Another item that emerges as an area of development is the diversity of board members and the breadth of their experience. It is observed that diversity can increase regarding gender, age, competencies, and especially regarding the board members’ different sectoral and international experiences.

I hope that the “The Board of Directors Barometer of Türkiye,” a collaborative study prepared by the Board Directors Association (YUD/BDA) and Bain & Company, will prove useful in measuring the board of directors’ effectiveness and determining the future vision. I wish to express my gratitude to all the board members who participated in our study and to the Board Directors Association (YUD/BDA) management. I also would like to thank my teammates for their contributions.

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Executive Summary

Due to the political, economic, and social transformations that have gained momentum in today's world compared to previous years, the responsibilities of boards of directors and their impact on their companies are increasing. Especially over the past decade, one can categorize the increasing number of uncertainties faced by executives under three main headings: black swans, slow-burning disruptions (disruptions that increase their impact in time), and local uncertainties.

Board of Directors Effectiveness Score

The Board Directors Association (YUD/BDA) and Bain & Company conducted a comprehensive survey for the first time in Türkiye in June and July 2022 to evaluate the effectiveness of the boards of directors of companies operating in Türkiye with the participation of nearly 100 board members and CEOs working in publicly listed and family-owned companies.

The Board of Directors Effectiveness Score in Türkiye was measured at 3.6 on a scale of 1-5. It is planned for this study, and the evaluation method applied, to be carried out regularly every year. This will enable a roadmap to be developed by monitoring the board of directors' effectiveness over time.

One of the critical outcomes is that while the boards of directors consider themselves sufficient in terms of "strategic, financial, and operational" aspects to create value and work effectively with senior management, the main emerging improvement area is "determining succession planning."

Future-Ready Board Agenda

Topics on which the least and the most time is spent: Covid-19 is among the three most talked about topics for only 3% of the boards of directors. The issues that the boards of directors spend the least time on are sustainability (EU Green Deal and carbon tax), social contribution, and game-changing innovation. It is observed that the topics on which the boards of directors spend the most time are the financial and operational performance of the company.

Investment topics: Sustainability-focused investments is the leading investment theme on the agenda, surpassing traditional growth-centric investments.

Employment plans: We note that most companies plan to keep employment stable or do not specify a target in this regard. We believe there may be a reactive "wait and see" approach taken in the face of current uncertainties, despite the growth of the Turkish economy.

Risks awaiting companies: Recent global problems, such as the increase in energy, food, and commodity prices and supply chain issues, along with local economic, sectoral, and political uncertainties, significantly affect the risk perception of boards of directors.

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Sustainability: Although over 83% of companies discuss sustainability at a board level, only 12% have a dedicated sustainability function.

Cybersecurity: Cybersecurity is on the agenda at the board level in four out of five companies.

Boards of Directors Operating Model

Diversity of board members (gender, age, competencies, etc.) is among the lowest scoring axes.

Structuring and Processes: Risk committees are present in three of every four companies, while 6% have no committees.

Leadership and Culture: Financial services have the lowest “leadership and culture” scores, while wholesale and retail trade, hospitality, and food services are the sectors with the highest scores.

Key takeaways

Our main conclusions as a result of the study are as follows:

- ▶ The rules of the game are changing. Although there is no ready-made model as yet to increase boards of directors’ effectiveness and establish trust in the eyes of the stakeholders, important studies are underway to improve global standards.
- ▶ The transition has begun from merely corporate governance to an Environment, Social, and Governance perspective.

The following point is important for sustainable boards of directors:

An active, transparent, accountable, and ESG (Environment / Social / Governance) compliant board of directors can only be formed through the gathering of individuals competent in their areas of expertise with the right composition, the ability to set the right agenda, the authority to form and operate committees, and the capacity to evaluate risks or opportunities.

Survey Participants

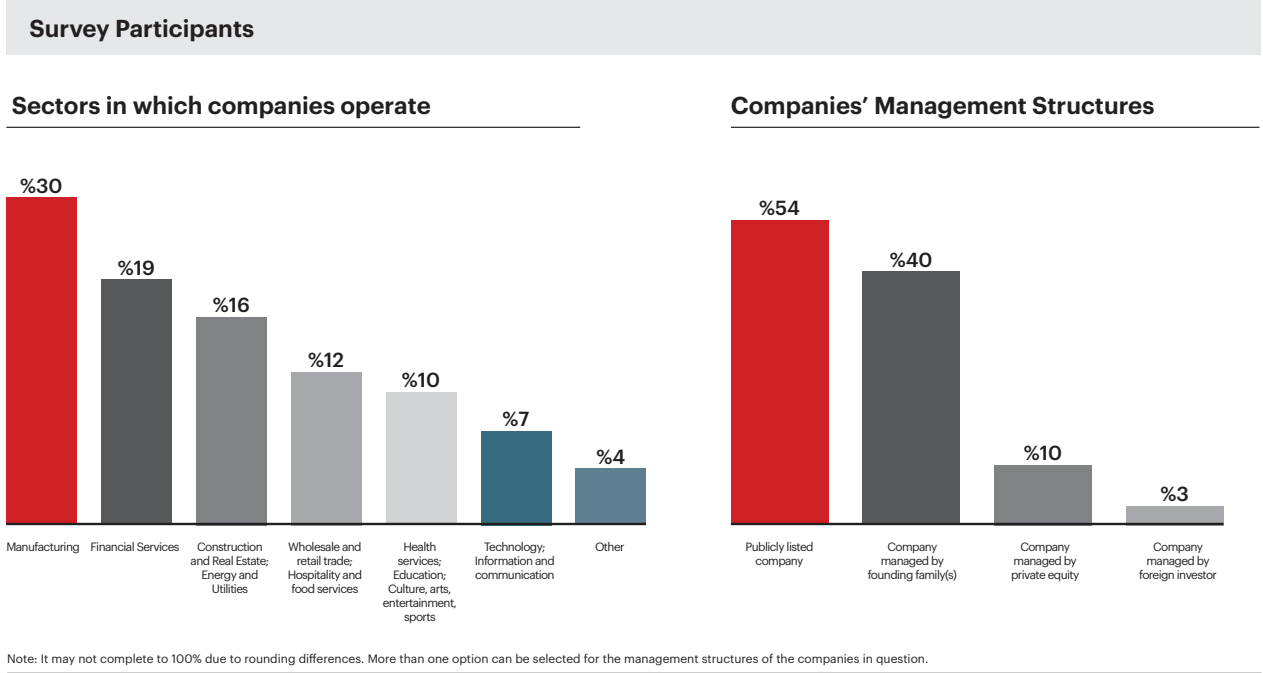
Of the companies participating in the survey, 54% are publicly listed companies, while 40% are family-owned.

30% of the participating companies operate in manufacturing, 19% in financial services, 16% in construction and energy, and 12% in the wholesale and retail trade.

The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

Figure 1:

The characteristics of the companies that the survey participants serve on their boards of directors are given below.



Methodology and Purpose of the Study

As the Board Directors Association (YUD/BDA) and Bain & Company Türkiye office, we conducted a pioneering and comprehensive survey with the board members and CEOs of Türkiye's leading publicly listed and family-owned companies to understand better the agendas and operating models of boards of directors, whose correct functioning is increasingly important today. Within the scope of this study, the effectiveness of the boards of directors was observed based on two perspectives:

1. How effective are the boards of directors in setting their agendas?
2. Can the boards of directors achieve sufficient effectiveness in both their internal processes and in directing senior management?

Within the scope of the survey, we also examined the effects of current issues on the decision-making mechanisms of the boards of directors and how they affect boards' agendas.

After sharing perspectives on the Changing World and Uncertainties in the first part of the report, in the second part, we measured the effectiveness of boards of directors in Türkiye through the "Board Effectiveness Score." While the third part presents conclusions on the agendas of the boards of directors, the fourth part touches on their operating models. In the epilogue, we have summarized the questions that the boards of directors may wish to look into.

We aim to observe the results by conducting the study regularly every year and monitoring the boards of directors' performance.

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Chapter 1- Changing World and Uncertainties

Political, economic, and social transformations have gained momentum in today's world compared to previous years. Due to the uncertainties created by these transformations, predicting possible future outcomes is becoming increasingly difficult. And with these increasingly large-scale transformations and uncertainties, the responsibilities of boards of directors and their impact on the organizations are increasing.

It is possible to monitor the increasing number of uncertainties executives face, especially over the past decade, under three main headings: black swans, slow-burning disruptions, and local uncertainties.

1. It is difficult to make projections about the future effects of “**black swans**”¹. Examples of black swan incidents include conflicts between countries, civil unrest, public health and environmental threats, financial crises, and trade conflicts.
2. **Local uncertainties** are political and economic uncertainties that occur in countries or particular regions.
3. Underneath **slow-burning disruptions** (disruptions that grow and increase in impact over time) are the topics that fundamentally affect business models: future customers, the evolution of the ecosystem, old and current competitors, sustainability and macro trends, and deciphering the future of data, costs, and competencies of the future.

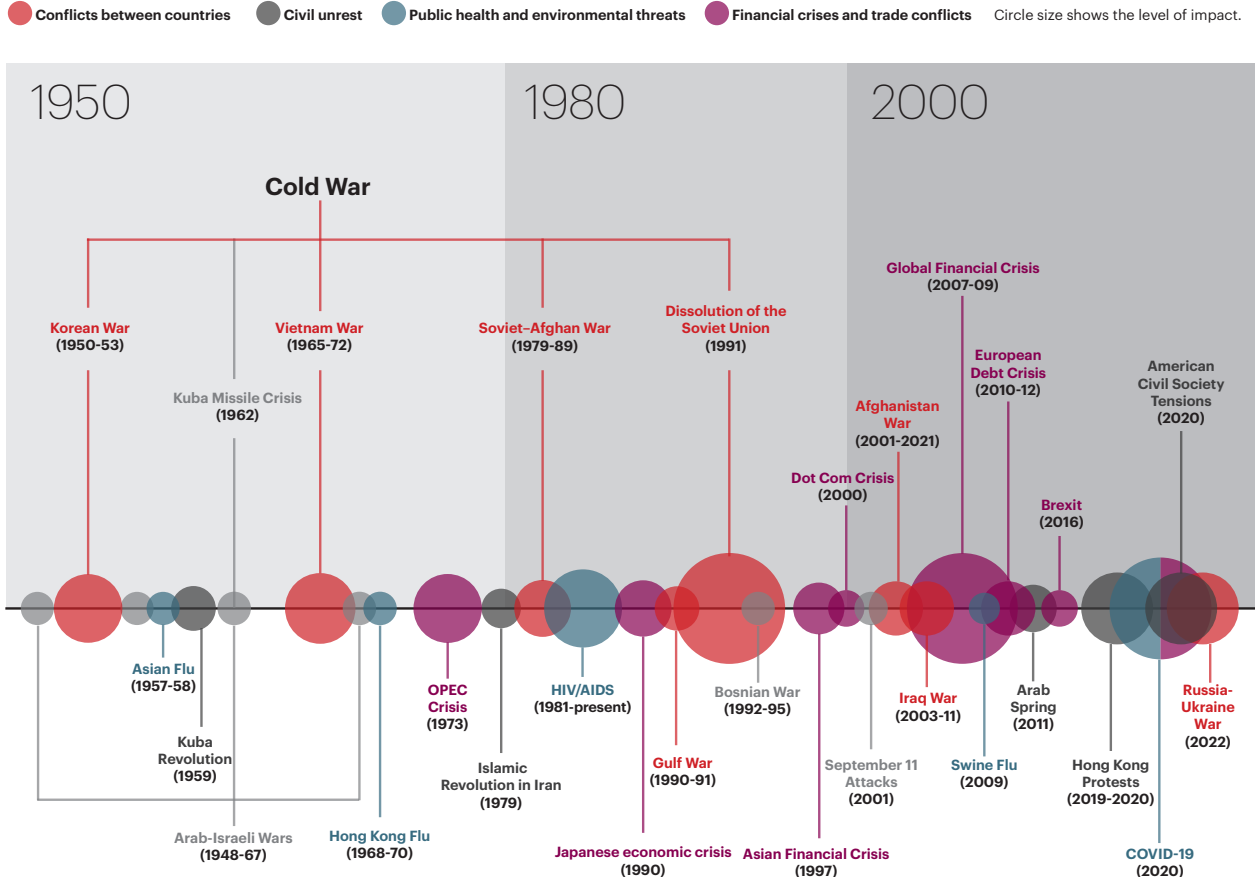
Over the past 20 years, the frequency and impact of global uncertainties have been steadily increasing. In the 2020s alone, there have been three major events with severe impacts: the Covid-19 pandemic, the Russian-Ukrainian War, and the Black Lives Matter protests. When the frequency of the destructive events from the late 1940s to the present day is examined, it appears inevitable for current board members to face greater challenges and uncertainties than their predecessors.

¹ The impact that occurs when an unexpected, improbable situation arises is called the “Black Swan Effect”. The Covid-19 pandemic, which emerged in December 2019 and continues to affect today, is an example of a recent black swan effect affecting a large community worldwide.

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Figure 2:

Over the past 20 years, the frequency and impact of disruptive events have been steadily increasing.



Looking at the areas where the business world can have more influence, it is seen that slow-burning disruptions are strategically more plannable compared to other headings and that preventive actions can be taken here. The following topics stand out from an examination of the slow-burning disruptions:

1- Future customers: Today, the demand for personalized products and services is increasing. Resolving problems that customers face throughout their experiences will become even more important in the future. This will be possible by planning all stages, including product development and delivery, in a customer-oriented way that contributes positively to the customer experience.

- ▶ While the number of Facebook users was 350 million in 2010, the number reached 2.5 billion in 2019.
- ▶ While there were 71 thousand smartwatches in Türkiye in 2016, the figure is estimated to have reached 1 million by 2026.

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2- Evolution of the ecosystem: The presence of intertwined products and services in the markets, the establishment of innovative platforms for customers, and the increased movement towards a sharing economy show that the ecosystem is evolving.

- ▶ The revenues of Amazon Web Services were at just \$500 million in 2010; this increased seventy-fold to \$35 billion in 2019.
- ▶ Two hundred and eight million e-commerce (excluding quick commerce) orders were placed in Türkiye in 2016. According to projections, there will be 1.3 billion orders in 2025.

3- Cost and competencies of the future: With technology and automation becoming easily accessible, internal asset optimization and external asset sharing are becoming increasingly important. This changes the set of capabilities that must be possessed.

- ▶ While the cost of electric vehicle batteries per KW/hour was \$1,000 on average in 2010, the cost declined to as low as 158 dollars in 2019 due to R&D investments and technological advancements.

4- Sustainability and macro trends: With increasing ecological awareness and evolving new regulations (e.g., the Green Deal), sustainable production and business models have become necessary.

Inclusivity and diversity in work environments are among the new focal points of companies and, at the same time, among the key steps of talent management.

- ▶ 20% of S&P 500 Index[®] companies published sustainability and social responsibility reports in 2010, while the rate increased to 85% in 2019.
- ▶ The European Commission adopted the Green Deal initiative in 2019. The Green Deal aims to transform the EU into a modern, resource-efficient, competitive economy. This includes the following:
 - Net greenhouse gas emissions at zero by 2050.
 - Economic growth decoupled from resource use will be achieved.

5- Deciphering the future of data: Data is increasing its influence across the entire value chain, from production to customer satisfaction.

- ▶ While there were 5 billion internet-connected devices worldwide in 2010, the figure increased to 20 billion in 2019.
- ▶ While the number of Turkish users on a popular crypto money platform was 500 thousand in 2018, the figure increased to 3.7 million in 2021.

6- Old and current competitors: Competition between companies is also changing with the evolution of the ecosystem. Customer expectations, disruptive initiatives, and digital inventions have become new threats to companies. Companies are now threatened by new business models and markets rather than traditional competitors.

- ▶ While 1 million trips were made with shared vehicles² in 2010, this figure exceeded 8 billion in 2019.
- ▶ While the shared scooter market size in Türkiye was 25 million Turkish Liras in 2019, it will reach 1.15 billion Turkish Liras in 2025, according to projections.

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Effects of Macroeconomic Developments and Exchange Rate Volatility

It is seen that both the economic developments that have emerged in the world since the Covid-19 pandemic and exchange rate turmoil have made it difficult to take certain decisions and actions at the board of directors level in Türkiye.

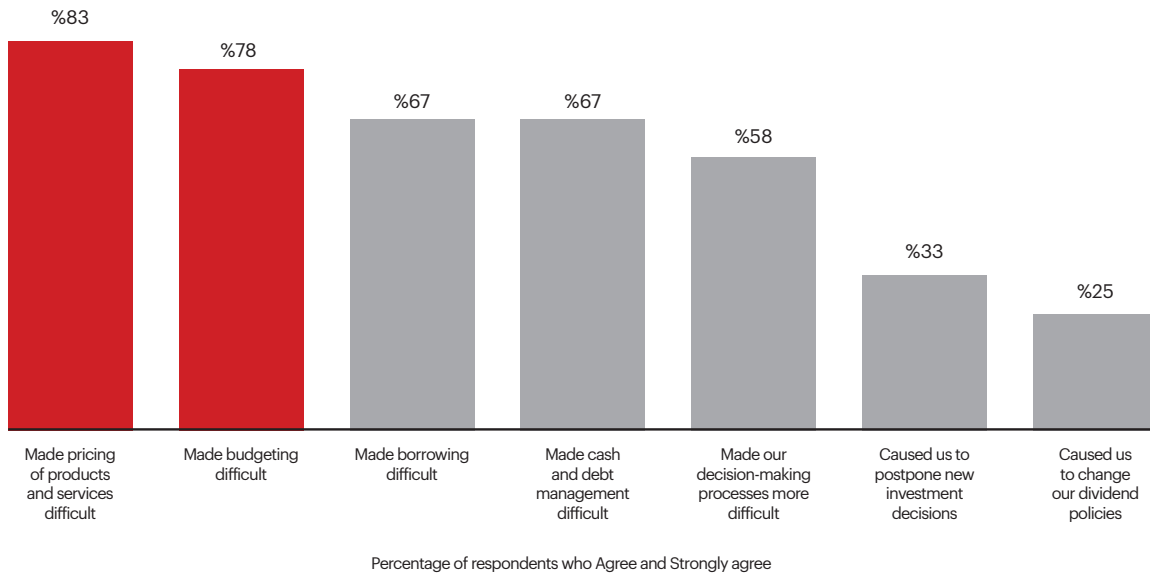
It was observed that 83% of survey participants experienced difficulty in product and service pricing, while 78% experienced more than usual difficulty in preparing a budget.

These developments have led to limited changes in companies' investment decisions and dividend policies. We found that macroeconomic developments led to changes in decisions and policies on these issues in only 33% and 25% of respondents, respectively.

Figure 3:

The survey has shown that boards of directors experience difficulties in their decision-making processes in the face of current macroeconomic events.

The effects of macroeconomic developments (Ukraine crisis, etc.) and exchange rate volatility on your organization



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Board of Directors Handbook

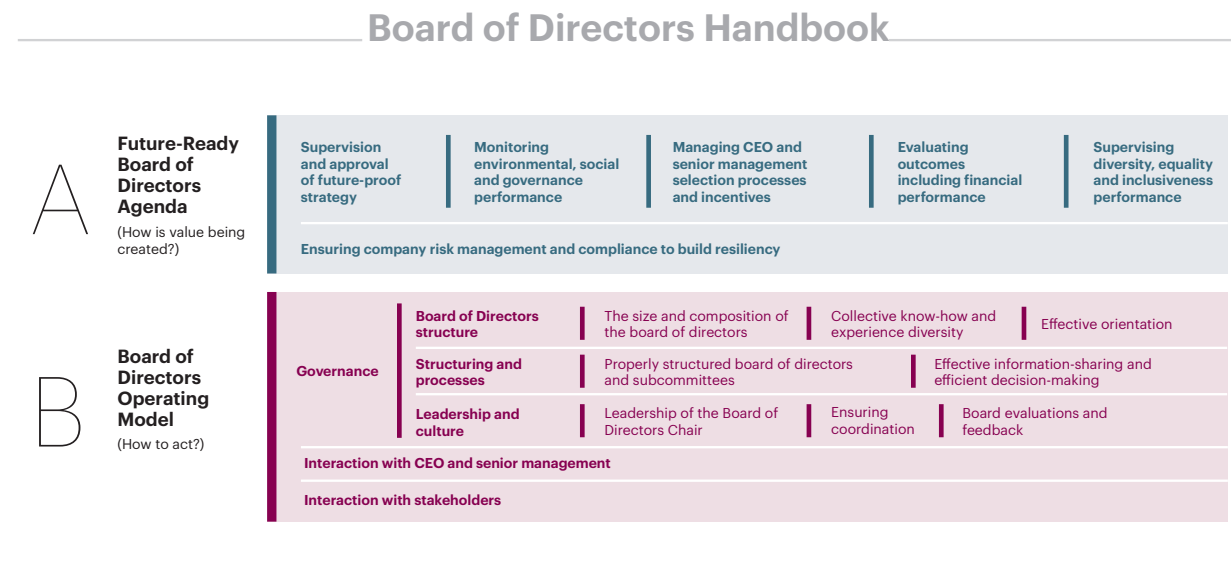
In a time of profound change that results in uncertainties, the meaning and effectiveness of a board of directors are rapidly changing. Although the main headings have not changed much over the years, meaningful changes are observed in the content of each responsibility.

We, as Bain & Company, have divided the duties of boards of directors into four main headings as a result of the studies examining thousands of boards of directors across different continents:

- 1- Observing goals and objectives
- 2- Setting the agenda that will prepare the company for the future
- 3- Creating the right governance and senior management operating model with an effective board of directors
- 4- Maintaining business ethics

Figure 4:

In light of these large-scale transformations worldwide, the Board of Directors Handbook needs re-evaluation, and boards need to review their value-creation methods.



While each board of directors has the duty of “Observing the goals and objectives” at the “top” on the Board of Directors Roadmap, these objectives are supported by actions in two main areas.

The future-ready board agenda and details of the sub-breakdowns of the operational model areas of the boards of directors provide answers to two questions (“how we create value” and “how we should act”) that are critical for boards to answer. All these are built on a basis where business ethics are always maintained in line with working principles.

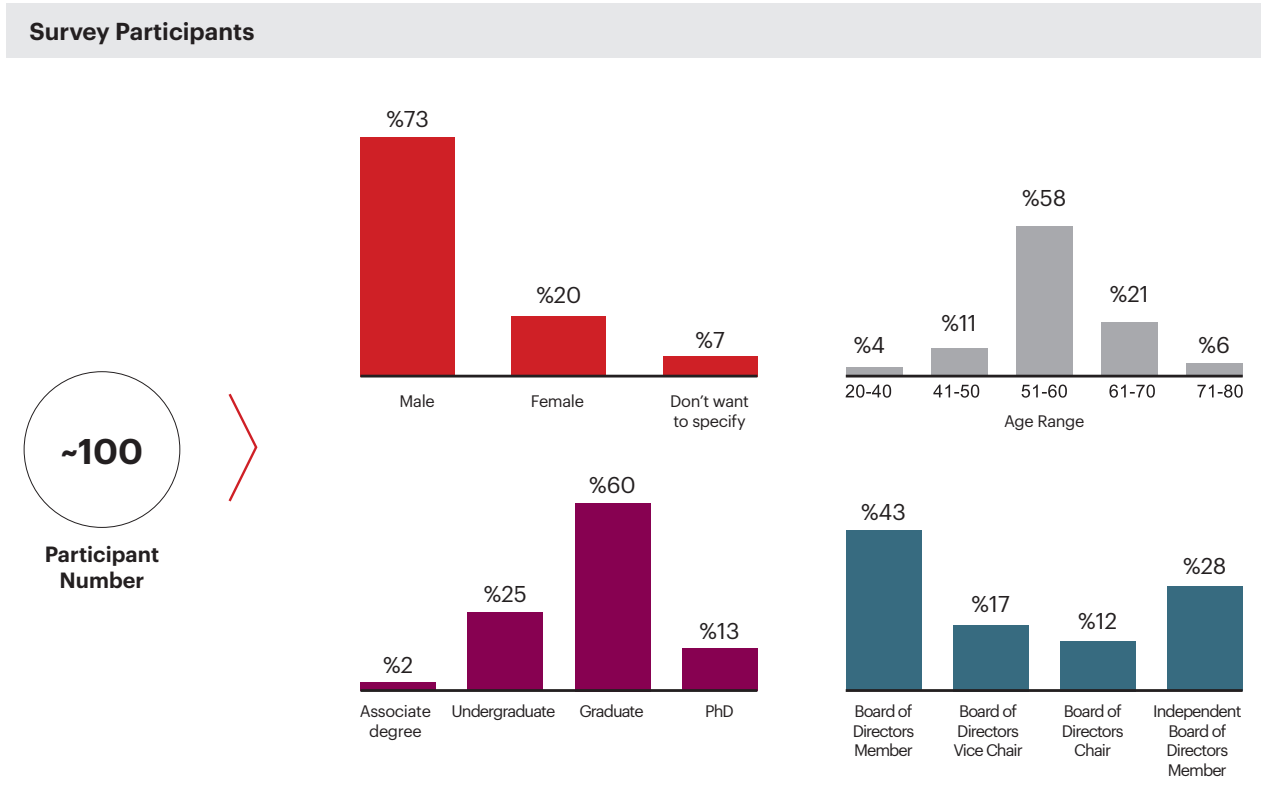
The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

Chapter 2- Boards of Directors Effectiveness in Türkiye

2.1 Survey Participants

Figure 5:

We evaluated the effectiveness of the boards of directors for the first time in Türkiye with the active board members and CEOs of Türkiye’s leading public listed and family-owned companies.



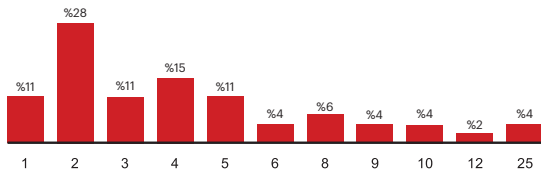
The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

Figure 6:

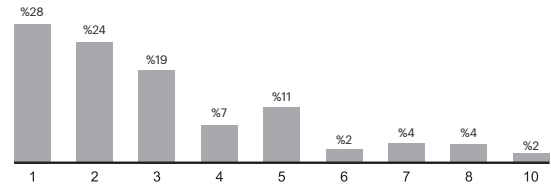
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Survey Participants

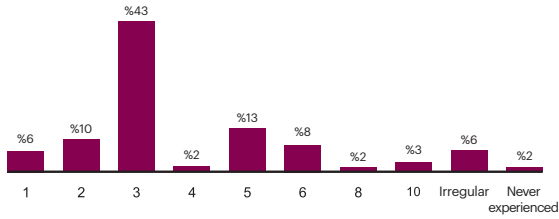
How many years have you been a member of the Board of Directors?



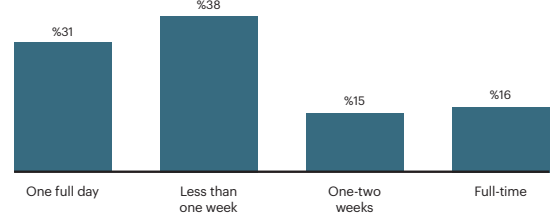
How many active Board memberships do you have?



How frequently are members replaced on the Boards of which you are a member?



How much time per month do you set aside for the Board of Directors' activities?



- ▶ 73% of the survey participants were men and 20% were women. The remaining 7% did not specify gender. The rate is 72% male and 28% female in the USA and 87% male and 13% female in China.
- ▶ 58% of respondents were between the ages of 51 and 60. The average board member age in the USA is 63, and 55 in China.
- ▶ 60% of the survey participants have a master's degree and 13% have a Ph.D. degree.
- ▶ 28% of the participants who stated their positions are independent members and 12% are the chairpersons of the board of directors.
- ▶ Approximately 70% of respondents serve on one, two or three boards of directors.
- ▶ The members change every three years in 43% of the boards of directors. The frequency of the change of members is unclear in 6% of the companies.
- ▶ Members usually set aside time for board activities ranging from one day to one week a month. Only 16% of the members work full-time in management.

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2.2 Board of Directors Effectiveness Score

“The Board of Directors Effectiveness Score was measured at 3.6 for Türkiye. Board of directors’ effectiveness is planned to be monitored annually and comparatively based on the effectiveness score.”

The survey has been prepared based on the unique characteristics of Türkiye and global examples. The objective is to repeat it annually to follow the performance and perspective changes of the boards of directors.

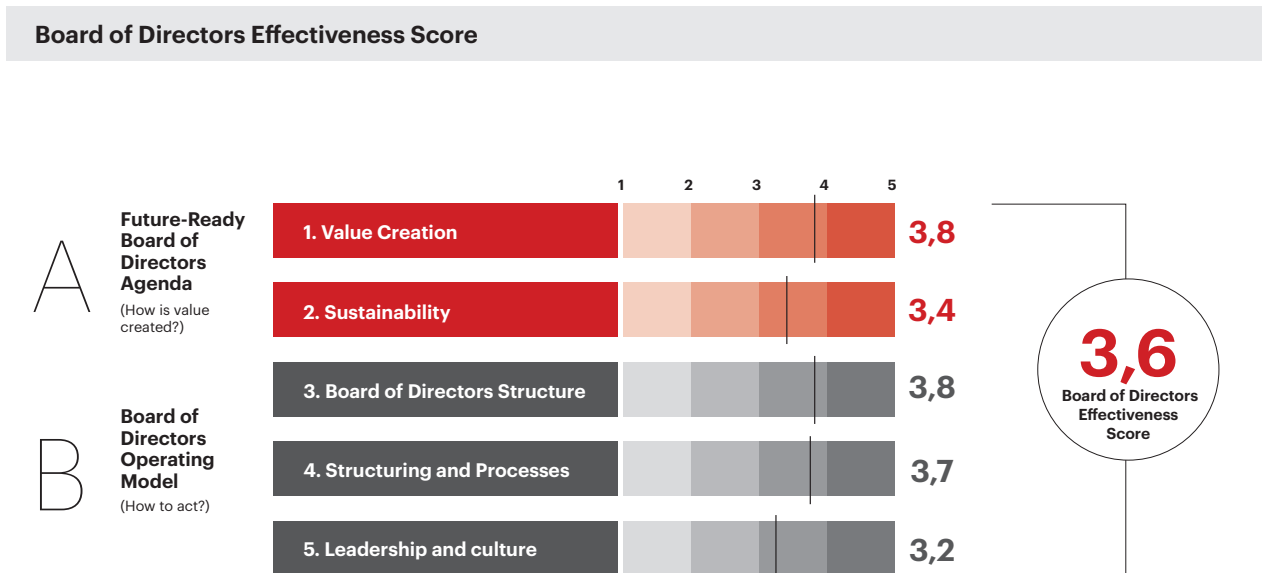
The survey conducted with the boards of directors of Türkiye’s leading companies first investigated the effectiveness level of the boards. The “Board of Directors Effectiveness Score” was determined upon evaluating the boards of directors’ effectiveness based on five sub-headings under two main headings through the methodology we developed. Under the heading of “Future-ready board of directors agenda,” we assessed how boards of directors create value for their companies under the title of “Value creation” and how they ensure sustainable growth by respecting nature and society under the title of “Sustainability.”

The effectiveness, structuring, and processes of boards of directors and their leader selection and company culture creation activities were assessed based on three sub-headings under the second heading, “the boards of directors operating model.” The “Board of Directors Effectiveness Score” of Türkiye was calculated based on ~30 questions that the participants were scored on under five sub-headings considering the boards of directors they are members of.

Each sub-heading was scored between 1-5 in line with the answers given. The Board of Directors Effectiveness Score is calculated based on the average score of each sub-heading.

Figure 7:

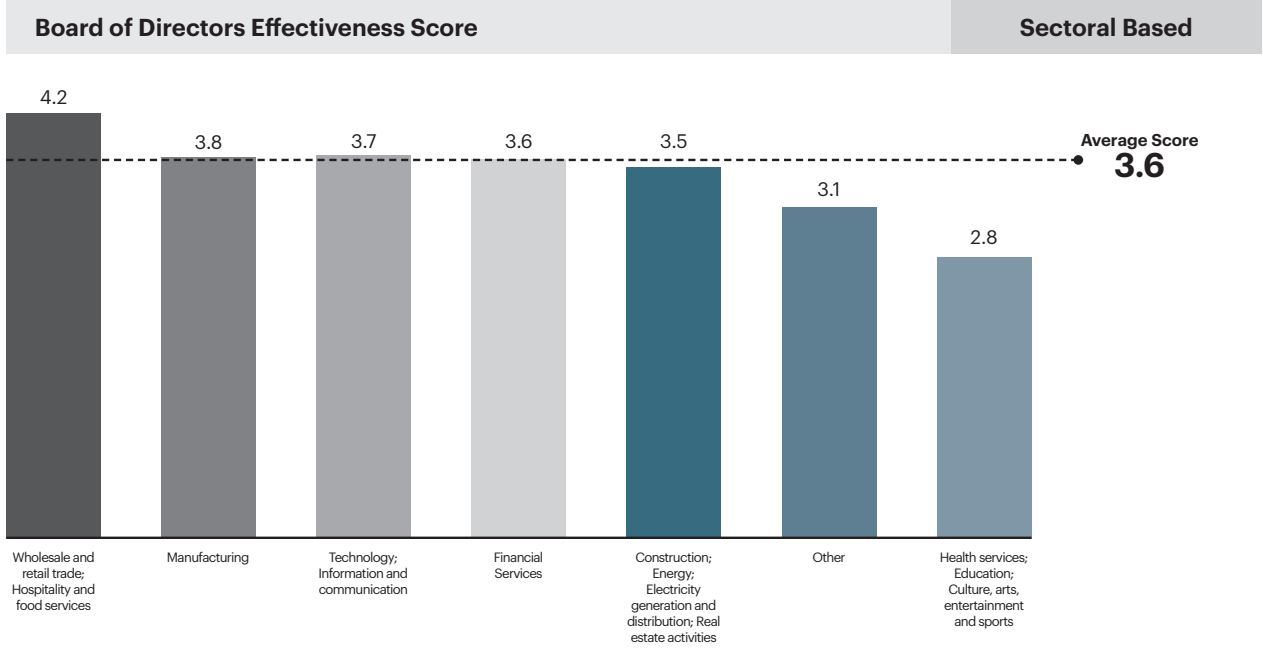
The “Board of Directors Effectiveness Score” was determined according to the survey results after the boards of directors’ activities were assessed under five dimensions.



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Figure 8:

When the Board of Directors Effectiveness Score is examined from a sectoral point of view, it is seen that the wholesale and retail trade; accomodation and food services sectors have the most effective Boards of Directors.



Note: *Construction; Energy; Production and distribution of electricity, gas, steam and air conditioning; Water supply, sewage, waste management and remediation activities; Real estate activities

- ▶ The Board of Directors Effectiveness Score in Türkiye was measured as 3.6 on a 1-5 scale.
- ▶ “Value Creation” and “Board of Directors Structure” received the highest scores with 3.8, while “Leadership and Culture” received the lowest score with 3.2.
- ▶ From a sectoral perspective, “Wholesale and retail trade; Accommodation and food service” ranked first with 4.2, while “Healthcare, education, arts and culture, entertainment, and sports” ranked last with 2.8.

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Section 3- Future-Ready Board of Directors Agenda

The measures to be taken in response to shifting global conditions and rising uncertainty should be on the agenda of the boards of directors. In this context, the future-ready board of directors agenda was examined under two sub-headings: Value Creation and Sustainability.

3.1 Value Creation

“While the boards consider themselves sufficient in terms of ‘strategic, financial and operational’ aspects of value creation and work effectively with senior management, the primary challenge is ‘determining a succession plan’.”

Boards of directors have a higher score (3.8) for value creation than other sub-headings. The main reasons in this area are the effective work of the boards of directors with the senior management of their companies and their impact on financial decisions.

We observe that meeting agendas are a prerequisite for creating value in the boards of directors.

3.1.1 Topics with the most time spent

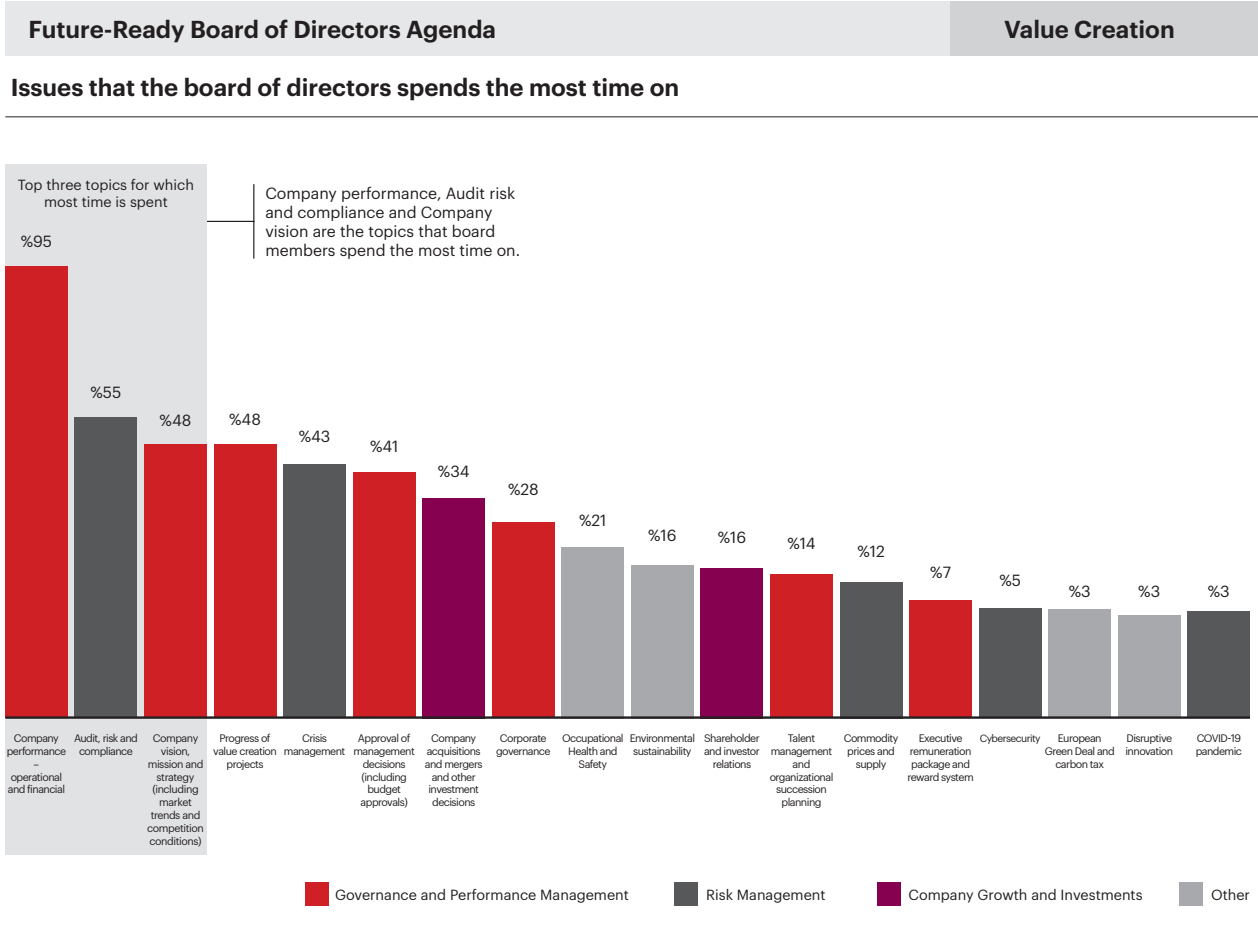
“While boards spend the most time on company performance (operational and financial), only 3% of boards have Covid 19 among the top three focus areas.”

We observed that the topic on which the most time was spent at the board level was the financial and operational performance of the company. Companies’ financial and operational performance was one of the five issues on which all survey participants spent the most time. Audit, risk, and compliance followed performance with 55%, and the company’s vision, mission, strategy, and progress of projects that would create value followed with 48%. Only 10% of the respondents indicated executive remuneration packages and reward systems, sustainability, cybersecurity, and disruptive innovations among their top five topics.

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Figure 9:

Company performance, audit/risk and company strategy stand out as topics most discussed at the board of directors level.



By comparison, a study conducted in the United States in 2019 showed that the most frequently addressed topics on American boards of directors were cybersecurity and disruptive innovation. Disruptive innovation, executive remuneration packages, and reward systems are considered to have little time spent on them relative to their specific gravity and importance.

The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

3.1.2 Topics with the least time spent

“The topics that boards spend the least time on are Sustainability (EU Green Deal and carbon tax), contribution to society, and occupational health and safety.”

Participants were asked about the five topics on their agenda to which they devote the least time and the topics to which they thought they should devote more time in light of this.

The topics on which the survey participants spent the least time were the European Green Deal and carbon tax, contribution to society and philanthropy, and occupational health and safety, respectively. These were followed by disruptive innovation and board of directors diversity.

The topics envisaged appearing more on the agenda in the future are company vision, mission and strategy, environmental sustainability, and the progress of projects that will create value for the company.

Participants’ common responses to topics on which the least time is spent and that need to be addressed more in the future were environmental sustainability, the European Green Deal and carbon tax, talent management, succession planning, and disruptive innovation. The share of these issues in the board agenda is expected to increase gradually.

Figure 10:

The European Green Deal, contribution to society, and occupational health are the agenda items unable to receive the time they merit.

Future-Ready Board of Directors Agenda		Value Creation	
Issues on which boards of directors spend the least time		Issues that need to be addressed further by boards of directors	
① European Green Deal and carbon tax	%71	① Company vision, mission and strategy	%45
② Social impact and philanthropy	%53	② Progress of projects that will create value for the company	%43
③ Occupational health and safety	%48	③ Environmental sustainability	%34
④ Disruptive innovation	%45	④ Company performance – operational and financial	%26
⑤ Board of Directors diversity	%38	⑤ Talent management and succession planning	%26
⑥ Talent management and succession planning	%33	⑥ European Green Deal and carbon tax	%21
⑦ Executive remuneration package and reward system	%31	⑦ Disruptive innovation	%19
⑧ Cybersecurity	%31	⑧ Crisis management	%17
⑨ Environmental sustainability	%29	⑨ Corporate governance	%14

The items on both lists are indicated in red

The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

3.1.3 Investment topics

“Sustainability-focused investments is the leading investment theme on the agenda, surpassing traditional growth-centric investments.”

The participants from 18 sectors were asked about the investment topics on their agenda for the next 12 months. Responses from the participants of several sectors showed that investment topics discussed by the board of directors this year are primarily investments focusing on sustainability and capacity increases.

- ▶ Although it does not occupy much time on current agendas, 71% of the boards of directors included sustainability-focused investments in their plans for the coming periods. Domestic capacity increase and growth investments ranked second to investment with 69%.
- ▶ 9% of participants have no investment plans of any nature. This ratio reaches 17% in the financial sector.
- ▶ All the companies in the Construction, Energy, Electricity Generation and Distribution, and Real Estate Activities sectors have planned investments in Türkiye, including for capacity building and growth.

3.1.4 Employment plans

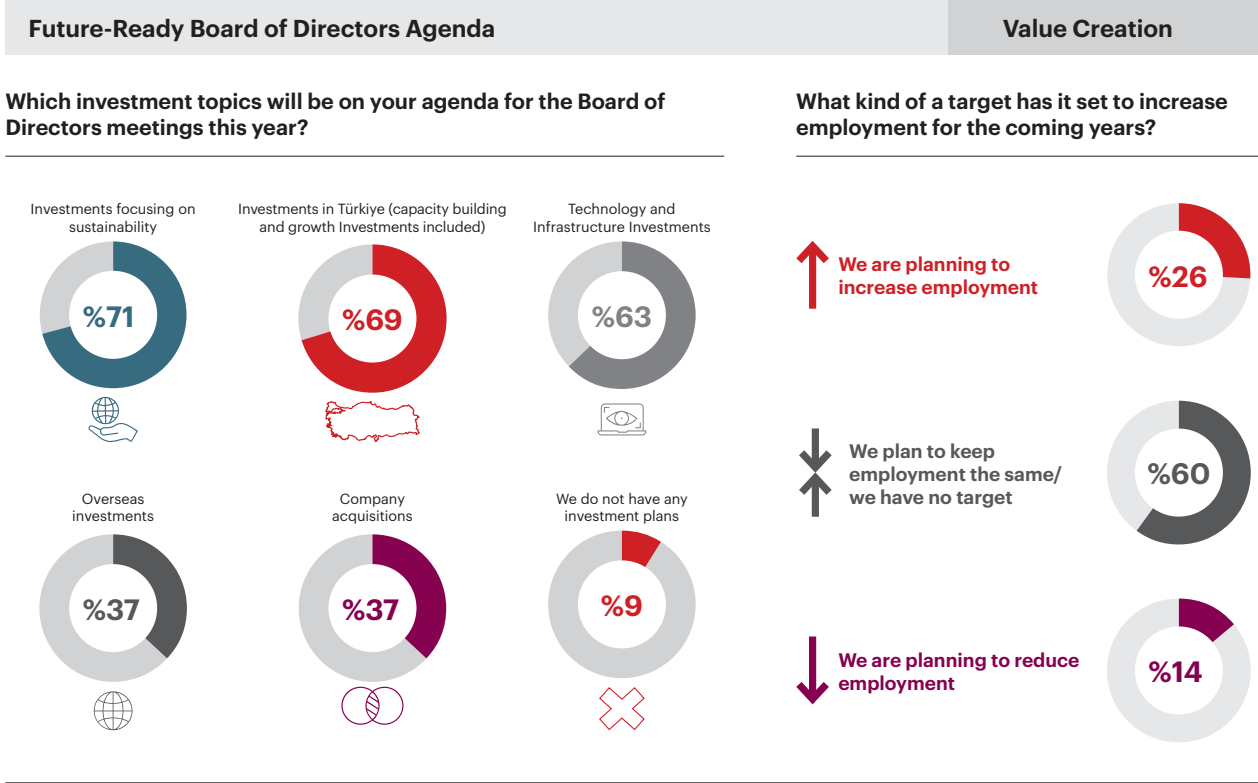
“We see that most companies plan to keep employment stable or have not set a target. We think this can be interpreted as caution, a “wait-and-see” approach taken in the face of current uncertainties despite the growing Turkish economy.”

- ▶ 60% of the companies where the participants worked aim to keep employment stable in the coming years.
- ▶ The proportion of boards of directors planning to increase employment is 26%. 14% of the boards of directors plan to reduce employment in 2022.

The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

Figure 11:

Sustainability-focused investments are planned to be on the agenda of 71% of the board of directors in the near future.



3.1.5 Risks awaiting companies

“Recent global problems such as increases in energy, food and commodity prices and supply chain issues, together with local economic, sectoral and political uncertainties, significantly affect the risk perception of board directors.”

Although the current economic situation and political uncertainties are at the top of the list, issues such as cybersecurity, climate crisis and social risks are viewed as risks by only very few of the boards of directors.

- ▶ While the economic conjuncture is among the top three risks in 64% of the responses, sectoral and political uncertainties rank second with 58%.
- ▶ The supply chain is mentioned in only 8% of responses.

The survey demonstrates that current economic uncertainties in the world and Türkiye are also clearly reflected in the agendas of the boards of directors. On the other hand, it is possible to infer that the global supply chain disruptions arising from the COVID-19 pandemic are more moderate in Türkiye.

The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

Figure 12:

Economic conjuncture and sectoral and political uncertainties are seen as risks to be taken into account by the majority of the board members surveyed

Future-Ready Board of Directors Agenda	Value Creation
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What are the top three risks for companies in 2022?

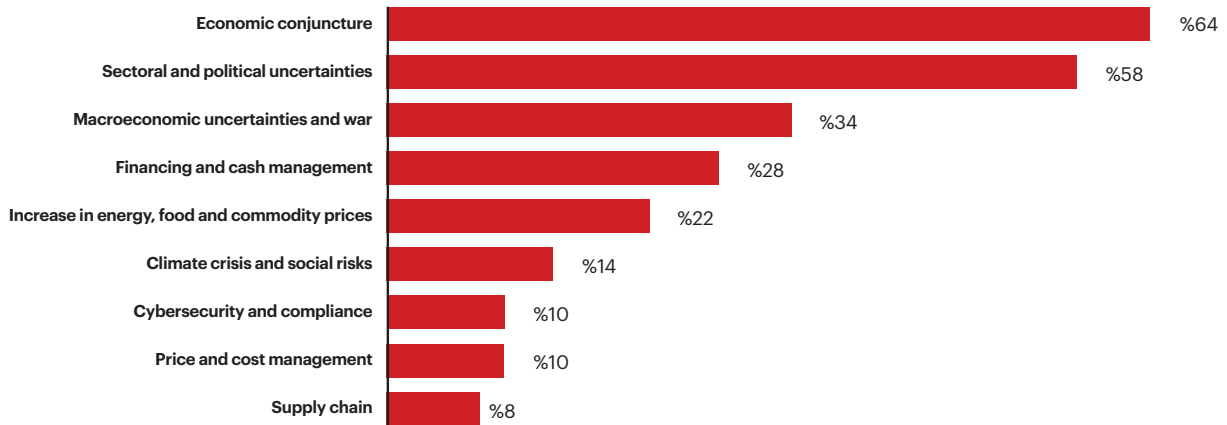


Figure 13:

Succession plans for both the board of directors and the CEO and senior management lower the Board Effectiveness Score

Future-Ready Board of Directors Agenda	Value Creation
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1. Value Creation Score



The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

According to the results, the value creation score was calculated as 3.8 over the eight questions posed to the board members.

The Board members surveyed scored their succession plans below average for their boards of directors. “We discuss the CEO and the senior management succession plans” scored an average of 3.3, while “We discuss the board of directors succession plans” scored an average of 3.0 points. This presents a risk to the sustainability of governance.

In contrast, the impact of boards of directors on the company’s financial decisions and the reputation of the company scores well above average at 4.2 points.

Boards of directors think they work effectively (4.1) with their companies’ top management.

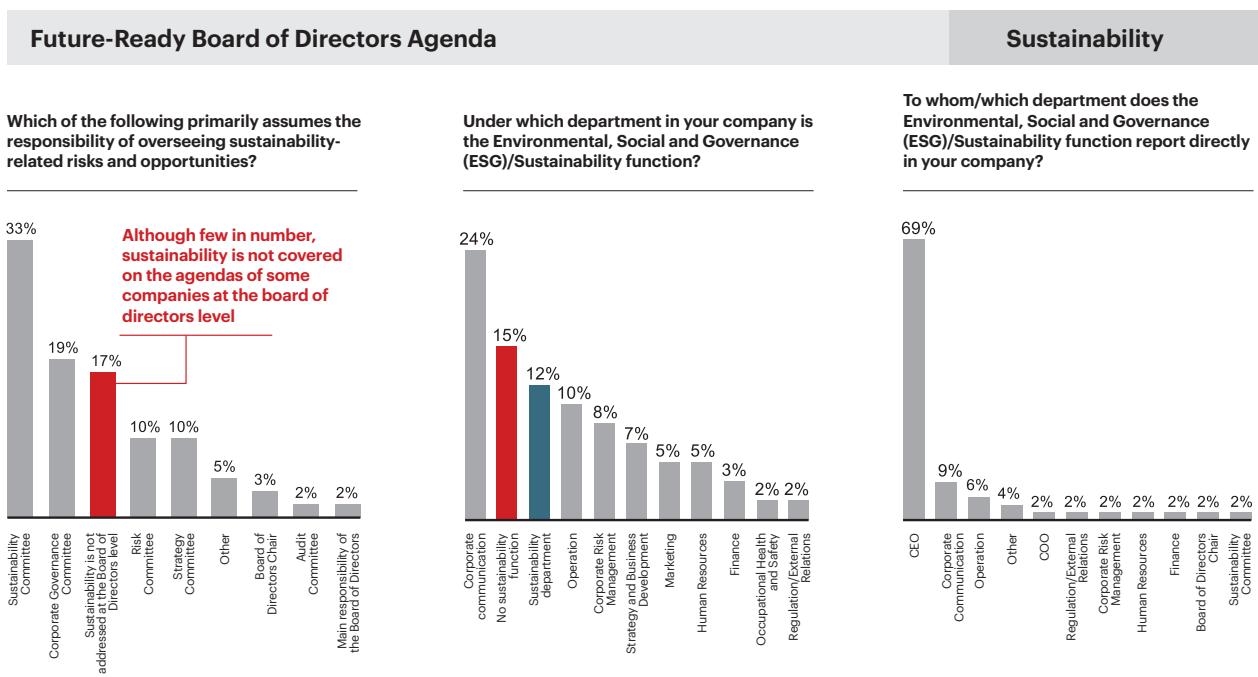
It seems like a natural consequence for boards of directors to focus on financial decisions and the right management methods at a time when economic conjuncture and sectoral and political uncertainties are the top topics in agendas. And yet the fact that the leadership team’s succession plans remain relatively low on the priority list increases the risk of potential sudden gaps in decision-making authority going forward.

3.2 Sustainability

“Sustainability-related opportunities and risks are assessed in 83% of companies at the level of their board of directors and sub-committees. At the functional level, sustainability issues are often managed by Corporate Communications departments, with 12% of companies having a department focused on sustainability.”

Figure 14:

While sustainability is not addressed at the board level in 17% of boards, 15% of companies do not have a sustainability function.



The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

The climate crisis, constantly increasing environmental problems, and the rising incidence of cybersecurity violations due to rapidly developing technology have only recently been included on the agendas of boards of directors in Türkiye, as in the world. The issues mentioned respectively rank 14th and 15th on the boards of directors' agendas.

The sustainability committee is primarily responsible for the risks and opportunities in these areas in 33% of companies. Managing relevant risks and opportunities is mostly the responsibility of the corporate governance committee, or else the risk committee, where a board of directors lacks a sustainability committee. Sustainability is not addressed at the board level in 17% of the board of directors.

While a separate department manages sustainability topics in 12% of the companies where the surveyed executives worked, the sustainability function is located under the corporate communication department in 24% of companies. The sustainability function does not exist at all in 15% of companies.

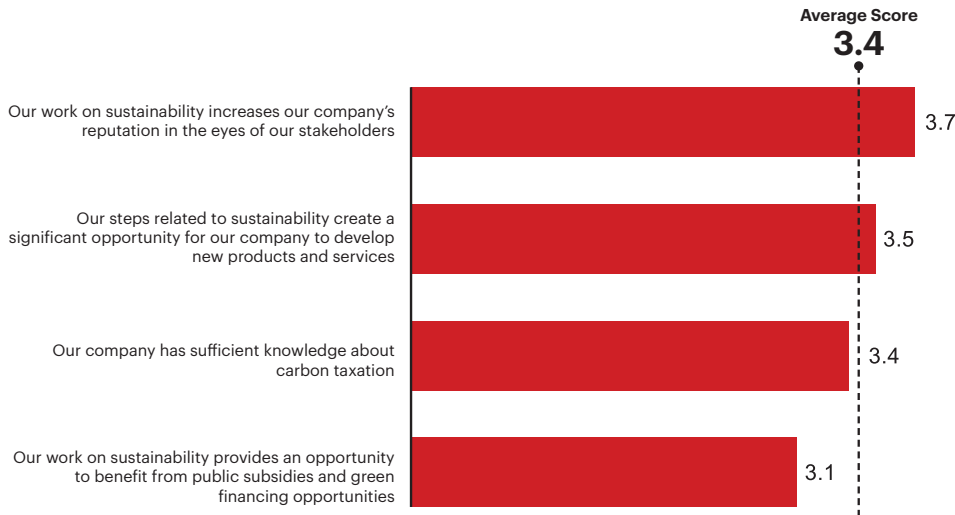
The sustainability function reports directly to the CEO in 69% of companies.

Figure 15:

Benefiting more from tax and public subsidies can increase the impact of the boards of directors on sustainability.

Future-Ready Board of Directors Agenda	Sustainability
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2. Sustainability Score



We calculated the sustainability score as 3.4 based on the results obtained from answers to the four questions posed to the board members.

“Our work on sustainability increases our company’s reputation in the eyes of our stakeholders” was the highest-scoring question of this group, with 3.7 points. “Our work on sustainability provides an opportunity to benefit from public subsidies and green financing opportunities” was the lowest-scoring question of this group, with 3.1 points.

The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

3.2.1 Cybersecurity

“Cybersecurity is on the agenda at the board level in four out of every five companies.”

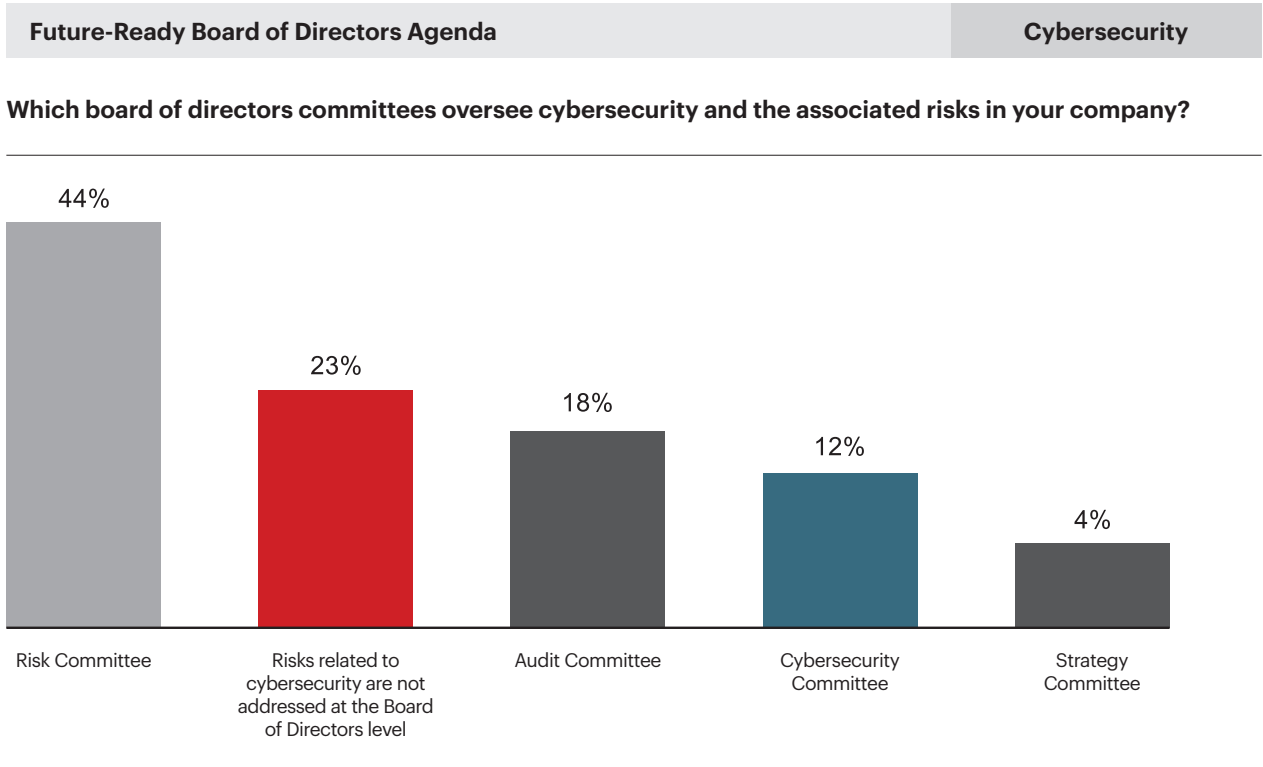
Cybersecurity is another issue that has come to prominence in the recent years along with increasing weight of technology and data security topics and has begun take time in the agendas of the board of directors.

When asked which committees oversee cybersecurity and related risks in their company, only 12% of companies have a dedicated cybersecurity committee. 80% of companies with cybersecurity committees operate in the financial services sector. In comparison, while only 10% of American companies had a dedicated cybersecurity committee in 2020, this rate is projected to increase to 40% by 2025.

The risks related to cybersecurity fall under the responsibility of the risk committee, with 44%, in boards of directors that do not have a cybersecurity committee. Cybersecurity is not addressed at the board level in 23% of the board of directors.

Figure 16:

Cybersecurity is one of the main agenda items of the boards of directors in the digitalizing world.



The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

Chapter 4-Boards of Directors Operating Model

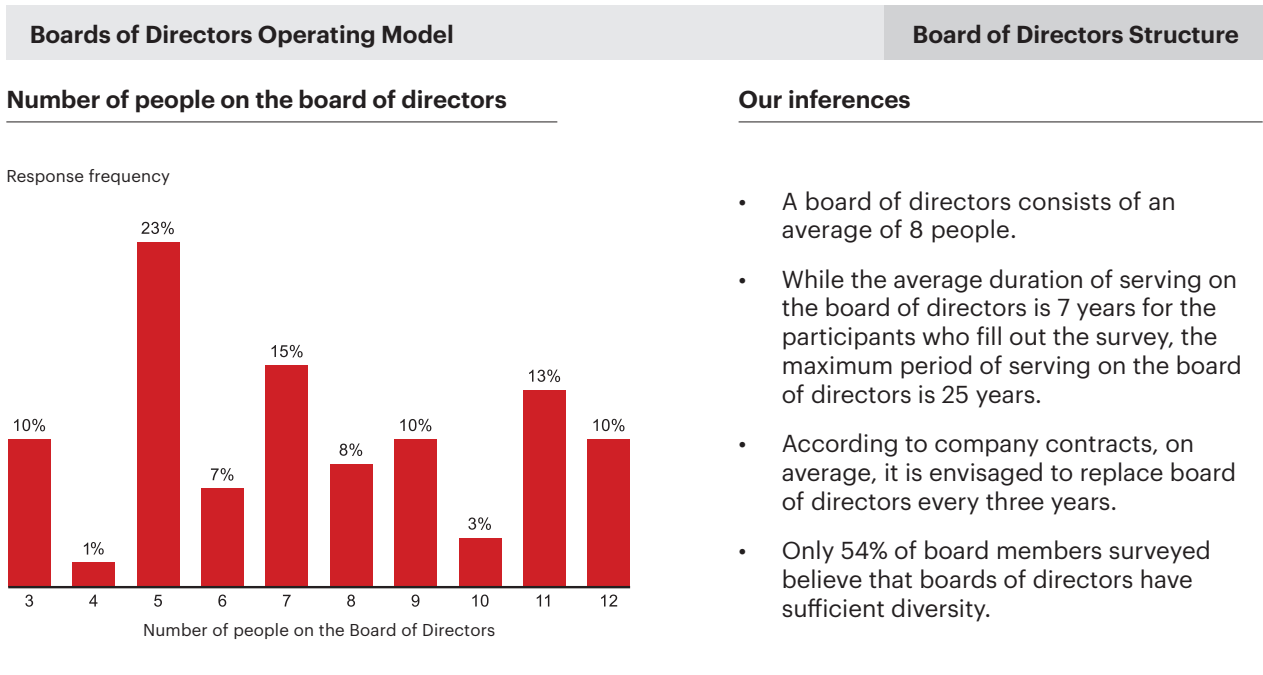
The second most important factor determining boards of directors' competency and impact is their operating model. The operating model of the boards of directors was examined under three headings: Board of Directors Structure, Structuring and Processes, and Leadership and Culture.

4.1 Board of Directors Structure

"The diversity of board members (gender, age, competency, etc.) is among the lowest scoring axes."

Figure 17:

A board of directors consists of an average of 8 people.



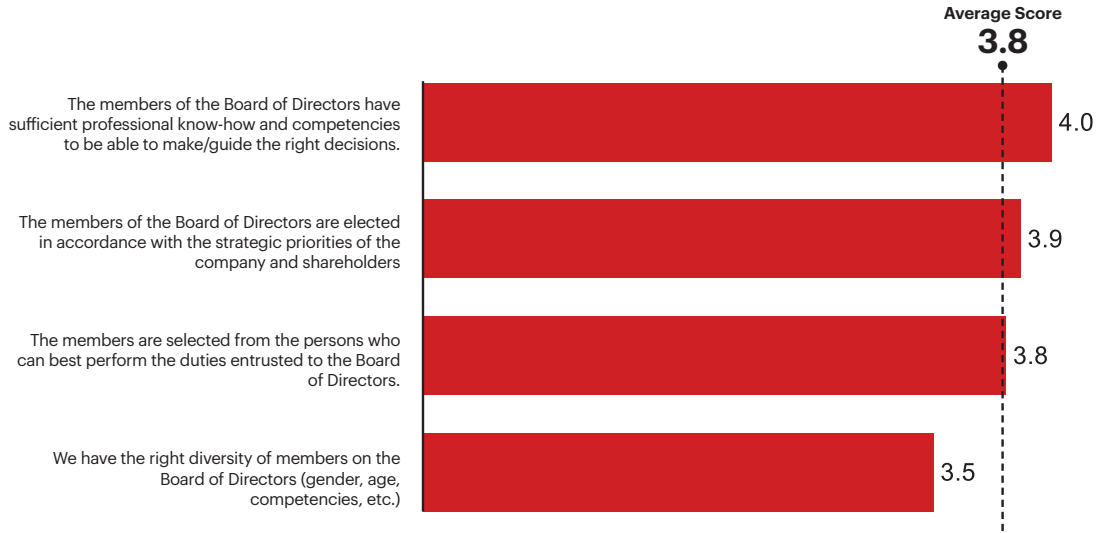
The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

Figure 18:

The diversity of members on the Boards of Directors is an important improvement area.

Boards of Directors Operating Model **Board of Directors Structure**

3. Board of Directors Structure



The board of directors structure score was calculated as 3.8 based on the results from answers to the four questions asked to board members.

“We have the right diversity of members on the board of directors (gender, age, competency, etc.)” was the lowest scoring statement among the questions that made up the board of directors structure score, with an average score of 3.5.

The scores of the three questions about competencies and selection processes were higher than average. The members who participated in the survey stated that the diversity of members constituting the board of directors was more open to improvement than their competencies.

The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

4.2 Structuring and Processes

“Risk and Audit committees exist in three of every four companies, while 7% have no committees.”

Companies have an average of four committees, and one board member serves on an average of two committees. On average, there are about three committees (Audit, Compensation, Nomination/Governance) in each company in the USA, while the top three committees in China are the same as in the USA.

While the audit committee is included in 77% of the companies, 73% of the boards of directors have a risk committee.

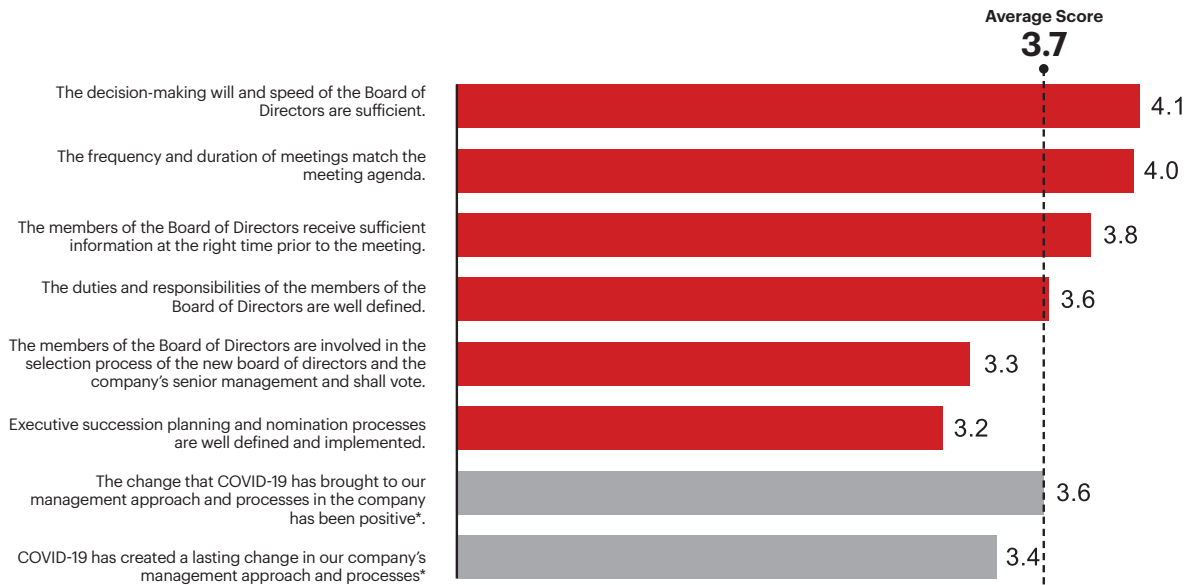
Only 33% of companies have a sustainability committee, and 12% have a cyber security committee.

Figure 19:

The agenda and decision-making will of the boards of directors are above average.

Boards of Directors Operating Model	Structuring and Processes
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4. Structuring and Processes



*Not used in scoring.

The “structuring and processes” score is measured as 3.7 based on the six questions answered by the participants (questions marked with * are not included).

“The decision-making will and speed of the board of directors are sufficient” is the highest-scoring statement in the group, at 4.1.

The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

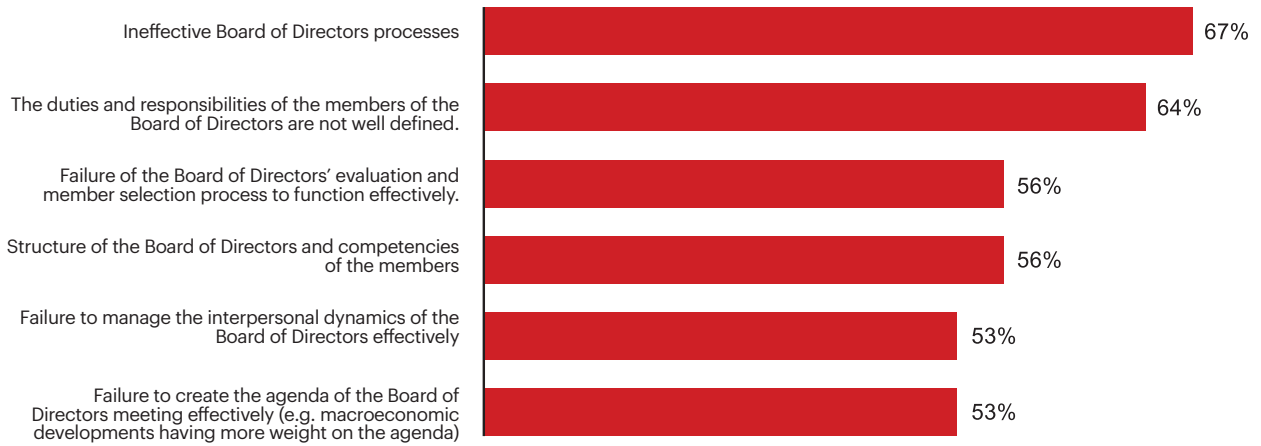
On the other hand, the “executive succession planning and nomination processes are well defined and implemented” is at the bottom of the ranking with 3.2 points. The “members of the Board of Directors are involved in the selection process of the new board of directors and the company’s senior management and shall vote” was the second lowest, with 3.3 points.

Figure 20:

Ineffective board of directors processes are seen as the biggest obstacle to an effective board.

Boards of Directors Operating Model

What are the biggest obstacles to increasing the effectiveness of the board of directors?



The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

4.3 Leadership and Culture

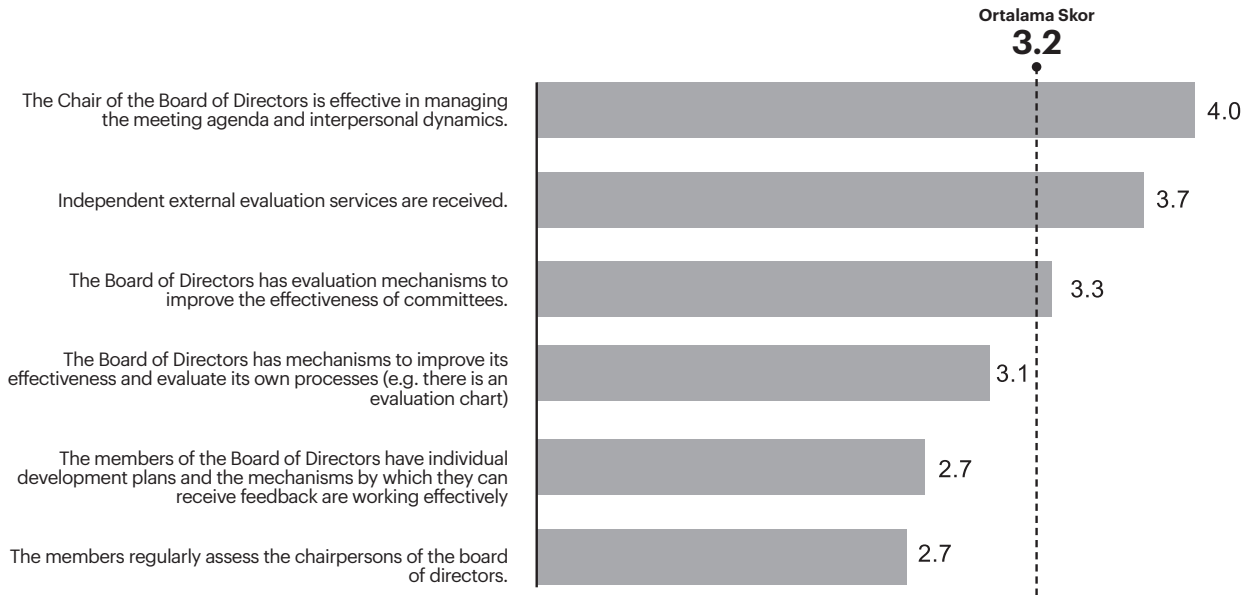
“Financial services have the lowest leadership and culture score, while wholesale and retail trade and accomodation and food services are the sectors with the highest scores.”

Figure 21:

Chairpersons of the Board of Directors are rarely assessed by their boards of directors.

Board of Directors Operating Model	Leadership and Culture
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5. Leadership and Culture



The leadership and culture score is calculated as 3.2 based on the results obtained from answers to the six questions posed to the board members.

The leadership and culture score is most open to improvement among the five topics that make up the board of directors effectiveness score.

“The members regularly assess the chairpersons of the board of directors” ranks the lowest with 2.7 points. This statement was followed by “ The members of the Board of Directors have individual development plans, and the mechanisms by which they can receive feedback are working effectively,” which was below average, with 2.7 points.

The Board Directors Association (YUD/BDA) and Bain & Company Board of Directors Barometer of Türkiye

Epilogue

The anticipation of continued uncertainty makes the boards of directors more critical than ever for the future of companies over the coming years. Although the boards of directors in Türkiye have notable strengths, it is seen that there are important development areas that both are common and differ on a sector basis.

Our key takeaways from the study are as follows:

- Boards of directors continue to operate in light of the risk factors created by the changing economic conjuncture and increasing sectoral uncertainties.
- The transition from corporate governance to ESG has begun, and sustainability is an important agenda item, although the time allocated is inadequate.
- The diversity of members and their breadth of experience on boards are not yet at desired levels.
- Board members believe in the necessity of developing an operating model for an effective and influential board of directors.

There are certain precursor questions that boards of directors can already begin to consider answers to:

- ▶ How “future-proof” is your board’s agenda?
- ▶ Are you allocating sufficient time to topics about the carbon tax and sustainability (ESG)? What new and future-shaping topics can you add as an agenda item?
- ▶ Are you improving your effectiveness by regularly reviewing the topics you spend the least and most time on?
- ▶ Would you say that you are at a sufficient level regarding the diversity of your current board of directors? What steps can you take to increase the diversity of knowledge and experience beyond age and gender alone?
- ▶ Does the board of directors have feedback mechanisms (for its members and the chairperson)? What steps can be taken to establish control and monitoring mechanisms?
- ▶ Is there “succession planning” in your board of directors?
- ▶ Is there a performance measurement of your board of directors?

Answering these questions will be the first step in creating a roadmap to improve and enhance boards of directors.



For more information, visit www.bain.com and www.yud.org.tr

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