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### Diverse Boards, Stronger Results? Gender Diversity on Boards and Firm Performance in Turkey



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#### Abstract

Board diversity has become a prominent topic of discussion within the realm of strategic management. This study specifically examines gender diversity as a key dimension of board heterogeneity. Notably, women remain under-represented on corporate boards in general. In Turkey, the inclusion of women on corporate boards and efforts to enhance gender diversity are relatively recent developments. In 2012, for the first time in Turkey, the Capital Markets Board recommended that companies have at least one woman on their boards of directors. This study examines the effectiveness of Turkey's first "soft law" quota concerning board gender diversity within the banking sector. Additionally, it investigates the relationship between gender diversity on corporate boards and firms' financial performance (ROA). Using a large panel data of 12 banks from 2006 to 2018, we found a significant relationship between female representation on boards and ROA.

#### Keywords

Female board representation · Financial performance · Board diversity · Corporate governance


#### JEL Classification

J16 · G34 · M14



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## Diverse Boards, Stronger Results? Gender Diversity on Boards and Firm Performance in Turkey

In recent decades, gender diversity in corporate boards has emerged as a central topic in corporate governance, reflecting broader societal efforts towards inclusion, equity, and sustainable development. Despite decades of progress in women's education and workforce participation, a significant gender gap persists in leadership and decision-making roles across most countries and sectors. According to the World Economic Forum's Global Gender Gap Report (2024), it will take over 130 years to close the global gender gap in political and economic participation.

In countries with a Muslim-majority population, such as Turkey, women still face relatively higher gender-based discrimination than women in the West (Sarhan et al. 2018). Corporate boardrooms, as critical arenas of strategic decision-making, reflect this imbalance. This persistent inequality often manifests itself in the form of the "glass ceiling" phenomenon, which refers to the invisible barriers that prevent women from advancing to top executive and decision-making positions despite having the required qualifications and experience (Cotter et al., 2001).

In response to persistent gender imbalances, several countries have enacted gender quota legislation to mandate the appointment of women directors on corporate boards (Reddy and Jadhav, 2019). The Norwegian government was the first to establish a 40% female quota in 2003, and Spain established a 40% female quota in 2007. The growing list of countries to join the bandwagon includes Belgium, Finland, France, Iceland, Israel, Italy, India, and Kenya (Reddy and Jadhav, 2019). As for Turkey, for the first time in 2012, the Turkish Corporate Governance code recommended that companies have at least one female board member on their boards of directors.

This study seeks to answer two important research questions. First, has the "soft law" introduced by the Capital Markets Board of Turkey in 2012 had an impact on the number of female board members in banks? Second, does female representation on the board of directors impact financial performance?

The paper is structured as follows. First, we provide a brief overview of board diversity and inclusion in the corporate context. Second, we document the existing theoretical and empirical literature on the impact of corporate board diversity on financial performance. Third, we introduce the research design. We then report the empirical analyses and discuss the empirical findings. Finally, we discuss the ethical dimension of woman representation on board.

### Literature Review

This section provides a comprehensive overview of the conceptual and theoretical frameworks underpinning diversity and inclusion, with a particular focus on how these constructs are understood and applied within corporate governance contexts. Following this, the relationship between female representation on corporate boards and firm performance will be analysed through several key theoretical perspectives.

### Beyond Diversity, Towards Inclusion

One of the most important subjects of human resource management in the future is diversity and inclusion (Battaglio, 2020). Despite ongoing efforts, women and minority groups continue to be significantly underrepresented in the workforce, particularly when compared with the predominance of white male employees. This persistent disparity highlights the urgent need to explore the implications of diversity at the highest levels of organisational decision-making. In this context, understanding the role and impact

of diversity on corporate boards is of paramount importance for scholars, policymakers, and practitioners alike, as it holds the potential to foster more equitable, inclusive, and ultimately more effective models of corporate governance.

Diversity has been described as the varied perspectives and approaches to work members of different identity groups bring. Therefore, diversity efforts focus on visual identities such as race, gender, age or disability. Having a diverse workforce is increasingly being recognised as instrumental in improving the firm's performance, and an imperative that organisations can no longer choose to ignore (Nair and Vohra, 2015).

A key component of diversity management is inclusion. While diversity focuses primarily on the demographic makeup of groups, inclusion emphasises encouraging participation and moving beyond merely appreciating diversity, towards leveraging and integrating diversity into everyday work life (Nair and Vohra, 2015). Without inclusion, diversity alone may remain superficial, failing to translate into equitable participation or improved outcomes. The inclusion of women introduces diverse perspectives and problem-solving approaches, which can lead to more balanced and effective governance (Bear, Rahman, & Post, 2010).

As stakeholder expectations evolve, firms are increasingly being held accountable not only for their financial performance but also for their commitment to diversity and inclusion. This shift reflects a broader recognition that socially responsible governance practices are integral to long-term organisational legitimacy and sustainability.

## Board Gender Diversity

The board of directors is a key element in corporate governance. It significantly influences agency costs through its legal framework, structure, and activities. Theoretically, the board ensures that managers act in shareholders' interests by monitoring, disciplining, and, if necessary, replacing them. Factors such as board composition, independence, and size are believed to impact the board's effectiveness (Beiner et al., 2004).

Observably, board diversity may be pursued for two main reasons: economic and social. First and economically, the extant literature suggests that appointing female, ethnic minority, and foreign nationals to corporate boards may not only improve board diversity and bring different expertise, ideas, talents, skills, work ethic, backgrounds, and experience to boardrooms but also enhance board independence and monitoring. Second and socially, board diversity incorporates social equity or equal opportunities. Thus, appointing female, ethnic minority, and foreign directors may help in building more inclusive and fair business institutions that better reflect the constituencies of existing stakeholders (Sarhan et al., 2019).

Therefore, diversifying corporate boards on the basis of gender, ethnicity, and nationality has recently become a key global policy issue. Recognising the importance of inclusive and representative decision-making bodies, numerous countries—particularly across Europe—have implemented a range of affirmative measures to enhance board diversity. These measures vary in form and scope, including both binding legal quotas (“hard law”) and non-binding best practice recommendations (“soft law”) aimed at encouraging voluntary compliance (Terjesen, Aguilera, & Lorenz, 2015).

Most developing countries, including Turkey, have adopted a set of corporate governance guidelines inspired by the OECD's CG principles. These principles place greater emphasis on issues relating to corporate board composition (such as board size, independence, and diversity), as well as the construction and functions of board committees (e.g., audit, compensation, and nomination committees) in enhancing board effectiveness. For example, the Turkish Corporate Governance code, which is based on the “comply-or-explain” principle, recommended for the first time in 2012 that companies have at least one female board member on their boards of directors. 2 years later, the Corporate Governance Communiqué published in

2014 set a new target of no less than 25% female board membership and advised companies to establish policies to achieve this target.

## Impact of Board Gender Diversity on Firm Performance

Past studies have employed many different theories to investigate the association between board diversity and performance, including agency, resource dependence, and social psychology theories. The arguments driven by these theories suggest that the gender, ethnic, and nationality diversity of board members such that it may have a negative, positive, or no impact firm value (Sarhan et al., 2019).

For example, agency theory proposes that more diversified boards are more independent and better able to perform their monitoring function. Females, foreigners, and ethnic minorities are more coordinated and effective in their monitoring role. Adams and Ferreira (2009) argue that boards with female and minority members tend to be more independent and open-minded. Greater diversity in the boardroom is believed to increase the independence of board members and, as a result, improve monitoring and decision-making.

Second, the resource dependence theory argues that corporate board diversity enhances the organisation's connections with its stakeholders, such as customers and suppliers, and may improve its reputation and value and increase board legitimacy. This legitimacy is associated with gaining stakeholders' appreciation, increased capital inflows, investment opportunities, government support, and community acceptance.

On the other hand, the social identity theory argues that more diversified boards, with different backgrounds, ideas, and perceptions, have a heterogeneous working environment, which includes a number of subgroups based on gender, race, or nationality. Thus, board diversity may increase conflicts and thereby degrade the board's decision-making process and increase organisational and operational risk.

In line with the inconsistency in the theoretical literature on the expected impact of board diversity on corporate performance, previous studies have similarly offered mixed empirical evidence (Sarhan et al., 2019). In the literature, there are studies that show a positive effect of gender diversity corporate boards on the financial performance as well as studies that find neither a positive nor a negative effect of women representation on board.

The first group of studies reported a positive impact of board heterogeneity on performance. In a study based in China, Liu, Wei, and Xie (2014) found a positive and significant relation between board gender diversity and firm performance. Sarhan et al. (2019) conducted a cross-country study with five Middle Eastern countries (Egypt, Jordan, Oman, Saudi Arabia, and the United Arab Emirates). They found that board diversity, as measured by director gender and nationality, has a positive effect on corporate financial performance.

Evidence from Spain indicates a positive impact of gender quota legislation. Lucas Pérez et al. (2015) showed that gender diversity positively affects the effectiveness of Spanish boards, resulting in positive firm performance, and concluded that Spanish legislative actions aimed at increasing the presence of women on boards of directors are justified for reasons of economic efficiency. The authors find that gender diversity on boards leads to a greater diversity of knowledge and skills, as well as to a greater variety of appropriate criteria for making decisions.

On the other hand, another group of studies found a negative effect of board diversity on corporate performance. For example, Adams and Ferreira (2009), investigating the impact of female directors on board inputs and corporate outcomes in a sample of 1,939 US firms for 1998–2003, found that gender diversity has a negative impact on performance.

A third set of empirical studies has shown that there is no relationship between board diversity and corporate financial performance. For example, Rose (2007) finds that women board representation on Danish

boards has no significant link with firm performance as measured by Tobin's Q. Similarly, Carter et al. (2010) analyse U.S. firms and find no consistent evidence that gender-diverse boards influence financial outcomes such as return on assets (ROA) or Tobin's Q. These findings suggest that the relationship between board diversity and firm performance is complex and may depend on contextual or moderating factors.

Although there are previous studies in the literature on Turkey that examine the relationship between board size, the proportion of independent directors on the board and the proportion of female directors on the board and financial performance, the results of these studies contradict each other. For example, in the study conducted by Atılğan (2017) in Turkey, there was no correlation between financial performance (ROA and ROE) and the presentation of women on the boards, whereas a negative correlation was observed between financial performance (ROS and earnings before interest, taxes, depreciation and amortisation - EBITDA margin) and the presentation of women on the boards. In another study in Turkey, there was a positive correlation between ROA and the presentation of women on the boards, whereas there was no correlation between financial performance (ROE and Tobin Q) and the presentation of women on the boards (Karayel and Doğan, 2014). In the study by Taşkın and Mandacı (2017), the presentation of women on the boards was associated with ROA negatively and with Tobin q positively, but no correlation with ROE was observed. In summary, when the Turkish literature is analysed, in parallel with the global literature, there are studies showing that gender diversity on corporate boards has a positive, negative, or no effect on financial performance.

## Data and Methodology

### Dataset components and variables

The aim of this study is to examine the impact of gender diversity on corporate boards on firm financial performance, with a particular focus on the effectiveness of Turkey's first soft law gender quota in 2012. In this study, a panel data set is constructed using the data of 12 banks operating in Turkey for the years 2006-2018 (Table 1). Since the soft law in Turkey was adopted in 2012, the study analyzes 6 years before and 6 years after the soft law.

To analyse the prime factors determining profitability in the banking sector, profitability was considered as a dependent variable, measured by the Return on Assets (ROA). Age of the bank, presence of women on the board, number of women on the board, number of family members on the board, number of independent women members on the board, number of independent members on the board, number of family members on the board directors, and number of foreign national members on the board directors were taken as independent variables.

**Table 1**

*Banks and years of data used*

No	Banks	Years	Foundation
1	Akbank	2006-2018	1948
2	Albaraka Türk	2006-2018	1984
3	Garanti	2006-2018	1946
4	ICBC Turkey Bank	2015-2018	2015
5	QNB Finansbank	2006-2018	1987
6	Şekerbank	2006-2018	1953
7	Türkiye Halkbankası A.Ş.	2006-2018	1933
8	Türkiye İş Bankası A.Ş.	2006-2018	1924

No	Banks	Years	Foundation
9	Türkiye Kalkınma ve Yatırım Bankası A.Ş.	2006-2018	1975
10	Türkiye Sınai Kalkınma Bankası A.Ş.	2006-2018	1950
11	Türkiye Vakıflar Bankası T.A.O	2006-2018	1954
12	Yapı ve Kredi Bankası A.Ş.	2006-2018	1944

## Empirical Analysis and Results

In the analysis, the chi-square independence test was used to analyse whether the variables of the presence of women on the board and the number of women on the board of directors varied before and after the quota. Afterwards, logistic regression analysis was performed to determine the variables affecting profitability.

The presence of women on the board of banks was compared before and after the quota, and a significant difference was observed ( $p < 0.01$ ). According to the results (Table 2), the presence of women on the board of directors increased from 36.4% before the quota to 61.7% after the quota. In other words, the adoption of a quota has significantly increased the presence of women on the board.

When the number of women on the board of banks was compared before and after the quota, a significant difference was found ( $p < 0.05$ ). The proportion of banks with one woman on the board of directors increased from 22.7% before the quota to 38.3% after the quota, the proportion of banks with 2 women on the board increased from 12.1% to 18.5%, and the proportion of 3 women on the board of directors increased from 1.5% to 4.9%. In summary, the presence of a quota significantly increased the number of women on the board.

**Table 2**

*Banks and years of data used*

		Before the quota		After the quota		p
		n	%	n	%	
<b>Presence of women on the Board</b>	Not present	42	63,6%	31	38,3%	,002**
	Present	24	36,4%	50	61,7%	
<b>Number of women on the Board</b>	Not present	42	63,6%	31	38,3%	,021*
	1	15	22,7%	31	38,3%	
	2	8	12,1%	15	18,5%	
	3	1	1,5%	4	4,9%	

\* $p < 0,05$  \*\* $p < 0,01$  Chi-square test of independence

## Logistic regression analyses

This study applied the logistic regression model as the main method of analysis. Logistic regression is a statistical method used when the dependent variable is binary. We applied logistic regression by assigning a value of 1 to ROA values of 0.015 and more, and a value of 0 to ROA values less than 0.015. Weighting enables a clear understanding of how well the two groups are distinguishable from each other.

First, the independent variables affecting the ROA of 1.5% and above were tried to be identified with the enter method including all variables. In the model, the variables of the presence of women on the Board and the presence of women from the family on the Board are categorical variables coded as (present/absent), while the others are numerical variables.

In the Enter method, the presence of female family members on the board of directors ( $\beta = 4.411; p < 0.05$ , OR: 82.3) was found to be positive and significant, while the number of independent board members ( $\beta = -.814; p < 0.01$ , OR: .443) was found to be negative and significant. This model explains 42.0% of the ROA being 1.5% and above (Table 3).

After the Enter method, the second method used in this study is the backward method to see the model more clearly. Elimination was applied with the backward method, and it was seen that 3 significant variables were included in the equation at the 5th iteration. According to this,

- An increase in the number of women on the Board positively affects ROA 1.5% and above ( $\beta = 1.092; p < 0.01$ , OR: 2.982). In other words, increasing the number of women in the Board by 1 increases the ROA by 1.5% and above by 2.982 times.

- The presence of women on the board positively affects the ROA of 1.5% and above ( $\beta = 2.976; p < 0.01$ , OR: 19.602). In other words, those who have women on the Board have 19.602 times more chance of having an ROA of 1.5% and above than those who do not.

- An increase in the number of independent board members negatively affects ROA 1.5% and above. In other words, an increase in the number of independent board members by 1 decreases the ROA by 2.33 times by 1.5% and above. The results obtained by applying the logistic regression are summarised in Table 3.

**Table 3**

*Logistic regression modelling results for the ROA*

	Enter			Backward		
	$\beta$	p	OR	$\beta$	p	OR
Age	,020	,116	1,020	-	-	-
Presence of women on the Board	-1,625	,092	,197	-	-	-
Number of women on the Board	1,204	,063	3,333	1,092	,032*	2,982
Number of female family members on the Board	4,411	,034*	82,341	2,976	,008**	19,602
Number of independent female members	-,538	,414	,584			
Number of independent board members	-,814	,000**	,443	-,848	,000**	,428
Number of family members on the board	-,790	,357	,454	-	-	-
Number of foreign members on the board	,133	,156	1,142	-	-	-
R <sup>2</sup>	%42,0			%38,9		

\*p<0,05 \*\*p<0,01 ; ROA >=0,015 n=89 ; ROA<0,015 n=58

The results from both the enter and backward stepwise logistic regression methods indicate that the number of female family members on the Board has a positive and statistically significant effect on firm financial performance.

## Conclusion and Discussion

The board of directors represents one of the highest decision-making bodies within contemporary organisations and serves as a key mechanism of corporate governance, responsible for overseeing whether managerial actions align with stakeholder interests. There are many proxies of board diversity, such as gender, nationality, ethnicity, and race. This study specifically concentrates on gender diversity within corporate governance structures.

In this study, we examine how gender diversity on corporate boards influences firm performance, specifically in the context of Turkey's banking sector following the introduction of a soft law gender quota. Our results demonstrate that the quota policy effectively increased the representation of women on boards,

reflecting a positive shift towards gender-inclusive governance practices. On the other hand, our findings offer empirical support for the argument that increased female representation on corporate boards is positively associated with financial performance, as measured by return on assets (ROA).

Board diversity is often advocated for two principal reasons: economic efficiency and social. From an economic standpoint, diverse boards are argued to enhance decision-making quality, foster innovation, and improve organisational performance by incorporating a wider range of perspectives and experiences. In fact, there should be no economic reason why a minimum proportion of top managers should be women. This is already required by business ethical considerations such as equality, diversity and inclusion.

This perspective aligns with the United Nations Sustainable Development Goals (SDGs), particularly Goal 5 (Gender Equality), which calls for ensuring women's full and effective participation in leadership at all levels of decision-making, and Goal 10 (Reduced Inequalities), which promotes the elimination of discriminatory practices and unequal opportunities. Increasing female representation on corporate boards is thus not only an economic imperative but also a necessary step towards achieving inclusive and sustainable development.

Unfortunately, gender discrimination is still a major problem in the world. Of course, there are multiple reasons for investing in diversity, not the least of which is because it is ethically and morally the right thing to do (Nair and Vohra, 2015). However, the financial advantages highlighted in this study may motivate companies to increase the representation of women on their boards.

This study is subject to some limitations that could be potential avenues for future research. First, the results can be strengthened by examining a wider range of years of the banks in the sample. Furthermore, future research could add more board characteristics and different measures of bank performance to gain a deeper understanding of the role of board characteristics on bank financial performance. Finally, diversity and inclusion are distinct but interrelated concepts. Most academic studies have examined diversity on boards. However, it is important to ensure that minorities on boards can participate in decisions, such as voice or influence, inclusive. Future research should place greater emphasis on inclusion-focused studies that examine the experiences and contributions of minority groups within corporate boards.



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