Diversity on Boards of Directors – A Preliminary Exploratory Study

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Abstract

This paper looks at some of the issues around women's underrepresentation in positions of power in business and in a comparative sense at the various forms of regulations (both national and supranational) that have emerged to address it. In particular, this study looks at boards of directors and their diversity measures and compares initiatives and regulatory interventions across developed countries.

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1 Introduction

Despite the vastness and complexity of the range of managerial and leadership arrangements, there are some surprising consistencies across cultures. One of them is the tendency for women to be underrepresented in positions of power. This is true for business and commerce as it is for politics. However, it is not 'natural' or unchanging. It is a product of the evolution of human cultures and humans can, self-reflexively address these patterns.

The world of business has also changed in significant ways in the last few under the rubric of globalisation. In particular in the area of corporate governance, gender equity and redressing gender representation has recently become an important area of study (Clarke and dela Rama 2006). However, female under-representation has had a long history. As various feminist studies attest, the struggle for equality by women has deep and long standing roots (Ragins et al 1998) and it took somewhat longer for explicit gender politics and theorising to enter the field of business studies. However, it is far from being a new problem there. For example, glass ceiling studies emerged early when business theorists began to address the lack of female CEOs in the 1970s (Ragins et al 1998) and other writers have argued that it needed to go beyond merely counting heads. The central case for the inclusion of women into the top tier of business leadership was always going to have to be a business case and not out of tokenism (Huse and Solberg 2006)

Another important development in the literature has been the tying of women's progress issues to debates about corporate social responsibility (CSR). Whilst CSR studies have been more concerned with sustainability as a result of spillover from the influence of ecological debates into bushiness studies, companies that address CSR have also to consider generally notions of equity and fairness, and women's promotions and pay (especially where companies are operating in developing countries where gender and pay inequalities may be much more exploitative) are sometimes thrown in with general equity issues such as race discrimination of the largely under addressed area of disability and business (Bernardi and Threadgill 2010).

After the 2008-2009 global financial crisis, Skipper (2010) in the World Bank's corporate governance forum, linked the crisis to lack of female managerial and board representation by explicitly stating that female representation would have raised the levels of ethics and transparency in business. Arguden (2010) also argues that in the finance sector, broadening the ethnic and gender diversity of boards not only helps increase the size of the candidate pool and therefore the quality of potential board members, but it also helps broaden the perspectives and experience of the whole team. Having more than a token female or minority member—and making sure that such members are deemed peers, by recruiting really qualified people—improves the tone of boards significantly."

This echoes the earlier debate of having a balanced board (Wang and Coffey 1992) whereby a board that addresses issues of ethnicity, disability and gender representation would tend to make 'wise' and less rash or greedy decisions. (Brown et al 2013; Pavelin et al 2009)

However, greater female representation has also been linked to lower management costs (Jurkus et al 2011) due to being paid less for the same jobs. Firms with a greater percentage of female officers had lower agency costs but this finding was also modified by how much the diversity was within the company as opposed to outside. Where strong (as in varied) external governance was absent increasing diversity in the board has extra benefits.

2. Methodology

A desk research was conducted in 2013-2014 to scope out the recent academic literature and regulatory interventions and corporate initiatives in the area of gender diversity to address the following research question:

What is the state of play in gender diversity initiatives in OECD countries?

The question of gender equity in business and of women's participation in the higher echelons of business and finance has been much discussed topic for at least a decade or so and whereas topics on this can be found in the 1990s, there was a strong accumulation of literature in the last eight years.

As an indication, a generalised initial database search under the search terms "women and boards' yielded over 2 million citations. In order to make the methodology manageable a number of limiting factors were employed. The first issue was to limit the date of the searches to those items published between 2010-2013/4, although a few items (such as major academic publications, government reports or books) from the years 2000 – 2009 were also considered relevant.

Main searches were conducted on academic and business databases of ProQuest 5000, Jstor, Expanded Academic Index, Web of Science, Business Source Premier, Business Information Systems, Factiva and Annual Reports Online. The main business journals from the Australian Business Deans Council List[1] were consulted in the year range previously specified (2010 – 2013/4).

A Factiva database search was also conducted to access international journalistic discussion and reporting of global businesses and particular company initiatives. It was immediately noticeable that national and international government and business initiatives were much more likely to be address global or big business, whilst small and medium enterprises (SMEs) rarely featured in the literature to the same extent. SMEs, therefore, are underrepresented in research terms around their gender equity initiatives and compliance issues.

In addition to academic literature, there were two other significant sources where research is being done and where information and discussion are collected together, Reports of various government and global agencies including NGOs and QUANGOS were looked at for diversity and discrimination issues Reports from the following institutions were consulted: the International Corporate Governance Network, Governance Metrics International, Women on Boards – Boardroom Diversity Index, Diverse Directors DataSource, and UN Business and Human Rights Resource Centre,. Various national organisations dealing with gender diversity issues were also consulted such as the Australian Government's Equal Opportunity for Women in the Workplace Agency.

There are also some stakeholder bodies that have taken a special interest in equity matters such as pension funds. In the USA, gender diversity reports by CalPERS (California Public Employees'

[1] The 2013 list was consulted http://www.abdc.edu.au/pages/abdc-journal-quality-list-2013.html accessed 14th July 2014

retirement system) were consulted in appraising forward-looking corporate governance approaches. In the UK, the work of ICAEW (Institute for Chartered Accountants England and Wales) contributed factual information in this area, again under the corporate governance rubric, as does the reports of the Cranfield School of Management (see also the Davies Report 2011).

Reports written by global business consultancy and international law firms were consulted for their data in helping compare and contrast different regions and countries and how they presented the gender equity information and state of play in a simple and cogent tabulated form. Annual reports on gender equity by McKinsey, Deloittes International and Paul Hastings were also consulted. These firms provided information on levels of female board member (mostly non-executive) and quotas as these firms are also participants in executive search networks.

Lastly, reports of advocacy groups that call for increased female participation in public life and business were consulted, the most dynamic being the North American based group Catalyst.

3. Results and Discussion

The following table shows the state of play of gender diversity initiatives on the corporate board level from 2010-2013 in Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, The Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland and the UK. These countries were selected for ease of obtaining publicly available data and their respective developed economy status.

Mandatory gender representation is making a highly visible impact with transitional periods for companies in countries with enforceable undertakings. For countries which have no mandatory gender diversity initiatives, legislation or codes have asked for more explanatory notes on why their female representation on boards is low or non-existent that is, the comply or explain principle.

<INSERT Table 1>

Quotas

In some of the selected countries above, the idea of setting quotas (to limit the default recruitment of men and to try and ensure minimum numbers of women on boards) is effectively aligned with positive discrimination measures. Previous examples of positive discrimination have been tried in relations to the under-representation of non-Caucasian populations in the US and other countries in relation to promotion to positions of power and access to education. (Wang, 1983) Some countries in Europe on the other hand have different political philosophies and culture and this makes them more likely to overcome objections to the idea of positive discrimination.

In November 2013, EU legislation mandating that 40% of non-executive board positions to women showed the EU was willing to tackle the issue of the underrepresentation of women (European Commission 2012) via stronger measures than just urging change, however this step is polemical as not all EU member states have the appetite for quota enforcement (Reding and Honeyball 2013). European Justice Commissioner Viviane Reding stated this was “the first cracks in the glass ceiling”. This remark was made in the recognition that the advancement of women has been quite slow in the area of business. Men still make up more than 85 per cent of non-executive board members in the EU.

This is only a proposal at this stage and it will no doubt meet with varying degrees of resistance, with the main fall-back position relying on the rhetoric that greets most attempts to impose Europe-wide measures - that individual countries are sovereign and should be allowed to make their own decisions.

The question of whether the quota system will spread to different countries is complex. Part of this complexity relates to the individual characteristics of the culture of the country as well as of their financial systems. Gender issues must be examined on a country-by-country basis (see Table 1).

Countries that advocate quotas are operating with a collectivist view; they see social advancement as pertaining to groups (in this case women). Whereas opponents argue that quotas are inimical to the principles of business if those principles are rooted in seeing talent as the key individual attribute.

In Norway, the exemplar in gender board representation, the quota law did not see the sky fall in the capital markets of that country and by 2008, 500 publicly listed companies had complied to the 40% mandatory female representation while 100 companies delisted as quota avoidance. The Norwegian case highlights or foreshadows many of the issues and problems that have occurred in relation to the push for gender reform in other countries. While there was always the entrenchment of the old school that resisted women coming into business elites (Thomson and Lloyd 2011) there were the professional structural elements such as women needing more promotional opportunities on the back of their increased levels of education and of recognizing critical work-life balance and the relationship of pursuing business careers and managing parenting and childcare (Wetherby and Otter 2014)

Industry Activism

In Australia, activism by stakeholders has focused on gender diversity as part of a wider good corporate governance agenda where a comply or explain regime exists. There is no mandatory quota. However, pressures from human rights advocates have catalysed the private sector to engage in self-regulating industry measures to promote diversity. One outcome of this pressure is the Male Champion of Change (MCC) initiative[2] launched in 2013 which brings together the Australian Sex Discrimination Commissioner, 21 CEOs, department heads and non-executives directors from both the public and private sector. The MCC has an ongoing commitment to seeing reforms through mentoring and on securing female promotions and securing support from males to drive the change. The importance of mentoring is pivotal in ensuring there is a pool of female talent in the pipeline so that selection by the leadership level will address criticisms of tokenism and the glass ceiling (Ragins 1998, Matsa 2013).

Related to this is the complex interlocking elements that position women (and men) around issues like childcare. The impact in terms of breaking career progression from women who have children is a well known effect. Issues of subsidising child care (or having a crèche at work) or introducing more work from home and more flexible hours can all effect women's (mothers') experience of work. Ensuring that women who take a break but want to come back (at not at a lower level in the organisation) has been one of the things that the MCC has seen as central to change.

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[2] http://www.asx.com.au/documents/regulation/male-champions-change-listening-learning-leading.pdf

Nobre et al (2014) have used personal construct theory to try and provide a greater understanding of why "some women succeed in these positions whilst others have their careers derail." Whilst taking cognisance of existing research on leadership derailment, they explored the personal construct systems of leaders who have avoided or overcome derailment. This aims to facilitate a greater appreciation of the role of intrinsic characteristics of women leaders, thereby creating a more integrated and holistic understanding of leadership derailment.

Glass cliff?

Less widely understood but equally condensed is the term glass cliff which states that women are finally given top jobs when certain industries or companies (or even governments) are already in decline (Ryan and Haslam 2005). In that perspective, the leadership position becomes a poisoned chalice such as the plight of Mary Barra, who became the first CEO of General Motors in America at the time when the company is in decline (Trop 2014). The glass cliff can also be applied in the political arena with various state governments in Australia jettisoning female premiers in unpopular incumbent governments prior to elections.[3]

Conclusion

This paper looked at emerging issues in the wake of regulatory and corporate initiatives over the period 2010-2013. Promoting diversity in the boardrooms has reached a critical mass where comparisons can be made and share best practice in the area. Co-opting industry rather than having an acrimonious relationship with the private sector has allowed some governments to promote voluntary initiatives to address this issue, whereas some country have taken the mandatory approach due to perceived stagnation or failure of leadership in the corporate sector.

Diversity has to start somewhere. If more women are trained and given a chance then they will lead by example. Gender categories are also relational. If gender differences become static rather than relational a lot of the dynamism is lost. This is ultimately the only way to deepen the trend towards more women on boards.

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[3] See the cases of NSW premier Kristina Keneally (2009-2011), Queensland premier Anna Bligh (2007-2012) and Victorian premier Joan Kirner (1990-1992).

Table 1 – Gender Diversity Initiatives

COUNTRY	Government and other Regulations	Corporate Response/s	Comments
Australia	ASX Corporate Governance Code (re-issued June 2010); Equal opportunity for Women in the Workplace Agency diversity targets; Australian Human Rights Commission on raising awareness[4]	Male Champions of Change; Australian Institute of Corporate Directors recommendations for members; Governance Institute of Australia	Recommendations only; no mandatory legislated minimum requirement for females on boards.
Austria	For companies more than 50% state owned required to have 25% female representation on board	Level to increase to 35% by December 2018	
Belgium	From 2011 national law on gender diversity requires minimum 1/3rd male and 1/3rd female directors	Only 13% so far women on boards of largest listed companies	
Canada	State-owned companies in Quebec required to have 50% quota (from December 2006). 40% quota proposed for other provinces and for state-owned companies only.	Corporate boards aim for 20% by 2015-16 and full compliance target by 2018-19.	Quebec has a reputation for being progressive.
Denmark	Various types of companies (on size not just ownership) required to set targets in relation to under-representation of women. From January 2013 possible 'tripping mechanism' if a space becomes available and board is all male the next appointment must be female.	Denmark already has comparatively high levels of females on boards with 16% of the larger companies.	Divisive political issue in parliamentary debates.
Finland	Strong legislative approach with the passing of The Act on Equality between Men and Women. Any government body or state-owned enterprise must have both men and women represented equally		

[4] A summary of various initiatives in Australia can be found in the following URL http://www.asx.com.au/regulation/corporate-governance-council/diversity-resources.htm accessed 14th July 2014

	unless 'special reasons' to the contrary[5]		
France	Quotas introduced in January 2011. For large and listed companies proportion of male and female directors not below 40%, when 8 directors or less the difference must not be more than 2.	Code not mandatory but if not complying must explain why in the company annual report. Transitional period till 2017. Companies aiming to be newly listed must reach 20% level by January 2014.	France showing signs of moving more decisively in this area. Pay sanctions to back up. Out of line appointments can lead to all directors' fees frozen until it is remedied. During the transition period up to 2017 companies must reach first step of 20% females. Between 17 and 22.5% women on boards in top 120 companies
Germany	German Corporate Governance code (for listed companies) urges to "take diversity into consideration in particular aim for an appropriate consideration of women".	General reluctance to introduce gender quotas.	Women's levels on boards low by Northern European standard with only 12.9%.[6]
Italy	Law 120 on 'Gender Balance of Listed Companies' passed in 2011 with the less represented gender should get 1/5th of the seats on boards. Additional law in October 2012 on compliance of the above for state-owned companies.		Various sub-regulations about time of implementation. Companies given time to comply (two months) or can be fined. Low starting base with less than 4.5% women on Italian corporate boards.
Netherlands	Legislation passed in 2009. Boards to have 30% male and female membership by 2016.The extra 40% at company's discretion.	Dutch Corporate Governance code requires a published company profile that includes diversity aims	Percentage of women on boards decreased in 2013 to 12.5%
New Zealand	No gender quotas for boards or senior management positions.		New proposed stock exchange rules will require listed companies to declare how many women and (ethnic) minorities they have on their boards. Current levels estimated at 13.55%
Norway	First country to introduce gender quotas in 2005. Board of more than three both sexes must be represented. If 6-8 members must have at least 3 of each gender. Board of more than 9 must have 40% of each	Country has strongest sanctions. Companies can be de-listed if they fail to comply. Disclosure of numbers is required by law.	Also highest levels of gender equity reached on boards. A sample of companies suggested level of women was up to 36.3% Women serving on largest listed companies was 42%

[5] See Governance Metrics International (2012) Women on Boards survey
[6] Op.cit.

	gender		
Spain	Law aiming for 40% female representation on boards of listed companies	Companies that do not seem to have considered female candidates when recruiting may be asked to explain why.	Evidence of nepotism in staffing from ruling elite families. Women on boards (40 top companies) + 10.2% but signs of change with Spanish female directors promoting this issue.
Sweden	Swedish Code of Corporate Governance urges companies strive for equal gendered boards.	Companies must address this in their annual reports and, if lacking diversity, explain how it will be addressed.	As with other Scandinavian countries female board to participation is relatively high. Women on board of largest companies is 25%
Switzerland	Swiss Code of Corporate Governance (2002) articulating principles of board behaviour	Comply or explain regime with no gender mandatory representation	Reputation for conservatism and may lead backlash against gender equity push?
U.K.	No quotas for women on boards or senior management positions. Davies Report in 2011 reviewed women on boards. Report recommended minimum 25% women on boards by 2015.	Report yet to be implemented. Self-regulation with activists calling for chairs of companies to openly commit to gender targets and mentoring programmes.	Similar to USA, lots of discussion but less solid progress. Conservative city of London culture often cited. 30% Club is an advocacy group led by female head of an investment firm aims to track progress towards 2015 targets.
U.S.A	No quotas for women on boards or senior management positions.	The Thirty Percent Coalition is a business organisation aiming to get this level of women onto boards by 2015. Alliance for Board Diversity is a peak body for diversity-focussed organisations seeking to tie in shareholder value and inclusion of women and minorities.	Around 16.1% of women serving on boards, with 12.6% in major listed companies in 2012 Equal Opportunity for Women in the Workplace Amendment Bill 2012. Includes injunction for employers with over 100 employees to report annually on gender diversity.

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