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Struggle In The Boardroom

The prospect of mandatory quotas for women on European company boards seems to have receded, but European Commission Vice-President Viviane Reding's campaign for quotas has pushed the issue of gender diversity firmly to the forefront of public debate. What happens next will depend as much on corporate leaders as on politicians.

"There is indeed a glass ceiling for women in business," says **Ludo Van der Heyden**, INSEAD's Mubadala Chaired Professor in Corporate Governance and Strategy," and the main cause of it is men."

Though more and more people favour getting more women into top jobs, men are dragging their feet when it comes to doing something to achieve that, he says. Gender parity is an issue of "corporate societal responsibility", and too many companies are falling short of their obligations. "Men are notorious for not sponsoring women for senior positions. That's the bottleneck."

The campaign for gender equality extends far beyond boardrooms, to be sure. But companies have a particular responsibility as employers to ensure fair and equal treatment for both women and men. Women are often less active than men at networking, and they tend to have different career paths, which puts them at a disadvantage. Having more women on boards, campaigners argue, can serve as a catalyst for providing more opportunities for women at operational level, enabling companies to build up a "pipeline" of female talent.

Arguing the business case

Some countries, including Norway (which is not a member of the EU), France and Spain, have already passed legislation imposing quotas for women on company boards. Others, however, are hesitant or downright hostile to quotas. As a result, the issue has become a source of international controversy.

However it pans out, Reding's campaign to push more women into boardrooms has focused a spotlight, not just on the rarity of women at top level in companies, but on why having more of them is a good idea.

"It's not just about social equity, though that is very important," says **Charles Heeter**, managing principal for Global Public Policy at consulting firm Deloitte Touche Tohmatsu. "There is also a very important business case."

Heeter, who is chairman of the Business and Industry Advisory Committee to the OECD (BIAC), cites three reasons why women merit a bigger role in corporate management.

They are important consumers of companies' products and services, he says. They are a valuable potential source of staffing talent. And above all, they can provide useful insights into matters affecting a firm's operations from viewpoints very different than those of men.

In a Deloitte study of Fortune 500 companies in the U.S., he notes, the 125 firms with most women on their boards outperformed the 125 firms at the opposite end of the spectrum by at least 53 percent in terms of return on equity.

"Organisations that have diverse boards and bring diversity to decision-making make better decisions," he affirms.

Interpreting communications

The European Commission looks unlikely to call for mandatory Europe-wide quotas for women in boardrooms, following its October 23 postponement of a discussion of a proposal along those lines from Reding. But that should not be allowed to weaken the drive in favour of greater top-level involvement of women in business, campaigners say.

"Disagreement over the means should not be allowed to undermine the validity of the objective," says **Marina Niforos**, managing director of the American Chamber of Commerce in France. "If we can't find a consensus on legislative quotas, the question then becomes: are there other models that can move the objective forwards."

Some countries, she points out, have introduced voluntary targets. Others, including Australia and the Netherlands, have inscribed measurable objectives in their corporate governance rules, requiring companies to meet them or explain why they are not doing so.

Earlier this year, AmCham France joined forces with BIAC to produce a report setting out the business case for advancing women's economic empowerment.

"Diversity avoids group think, benefitting decision making, problem solving, and innovation, which in turn improves economic performance," the report said.

Female board members often play an important role in "interpreting" communication between participants in board discussions, confirms **Annet Aris**, a former McKinsey partner who is Adjunct Professor of Strategy at INSEAD and on the board of a number of European companies.

In one case of which she had direct experience, male members of a board regarded a female manager as being "too timid and not showing enough action orientation, while the women directors were actually very positively impressed." Aris explains, "By discussing this difference in perception and referring back to the actual achievements of this manager (which were excellent), perceptions where aligned and eventually this manager was promoted to the executive board."

In another case, Aris tells of a female manager who was perceived as being "too aggressive" by the male side of the board. "Again, by challenging this vision and asking how they would judge when a man had showed this behaviour, perceptions were changed and judgements revised."

A toolkit for diversity

The AmCham/BIAC report held back from recommending quotas for women. While the struggle to get more women onto boards catches headlines, Heeter says, "Quotas can be used as an excuse not to address the bigger issue which is the pipeline."

Instead, to help companies on the road to greater diversity, the report included a "toolkit" of best practices in areas ranging from executive leadership to human resource and operational practice, education and training, and communication and social context.

"Successful diversity programmes require a combination of proactive leadership and company practices and measures throughout all levels of the organisation," it stated. "Both top down and bottom up leadership are essential."

"Boards should serve as role models by themselves exhibiting gender balance. They can drive actions throughout the company by requiring that management put in place and be accountable for appropriate diversity action plans."

At Deloitte, Heeter says, human resource policies have been revised to allow more flexibility and more opportunities for both women and men. Men are now able to take paternity leave, and opportunities for flexible or part-time employment have been extended – including, "much to my surprise, at the level of partners," Heeter says.

Even so, he acknowledges, among the partners, principals and directors who are really the owners of the firm and its upper management, only about 20 percent are women. That's a reflection of the "leaky pipeline", and "It's the thing we are really working on… There is a lot more work to do."

In most of Europe, even a 20 percent ratio for women in boardrooms is well ahead of what most large companies can claim. Only around 14 percent of board members at Europe's top firms are women, according to the European Commission. That's up from 8.5 percent in 2003, but it falls short of the 30 percent that many pro-diversity campaigners regard as an acceptable near-term target. It's far below the 40 percent ratio that Reding, as EU Commissioner responsible for justice and fundamental rights, wants to achieve.

Initially, Reding chose a soft approach in her campaign, with a call in March 2011 for European companies to join a "Women on the Board Pledge for Europe" committing them voluntarily to a 30 percent ratio of women on their boards by 2015 and 40 percent by 2020.

By March 2012, however, only 24 companies had signed up. That's when the feisty former journalist and member of the Luxembourg parliament decided it was time for a more forceful stance.

Over the next three months, she took soundings from business people, academics and politicians. A group of European business schools sent her a list of 7,000 women whom they considered to be "board-ready". As a contribution to her consultations, Van der Heyden conducted a poll of members of the INSEAD Corporate Governance Initiative (ICGI) network which he heads.

The result was a recommendation for an obligatory 30 percent quota for the largest European listed companies, to be reached over two to five years. While male respondents to the ICGI survey mostly opposed quotas, a majority of women considered them necessary to improve gender balance.

"Women were vocal in their desire to be considered on their own merits, and did not wish to be appointed due to quota; this is also the position that men typically hold," Van der Heyden wrote in a submission to Reding's office. "The big difference is that women do not believe they are currently considered on their merit, and hence reluctantly would agree to a quota system – hopefully only temporarily – to induce change in the current system."

An ideological clash

By October 2012, Reding was ready with a proposal for Europe-wide legislation obliging listed companies to have 30 percent of women on their boards by 2015 and 40 percent by 2020. Then came the cold shower. European Commission lawyers issued an opinion that Europe-wide quotas would be unlawful under EU treaties. Several other members of the European Commission made clear that they would vote against them.

Reding has told her supporters that she is not about to drop the baton. "I will not give up," she tweeted after the Commission's decision to postpone discussion of her proposal, noting that it would come up for discussion again in a few weeks' time.

Meantime, however, opponents have stepped up their campaign against quotas. A U.K. business group called "The 30 Percent Club", which favours raising female representation at board level, has argued vehemently against them, claiming that they "can actually be harmful to the development of diversity" and campaigning instead for "voluntary change".

In a comment to INSEAD Knowledge, INSEAD Professor of Finance **Theo Vermaelen** attacked quotas as an "absurd proposal" that would undermine European competitiveness, blaming the initiative on what he described as a new EU mantra aimed at "regulating all aspects of people's lives and using corporations to promote political pet projects, regardless of costs."

Where the debate goes from here will depend on which camp gains the upper hand in what has increasingly come to be perceived as an ideological clash on the role of government in public policy. One factor weakening the case for quotas is a lack of firm evidence proving that firms really do better when they have more women on their boards.

While the AmCham/BIAC report cites a McKinsey & Company study that showed higher returns on equity and higher operating results for a range of international companies with women on their boards, demonstrating causal links has proved difficult.

Opponents of quotas for women counter with a study of what happened to Norwegian firms after legislation in that country made a 40 percent quota for women compulsory on the boards of listed companies as from 2008. Writing for The Quarterly Journal of Economics, Kenneth R. Ahern, Assistant Professor of Finance and Business Economics at the Marshall School of Business, UCLA, and Amy K. Dittmar, Associate Professor of Finance at the Ross School of Business, University of Michigan, identified "a large negative impact" caused by the quotas on the stock market valuation of 248 listed Norwegian companies between 2001 and 2009.

They linked a drop in Norwegian companies' valuations with the negative effects of differences in age and experience of the women who were brought onto their boards. "New female directors had significantly less CEO experience and were younger, more highly educated, and more likely to be employed as a non-executive manager, compared to retained male directors," they pointed out.

Better board work

To be sure, such an analysis also has limitations. How quotas are introduced and how individual firms respond to them can affect company performance as much as their choice of individual women directors, other academics point out.

In Norway's case, says Van der Heyden, quotas were rushed in with little notice. Firms had only a small pool of qualified Norwegian women to choose from as potential directors, prompting many to appoint women from other countries. If company boards were unable to handle the change, he asserts, it's unfair to blame this solely on the women.

Elsewhere, he says, he observes a very different picture. "The evidence that I have is unscientific yet consistent. All boards that have searched for competent women have been pleased with their performance: better board work, more direct exchange, better preparation, better management of opposite views and synthesis."

"No one has been unable to find capable female board members. But the search must be done via ways that may be different than the usual male-oriented ways."

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