Director Notes

Women on Boards: Beyond Quotas

Diversity practices from Australian mentoring programs and American football teams

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Worldwide there is growing interest in increasing the number of women on corporate boards. While quotas have often been proposed as a way to increase female corporate leadership, they remain controversial and may fail to address the root causes of the shortage of women on boards. This report examines the rationales for increasing gender diversity on corporate boards and proposes alternatives to quotas for increasing female representation.*

The idea of promoting more women to boards of directors has increasingly gained momentum. A number of countries have proposed legislation advocating greater female representation on corporate boards and press coverage of the issue remains persistent. However, progress has been slow. In the United States, women occupy fewer than 17 percent of Fortune 500 board seats and one-tenth of those companies do not have any female directors.[1]

The situation is similarly dire around the world. In Australia, women represent 18.2 percent of board members, in Canada they account for 15.9 percent, and in the United Kingdom 21.6 percent of all board seats are occupied by women.[2]

In Asia, the situation is even more extreme. Chinese companies have only 8 percent female board representation, India has less than 5 percent female board members, and in Japan, women account for only 2 percent of board members.[3] Despite government initiatives—including a European Commission initiative to attain a 40 percent objective for women on the boards of stock-listed companies[4]—only five of the 28 European Union states have more than a quarter of board seats occupied by women.[5] The exception is Norway, where, following the implementation of a mandatory quota, women now account for 41 percent of board members.[6] However, the use of quotas has generally been met with disdain by business and some governments.[7] Quotas also may not address the root causes of the reason for the low levels of women serving on corporate boards.

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This report examines the benefits of adding women to boards. Attention to this issue has focused mainly on ascertaining whether there is a positive economic relationship between an increase in the number of women on boards and increases in firm profits. Since existing empirical studies examining this relationship have been equivocal in their findings, alternative means for increasing gender diversity at the board level are also discussed.

The second part of this report examines the use of quotas using Norway as a case study. It then considers alternative methods for increasing the participation of women on boards by canvassing practices adopted by Australian mentoring programs and American football teams, as well as existing workplace norms and practices that may inhibit female labor participation.

Why Women?

The most common rationale for making any change to a corporate governance practice is the potential impact on corporate profits. While a number of studies have sought a causal relationship between an increased number of women on boards and increased firm profitability,[8] most have reached equivocal results.[9] Numerous studies have found positive relationships between women on boards and increased profits, and just as many have found negative relationships. Still others have found no connection between the two.[10] Indeed, many economists have concluded that the relationship between these two variables is so methodologically complex that a definitive explanation may never be found.[11] Citing the difficulty of proving the robustness of the link between gender diversity and financial performance, the EU Committee of the UK's House of Lords recommended discarding it as the rationale for increasing the number of women on boards.[12]

To date, most economic rationales for increasing gender diversity on boards have emphasized the utility or contributions women can add in terms of financial performance. While such rationales have received the most attention, they are not the only rationales for increasing the participation of women on boards. As further discussed below, under an equality rationale, fostering gender diversity on boards is premised on the need to equalize power and opportunities between men and women, or in other words, in terms of promoting social justice. In addition, this report discusses a different economic rationale which focuses on women's contributions to board process.

An Equality Rationale

Justifying more women on boards for equality reasons can be thought of in terms of aspirations for a more equal or balanced society. The idea of having an equal or balanced society, in turn, is premised on notions of justice. Thus, an equal society is one in which there is an equalization of power and resources, participation, and influence between men and women.[13] Gender diversity on board initiatives are therefore justifiable if they seek to promote a more just distribution of power and resources. In fact, measures which promote women on boards are particularly well-directed towards redistributing power. This is because given the importance of market forces today, directorships represent the source of power and influence in companies.[14]

Still, examining this issue from an equality standpoint does not simply suggest that a certain percentage of directorships be allocated to women, as a quota would require. Instead, an equality rationale demands that women be given the same opportunities as men to participate, such as ensuring that the social and institutional arrangements that affect opportunities do not unnecessarily hinder women.[15]

Indeed, a crucial reason for justifying measures to increase the number of female directors in terms of equality is that relying only on economic arguments can limit and depoliticize the issue of women on boards.[16] In part, this is because an economic rationale is often used to prioritize economic issues over other issues, meaning that equality issues must be slotted into an unchanging economic model rather than trying to balance economic and equality issues. Thus, an equality rationale can be used to unmask the broader organizational, institutional, and cultural changes needed to achieve greater representation of women on boards in a sustainable manner. Without such changes, increasing the number of women on boards may only be achieved in a limiting manner, in that the structural conditions that have given rise to the under-representation of women are unlikely to be affected.

Finally, an equality rationale offers a distinct advantage to foster initiatives in this area. Since equality arguments emphasize women's rights—as opposed to business reform—increased female representation on boards can be valued in its own right. In this way, an equality rationale promotes gender diversity on boards as a desired value in and of itself. It is this kind of value recognition that may prompt normative changes in businesses.

More than Impact on Profits: A New Economic Rationale

While an equality rationale may arguably be the most important rationale to support initiatives that promote gender diverse boards, economic rationales remain key complements. After all, economic arguments are likely better understood by managers and may be more persuasive in gaining the support of key decision-makers.[17]

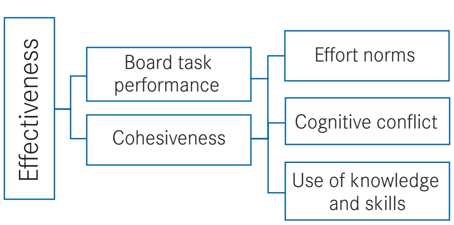
Economic rationales are, in truth, utilitarian arguments: they emphasize the use of or the consequences that women can bring. Most commonly, the utility sought in adding women to boards is an increase in firm profitability, but there are other means of measuring women's utility. One approach is to focus on women's contributions to board process. Drawing from strategic management theory, examining board processes focuses on how effectively boards make decisions. Scholars have found that the demographic variables of board members, such as gender, do not directly influence firm performance, but they do affect how effectively boards perform their tasks.[18] Strategic management theory may therefore explain why the relationship between women on boards and firm performance has been equivocal. Since the contributions women make to firm performance are made through an intervening variable—board process—it becomes considerably more difficult to extract and measure their particular contribution to firm performance.[19] Nevertheless, the contributions of women to board process can be measured and can serve as the basis for an economic rationale underlying measures to foster gender diversity on boards.

The Model of Effective Boards

Generally, strategic management theorists argue that the model of board effectiveness depends on two criteria, which, in turn, are influenced by three board processes.[20] The two criteria are effective board task performance and the ability to work together in a cohesive manner. The three board processes include effort norms, cognitive conflict, and the board's use of its knowledge and skills (See Figure 1).[21]

Figure 1

Model of board effectiveness



Source: Barnali Choudhury, based on the theoretical model of Daniel P. Forbes and Frances Milliken, "Cognition and Corporate Governance: Understanding Boards of Directors as Strategic Decision Making Groups," *Academy of Management Review* 24, no. 3, p. July 1999, p. 489.

Generally, board task performance refers to the board's effectiveness in the three broad functions: service, management, and control.[22] Tasks may involve providing counsel and advice to executives, enacting broad policies and hiring top management, as well as monitoring management's activities.[23] Board effectiveness is also dependent on a board's cohesiveness, or the degree to which directors favor each other.[24]

Conversely, board processes focus on the way boards make decisions. For instance, effort norms—or the group's shared belief regarding the level of effort each individual is expected to put toward a task—are instrumental. Cognitive conflict, which represents the differences in viewpoints, ideas, and opinions about the board tasks being performed, is another important process. Finally, process is dependent on the degree of specialized knowledge and skills that boards possess and their ability to apply their knowledge and skills to tasks.[25]

Women's Contributions to Board Effectiveness

Empirical studies demonstrate that women make broad contributions to each of the factors that contribute to effective boards. For example, women generally have a positive impact on board tasks, particularly those of a qualitative nature. Multiple studies show that they are adept at fostering strategy development, improving corporate social responsibility related issues and highly effective in monitoring management.[26] In addition, women's presence on boards can contribute to cohesiveness.[27]

More importantly, studies have also shown that women make considerable contributions to each of the three factors of board process, including effort norms. Empirical research demonstrates that women not only exhibit strong effort norms, but also intensify the board's effort norms. Studies show that women spend more time preparing for board meetings, have better attendance records for board meetings than men, and improve the attendance behavior of male board members.[28] Women additionally have a significant positive effect on board development activities such as board instructions and board evaluation as well as make boards more active.[29]

Research has also documented the positive impact women directors have on cognitive conflict by bringing diverse viewpoints to the board room and encouraging greater discussion and debate over board decisions.[30] Women may champion difficult or controversial issues and help broaden discussions to better represent the concerns of a variety of stakeholders.[31] Studies have further found that women can contribute to the creativity or innovation of board discussions and of solutions considered in the board meetings.[32]

Finally, in terms of possession and use of skills, female directors have been found to be more likely to have advanced degrees and international experience.[33] They also possess unique skill sets, such as greater familiarity with consumer products or better understanding of stakeholder issues.[34] In addition, female directors who have worked their way up from male dominated cultures of senior management have been found to exhibit persistence and resilience or skills which enable them to champion difficult issues.[35]

Existing studies demonstrate that women can make valuable contributions to a board's process. While not every woman will make each of these contributions and not every firm will need all of these qualities, the contributions women can make to boards *generally* support the idea that adding women to boards makes economic sense.

The Quota Solution: Norway as a Case Study

Given the slow growth in the percentage of women directors, imposing a quota system offers the quickest fix. Several countries, including Norway, France, the Netherlands, Belgium, Italy, Spain, and Iceland, have already adopted some sort of quota, with varying levels of success. Spain, for instance, has not achieved greater levels of success than self-regulatory approaches despite the introduction of quotas. In Spain, even with a nonbinding 40 percent quota requirement in place, women represent just 12.3 percent of board members of the largest publicly listed companies. [36] Conversely, Norway, one of the first countries to adopt a 40 percent quota for female representation on boards has, within a short amount of time, dramatically increased the number of women on boards to just above 40 percent.[37]

Norway's success in increasing the number of women board members has made it an example of the benefits that quotas can offer. The success of that initiative is, in many ways, due to the normative stronghold that gender equality enjoys in other aspects of Norwegian society. Gender equality is the prevailing norm and the country enjoys an international reputation for its promotion of women's rights.

The political ethos of the state is also generally reflective of the importance of gender equality. Measures to encourage female employment or to promote work-family reconciliation are common in Norway's public sector. Norway has used gender quotas for political parties for 40 years, and quotas are commonly used for the composition of all public boards, panels and committees.[38] In short, corporate buy-in of quotas is not surprising in a place like Norway where gender equality is a dominant norm.

However, it is important to note that the scope of the quota requirement was limited, applying only to 400 public companies.[39] For countries in which quota laws would affect a larger number of corporations, there may be a greater likelihood of corporate pushback.

Norway's law is also accompanied by a strong enforcement policy. Failure to comply initially results in a warning to companies, followed by the threat of fines, and ultimately, a company that fails to adhere to the law can be dissolved by a court order.[40] In contrast, Spain, which operates its quota requirement on a nonbinding basis and without an enforcement mechanism, has only managed to increase the number of women on Spanish boards to 12.3 percent.[41]

Shortcomings of Quotas

Quotas appear best suited for countries where gender equality is a pervasive societal norm and where there is a tradition of using quotas to achieve equality goals. In these circumstances, companies appear more likely to willingly adhere to such laws. Moreover, a vigilant enforcement mechanism is needed to ensure that outliers adhere to quota requirements.

Quotas face additional challenges. For instance, one study found that Norway's quota has neither increased the percentage of women on boards above the quota level nor increased the number of female chairs.[42] Rather, it has increased the number of women holding multiple directorships. As a result, a small group of women known as the "golden skirts" have simply intensified the power they already held prior to the enactment of the quota law.[43]

A second study found that the Norwegian quota requirement has not translated into increased female employment at other levels of business or had an impact on altering gender wage gaps at the top levels of the business.[44] It has also not led to any changes in the work environment of the companies, such as the introduction of flexible work options.

Quotas may also exacerbate concerns of tokenism, wherein women are placed on boards simply because of their gender. Such concerns were levied after the wives of some prominent politicians and controlling shareholders in France were named to the boards of some of the country's largest companies after France introduced quotas.[45] In Norway, however, the quota requirement resulted in increasing the qualifications of female board members.[46]

Nevertheless, quotas may not be the best approach for fostering gender diversity on boards. The impact of quotas on the overall work environment may be overestimated mainly because they are directed at changing statistics, not attitudes. Thus, while quotas may give the appearance of progress in fostering gender equality, they may fail to address the underlying causes that gave rise to the problem in the first place, and therefore may not make any sustainable change.

Alternatives to Quotas: The Cases of Australia and National Football League in the United States

The following section examines three alternatives to quotas. The first looks at the approach adopted by Australia, which combines the use of corporate governance rules with a mentoring program. The second draws from the practices of the National Football League (NFL) system of increasing the number of minority head coaches and considers whether it can be applied to fostering women on boards. The third discusses the systemic changes needed to prompt long-term changes in this area.

The Australian approach

In 2010, to address the lack of gender diversity on the boards of its companies, the Australian Stock Exchange (ASX) Corporate Governance Council introduced a number of policies relating to gender diversity as part of its Corporate Governance Principles and Recommendations. Listed corporations are required to establish and disclose a diversity policy, disclose gender diversity objectives and progress and disclose board selection processes. Companies are further required to disclose the proportion of women in senior executive positions and on the board in addition to the proportion of female employees in the entire organization.[47]

In 2009, female directors accounted for less than 9 percent of directors of Australian companies, but this number grew to 14 percent in 2013 after the new disclosure rules were introduced.[48] As of June 2014, the percentage of female directors of ASX 200 boards was 18.2, making Australia's rate of progress for women on boards one of the fastest in the world.[49]

What may be most notable about the Australian approach is that it has effected these changes without quotas, and, in fact, without any mandatory legislation. Instead, its diversity policies operate on a comply or explain basis, meaning that companies must either comply with the prescribed policies or explain their failure to do so. Nevertheless, a 2012 study revealed that only 19 percent of companies complied with the basic disclosure requirements, while 60 percent disclosed a commitment to diversity.[50] Since the rate of compliance with disclosure requirements was low, these policies alone are unlikely to be responsible for the rapid rate of progress.

Instead, success for the quick rate of change in Australia is attributed by some to the Australian Institute of Company Directors (AICD) mentoring program, which is being used to bolster the disclosure requirements. First started in spring 2010, the program matches qualified board candidates to chairmen or experienced directors of ASX 200 listed companies.[51] The mentors then work with the mentees for a year to help them develop connections with influential business leaders, improve their knowledge and skills, increase their understanding of governance issues in listed companies and gain insight into the process of selecting and appointing new directors. The hope is that this year-long mentorship will help the mentee gain a board position, although this is not a guaranteed objective of the program.[52] The AICD also offers scholarships for women who wish to undertake training to support their directorship careers as well as a "Board Ready" skills-building and development training program.[53] The latter initiative is offered to companies to help them develop their senior managers into board candidates thereby creating a pipeline of qualified women.[54]

Given that most mentors are male, some have raised concerns that mentoring programs perpetuate the existing patriarchal model.[55] However, mentoring programs also highlight the numerous qualified women who are capable of taking on board positions. As many directors have lamented the lack of supply of qualified women, mentoring programs can help bring qualified women to the attention of influential mentors.[56] Furthermore, they provide opportunities for women to gain entry into the mostly male dominated networks of boards.

By favoring a self-regulatory approach, unlike a quota, the Australian approach does not force rapid change. Instead, it allows companies to adopt a reasoned approach to finding female candidates who are appropriate for their boards rather than scrambling to appoint any woman. As a result, this approach lessens concerns about tokenism or "golden skirts" phenomena seen in places where quotas have been implemented. At the same time, by coupling the diversity disclosure rules with the use of a strong mentoring program, companies can play an active part in effecting change. Because they have a role in this process, companies may be less likely to resist the requirements.

Lessons from American Football

Another approach that could be used to increase the number of women on boards without quotas is that used by the National Football League to ensure that minorities are considered for high-level coaching positions. Despite the large percentage of African-American professional football players in 2002, most NFL teams at that time were not coached by African-Americans. Following the release of a 2002 report that revealed poor minority hiring in the head coaching ranks, the league made efforts to increase the number of minority coaches, including the introduction of the "Rooney rule," which required teams to interview at least one minority applicant for each head-coaching position.[57]

A similar approach could be taken by boards recruiting new members.[58] Board nominating committees could be required to interview at least one female candidate for every board opening. These requirements could be imposed on boards through a best practices guide or as part of corporate governance rules. Boards could be required to reveal their nomination process in their annual reports. The idea of having at least one female candidate interview for every board opening could be further extended to executive search firms, which are commonly involved in board appointment processes. Following a practice introduced in the UK, under a voluntary code of conduct, executive search firms could be required to supply at least one female candidate for every three male candidates they recommend.[59]

A Rooney rule for boards could be enforced in two ways. Executive search firms or nominating committee members could notify the authorities (a governmental agency or stock exchange) if a firm consistently failed to interview female candidates. Alternatively, firms with a low percentage of female board members could be required to submit to yearly audits that involve reporting their practices for recruiting women to the board. Audited information could include the number of women the firm interviewed, summaries of the female candidates' qualifications, and reasons for not hiring the female candidates. Failure to comply with these requirements could result in fines for both the firm and the CEO or managing director.

While a Rooney rule for boards on first glance may appear comparable to a quota, unlike a quota, such a rule would not guarantee results (i.e. the hire of a female board member). A Rooney rule for boards would simply ensure interviews for women candidates. Thus, unlike quotas, women would not gain any advantage in the ultimate selection of the board member and would compete with other qualified applicants.[60] While a Rooney rule for boards could help level the playing field, it would still enable the best candidate, male or female, to rise to the top. Furthermore, it would enable nominating committees to appoint directors on the basis of qualifications rather than gender. More importantly, by increasing the pool of interviewees, a Rooney rule for boards may help increase awareness of the value of women as board members.

Board Diversity: Scenario Model

The Conference Board and Georgetown University's McDonough School of Business, in partnership with The SAIS Center for Transatlantic Relations at Johns Hopkins University, developed a scenario model that companies can use to enhance the gender diversity of their boards.

The model can be used to examine the gender diversity implications of four key governance decisions on the composition of corporate boards. Specifically, decisions on:

- The number of directorship positions on corporate boards.
- The percentage of newly created directorships for which women are appointed.
- The turnover (attrition) of existing directorship positions.
- The percentage of attrition-based directorships for which women are appointed.

For more information, see www.conference-board.org/data/boarddiversity.cfm

Systemic Changes

Changes at the company level alone are insufficient to affect sustainable increases to the number of women on boards. The institutional factors which compromise women's ability to participate in the labor force must be altered as well. There are likely two main obstacles to women's opportunities to participate in business at a leadership level. The first is women's "double burden" of bearing primary responsibility for both work and domestic obligations.[61] For many women, the double burden is incompatible with the demands associated with positions of leadership in business.

The second factor is the male-centric model of success. In many firms, business leadership is achieved primarily through a model which requires unfailing availability and total geographical mobility at all times.[62] Career breaks may further limit opportunities at garnering positions of leadership.[63] For this reason, maternity breaks may affect women's chances at leadership.[64]

Consequently without changes both to support systems as well as a reconfiguration of the model for success, women's opportunities to achieve levels of leadership in business will continue to be challenged. Thus, changes must be made which alleviate women's double burden—including, most importantly, providing better access to affordable child care. In addition, businesses must be willing to offer flexibility of working conditions including remote working, part-time work and flexible hours and replace the notion of unfailing availability.

Failing to effect structural changes to the mechanisms that gave rise to the under-representation of women in business in the first place ensures that initiatives directed at increasing the number of women on boards are not sustainable. Alterations or even complete reconfigurations of the social and institutional arrangements which facilitate women's participation in the labor market are therefore absolutely necessary. A country which is truly committed to having an increased representation of women on boards cannot simply place this responsibility on companies alone. Despite the pivotal role of companies in this area, in the end, it is the government which retains key responsibility for facilitating women's participation in the labor market.

Conclusion

Increasing the number of women to corporate boards remains an important signal of an equal society in which there is a greater equalization of power, participation and influence between men and women. In addition, increasing the number of women on boards can improve board decision-making through the unique contributions women can make to this process.

As the example of Norway shows, using quotas to increase gender board diversity simply increases the percentage of women on boards. Quotas do not necessarily increase the number of women who serve in board positions, help women obtain executive positions on boards, and in some cases, do not help qualified female candidates to obtain board positions at all. More importantly, quotas do not address the root causes that have given rise to the lack of women in senior levels of business in the first place.

Long-term change requires work to prompt normative changes in companies and to reduce the general labor market barriers that may hinder women's participation. This can be done through a multilayered approach that includes more inclusive nomination procedures, disclosure rules, mentoring or sponsorship programs, and alterations to the institutional factors compromising women's participation in the labor force.

Promoting women on boards is a much more complex problem than a simple corporate governance issue. For this reason, initiatives designed to increase the number of women in senior levels of business should address both the business-end and the non-business end aspects of this issue.

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