'There is no denying the effectiveness of quotas'

Why Europe will surpass the U.S. in changing the face of the corporate board.

By Irene Natividad

For the American business community, "quota" is a dirty word. When applied to human resources, it implies a set number required without consideration of merit. Well, Europe is not running away from this word, and it is a strategy many of its countries are using to accelerate the pace of achieving a diverse board.

Why this hurry? A look at the average representation of women on the boards of European companies shows 11.7% of corporate directors being female — a percentage below that of the U.S. Fortune 500 companies at 15.2%.[1] Indeed, the majority of European countries fare worse than the U.S. in appointing women to board seats.

One country, however, is a standout. Norway's percentage of women directors is now at 40.3% in 2010,[2] the highest percentage globally. Eight years ago, only 6.8% of its directors were women. Its 'weapon' for arriving at this dramatic change is indeed a quota law enacted in 2003 that mandated at least 40% of board seats to be allocated for women within a two-year period. Companies not complying would risk dissolution. Well, none suffered this fate, and Norway not only met but also surpassed its goal by its own deadline.

The fact that Norway did it dispelled doubts as to the efficacy of quota laws in changing the numbers of women holding board seats. Spain followed with its own legislation in 2007 requiring 40% women's representation in publicly listed companies within a longer eight-year period. In March 2010 Iceland enacted its own quota law covering listed and privately owned companies. France and the Netherlands both passed similar quota laws in their lower houses recently, with France's having the better chances for passage. Belgium, Sweden, and the U.K. are considering their own versions.

Denmark (2000), Ireland (2004), Finland (2004), and Iceland (2006) already have in place quota legislation ensuring board seats for women in government-owned companies, and all have met or are nearing the targeted percentages of women directors. Germany does not have a quota law at the federal level, but the cities of Berlin and Nuremberg already have mandates of 50% and 40%, respectively, for women directors on the boards of municipal subsidiaries and companies with municipal equity.[3]

Beyond boards of directors, Germany's Deutsche Telekom made headlines when it announced a 30% quota for women in senior and middle management to be reached in five years.[4] Daimler has a similar quota at 20% but with a longer deadline (2020). The proposed Dutch quota legislation not only requires a 30% mandate for board seats to be held by women, but also a 30% mandate for women in executive positions.[5]

If the goal is acceleration. . .

Why has this strategy been so eagerly embraced by Europe? *Because it works.*

If the goal is to accelerate the numbers of women on corporate boards in a short period of time, there is no denying the effectiveness of legislated quotas in increasing the numbers of women directors.

Irene Natividad is chair of Corporate Women Directors International (CWDI), which promotes the increased participation of women on corporate boards globally (www.globewomen.org). CWDI is an offshoot of the Global Summit of Women, a 20-year-old gathering of women leaders from around the world, for which she serves as president. She has served on numerous boards, from nonprofits such as the National Museum of Women in the Arts to advisory boards for Cigna, Wyndham International, and the National Association of Corporate Directors. From 1994 to 2002 she served on the board of Sallie Mae Corp. She has been named one of the "21 Leaders for the 21st Century" by *Women's eNews*; one of the "25 Most Influential Working Mothers" by *Working Mother* magazine; and as one of the "100 Most Powerful Women in America" by *Ladies Home Journal*.

Given the incremental pace of change to date when it comes to women accessing board seats globally, Norway's model for rapid acceleration of board diversity through quotas has become attractive in the region.

Another reason for the European quota tsunami is the fact that *quotas have already been in place in many of the countries that cover women's inclusion in political party lists.* The extension of quotas into corporate boards is just another expression of this practice in the economic sphere. Political quotas are the reason why Europe's representation of women in Parliament averages around 21.5%,[6] higher than the U.S. congressional representation of 17%.

Lastly, Europe has many state-owned companies, which means that governments have a larger shareholder 'voice' that impacts corporate governance and board composition. Quotas as remedies for more gender-balanced corporate boards can be executed, therefore, much more easily than in the United States.

The numbers will trend upwards

Will all the countries with quota laws reach their goal within the deadlines they stipulated? Not necessarily. None of the currently proposed or enacted quotas are as rigorous as Norway's — none have punitive measures for noncompliance or fully

Comparative percentages of women directors by country

Country	Number of companies in survey	Percentage of companies with women directors	Percent of women directors	Country	Number of companies in survey	Percentage of companies with women directors	Percent of women directors
Norway	370	100%	40.3%	Netherlands	107	36%	7%
Sweden	180	76%	21.9%	Thailand	30	na	6.7%
Bulgaria	20	na	17%	Switzerland	23	57%	6.6%
Latvia	33	na	17%	Singapore	57	47%	6.4%
Finland	100	67%	16.8%	Chinese Taipei	75	40%	6.3%
South Africa	335	78.5%	16.4%	Malaysia	50	na	6.1%
U.S.	500	87%	15.2%	Mexico	23	52%	5.8%
Croatia	22	na	15%	Indonesia	30	na	5.5%
Lithuania	31	na	15%	Tunisia	30	37%	5.3%
France	40	92.5%	14.4%	India	2,408	27%	5.1%
Israel	17	93.8%	14.1%	Russia	24	33%	5.1%
Canada	500	60%	14%	Brazil	54	31%	4.6%
Denmark	109	55%	12.5%	Portugal	20	30%	3%
United Kingdom	100	75%	12.2%	Cyprus	20	na	3%
Spain	35	74%	10.6%	Kuwait	177	na	2.7%
Philippines	30	na	10.3%	Oman	128	na	2.3%
Hong Kong	42	67%	8.9%	Italy	23	30%	2.1%
New Zealand	100	40%	8.7%	Jordan	50	14%	1.9%
Greece	24	63%	8.5%	South Korea	81	14%	1.5%
Australia	200	49%	8.3%	Japan	100	16%	1.4%
Austria	200	35%	8.3%	Bahrain	46	na	1.0%
Belgium	20	55%	8%	UAE	101	na	0.8%
Iceland	100	29%	8%	Qatar	38	na	0.3%
Turkey	30	na	8%	Saudi Arabia	94	na	0.1%
Germany	44	82%	7.8%	Pakistan	303	31%	na*
China	78	49%	7.2%				

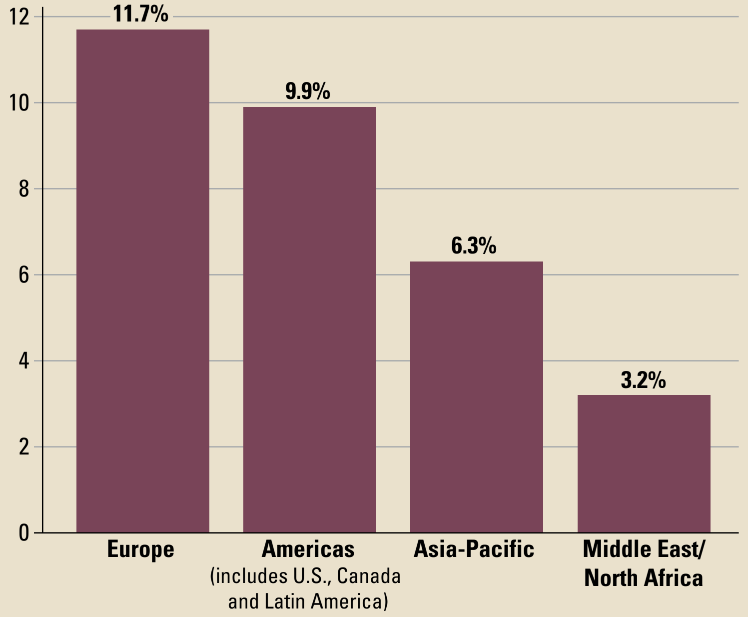
na = not available   *Pakistan study did not collect data on total percentage of women directors.

Source: Corporate Women Directors International, Accelerating Board Diversity, *2010* thought-out implementation plans. Regardless of whether each country reaches the targeted percentage of women directors, the numbers will trend upwards, and far more swiftly than in years past.

The reasons are simple. The proposal of each quota law comes with a great deal of press attention that places the whole issue of women on corporate boards in the public discourse for the first time. In addition, companies that worry about appearing discriminatory may accelerate their appointment of women directors as a consequence. They will be nudged along by corporate governance commissions wanting to get ahead of legislation by including board diversity requirements, as Australia and Spain have done.[7] France's percentage of women directors, for example, was only 6.4% in 2007 until the lead-up to the passage of its quota law this year. In 2010, France now has 14.4%[8] of its board directors being women, doubling its earlier numbers within three years, even though the legislation has yet to be passed in the upper house of the General Assembly.

It is interesting to note that in each of the countries where quota laws are in place or have been introduced, there has also been research on the *business case* for women's increased presence on corporate boards. Basically, the plethora of European studies came up with the same result no matter the number of companies surveyed in each report — *the greater the percentage of women on boards and in senior management, the better the company's financial performance.* The most frequently invoked research was conducted by McKinsey and Company in 2007 of over 500 European companies with a market cap over 150 million euros, which found greater profitability (11.4% vs. 10.3%)[9] of companies with a higher proportion of women executives and board directors.

Comparative percentages of women directors by region



Source: Corporate Women Directors International, Accelerating Board Diversity, *2010*

Determination to change

Whether for greater competitiveness or sheer governmental commitment to address inequity in business, European countries are clearly determined to dramatically change the gender composition of their corporate boards. Europe's percentage will escalate upwards in a few years, while U.S. numbers will grow incrementally at 1% yearly as it has so far.

Given American antipathy to government intervention in the private sector, quota legislation is not likely to happen. What impact the projected European increase in the number of female board directors will have on corporate governance and return to shareholders remains to be seen. ■

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FOOTNOTES

1 Catalyst, 2009 *Catalyst Census Fortune 500 Women Board Directors*

2 Norway Central Bureau of Statistics, *Focus On Gender Equality: Key Figures, 2010*

3 Equal Opportunities Act of 2002, Federal State of Berlin and City Council of Nuremberg, Motion Adopted October 2009

4 Clark, Nicola, "Goal at Deutsche Telekom: More Women as Managers," *New York Times*, March 16, 2010

5 Visser, Mirella, "Solving the Underrepresentation of Women on Boards in The Netherlands: Legislation or Self-Regulation?" Briefing Note, FidAR conference, Berlin, March 15, 2010

6 Inter-Parliamentary Union, Women in National Parliaments, July 31, 2010

7 Australian Stock Exchange Corporate Governance Council, Corporate Governance Principles and Recommendations with 2010 Amendments 2nd Edition, June 30, 2010; and Comision Nacional del Mercado de Valores (CNMV), Unified Good Governance Code, 2007

8 Action de Femme, "Les mandats sociaux dans les 40 sociétés du CAC 40 et le nombre de femmes dans les Conseils d'Administration au 15 juin 2010"

9 McKinsey and Company, *Women Matter: Gender Diversity, A Corporate Performance Driver,* October 2007