

ARE QUOTAS SOLVING THE PROBLEM?

Zuzana Kreckova, PhD

Faculty of International Relations University of Economics,
Prague, Czech Republic

Abstract

Representation of women on corporate boards is minor to insignificant in most of European countries. However, numerous studies prove that women at top positions of corporations mean financial benefits, more ethical corporate governance and better focus on sustainability. At the same time Europe is facing globalization pressures and aging population, which calls for using every talent the Europe possesses. European Commission recently proposed the new legislation supporting female presence at corporate boards, but numerous countries are strongly resistant to that. However, the organic growth in these numerous countries is not strong enough to satisfy the economy needs.

Keywords: Women, quotas, EU, corporate boards, Cyprus, Estonia, Hungary, Ireland, Latvia, Lithuania, Malta, Slovenia

Introduction

Recent economic development, globalization pressures, rising power of BRICS countries and aging population in Europe call for action. Europe needs high performance management at its corporations. The European corporations need better corporate boards and top management teams to lead them in these turbulent times. Many studies of different respected institutions suggest that more diversity at board rooms leads to better financial performance of corporations. However, in terms of gender diversity there is huge space for improvement. As majority of corporate boards are male dominated field, European Commission proposed the new legislation supporting more gender balanced corporate boards of the biggest corporations actively present at European countries. Currently there are already several states that have introduced gender balance regulations themselves, e.g. Austria, Belgium, Denmark, Finland, France, Greece, Italy, the Netherlands, Portugal, Slovenia, Spain, and Iceland. Other European states have strong and viable self-regulatory measures, e.g. the U.K and Sweden. However, there are still many countries that did not adopt any

regulatory measures, as Latvia, Lithuania, the Czech Republic, Slovakia, Portugal, Ireland, Cyprus, Malta, Bulgaria, Greece, Hungary, Slovenia, Estonia, and Romania. (European Commission, 2012)

This article provides both descriptive and comparative analysis of the situation in European Union, with special focus on eight countries with neither legislative, self-regulatory measures. The research question of this article is: *Is the approach of these countries viable in the long-term, i.e. are these countries able to increase the presence of women on corporate Boards sufficiently without accepting the proposed European Commission quotas?*

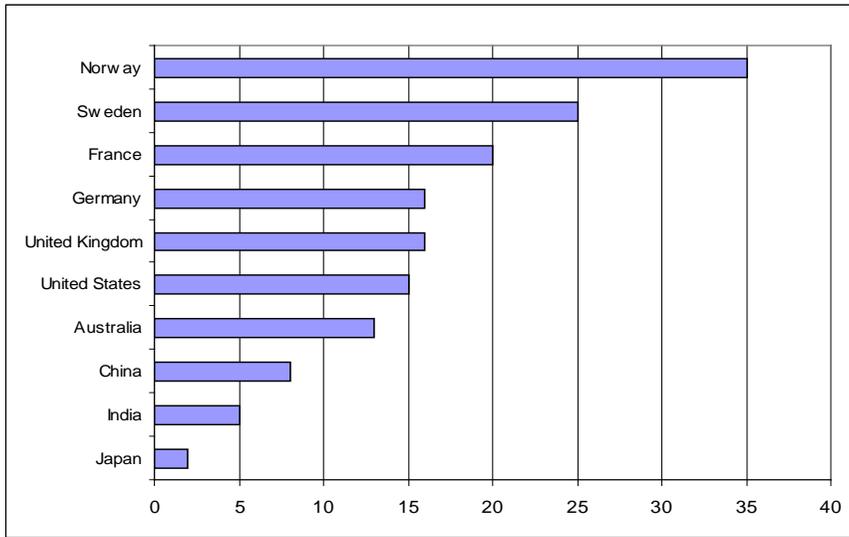
Women in Europe and World

Huge portion of women potential is still unlocked. Employment rate of women, aged 15-64 years, is relatively high across all OECD countries ranging from the high-end countries like Iceland (78,5%), Norway (73,8%), Switzerland (73,6%), Sweden (71,8%), Netherlands (70,4%), Denmark (70%), Canada (69,2%), Finland (68,2%), Germany (68%), and the U.S. (62,2%) to the low-end countries like Mexico (45,3%), Greece (41,9%), and Turkey (28,7%). The average employment rate for women was 57,2% for the whole OECD in 2012. (OECD iLibrary, 2013)

Also, female are receiving significantly better education level, both within EU and OECD groups. „Graduation rates for young women are expected to be notably higher than those for young men in OECD countries – 47% versus 32% on average.“ (OECD Publishing, 2013) „Within the EU-27, female graduates outnumbered male graduates by a ratio of approximately three to two.“ (EUROSTAT, 2013)

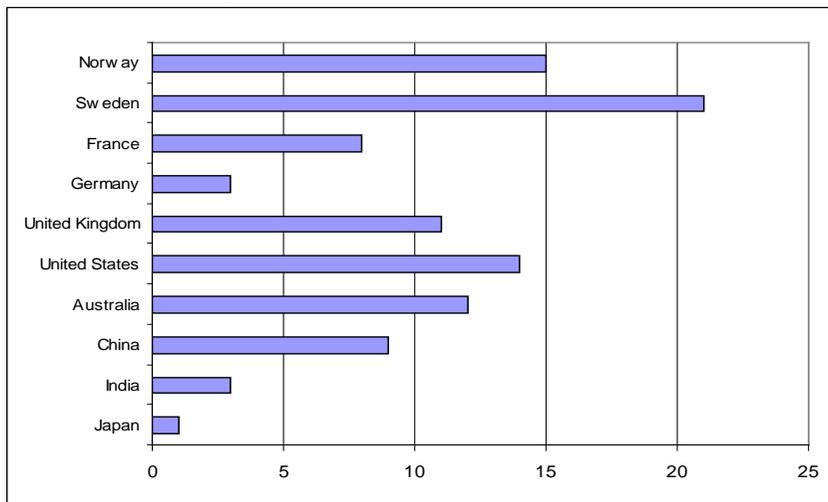
However, there are only a few women that hold significantly important positions at Corporate Boards, both in U.S., Europe and Japan. – compare Europe, USA, and Japan. The highest representation is to be found in Norway (35%), followed by Sweden (25%), and France; and the lowest in Japan (2%), India (5%) and China (8%). Female representation at the executives committees highlights even worse representation, i.e. the highest proportion in Sweden (21%) and Norway (15%), the lowest in Japan (1%) and Germany (3%). (McKinsey&Company, 2013)

Figure 1: Women representation on corporate boards (2011, % of total)



Source: MCKINSEY&COMPANY. The global gender agenda. [online]. [13th April 2013]. Available at: http://www.mckinseyquarterly.com/The_global_gender_agenda_3027

Figure 2: Women representation on executive committees (2011, % of total)



Source: MCKINSEY&COMPANY. The global gender agenda. [online]. [13th April 2013]. Available at: http://www.mckinseyquarterly.com/The_global_gender_agenda_3027

There are strong economic arguments supporting higher presence of women on Boards. Company Catalyst has started monitoring of relationship between the presence of women and corporate performance long time ago and brought results of positive financial benefits of such companies as of 1996.(Catalyst, 2011) Similar results can be found at reports of other respected companies. The global consulting company McKinsey says in the

report Women Matter 2010 that “companies with the highest share of women outperform companies with no women in terms of return on equity, the top-quartile group exceeds by 41% the group with no women, and in terms of operating results, the more gender-diverse companies exceeds by 56% the group with no women.”(McKinsey&Company, 2010, p. 11). Other studies demonstrate corporate boards diversity as a prerequisite of Responsible Leadership. (Zadrazilová & Vysoká škola ekonomická v Praze, 2011)

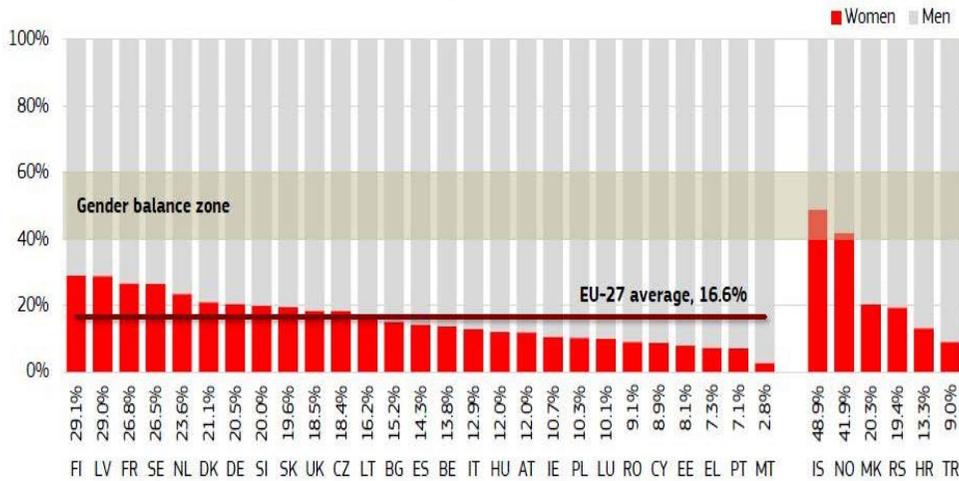
Positive correlation was also stated in the Credit Suisse 2012 study, analyzing database of the 2,360 companies constituting the MSCI AC World Index, concludes that companies with at least one female on board outperformed those with no women on board by 26% in terms of share price performance since 2005.(Credit Suisse, 2013)

Combined with economic problems of Europe such as ageing population (WHO, 2012)(Eurostat, 2012), failed multiculturalism (“Merkel,” 2010)(“Multiculturalism has failed - PM,” 2011)(“Sarkozy declares multiculturalism ‘a failure,’” 2011), globalization pressures from BRICS and developing countries (Goldstone, 2012)(EY, n.d.) European economies need to act.

So, European Commission proposed a new legislation to increase number of qualified women on Boards of big companies listed on stock exchange in November 2012. „The proposed Directive sets an objective of a 40% presence of the under-represented sex among non-executive directors of companies listed on stock exchanges. Companies which have a lower share (less than 40%) of the under-represented sex among the non-executive directors will be required to make appointments to those positions on the basis of a comparative analysis of the qualifications of each candidate, by applying clear, gender-neutral and unambiguous criteria. Given equal qualification, priority shall be given to the under-represented sex. The objective of attaining at least 40% membership of the under-represented sex for the non-executive positions should thus be met by 2020 while public undertakings – over which public authorities exercise a dominant influence – will have two years less, until 2018. The proposal is expected to apply to around 5 000 listed companies in the European Union. It does not apply to small and medium-sized enterprises (companies with less than 250 employees and an annual worldwide turnover not exceeding 50 million EUR) or non-listed companies.“(European Commission, 2012)

And the debate opened by the European Commission already brings its first results: “The most recent figures show that women account for **16.6%, or one in six, of board members** of the largest publicly listed companies in the EU-27. The highest levels of female representation on boards occurs in Finland (29.1%) and Latvia (29%), closely followed by France (26.8%) and Sweden (26.5%).” (European Commission, 2013)

Figure 3: Representation of women and men on the boards of large listed companies, April 2013



Source: European Commission, Database on women and men in decision-making.

It also seems obvious that certain forms of regulations are beneficial for the development: “It is important to note that the **most significant developments** since 2010 have largely occurred in **countries where binding legislation** has already been adopted, such as France (+ 14.4 pp to reach 26.8%), the Netherlands (+8.7 pp to reach 23.6%) and Italy (+8.4 pp to reach 12.9%). This further emphasizes the importance of regulatory pressure for achieving tangible results.” (European Commission, 2013)

Figure 4: Overview of some of the key drivers of progress since 2010:

Country	Change	Driver of change
France	+14.4 pp	Quota law that came into force on 28 January 2011 (20% by 2014 and 40% by 2017) is applicable to the boards (non-executive directors) of listed companies and non-listed companies with more than 500 employees or annual turnover of at least €50 million.
Netherlands	+8.7 pp	Civil code (adapted by 2011 law) obliging companies to strive for 30% of each sex on management and supervisory boards and to publish an explanation in case of failure to meet the target (comply or explain).
Italy	+8.4 pp	Quota law that came into force on 11 August 2011 (one third of each gender by 2015) is applicable to supervisory and management boards of listed and state-owned companies.

Source: Report on women and men in leadership positions and Gender equality strategy mid-term review, 2013

However, there are still countries resistant to change and have not adopted any regulatory measures yet. In some of these countries, even representative of top political parties are publicly deriding and refusing to even open the debate of supporting number of women at top corporate positions by any regulation. These countries are Latvia, Lithuania, the Czech

Republic, Slovakia, Portugal, Ireland, Cyprus, Malta, Bulgaria, Greece, Hungary, Slovenia, Estonia, and Romania. (European Commission, 2012)

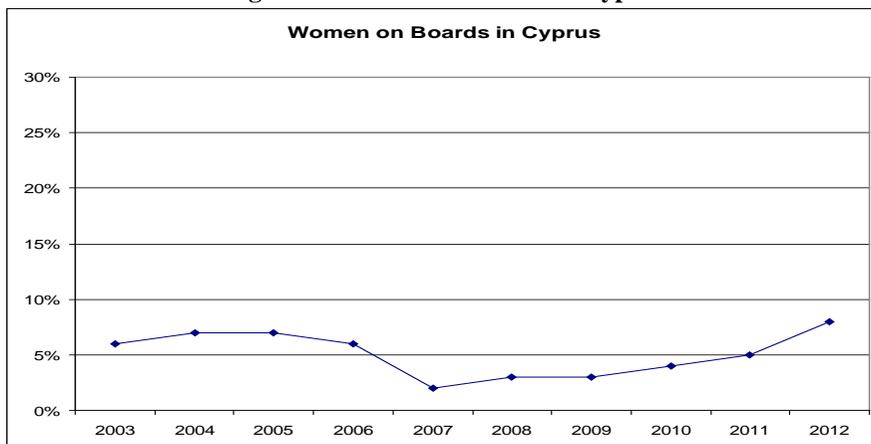
The author of this article previously demonstrated that there will not be 40% of women on Boards by 2020 in Bulgaria, the Czech Republic, Greece, Portugal, Romania, and Slovakia. (Křečková 2013, Křečková 2014a, Křečková 2014b).

Situation in Cyprus, Estonia, Hungary, Ireland, Latvia, Lithuania, Malta, and Slovenia

At *Cyprus* – the female employment rate was 57% in 2011 (The World Bank, n.d.). Educational level of women is also much higher than for men, as there were 150 graduating women per 100 graduating men from tertiary education in 2010 (Eurostat, 2013)

However, number of women in Board positions has been fluctuating around 5% over the last 10 years (see Figure: 5), and there exists no type of regulation in terms of women participation on Corporate Boards. (“Gender equality in the Member States.pdf,” n.d.)

Figure 5: Women on Boards in Cyprus

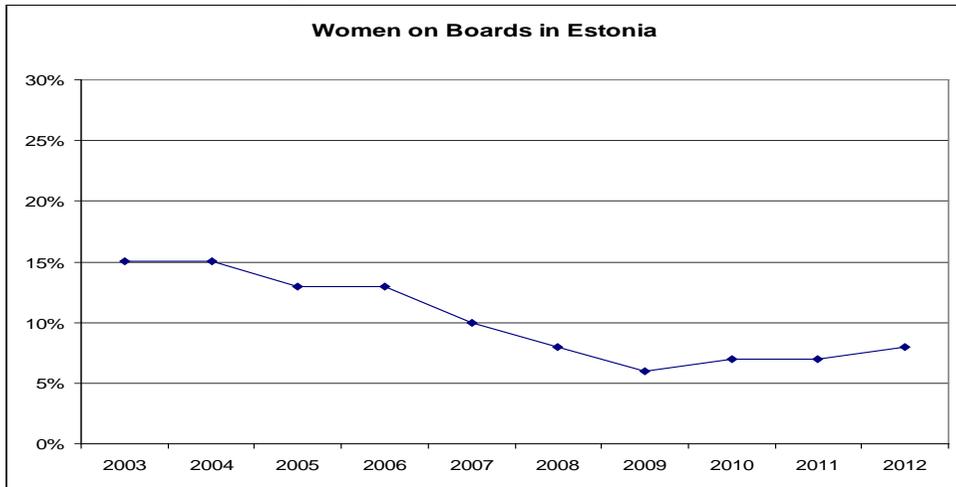


Source: Gender balance in decision-making positions/Database/Business and finance. [online]. [11th October 2013]. Available at: http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/index_en.htm

The female employment rate in *Estonia* is very high reaching 64,6% (OECD iLibrary, 2013). Women are also highly outperforming men in education levels as there were 236 graduating women per 100 graduating men in tertiary education in 2010 (Eurostat, 2013)

Number of women in Board positions has been declining from 15% in 2003 to 6% in 2009, reaching 8% in 2012, and there exists no type of regulation in terms of women participation on Corporate Boards. (“Gender equality in the Member States.pdf,” n.d.)

Figure 6: Women on Boards in Estonia

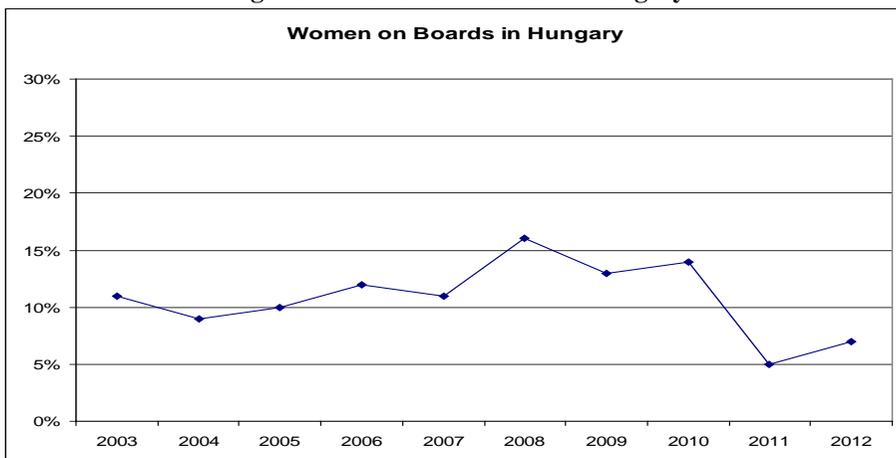


Source: Gender balance in decision-making positions/Database/Business and finance. [online]. [11th October 2013]. Available at: http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/index_en.htm

In *Hungary* the female employment rate reaches 52,1% (OECD iLibrary, 2013). The education level is also high as there were 176 graduating women per 100 graduating men from tertiary education in 2011 (Eurostat, 2013)

Number of women on boards has been fluctuating between 9-16%, and sharply dropped in 2011. There also exists no type of regulation in terms of women participation on Corporate Boards. (“Gender equality in the Member States.pdf,” n.d.)

Figure 7: Women on Boards in Hungary

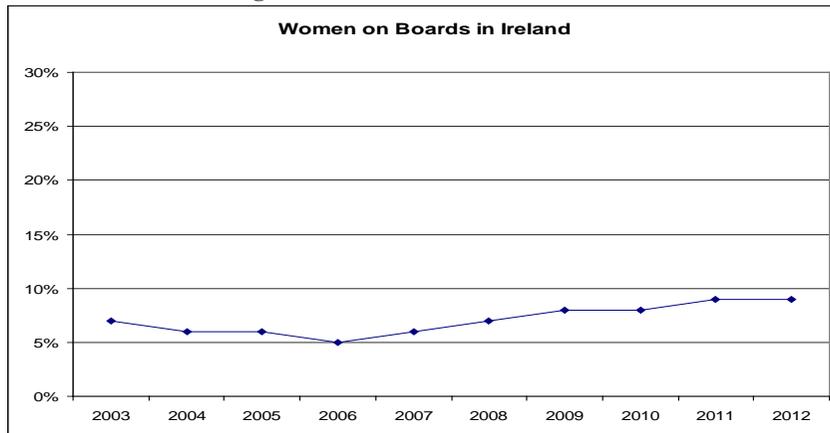


Source: Gender balance in decision-making positions/Database/Business and finance. [online]. [11th October 2013]. Available at: http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/index_en.htm

The female employment rate is 55,2% (OECD iLibrary, 2013) in *Ireland*., Women also perform better at education, as there were 121 women per 100 graduating men from tertiary education in 2010 (Eurostat, 2013)

Number of women on boards is quite low, it never exceeded 10%, and there exists no type of regulation in terms of women participation on Corporate Boards. (“Gender equality in the Member States.pdf,” n.d.)

Figure 8: Women on Boards in Ireland

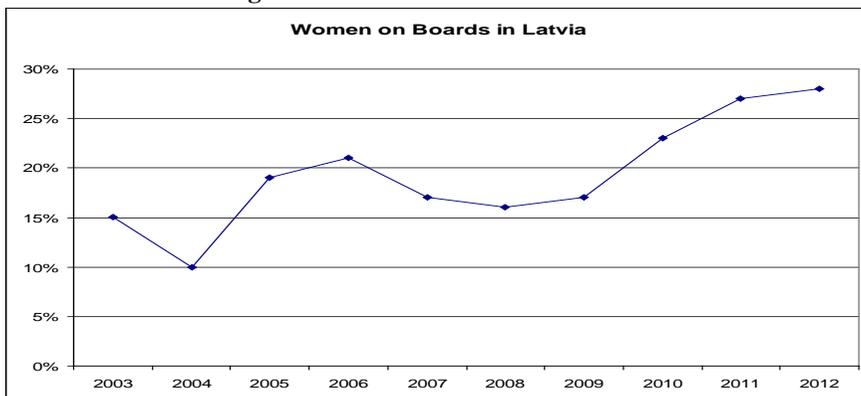


Source: Gender balance in decision-making positions/Database/Business and finance. [online]. [11th October 2013]. Available at: http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/index_en.htm

The female employment rate 55% in *Latvia* (The World Bank, n.d.). The education level of women is high, it reached 235 women per 100 graduating men in 2011 (Eurostat, 2013).

Number of women on boards has been growing with some downsides from 15% in 2003 to 27% in 2012, and there exists no type of regulation in terms of women participation on Corporate Boards. (“Gender equality in the Member States.pdf,” n.d.)

Figure 9: Women on Boards in Latvia

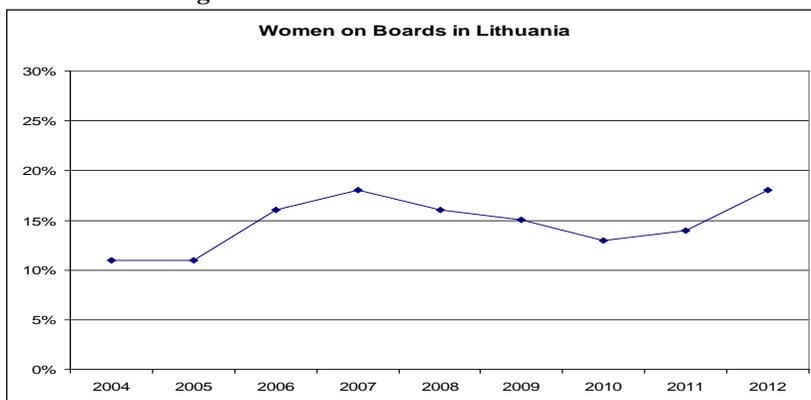


Source: Gender balance in decision-making positions/Database/Business and finance. [online]. [11th October 2013]. Available at: http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/index_en.htm

The female employment rate is 54% in *Lithuania* (The World Bank, n.d.). Women are also highly educated as there were 182 graduating women per 100 men from tertiary education in 2011 (Eurostat, 2013).

Number of women on boards has been fluctuating around 15% as of 2004. The self-regulatory measure was adopted: Corporate Code of 2009 recommends the board to have an appropriate representation of both genders. The rule is applicable to all board members (executives and non-executives). (“Gender equality in the Member States.pdf,” n.d.)

Figure 10: Women on Boards in Lithuania

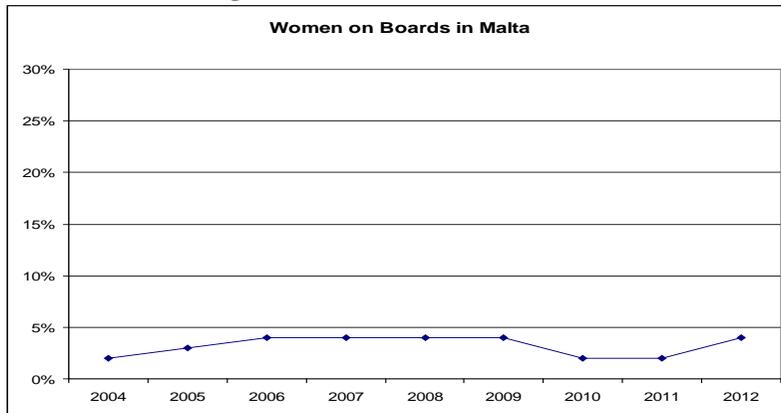


Source: Gender balance in decision-making positions/Database/Business and finance. [online]. [11th October 2013]. Available at: http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/index_en.htm

There is quite low female employment rate at *Malta*, reaching only 35% (The World Bank, n.d.). However, there were 142 graduating women per 100 graduating men from tertiary education in 2010 (Eurostat, 2013).

The proportion of women on boards has been below 5% as of 2004; and there exists no type of regulation in terms of women participation on Corporate Boards. (“Gender equality in the Member States.pdf,” n.d.)

Figure 11: Women on Boards in Malta



Source: Gender balance in decision-making positions/Database/Business and finance. [online]. [11th October 2013]. Available at: http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/index_en.htm

The female employment rate is very high in *Slovenia* reaching 60,5% (OECD iLibrary, 2013). Also in terms of education, women are advancing men as there were 152 graduating women per 100 graduating men from tertiary education in 2011 (Eurostat, 2013).

Number of women on boards has been fluctuating between 10 and 20% over the past 10 years. And there exists the following regulation in *Slovenia*: “Regulation on state-owned companies: a principle of 40% representation of each sex in nominating or appointing government representatives in public enterprises and other entities of public law, including management and supervisory boards of state-owned enterprises (executives and non-executives). There are no sanctions for not respecting the principle.” (“Gender equality in the Member States.pdf,” n.d.)

Figure 12: Women on Boards in Slovenia



Source: Gender balance in decision-making positions/Database/Business and finance. [online]. [11th October 2013]. Available at: http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/index_en.htm

Research methodology

There are eight hypotheses to be tested:

Hypothesis H1: Cyprus is not able to reach 40% of the under-represented sex among non-executive directors of companies listed on stock exchanges by year 2020 by current rate of growth.

Hypothesis H2: Estonia is not able to reach 40% of the under-represented sex among non-executive directors of companies listed on stock exchanges by year 2020 by current rate of growth.

Hypothesis H3: Hungary is not able to reach 40% of the under-represented sex among non-executive directors of companies listed on stock exchanges by year 2020 by current rate of growth.

Hypothesis H4: Ireland is not able to reach 40% of the under-represented sex among non-executive directors of companies listed on stock exchanges by year 2020 by current rate of growth.

Hypothesis H5: Latvia is not able to reach 40% of the under-represented sex among non-executive directors of companies listed on stock exchanges by year 2020 by current rate of growth.

Hypothesis H6: Lithuania is not able to reach 40% of the under-represented sex among non-executive directors of companies listed on stock exchanges by year 2020 by current rate of growth.

Hypothesis H7: Malta is not able to reach 40% of the under-represented sex among non-executive directors of companies listed on stock exchanges by year 2020 by current rate of growth.

Hypothesis H8: Slovenia is not able to reach 40% of the under-represented sex among non-executive directors of companies listed on stock exchanges by year 2020 by current rate of growth.

Research method used is Time series analysis, specifically the linear trend approach.

The linear trend T is described as

$$T_t = a_0 + a_1 t,$$

where a_0, a_1 parameters and t represents time.

By running the model based on the European Commission data of women representation on corporate boards (European Commission, n.d.), the equation of estimated linear trend for Cyprus is:

$$T_t = 5,73 - 0,11 \cdot t$$

for Estonia is:

$$T_t = 15,93 - 1,04 \cdot t$$

for Hungary is:

$$T_t = 12 - 0,22 \cdot t$$

for Ireland is:

$$T_t = 5,13 + 0,36 \cdot t$$

for Latvia is:

$$T_t = 11,2 + 1,47 \cdot t$$

for Lithuania is:

$$T_t = 12,33 + 0,47 \cdot t$$

for Malta is:

$$T_t = 1,87 + 0,19 \cdot t$$

for Slovenia is:

$$T_t = 19 - 0,68 \cdot t$$

Given the hypothesis tested, in year 2020, there will be only 3,66% of women on Boards in Cyprus, no women on Boards in Estonia, only 8,07% of women on Boards in Hungary, only 11,57% of women on Boards in Ireland, only 37,71% of women on Boards in Latvia, only 20,73% of women on Boards in Lithuania, only 5,25% of women on Boards in Malta, and only 7,72% of women on Boards in Slovenia based on this model.

All eight hypotheses H1, H2, H3, H4, H5, H6, H7, and H8 are supported.

When trying to look at the issue from the other side, i.e. “When will these countries reach the representation of 40% of women on the Boards”, the conclusions based on the model show that only Latvia is approaching the goal by year 2022, being the winner in this comparison. However, all the other analyzed countries are demonstrating less positive results, when Lithuania will reach the target in 2062, Ireland in 2100, and for Malta it will take nearly 200 years. And there are even several worse scenarios of development, as the non-regulated organic trend in four countries leads to

declining number of women on Boards and the intended target of 40% of women on Boards will never happen in Cyprus, Estonia, Hungary, Slovenia with current non-existing measure in place.

Conclusion

As both, the above analysis and author's previous researches show, there will not be sufficiently high representation of women on Boards and any of the countries that did not take any actions to promote increasing women participation on the Boards by year 2020. Hence, it is clear that relying on organic growth of development of the situation is not good enough. And unless the above listed states do not adopt some regulatory measures, there will remain misbalance between the potential that qualified women represent and their possibility to use this potential for the benefit of the corporations as well as whole society.

References:

Catalyst. (2011, March 1). The Bottom Line: Corporate Performance and Women's Representation on Boards (2004-2008). Retrieved December 7, 2013, from <http://www.catalyst.org/knowledge/bottom-line-corporate-performance-and-womens-representation-boards-20042008>

Credit Suisse. (2013, March 17). Credit Suisse - Does Gender Diversity Improve Performance? Retrieved March 17, 2013, from <https://responsibility.credit-suisse.com/app/article/index.cfm?fuseaction=OpenArticle&aoid=360157&coid=284071&lang=EN>

European Commission. (2012, November 14). Women on Boards: Commission proposes 40% objective. Press Release. Retrieved April 21, 2013, from http://europa.eu/rapid/press-release_IP-12-1205_en.htm

European Commission. (2013, October 14). Report on women and men in leadership positions and Gender equality strategy mid-term review. Retrieved December 1, 2013, from http://europa.eu/rapid/press-release_MEMO-13-882_en.htm

European Commission. (n.d.). Database: women & men in decision making. Retrieved December 1, 2013, from http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/index_en.htm

Eurostat. (2012, October). Population structure and ageing - Statistics Explained. Retrieved December 6, 2013, from http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Population_structure_and_ageing

Eurostat. (2013, April 19). Tertiary education graduates. Retrieved April 19, 2013, from <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do?dvsc=9>

- EUROSTAT. (2013, April 19). Tertiary education statistics. Retrieved April 19, 2013, from http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Tertiary_education_statistics
- EY. (n.d.). Looking beyond the obvious - 2012 Index. Retrieved December 6, 2013, from <http://www.ey.com/GL/en/Issues/Driving-growth/Globalization---Looking-beyond-the-obvious---2012-Index>
- Gender equality in the Member States.pdf. (n.d.). Retrieved from http://ec.europa.eu/justice/gender-equality/files/womenonboards/factsheet-general-2_en.pdf
- Goldstone, J. (2012, November 11). Globalization and the Crumbling BRICS: From Promises to Threats. Retrieved December 6, 2013, from <http://www.e-ir.info/2012/11/11/globalization-and-the-crumbling-brics-from-promises-to-threats/>
- McKinsey&Company. (2010). *Women Matter 2010: Women at the top of corporations: Making it happen*. Retrieved from http://www.mckinsey.com/client_service/organization/latest_thinking/women_matter
- McKinsey&Company. (2013, April 13). The global gender agenda. Retrieved April 13, 2013, from http://www.mckinseyquarterly.com/The_global_gender_agenda_3027
- Merkel: “Multiculture has failed.” (2010, October 17). *BBC*. Retrieved from <http://www.bbc.co.uk/news/world-europe-11559451>
- Multiculturalism has failed - PM. (2011, February 5). *BBC*. Retrieved from <http://www.bbc.co.uk/news/uk-politics-12371994>
- OECD iLibrary. (2013, July 16). Employment rate of women - Employment and Labour Markets. Retrieved December 1, 2013, from http://www.oecd-ilibrary.org/employment/employment-rate-of-women_20752342-table5
- OECD Publishing. (2013, April 19). OECD (2012), Education at a Glance 2012: Highlights , OECD Publishing. Retrieved April 19, 2013, from <http://www.oecd.org/edu/highlights.pdf>
- Sarkozy declares multiculturalism “a failure.” (2011, February 11). *FRANCE 24*. Retrieved December 6, 2013, from <http://www.france24.com/en/20110210-multiculturalism-failed-immigration-sarkozy-live-broadcast-tf1-france-public-questions>
- The World Bank. (n.d.). Labor participation rate, female (% of female population ages 15+). Retrieved October 12, 2013, from <http://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS>
- WHO. (2012). WHO Study on global AGEing and adult health (SAGE). Retrieved December 6, 2013, from <http://www.who.int/healthinfo/sage/en/index.html>

WHO. (n.d.). Demographic trends, statistics and data on ageing. Retrieved December 6, 2013, from <http://www.euro.who.int/en/health-topics/Life-stages/healthy-ageing/data-and-statistics/demographic-trends,-statistics-and-data-on-ageing>

Zadrazilová, D., & Vysoká škola ekonomická v Praze. (2011). *Udržitelné podnikání*. V Praze: Oeconomica.