Summary review of evidence: Quotas for women on corporate boards

The possibility of mandatory EU-wide quotas for women on boards have been recently discussed in policy, media and academic research. Bottom-up measures to increase women's representation have been raised as alternatives to enforced quotas. This note summarises the current data on the presence of women on corporate boards and presents key evidence about its effects on business performance.

Quotas for women on corporate boards

Women tend to be underrepresented on corporate boards in most countries (see chart). Norway passed a law for 40 per cent gender quotas on boards of public limited companies in 2003. The quotas were initially voluntary and did not achieve much progress.[1] From 2008, they became mandatory, with non-compliant companies facing dissolution. By 2009, the target had been achieved. Prior to the enforced quotas, women made up less than 10 per cent of seats on Norwegian corporate boards.[2]

It is difficult to evaluate the success of the Norwegian quota law. On the one hand, mandatory, rather than voluntary quotas were the key driver for change in the representation of women on corporate boards.[3] On the other hand, so far the quota law does not appear to have affected the representation of women among senior management.[4] In addition, as only a short time has elapsed since the introduction of the law, the long-term effects remain difficult to predict.

Despite the complications in evaluating the Norwegian quota law, it has been widely acclaimed as a successful government intervention to improve the representation of women on boards and to increase board diversity.[5] In the UK in 2011, the Davies Review recommended a voluntary quota, aiming to increase female representation on boards to 25 per cent by 2015, double the proportion in 2011, but not ruling out possible future government intervention if progress is slow.[6]

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[1] http://scholarlycommons.law.northwestern.edu/cgi/viewcontent.cgi?article=1007&context=njilb

[2] In private enterprises (public limited companies) women occupied 6% of all board seats, while state-owned companies had between 33% and 42% female board representation (http://www.eurofound.europa.eu/eiro/2003/06/feature/NO0306106F.htm); there had been a 40% quota in all public committees since 1985 (http://www.europeanpwn.net/index.php?article_id=150).

[3] http://www.spiegel.de/international/business/women-on-board-norway-s-experience-shows-compulsory-quotas-work-a-705209.html

[4] http://highpaycentre.org/files/REVISED_WOMEN_ON_BOARDS.pdf

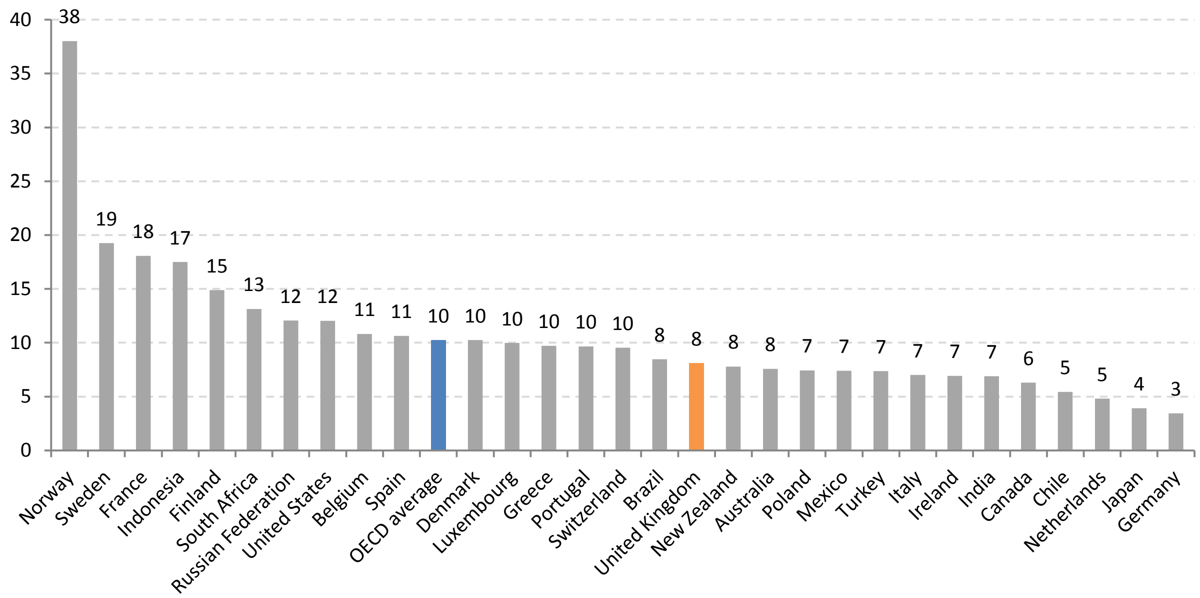
[5] http://library.fes.de/pdf-files/id/ipa/07309.pdf

[6] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31480/11-745-women-on-boards.pdf

Current situation in the UK and Scotland

According to 2009 OECD data, Norway had the highest proportion of women on corporate boards in listed companies, at almost 40 per cent thanks to its quota law, double that of Sweden and France at just under 20 per cent. The proportion of women on boards in the UK was below the OECD average (8 per cent and 10 per cent respectively). Germany had the lowest representation of women on corporate boards, at 3 per cent.

Figure 1: Share of women on boards in listed companies



Source: OECD Gender Data Browser, 2009 data only.

Academic literature: for and against quotas

Tokenism

Quota opponents have argued that mandatory quotas will lead to qualified men being passed over for less well-qualified women in board appointments, and that the process will not be meritocratic. Counter-arguments have highlighted that board appointments are seldom purely meritocratic, often based on informal networks with a lack of transparency around the selection processes (Davies, 2011), and that newly appointed female directors are at least as well qualified as men. For instance, a study of FTSE 100 new female directors found that they were more likely to have MBA degrees and international experience compared to new male directors, although they were in general younger (Singh, Terjesen and Vinnicombe, 2008).

Other anti-quota arguments have highlighted that women appointed to boards through quotas would be viewed as tokens and their position would be undermined. Research has found that while just one woman on a corporate board may be viewed as a token, she is nonetheless able to learn the board dynamics and power relations and become influential in decision making (. XXX Other research suggests that tokenism becomes less of an issue when there is more than one director, in particular, the presence of women on boards becomes normalised when there are three or more women board members.[7, 8] Women's ability to make a contribution to the board may be attributable to their different leadership styles.[9] The presence of women on corporate boards seems to increase board effectiveness through reducing the level of conflict and ensuring high quality of board development activities. (Nielsen and Huse, 2010)

Corporate governance and financial performance

Studies looking into the relationship between the ratio of women on corporate boards and company financial performance have found mixed results, with positive, negative and no association, although more recent studies have tended to find positive associations, while other studies have found that diversity overall rather than gender diversity per se has a positive impact on financial performance.[10,11,12,13]

However, most studies miss out corporate governance and board effectiveness - the processes by which board composition affects company performance. Studies looking at the gender composition of boards and corporate governance have found that men and women have different leadership styles, and that the presence of women on corporate boards can reduce conflict and increase board development activities, such as strategic planning, evaluation, benchmarking etc.[14]

Most studies report on correlations between financial performance and the proportions of female board members, but do not conclusively establish causation. Among studies which establish causation, findings remain mixed – one study found that women on boards do increase monitoring, which has a positive impact on financial performance when shareholders are weak, but a negative impact when shareholders are strong, which suggests it is the link between corporate governance and performance that is more important than the gender ratio itself.[15]

Summary

Overall, it appears to be too early to identify the impact of board diversity in terms of gender on firm financial performance. There is more robust evidence that increasing female representation on boards decreases board conflict, increases governance and reduces risk-taking behaviour. However, the mechanism by which corporate governance is related to financial performance Is complicated, and more time and further research are needed. Doubts about the qualifications of female board members appointed through quotas on balance remain unfounded.

Further information

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[7] Erkut, Kramer and Konrad, 2008
[8] Torchia, Calabro and Huse, 2011
[9] Matsa and Miller, 2012
[10] Shrader, Blackburn and Iles, 1997
[11] Burke, 2000
[12] Singh and Vinnicombe, 2001
[13] Erhardt, Werbel and Shrader, 2003
[14] Nielsen and Huse, 2010
[15] Adams and Ferreira, 2008

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