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The Gender Balance in Business Leadership

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Introduction

Equality between women and men is enshrined in the Treaties and the EU Charter of Fundamental Rights as a fundamental principle of the European Union (EU). Equality between women and men is one of the EU's main objectives and tasks[1]. Article 157(4) of the Treaty on the Functioning of the EU (TFEU) allows the Member States to take positive action to achieve full equality in practice between men and women in working life.

Despite making up nearly half of the workforce and accounting for 60 % of new university graduates in the EU, women continue to be under-represented in economic decision-making positions, in particular at the top. Women's untapped talent, which, properly exploited, could benefit businesses and society at large, represents a wasted investment in human capital. Women represent on average almost one-third of business leaders in the EU, but the situation varies between countries. On average, the company boards of the largest companies listed on EU stock exchanges include barely one woman in every ten board members, and progress in changing this has been slow in recent years.

Equality in decision-making is one of five priority areas[2] in both the Women's Charter[3] and the European Commission's Strategy for Equality between Women and Men (2010-2015)[4]. In both documents, the Commission has reaffirmed its commitment to working to increase the percentage of women in positions of responsibility.

Slow progress towards gender balance in economic decision-making has put pressure on governments and companies in many Member States to redress the situation. There is discussion across the Union on the best way to increase the presence of women, in particular in corporate boardrooms.

The 'business case' for gender equality is another important issue. It is widely argued that women's advancement in the world of work brings benefits for businesses, while the under-utilisation of women's skills is a loss for the economy, particularly in the light of anticipated skill shortages.

This document has been drafted against that background with the aim of highlighting the gender gaps in selected high-level economic decision-making positions[5], the main barriers women face, and the economic and business case for better representation of women in top positions. It also outlines some examples of action taken by governments, the social partners and the corporate sector to increase women's participation in management.

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1 Article 2 and Article 3(3) TEU and Article 8 TFEU.

2 The other priority areas are: equal economic independence, equal pay for equal work and work of equal value, dignity, integrity, an end to gender-based violence, and gender equality in external action.

3 COM(2010) 78 final.

4 COM(2010) 491 final.

5 This means positions where comparable EU-level data exist.

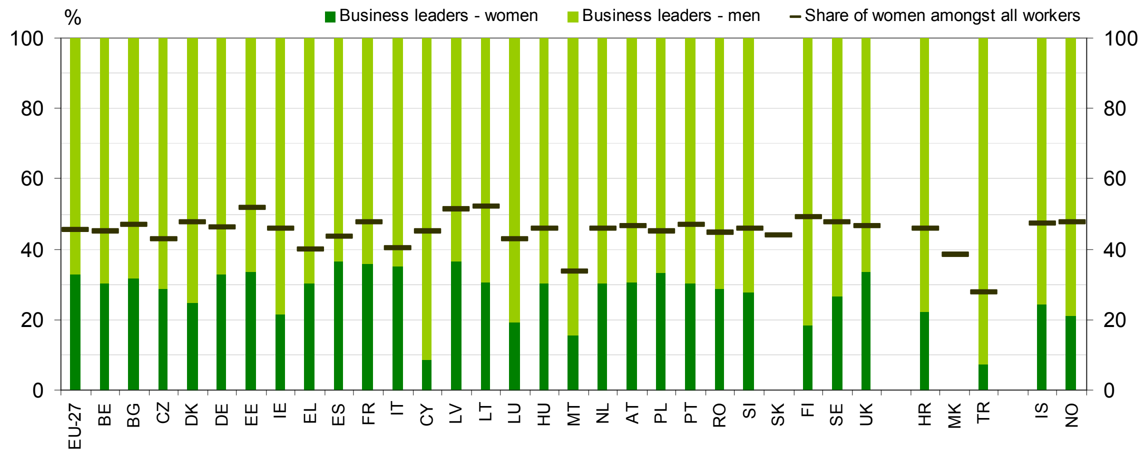
1. THE GENDER BALANCE IN BUSINESS LEADERSHIP — FACTS AND FIGURES

1.1. Women's under-representation among business leaders and in boardrooms

The gender imbalance among decision-makers in businesses across Europe is an indication of the lack of equality in women's career advancement. Although women account for nine in every 20 workers (45.4 % in 2009), they make up less than a third (32.8 %) of business leaders[6]. This disparity exists to varying degrees in all European countries (Figure 1).

The difference between the percentage of women business leaders and the share of women in the total workforce is greatest in Cyprus and Finland (both over 30 percentage points) and lowest in Greece, Spain and Italy (all below 10 pp).

Figure 1 - Women and men among business leaders (2009)



Source: Eurostat, Labour Force Survey.

This disparity has not narrowed significantly over time: the percentage of female business leaders rose from 30.7 % in 2000 to 32.8 % in 2009.

The latest statistics on the gender balance in the boards of top-listed companies across Europe[7] show that a typical board of ten has just one female member and that in 97 % of cases the board is chaired by a man. In 2010, women accounted for just below 12 % of board members in the largest publicly listed companies in the EU and for only just over 3 % of board chairs[8].

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6 Business leaders comprise people who work as directors or chief executives of a corporation or as the managers of small enterprises (categories 121 and 131 of the ISCO-88 classification of occupations). Note that these "business leaders" include some self-employed people who work through a company with no employees rather than as an independent and a few family workers in similar circumstances. These groups account for around 37% and 3% respectively of all women counted as business leaders and contribute to some of the country differences.

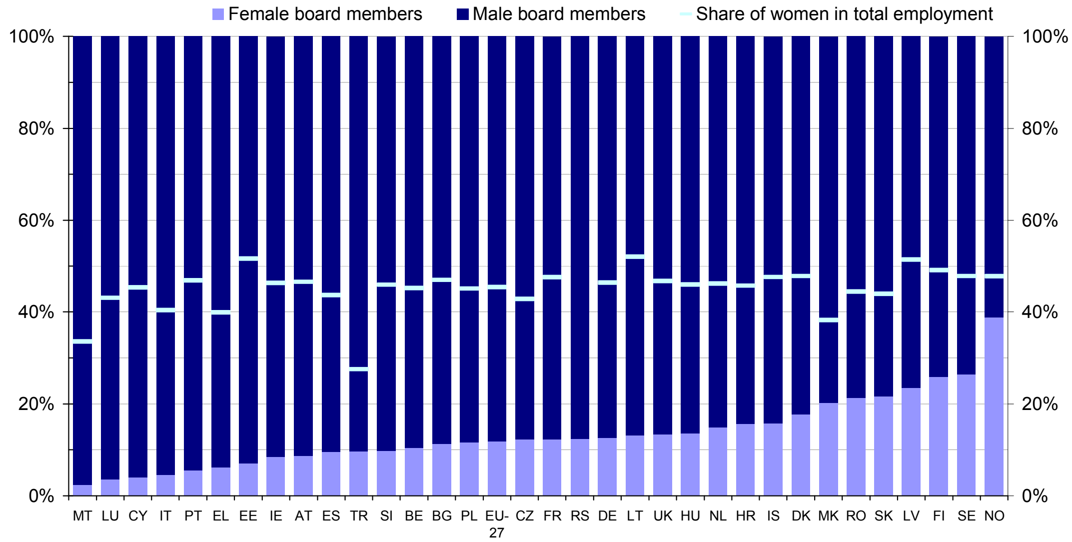
7 Source: European Commission database on women and men in decision-making, which covers 33 countries (EU-27, plus HR, MK, TR, RS, IS and NO). The data on companies cover the largest (by market capitalisation) nationally registered (according to ISIN code) constituents of the blue-chip index maintained by the stock exchange in each country. The total sample covers 598 companies with a minimum of 10 and a maximum of 50 from each country.

8 The Commission database covers 34 countries, which are listed elsewhere, but there are no data on companies in Liechtenstein. In countries with unitary (one-tier) systems, the board of directors is counted (including executive and non-executive members). In countries with two-tier systems, only the supervisory board is counted.

The percentage of women on boards also varies considerably by country (Figure 2). In Norway, where there is a legal requirement for balanced representation, women make up nearly 40 % of the board members of the largest companies. There is one woman member for every three men in Sweden and Finland (26 % women), while figures for Latvia, Slovakia and Romania are only slightly lower (all between 21 % and 23 %). In Malta, Luxembourg, Cyprus and Italy, fewer than 5 % of board members are women.

The situation is not very different in the USA, where women hold around 15 % of board seats in the Fortune 500 companies and chair 2 % of boards[9].

Figure 2: Women and men on the boards of the largest listed companies (2010)



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

1.1.1. *Many large companies still have no women on their boards*

Women's access to boardroom seats also varies with the company. In most Member States, a number of companies support equality throughout their organisations and have taken deliberate steps to further the promotion of women in senior positions. Nonetheless, such companies remain in the minority: one in three (34 %) large companies in the EU had no woman on their boards in 2010, and at least half of the companies surveyed in ten countries, plus Turkey, had men-only boards (Figure 3).

Another third (32 %) of companies surveyed had just one female representative. Indeed, only in Denmark, Finland and Sweden did the companies surveyed have at least one female board member, and only in Norway did all companies have more than one woman.

At this rate, unless action is taken to increase the number of women on boards, it will take another 50 years before there is a reasonable balance (at least 40 % of each sex) on company boards.

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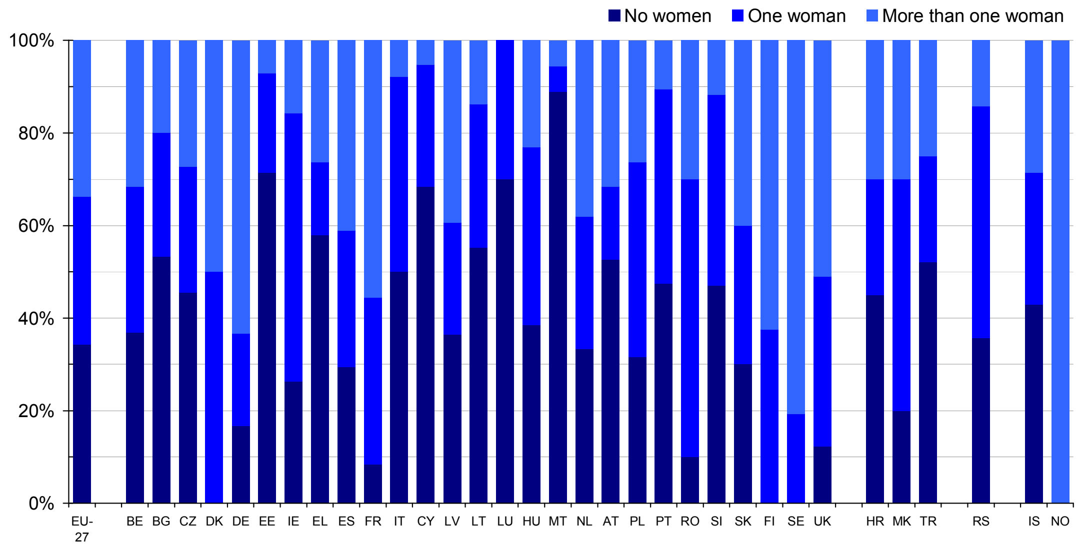
9 2009 Catalyst Census: Fortune 500 women board directors. The data are not fully comparable with those from the Commission's database.

Figure 3: Percentage of largest companies in each country by number of women on highest decision-making bodies (2010)



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

1.1.2. Female executives are few and far between

In 2010 fewer than 3 % of CEOs of the largest companies in the EU were women. Because CEOs represent the main source of further boardroom recruitment, it is important to increase the number of women in this function. A good way to facilitate the access of qualified women into management positions is to strengthen the leadership pipeline, as many women are highly qualified but lack the skills and experience necessary to enter senior management and board positions.

Getting more women into senior positions requires a bottom-up approach that ensures women have the same chance as men at every stage of the executive promotion process.

1.2. Barriers to gender balance in decision-making positions

The reasons for the current over-representation of men in power and decision-making are not only structural and multifaceted, but are also grounded in traditional gender roles.

While many structural barriers that may impede women's attempts to climb the corporate ladder have been removed through legislation, other significant structural factors limit women's career opportunities. The traditional division of labour, which defines women's responsibility as caring for the family and that of men as providing for it, also acts as a barrier to women's advancement. Examples of structural barriers that affect women's opportunity to participate in the labour market on an equal footing with men are tax policies that do not encourage two-earner families and a lack of access to care services for dependent persons (children, disabled and the elderly) or of adequate leave schemes and flexible working arrangements.

Other barriers to women's advancement are found in many business cultures where traditional gender roles prevail. These underpin the view that women should take primary responsibility for raising the family and engender doubts about their capacity to fulfil this role together with a professional career, particularly at senior level. This contributes to vertical segregation: women are under-represented in line management positions that lead to the top positions and where recruitments for CEO posts are made. Women are consequently less highly trained and are less often offered middle-level line management positions that would prepare them for the highest positions. A lack of role models may also discourage some women from looking for management positions.

2. THE ECONOMIC AND BUSINESS CASE FOR GENDER EQUALITY

From a macroeconomic perspective, the increase in women's participation in the labour market has accounted for a quarter of annual economic growth since 1995[10]. This positive development has contributed to greater recognition of the 'economic case' for gender equality. Some research suggests that closing the male-female employment gap would have positive economic results for developed economies and could play a role in addressing the problems posed by population ageing and the burden of pensions[11]. One headline target set under the Europe 2020 Strategy for smart, sustainable and inclusive growth, endorsed by the June 2010 European Council, aims to raise the employment rate for women and men aged 20 to 64 to 75 %. In line with Europe 2020, the guidelines for the employment policies of the Member States state that 'increased female labour force participation is a precondition for boosting growth and for tackling the demographic challenges' in Europe[12].

While women have a higher level of tertiary educational attainment than men in the EU, their professional careers do not fully reflect their skill levels, which is a waste of human resources and competences at a time when human capital is the key to competitiveness in the global economy.

The 'economic case' for gender equality acknowledges the vast untapped economic potential of qualified women who are not using all of their skills and talents.

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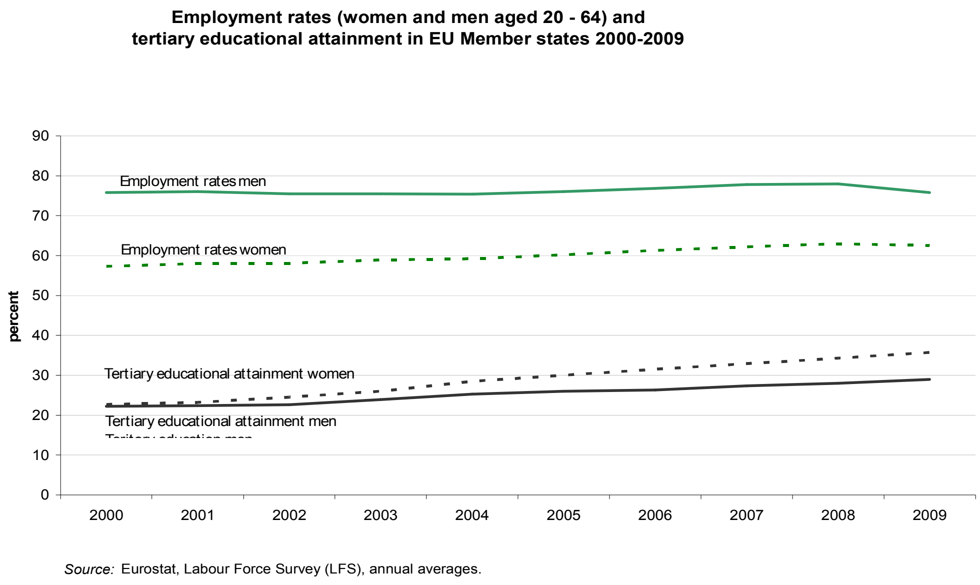
10 OECD (2008) Gender and sustainable development. Maximising the economic, social and environmental role of women.

11 For example, the Corporate Gender Gap Report 2010, World Economic Forum, quotes a possible increase of 13 % in euro-area GDP.

12 Employment guidelines, recital 12.

Figure 4:



From a <u>microeconomic perspective,</u> the 'business case' for gender equality emphasises the benefits companies can derive from mirroring the diversity of their employees and customers. Several studies[13] suggest there is a positive correlation between the percentage of women in senior positions and company performance. Although these studies do not prove any causality, the correlations highlight the business case for women's greater involvement in management and corporate decision-making. Female members of company boards and audit committees and female chief financial officers and auditors may also have a positive impact on financial reporting, auditing and the organisation of internal controls[14].

Diversity among employees and board members boosts creativity and innovation by harnessing complementary knowledge, skills and experience. Companies will also gain added value by creating a women-friendly culture and will be considered employers of choice by ambitious women and men eager for a better balance between work and private or family life. Companies that succeed in attracting and retaining larger talent pools are also considered capable of delivering competitive advantages, and this is not only good for the company's reputation and image but also crucial for understanding its customers. Women represent a growing proportion of the consumer market, and a leadership team that includes women will find it easier to understand female customers[15].

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13 'Female leadership and firm profitability', Finnish Business and Policy Forum (EVA), 2007; McKinsey Women Matter report (2007); 'The contribution of women on boards of directors: going beyond the surface', Nielsen, Sabina og Morten Huse (2010); Catalyst studies, www.calyst.org; Cranfield School of Management (UK), 'Why women mean business', A. Wittenberg-Cox and A. Maitland, Deutsche Bank Research (2010), www.dbresearch.com, etc.

14 Study project led by Prof. Sami Vähämaa, Vaasa University, Helsinki.

15 Fröse and Szebel-Habig (2009).

3. STRATEGIES TO PROMOTE GENDER BALANCE IN BUSINESS LEADERSHIP

Council Recommendation 96/694/EC[16] invites the Member States to adopt a comprehensive, integrated strategy to promote the balanced participation of women and men in decision-making. It also calls on the Member States to encourage the private sector to increase the number of women at all levels of decision-making, in particular through the adoption of equality plans and positive action programmes.

The Commission has subsequently supported the Member States through, for example, its financial programmes for gender equality.

International commitments such as the Beijing Platform for Action (BPfA)[17] have been important in raising awareness and monitoring progress on the issue. To that end, the Commission has established a database on decision-making. It reports on the situation annually on the basis of common indicators[18] developed at EU level by the Council in 2003.

In 2010 most respondents to the Commission's public consultation on corporate governance in financial institutions agreed that greater diversity on boards avoided the 'group think' phenomenon and stepped up the challenge within boards. While some were in favour of quotas for female board members, many stressed that diversity should not come at the cost of knowledge and expertise[19].

3.1. Action promoted by governments

Governments have developed and supported various initiatives to raise awareness and persuade the corporate sector to improve women's career opportunities and do away with 'glass ceilings'. These include campaigns, monitoring, mentoring schemes, networks, voluntary charters, the use of corporate governance codes and even legislation.

The slow progress made has fuelled debate across Europe and brought about social and media pressure to redress the situation more quickly, in particular to improve the gender balance in corporate boardrooms.

3.1.1. Soft measures: corporate governance codes and charters

Corporate governance codes that encourage companies to take action are increasingly used to promote gender equality on company boards. They utilise peer pressure to influence organisations from within and pressure from stakeholders and the media from outside.

As from 2010, the Finnish Corporate Governance Code includes a 'comply or explain' rule, which makes it a duty to explain why there is not at least one woman on the board of each publicly listed company. As a consequence, the number of listed

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16 OJ L 319, 10.12.1996.

17 The Platform for Action, adopted in 1995 by 189 states, outlines 12 critical areas of concern where gender inequality persists and proposes strategic objectives and actions for each area. One of these was the under-representation of women in the decision-making process.

18 The proportion of women among the presidents/chairpersons of the highest decision-making body of the largest publicly quoted firms on the national stock exchange and the proportion of women among the members of the highest decision-making body of the largest publicly quoted firms on the national stock exchange.

19 See the Green Paper and the summary of the responses at: http://ec.europa.eu/internal_market/company/modern/corporate_governance_in_financial_institutions_en.htm.

companies with at least one woman on the board rose from 51 % to 74 % from 2008 to spring 2010[20].

In Sweden, a recommendation on gender-equal boards in the 2004 Corporate Governance Code has led to a significant increase in female board members in listed companies[21]. Spain, the Netherlands, Belgium, Austria, Luxembourg, Germany, France, Denmark and the United Kingdom have also included clauses in their corporate governance codes concerning gender equality on company boards.

In Poland, the "Code of Best Practice for Warsaw Stock Exchange Listed Companies" recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business.

The Netherlands and Denmark have also introduced charters that companies can sign voluntarily.

The Dutch charter requires participating companies to set quantitative goals, measure their achievements and report to a monitoring committee, which reports annually to the Minister for Emancipation and announces the results of the participating companies in the media (‘naming and shaming’).

The Danish charter for more women in management aims to launch specific, measurable initiatives in companies and organisations to increase the proportion of women at all levels of management. It requires enterprises to develop and set goals and/or targets for the number of women in management, the percentage of women at selected executive levels to be achieved within a set time, or the proportion of women in talent pools or in the management pipeline. Companies must submit progress reports every two years. Moreover, the Minister for Gender Equality has prepared recommendations for more women on supervisory boards (Operation Chain Reaction). The co-signatories of these recommendations undertake to raise the percentage of female managers and female candidates for supervisory board membership and increase the pool of potential female supervisory board member candidates by working consistently to increase the number of female corporate executives in general.

3.1.2. *Gender quotas set by legislation for corporate boardrooms*

Norway passed a quota law[22] requiring a minimum of 40 % of each sex on the boards of all public limited companies. In 2006, it applied to the newly established public limited companies and from 2008 to all public limited companies. A failure to meet the quota may result in penalties or, as a last resort, in the company’s dissolution. As a consequence, the number of women on the boards of large companies in Norway has risen sharply.

In sum, following the quota law, women have more equal access to economic decision-making positions, there are more women role models, and more women are eligible for top management positions[23].

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20 http://www.ewla.org/News/12995.

21 From 18 % in 2003 to 28.6 % in 2009.

22 December 2003.

23 Institute for Social Research, Oslo, Norway.

However, the figures indicate that the law has not improved the gender balance in other high-level positions in companies or in companies that are not subject to quotas.

In Spain, an equality law adopted in 2007 encourages large companies to alter the membership of their boards gradually until each sex makes up at least 40% by 2015. There is no penalty for failing to comply, but this is taken into account when public subsidies or state administration contracts are awarded. There are already signs of progress: the percentage of women on the boards of Spain's largest listed companies has more than doubled, rising from 4% in 2006 to 10% in 2010[24].

In Iceland, legislation adopted in 2010 and applicable to publicly owned and publicly limited companies with more than 50 employees aims to ensure that each sex will make up at least 40% of boards by 2013.

In France, legislation was adopted in January 2011. It gives businesses six years to ensure that 40% of boardroom positions are taken by women. Within three years French firms must ensure that a figure of 20% is reached. The legislation will apply to companies in France that are listed, have more than 500 employees or have revenues over 50 million euros. There are indications that some companies are already taking positive steps to pre-empt the requirement.

In the Netherlands, the Dutch House of Representatives has discussed a bill on the management and supervision of listed companies, which includes provisions for the balanced participation of women and men on boards. The bill requires at least 30% of seats to be held by each gender.

Quota legislation is also being discussed in Italy and Belgium.

Gender quotas for state-owned companies have been in place in Denmark, Norway, Finland and Iceland since early 2000. All of these countries have met their targets for gender balance on the boards of state-owned companies, which suggests that legislation on quotas can be effective.

However, if quota legislation is to achieve sustainable results, it should both provide for dissuasive penalties and be backed up by additional measures (training of talented women for senior management jobs, databases of qualified women ready for such positions, etc.).

Moreover, in most cases[25] where quota legislation for publicly listed companies has recently been adopted, it is too early to evaluate the results.

3.2. The contribution of the social partners and businesses

3.2.1. Action by the social partners

Promoting women in decision-making was a priority area in the 'Framework of actions on gender equality' adopted in 2005 by the four cross-industry European social partners BusinessEurope, UEAPME, CEEP and ETUC. An evaluation[26] has shown that a growing number of organisations are implementing diversity and equality programmes. There is also growing recognition of the value of women's skills and competence at all levels, and many companies see encouraging gender

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24 Commission database: women and men in decision-making.

25 Except Norway.

26 Framework of actions on gender equality — Evaluation report 2009. http://etuc.org/a/6709.

balance at management level as a way of achieving better economic performance and creating a better working environment. The evaluation lists five crucial factors in reaching a gender balance at all levels within enterprises:

- Utilising a gender-neutral and competence-based recruitment process;
- Reconciling professional and private life;
- Encouraging career development for both women and men;
- Promoting female entrepreneurship;
- Increasing women's participation and role in social dialogue.

3.2.2. Action by businesses

More and more businesses are aware that greater participation by women in management, including at the highest levels, makes good economic sense, and they are taking measures to foster women's leadership potential. A study[27] has identified four stages within which such measures can be grouped:

- Be aware of the situation within the company by introducing continuous monitoring of all human resource issues from a gender perspective, including the setting of targets against which progress can be measured.

Deutsche Telekom plans to fill 30 % of its middle and upper management jobs with women by the end of 2015 under voluntary targets. Tools to be used include recruitment policy and executive development programmes. By doing this, the company seeks to achieve a competitive edge by tapping into talent.

- Ensure that the company implements policies that facilitate a good work-life balance and allow all employees, both female and male, to have an active family life without sacrificing their careers.
- Introduce measures to provide the type of support needed to develop one's career, particularly that currently lacking for many women: this includes developing networks, coaching and mentoring.

One successful mentoring programme to help senior female managers advance to board membership is the *FTSE 100 Cross-Company Mentoring Scheme*, under which CEOs and chairpersons of some of the UK's largest companies mentor senior female managers. The scheme has received support from such bodies as the Bank of England.

- Introduce specific action to help prepare women for leadership positions through suitable training and hands-on experience.

The report concluded that many companies take steps that fall within the first three stages, but do little to facilitate the crucial final stage, which involves actively preparing women for leadership.

27 Inspiring women: Corporate Best Practice in Europe, The Lehman Brothers Centre for Women in Business, London Business School, 2007.

4. CONCLUSION

Women continue to be significantly under-represented in leadership and decision-making positions in the corporate sector. Except for a few countries, progress is very slow.

Although there are successes to applaud and positive trends are emerging, many of the largest employers in the EU still do not seem to provide a suitable working environment for female talent to flourish, in particular in top positions.

The various approaches promoted by governments, the social partners and companies to increase the percentage of women in decision-making positions, and the results they have achieved, reflect Europe's diverse cultures and the lack of a 'one-size-fits-all' solution. The most effective, albeit controversial, strategy to achieve gender-balanced boards seems to be quota legislation, as Norway's experience shows. But encouraging results are also produced by voluntary strategies, such as the implementation of recommendations on the percentage of women and men in national corporate governance codes and practical measures taken by the social partners and committed businesses.

Other management posts, such as executive positions, are just as important as board membership, not least because they constitute the recruitment base for the latter.

Increasingly, companies acknowledge that having more women in management roles is a crucial asset for their development and competitiveness, and that they have to adapt their corporate culture to accommodate the experience and leadership styles of both women and men.

The public and private sectors need to work in partnership to design and implement comprehensive strategies to make further, sustainable progress. This calls for political will on the part of governments and the support of corporate top management.

The Commission will consider targeted initiatives to improve the gender balance in decision-making positions. It will continue to support action by the Member States, in particular by collecting, analysing and disseminating comparable data and analyses on persistent gender gaps, and by promoting networking between all stakeholders and exchanges of experience and good practice at European level.

In 2011 the Commission will initiate a high-level dialogue with European business leaders and European social partners to discuss how to make faster progress towards gender balance in corporate boardrooms.