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Corporate Governance Initiative

Women on Boards
Webinar, December 14th 2012

The webinar was devoted to the topic of women in senior business leadership roles, both at executive and board levels. The representation of women in senior business ranks has virtually not changed for years, despite considerable organizational investment in diversity initiatives and many discussions on the issue. However, the latest EU directive has sparked many debates globally, encouraging governments, businesses and academia to introspect and move towards transformation.

According to Catalyst, the Fortune 500, women board directors were at 15.2% in 2008 and this figure moved marginally to 16.1% in 2011. The gender gap in position and pay started early and grew over time, and can't be explained away by women's lack of ambition or women taking time out to have kids. Despite women and men using the same career advancement strategies and doing 'all the right things' men move significantly ahead of women. This raises important questions such as whether the inequality in access to key jobs opportunities is sufficient to explain the persistent gender gap at the top?

Led by INSEAD Professors Hermina Ibarra, Professor of Leadership and Organisational Behaviour and Ludo Van der Heyden, Academic Director, INSEAD Corporate Governance Initiative, 28 senior level men and women participants from many different European nations, joined ICGI's Webinar to listen to the faculty's initial comments and then proceeded to share their own experiences on the various challenges that were debated.

Bad News, Good Intentions

Professor Ibarra began the discussions with her presentation that highlighted the fact that the representation of women in senior ranks is virtually unchanged over the years despite considerable organisational investment in talent management systems, like women's leadership development programmes, women's networks and mentoring programmes.

With others - such as Catalyst, Unilever and Council for Women Empowerment - INSEAD has engaged in a systematic research with a 360 degrees assessment of a large sample study of MBA graduates and executives. The finding revealed that even when armed with an MBA degree (a presumed equalizer), women find themselves in a gender gap right off the back, with a starting salary difference of US$4000. Furthermore, men start at higher title levels.

Another important point, confirmed by a McKinsey study, is that leadership development occurs primarily on the job (70% is the number of the McKinsey study), not in the classroom, and much less through critical relationships (20%) or through training programmes (10%).

Responding to questions about women dropping out of the running during the time they have families, Professor Ibarra explained that companies know that mid-career level is the biggest drop-out time, and generally people don't want to invest in employees and see them leave. "*There are a variety of responses from companies simply saying that when women have children they don't want to take on these big roles, to a more sophisticated understanding of the ways in which work is structured*," adding, "*the fact remains that high potential women do get side-lined, who then decide to do something else because the job is not meaningful anymore. No company can escape doing their own diagnosis. They need to understand why there is an exodus at middle level*."

In this regard, one answer has already been given in the literature by the work of Hewlett and Luce, published in the Harvard Business Review in 2005. This work reveals that women differ from men in their career paths and need so-called "*off and on-ramps*" which allow non-linear career paths requiring different processes for progress.[1] Interestingly, companies that have taken this study on board have introduced these ladders which even men have taken advantage of.

But another step is needed for women to have equal chances at career progression, and that was the next point addressed by Professor Ibarra's research.

Stop Mentoring, Start Sponsoring

Research has shown that mentoring is important for development and career progress; however, some shocking revelations also emerge from such research. A survey of INSEAD's 2008 MBA alumni has revealed that though women

[1] *'Off-Ramps and On-Ramps: Keeping Talented Women on the Road to Success', by Sylvia Hewlett & Carolyn Luce; Harvard Business Review, 2005*

had mentors who had predicted their promotions in a couple of years, by 2012 only men had been promoted - even though women had more mentors than men (47% to 39%)! The explanation behind this discrepancy is that the men actually had more senior men mentors who also ‘sponsored’ them, i.e. opened doors for them rather than simply giving advice on how to progress their career. In fact, it appears that men are much less forthcoming in sponsoring women than men.

Another interesting finding from INSEAD research - this time from INSEAD’s executive participants - is that more men are viewed as visionary leaders with better strategic thinking, which is a prized capability on boards. However, Professor Ibarra believes this is more a matter of perception than reality, because interestingly this was not revealed by women assessing women but more by men who assessed women.

Consistent with the McKinsey study, it was also found that people with high potential got ahead further and faster when they were given ‘big roles’, highly visible projects, held mission critical roles and took international assignments. These were crucial game changers for career advancement rather than any formal programme. It is important to note that leading projects alone didn’t predict advancement, but working on highly visible projects did.

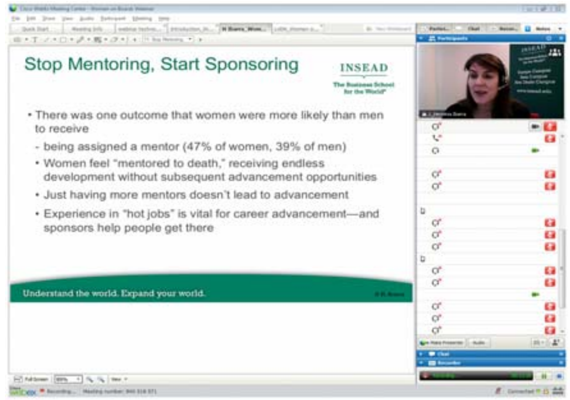
This then identifies a critical question regarding this gender debate: are organisations sufficiently vigilant to ensure that those critical experiences (which we might call “hot jobs”) are allocated to men and women alike?

The answer is basically ‘no’. A 2010 WEF survey of HR departments in OECD companies, found that generally this issue was not really looked into, and there was no measurement for key jobs compared to support roles. The study shows that men get the more visible, mission critical, ‘hot jobs’, with twice the budget for projects than women, three times more staff and more international assignments. Basically, they have more c-suite visibility, which is critical for promotions.

Numbers speak louder than words and the statistics are striking, showing up big differences between men and women following leadership development programmes. In the data examined, more men received promotions within a year, 51% to 37%; men had their budget oversight increased by 22% and women by 15%; more men received profit and loss responsibility, 13%, compared to women’s 7%; and men were more likely to get an international assignment, 23% to 14%.

“*There is a clear message here: in order to get to top jobs, women need sponsoring and that just mentoring does not lead to advancement. Women feel mentored to death, without subsequent advancement opportunities*,” Professor Ibarra concluded.

During discussions, a female participant from Australia who worked with a company that conducted mentoring programmes for directors said that men who mentored women were less successful than those that sponsored women for promotions, confirming Professor Ibarra’s study, who explained that progress was being made, “*Companies are becoming savvy about this in recent years, for example INSEAD was working with Deutsche bank, with their two most senior layers of women in leadership development programme which is tied to a sponsorship programme. Members of the board and executive committee are taking on high potential women in order to sponsor them for senior roles. IBM Europe went so far as to hold sponsors accountable when women were not promoted.*”



Tackling the “top-job” gap

Professor Ibarra talked some important factors that needed to change:

- Organisations need to clarify their goals for development programs to ensure that outcomes align with objectives and that talent is developed equitably
- Opportunities afforded to high-potential women must be comparable in size, scope, and relative importance to the organization as those afforded men
- Close the gender gap by being intentional and strategic in the design and allocation of ‘hot jobs’ and formal programmes
- Allocate senior-level sponsors to high potential women with clout to create access to ‘hot jobs’

It is critical to get women to director/senior roles, both on boards and non-board roles, and there is a correlation between these roles.

And what about board level?

Professor Ludo Van der Heyden began his presentation with the latest data showcasing the dismal progress of women on boards and executive management throughout the world, and the progress that was achieved from 2003 to 2012.[2]

The pattern is scattered and surprising, yet overall the numbers are not good. Some European countries like France, Netherlands and Finland are doing well in narrowing the gender gap, but some countries remain surprisingly sluggish, such as Sweden, UK and Belgium, while Germany reveals to be remarkably slow.

The data reveals a direct link between women representation on boards and on executive committees. The presence of women is dramatically worse in the top executive arena, with only 19% of women in the C-suite in the U.S, and as of Dec 2012 only two women CEOs in the UK FTSE 100 companies.

“*Ad hoc evidence reveals that there is no board that is incapable of finding capable women to serve on their boards, if they learned to look differently and elsewhere from traditional modes*,” Professor Van der Heyden said.

[2] *European Commission, Database on women and men in decision-making: Data was collected in January 2012. The list of the largest publicly quoted companies is based for each country on current membership of blue-chip index. In countries for which the blue-chip index includes a small number of companies (for instance LU, SK), at least the 10 largest companies were covered.*

The Norway Example

In Norway, without much consultation with the prime minister, other government or ministry officials, Ansgar Gabrielsen, the Minister of Trade and Industry, first proposed the women's quota in the press in 2002, reportedly to overcome the perceived problem of "*boys' clubs*" that appeared to exclude women from corporate boards: *"If I had told them before, the initiative would have been killed by one committee after another,"* he said at the time. *"I had to employ terrorist tactics. Sometimes you have to create an earthquake, a tsunami, to get things to change," he said, laughing at his own daring. "If a left-wing feminist had come out with something like that, it would have been dismissed as just another scream in the night,"* he continued. *"But because I said it, I knew that people would take notice."*

So, in Dec 2003 (when only 9% of women were directors), a quota of 40% was imposed on a voluntary basis for publicly listed companies, but by July 2005 when only a 15% target was reached, the quota was legislated in Jan 2006 for all listed companies (with a threat of dissolution if non-compliant). The target of 40% was met by all companies by April 2008.

Critics of the Norwegian scheme however point out that the quota system put very educated women on boards, but also directors who lacked sufficient business leadership experience which is so vital to director effectiveness. Furthermore it was alleged that given the small number of 'qualified' candidates, the regulation tended to appoint women holding numerous directorships, defeating the argument of board diversity and having more women in top leadership positions.

Another side effect was the rather drastic reduction in listed firms on the Norway exchange. The number of public limited firms in Norway in 2009 was less than 70% percent of the number in 2001; whereas private firms increased by over 30%.[3] In 2001, there were 529 public limited firms and 118,533 private limited firms. In 2009, there were 351 public limited firms and 161,584 private limited firms.[4] This suggests that the gender quota imposed large enough costs on firms that those most affected avoided the law by changing their legal status. Though de-listing is a western phenomenon (including in the US) the drop in Norway was particularly severe, and many people explained it as induced by the regulation.

However, the positive side effect was that, in search for qualified women, Norway's boards had to look outside their own borders, which resulted in making their boards more international (and therefore diverse). Of course, it also increased the attention to getting more 'board-ready' women through the pipeline within the country.

The general feel in the business community is that there was too much meddling and control by the government on Norwegian boards, with a change imposed by government that was too drastic and too sudden.

Professor Van der Heyden concluded the Norwegian example by pointing out, "*We know from sociology that continuous small changes are the most effective ways to change behaviour, and radical changes results in unintended and often negative side effects. The Norwegian example in my view confirms this basic law from sociology.*"

The EU Directive Compromise

European Vice-President Viviane Reding initially proposed legislation that women must occupy 30% of non-executive board positions on listed EU companies by 2015; and to rise to 40% by 2020.

Companies with 50m Euro in revenue or more than 250 employees would be under the quota system and subject to sanctions if non-compliant.

However, EU lawyers warned this may not be enforceable and a number of nations, led by UK, heavily protested against it. So, on 14th November 2012, a compromised proposal was accepted in which listed companies were *encouraged* to aim for 40% non-executive women directors by 2020. The nudge is for companies to set self-regulatory targets without any fines or sanctions. In addition, countries are given quite some leeway to apply the directive.

Professor Van der Heyden said, "*Breaking the bias against women that is present in business at the top is the right thing to do, for women, and for all of us; doing so at the top of companies, namely at board level, is also right. The question goes beyond having women at board level, it is about having women at all levels of business leadership; female presence at board level seems to be the surest way to break any glass ceiling that may exist in business. I am delighted the EU, under the stewardship of Vice-President Reding, has brought the issue forward.*"

INSEAD Survey and View

To support the reflexion spurred by the EU Commission, INSEAD's Corporate Governance Initiative designed a survey sampling both experts on gender and board matters, and experienced directors. The survey proved useful in identifying both similarities as well as main differences between men and women's positions on gender diversity.

It was found that everyone agreed that gender diversity contributed to board effectiveness and that a statement of gender neutrality at board level is powerful internally and externally. However, men were largely against quota and regulation and voted for 'natural evolution', whereas the women were split on this issue: those women in favour of quotas largely agreed that women should be appointed for their merit (and not for gender) and that quotas were a weapon of last resort. It was only in view of the little 'natural

[3] *The Changing of the Boards: The Impact on Firm Valuation of Mandated Female Board Representation. By Kenneth R. Ahern and Amy K. Dittmar. The quarterly journal of economics. - Oxford : Univ. Press, ISSN 0033-5533, ZDB-ID 31379. - Vol. 127.2012, 1, p. 137-197*

[4] *Ibid. Data are from Statistics Norway (Statisisk sentralbyra)*

progress' that had occurred that they reluctantly agreed to quota.

"*Reding took on the male establishment and put the issue clearly on the EU table, for the world to take note*," said Professor Van der Heyden, adding, "*this is foremost a democratic and societal issue about redressing what is a bias against women at the top of the corporate ladder. Most people agree that this is not good and that this bias ought to move away; I should add that the "natural way" seems not to have seriously improved the issue for many hundreds of years - and so it is understandable and good that the issue gets tackled, hopefully this time decisively."*

Maybe the directive was trying to change matters too much too fast. Going forward, it would appear important to keep this issue on the agenda and to include it in the EU observatory on gender diversity, with statements of status – and hopefully progress - being released regularly over the next five years.

Global Reverberations

A full range of solutions has been explored and discussed across different countries, and progress has been varied. Norway has taken coercive action, the USA and Canada have encouraged voluntary commitments and UK has adopted a more collaborative approach. Meanwhile, progress in the southern European countries has been limited.

Perhaps the most positive result is that so many countries are discussing female board representation, and that many are taking some kind of a stance on the issue. Of course, there are some notable exceptions to this trend (such as Switzerland and some of the larger Asian markets). Even in China the profile of women in leadership roles is probably on the ascendancy, with, for the first time since the height of the Cultural Revolution in 1969, two women making it to the esteemed previously all-male Politburo.

A historic decision was announced by Sheikh Mohammed bin Rashid Al Maktoum, Vice President of the UAE and Ruler of Dubai, on Dec 10, 2012: The UAE Cabinet made it compulsory for corporations and government agencies to include women on their boards of directors (at present, women hold only 1.5 per cent of board positions in listed companies in the GCC); Malaysia last year announced a 30% compulsory quota for women in decision-making positions as of 2016; India has proposed that companies with five or more independent directors to have at least one woman director. These are substantial departures from prior positions, and we are convinced that these first steps will lead to further steps – and that history will identify these occasions as pivotal.

The Inequity Issue

Most participants, men and women alike, concluded that having women on boards changed the board dynamics for the better - with quicker and informed decision making, faster processes, non-confrontational disagreements, easier discussions, straight talking, non-threatening exchange … The latter were all attributes that women were credited by those present to bring to the board table.

Participants felt strongly that there needs to an increased awareness of the differential standards applied by men in business. Women were expected to 'fit in' and mitigate their usual style so that men would not be made uncomfortable; women had to walk a fine balancing act between being not excessively ambitious and intimidating, while also being sufficiently aggressive to be heard. In sum, women at the corporate top are being held to more demanding standards than men.

Finally, and regardless of regulatory interventions and quota, the discussions led to the shared realisation that board diversity training, especially on gender related issues, was an idea whose time was NOW!

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