Boardroom diversity: Quotas are not helping women into senior management

Countries that have introduced quotas for the number of women in the boardroom are not seeing similar increases in women coming through the executive management ranks, according to new research for the High Pay Centre.

Research conducted by Korn/Ferry Whitehead Mann for the High Pay Centre found that where quotas had been brought in, there was an immediate rise in female non-executives on boards. But this has not been matched by the number of women entering executive or senior positions.

Even though Norway introduced quotas for women on boards in 2003, there is still no female chief executive running a top company. This research is likely to fuel the acrimonious debate within Europe over the introduction of quotas.

Quotas have not been in place long enough in some countries to have much effect. Nevertheless, it is not clear whether mandating more women to high-profile board jobs actually improves the chances of promotion for women lower down the company. There is a danger that appointing women to non-executive board positions is used as window-dressing for companies that are doing little to promote women through the executive ranks.

It is heartening to see that our research on gender diversity suggests there has been improvement to the male/female balance. However, whilst change at a non-executive board level has been significant, companies and their advisors need to turn their attention to making improvements at the executive management level, where progress has been much slower. The research also begs the question as to whether quotas are truly effective in driving material change at the executive level, with many of those European countries that do have board quotas having few female senior leaders, and several having no female chief executives,”

Sonamara Jeffreys, Managing Director, Korn/Ferry Whitehead Mann.
Executive summary

Quotas in Norway have achieved the highest level of female representation on boards with 35% of non-executive directors. However, the proportion of women in senior management has risen modestly from 15% to 18% in the past five years.

- Six countries, many of which have introduced quotas, have no female chief executives running their biggest companies: these include France, Germany, Japan, Belgium, Italy and Norway.
- Sweden has the highest number of women in senior management at 22%.
- Spain and Italy have introduced quotas and seen a rise in female representation on boards to 13% and 11% respectively. But the number of women in senior management positions remains low.
- Germany, which has no quotas, has seen the number of executive directors increase from zero to 8% in the past five years.
- In the UK which has taken a voluntary approach, female board membership has increased from 11% to 17% and the number of women in senior management positions has risen from 15% to 19%.
- The US has 20 female chief executives running top companies in the S&P 500. Women represent 19% of senior management and 17% of board positions.

Women on board

Boardroom diversity is an issue that has come to the fore since the financial crisis. Most countries are striving to increase the number of women on company boards. However, EU commissioner Viviane Reding’s push to introduce mandatory quotas for female board directors across the EU has been put off amid widespread opposition from business and governments in some countries, including Britain.

The drive to impose quotas has been led by Norway where companies were required to have 40% of female non-executive directors on boards by 2008 or face penalties. Other countries to introduce mandatory quotas include Spain, Italy, Belgium and France. The UK has preferred a more voluntary approach with the Lord Davies review introducing a target for FTSE 100 companies to have 25% of women on boards by 2015.

Helena Morrissey, chief executive of Newton Asset Management and founder of the 30% club to get more women on boards says quotas do not help companies improve diversity. “The only way to become a CEO or a chief Financial Officer – male or female – is through achievements over a number of years. Heavy-handed legislation cannot help with that.”

Governments have so far focused their efforts on promoting non-executive board positions for women: these are not involved in the day-to-day management of the company.

But if boardroom diversity is to flourish, it is important to encourage women to take more executive and senior management roles. Campaigners for more women on boards have started to push for companies to look at their pipelines for promoting women through the ranks of company management.

Some fears have been raised that introducing quotas for non-executive directors may even encourage women out of the executive pipeline into serial non-executive positions. This could starve the companies of female managers.

The research

This research looks at the growth in the number of women on boards as executive and non-executive directors as well as in senior management. It includes a range of countries worldwide, some of which have introduced quotas and some of which have taken a voluntary approach. It uses data from companies in leading stock market indices in those countries to examine whether top businesses are promoting more women to non-executive and senior management roles.
On board, but not running the company

As expected, Norway leads the way with an average of 35% female non-executive directors on boards of its top companies. However, senior management in top Norwegian companies has been slower to embrace diversity. The number of women in senior management has risen from 15% in 2007 to just 18% and there is still no female chief executive among leading Norwegian companies.

Spain is the other path-breaker for female participation at board level. Madrid introduced quotas in 2007 for companies to include 40% of women on their boards by 2015. However, progress has been slower than in Norway with board membership increasing from 7% to 13% in the past five years – almost all non-execs. Women in senior management at top Spanish companies have risen from 7% to 10% in the same period. During that time, Spain has managed to promote one female chief executive.

France has seen a fairly swift response to the imposition of quotas last year with female participation required to rise to 20% by 2014 and 40% by 2017. This prompted an increase in women in the boardroom to 24% from only 15% in 2010, but again almost all of that increase has been in non-executive jobs. Participation of women among senior management in France has risen from 9% to 16%.
Italy has seen a rather disappointing response to the imposition of quotas – companies are required to have 33% of women on boards. The number of women board directors has risen from a very low level – 3% – to 11% and senior management is up from 9% of women in 2007 to 10%. Italy has no female chief executives.

In Britain, the introduction of voluntary targets has seen women on the board rise from 11% in 2007 to 17%. Senior management has seen women creep up the ranks with 19% of women top managers – up from 15% in 2007. The UK had four female chief executives, but two of them – Marjorie Scardino at Pearson and Cynthia Carroll at Anglo American – have now stood down.

Lord Davies who led the review of women on boards in the UK last year welcomed the increase in female board appointments in his first progress report in March, but urged business to speed up the appointment of women:

“I believe we are finally seeing a culture change taking place at the very heart of British business in relation to how women are seen within the workforce… However, I must emphasise that efforts need to be ramped up and the speed of change accelerated if we’re to avoid Government interference.”

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2 http://www.bis.gov.uk/news/topstories/2012/Mar/women-on-boards-one-year-on
Germany has similarly seen a rise in female participation without the introduction of quotas. Germany has been particularly successful at promoting female executives with 8%, when there were none as recently as 2009. The number of women on boards has risen from 8% to 15% in the five years since 2007, with senior managers increasing from 6% to 14%. But Germany still has no female chief executives.

Sweden which introduced a target for achieving gender balance on boards ie.50/50 in 2010, has the highest number of female senior managers with 22% representation, rising from 14% in 2007. Board membership is 25% female.

The US has the highest number of female chief executives with women running 20 companies in the S&P 500, but its board membership on average has only increased from 15% of women in 2007 to 17%. Senior management is also little changed over that period from 17% to 19%.

Conclusion

Boardroom quotas appear so far to have had little impact on company talent pipelines. The real issue for diversity campaigners is how to encourage more women to be promoted to the executive and senior management ranks. There is a danger that governments believe they have fixed the diversity issue by introducing quotas on overall board membership whilst not addressing the dearth of women actually running companies.

For more information see highpaycentre.org

Research conducted by KORN/Ferry
Whitehead Mann for The High Pay Centre