European Boards Make Huge Gender Equity Gains

By G.M. Filisko

Just as spring was about to arrive—on March 6 specifically—Germany became the latest European country to mandate gender quotas on corporate boards. In requiring that the makeup of the boards of about 100 of its largest public corporations include at least 30 percent women starting next year, Germany joined countries like France and Norway in forcing change. [*Editor's Note: Read more about Germany's legislated quotas on page 16.*]

Quota laws have pushed female representation on large European boards to 20.3 percent, according to a 2014 analysis by Egon Zehnder, a global executive search firm headquartered in Zurich, Switzerland. That's a jump from 15.6 percent in 2012 and 8 percent in 2004. In the United Kingdom, which in 2009 implemented a voluntary initiative, female representation jumped from just above 10 percent in 2004 to 22.6 percent in 2014.

All this growth has landed European boards nearly on a par with those in the United States. According to the 2014 Egon Zehnder report, 21.2 percent of U.S. board members were women. London-based Ernst & Young data from the same year put the U.S. total at 23 percent, up from 14 percent in 2009.

"The United States for many years was ahead of Europe with regard to gender diversity, and Europe has closed the gap quickly," says Charles Gray, New York–based leader of the U.S. Diversity and Inclusion Council at Egon Zehnder. "It's too early to tell if the United States is stuck. What I will say is that Americans are inherently competitive. So if Europe does pass the United States, American companies will focus on this even more."

Learning They Need Women

Companies are increasingly heeding calls to add more women to their boards. That's partly because women are major consumers.

"It's first and primarily an issue of equality between men and women," contends Paris-based Anne Durez, an officer of the Inter-Pacific Bar Association (headquartered in Paris), who is president of a French association of women in the law. "But also women traditionally control a major part of consumer spending, and their presence on company boards can contribute to market share gain through the creation of products and services that respond better to consumers' needs."

It's also the obvious response to mounting research proving gender diversity boosts corporate performance. "The research is pretty indisputable now that diversity yields better outcomes for the organization," says Amy Hillman, dean and management professor at the W. P. Carey School of Business at Arizona State University in Tempe. "Evidence supports the idea that those boards differ in ways like financial performance, social performance, and ethical compliance.

"There's also a body of research that looks at what happens in actual boardrooms and on teams when more diverse members are added," she continues. "The scope of decision making becomes much more thorough in terms of the things they vet, the brainstorming is much more creative, and outcomes are better because they've done devil's advocate work and taken a lot more perspectives."

James Zuehlke, principal at Cardinal Board Services, a board search firm based in Wayzata, Minnesota, has personally heard the calls. "This is a hot topic in my world here in the United States," he reports. "The drumbeat I hear is about stakeholder representation. Stakeholders are shareholders, employees, customers, suppliers, and the community. I was talking to the chairman of the board of a small bank about appointing women. He said, 'I never thought about that as a stakeholder idea. It's a bunch of white guys on the board, but half of our customers and employees are women. We're missing the boat.'"

Euro Boards Are Different

European boards are culturally and operationally different from those in the United States, which means their ability to address gender equality also differs.

"European countries are much smaller than the United States and tend to have activities they must consider that are much more international," explains Tamara Box, an American partner at Reed Smith in London. Box is also a founding member of the 30% Club, an organization launched in 2010 through which an increasing number of U.K. CEOs have committed to achieve one-third female board membership by the end of 2015. "I think it's fair to say most European boards are more international and tend to have a makeup that therefore looks a little different, and often purposely so. If they're looking East, they might want Chinese members on the board. If they're looking into Europe, they might have a French or German member on the board."

Governance differences matter, too. The distinction between the board chair and the CEO positions gives European boards a level of separation less common in the United States. "A chairman can be very powerful and make decisions around the appointment of a board," Box explains. "The purpose of a board is to have oversight, but if the chair is also the CEO setting the strategy, that can change the dialogue and what the chair might be looking to achieve. An independent chair may be seeking more independent input."

Term limits are also more common in Europe than in the United States. In the United Kingdom, Box notes, board members serve for nine years. "We're able to affect change faster," she says. "The rate of appointment of women to boards has been running higher than 30 percent in part because we have more opportunities to appoint women."

Different Routes to Success

One still-debated question in Europe is whether it's necessary to mandate change or to simply encourage it. "France is performing much better than it used to be, and the main reason is thanks to the quota legislation," says Durez, referring to the 2011 law forcing large public corporations to reserve at least 40 percent of their boardroom positions for women by 2017. "Without it, French companies wouldn't have improved as much as they have and will have in the next few years. In some European countries, this quota legislation has helped a lot to increase the percentage."

In contrast, the United Kingdom has been operating purely on a voluntary basis. "The 30% Club is a campaign, not a network and not a women's group," Box explains. "The mission is to have chairmen commit to have—and this is very much an aspiration, not a quota—30 percent of their boards be women by the end of 2015."

The growth in quotas among European countries has deepened discussion about both approaches. "The challenge we hadn't anticipated, but really has been fantastic for the discourse, is the European move toward quotas," Box says. "Not long after we began, there was a concerted effort coming out of the European Union to push for quotas. We ended up having to articulate clearly and indeed lobby why we thought a quota was a bad idea. We knew instinctively quotas didn't work. Norway is a good example. While companies there meet the 40 percent target, they meet it by having many of the same women on multiple boards."

Durez says duplicate representation is also a challenge in France. "It's true, but it's changing a little bit," she says. "Some voices say there's no point in improving gender diversity if women do exactly the same thing as men do. But in France, we now have governing codes that aren't mandatory but are strongly encouraged, stipulating that board members can't serve on more than a certain number of boards. Companies have to report if they don't comply and explain why."

Back Home, the Push Continues

Quotas aren't likely to gain a foothold in the United States. "I was actually shocked to see Europeans imposing quotas," says Stephanie Resnick, a partner at Fox Rothschild LLP in Philadelphia who advises corporate boards. "In Norway, if there's not a 40 percent quota, the law says they can essentially dissolve that corporation. That's Herculean! Do I think that's the right thing? No.

"But from my end, it looks like the European marketplace is taking a much more aggressive approach than the U.S. marketplace," she continues.

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"I think we're getting there, but we can always do better. Term limits might help. In my firm, we have term limits for leadership positions that give all people the opportunity to put their hat in the ring, and it's very refreshing."

Organic efforts have also sprouted. In 2013, California passed a resolution encouraging by December 2016 the appointment to public corporate boards of targeted numbers of women based on board size. The same year, the Philadelphia City Council began requiring contractors seeking to do business with the city to disclose diversity data for boards. "They're aspirational goals," says Roberta D. (Bobbi) Liebenberg, a senior partner at Fine, Kaplan and Black, R.P.C., in Philadelphia, Pennsylvania. "Britain has seen a big jump without quotas. You don't have to have quotas, but you do have to have a commitment."

In 2007, Liebenberg launched DirectWomen, based in Philadelphia, which holds annual Board Institutes at which 20 women meet with leading CEOs, directors, and institute alumni to immerse themselves in corporate governance issues. "We've been playing a major role in transforming the faces of the boards of American public companies.

"It's the only national organization that identifies experienced women lawyers who have the qualifications and judgment to serve on the boards of public companies," she continues. "We create a pipeline for nominating and governance committees, search firms, and board members. Twenty-three percent of our alumni are now sitting on the board of a major company."

No matter the approach in place, there's universal agreement that more work must be done on both continents. "We're 50 percent of the population, so my view would be that women should make up 50 percent of corporate boards," Liebenberg says. "It's clear having three or more women on a board really results in the most diversity in terms of strategic decision making. We want a critical mass of women and not one woman on boards. That's where you start to see change."

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