

## International Insight: Gender Equality in the Boardroom. The More The Merrier

### A Bias-based Inequality

It is 2021 and thinking of International Women's Day as a simple celebration is no longer valid. Far from that, March 8 is "*a day of action in support of taking action against gender inequality around the world*" (National Today, 2021). However, we are still in an early stage on the road to gender equality and there is a lot of work to be done, for both the public and the private sector.

The Gender Social Norms Index - which features survey data from 75 countries, covering more than 80% of the world's population - conducted a study examining how social beliefs can obstruct gender equality across four dimensions: (i) politics, (ii) education, (iii) economics/work, and (iv) physical integrity (IISD, 2020). The study revealed that despite decades of progress in trying to close the gender gap, nearly 90% of the world's population holds some kind of bias against women (UNDP, 2020). In particular, approximately half of the respondents feel that men make better political leaders; and over 40% feel that men make better business executives and that men have more right to a job when jobs are scarce; while a disturbing 28% (more than a quarter of people) think it is justified for a man to beat his wife (UNDP, 2020).

The United Nations Development Programme is calling on governments and institutions to introduce a new generation of policies to change these discriminatory beliefs and practices, by raising awareness or by "*changing initiatives*" (UNDP, 2020). Accordingly, these actors are taking action which resulted in the implementation of black-letter law and internal compliance programmes favorable to gender parity. However, last year marked the 25<sup>th</sup> anniversary of the Beijing Declaration and Platform for Action on Women's Empowerment and Gender Equality, and it is apparent that world leaders need to accelerate action to meet global gender goals.

### Rules of Law and Gender Parity

Enhancing gender equality surely requires changing the cultures and minds of people around the world - from decision makers to community members - but "*it also requires having the right laws and legal frameworks in place to ensure girls and women can actively and equally participate in society. And while protections for girls and women are often featured in national Constitutions, laws frequently restrict women's rights and freedoms.*" Hina Jilani, a longtime gender equality champion as an Advocate in the Supreme Court of Pakistan and member of the Elders, stated in an interview that: "*legal recognition is the first step towards effectively guaranteeing the rights and fundamental freedoms enshrined in*

*national Constitutions and international human rights instruments*” (Iversen, 2019).

The United Nations and the European Union are instrumental in the promotion of a system based on the rule of law at the international and European level, requiring that legal processes, institutions and substantive norms are consistent with human rights and, thus, with gender equality.

While the UN has included in its 2030 Agenda for Sustainable Development as Goal 5 Achieving gender equality and self-determination for all women and girls, the European Union has recently adopted the Gender Equality Strategy 2020-2025, through which targeted actions will be taken, based on the principle of intersectionality. Among the first objectives of the strategy, Commission President Ursula von der Leyen has committed to table measures to introduce binding pay transparency measures (Commission, 2021). The Commission therefore presented on March 4, 2021 a Proposal for a directive to strengthen the application of the principle of equal pay for equal work or work of equal value between men and women through pay transparency and enforcement mechanisms<sup>1</sup>.

The strategy will also provide for: (i) expanding the range of offences where harmonization can be introduced across Europe, extending it to specific forms of violence against women, including sexual harassment, abuse of women and female genital mutilation; (ii) a Digital Services Act to tackle illegal online activities, including violence against women; (iii) strengthening women’s presence in sectors with skills shortages, in particular the technology and artificial intelligence sectors; and (iv) strengthening efforts to implement EU rules on work-life balance (Commission, 2021).

Furthermore, on November 25, 2020, the European Commission and the EU High Representative for the Common Foreign and Security Policy presented the EU Gender Action Plan (GAP III) which foresees initiatives, for the period 2021-2025, to increase the EU's commitment to gender equality, as well as to promote strategic EU engagement at multilateral, regional and national levels (Commission, 2020).

### **Women in Boardrooms**

Having an effective Board is crucial to an organization (Hersh, 2016). Among other things, directors *“provide access to resources and external networking opportunities, allowing firms to grow and prosper”* (Mutter, 2019). Therefore, *“bringing in a variety of perspectives, backgrounds, and experiences can be key to an organization’s success”* (Hersh, 2016) and one way to do that is through gender diversity. Countries around the globe have been trying to enforce this tendency

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<sup>1</sup> COM(2021) 93 final. The initiative aims at tackling the persisting inadequate enforcement of the fundamental right to equal pay and ensuring that this right is upheld across the EU, by establishing pay transparency standards to empower workers to claim their rights to equal pay.

giving birth to campaigns such as the “2020 Women on Boards” in the U.S. or the “Women on the Board Pledge for Europe” in the EU.

Even though it has been proved that equality and inclusion of women in positions of leadership positively impacts the financial performance of a company (Schipani, 2019), there is an evident women under-representation among companies’ top management. The causes for this under-representation are “*multiple and complex*.” In the European Commission’s view, “[t]he main reasons are traditional gender roles and stereotypes, the lack of support for women and men to balance care responsibilities with work, and the prevalent political and corporate cultures” (European Commission). Accordingly, the European Commission is keeping the topic on its agenda; cooperating with and supporting groups concerned to design and implement EU-wide activities on gender balance in leadership positions; analysing and disseminating data, trends and information; and increasing awareness (European Commission).

However, since November 2012, the European Commission’s proposed directive on gender balance among non-executive directors of companies listed on stock exchanges is still pending (the “Proposal”).<sup>2</sup> The Proposal has now been included in the list of unfinished business to be carried over to the current Commission (R. Kratsa-Tsagaropoulou, 2021). The newly appointed Commission President Ursula von der Leyen stated in her Political Guidelines that she will seek to build a majority to unblock the directive, which is one of the priorities in the European Commission’s new EU Gender Equality Strategy 2020-2025, adopted last March (R. Kratsa-Tsagaropoulou, 2021).

The Proposal addresses the current lack of transparency of the selection procedures and qualification criteria for board positions, which in many countries makes it more difficult for women to compete despite their qualifications for board positions. In fact, lack of transparency on qualification criteria for company directors may have a negative impact on investors’ confidence in a company, in particular in cross-border situations. The Proposal aims at the mentioned transparency, and explains that disclosing relevant information on gender composition of boards would translate into improved accountability of companies, better informed and sounder decision-making processes, better allocation of capital and, ultimately, higher and more sustainable growth and employment in the EU (Proposal, 2012).

### **Benefits of Having More Women in Boards**

There are many benefits of having a more diverse Board (gender-wise). Some of them are:

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<sup>2</sup> Proposal for a directive of the European Parliament and of the Council on improving the gender balance among non-executive directors of companies listed on stock exchanges and related measures (COM(2012) 614 final). For further information, please see: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52012PC0614&from=IT>.

1. Better for the business. *“Companies with women directors on their board perform better than those without women by specific metrics”* (Hersh, 2016). Companies with a higher number of women directors on their boards reported a 42% greater return on sales and a 53% higher return on equity than the rest. This makes sense, since diverse boards often better mirror customer and client bases (Hersh, 2016).
2. Broader talent pool at all levels. By diversifying, the chances of ending up with a board member who has the necessary skills, experience, and intelligence to make better-informed decisions increase. Especially when we consider that women earn 57% of bachelor’s degrees, over 62% of master’s degrees, and 53% of degrees such as PhDs, medical degrees, and law degrees in the United States. This means that there is a large talent pool of women who can greatly add to a workforce (Hersh, 2016).
3. Diverse voices equal new ideas. Diversity is not just about numbers; women’s contributions and opinions should be heard since they can bring a new perspective and new ideas to help an organization to succeed (Hersh, 2016).

### **Diversity Policies and “Quotas”**

Under the above-mentioned 2012 draft directive, the EU established that *“European-listed companies would face fines if they failed to ensure that at least 40% of their non-executive board seats were taken by women”* (Rankin, 2020). In the EU, the rate of increase of women as non-executive directors has slowed since 2015, and *“only 7.5% of board chairs and 7.7% of chief executives are female”* (Rankin, 2020). Even in this bleak scenario, women in the EU appear to be in a better position than in other parts of the world. *“This can be attributed to the legally mandated or recommended quotas for women in supervisory boards and management”* (Schipani, 2019). In countries that have adopted binding quotas (France, Germany, Italy and Belgium), the number of women in boards had rapidly increased. On the other hand, salary-wise, women earn 16% less than men per hour, with the largest gaps in the Czech Republic, Estonia, Germany and ex-member state the UK (Rankin, 2020).

### **The Drawbacks**

The lack of harmony in the regulation between countries regarding quotas *“poses barriers to the internal market by imposing divergent corporate governance requirements on [...] companies”* (Proposal, 2012), translating into *“inconsistent legal obligations of difficult comparability, confusion and higher costs for companies, investors and other stakeholders”* (Proposal, 2012). In particular, this can *“lead to practical complications for listed companies operating across borders,*

*notably when establishing subsidiaries or in mergers and acquisitions, as well as for candidates for board positions” (Proposal, 2012).*

## Conclusion

*“Gender diversity, as a financial consideration for investors, is accelerating” (Morgan Stanley, 2016), and it is apparent how the “G” in ESG (Environmental, Social, and Governance) has become critical in socially conscious investors’ analyses and how ESG-compliant companies have become the champions in leading the undergoing transformation process.*

*“The under-utilisation of the skills of highly qualified women[] constitutes a loss of economic growth potential” (Proposal, 2012) and “the pressure to continue to diversify the boardroom will likely continue to increase.” However, “there is no ‘one size fits all’ solution to increasing gender diversity” (Institutional Shareholder Services, Inc., et al., 2017) and private and public entities should constantly watch for changes towards regulations favoring gender parity.*

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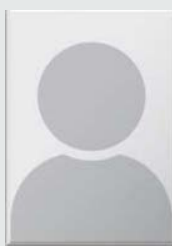


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