

## GETTING WOMEN ON BOARDS

Patricia C Finlayson

Unitec Institute of Technology

### *Abstract*

In recent decades there has been on-going discussion around the world regarding the gender mix on company boards and what if anything should be done to increase the number of women appointed to directorships. Generally, it can be shown that women are under-represented on boards of listed companies. In New Zealand this is particularly so with women's participation in governance roles in 2012 being only 14.75% in the top 100 companies by capitalisation on the New Zealand Stock Exchange.

The claimed reasons for the under-representation of women on boards of directors include a lack of appropriate executive experience, formal qualifications, and commitment and that women are traditionally risk averse. Many of these arguments can no longer be sustained as women are well represented in business courses and professional courses such as accounting and law; a small but increasing number are attaining executive positions in large, sometimes multinational, companies; that rather than being risk averse maybe women are simply more prudent; and two of the positions central to world finance are presently held by women – Christine Lagarde, Managing Director of the International Monetary Fund and Janet Yellen, Chair of the Board of Governors of the Federal Reserve System in the United States of America.

It now appears to be accepted, albeit often reluctantly, that there is value in having gender diversity on boards of directors. However, since increasing diversity does not appear to be occurring naturally around the world a variety of approaches have been adopted to promote

it ranging from specifically imposed quotas to monitoring systems operated by the various bourse.

Two interrelated obstacles to progress which have been identified are the “old boys’ network” and the lack of vacancies due to the slow pace of turnover of directors on boards. A further concern is that women tend not to put themselves forward for appointment. In New Zealand the government is committed to taking a leading role in establishing a better gender balance on boards and committees for which it makes appointments. Without such initiatives the journey towards better balanced boards would be a long and slow one.

#### *A The current situation*

In 2012 in New Zealand, although 55% of the NZSX top 100 companies had at least one woman director, women remained under-represented in New Zealand’s biggest companies with women representing only 14.75% of the total number of directors of the NZSX’s Top 100 companies.<sup>1</sup>

Dr Judy McGregor, Equal Employment Opportunities Commissioner, New Zealand Human Rights Commission, stated in the Commission’s 2012 Census report that the United Nations Committee on the Elimination of Discrimination Against Women told New Zealand in 2012 that:

while there is co-operation between the Government and the private sector to identify targets for the advancement of women in decision-making positions, the targets, goals and time frames set are not sufficient and may be a symptom of regression rather than progress in women’s representation.<sup>2</sup>

---

<sup>1</sup> Human Rights Commission Te Kāhui Tika Tangata, *New Zealand Census of Women’s Participation* (2012), 12-13.

<sup>2</sup> Note 1, 3.

The evidence for the “old boys’ network” being alive and well in New Zealand is one of the reasons given for the low representation of women on boards. Norah Barlow, Chief Executive Officer and Managing Director of the Summerset Group of companies listed on the New Zealand Stock Exchange, was recently reported as saying that: ‘In lots of companies, when you start making choices, there’s an unconscious bias to appoint a person who’s like you, which is often a male who played rugby, has gone to this college and played cricket.’<sup>3</sup>

While understanding the men’s thinking she stated that it was hugely discriminatory to women, keeping them lower down the corporate ladder, with less power and money than men. When women are appointed to boards they tend to be drawn from the small pool of women who already hold directorships on other boards.<sup>4</sup> Diane Foreman, a well known New Zealand business woman also commented that we need different women around the table and that women were still being locked out by the “old-boys network” in New Zealand.<sup>5</sup> In Australia, on International Women’s Day 2011, the Governor-General, Dame Quentin Bryce, called for quotas to break the stranglehold of the “old boys network” to ensure more female directors were appointed to Australian company boards.<sup>6</sup> Interestingly it has been suggested by some that not being part of the network could be seen as a positive for women as they are better able to function independently without the “baggage” of being part of “the club”. This is supported to some extent Adams’ & Ferreira’s<sup>7</sup> work on the performance of women in the boardroom.

---

<sup>3</sup> Anne Gibson, ‘Old-Boys Network Locks Women Out: Boss’ *Business*, *The New Zealand Herald* (Auckland), 5 April 2014.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Tony Wright, ‘G-G Calls for Female Quotas’, *The Sydney Morning Herald* (online) 8 March 2011, <<http://www.smh.com.au/executive-style/executive-women/gg-calls-for-female-quotas-20110307-1bl80.html>>.

<sup>7</sup> Renée B Adams & Daniel Ferreira, ‘Women in the boardroom and their impact on governance and performance’ (2009) 94 *Journal of Economics* 291, 308.

A second issue which makes for difficulty in increasing the representation of women on boards is that in New Zealand directors can effectively serve on boards of listed companies indefinitely. Although the male majority of directors on listed companies are subject to the Listing Rules of the New Zealand Stock Exchange which require one third of the board in rotation to retire at each annual meeting, those same directors are eligible for re-election at the meeting<sup>8</sup> and if they stand for re-election almost always are returned to the board. This means that there is often little renewal of boards providing seats for women to vie for.

*B Should we be Concerned about the Gender Imbalance on Boards of Directors?*

Should society in general and the business world in particular be concerned about the gender imbalance on boards of directors, and if so why?

Two major themes run through the debate. First the issue of social justice; is it fair that 50% of the population of any country is excluded from seats at the top table? And secondly, do women, in fact, add value to the performance of boards?

Most western countries have considered at least the first of these questions in the last decade, the second is often argued as grounds to exclude women from boards on the basis that their presence makes no positive difference and may be detrimental to the board's performance if they do not have what is considered to be the appropriate prior experience.

Adams and Ferreira<sup>9</sup> addressed the second question in their 2009 paper. They found that gender diversity in boards has significant effects on board inputs such as attendance and monitoring, particularly of the CEO, and also appeared to have a significant effect on board governance. Conversely, based on detailed quantitative analysis, the authors' suggest that, on average, firms perform worse the greater the gender diversity of the board. They

---

<sup>8</sup> NZSX/NZDX, *Listing Rules* (at 5 October 2012) r 3.3.11.

<sup>9</sup> Above n 7.

postulate that gender diversity only increases value when additional board monitoring would enhance firm value, citing evidence for the proposition that too much board monitoring can decrease shareholder value. They state that: “Overall, our results suggest that gender-diverse boards are tougher monitors. Nevertheless, they reveal that mandating gender quotas on the boardroom could harm well-governed firms in which additional monitoring is counterproductive”<sup>10</sup>. It would appear that the authors’ reference to additional monitoring, particularly of the CEO, is referring to directors crossing the line from governance into operational matters. Their conclusion was that “...diversity has a positive impact on performance in firms that otherwise have weak governance, as measured by their abilities to resist takeovers. In firms with strong governance, however, enforcing gender quotas in the boardroom could ultimately decrease shareholder value. One possible explanation is that greater diversity could lead to over-monitoring of those firms.”

Throughout the western world there has been increasing support for ensuring that the gender balance on boards of directors more closely approximates the gender balance of society in general. However, old prejudices die hard and there is still a long way to go.

### *C What is required of a director?*

First what, in fact, are the legislated requirements to be a director? There will obviously be differences between jurisdictions but to look at New Zealand, for example, the Companies Act 1993<sup>11</sup> essentially requires only that a director be a natural person of at least 18 years of age who is not an undischarged bankrupt, has not been convicted for crimes of dishonesty, has not been prohibited from being a director or officer of a company, and is of sound mind. It should be noted that the New Zealand Companies Act makes no distinction between listed and unlisted companies in this regard and the NZSX/NZDX Listing Rules make no particular qualifications or experience essential for appointment to the boards of listed companies. So

---

<sup>10</sup> Above n 7, 293.

<sup>11</sup> Companies Act 1993 (ss151, 382, 383 and 385)

what is all the fuss about women not having the necessary qualifications and experience to serve as directors? Do the male directors on the boards of New Zealand companies actually have the level of education, training and skill that they appear to be demanding of women?

Secondly what do directors do? Essentially the directors set the strategic direction of the company, make the major decisions about the capital structure to support the vision, appoint the CEO to operationally carry out the plan and monitor and supervise the progress of the company. All of these decisions entail an assessment of risk. It is interesting to note that a modern development is that boards now openly acknowledge this by appointing risk committees, some of which are narrowly focussed on financial risk while others review risk across a number of parameters.

#### *D Common Reasons given for not appointing women*

First the lack of executive experience – if what is meant here is experience in large companies as CEO or other senior officer positions such as COO or CFO then it is probably true that there are still relatively few women who have attained that level of seniority.

However, it can be argued that many who have attained senior positions just below this level are still well-equipped to serve on boards.

Secondly, lack of qualifications – this argument is difficult to sustain today as in most western countries the numbers of women with business, accounting, law, and to a lesser extent, finance qualifications have grown exponentially in the last two decades.

Thirdly lack of commitment – this argument is probably more about work-life balance and family responsibilities. As more women, including the wives and partners of male directors, spend the majority of their lives in the workforce the demand for appropriate work-life balance will become the norm and boards, in the same way as employers, will accommodate the concept.

And the last factor to be considered here is aversion to risk. Given that companies are established to allow investors to pool resources to take business risks which will be managed by the directors it is clearly important to take into account how directors perceive risk and make management decisions based on their perceptions.

In a 2006 study Harris, Jenkins and Glaser<sup>12</sup> concluded that there was a possible evolutionary explanation for gender differences in risk assessment - that for reasons of continuation of the species and child rearing men and women are effectively hard-wired to perceive and manage risk differently. However, they also cite a study by Slovic, Fischhoff, & Lichtenstein<sup>13</sup> who found that greater familiarity with a risk was generally associated with reduced risk-perception. This would suggest that differences exhibited between men and women would lessen if women were exposed to the same experiences of risk as men.

Byrnes, Miller and Schafer in their earlier paper Gender Differences in Risk Taking: A Meta-Analysis which reviewed 150 studies in which the risk-taking tendencies of male and female participants were compared concluded that:

At a general level our results clearly support the idea that male participants are more likely to take risks than female participants. .... However, a more qualified interpretation of our results is to say that gender differences varied according to context and age level.<sup>14</sup>

The study made the additional point that there is an apparent lack of discernment on the part of men and boys – they showed that males took more risks than females even when it was clear that it was a bad idea to take a risk whereas the opposite was true for women and girls who seemed disinclined to take risks even in fairly innocuous situations or when it was a good idea to take a risk. The authors state that:

---

<sup>12</sup> Christine R Harris, Michael Jenkins & Dale Glaser, 'Gender Differences in Risk Assessment: Why do Women Take Fewer Risks than Men?' *Judgment and Decision Making* (2006) '1 (1)' 48.

<sup>13</sup> *Ibid* 60.

<sup>14</sup> James P. Byrnes, David C. Miller & William D. Schafer *Gender Differences in Risk Taking: A Meta-Analysis* *Psychological Bulletin* 1999, 125, (3), 367 – 383 377.

Whereas the former finding suggests that men and boys would tend to encounter failure or other negative consequences more often than women and girls, the latter finding suggests that women and girls would tend to experience success less often than they should. In our view both of these trends are a matter of concern.<sup>15</sup>

These findings would lend support to the notion that ideally a board with near equal gender representation is likely to provide an excellent risk taking balance amongst the members and lead to better decision making.

*E What if any steps are being or should be taken to correct the gender imbalance on boards of directors?*

Internationally Norway leads the way in hard legislative measures to correct the gender imbalance on boards. In 2003 Norway imposed a 40% quota of women on up to 500 firms. Although the move was opposed vigorously, businesses ultimately complied because the penalty for non-compliance was to be shut down.

In the UK a voluntary approach has been taken as a result of a review which recommended that women directors should constitute 25% of all directors of listed companies by 2015.

The third report on progress thus far is very encouraging with numbers rising from 12.5% in 2011 to 20.7% this year.<sup>16</sup>

The Australian Stock Exchange has adopted a reporting and monitoring regime loosely referred to as the “if not, why not” disclosure rule which in Principle 1, Recommendation 1.5 states that: “A listed entity should have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving

---

<sup>15</sup> Ibid 378.

<sup>16</sup> Davies Report Annual Review, ‘Women on Boards Report’  
<[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/320000/bis-women-on-boards-2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/320000/bis-women-on-boards-2014.pdf).>

gender diversity and to assess annually both the objectives and the entity's progress in achieving them<sup>17</sup>. This rule, which came into force for financial year ending 1 July 2011, does not preclude departure from the recommendation but requires an explanation if that is the case. Immediately following the adoption of the "if not, why not" disclosure rule in 2010 women on ASX 200 boards went from 10 to 56 (25% of all appointments); numbers rose again in 2011 to 68 (28% of appointments) but have fallen away more recently – 41(22%) in 2012 and 37 (22%) in 2013. So one of the questions seems to be how to maintain the momentum?

The Korn Ferry Institute report on pathways for women to directorships makes the point in its introduction that:

For those looking to boost women's participation specifically, this requires understanding – and accepting as legitimate - the varied pathways women often take to a board seat. The point is made that the journey women travel, unlike men, is generally not through holding a C-suite position but that the richness of experience collected along an alternative route to board service can be equally valuable.<sup>18</sup>

Interestingly in contradiction of Adams and Ferreira's findings both the trans-Tasman exchanges refer to research-based evidence that greater diversity contributes to better performance of the board and in the case of the NZSX at senior management level also.

The New Zealand Stock Exchange has a relatively weak diversity policy which was introduced on 1 December 2012, as an addition to the Listing Rules, requiring Main Board listed issuers to include gender diversity reporting in their annual reports. These companies are now required to provide quantitative data only, unless the entity has a formal diversity

---

<sup>17</sup> ASX Corporate Governance Council, 'Corporate Governance Principles and Recommendations' 3<sup>rd</sup> Edition 2014.

<sup>18</sup> Korn Ferry Institute, 'Beyond if not, why not: The Pathway to Directorship for Women' (Board & CEO Practice, Australia 2014).

policy, in which case an evaluation of the entity's performance in respect to the policy is required.

#### *F Implications for further Research*

It would be useful to have more definitive data on the effect of gender diversity on board, and possibly senior management, performance. If results are inconsistent, what are the variables giving rise to the different results? Adams' and Ferreira's paper put forward some possible explanations but considerably more work needs to be done in this area. It would also be interesting to have reliable data on any significant difference in risk assessing and risk taking behaviour between male and female directors in the performance of carrying out their duties as directors. And last, is it possible to produce an objectively assessed profile of a successful director or are there too many variables related to skills, personality and the industry in which the company is involved for that to be practical or possible?