

**Corporate innovations: Women on boards of directors-**

**Lessons learnt from Norway**

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**Abstract**

There have been calls for innovations to strengthen the position of women in society and in business. Special attention has recently been given to how to increase the number of women on corporate boards of directors. There have been societal case arguments, business case arguments and arguments related to the career possibilities for women. A large number of programs and agendas have during the recent decades been initiated to achieve this objective, including political argumentations, research, the establishment of women networks, courses and education for women, data registers, recruitment and selection consultants and mentorship programs. The importance of including women on corporate boards has also - in several countries - been emphasized and included in corporate governance codes. But still, very little change has taken place. The number of women on corporate boards is still microscopic. Stronger remedies have thus been called for – e.g. legal requirements.

Which lessons can be learnt from Norway? In 2002 a law came that required that at least 40% of the board members in the largest companies of the country should be of the least represented sex. The ratio of women on the boards in these companies was at the 4-6% level in the beginning of the 1990's. The same figures existed in 2002. Feminist groups and politicians became gradually more impatient. A quota law was called for. It was introduced in 2002. The companies had the time till the beginning of 2008 to meet this requirement - and it was met. About 40% of the board members in Norwegian publicly tradable companies are now women. Various experiences from

this process are now evaluated. Is the law good for the society, for the corporations and for the women? Had it been possible to achieve this objective by other means? And what can other countries learn from this innovation?

## **Introduction**

The role of women in society is changing. This is not only in the public and private sector, but also in the business world. These changes are found in many countries, but the speed and focus may vary. There are various arguments to develop ways to increase the number of women on corporate boards of directors. Corporate boards of directors have traditionally been seen as meeting places for societal and business elites. The boards have been considered as arenas where the interests of the “old boys’ network” are promoted, and there has been argued that an invisible glass-ceiling is hindering women to get into board and top management positions. Several initiatives for getting women into corporate boards have thus been presented.

There are societal, individual and business case arguments for increasing the number of women on corporate boards. This presentation is about ways to increase the number of women on corporate boards. And the focus is on lessons learnt from recent developments in Norway. I will present reflections about the results being achieved after a law reform was made with the objective to have 40% of the board members coming from the least represented gender. This has in practice been a law forcing the largest Norwegian corporations to have at least 40% women among the board members. The reflections will be about the effectiveness of various programs or means to increase the number of women on corporate boards, and there will be reflections about consequences for businesses and the individual women becoming board members.

## **International attention on increasing the number of women**

A recent book edited by Vinnicombe, Singh, Burke and Huse (2008) presents the situation of women directors around the world. Contributions are from USA, Canada, UK, New Zealand, Australia, Norway, Iceland, Spain, Jordan and Tunisia. Among

European countries with a relatively high number of women directors we find Norway, Sweden, and UK. The number of women directors is low in the Netherlands, Greece, Spain, Belgium, Italy and Portugal. Spain is one of the countries having taken the furthest steps to increase the number of women on corporate boards, but even after several years of innovative initiatives the percentage of women on boards were only around 6% (de Anca, 2008).

It is difficult to compare figures about women directors across countries. Firm size, industry and governance systems seem to influence the ratio of women. Furthermore, some of the existing data is unreliable and different measures are used. A main difference in the governance systems is whether there are one-tier or two-tier boards in that country. There are for example in the two-tier board system more women on the supervisory boards than on the executive boards, and there are more women on supervisory boards than on top management teams. In some countries there are also board members being elected by the workers/employees, and - depending on industry – the workers tend to elect more women. Furthermore, small firms also tend to have more women on the board of directors. Small firms are typically family firms, and women tend to be more important in the family sphere and that have also an influence on board members in family businesses.

The gender culture and the role of women in business and society differ across countries. I have in various seminars in different countries enjoyed the interaction with existing and potential women directors.

- In Germany I found that the women in these seminars focused on the glass ceiling problem – that men made problems for women to get to board and top management positions, and I experienced a general negative attitude towards men. There was a “the men use their positions to keep the women away from power”-attitude.
- The women I met in the Italian-seminar also paid attention to the glass ceiling problem, but it rather seemed to be an attitude that men thought that they were in power, but the real power was still with the women – and the women knew how to maneuver the men. The men were in many ways depending on the women. The anger was probably directed more towards the system

(including the tradition and legal system) that would not let the women make career in business and politics.

- In the Netherlands I expected to find a high degree of equality in business life between men and women. The Netherlands is known for having a female leadership culture in business. However, to my surprise I discovered that it still was a long way to go for women to get into board and top management positions. The role of women as caretakers of the home and the family was very evident, and there was a main dispute among the women whether it was possible to combine their roles as mothers with those of being business leaders and board members. I found a main discussion among the women, and those aspiring to become corporate board members had to fight not only traditional attitudes by some men, but possibly even more the attitudes by their sisters.
- My experience in Switzerland was different. I expected to find some of the negative attitudes towards the men (like in Germany), towards the system (like in Italy) or towards other women (like in the Netherlands), but I did not. In Zurich I met a large group of women that really wanted to become members of corporate boards, but they did not hate the men – they loved them; they did not accuse the systems and tradition – but they rather focused on what they could do themselves.

Back in Norway I have perceived that there is a main dispute among the women arguing for gender diversity, and those claiming that women on corporate boards are not different from the men.

The attention to increase the number of women on corporate boards is found in countries across the world – in Asia and Africa as well as in Europe, America and Australia. However, these stories above indicate that the content of the attention varies. The different perceptions and experiences may also indicate that there is not one solution to increase the number of women on corporate boards. It is important understand and respect the context in which this discussion exists.

## **Why balanced gender representation?**

There are various arguments for increase the number of women on corporate boards – for example societal arguments, individual career arguments and the business case arguments.

The societal case arguments have typically been the starting point for much of the attention to the question, and these are also those behind the most far-reaching initiatives to increase the number of women on corporate boards. The societal case arguments are about justice in society, democracy, participation, gender equality and the follow up of various international conventions, e.g. UN conventions, human rights and EU/EEA conventions. The individual case arguments or the career arguments are often related to the “glass-ceiling” discussions. The business case arguments are about why and how women on corporate boards will improve firm performance. These arguments have particularly been emphasized in contexts where the societal case arguments are not accepted. The main business case arguments are about diversity (that women are different than men), about the use of existing knowledge (that women represent 50% of the knowledge-base in society), about customer relations and understanding customers (that women in many sectors are the main customers), and that men on corporate boards often are too passive.

In the international and national debates the different arguments are often unconsciously mixed. The reasoning and logics behind different initiatives have often suffered from this mixing-up. When an initiative is evaluated it should be done based on the objective for it. If the objective is power balance in society, then the initiative should not only be evaluated based on individual career possibilities or firm performance. These criteria should be considered, but not be the main evaluation criteria should be societal.

## **Initiatives and innovations to increase the number of women directors**

During the recent decades several initiatives and innovations have been made to achieve balanced gender perspectives and to increase the number of women in power positions in society. In some countries – like Norway – public policies were

made at an early stage to have women represented in the public bureaucracy, governmental committees and on the board in state-owned enterprises. Several political parties also made commitment to have women in leadership position – resulting in a large ratio of women in top political positions in Norway.

International discussions about why and how to increase the number of women on corporate boards can also be traced back more than thirty years. Various initiatives and programs have been considered. They include political arguments, the development of women networks, the financing and dissemination of research, courses and education for preparing women to board work, mentorship programs, data registers and other sources of communicating potential women candidates. Suggestions for making requirements about the number of women directors through soft as well as hard laws have also been promoted.

(Insert Figure 1 about here)

The different initiatives have various objectives. Some are directed towards educating or preparing women, some are directed towards motivating those selecting board members, and some initiatives are directed towards facilitating the recruitment process. The effectiveness of the different programs should be evaluated according to the objective of the specific program. The effectiveness in relation to increasing the number of women on corporate boards will often be a result of a combination of various programs (educating programs, motivating programs and facilitating programs). The effectiveness will furthermore depend on various contingencies such as the actors involved and the context within which the program is developed and executed.

In Figure 2 we find an illustration from Norway about the effectiveness of the various programs.

(Insert Figure 2 about here)

Figure 1 reports the percentage of women on the boards of large corporations in Norway. Figures from 1992 till 1998 are from firms listed on the Oslo Stock Exchange. Figures after 1998 are ASA companies (publicly tradable companies). The ASA form of incorporation was established in Norway in 1998. Firms having the ASA incorporation form are generally the largest companies. The figures reported are almost constant around 5% from 1992 till 2002. No increase took place even though considerable efforts were placed on initiatives as women networks, seminars and arguments, mentorship programs, research, data banks and registers over women aspiring for board positions. Two public hearings about law proposals also took place, but no increase in the percentage of women on corporate boards was achieved.. The only change displayed before 2002 was around 1994. This change was caused by that new types of firms (mainly saving banks) were introduced on Oslo Stock Exchange.

However, we see an incredible increase from 2002 till 2008 – from 6% till 40%. In 2002 a law was proposed by the Norwegian Parliament that all ASA incorporated firms should have gender balance. Each gender should have at least 40% of the board members in ASA firms (Hoel, 2008; Huse, 2007). The ASA firms had a few years to implement this requirement voluntarily - otherwise the law would be ratified and enforced. The enforcement of the law began in the beginning of 2008, but by then all ASA companies (only with very few exceptions) already had met the requirement of at least 40% women.

### **Legal enforcement**

Which lessons can we learn from this Norwegian innovative initiative? Is Norway setting a model? This question is often raised in the international business press. In the United Kingdom the number of women directors has steadily been increasing during the last ten years without any legal enforcement. Legal enforcement has been discussed in Sweden, but presently the number is also increasing in Sweden without

the support of a law. In most other European countries no change in the number of women directors has taken place – even in Denmark. The number has even decreased some places. Discussions have therefore taken place whether the Norwegian example should be followed.

Some of the debates in Germany, Italy, Switzerland and the Netherlands are reported above. In these countries there are groups that are impatient and want law enforcements, but generally few will go so far as to hard laws. However, the inclusion in soft laws as codes of best practices has been recommended several places. France and Spain are among the European countries having discussed to implement hard laws.

A law was made in France in 2006 – in listed firms twenty percent of the board members should be women. However, this law was rejected of constitutional reasons. In Belgium there has been a discussion (2007) about thirty percent of women in listed firms.

In Spain the government has initiated various programs to increase the number of women in top positions in business. One of these initiatives has been the Constitutional Act 3/2007 for effective equality between women. The Spanish government has launched a series of measures to foster higher women/men ratios in business life. These measures include legislation, incentives and support for private initiatives and public awareness. One of the most controversial legislative moves has been the Equality Law of 2007 (de Anca, 2007). All firms with more than 250 employees must develop gender equality plans to counteract work/life imbalance. The balanced representation means that the boards of directors within eight years at least should have 40% of the least represented gender. The formulations in the law may be seen as recommendations rather than obligations, but it is clear that companies wanting to work with public administration in procurement, contracts or public aid, would have more possibilities of obtaining public support if they follow these recommendations (de Anca, 2007).

## **Individual case consequences of the increased number of women directors**

Is the law good for the society, for the careers of individual women and for businesses? The law in Norway has definitely achieved what other initiatives have failed. The number of women on corporate boards has increased tremendously. This was the immediate societal objective, but many questions still remain unanswered. Have the objectives about justice in society, democracy, participation, gender equality and the follow-up of international conventions really been reached? We need to know more about the women now being elected as board members? Who are they? How have they been elected? How do they act in the boardroom? Will the percentage of women remain?

Is the law good for the women being elected? Does it harm or support their careers? There are women being very critical to the law – and their argument is that they do not want to be elected as tokens, but because of their qualifications. The law may give an image that the women on boards are not as qualified as the men. And many women want to distance themselves from being elected as tokens or being quoted. The argument that the law has been negative to some women or women in general is so far difficult to verify as only little and mostly anecdotal evidence exist. However, in Norway the same argument occurred some years ago in the discussion about quotas in public administration and in the political parties. At that time many women were quoted in – and got possibilities they never would have received otherwise. There were at that time also some infancy illnesses, but only few in Norway will today argue that quotas in those situations were negative for the careers of these women. The women being elected to board memberships are generally very highly qualified, and they will now get the possibility to prove this.

Another issue that may take place is that women doing a good job on corporate boards will may be recruited to top management positions. Corporate boards of directors are important marketplaces for recruiting to top management positions. In most countries the number of women in top management positions is lower than women in the boards. However, the board of directors is an arena where top level decision makers meet. Board members will often be the people that select candidates for top management positions, and persons that display high quality work in the boardroom may easily become candidates for top management positions. Men

being board members often already have top management positions. This is not the case for the women, and being a board member can facilitate the choice of women to top management positions. The law has definitely helped women pass the glass ceiling.

### **Is the law good for businesses?**

It is so far impossible to present statistical data about the legal enforcement's consequences of for business performance. The research question has till now been if women on corporate boards contribute positively to firm performance – regardless of how women have achieved these positions. The main business case arguments for women directors are that they bring diversity into the boardroom. Diversity is in this reasoning assumed to be important for board effectiveness. However, we do not even have clear evidences telling that diversity in general – and gender diversity in particular – contributes to board effectiveness.

The few studies that have been done on the contribution of women directors to board or firm effectiveness have given mixed results (Huse, 2008). Some studies conclude that women have positive contributions, while other concludes with negative or no contributions. A main problem with most of these studies is that they treat women as a homogeneous group and do not take into account that there may be more differences among women and among men, than between men and women in general. It is therefore important to understand to which degree the women entering corporate boards bring to the boardroom different values, knowledge and experiences – or if they when being in the boardroom behave exactly as the men. It may for example be of importance to understand that the gender differences may be on different dimensions, e.g. female, feminine and feminist in addition to the background, education and experiences. Critical mass considerations are most likely also important for the understanding of the contribution of women on boards.

The understanding of how boards contribute to value creation in firms is complex, and for understanding the impact of the quota law in Norway it is also important to understand the human side of corporate governance (Huse, 2007). This is illustrated in Figure 3.

(Insert Figure 3 about here)

The figure illustrates that diversity in the boardroom is influenced by the national and institutional context of the firm. Board diversity may influence board effectiveness and various board tasks. However, diversity may not be enough. The diversity in knowledge and skills must also be used. This can be achieved through active board leadership and good board working structures. When considering board effectiveness a firm's life cycle and context must be taken into account. Despite missing good empirical data, some evidence exists indicating that women may have an impact on certain types of board tasks, but not on other. I have some data from Norway that indicate that there is a positive relationship between women directors and board tasks of qualitative nature, including strategy and CSR-oriented tasks (Huse, 2008).

### **Final reflections**

The law may have been important in Norway, but there are various learning effects that we should consider before recommending similar laws in other countries and for other types of firms. The Norwegian quota law was directed to large publicly tradable firms (incorporated as ASA). We have, however, now seen a major increase in the number of women directors in other large firms not being ASA firms. There are two main reasons for this increase. The first is that many women are now being very visible as good board members. There is no shortage of highly qualified women for board positions. Highly qualified women are numerous, they are now getting more experiences and are becoming more visible.

The second is the imitating or mimicking processes that take place. It has now become a reputation-building initiative to have women on the board. This has been supported by the Norwegian ASA experiences, but may have consequences for firms also in other countries.

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Figure 1 Programs to increase the number of women directors

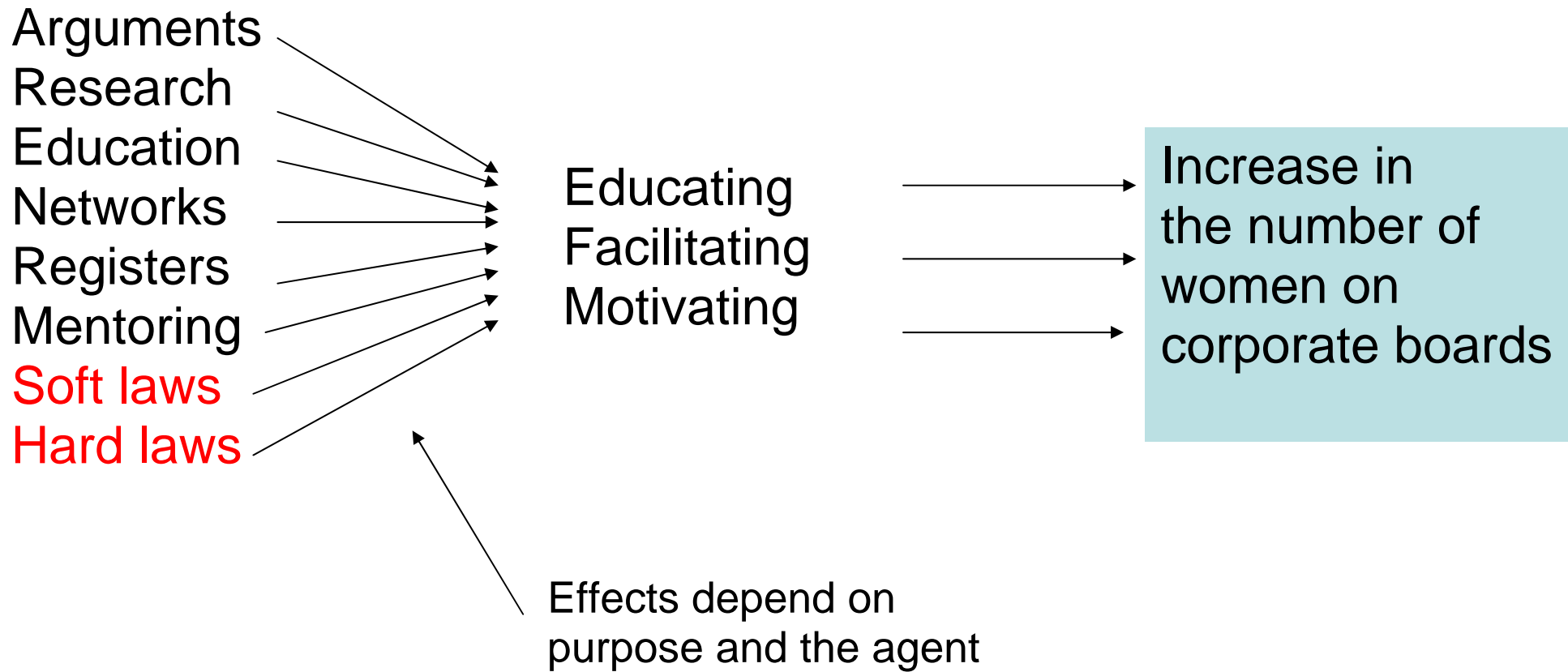


Figure 2. Effects of program – illustration from Norway

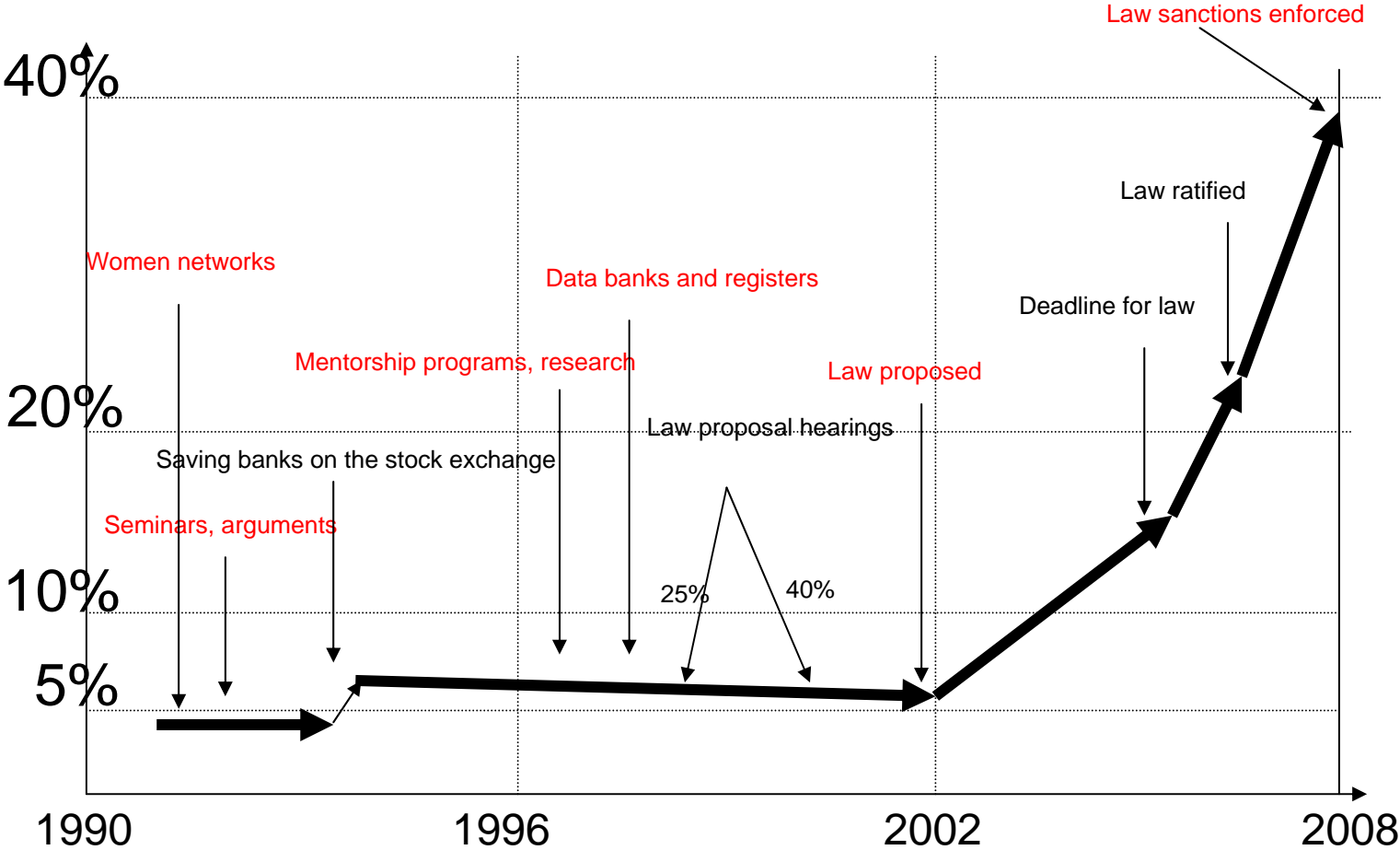


Figure 3 The diversity argument to improve business performance

