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GENDER EQUALITY ON CORPORATE BOARDS: TOWARDS A MORE INCLUSIVE AND RESPONSIBLE SOCIETY EMPIRICAL EVIDENCE FROM CROATIA

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ABSTRACT

Gender diversity issues are receiving great attention worldwide. Empirical evidence suggests that stronger women representation on boards is positively related to financial performance. Across Europe, initiatives for greater women representation on boards are undertaken. They vary from one country to another and include proposals in national codes, voluntary initiatives, demands for disclosure of nomination policies and legal quotas for women on company boards. Recent data show that women account for an average of 18.6% of the members of boards in the EU 28 member states. Results of the empirical study we provide show that women representation on Croatian companies' boards is just below European average and that the progress in ten years period has been fairly poor. Still, in Croatia doesn't exist strong social support nor legislative that would improve gender balance in supervisory and management boards.

KEYWORDS: gender equality, boards, Croatian companies

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1. INTRODUCTION

One of the emerging issues in corporate governance on the global level is related to gender inequality that can be observed on boards worldwide. Demands for stronger women representation on boards are motivated by equal opportunity and inclusion activism on one hand, but also by the arguments that wider board diversity will contribute to more effective and efficient boards via providing different perspectives, experience, knowledge and skills.

Reasons for stronger women representation are, among others, economic in nature. Empirical evidence suggests that stronger women representation on boards is positively associated to financial performance.[1]

Gender diversity is in accordance with consumer base of most of the companies. It is related to less unethical behavior, better reputation and perception of the company as being more socially responsible.[2] Moreover, gender diversity is associated to higher level of innovativeness and proportion of women in governing bodies is predictor of reduced level of conflicts and stronger focus on board performance and quality.[3]

1 Boards with stronger women representation have 10% higher ROE, 48% higher EBIT and 1.7 times higher stock price growth in comparison to Stoxx Europe 600 for 89 European-listed companies. McKinsey & Company (2007) Women Matter: A Corporate Performance Driver cited in Catalyst (2013) Why Diversity Matters, Catalyst Information Centre, available at http://www.catalyst.org/knowledge/why-diversity-matters (12.02.2015.)

2 A panel at a World Economic Forum in Davos put the question: “Would the world be in this financial mess if it had been Lehman Sisters?” Many participants believed that the answer was no, referring to the findings suggesting women were more prudent and less ego driven then men in financial management contexts. See Rhode, D. L. and Packel, A. K. (2014) Diversity on corporate boards: How much difference does difference make?, Delaware Journal of Corporate Law, Vol. 39, p. 394. On the other hand, Dobbin and Jung in their 2007 study suggest that gender diversity may be influencing corporate governance not by shaping efficacy or monitoring capabilities of boards themselves, but by activating bias on the part of institutional investors who now control 80% of the shares of America’s leading companies. They show that boards are attentive to the demands of institutional investors for greater board diversity. Second, they show that investor decision making is influenced by gender bias, and that the typical investor will reduce holdings in firms that appoint female directors. Finally, they show that accountability apprehension will mediate this process, such that visible blockholding institutional fund managers and public pension fund managers (who as a group pressed for board diversity) will be less likely to act on gender bias. See Dobbin, F. and Jung, J. (2011) Corporate board gender diversity and stock performance: The competence gap or institutional investor bias?, North Carolina Law Review, Vol. 89, pp. 809-838

3 Other forms of diversity based on race, board member background, LGBT identity and nationality are also found to be positively associated to financial performance. See Catalyst (2013) Why Diversity Matters, Catalyst Information Centre, available at http://www.catalyst.org/knowledge/why-diversity-matters (12.02.2015.)

2. A CALL FOR GENDER EQUALITY ON CORPORATE BOARDS

In United States, close to three-quarters of members of corporate boards of the largest American companies are white men. According to the most recent data, women hold only 16.9% of the seats on Fortune 500 boards. Women occupy 14.8% of Fortune 501-1000 board seats and only 11.9% of board seats in Rusell 3000 companies.[4]

Initiatives for greater women participation in corporate governance structures vary from one country to another and include different measures from proposals in national codes, voluntary initiatives, demands for disclosure of nomination policies to legal quotas for women on company boards. Across Europe, quotas for female membership on corporate boards have been generating interest, and in a few countries, these quotas have been passed. Norway was the first country to introduce gender quotas in 2005 requiring at least 40% of public limited company board members to be women (for boards having more than 9 members). After these targets became mandatory, companies had to comply by 2008. For companies not following these instructions, monetary sanctions and even shutting the business down were applicable.[5]

Likewise, in Spain most of the improvement in women's representation on board occurred between 2005 and 2006 when a recommendation concerning gender representation at board level was introduced in a new code of governance and when Equality Act that established a gender quota was enacted in 2007 requiring a minimum of 40% representation for both genders in listed companies (employing more than 250 employees).[6] Quotas have been introduced in France and Belgium in 2011.

[4] Rhode, D. L. and Packel, A. K. (2014) Diversity on corporate boards: How much difference does difference make?, Delaware Journal of Corporate Law, Vol. 39, p. 379. Rhode and Packel notice that in United States support for diversity has grown in principle, but progress has lagged in practice (sixteen countries now require quotas to increase women's representation on boards, and many more have voluntary quotas in corporate governance codes).

[5] Even though all publicly listed firms now in operation comply with the quotas for board membership, the number of female CEOs in Norway remains fairly stable. This result has come about because many of the most qualified women, known as the "Golden Skirts" now sit on several boards, leading to a smaller than predicted increase in the overall number of women on corporate boards nationwide. See in Sweigart, A. (2012) Women on Board for Change: The Norway Model of Boardroom Quotas As a Tool For Progress in the United States and Canada, Northwestern Journal of International Law & Business, Volume 32, Issue 4, available at http://scholarlycommons.law.northwestern.edu/njilb/vol32/iss4/6 (30.04.2015)

[6] Fagan, C. and Gonzalez Menendez, M. C. (2012) Conclusion, pp. 245-258 in Fagan, C., Gonzalez Menendez, M. C. and Gomez Anson, S. Women on Corporate Boards and in Top Management: European Trends and Policy, Palgrave MacMillan, UK

In November 2012, European Commission adopted a Proposal of Directive of the European Parliament and of the Council on improving gender balance among non-executive directors of companies listed on stock exchanges and related measures.[7] European Commission appealed to all listed companies having less than 40% of the under-represented sex non-executive directors to assure representation of at least 40% aiming at gender equality. By 2020, gender equality (50% representation) should be reached by active implementation of selection and appointment procedures for non-executive directors (one-tier system) and for supervisory board members (two-tier system).

In November 2013, European Parliament has voted with an overwhelming majority to back the European Commission's proposed law to improve the gender balance in Europe's company boardrooms. Even though consensus has been reached on the necessity of improving gender balance, still there is a high level of disagreement on how this should be achieved. [8]

Recent data provided by European Commission show that women account for an average of 18.6% of the members of boards in EU 28 member states (that is an increase of 0.8% in comparison to 2013). The smallest proportion of women on boards is in the Mediterranean countries such as Malta (2.7%), Portugal (8.7%), Spain (16.2%) and that proportion is enlarging as we geographically move toward northern European countries. In Latvia, for example, representation of women accounts for 31.4%, in Sweden 27.1%, in Finland 28.6%. In France, even it has basic characteristics of Mediterranean country, women representation accounts for 30.4%.[9] The largest proportion of women on boards is in Norway, two fifths, which is in accordance with law.

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7 Proposal of Directive of the European Parliament and of the Council on improving gender balance among non-executive directors of companies listed on stock exchanges and related measures, Bruxelles, European Commission. Available at http://ec.europa.eu/justice/gender-equality/files/womenonboards/directive_quotas_en.pdf (02.02.2015)

8 Many national delegations strongly support the proposed Directive while other delegations remain opposed. Those delegations have stressed that Directive fails to respect the principle of subsidiarity and principle of proportionality as well. As to prevent further negotiation stagnation, the opposed delegations have proposed a package of measures. Mandatory measures would be implemented in disclosure segment only (making room for "comply-or-explain" rule). Also, longer period for adjustment has been proposed and companies should have a right to choose between objectives of at least 40% representation of the under-represented sex on non-executive positions or at least 33% representation of the under-represented sex on all of the director positions (both executive and non-executive). See in ecoDa (2014) EU Updates-April 2014 (Board's diversity/Policy), Brussels, European Confederation of Directors' Associations

9 European Commission (2014) Gender Balance on Corporate Boards: Europe is Cracking the Glass Ceiling. Available at http://ec.europa.eu/justice/gender-equality/files/womenonboards/wob-factsheet_2014_en.pdf (07.02.2015)

There is an evident trend of growth in numbers; for the last five years, the number of women on boards has increased for about 70%.[10] Recent evidence shows that proportion of women on supervisory boards in Croatian companies, unfortunately, doesn't follow these trends. Women on boards in Croatia account for 15.3%.[11]

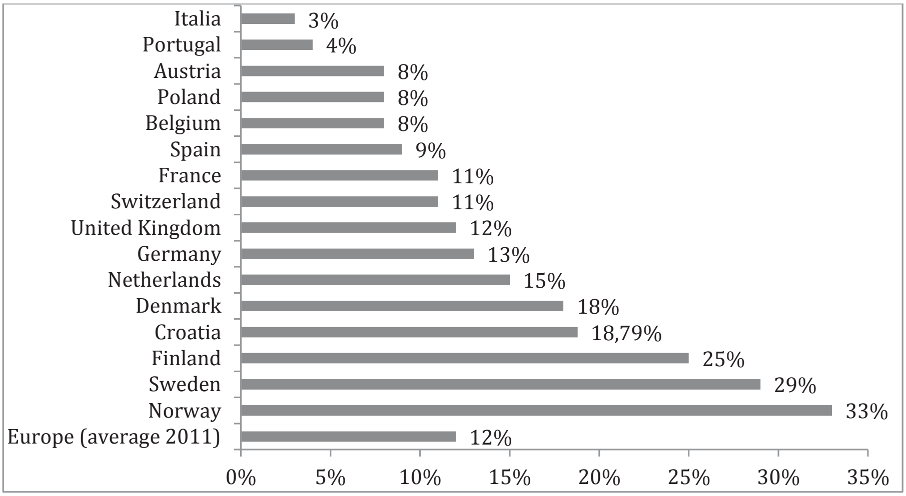
Results show that more than half of the respondents holding highest decision-making positions in European companies are facing problems regarding nomination of women members. Only 13% of male respondents support gender quotas implementation while 41% of female respondents support gender quotas.[12] The percentage of new coming female board members and CEOs is increasing but still shows very slow progress.[13]

[10] Heidrick & Struggles (2014) Towards Dynamic Governance, 2014 European Corporate Governance Report. Available at http://heidrick.com/ff/media/Publications%20and%20Reports/European-Corporate-Governance-Report-2014-Towards-Dynamic-Governance.pdf (03.02.2015)

[11] Research that has been conducted in Croatia show that in 2011 the proportion of women on boards was just above European average (18.76%). See in Tipurić, D. and Mešin, M. (2011) Promjene vrhovnog menadžmenta u hrvatskim poduzećima in Tipurić, D. (Ed.) Promjene vrhovnog menadžmenta i korporativno upravljanje, Sinergija, Zagreb, pp. 71-99. Most recent data provided by European Commission suggest that Croatia is bellow EU 28 member states average regarding proportion of women on boards. See European Commission (2014) Gender Balance on Corporate Boards: Europe is Cracking the Glass Ceiling. Available at http://ec.europa.eu/justice/gender-equality/files/womenonboards/wob-factsheet_2014_en.pdf (07.02.2015)

[12] Heidrick & Struggles (2014) op. cit., p. 7

[13] On the global level, 3.6% of all incoming CEOs are women (decrease of 1.5% in comparison to 2012). Still, this is significantly higher than 2.1% representing average for period 2004-2008. For the last ten years the number of incoming female CEOs is increasing. From 2004, the number of incoming female CEOs is greater for about 65% than the number of outgoing female CEOs. See Favaro, K., Karlsson, P. O. and Neilson, G. L. (2014) The 2013 Chief Executive Study-CEO Turnover in 2013. Available at http://www.strategy-business.com/article/00254?pg=all#ceo_turnover (07.02.2015)



Graph 1: Proportion of women on boards[14]

Not surprisingly, companies in Norway have the biggest proportion of women on boards; on average, one third of all board members are female. The rest of the Scandinavian countries are above European average when it comes to representation of women on boards. Croatia is still significantly better than European average (proportion of female members on supervisory boards) and way ahead of the culturally similar, Mediterranean countries like Italy and Portugal.

In sum, across Europe there is a little but visible step forward in increasing representation of women on boards mainly through legislation and regulation. In the United States, resistance to quotas builds on longstanding concerns about any departure from meritocratic principles.[15] Comply-or-explain should be more appropriate approach according to advocates of gender diversity.

Besides issues of representation, another inequality persists: female board members are still underpaid for the same job as their male counterparts. Women on top management positions still receive on average 30%-45% less than their counterparts (in terms of total compensation) and the greatest proportion

[14] Deloitte (2011) Women in the boardroom: A global perspective. Available at http://www.deloitte.com/assets/Dcom-Tanzania/Local%20Assets/Documents/Deloitte%20Article_Women%20in%20the%20boardroom.pdf (10. 04.2012)

[15] According to Rhode and Packel, Facebook CEO Mark Zuckerberg typifies this view. When asked in 2011 why his five-member board had no women, he responded: "I'm going to find people who are helpful, and I don't particularly care what gender they are… I'm not filling the board with check boxes." Rhode, D. L. and Packel, A. K. (2014) Diversity on corporate boards: How much difference does difference make?, Delaware Journal of Corporate Law, Vol. 39, p. 416

of their total compensation package accounts for base salary while the proportion of payouts from long-term incentive plans is significantly smaller.[16]

In Europe, there is still evident gender pay gap. Male non-executive directors received 9% higher total compensation then female non-executive directors in 2013 (the only exception are female board presidents). Notable progress is evident in Italy where the gap has been reduced to 4% (in 2013 this gap accounted for 22%) and Netherlands where pay gap has been reduced to 2% (from 8%). On the other hand, gender pay gap is expanding in Germany (22%), Austria (18%) while the pay median in Norway is the same for both genders. [17]

3. EMPIRICAL EVIDENCE FROM CROATIA

In 2014, a team of researchers, members of the South East Europe Corporate Governance Academic Network[18] (SEECGAN) has developed an innovative instrument in order to capture the quality of corporate governance in listed companies in region. Since each country has its context specificities, the intention was to develop a unique measurement instrument that will deliver comparable results. SEECGAN index covers seven relevant areas of corporate governance: (1) structure and governance of boards, (2) shareholder's rights, (3) transparency and disclosure of information, (4) audit and internal control, (5) compensation/remuneration, (6) corporate risk management and (7) corporate social responsibility.[19] From June to October 2014, Croatian team collected 32 valid questioners (out of 162) from companies listed at Zagreb Stock Exchange regulated market. Almost half of the companies from the sample (15) employ more than 1000 employees and 11 companies employ between 250 and 1000 employees. Only 6 companies from the sample are small and medium sized (employ up to 250 employees). On average, companies from the sample employ 1967 employees. In 2013, 22 companies from the sample have reported operating profit (69.7%) while 10 companies reported operating loss (31.3%).

[16] Part of these observed differences can be explained by the size of female managed companies. See Mohan, J. and Ruggiero, J. (2007) Influence of firm performance and gender on CEO compensation, Applied Economics, 39 (7-9), pp. 1107-1113; Albanesi, S. and Olivetti, C. (2006) Gender and Dynamic Agency: Theory and Evidence on the Compensation of Female Top Executives. Available at http://people.bu.edu/olivetti/papers/execomp_draft1.pdf (25.02.2015)

[17] HayGroup (2014) Non-executive directors in Europe 2014: Painting a picture of pay practices, structures and diversity of leading European companies. Available at http://haygroup.com/ff/media/files/resources/documents/hg%20ned%20report%202014.ashx (07.02.2014)

[18] Complete list of researchers from Croatia, Slovenia, Bosnia and Herzegovina, Serbia, Montenegro and Macedonia is available at http://www.ciru.hr/index.php/seecgan/ (30.04.2015)

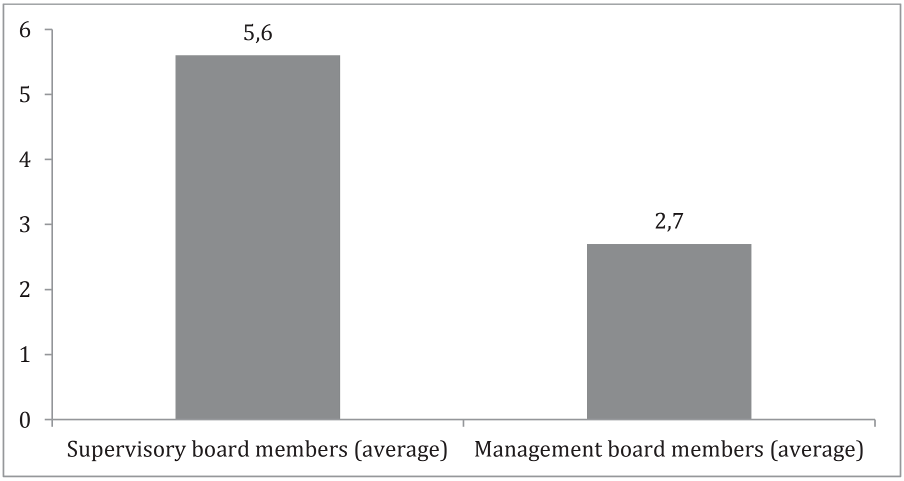
[19] See complete report Tipurić, D. et al. (2015) Korporativno upravljanje u Hrvatskoj: Ocjena kvalitete korporativnog upravljanja hrvatskih dioničkih društava SEECGAN metodologijom, CIRU, Zagreb

Shares of 15 companies from the sample were included in the official share index of the Zagreb Stock Exchange-Crobex (on 31st December 2014).

According to ownership structure data provided by Central Depository & Clearing Company Inc. (on 31st December 2014), for total of 34 shares issued by 32 issuers from the sample (2 issuers have ordinary and preference shares listed), average share of the largest shareholder accounts for 40.46% (or 41.85% calculated only by the ordinary shares). High level of ownership concentration is one of the key features of closed system of corporate governance such as on in the Republic of Croatia.

Under Croatian corporate law, public companies may operate either under one-tier or two-tier system. Out of 32 companies, only one company has one-tier board.

For companies operating under two-tier system, the average number of the supervisory board member is 5.61 while average number of management board members is 2.74. These results are similar to ones from the 2013 study, where the average number of the supervisory board members in Croatian listed companies was 5.62.[20] In the company operating under one-tier system, board has 10 male members, out of whom 2 are non-executive directors (president of the board and vice president).



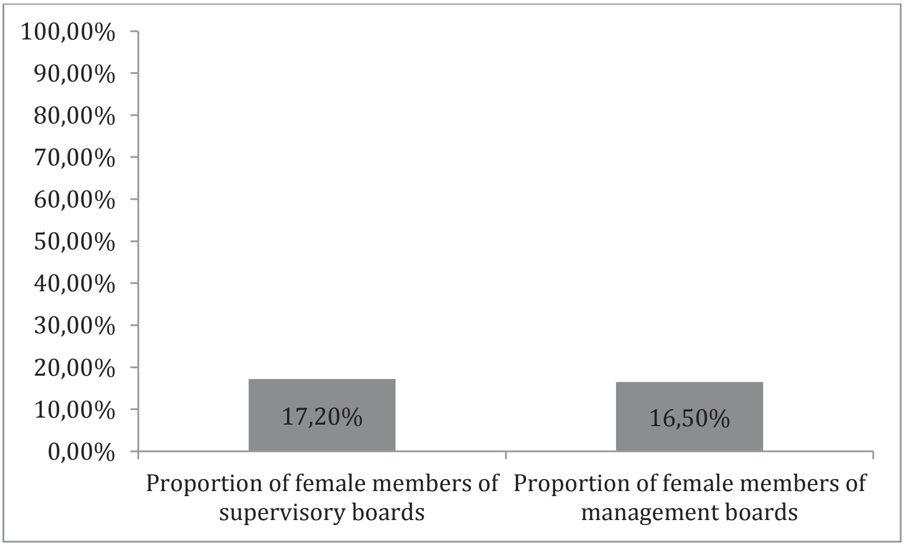
Graph 2: Average number of board members in Croatian public companies[21]

[20] Mešin, M. (2013) Povezanost djelotvornosti nadzornog odbora s poslovnom uspješnošću poduzeća, doktorska disertacija, Ekonomski fakultet Zagreb, Zagreb, p. 143

[21] Survey results. See complete report Tipurić, D. et al. (2015) Korporativno upravljanje u Hrvatskoj: Ocjena kvalitete korporativnog upravljanja hrvatskih dioničkih društava SEECGAN metodologijom, CIRU, Zagreb

Results of the study clearly indicate that 68.5% of the companies from the sample neglect minimum requirements of gender equality (authors of the SEECGAN index have reached consensus that under-represented sex should be represented by at least 30%).

On average, there is only one female member on supervisory boards ($\bar{x}$=0,967) while there is a majority of companies (61.29%) without female supervisory board members. On 19 management boards there are no female members ($\bar{x}$ =0,452). The proportion of female members on management boards is 16.74% while the proportion of female members on supervisory boards is 17.26%.[22]



Graph 3: Proportion of female supervisory and management board members in Croatian public companies[23]

Earlier study, conducted in 2004, showed that women occupy only 14.6% of the seats in supervisory boards and 16.1% of the positions in management boards in Croatian public companies.[24]

[22] Means are calculated on the sample of 31 companies operating under two-tier system, since the only company operating under one-tier system has all male members.

[23] Survey results. See complete report Tipurić, D. et al. (2015) Korporativno upravljanje u Hrvatskoj: Ocjena kvalitete korporativnog upravljanja hrvatskih dioničkih društava SEECGAN metodologijom, CIRU, Zagreb

[24] Tipurić, D. (2006) Nadzorni odbor i korporativno upravljanje, Sinergija, Zagreb, p. 163

Still, in Croatia doesn't exist strong social support nor legislative that would improve gender balance in supervisory and management boards. Final target of 40% representation of the under-represented sex would be extremely difficult to reach in these circumstances.

In vast majority of Croatian public companies the awareness of gender equality issues doesn't exist. Problems of gender (in)equality obviously aren't priority in strategic management of managerial resources in Croatian companies despite numerous findings of gender and other forms of diversity positive effects on financial performance, organizational climate, innovativeness, organizational creativity, superior conflict management techniques and so forth.

4. CONCLUSION

Providing opportunities for women to participate in the decision-making processes in corporate governing bodies is *conditio sine qua non* of more inclusive and democratic corporate society. These opportunities are now days delivered through different measures that include proposals in national codes, voluntary initiatives, demands for disclosure of nomination policies and quotas for female members on boards.

While in the United States, debate on quota introduction is moving toward "comply-or-explain" solution (since quotas are undermining basic propositions of fair and equal opportunities according to proponents of the opposed view), in Europe, quotas are seen as legitimate means to improve women representation on company boards. Since introduced in Norway, in 2005, representation of female members on boards increased tremendously and today is stable at around one third. At the European Union level, efforts are visible. European Commission appealed to all listed companies having less than 40% of the under-represented sex non-executive directors to assure representation of at least 40% aiming at gender equality. By 2020, gender balance (50% representation of both sexes) should be reached by active implementation of selection and appointment procedures for non-executive directors (one-tier system) and supervisory boards (two-tier system).

Recent data provided by the European Commission show that women account for an average of 18.6% of the members of boards in EU 28 member states. The smallest proportion of women on boards is in the Mediterranean countries such as Malta, Portugal and Spain and that proportion is enlarging as we geographically move toward northern European countries.

We provide relevant data for Croatia and show that in 10 years period (comparing results for 2004 and 2014) no significant progress was made regarding women representation on management and supervisory boards. Croatian public companies have to put stronger emphasis on gender equality issues not just for the cause of creating more fair and responsible society but for the cause of stimulating superior financial performance of Croatian companies through gender diversity.

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