

Rethinking Boards Composition: The Perspective of Romanian and Bulgarian Women on Boards within the European Context

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Abstract

Composition of corporate boards shows very low presence of women at nearly all developed countries, although women represent more than half university graduates and more than half labour force in this part of the world. Also, several studies show better financial results of companies that have women actively present on boards. The paper presents situation at key world markets, with special focus on Romania and Bulgaria within the European perspective. The paper demonstrates that the number of women on boards has declining trend in Romania and Bulgaria. Consequently, the paper suggests implementation of provisions to reverse the trend and to reach proposed quota by European Commission of 40% of women on corporate boards.

JEL classification numbers: J16, M10, M12

Keywords: Europe, corporate boards, management, quota, women, Romania, Bulgaria

1 Introduction

Gender composition of Corporate Boards is a very topical issue. European Commission recently opened the debate on imposing quotas for members of under-represented sex on corporate boards. “The under-represented sex” mean mostly women. Women were historically underrepresented on Boards. Also, recent evidence shows that companies with women actively present on Boards and/or top management positions are reporting better financial results. Several countries are proactively promoting more women holding these key positions while other countries are lagging behind and criticising European Commission for high interventions in running corporations within their territory. Key stakeholders are asking: Are quotas just new EC idea or is it really important?

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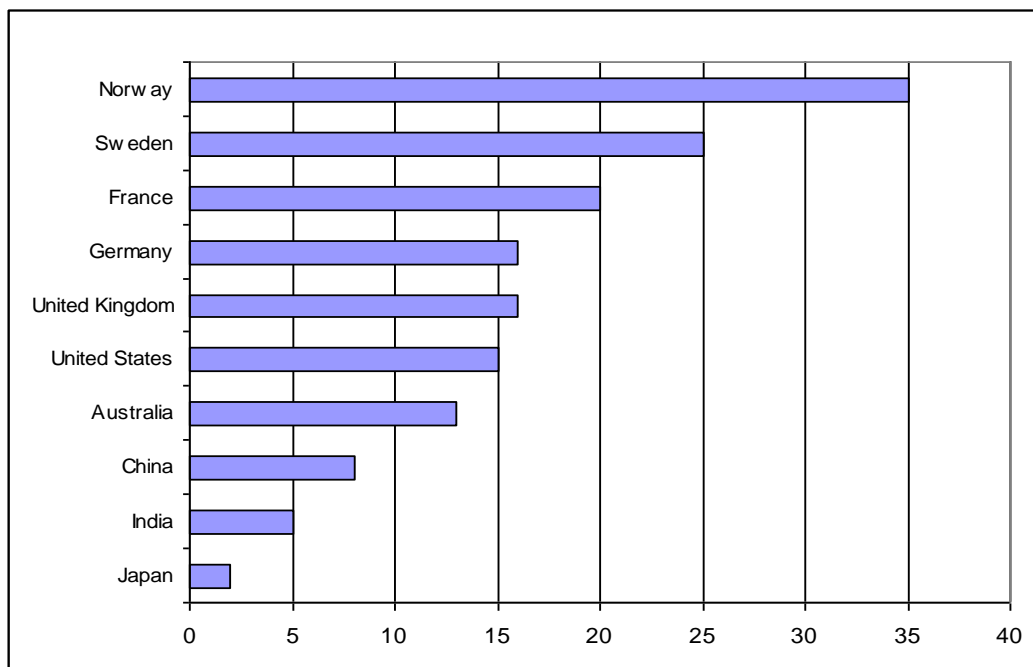
The article provides both descriptive and comparative analysis of the European situation, with special focus on Romania and Bulgaria. The research question of this article is: *Is there a need of quotas for Romania and Bulgaria?*

2 Women Presence Worldwide

Potential of women is underutilised. Women represented 62% of labour force in European OECD countries, 62% at OECD globally, and 68% in the United States of America in 2011.[1]

Further women are gaining significantly higher education level, both at EU and OECD groups. „Graduation rates for young women are expected to be notably higher than those for young men in OECD countries – 47% versus 32% on average.“ [2 s. 20] „Within the EU-27, female graduates outnumbered male graduates by a ratio of approximately three to two.“[3]

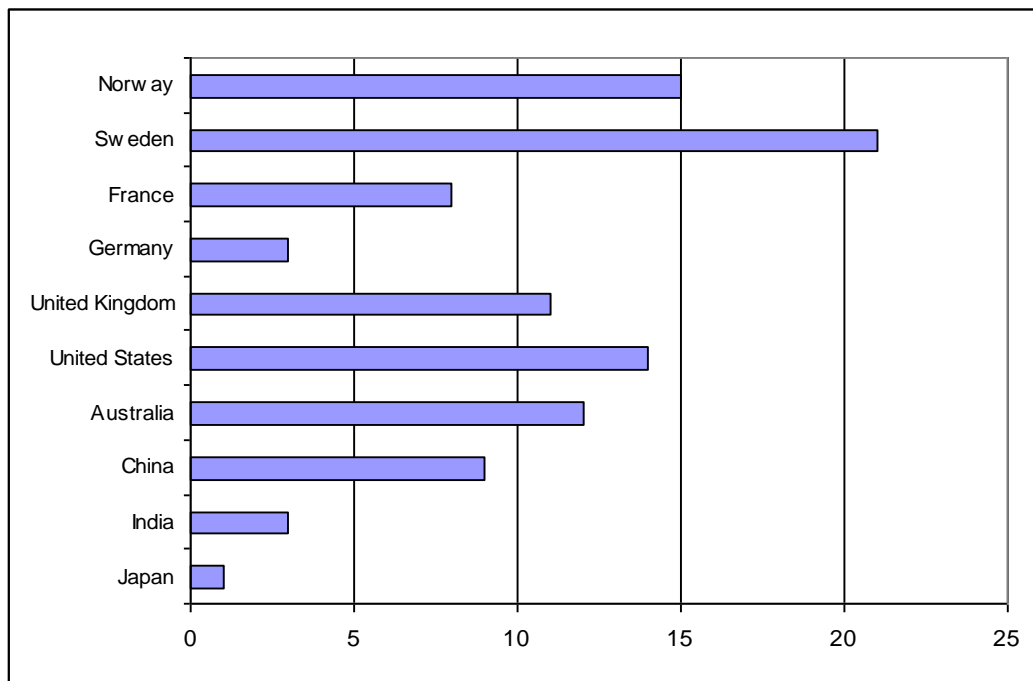
Contrasting there are only a few women at top positions of corporations both in the USA and Europe. The clear leader in the league is Norway with 35% of female on corporate boards, the second is Sweden (25%) and the third is France (20%). Even worse situation appears at women representation on executive committees. The best position holds Sweden with 22%, the second Norway (15%) and the third the United States (14%). Clearly there is low representation of women at these significant corporate positions.



Source: MCKINSEY&COMPANY. The global gender agenda. [online]. [13th April 2013]. Available at:

http://www.mckinseyquarterly.com/The_global_gender_agenda_3027

Figure 1: Women representation on corporate boards (2011, % of total)



Source: MCKINSEY&COMPANY. The global gender agenda. [online]. [13th April 2013]. Available at:

http://www.mckinseyquarterly.com/The_global_gender_agenda_3027

Figure 2: Women representation on executive committees (2011, % of total)

As evidence shows the representation of women on corporate boards has improved during several past years [5], but there is still a lot to improve. Even though there were introduced quotas in several European countries, they were introduced relatively recently and corporations have several years to comply. But it is no longer the legislation only discussion. Financial motivation entered the debate, too.

Studies from different sources support the idea of financial benefits for corporations with gender balanced company boards. Monitoring of company Catalyst shows financial benefits of companies with higher representation of women on corporate boards as of 1996.[5] Also, the researches of other respected companies show alike results. The Women Matter 2010 report, of McKinsey & Company, claims that “companies with the highest share of women outperform companies with no women in terms of return on equity, the top-quartile group exceeds by 41% the group with no women, and in terms of operating results, the more gender-diverse companies exceeds by 56% the group with no women.”[6 s. 11]

Further, Credit Suisse in their 2012 study, analysed database of the 2,360 companies constituting the MSCI AC World Index. They found that companies with at least one female on board outperformed those with no women on board by 26% in terms of share price performance since 2005.[7]

Globalisation pressures and the lack of talents across Europe [8] motivates for searching of the best employees in new areas like retired workers, immigrants, and women. The aging population and lack of talents in Europe combined with global economic recession and increasing power of BRICS countries requires new impulses for European economy.

Opening the doors for new talents from untapped pools, like women, could be great step ahead.

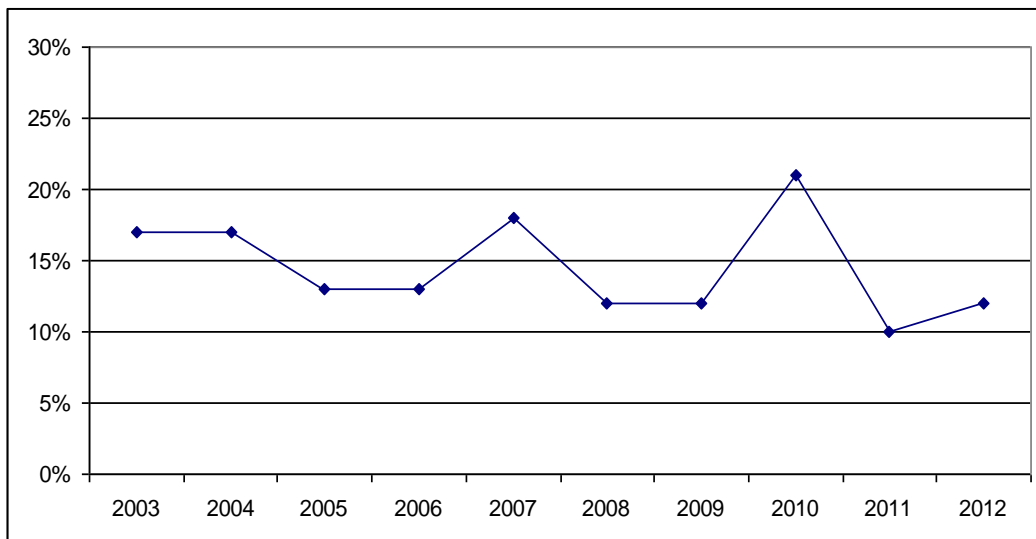
The European Commission proposed legislation aiming at utilisation of all the labour potential of Europe, including educated and qualified women, in November 2012. „The proposed Directive sets an objective of a 40% presence of the under-represented sex among non-executive directors of companies listed on stock exchanges. Companies which have a lower share (less than 40%) of the under-represented sex among the non-executive directors will be required to make appointments to those positions on the basis of a comparative analysis of the qualifications of each candidate, by applying clear, gender-neutral and unambiguous criteria. Given equal qualification, priority shall be given to the under-represented sex. The objective of attaining at least 40% membership of the under-represented sex for the non-executive positions should thus be met by 2020 while public undertakings – over which public authorities exercise a dominant influence – will have two years less, until 2018. The proposal is expected to apply to around 5 000 listed companies in the European Union. It does not apply to small and medium-sized enterprises (companies with less than 250 employees and an annual worldwide turnover not exceeding 50 million EUR) or non-listed companies.“[9]

Movement of changing legislation towards more equal representation of women at top corporate positions started already before their proposal at several European states. Norway was the pioneer of this movement – the quota for 40% of women (or men in the case of female-dominated board) on Boards passed in 2006 to increase the gender balance at corporate boards served as a “pilot project”. Austria, Belgium, Denmark, Finland, France, Greece, Iceland, Italy, the Netherlands, Portugal, Slovenia, Spain all have some level of regulations for gender balance. Other European countries, such as Sweden and the UK, have strong and viable self-regulatory measures. And the last group of countries comprises of those with neither regulation, nor self-regulatory measures.[10]

3 Situation in Romania and Bulgaria

When looking at labour force participation rate within these two countries, women represented 48-49% in Romania and 49% in Bulgaria between 2008 and 2011. [9] In terms of education, the proportion of graduating women on total population is 21% compared to 18% of graduating men in Romania, respectively 34% women and 21% men in Bulgaria (at tertiary education level).[3]

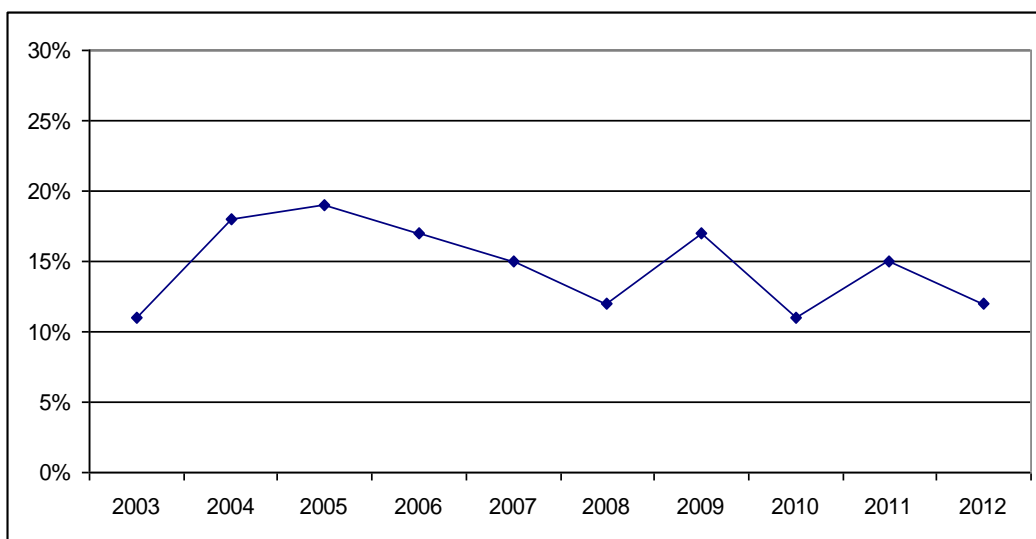
However, women do not have strong position. Although their representation reached even more than 20% in certain period, representation of women at corporate boards remains minor. The number of women on boards has been fluctuating in Romania around 15%, specifically from 17% in 2003 to 12% in 2012. [10]



Source: Gender balance in decision-making positions/Database/Business and finance. [online]. [11th October 2013]. Available at: http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/index_en.htm

Figure 3: Women on Boards in Romania

The number of women on boards in Bulgaria has been also very fluctuating, specifically from 11% in 2003 to 12% in 2012.



Source: Gender balance in decision-making positions/Database/Business and finance. [online]. [11th October 2013]. Available at: http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/index_en.htm

Figure 4: Women on Boards in Bulgaria

4 Methodology

There are two hypotheses to be tested:

Hypothesis H1: Romania is not able to reach 40% of the under-represented sex among non-executive directors of companies listed on stock exchanges by year 2020 by current organic growth.

Hypothesis H2: Bulgaria is not able to reach 40% of the under-represented sex among non-executive directors of companies listed on stock exchanges by year 2020 by current organic growth.

Research method used is Time series analysis, specifically the linear trend approach.

The linear trend T is described as:

$$T_t = a_0 + a_1 t,$$

where a_0, a_1 are parameters and t represents time.

By running the model based on the European Commission data of women representation on corporate boards [10], the equation of estimated linear trend for Romania is:

$$T_t = 16,6 - 0,38 \cdot t$$

and for Bulgaria is:

$$T_t = 16,5 - 0,3 \cdot t$$

Given the hypothesis tested, in year 2020, there will be only 9,73% of women on boards in the Romania and only 10,5% of women on the boards in Bulgaria based on this model.

Both hypothesis H1 and H2 are supported.

5 Conclusion and Discussion

The model also shows that for both countries the trend is declining. That is against the effort of the European Commission. So, both countries should re-evaluate their approach towards either the regulation or self-regulation in terms of gender balance on corporate boards.

Global competition forces Europe to fully use talent of women. Europe needs the corporate board seats to be offered to the best people, irrespective of their gender. Several European countries introduced legal initiatives to support women and others adopted self-regulatory measures, but there are still several states hesitating to act. Both Romania and Bulgaria are facing declining trend in women participation on boards. So, if both countries want to promote their economic position within changing European context, they should encourage equal opportunities for talented women more than was realized so far. Diverse studies provide evidence of balanced gender diversity in corporations leading to better corporate profits. So, the initiatives supporting women can be beneficial for many stakeholders within both the companies and the whole society.

6 Research Limitations and Future Research

Research limitations lie in the area of gender issues and its impact. Future research can provide in-depth analysis of approach in the key national companies in terms of job career supporting women into top company positions, including Corporate Boards. Also, future research can focus on the analysis of legal environment in terms of identifying forces that help or prevent efforts of gender balance at corporations.

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