

WOMEN ON BOARDS: THE PERSPECTIVE OF CZECH AND SLOVAK REPUBLICS WITHIN EUROPEAN CONTEXT

ZUZANA KŘEČKOVÁ

Abstract: Presence of women on corporate boards is very low across nearly all developed countries, although women represent more than half university graduates and more than half labour force. Further, evidence shows that corporations with women actively present on boards report better financial results. The paper presents situation at key world markets, with special focus on Czech and Slovak situation within European perspective. The paper demonstrates that the recent growth rate of women on boards at Czech and Slovak Republics would need another 34, and 38 years respectively, to reach currently proposed quota by European Commission of 40% of women on corporate boards.

Keywords: Europe; corporate boards; Czech Republic; management; quota; Slovakia; women

JEL Classification: J16, M10, M12

1. INTRODUCTION

Presence of women on Corporate Boards is very topical issue. European Commission recently stirred up the debate on imposing quotas for members of under-represented sex on corporate boards. "The under-represented sex" is women. And population of women was always underrepresented on Boards. Some recent evidence shows that corporations with women actively present on Boards and top management report better financial results. Some countries are proactively promoting more women holding these important positions while others are lagging behind and criticising European Commission for too high interventions into running corporations. And some parties are to find answers to question: Are quotas just another demonstration of EC hard work or is it really needed?

The article focuses on descriptive and comparative analysis of the situation in Europe, with particular focus on the Czech Republic and Slovakia. The main research question of this article is: **What is the need of quotas for the Czech Republic and Slovakia?**

2. WOMEN AT WORLD

Women are underutilised in terms of their potential. Women aged 15-64 represented 62% of labour force in Europe (European countries who are members of OECD), 62% at OECD, and 68% at the United States of America in 2011.[1]

Also women reach significantly higher education level, both at OECD and EU level. „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]

However there are still only a few women at top corporate positions both at Europe and USA. Norway is clear leader in this area with 35% of female on corporate boards, followed by Sweden (25%) and France (20%). Women representation on executive committees is even worse.

Sweden demonstrates the highest proportion of women with 22%, followed by Norway (15%) and United States (14%). So, the situation really shows low representation of women at these important positions.

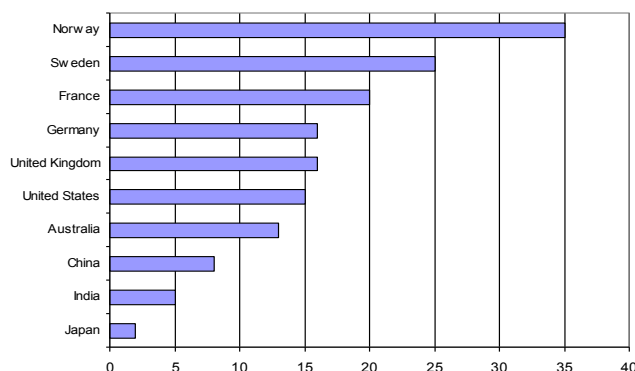


Figure 1 Women representation on corporate boards (2011, % of total)

Source: MCKINSEY&COMPANY. The global gender agenda. [online]. [13th April 2013]. Available at: http://www.mckinseyquarterly.com/The_global_gender_agenda_3027

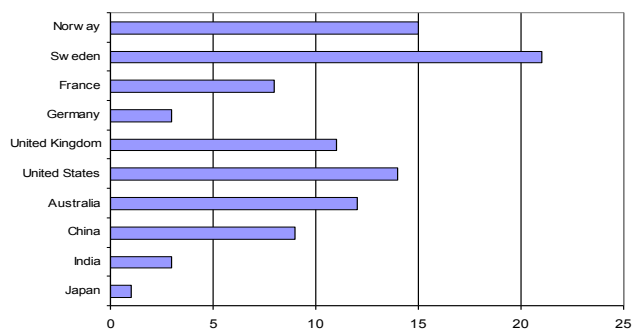


Figure 2 Women representation on executive committees (2011, % of total)

Source: MCKINSEY&COMPANY. The global gender agenda. [online]. [13th April 2013]. Available at: http://www.mckinseyquarterly.com/The_global_gender_agenda_3027

Although the representation of women on corporate boards was worse several year ago [5], there is still a long

way to go. There were introduced quotas in many European countries. However, those were introduced relatively recently and companies have several years to comply. Not only legislative quotas, but also financial motivation entered the debate. There exists many evidence supporting financial benefits of companies with gender diverse composition of company boards. Long-term monitoring of company Catalyst demonstrates financial benefits of companies with higher representation of women on corporate boards as of 1996.[5] And research of other respected companies shows similar results. McKinsey in the report Women Matter 2010 reports 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]

Also Credit Suisse in their 2012 study, analysing database of the 2,360 companies constituting the MSCI AC World Index, concludes 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]

Given the pressures of globalisation and the lack of talents across Europe [8] calls for searching in new areas like retired workers, immigrants, and women. The lack of talents and aging population in Europe combined with global economic recession and increasing power of BRICS countries calls for new impulses for European economy. One of the key ones could be opening the doors for new talents from untapped pools, like women. It becomes clear that Europe cannot afford to ignore the potential of women any more.

In November 2012, the European Commission has proposed legislation with the aim of utilising all the labour potential Europe has, including educated and qualified women. „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]

Several of European states started already before this proposal to change their legislation towards more equal representation of women at top corporate positions. The first was Norway – their 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 at “pilot project”. Austria, Belgium, Denmark, Finland, France, Greece, Italy, the Netherlands, Portugal, Slovenia, Spain, and Iceland all have 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, such as the Czech Republic and Slovakia.[10]

3. SITUATION IN THE CZECH REPUBLIC AND SLOVAKIA

When looking at labour force participation rate within these two countries, women represented 62% in the Czech Republic and 61% in Slovakia in 2011.[1] Regarding the education, the proportion of graduating women (at tertiary education) per 100 graduating men is 151 in the Czech Republic and 177 in Slovakia.[3] Also the absolute number of graduating women is increasing, both in the Czech Republic and Slovakia. „Within the OECD countries the most significant increases (in graduation rates from university-level education) since 1995 were reported in Austria, the Czech Republic, the Slovak Republic, Switzerland and Turkey, where the annual growth rate is over 8%.”[2 s. 20]

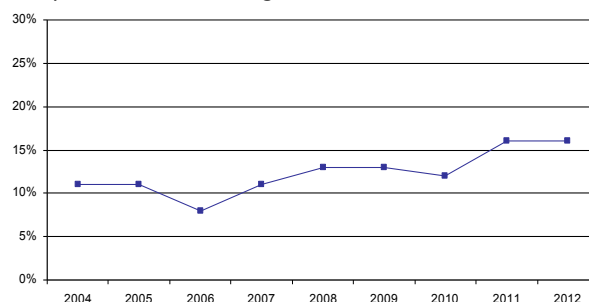


Figure 3 Women on Boards in the Czech Republic

Source: Gender balance in decision-making positions/Database/Business and finance. [online]. [17th April 2013]. Available at: http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/index_en.htm

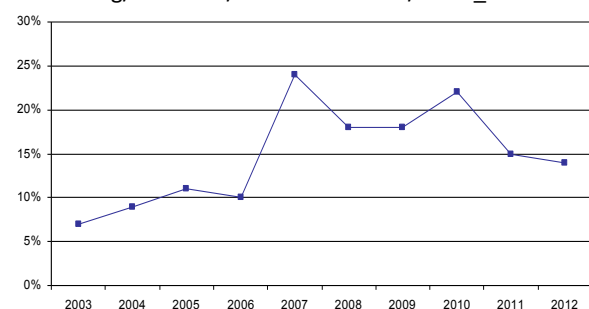


Figure 4 Women on Boards in Slovakia

Source: Gender balance in decision-making positions/Database/Business and finance. [online]. [17th April 2013]. Available at: http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/index_en.htm

The number of women on boards in Slovakia has increased, with some fluctuation between 2007 and 2010, from 7% in 2003 to 14% in 2012. However, women have not capitalized their potential yet. Although the trend demonstrates increasing tendency in both countries, representation of women at corporate boards remains minor. The number of women on boards has increased in the Czech Republic from 11% in 2004 to 16% in 2012. [10]

4. METHODOLOGY

There are two hypotheses to be tested:

Hypothesis H1: The Czech Republic 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: The Slovak Republic 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 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 the Czech Republic is:

$$T_t = 8,6 + 0,75 \cdot t$$

and for the Slovak Republic is:

$$T_t = 11,2 + 0,6 \cdot t$$

Given the hypothesis tested, in year 2020, there will be only 21,35% of women on boards in the Czech republic and only 22% of women on the boards in Slovakia based on this model.

Both hypothesis H1 and H2 are supported.

The model also answers 'When will the 40% target be reached?' question. The European Commission target of 40% women on boards will be reached in year 2045 in the Czech Republic and in year 2050 in Slovakia.

5. CONCLUSION AND DISCUSSION

The growth represents on average very slow growth in the case of both countries. It would take another 33 years in

the case of the Czech Republic, and 38 years in the case of Slovakia to reach 40% target at this 'organic' pace of growth. Hence, both countries need to reconsider their approach towards either the regulation or self-regulation in terms of gender balance on corporate boards soon.

Europe needs more talented women to be offered the same chances as to men to get to corporate board seats. While several European states already launched legal initiatives to support this trend and others adopted self-regulatory measures, there are still several states hesitating to act, including the Czech and Slovak Republics. If both of countries continue at the same growth rate, it will take another 33, and 38 year respectively, to reach the desired target of European Commission. So, if both countries want to remain competitive within changing European context, they should promote equal opportunities for talented women more than was realized so far. As previously mentioned researches prove that more balanced gender diversity in corporations is a way to reach better corporate profits, the initiatives supporting women will be beneficial for many stakeholders within both the corporations and the society.

6. RESEARCH LIMITATIONS AND FUTURE RESEARCH

Research limitations lie in the area of gender issues and used statistical model. Future balanced corporate boards analysis could focus also on valuation of decisions and overall governance of corporate boards and diversity in their nationalities. Another stream of future research could focus on in-depth analysis of approach in the key national companies in terms of promoting, supporting (e.g. developing, training, mentoring, coaching) more women into top corporate positions, including Corporate Boards. Also, future research in the area of analysis of legal environment in terms of supporting and hindering forces in the area of better gender balance would be beneficial.

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Ing. Zuzana KŘEČKOVÁ, M.A., Ph.D.

University of Economics, Prague, Faculty of International Relations

Department of Retailing and Commercial Communications, Czech Republic

e-mail: zuzana.kreckova@vse.cz