

Why Boards Need More Women

by Yilmaz Argüden
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Diversity on boards is critical to sustaining performance. Broadening the composition of the board increases the size of the candidate pool and, more importantly, helps expand perspectives at the top. While most CEOs recognize the importance of appointing directors of different ages and with different kinds of educational backgrounds and functional expertise, they tend to underestimate the benefits of gender diversity.

Two days ago, the Italian government had to pass a law requiring listed and state-owned companies to ensure that by 2015, one-third of their board members would be women. Only 6% of directors in Italy are currently women — one of the lowest rates on the continent — compared to 14% in the European Union and 16% in the U.S.

There are several benefits to appointing more women on boards. When Fortune-500 companies were ranked by the number of women directors on their boards, those in the highest quartile in 2009 reported a 42% greater return on sales and a 53% higher return on equity than the rest, according to a recent study conducted by Lois Joy, Nancy Carter, Harvey M. Wagner, and Sriram Narayanan.

Experts believe that companies with women directors deal more effectively with risk. Not only do they better address the concerns of customers, employees, shareholders, and the local community, but also, they tend to focus on long-term priorities. Women directors are likely to be more in tune with women's needs than men, which helps develop successful products and services. After all, women drive 70% of purchase decisions by consumers in the European Union and 80% of them in the United States.

Research by Catalyst — a not-for-profit that seeks to expand opportunities for women — shows a strong link between the presence of women on boards and corporate reputations. Female directors serve as role models, and therefore, improve female employees' performance and boost companies' images. Several rating agencies and investment funds, such as CalPERS and PAX World, use the extent of gender diversity as one of their investment criteria.

Yet, in Europe, barring a few exceptions such as Norway, women lack representation on boards. Research by the Cranfield School of Management shows that the percentage of women in FTSE 100 companies has risen slowly from 6.9% to 12.5% over the last decade. The percentage of women directors seems to be correlated with geography, with the Scandinavian nations having over 20+% women among board

members; the U.K., Ireland, and Netherlands being in the low teens (10% to 12.5%); Germany, France, Luxembourg, and Belgium in the high single digits (7.5% to 9.7%); and the Mediterranean countries such as Spain, Italy, and Greece reporting low single digit (2% to 6.5%) representation, according to a recent study by Egon Zehnder's Laurence Monnery.

In Türkiye, where I live, the participation rates of women in the workforce are among the lowest in Europe, indicating major barriers to entry into the work force. However, there's neither discrimination in terms of pay nor a glass ceiling that prevents women from getting to the top. Türkiye has the second-highest percentage of female CEOs (12%) among the OECD countries as well as Brazil, China, and Russia. In fact, 22.2% of board members in the country are women. This includes the members of Türkiye's business families, but even in the case of independent women directors, the country ranks among the top in Europe. Two women CEOs have led the Turkish Industrialists' and Businessmen's Association in just the last five years, and the heads of several Turkish business groups, such as Sabanci, Dogan, and Kale, are all women.

Studies show that the presence of at least three women is necessary to change boardroom dynamics. In fact, an analysis of FTSE-listed boards found that operational performance and share prices were both higher in the case of companies where women made up over 20% of board members than those with lower female representation.

A new Turkish initiative seeks to increase the numbers of women directors by getting 40 business people to coach 40 next-generation women leaders in the skills of board membership. That's an example other countries may well wish to follow.

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