

Karen Morley & Associates
Increasing Leadership Effectiveness

This paper supports the introduction of the **Australian Government Boards (Gender Balanced Representation) Bill 2015** - there is significant value in legislating specific targets for gender representation as a positive obligation, rather than aspirational objective, as currently applies.

Why might legislation be necessary for gender balanced leadership?

Gender-balanced leadership has proven significantly difficult to achieve. It has been expected that women's representation would increase gradually and steadily over time. Instead, research shows that women's presence in 'token numbers' (10 to 15%) mitigates against rather than creates critical mass. The most effective methods for achieving gender balance have been those that identify representation targets from 30 to 40%.

Why critical mass? Once a critical mass of 30 to 40% of women is achieved within an organization, benefits accrue, including improved economic performance, better board dynamics and increased attention to risk. Critical mass was first used by Rosabeth Moss Kanter in 1977 to categorize organizational interactions affected by status differentials between men and women. Token representation of women at 10 to 15% sees them as representatives of their gender, rather than as full contributors, and limits their and the group's effectiveness. At 30-40%, women are recognized for their individual characteristics and positively influence the culture of the larger group.

Despite a 40+ year focus on women in leadership, and the identification of the significance of critical mass, few legislatures, corporate boards and executive management teams have achieved it through 'natural' means. Token numbers, homophily and unconscious gender bias create significant barriers to the achievement of gender balanced leadership.

Gender balanced representation doesn't happen 'naturally'

There are three key barriers that impede gender balanced leadership.

a) Token numbers lead to complacency and stall progress

The existence of women in token numbers creates a belief that the glass ceiling has been breached. Research by Danaher and Branscombe has found that 'token practices' lead to a form of complacency – women perceive that as long as one woman has made it, their own mobility is possible. Once at least 10% of board members are women, men also view hiring practices as equally fair to men and women.

Even where the number of women in senior roles doesn't change over time, women still tend to believe that hiring is fair and view their organizations as providing them equal opportunity. Men are aware that they have a greater chance of promotion under token conditions. And under token hiring practices, men feel that their status as the majority is legitimate.

Men not only recognize the benefits of tokenism and feel good about it, but also view such practices as legitimate, while women, although not feeling good about it, experience token practices as maintaining permeability to leadership roles and legitimizing female leadership.

Recent research into the gender balance of the five highest paid executive roles in 1,500 US firms between 1991 and 2011 found that once one woman had been appointed, the chance of a second woman joining this group dropped by about 50%. The researchers had expected to find that the introduction of one woman into this top echelon led to a snowball effect. That did not occur over this 20 year period.

b) Homophily restricts network reach creating gender stall

Networks are the traditional basis for and continue to influence board appointments. Homophily is the tendency to associate with those like ourselves. At token representation levels, the density of the female director network remains subcritical. Token conditions mean that women already in the system can't develop a strong network that enables them to invite a sufficient number of other women onto boards, and men's tendency to network with other men means that prevailing conditions don't change. Without intervention, critical mass cannot be generated: too many boards with no women, and too many boards with token numbers equals gender stall.

c) Gender bias limits women's perceived legitimacy for leadership roles

Leadership continues to be associated with agentic characteristics such as dominance, competitiveness and ambition, traditionally seen as male characteristics. The pervasiveness of this set of beliefs means that decisions about legitimate leadership are routinely biased against women and in favour of men. Women face the dilemma of being damned for being competent as leaders, or doomed to support roles when they demonstrate gender-associated warm and communal behaviours.

Unconscious beliefs that women are warm and men are agentic are very commonly held and often in contradiction to consciously held and openly expressed beliefs. Most people are unaware that they have a duality of beliefs and that conscious and unconscious beliefs are quite likely to contradict each other. That's particularly the case for contentious issues, like gender and race. Especially challenging is that it applies to people who believe themselves to be egalitarian: conscious egalitarian beliefs co-exist with unconscious gender stereotypes.

It is well researched (eg Bhonet et al 2014) that hiring and selection decisions are impacted by unconscious bias based on candidate gender, with males more likely to be selected even where the experience, skills and abilities of male and female candidates are identical.

Gender balanced representation is more likely with legislative support

Designated targets were first introduced to overcome such barriers and drive an increase in the representation of women in politics, and more recently, corporate boards. Political quotas began in Norway in 1975 with a 40% minimum target for representation of each gender on electoral lists.

Following Norway's lead, in which legislated quotas increased the representation of women on boards from 16% in 2004 to 40% in 2008, countries across the world have introduced representational targets for boards. Norway's 40% targets were originally voluntary, but following a lack of progress, tough sanctions for non-compliance were introduced.

No other country has so far implemented quotas with the same degree of sanctions as Norway: penalties including company dissolution ensured achievement of their target. Other sanctions vary from withholding directors' fees (France), and the threat of fines (Italy). Spain's penalty is that gender diversity is taken into account when public contracts and state subsidies are awarded. These countries have seen significant increases in the representation of women on boards.

Most countries, including Australia, have implemented 'comply or explain' regimes for boards of listed companies, and some include an explicit target, while others don't, and most require reporting, creating transparency of gender representation. Australia's ASX guidelines involve establishing and disclosing gender policies and recommend setting targets for board representation. There is no particular target specified.

The form of sanction attached to this Bill is tabling of performance in Parliament, so it relies on transparency of performance by individual boards to drive compliance, and is in line with international practice.

Gender balanced leadership yields significant benefits

Identifying the direct impact of targets is a challenge, as regimes vary quite dramatically. Percentage targets, timing of introduction, and the nature of sanctions, all vary.

The representation of women on boards is increasing (see Appendix 1). The introduction of targets/quotas in Europe increased female representation in large listed companies from 12% in 2010 to 18% in 2013. In the UK, the FTSE 25% target has just been reached. In Australia, the representation of women on ASX-200 listed boards increased from 13% in 2011 to 20% in 2015. A GMI Ratings report in 2013 that analyzed almost 6,000 companies in 45 countries concluded that quotas had impact.

Over the last 20 years, the global average of women in national parliaments has nearly doubled – from 11.7% in 1997 to 21.9% in 2014. Female representation in parliament in those countries with any type of gender quota is almost double that of countries without a quota: quotas are seen as a critical ingredient in the increased representation achieved.

Australia's only quota to increase the representation of women in politics is the Australian Labor Party's voluntary goal which has seen women's representation increased from 14.5% in 1996 to 43% in 2015. Women's representation in the Liberal Party, which does not have a publicly disclosed target, increased by half as much over the same time from 13.9% to 23.2%.

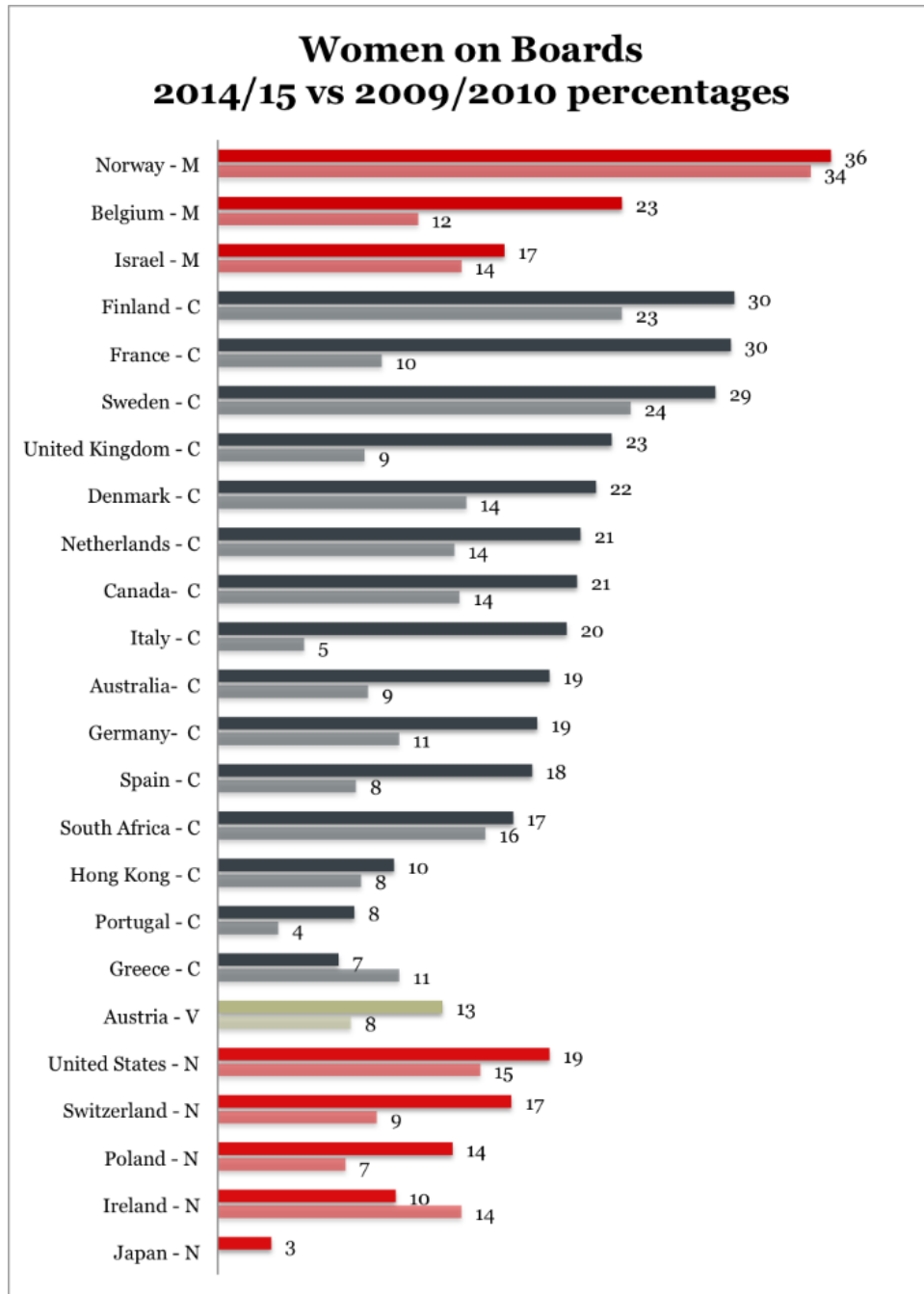
While the causal effects of quotas over the long term have not been well researched, their introduction is associated with increased representation of women, changed attitudes towards women as leaders, increased confidence of female leaders, and changes in girls' educational outcomes and career aspirations. Once a critical mass of women is achieved within an organization, benefits accrue, including improved economic performance, board dynamics and attention to risk. The introduction of quotas has also had the benefit of creating a stronger focus on competence and meritocracy amongst boards and directors. Overall performance of the economy also appears to benefit significantly with women's greater participation, through increasing the 'stock of knowledge'.

While a quota doesn't always result in a critical mass, a critical mass is rarely achieved without a quota.

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Appendix 1: Impact of legislated gender representation targets for Boards

The chart below compares women’s board representation in a number of countries, comparing percentages in 2014/15 with 2009/10. Norway, Belgium and Israel have introduced board quotas that are mandatory (M). Finland through Greece have 'comply or explain' regimes (C), Austria has a voluntary target for state-owned companies (V), and US through Japan have no board quotas (N). (Data on quota type from Credit Suisse, and percentages from Catalyst and Egon Zehnder.)



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