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Women on Boards – Experience from the Norwegian Quota Reform

Aagoth Storvik*

Norway was the first country in the world to pass legislation specifying gender representation on company boards. The Norwegian Parliament in December 2003 passed a new regulation that required at least 40 percent of each gender on company boards. The law's aim was to create more gender equality and to increase companies' profitability. Especially managers and owners in the business sector met the law with significant resistance. In the ensuing heated debate, they maintained that not enough willing, competent women existed to fill the specified quota (Teigen 2002; Cvijanovic 2009).

The law, which went into force in the beginning of 2008, has led to major changes in the gender composition of corporate boards. In 2002, only about 4 percent of board members were women, while in 2009, all boards had reached the goal of 40 percent women. The law's successful implementation is due to its fairly tough sanctions for non-compliance. After several warnings, legal authorities have the power to dissolve those firms not following the rules. Nevertheless, no firm has been dissolved as a result of the law.

This article will look at the competence of new female directors. This will be done in two ways. First we shall look at formal competence, such as type and level of education and main occupation. Secondly, we shall see how board members themselves evaluate the competence of the new women on the board, which will provide information on both the formal and informal aspects of qualifications. The main empirical source for this article is a questionnaire sent to all board members in public limited companies at the beginning of 2009, one year after the reform was implemented. In all 990 board members replied, a reply rate of 62 percent (for more information about the questionnaire, Heidenreich and Storvik 2010).

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Background

While Norway is one of the countries with the highest rates of working women and the highest percentage of women in politics, the representation of women in positions of power in work organisations is one of the lowest in the West. This has been named the Norwegian paradox (Kvande 1998) and it still persists. In 2002 one year prior to the law, about 4 percent of top managers in the most influential companies were women (Skjeie and Teigen 2003). Parallel statistics show the number of female managers in similar positions in the United States to be 14 percent, in the United Kingdom 17 percent and in Germany 8 percent at the time (International Labour Office 2004). The new quota regulation can be seen, at least partly, as a reaction to the low stable level of female managers in Norway. While it was nearly impossible for the government, via the law, to increase the number of female managers in the private sector, it was possible to target female representation on company boards (Teigen 2008).

The new quota regulation is an amendment to the Companies Act. It requires that both genders are represented according to the following principles:

- Where there are only two or three board members, both genders should be represented.
- Where there are four or five board members, both genders should be represented by at least two members each.
- Where there are six to eight board members, both genders should be represented by at least three members each.
- Where there are nine or more board members, each gender should be represented by at least 40 percent each.
- These rules also apply to the election of deputy board members.

The quota regulation applies to all publicly-owned companies and to public limited companies in the private sector. In this way the quota regulation targets central parts of the Norwegian economy (Storvik and Teigen 2010). A public limited company is a company in which none of the members is personally liable for the company's debts. This type of company usually has many shareholders and rather strict rules regarding the composition of the board and the amount of share capital. The law requires that a company registered as a public limited company is also listed on the Oslo Stock Exchange. These companies are the elite of the Norwegian economy. There are approximately 450 public limited companies in Norway. The government has not yet proposed a quota regulation for privately-owned limited liability companies. Most of these companies are very small family enterprises with few owners, and the owners are themselves members of the boards. The legal rules that applies to this type of company are not as strict. In Norway there are 164 000 private limited companies. In 2005, Norwegian public limited companies averaged EUR 136 million in sales, while private limited companies averaged EUR 2 million in sales (2009).

The quota regulation applies to what is elsewhere termed "the supervisory board". In contrast to countries in central Europe, Norway has a so-called one-tier system (Hagen 2010), which means that companies only have one board consisting of owners' representatives and employee-elected representatives. Norwegian companies do not have an executive board of managers; the company instead delegates the task of management to one person, a general manager (CEO). The board of directors appoints the general manager. The general manager is responsible for the day-to-day management of the company's activities. However, the board still has the final responsibility for the management of the company, and the general manager must follow the guidelines and orders issued by the board of directors. The board of directors ensures that the business activities are soundly organized. It must be informed of the company's financial position and is obliged to ensure that its activities, accounts and asset management are subject to adequate control.

When the Norwegian government introduced the quota rule, it was unique; no other country had implemented similar regulations. Since its introduction, a diffusion process seems to be taking place. All over Europe, the Norwegian corporate boards' quota rule has sparked debates about the persistent male dominance in economic decision-making and about the possibility and feasibility of adopting similar quota arrangements (e.g., The Economist, 13 March 2010). The Spanish government has committed itself to achieving board representation of least 40 percent for each gender by the year of 2015 (De Anca 2008). Iceland has recently followed suit and will require companies with more than 50 employees to have board representation of least 40 percent for each gender from 2013.[1] Similar policies are also either being implemented or intensely debated in many countries, including the Netherlands[2], France[3], Sweden, Belgium and Germany.

Formal competence of the new female directors

How do the new female board members differ from male board members and other female board members who have served on boards before the reform? It is not quite clear exactly when the reform started to work because it was put into force step by step. However, from 2006 the law was made mandatory for all new companies and the already established companies were given a transitional period of two years. Therefore we shall consider board members who have been at the board before 2006, i.e., more than three years, and board members with less than three years experience.

As Table 1 shows, the new female board members clearly have a higher level of education than the three other groups. Nearly twice as many of the new female board members have six or more years of education compared to male board members who entered the board after the reform. If we compare the new female board members with women who were on the board before the reform, we see that the newcomers also have a higher level of education. The Table also shows that women who were on the board before the reform also have more education than the male board members do, but the difference is not significant. In general, the study shows that female board members have higher education than men, a finding in line with studies of Hillman et al. (2002) and Singh et al. (2008). If we compare the

[1] http://www.nikk.no/?module=Articles;action=Article.publicShow;D=10542 (accessed Feb. 2011).
[2] In December 2009, the government of the Netherlands decided that all companies with more than 250 employees should have at least 30 percent women on their boards. If this goal is not reached by 2016, the company must prepare a plan to reach the goal. Whether this can be implemented is, however, not clear.
[3] http://www.toutpourlesfemmes.com/conseil/IMG/pdf/egalite-hommes-femmes.pdf (accessed Feb. 2011).

Table 1

Education level of board members (in %)

	Reform women	Pre-reform women	New men	Pre-reform men
Primary school/ lower secondary school/ vocational upper secondary school	4	5	9	10
General upper secondary school	4	5	3	4
Higher education, three years or less	13	23	17	19
Higher education, four or five years	40	41	52	42
Higher education, six years or more	40	27	19	23
Total	100	100	100	100
N	278	88	256	240

Notes: Question asked: What is your highest completed education? Reform women: 0–3 years on the board, pre-reform women: more than three years on the board, new men: 0–3 years on the board, pre-reform men: more than three years on the board. The difference between reform women and the other groups is significant at the 1 percent level for the category "Higher education, six years or more". The difference between pre-reform women and men is not significant for this category of education.

Source: Storvik (2010).

Norwegian directors' level of education with their English and French colleagues in the top 100 companies in each country (Maclean et al. 2006), we find that the Norwegians have higher education than the English and at least comparable education level to the French.

Among all groups, most directors report that their highest degree is in economics. The next most frequent education is in engineering and the natural sciences. This is also the main education for board directors in the top 100 companies in France and England, as Maclean et al. (2006) show. In our study, more men than women have a degree in engineering or in the natural sciences but the difference is not large. The third most common educational background is law for both the new women and all men. Somewhat more new women than men have this education, and the difference is significant. If we look at men and new women who are educated in the social, humanities or aesthetic disciplines there is no significant difference.

As we see in Table 2, there are clear tendencies in the educational background of board members. The new women have more education than the other groups do and their types of education are similar to that of the men. We do not know anything about the education of the men who left the board because of the reform. However, there is no reason to believe that the best-educated men or the men with the most relevant educations left to make room for the new female board members.

More of the reform women than of the men state that their main occupation is manager. It is not possible to distinguish between different management levels in the study, and it is likely that many women are at a lower management level than male board members are. There are very few female CEOs in Norwegian business enterprises (Heidenreich 2009) and according to Ahern and Dittmar (2009), the number of CEOs on the boards has gone down as a result of the reform. As Table 3 also shows, significantly more men than women report that their primary occupation is owner, part owner or partner. The fact that women are generally less often owners (Spilling 2002) might be what causes this difference. If we compare the new board women with the women who have been at the board before the reform, we find that more of the new

Table 2

Fields of education of board members (in %)

	Men	Reform women	Pre-reform women	All
Law	8	14	8	10
Economy	50	46	58	50
Other social sciences/humanities/aesthetic disciplines	5	6	11	6
Engineering or natural sciences	30	26	17	27
Else	8	8	5	8
Total	100	100	100	100
N	502	279	88	877

Notes: Question asked: What type of education do you have? In what discipline do you have your highest degree? Reform women with 0–3 years on the board, pre-reform women with more than three years on the board and men. The only difference between men and reform women significant at the 5 percent level is for the category "Law". For the category "Economics" there is a significant difference at the 5 percent level between reform women and pre-reform women. There are no other significant differences between these two groups of women.

Source: Storvik (2010).

Table 3

Main occupation of board members (in %)

	Men	Reform women	Pre-reform women	All
Board membership is my main occupation.	15	11	9	13
Owner/part owner/partner	39	20	27	32
Manager	43	53	62	48
Other employee	15	21	12	17
Other	6	5	4	5

Notes: Question asked: What is your main occupation? Multiple answers possible. Reform women 0–3 years on the board, pre-reform women with more than three years on the board and men. There are significant differences at the 1 percent level between men and reform women for the category "Owner, part owner, partner" and for the category "Manager". There is a significant difference at the 5 percent level between reform women and pre-reform women for the category "Other employee", otherwise there are no significant differences between these groups of women.

Source: Storvik (2010).

women choose the category "other employee" as their main occupation.

According to Huse (2007), ownership appears as a "qualification" for board membership. It might be arguable that ownership is a form of motivation rather than a qualification, and many owners want to be on the board. As shown above, significantly more men than women say that ownership is there main occupation (Table 3). In addition, many more men than women report that they or someone in their nearest family represents owner interests in the company where they are board members. While 35 percent of the men state this, only 11 percent of the women do so (table not shown). Ownership therefore appears to be a type of "qualification" that women lack. If we look at the number of shareholders who are elected board members and are also owners in the companies after the reform, we find that this applies to 25 percent of the directors. In a study carried out in 2003 before the quota reform, Econ (2003) found that this applied to 35 percent of all directors in this type of companies. This implies that the number of directors with ownership interests appears to have dropped after the reform.

Board members' own evaluation of the new women's competence

How do board members themselves think that the new women have influenced the boards work after the reform? As we shall see, the answers to this question also tell us about how board directors evaluate the new women's board competence. If the new female directors are noticeably better or less qualified, it is likely that this also should have an impact on board work. All board members were therefore asked if they had experienced changes in board performance after the reform.

As Table 4 shows, a clear majority, 48 percent, say that they have not experienced any noticeable change in the boards' work after the reform. In total, 16 percent have experienced a positive change and 6 percent have experienced a negative change. If we weigh the group that has experienced a positive change against the group that has experienced a negative change, we find that the positive experiences outweigh the negative ones. Based on the board members' own experiences, the reform has had overall a slightly positive effect on the board's work.

It is possible that companies in sectors with few female employees and few female managers have experienced the reform as more problematic than companies in other sectors. Few women in the sector might limit the pool of potential female board members. Both Hillman et al. (2007) and Grosvold (2009) show that a positive correlation exists between the number of women in the sector and the number of women board members in the sector. However the analysis shows no connection between reform expe-

Table 4

Changes in the board's work after the reform (in %)

	Men	Women	All
A positive change	12	20	16
No noticeable change	60	33	48
A negative change	11	1	6
The reform did not target us.	8	10	9
Other	2	3	2
Do not know	7	34	19
Total	100	100	100
N	500	366	872

Notes: Question asked: The quota reform has led to a considerable increase in the number of women on boards. Have you experienced changes in the board's work after the reform? The difference between the group who have experienced a positive change and the group who have experienced a negative change is significant at the level of 1 percent. The difference between men and women who have experienced a positive change is significant at the level of 1 percent.

Source: Storvik (2010).

Table 5

Improvements after the reform (in %)

	Men	Women	All
More pleasant atmosphere	39	26	32
The new female board members are particularly clever.	36	19	27
The new female board members have important board competence which previously was missing.	48	37	42
More weight is placed on knowledge and analysis.	16	37	27
More discussion takes place.	62	71	67
New perspectives have been introduced.	77	78	78
N	61	73	135

Notes: Question asked: How do you think the board's work has improved after the reform? Respondents: only those who think that board work has improved. Multiple answers possible. The difference between men and women is significant at the level of 5 percent for category two and four. Figures show the actual number of respondents who have chosen the alternatives.

Source: Storvik (2010).

rience and the number of female managers in the sector (table not shown). For nearly all sectors, we find a positive effect of the reform.

Board members who stated that they had experienced a positive change were asked what kind of positive change they had experienced (Table 5). Most mention the introduction of new perspectives and that more discussion takes place. Slightly fewer mention that the new female board members have important areas of competence the board previously lacked, and even fewer mention that board work has become more pleasant. The two most seldom mentioned alternatives are that the reform has increased the weight put on knowledge and analysis and that the new female board members are particularly clever. Clearly, the main positive effects of the reform are the introduction of new perspectives and that more discussion takes place.

Among the few board members who have experienced a negative change, nearly all say that the new female board members lack important areas of competence and insight (Table 6). Nearly no one says that more disagreement occurs or that less weight is placed on knowledge or analysis. Very few board members mention more discussions or more misunderstandings as a negative consequence. This shows that to a large extent board members agree about what the negative consequences of the reform are.

Viewpoints about the consequences of the quota reform can, of course, also stem from personal interests and ideological persuasions. It is possible that primarily the new women report these positive experiences, because they see that the reform is in their own personal interest. From Table 4 we see that more women than men say that the reform has had positive effects. Barely any of the women report that the work has become heavier after the reform. Among the men, nearly the same number have noticed positive changes as those who have noticed negative changes. This shows that mainly the women have experienced positive effects, while for the men the gains balance the losses.

With this perspective, it is also interesting to look at a group of respondents who appear especially qualified to have an opinion, namely the ones with four years or more of board service. These respondents have experienced the development from before the reform's implementation, when the number of women on the board was low, until spring 2009 when 40 percent of board members were female. If we first look at the group serving before the reform, we find that 20 percent have experienced a positive impact and 12 percent have experienced a negative impact.

Table 6

Troublesome developments after the reform (in %)

	Men	Women	All
New female board members lack important competence and insight	96	100	100
Less weight is put on knowledge and analysis	15	0	15
More disagreement	2	100	12
More misunderstandings	24	16	24
Too much discussion	30	3	33
N	52	6	58

Notes: Question asked: How do you think the board's work has become heavier after the reform? Respondents: only those who think that board work has improved. Multiple answers possible. The difference between men and women is significant at 1 percent level for category three and five. The percentage who replied that the board's work had worsened after the reform is not quite identical in Tables 1 and 4. The reason is that some respondents who were instructed to skip this question chose not to do so and instead replied. Figures indicate the actual number of respondents who have chosen the alternatives.

Source: Storvik (2010).

The analysis shows that not only women who became board members as a result of the reform are positive towards it. Amongst both men and women who served on boards before the reform we find that the number of positive experiences appears to outweigh the number of negative experiences.

So what does this tell us about the new female directors' competence? As we only asked respondents who had noticed a change in the boards' work after the reform to elaborate what these were means that only changes of a certain impact are reported. That most board members have not experienced any change in board work at all after the reform indicates that the new female directors appear to be at least approximately as competent as their predecessors. It is also interesting to note that almost exactly the same number of respondents report that the new female board members lack important competence and insight, as those number who say that the new women have important board competence previously lacking. Judged on the basis of the board members own experiences, we therefore conclude that the reform has not led to a noticeable decrease in the overall competence of the directors.

Discussion and conclusion

As stated, it was suggested prior to the reform that there were not enough willing and competent women so sit on the boards. Judged on the basis of formal qualification and the other directors' evaluation of the new women's competence, this is not the case. The new female board members appear to be and are perceived as being as competent as the other board members.

The survey indicated that in terms of formal qualifications the new women have, in general, the same types of education and occupations as the rest of the directors have. Furthermore, the new women clearly have a higher level of education. This might indicate that the competence on the boards has in fact increased as a result of the reform. However, it is likely that the new women are managers at lower levels that their male colleagues. As mentioned before, Ahern and Dittmar (2009) find that the number of CEOs at the boards has gone down as a result of the reform. Further we do not know if the new female directors work experiences are as relevant as the other directors. Our survey does not tell us what kind of management experience the new female directors have had or in what sector their work experience is from. Earlier research has shown that female managers more often than male managers are found in administrative management positions (Kanter 1977). In addition, Terjesen, Sealy and Singh (2009) reported that female directors are more often managers from less successful companies and tend to have had an earlier career in public or non-profit organisations (Singh, Terjesen and Vinnicombe 2008). To be on the safe side it is therefore best to conclude that the formal qualification of the new female board members indicate that they appear to be equally competent when compared with the other board members.

If we consider the board members' own experience about how the boards' work has developed after the reform this impression is strengthened. The large majority of directors say that they have not experienced any change in the board's work. Among the few who have noticed a change, more have noticed a positive rather than a negative development. The positive experience that most directors mention includes the introduction of new perspectives and increased discussion. On the negative side the most mentioned experience is that the new female board members lack important competence and insight. However, nearly the same number who report that the new women lack important competence say that the new female board members have important competence previously lacking on the board. On the basis of these findings it can be concluded that all in all the new women are perceived as being as competent as their predecessors.

In the 18 months prior to the quota law's going into force, more companies than usual changed their registration form from public limited companies to private limited companies. This might appear to be a reaction to the new law. As part of the research project, we conducted telephone interviews with CEOs or chairs for these companies (Heidenreich and Storvik 2010). The study showed that of the five hundred companies which existed before 2006, only 2 percent changed their registration form because they could not find competent women. All in all it is thus possible to conclude that nearly all companies had no problems finding qualified women.

The opposition against the quota proposition that characterised Norwegian political and public debate for close to ten years has now more or less vanished. One important reason for this is probably that it has proved possible to recruit a sufficient number of com-

petent women. Furthermore, nothing indicates that the quota policy has negatively affected the running and profitability of firms. In consequence, the opposition seems to have disappeared. The symbolic effect of the changes in the gender composition of company boards should not be underestimated. Even though only a small number of companies were targeted by the reform, they are the largest and most influential companies in the country. The board rooms which were previously occupied primarily by men are currently very close to having achieved gender balance. The long term consequences of the reform are, however, not yet visible.

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