4

Gender Diversity on Boards in Iceland: Pathway to Gender Quota Law Following a Financial Crisis

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Introduction

In spring 2010, in the wake of an unprecedented economic, social and political crisis, the Icelandic Parliament became the third in the world to pass a law on gender quotas for corporate boards. A three-year transition period followed, and on 1 September 2013, Iceland was amongst the first in the world to implement such a law (Terjesen and Sealy 2016). The Icelandic law (no. 13/2010) went a step further than the Norwegian "role model" by stating that 40% of each gender must be represented on corporate boards of directors in all state-owned enterprises (SEOs),

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publicly traded firms (PTFs) and all private limited companies (PLCs) with 50 or more employees. No other country has legalised such extensive requirements for firms. However, the law does not have punitive sanctions for non-compliance, a matter which has been debated in political and business circles since the passing of the legislation in 2010 (Viðskiptablaðið 2013, 2015a, b). The stated aim of the 13/2010 law was to "work towards a more equal ratio of women and men in influential positions in public, limited and private limited companies by increasing transparency and facilitating access to information" (Parliamentary Document no. 71/2009–2010). Additional arguments were made in favour of the legislation change, for example, reducing the inherent risk of board homogeneity in decision making (Ministry of Industry and Innovation 2013). The very extensive gender quota legislation in Iceland calls for the evaluation of the attainment of the legislative original purpose and also close monitoring and assessment of the process applied by the various firms, and the short-term and long-term consequences for directors, boards, firms and society.

The financial crisis, which began in 2008, has had long-lasting consequences. Companies in Iceland experienced strong turbulence when the national currency devalued more than 50%, creating hyperinflation of over 30% between 2008 and 2010 (Statistics Iceland 2016). With debts indexed to inflation, this meant that the equity of many companies was wiped out. Consequently, many of them were faced with enormous challenges which often led to the restructuring of the company boards. The experience of the financial crisis also created a major shift in thinking at a societal level, from the closed-door, mostly male boards to a new era of "open governance" which requires individuals to operate in a climate of transparency, trust, and improved decision making. Policy makers and the business elite were forced to consider more than ever "alternative ways" to govern business, even at the highest organisational echelon of the corporate board (Special Investigation Commission Report 2010; Bryant et al. 2014). A new governance mechanism that was considered at this time of difficulties was mandatory board gender quota, which had first been established in Norway. In 2008, less than 15% of board members of Icelandic companies with 50 or more employees were female (Statistics Iceland 2008). Furthermore, the share of female directors declined in the years immediately prior to the 2008 financial crisis (Statistics Iceland 2008), despite efforts by agents such as the Icelandic Chamber of Commerce, the Iceland Stock Exchange and the service organisation of Icelandic businesses—Business Iceland who actively promoted greater gender equality on corporate boards using conferences and meetings as platforms (Jonsdottir 2008). The discussion about the scarcity of women on corporate boards had started in 2004 (Jonsdottir 2008) but really began to accelerate after the 2008 crisis, where lack of diversity and, in particular, the lack of female representation on corporate boards was partially blamed for how severe the crisis became (Morgunblaðið 2009a, b; Special Investigation Commission Report 2010). The consequence of this was a strong legislative change across Icelandic SEOs, PTFs and PLCs, thereby initiating a considerable change in boards' composition, leading to active reflection and discussion about gender equality and board diversity (KPMG 2014; Gunnlaugsdottir 2015). There were also extensive searches and a restructuring of the selection processes for new female board members in many Icelandic companies (Arnardottir et al. 2015).

The chapter is structured as follows: first a general background of Iceland is provided, with an emphasis on history, culture, gender equality standing, and the general political and economic system in the country. Then Iceland's national public policy is discussed, describing the current corporate governance structure and governance code. The following section focuses on enabling and hindering forces for gender quota legislation in Iceland followed by reflections from three active Icelandic board members. The last section closes with critical reflection on the Icelandic case.

General Background

Iceland is a small European country with 320,000 inhabitants who all live on a 103,000 square kilometre island in the North Atlantic Ocean, making it the most sparsely populated country in Europe. Two-thirds of the population lives in the southwest of the country, in the capital Reykjavik and surrounding areas. In order to gain some insight into the Icelandic specificities, it is important to give a short account of the history of the nation, which, along with the nation's culture, has affected the attitudes and behaviours of its people.

Iceland was first settled by people of Scandinavian and Celtic decent in the ninth century. These were Vikings who had embarked on a westward expansion. In the year 930 the nationwide legislative and judicial assembly, Althing, was established to regulate the Icelandic Commonwealth, thereby effectively making Iceland one of the oldest democracies in the world. In the thirteenth century, Iceland came under the rule of Norway and subsequently Denmark, and it remained under Danish rule until declaring independence and becoming a republic on 17 June 1944. Up until the twentieth century, Iceland relied largely on subsistence fishing and agriculture, and remained among the poorest nations in Europe. The industrialisation of the fisheries and Marshall Plan aid following the Second World War brought prosperity to the country, meaning that today Iceland is one of the world's wealthiest and most developed nations. Iceland has a market economy with relatively low taxes compared to other OECD counties (OECD 2017), and the country maintains a Nordic social welfare system providing universal health care and tertiary education for its citizens. In 1994 the country became a part of the European Economic Area, leading to the further diversification of the economy into sectors such as manufacturing, finance and biotechnology. International economic relations increased further after 2001, when Iceland's newly deregulated banks began to aggressively branch out into international investment banking and financial services, contributing to a 32% increase in Iceland's gross national income between 2002 and 2007 (Jackson 2008; Statistics Iceland 2008). Therefore, Iceland was hit hard by the beginning of the financial crisis in late 2008, with the failure of the banking system and subsequent economic crisis.

Culture

Icelandic culture is founded upon the nation's Scandinavian heritage, but can simplistically be defined today as a hybrid of Scandinavian culture and US culture, in terms both of Hofstede's cultural dimensions (Hofstede 2017) and also visible cultural artifacts. Similar to other Nordic countries, Iceland's *power distance index* (PDI) score is very low, meaning that Icelanders do not expect or accept that power in the society is distributed unequally, and that people are expected to make their own decisions and to take responsibility for their actions. The *individualism index* (IDV) score is high and similar to the other Nordic nations, which means that there is a high importance placed on immediate family and closest friends over the rest of personal relations. Thirdly, the *masculinity index* (MAS) is very low in Iceland, which translates into greater equality between genders, both in terms of respect and position in society, and with dominant values in society for caring for others and quality of life. In the last three dimensions of the Hofstede cultural dimensions model, the Icelandic index scores are closer to the USA scores than the Scandinavian scores. The nation's *uncertainty avoidance index* (UAI) is on the low side (also similar to Norwegian and Finish numbers), which can be interpreted to mean that Icelanders are willing to take risks in their decisions and actions. It further indicates, that the icelandic culture is fairly pragmatic. Focus is on planning, but those plans can be altered on short notice and improvisations made. In addition to the nation's high tolerance and acceptance for new ideas and willingness to try something different and new, the *long-term orientation* (LTO) score in Iceland is low, making it a normative culture where there is respect for traditions, a relatively small propensity to save for the future, and a focus on achieving quick results. Finally, on the sixth and final dimension, the *indulgence index* (IND), Iceland scores as indulgent, thereby indicating lesser control of desires and impulses, with a tendency towards optimism and focus on enjoying life and having fun.

Gender Equality in Historic Perspective

By international standards Iceland ranks highly in terms of development, gender equality and equal opportunity, as is evident by various international indexes. The United Nations Human Development Index (Human Development Report 2015) that takes into account variables such as health and life expectancy, security, economic status, education, and gender equality, rates Iceland at the top. According to the Economist Intelligence Index of 2011, Iceland has the second-highest quality of life in the world, and the country has one of the lowest rates of income inequality in the world.

For seven consecutive years, Iceland has had the highest global index ranking, out of 145 nations, on the Global Gender Gap Index by the World Economic Forum (2015), with a steady increase on its overall score, thereby putting Iceland at the tip of the Nordic forerunners on gender equality, with Norway (2nd), Finland (3rd), Sweden (4th) and Denmark (14th). According to the Global Gender Gap Index (World Economic Forum 2015). Iceland is first on *political empowerment*, where 41% of parliamentarians are women and 44% of ministers are women, and with the country's first female prime minister coming into power in 2009. This current position has been supported by various steps in the country's gender equality history (see Table 4.1). These steps include Icelandic women gaining national suffrage in 1915, in 1980 making Vigdís Finnbogadottir the first nationally elected female president in the world, and in 1983 having the first political party in the world formed, led and run entirely by women (i.e., the Women's Alliance).

The Global Gender Gap Index ranks Iceland first in terms of *educational attainment* with a rating of a fully closed education gender gap. The country has a high literacy rate and females are 64% of university graduates, but still the proportion of gender atypical fields of study (e.g., horizontal segregation) remains a challenge (Eurostat Education and Training 2012). Iceland has ranked fifth on *economic participation and opportunity,* with a high female employment rate, which was 78% in 2013, considerably above the EU-27 average of 59%, a low unemployment rate, and relatively low unexplained gender wage difference. This strong standing is highly attributable to the country's strong family policies, equal rights regarding maternity and paternity leave, and strong daycare services. Iceland's lowest score, 105th place on the Global Gender Gap Index, is on *health and survival* due to its poor performance on the Healthy life expectancy indicator.

Despite the country's strong gender equality standing, the female presence in the business arena up until the gender quota legislation of 2010, tells a surprisingly different story that will be examined later in this chapter.

Table 4.1 Some of the stepping stones for gender equality in Iceland

1850	Equal inheritance rights for men and women
1882	Widows and single women gain local suffrage
1886	Girls can enter secondary school
1900	Married women gain the right to control their income and personal property
1907	Icelandic Women's Rights Association founded
1908	Women gain local suffrage and the right to hold local office
1908	The first women's list participates in local elections in Reykjavik
1911	Women get equal rights to grants, study and civil service
1914	First women workers' association founded
1915	Women over the age of 40 gain national suffrage and the right to hold office
1920	All women gain national suffrage and the right to hold office
1921	New marital law guarantees equality for spouses
1922	The first woman elected to the Icelandic Parliament, from a women's list
1926	The first Icelandic woman defends a doctoral thesis
1957	The first female mayor in an Icelandic municipality
1961	The Equal Pay Act
1970	First female Cabinet Minister
1975	Women nationwide take a day off work to emphasise the importance of their work
1976	The first Gender Equality Act and the Gender Equality Council is founded
1980	Vigdís Finnbogadottir, first nationally elected female president in the world
1982	The Women's Alliance, runs for the first time in local elections
1983	The Women's Alliance runs in parliamentary elections for the first time
1995	Equal rights of women and men stated in the constitution
1997	Fathers get an independent right to two weeks' paid parental leave
2003	Fathers get an independent right to three months of paid parental leave
2005	One-third of all Icelandic women participate in protesting unequal pay
2009	The first female prime minister is elected in Iceland
2009	The first government with equal number of men and women
2009	Women occupy 40%, 60%, and 100% of board seats of three largest banks in Iceland
2010	Gender quota legislation act 13/2010, taking effect on 1/9/2013

Table built on the Ministry of Welfare source (see https://eng.velferdarraduneyti.is/departments/gender-equality/)

Political and Economic System

In 2011, Iceland was ranked second in the strength of its democratic institutions (Economist Intelligence Index 2011) and 13th in government transparency (Transparency International 2013). The prime minister and government exercise most executive functions in political life in Iceland. Following general elections to parliament, the government is appointed formally by the president. Nonetheless, this process is, in practice, carried out by the political leaders themselves following general elections. They decide among themselves, after discussions, which parties can form the government and how its seats are to be distributed, but with the prerequisite that the parties have majority support in parliament. In recent times Iceland's governments have always been coalitions with two or more parties, where no single party has received a majority of seats in the parliament.

At the beginning of the 2000s there was a merger of most of the left political parties to form the Social Democratic Alliance. Some members chose to join another new left party, the Left-Green Movement. After the defeat of a right-wing government in the 2007 elections, a coalition of the Independent Party with the Social Democrats was formed. This administration fell apart following the financial crisis in late 2008. In the resulting election, for the first time Icelanders voted for a majority left-wing government. This government was instrumental in passing the law on gender quota in 2010.

Discussion of National Public Policy Regarding Women on Boards

Governance Structure According to Company Law

The most common and economically important type of company structure in Iceland is the limited liability company. Other structures are partnerships, cooperative societies, businesses run by the self-employed and branches of foreign limited companies. Iceland adopted the EU directive no. 21 57–2001 on Societas Europaea (SE) with Act No. 26/2004 on European Companies (SE). There are two types of limited liability companies, public and private, and they are regulated by two separate acts. These acts are in line with the requirements of the company law provisions of the EEA agreement.

The rules for private limited companies are simpler than those for the listed ones. Minimum requirements are: to have one founder, one shareholder, and one director (with one deputy) in cases where there are four or fewer shareholders. There is no obligation by law to have a managing director. Upon their establishment, private limited companies must state whether they have one or more shareholders. In one-party private limited companies, meetings of the board of directors and shareholders are not obligatory. The Minister of Economic Affairs can grant an exemption from the otherwise general principle that the majority of the board of directors and the general manager of a limited liability company must be living either in Iceland or in a country within the European Economic Area or OECD.

A public limited company must have a board of directors consisting of at least three persons, and must appoint at least one managing director. The managing director(s) and at least half of the members of the board must reside in Iceland or be residents and citizens of any other EEA or OECD country. The general rule is that a private limited company shall have three persons on its board of directors. If the company has four or fewer shareholders, either one or two persons may serve as members of the board. One or more managing directors may be appointed by the board, and if there is only one person on the board of directors he may also serve as managing director. For companies listed at the stock exchange, at least five board members are required.

In general, companies in Iceland have a two-tier board system. The first tier is a supervisory board, which has to comply with the quota law, and is composed of non-executive directors and the second tier, an executive board, composed of the chief executive and other executive directors of the company (Corporate Governance Guidelines 5th edition 2015). The supervisory board consists only of independent (non-executive) directors and varies in size, with five directors as the most common size. Supervisory boards hold the legal responsibility towards shareholders according to Icelandic corporate law.[1]

The following is demanded by law to be included in the report or endorsements given by the board of directors of a company:

- Every important issue that might affect the financial position of the company and is not included in the income statement, balance sheet or accompanying notes.
- Proposed appropriation of the result for the year, if this is not disclosed in the accounts themselves.
- If the company is registered on the Icelandic stock exchange and has issued a business plan for the year, the operating result should be compared to that plan and major variances explained.
- The number of shareholders at the beginning and the end of the year, and names of single holders of 10% or more of the shares. Numbers of partners or associates should also be stated if the entity is not a corporation.
- Important post-balance sheet events.
- Financial prospects for the future.
- Research and development activities.
- Branches in other countries.
- Extensive information on the conduct of business in a company.[2]

According to the Icelandic regulations, the board of directors must ensure that the company maintains proper accounting records and that the annual accounts give an adequate representation of the assets and liabilities, financial position, profit or loss for the accounting period, and application of funds. In the obligatory report prefacing the financial statements, the auditor must state whether, in his or her opinion, this obligation has been fulfilled. The auditor's report must contain an opinion as to whether the financial statements provide a true and fair view of the company's affairs and results, and whether the statements have been prepared properly—that is, in accordance with the law and the company's articles of association. It is mandatory that the report by the board of directors is consistent with the financial statements and, unless specifically stating otherwise, the auditor's report must implicitly confirm that the directors' report contains the legally mandatory information and is consistent with the accounts.

Corporate Governance Codes

From the year 2004, the Icelandic Chamber of Commerce, Business Iceland and Icelandic Stock Exchange (e.g., NASDAQ Iceland) have cooperated in publishing the Icelandic Guidelines on Corporate Governance, often with wide support from a number of people, companies, organisations and the Financial Supervisory Authority. From the publication of the first guidelines, the code has been reviewed regularly, with the most recent version coming out in June 2015. The Corporate Governance Code is a compilation of general guidelines for responsible governance, and aims at "setting forth recommendations over and above those laid down in the relevant legislation" (Corporate Governance Guidelines 5th edition 2015, p. 8), and it aims to influence and regulate the corporate governance of firms in the following major areas:

- the process of Shareholder meetings and Annual General Meetings (AGM);
- clarifying the role and responsibilities of the board chair, directors, and CEO:
  - risk management and internal controls;
  - performance assessment of CEO, management, and board functioning;
  - remuneration policy;
- role of the board sub-committees, audit and remuneration committees;
- role and process of nomination committee in director selection.

The Guidelines on Corporate Governance are specifically targeted at public-interest entities—that is, pension funds, financial institutions, insurance companies and companies with securities listed on a regulated market in accordance with Act no. 79/2008 on Auditors and Act no. 80/2008 on Annual Accounts. All of which must follow recognised Guidelines on Corporate Governance according to article 19(2) of Act No. 161/2002 on Financial Undertakings and Article 6(3) of the Insurance Act No. 56/2010. However, the Guidelines stress that the code can be of benefit for all companies, regardless of their size and activities, and further stress that it would be desirable for state-owned enterprises to adhere to the Guidelines on Corporate Governance in their operations.

The Icelandic Guidelines on Corporate Governance are based on a “comply or explain” principle, allowing company boards to define to what extent various guidelines will be followed. The guide further insists on boards’ responsibility to give detailed explanations for all deviations from the guidelines in the company’s yearly corporate governance statement, where the focus should be on what deviations were made (the way), the arguments made for deviation (the why), how decisions about deviation were made, what measures were taken to offset deviations, and how the guidelines will later be met. The corporate governance statement should be published and made available on the firm’s website.

Gender Diversity and Director Selection in Icelandic Corporate Governance Codes

The development of the corporate governance guidelines shows clear signs of increased domestic awareness of the importance of good corporate governance and the impact governance has on firm performance and trust towards it. When comparing the content and depth of the guidelines across the five editions, both the legal emphasis and the dominant discussions of each time period become apparent. The importance of director independence, gender diversity, and director selection practices through a nomination committee first appear in the third edition from the year 2009, in addition to critical board self-assessment and having code of ethics and CSR (see Table 4.2). In the opening statement of the third edition, the need for improved corporate governance in the wake of the financial crisis becomes quite apparent:

> The setbacks suffered over recent months have raised many questions concerning the infrastructure of Iceland’s business sector, its focus and responsibilities. There have been calls for a revised approach involving a new set of values. This demand is both reasonable and necessary. Distrust towards companies and the business sector bears witness to many things

Table 4.2 Gender diversity and director selection in Icelandic Corporate Governance Codes

Edition	Publication year	Length of code (pages)	Independence of directors	Gender diversity	Nomination committee	Ethics & CSR	Board self-assessment
1st	2004	10	No	No	No	No	No
2nd	2005	28	No	No	No	No	No
3rd	2009	43	Yes	Yes	Yes	Yes	Yes
4th	2012	35	Yes	Yes	Yes	Yes	Yes
5th	2015	42	Yes	Yes	Yes	Yes	Yes

> that might have been done differently, and it is evident that action must be taken to reclaim lost goodwill and to build credibility in the business sector. (Corporate Governance Guidelines 3rd edition 2009 p. 7)

Therefore, in the third edition, firms and organisations are for the first time urged to use nomination committees that, among other things, "address the gender ratios on the company's board" (Corporate Governance Code 2009). No further arguments are made in the code for gender diversity per se, but the code stresses that "directors must be diverse and have a wide range of capabilities, experience and knowledge" (Corporate Governance Guidelines 2009). Later code versions, particularly the fourth and fifth, remark further on the improved response and adherence to Corporate Governance Codes by the Icelandic business world after 2008, for example through actively "seeking to diversify their boards, e.g. by advertising for new members" (Corporate Governance Guidelines 2012) and a more detailed account of required knowledge, skills, and abilities for potential directors (Corporate Governance Code 2015).

Enabling and Hindering Forces for Gender Quota in Iceland

A parliamentary interest in the small share of women on both boards and in managerial positions within Icelandic firms started around the millennium. In 2003, the business sections of the local media started to draw attention to the lack of female representation in management and on corporate boards (Morgunblaðið 2003, 2004, 2005). Figures such as the 5% female participation on the corporate boards of listed companies were in stark contrast to the levels of female representation in other areas of Icelandic life. The Icelandic Statistical Bureau reported in 2004 that the percentage of women heading business' with 50 employees or more was around 6.5%, and a similar percentage of females were chairing boards of that size (Jonsdottir 2008). The issue gained momentum, mostly led by the women's activist movements, such as the Icelandic Association of Women Entrepreneurs, who raised awareness through, among other things, lectures, seminars, and media discussion (Jonsdottir 2008).

The former Minister of Industry and Commerce, who was in office from 2003 to 2006, paid active attention to the representation of women on boards (a committee named the "Opportunity Committee") was established by the Ministry of Industry and Commerce with the aim of promoting the possible benefits of increased diversity and gender balance within Icelandic business life. The committee published a report in 2005 (Ministry of Industry and Commerce 2005) claiming that women had too little presence in boards of corporations, with less than 10% female representation (see Fig. 4.1), the lowest number of any Nordic country. The report openly rejected the gender quota route but suggested several soft measures as possible correction tools, including: to encourage open discussion on the issue; to publish regularly statistics on the level of women on boards and in senior management positions; to encourage males in high-level positions to engage in the support of female board participation and extend their network of selecting board members; and to train women to become effective board members (Ministry of Industry and Commerce 2005). All of those suggestions were later implemented, for example, through several published and discussed reports (Rannsóknasetur vinnuréttar og jafnréttismála 2006, 2007) on the level of women on boards by the Center for Employment and Gender Equality Research at Bifröst University, but with limited effect (see Fig. 4.1).

In the same year, 2005, the Ministry wrote a letter to Iceland's 100 largest companies encouraging them to make an effort to increase the number of women on corporate boards. This act did not result in a marked response by businesses, according to the Ministry, and a follow-up message was that the Ministry would potentially have to react more drastically (Ministry of Welfare 2014). Though no official objections arose in the wake of those actions, the general view of those in charge of the Icelandic organisations seems to have been that selection to these corporate seats and the selection practices applied were built on merit, and women would naturally progress to those positions once gaining the necessary human and social capital (Ministry of Welfare 2014; Viðskiptablaðið 2014).

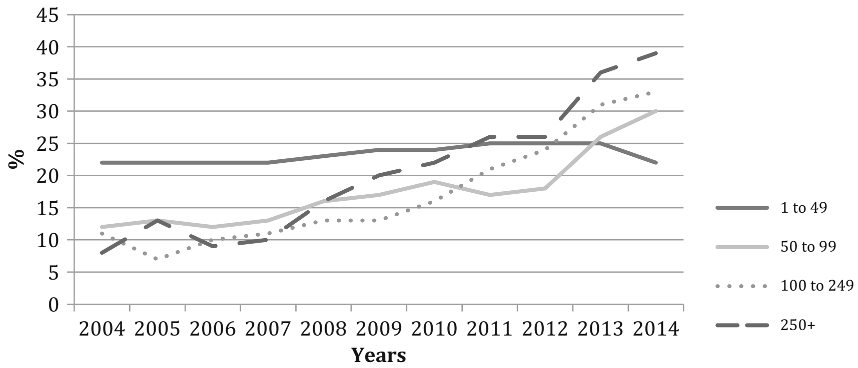

Fig. 4.1 Women's share of director seats of Icelandic enterprises 2004–2014 period, by number of employees

The official policy was a soft measure towards balancing the gender ratio within boards of corporations. It soon became obvious, however, that those type of measures would not go far. Hence in 2006 an addition was made to the law on public PLCs: "In an election to a board of a public firm it shall be secured that the gender balance is kept at equilibrium" (Act 90/2006). The Gender Equality Council concluded in 2006 on the law change that it was unnecessary where the law already considered a balanced ratio between the genders sitting on a public board to be the norm. Furthermore, that some type of gender quota legislation would lead to negative press discussion; hence work against gender equality (Jafnréttisráð 2006). The Gender Equality Council further quoted a previous argument made in the "Opportunity Committee" report from 2005, which stated "…women who already would have secured their positions as board members would be at risk of negative media discussion for being there due to gender but not merit" (Jafnréttisráð 2006). The Center for Gender Equality concluded that a gender quota would always be a measure of last resort (Jafnréttisstofa 2006).

The 2008 financial crisis was a turning point for the reaction toward the low participation rate of women on corporate boards. Reports showed that the share of female directors had slightly declined from the 13% mark in 2005 for larger companies (see Fig. 4.1) in the years immediately prior to the 2008 financial crisis despite vast efforts (Rannsóknarsetur vinnuréttar og jafnréttismála 2007; Creditinfo Island 2009). Homogeneity not only at the board level, but also at the managerial levels of both public and private firms, was partially blamed for the severity of the crisis in Iceland (Special Investigation Commission Report 2010). The thought was that closed and tight networks between a handfuls of males had created a male-dominated risk-taking culture, with strong nepotism between them, which would not have been the case if women had taken a more active role in business life (Special Investigation Commission Report 2010). The urgency of gaining gender balance on boards and in business life had shifted, paving the way for more hard measures to reach gender diversity.

One of the initiatives taken after the 2008 crisis was a four-year cooperation agreement between the Iceland Chamber of Commerce, the Employers' Association and the Association of Women Business Leaders in Iceland (FKA) in cooperation with representatives of all Icelandic political parties where they would cooperate in openly stressing the importance of greater gender balance with the mission of generating greater awareness and willingness among the Icelandic business world (Félag kvenna í atvinnurekstri et al. 2009).

Another initiative was the creation of a central database of women who wanted to participate as board members, including their names, education and experience. Such databases are well known from elsewhere, amongst others an international database promoted by the European Commission, the Global Board Ready Women database (European Commission 2012). However, the measures taken in Iceland did lead to little changes in women's participation at the board level (see Fig. 4.1). After a left-wing government came into power in 2009, the possible gender quota law was discussed, debated and finally passed in June 2010 (Ministry of Welfare 2013). Initial discussion within parliament focused on how strongly worded the law had to be in order to secure a closure of the gender gap. Some members of parliament's right-wing opposition promoted that a firm suggestion from the legislator to the business community on the need to close the gender gap at the board level should be sufficient. This was debated, but in the end the Norwegian route was taken with 40/60% gender balance at the board level. A discussion had also centered on how extensive the legislation should be in terms of the types and size of firms covered by the law. The Norwegian experience was considered, where only state-owned enterprises and publicly traded ones had to apply the legislation, but not private limited companies, which some argued created an “escape route”. Hence in Iceland all PLCs had to apply the law, as did all those employing 50 or more employees. In total, this meant that 352 firms had to apply the law, 129 limited companies, five public limited companies and 218 PLCs.

In 2014, shortly after the execution of the law on 1 September 2013, a new Minister of Trade, from the right-wing Independent Party, one of two parties ruling in the parliament at that time, came into power and proposed to annul the gender quota law with the argument that women would not embrace this type of entry into the boardroom (Viðskiptablaðið 2014). This suggestion was met with extensive objections as at this point in time the majority of the business community and leading business actors had turned in favor of the mandatory gender quota and protested any changes to the law, urging for following the set path and judging the outcome (Viðskiptabladid 2014).

Since 2014, no serious discussion against the gender quota has officially taken place in society, and studies indicate a growing positive view towards the gender quota, particularly among women directors and older established male directors (Arnardottir et al. 2015), though the issues of setting a time limit to the legislation has been aired in the media by a few business people (Viðskiptablaðið 2014, 2015a, b).

Reflections of Actors

This section presents the content of interviews conducted with three actors who all have first-hand experience as board members during the implementation phase of the gender quota law in Iceland. They were asked to reflect on their experience of the change process and its initial effects. Following is their account, often in the style of quotations in order to reveal as thoroughly as possible their experiences.

The first actor is a senior female, general manager with more than thirty years of board experience. She has been a member of more than twenty boards and is currently sitting on several boards.

As it seems to have been the case with many experienced females in business, her view towards gender quotas was initially negative, seeing the legislation as unnecessary and troublesome for women directors. She claims; "*I felt that women should be promoted on their own merits, but not through quotas. I felt that no one wants to be promoted to any position of responsibility and status without having worked him or herself towards that goal on their own merits.*" As was the case with so many others, both females and males, after having taken a careful look at the low percentage number of female directors and how hard the path had proved to be, she changed her opinion. "*After having really reflected on how women have succeeded in attaining board seats, I then changed my opinion towards gender quotas. I have been in a managerial position for various corporations for decades and during this time I have experienced how difficult it has been for capable women to get promoted to the very highest positions, becoming CEOs and members of corporate boards*" further stating that "*Even though powerful agencies such as the Chamber of Commerce, the Federation of Employers and others have pushed for the greater participation of women on boards, nothing really changed until the gender quota law was passed. Then, of course, corporations had to apply and accept women into their boards.*"

Nonetheless, according to the first actor the gender quota legislation experience has not been wholly successful in gaining the intended effect of increased diversity "*There is not much diversity amongst women who have entered the boards following the gender quota law. This is my personal view. They are very much of the same character and have similar experiences. Hence we are not receiving the diversity within boards as could have been the case. And even worse, I see the tendency that the same women are sitting on many boards, which is something we have criticised the males for in the past.*" The actor criticises women on boards for being few and identical in character, but she also raised the point that during a transition such as this, women have to be careful regarding their reactions *"My final point has to do with how women behave and feel when acting as board members. In my opinion women are different from males, and that is just fine as a diversity variable on the board. Women often carry along different types of experience when they* *enter the boardroom, also in terms of values. But women are much too emotional and serious towards debates and criticism that regularly happen within boards. Women have to learn to let go of their emotions and not take issues personally. I see a big threat here. I have already witnessed sub-groups of genders being created within boards because of these women vs. male behaviours.*"

The second actor is a senior male. He is a CEO and board chair, has more than thirty years of board experience and is currently sitting on several boards.

The actor claims that following the implementation of the gender quota law in 2013 shareholders and other stakeholders of boards became truly obsessed with the gender issue. He mentions that this has become most obvious within the Icelandic pension funds, which own a large share of the listed companies on the stock exchange. They, as large shareowners, have the right to nominate board members and the actor critiques the lack of sophistication when assessing diversity: "*The gender seems to be the only diversity variable they think of, especially the employees' arm of the pension funds. The pension funds' initial strategy was not to get involved in the selection process of board members, but they surely have walked away from that strategy and are now very impulsive in getting in their candidate. Unfortunately it seems to be always the same female individuals, who they get into their boards.*" Furthermore "*… there is a lot of diversity talk regarding the gender quota but there isn't really any diversity in Icelandic boards as a result of the gender quota. Females who have succeeded in business behave just like the males they criticise. They create their own tight network and truly take care by not accepting other females into it. These are female cults. Just like the males have.*" The actor further complains that the females who have joined boards after the gender legislation have similar levels of education, most often a business background, and similar levels of age and experience as their male counterparts. "*They also think and behave as the male board members. There is not much diversity here.*"

The actor claims that the gender quota law is a flawed solution and that other paths could prove more fruitful: "*I believe the solution has to do with exploring and understanding behavior. We need people into the boards who think differently, who would behave differently in different circumstances. In both academic discussion and in practice this has all been approached too* *narrowly."* Then the actor continues by addressing the important issue of the selection process of board members and especially the criteria used when applying the selection process: *"The discussion should take place and focus on how to select board members based on behavioral issues. The discussion must be much more open and broader than it currently is."* Related to this is the matter of addressing or analysing the current board composition and what might be lacking in terms of fit between that and the firm's future strategy. *"There is no or little analysis on the board as a group or as a team. This is just my experience, having been a board member of dozens of boards. The selection is not based upon understanding what composition of a board is needed in order to push a firm's strategy. The link there has been broken. Without analysis of what combination of a team best supports strategy, the most effective board will not be put together.*"

The third actor is a middle-aged female, who is currently a professional board member with substantial managerial experience.

The actor focused on her experience of the selection process in the wake of the gender quota legislation, and she describes a case in which the firm needed to change the board composition following the gender quota in 2013. There was a need to find a female to join the board and an informal nomination committee was created for that purpose. The criterion for selection was then created based on the firm's strategy. Hence gender became just one of the variables taken into consideration. Important other variables included strong international experience from a non-Icelandic person with a solid technical background and experience from the firm's industry. The search was carried out by using the board members' own network. Members of the informal nomination committee were from the board; the chair, the vice-chair and one common board member. They identified a foreign female candidate, with extensive managerial experience from the industry and with the technical foundation being searched for. This person accepted to stand for election to the board of directors. Then the actor presents: "*On the other hand, it was very surprising to get criticism for focusing on getting a foreign female candidate. There were people who thought that the candidate should be Icelandic, where it is the gender gap in Iceland which the law is trying to correct. Politics and private interests are truly influencing the gender quota discussion and decision making in Iceland."*

Another issue which seems to be getting more attention in the Icelandic setting, according to the third actor, is how shareholders should be involved in the nomination process. "*How should a nomination committee react if one believes that the shareholders are not considering the strategy of the firm? Unfortunately shareholders are not always thinking what is in the best interest of the firm.*"

Critical Reflection on the Case: Takeaways

In Iceland, a country with a long and strong emphasis on gender equality, the discussion about the importance of gender diversity on corporate boards and in the management of organisations had been extensively emphasised by various actors for over a decade. Despite the various soft measures that had been taken to promote gender diversity and gain better gender balance on corporate boards, the percentage of female directors still moved at a glacial pace. It took a strong economic shock that called into question the pre-existing values, knowledge, behaviour, processes and practices to get the hard route of gender quota legislation seriously discussed, debated, and finally passed in the Icelandic Parliament. The legislation was debated with the same arguments seen used by various actors around the world, but with the addition of very strong arguments for the urgency of change and need for "the female voice and reason" in business in order to prevent a reoccurrence of economic recession.

The gender quota came into effect on 1 September 2013, and since that time several actors, such as the Ministry of Welfare, the Center for Gender Equality, the stock exchange, Statistics Iceland, academics, media, and business institutions such as the Icelandic Chamber of Commerce and Business Iceland, have paid attention to the firm adherence to the 40% gender rule. One focus point has been to evaluate the political initiative as judged against the attainment of its original purpose. The stated objective of the legislation was to "*work towards a more equal portion of women and men in influential positions in limited and private limited companies*" (Parliamentary Document no. 71/2009–2010). Hence, judging simply from share numbers, as measured by the ratio of seats occupied by each gender on each board across years it becomes evident that female representation on the boards is now close to the 40% mark and hence the stated objective of the legislation has nearly been met. It is also evident that smaller private companies lag behind in implementing the quota (Statistics Iceland 2016), and may be thereby supporting arguments made by some actors that the 13/2010 legislation was over-extensive by including small private PLCs, in addition to state-owned enterprises (SEOs), and publicly traded firms (PTFs). Another debated point has been how extensive the influx of new female talent has been onto the boards—that is, whether board's seats are now occupied by a few females sitting on various boards or if an increase in gender balance is reached by an influx of new talent. The numbers seem to indicate the latter (Statistics Iceland 2016) though this point needs further research attention.

The various actors, who have been for or against the gender quota, have also been trying to pay attention to some of the processes and short-term and long-term consequences of the gender quota legislation on directors, boards, firms and society. The results now, in early 2017, three years after the implementation of the legislation, seem to point to changes on several fronts. For example, authors echo the previous words of Storvik and Teigen (2010) about the experience of Norwegian gender quota, in that the Icelandic experience of gender quota so far has revealed that mandatory regulation is a key to the successful increase of female representation around the board table and "*not only does it create the pressure needed for fundamental change but it also triggers a public debate at the core of which are questions of gender equality in wider society*" (p. 1). Further, in the authors' opinion this mandatory change has led to a sharper focus on the concept of diversity among the business community, where diversity is now more openly discussed, as well as its potential meaning and how it can best improve board effectiveness and firm performance. The authors further claim that, following the implementation of the gender quota, the director selection process during this period of drastic board composition changes where firms are simultaneously looking for female talent, has gained increased attention. Research has drawn closer attention to the often-unstructured and opaque methods historically used in director selection and clear trends toward a more transparent process can be detected (Arnardottir et al. 2015). Finally, a general shift in attitude of the existing board directors towards the need and benefits of gender quota has been detected from 2010 to 2014, with both female and male directors significantly more positive towards gender quota and discuss some effect on board dynamics (Arnardottir et al. 2015). But the long-term consequences of this hard measure remain to be seen, and hopefully will be closely monitored so that both Icelandic society and businesses, and the world as a whole, can learn from the pros and cons that the mandatory gender quota can have on directors, boards, firms and society.

Notes

1. The Major sources for this chapter are *Doing Business in Iceland*, published by Invest in Iceland and *Promote Iceland*, in collaboration with the Ministry of Industry, Energy and Tourism, and Corporate Governance Guidelines (4th edition) published by the Chamber of Commerce in Iceland.
2. This list comes from Doing Business in Iceland (2016).

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