

Chapter 10

Before and After: Effect of Gender Quota on Icelandic Landscape of the Boards of Directors



*If Anything can save the world, women can.
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Abstract Women and men do not participate in the national or global economy to the same extent. One of the critical factors in gender equality is access to the boards of directors in both private and public companies, as this is where the highest levels of power are concentrated. Sometimes the result of this historical tendency to exclude women is accompanied by an allusion to “smoke-filled rooms,” where important decisions are made by powerful people. However, with a release of a law to establish gender quotas in Icelandic boards of directors, both the smoke and the men-only corporate boards vanished away in the largest corporations.

Keywords Gender quota · Gender equality · Boards of directors · Iceland

10.1 The Bigger Picture

The contribution of women directors to corporate value creation has been widely studied (Vinnicombe et al. 2008; Torchia et al. 2011; Noland et al. 2016). Researchers have supported the importance of increasing diversity and bringing more women on boards, with some studies indicating that doing so might lead to increases in companies’ profitability (McKinsey and Company 2012). Scholars have particularly pointed out that for women to be seen as legitimate board members, they need to move from being the tokens to a critical mass (Kanter 1977; Torchia et al. 2011; Nekhili and Gatfaoui 2013). Many would agree that corporate governance and company performance are of tremendous importance for any company. The board of directors is critical to governance, as it forms crucial strategic, operational, and financial decisions. The key role of the board of directors is advancing the business strategy with the management team and setting the policy objects, and they are involved in planning and managing resources. In sum, the board of directors

undertakes responsibility for the main decision-making within the organization (Adams et al. 2010). Boards are also physical representations of organizations; they are the face of the company to the public and investors. Thus, women's presence on boards reflects "who the company is." The emphasis on the importance of women representation on boards of directors has been recurrent in academic research as well as among feminist activists (e.g., Vinnicombe et al. 2008; Terjesen et al. 2015; Wang and Kelan 2013; Noland et al. 2016). In practice, women worldwide have not succeeded in attaining equal representation compared to men on corporate boards of directors. In 2015, across 67 countries, women comprised only 10.3% of board directors (Terjesen et al. 2015). Thus, the pressure on policymakers and business leaders increased in response to changing attitudes about women inclusion and public pressure to address the often severe imbalances. As the diversity on corporate boards has been recognized with regard to economic performance, gender equality has gained attention among business leaders and scholars.

In Iceland, attention to corporate quotas has been growing over the past years. A major factor that stimulated this was when Norway passed legislation in 2003 that required at least 40% of public limited state-owned and inter-municipality companies' board memberships be women. The rationale for this quota-driven regulation was directly aimed to increase female leadership in the corporate field. Iceland followed this approach in 2010, establishing a similar target of 40% female representation to be reached by 2013 (Pande and Ford 2011).

This chapter discusses the quota system adoption in Iceland and the effects it has had on boards from the standpoint of female leaders. For this study, a focus group was conducted, involving eight women who have been serving on a number corporate boards both before and after the legal regulation was implemented. Three out of eight focus group participants have also served as the CEO's of large Icelandic companies.

10.2 The Impact of Gender Quotas in General

The use of corporate quotas has led to an increase in female representation among nations that have established such legislative mandates. Overall, there has been an increase in women serving on multiple boards in Norway. However, it has not necessarily been reflected in a proportional increase in the number of female leaders. In Norway, there has been some evidence of resistance or even dismissal of these quotas by companies that do not support the law. As a means to avoid compliance with the quota, some companies have chosen to become private instead of public limited firms, and some have even moved their registration to the United Kingdom (Pande and Ford 2011). According to Pande and Ford (2011), women who are experienced in board membership may be more often selected to serve on boards of multiple companies. However, it has not been proven that the more substantial

number of women on boards correlates with the more substantial number of females as top executives in these companies.

It is believed that membership heterogeneity increases the number of possible viewpoints and thus leads to better governance decisions (Vinnicombe et al. 2008; Nekhili and Gatfaoui 2013). Theories on diversity in company boards are based on the argument that women and men differ in their managerial approaches and skills. In the leadership literature, women are often characterized as exercising more democratic and transformational or inspirational style of leadership compared to men (Eagly and Carli 2003; Guðmundsdóttir 2017). Perhaps relatedly, women who are appointed to boards are more likely to be allocated to public affairs or corporate social responsibilities (Nekhili and Gatfaoui 2013). Primary findings illustrate that companies which have more women on boards might be driven by a different strategy before the quotas were applied (Pande and Ford 2011). For example, evidence on the impact of corporate board quotas has shown that in Scandinavian countries, corporate gender quotas led to a short-term loss of profits, primarily driven by increased investment in employees. Women seem to be willing to invest more in the wellness of employees, what can be reflected in greater spending on employee beneficial programs. Extant research also suggests that female directors enhance the decision-making process within the board, enhance the quality of monitoring, and hence strengthen the corporate governance control (Vinnicombe et al. 2008). However, more research is needed regarding the long-term effects of corporate gender quotas on the economic performance of companies (Vinnicombe et al. 2008).

When analyzing the criteria for the selection of women to corporate boards, educational credentials and work experience are prominent attributes. An international survey conducted in 2015 revealed that more than 80% of professional female leaders held a university degree and 38% held an advanced degree (Noland et al. 2016). Experience is also significant, and the literature finds that women's years of leadership experience directly correlates with improved organizational results (Pande and Ford 2011). The appointment process is often driven by candidates' personal acquaintances with the existing board members, and the personal support for a new candidate is often an important prerequisite to being appointed or recruited to serve on the board level. Hence, the social capital of the candidates is of crucial value. Serving on multiple boards is a frequent characteristic of directors (Nekhili and Gatfaoui 2013). Women board directors in Norway also seem to perceive themselves as having more influence, receiving more information, and being more engaged in social interaction since the quota law was implemented (Elstad and Ladegard 2012). It can be argued that those women that were selected on boards after the quota law benefited from their multi-board directorships and extensive network ties.

As one of the chapters in this book discusses, the World Economic Forum's Global Gender Gap Index, which aims to capture a society's willingness to allow women to participate in education, the labor force, and public life, directly addresses the local status of women. However, this index does not examine percentages of women on boards or in the executive ranks. When looking into factors that potentially impede appointment of women to leadership positions, particularly when they

are on par with men in other criteria such as education level and participation in the labor are similar, motherhood emerges as a prime factor in a majority of studies. In most societies women, to varying degrees, are more likely than men to take on dual roles and assume both career and family responsibilities; in many cases, this is an expectation for career-oriented women. In Iceland, even though childcare is provided by the municipalities for children of 1–2 years of age, research has shown that it is still primarily women who bridge the time between maternity leave and the child's eligibility for a kindergarten (Velferðarráðuneytið 2018). Even in societies that exhibit less of a cultural bias against women's participation in the technical and professional workforce, women by and large undertake a more significant share of childcare and household responsibilities. Women may need to reduce turn down their career ambitions or put their careers on hold in order to devote more time to family care; again, they are usually expected to do so. This is evident in both business and academic contexts (Rafnsdóttir et al. 2015; Rafnsdóttir and Heijstra 2013). Research has indicated that mandated maternity leave is not correlated with female corporate leadership, but on the other hand, paternity leaves are actively correlated with the female share on board seats (Noland et al. 2016). Thus, policies that place a disproportionate burden of childcare on women are the barrier to women's corporate advancement.

10.3 The Impact of Gender Quotas in Iceland

On 15 May 2009, in response to the underrepresentation of women in higher-level business positions, and especially on corporate boards, the Icelandic Association of Women Entrepreneurs (FKA), Iceland Chamber of Commerce (VÍ), and the Confederation of Icelandic Employers (SA) signed a collaboration agreement expressing the necessity of increasing the share of women in corporate governance of Icelandic companies. In March 2010, the Icelandic government followed the Norwegian example and approved amendments to the legislation on public limited firms and private limited firms. These amendments require companies in Iceland with over 50 employees on a yearly basis to have at least 40% of each gender represented on their corporate boards of directors from September 2013 onward. Following the path of Norway, Iceland was the second country in the world to put a law of this kind into effect (Lög nr. 13/2010).

The collapse of the Icelandic banking system in 2008 has led to an increased demand for more transparent and improved corporate governance. The increased awareness of good corporate governance seems to become a widespread tendency as more companies have been using instructions and manuals for corporate governance (Arnórsdóttir 2012). According to a new report created for the Ministry of Welfare in Iceland, there has not been a significant difference since the gender quota law was reinforced the representation of female board numbers only increased from 24% in 2014 to 26% in 2016 (Velferðarráðuneytið 2018). Size of the company is an important variable in this equation, as companies with fewer than 50 employees

have the lowest percentage of women on their board or 25.6%. In companies that have 50–99 employees, the figure is 27.2%, while in companies with 100–249 employees, it rises to 35.1%. Only in the largest companies, with 250 employees or more, has the proportion of women on boards reached the targeted 40% (Velferðarráðuneytið 2018). In 2016, 23.9% of board directors of the biggest companies were female in Iceland (Velferðarráðuneytið 2018). In the last 16 years, female CEOs had only increased by 6%, but in 2016, they represented 22.4% in the smallest companies yet only 13.1% of the largest ones. In the financial sector at the beginning of 2018, only 9 CEOs were female compared to 81 who were male (Velferðarráðuneytið 2018).

According to the study on “gender equality in business management” (Rafnsdóttir et al. 2015), a typical Icelandic male manager is 49.6 years old. He typically has an advanced university degree, often in business or economics. He is married, has three or more children on average, and works 51–60 h a week. A typical Icelandic female manager is 44.9 years old, also has a graduate degree in similar fields, is married, has two children on average, and works 41–50 h a week (Rafnsdóttir et al. 2015). This reflects the noted difference between women and men in light of family duties, as men leaders work more extended hours at their jobs, whereas women leaders devote hours to their homes. Just under 32% of women and 40% of men agree that women have less freedom to pursue their career because of the responsibilities they typically assume for their families and children. In a question concerning the work-life balance as an avenue to better gender balance in top management positions, notable gender differences are observed. The results indicate that 75% of women but only 57% of men believe that the distribution of parental leave is necessary, while 82% of women and only 59% of men believe an equal division of family duties between parents is important (Rafnsdóttir et al. 2015). This highlights that gender imbalance is not as simple as organizations not appointing women to top positions; it is also a simple function of expectations of homelife and spousal expectations/support. Before women can engage in career advancement, they might have to fight this battle in their own homes and with their own families.

Just over a half of women, or 53%, compared to 33% of men, think that recruitment of women into a management position is not a priority within the business sector. The equality principle assumes that men and women with equal competence should be equally represented in top positions across the business sectors. However, the largest gender imbalance is found among executive management ranks in Iceland. The gender discrepancy in middle management was slightly smaller, in 2014 (Rafnsdóttir et al. 2015). Such an imbalance evokes considerations about differences in employment procedures. When the question is raised whether recruitment for management positions relies too heavily on informal networks, 73% women and only 39% men agree with the statement. When asked whether the business sector is dominated by men with insufficient trust in women, just under a half, or 49% of women agree with the statement as compared to 25% of men.

In 2014, board members participating in the study on gender equality in business in Iceland were asked if they had noticed any changes in board operations after the

Table 10.1 Overview of the focus group participants

Name	Age	Number of boards	Education
Kristin	67	Over 10	Pharmacist
Emma	49	8	PhD in business
Viktoria	64	Over 10	Business degree
Hekla	50	5	Business degree
Eva	53	4	Business degree
Maria	46	6	Law
Freyja	49	Over 10	Economist
Julia	49	Over 10	Business degree

law on the quota. Many respondents were not in a position to answer that as they had not been serving before the enforcement of the law. Additionally, 16% of female and 17% of male respondents answered that the board they served on was not affected by the law. The majority of men, or 60%, but only 28% of women stated that no noteworthy change had occurred in the board’s operations following the law. More women than men claimed to have noticed improvements or 34% of female and 14% of male respondents. Hence, the study results suggest that women were the ones to perceive and experience the differences most.

10.4 Women on Corporate Boards: Different Issues on the Agenda

The focus group initiated for this study involved eight female participants, whose basic demographic and board participation data are presented in Table 10.1 (the names were changed to preserve confidentiality). The criteria for selection was that they had served for an extended time on corporate boards and had served on multiple boards as well as having the experience both before and after the gender quota law was issued.

Half of the women who participated have been serving as CEOs, and five of them dedicate most of their working time for the operations of the boards in which they are now involved. All participants have extensive top management experience, and some have been appointed on more boards after the law enforcement. The findings of the focus group have been organized into five categories: shifted board agenda, increased dynamic diversity, enhanced networking on boards, role models enacted by female board members, and a backlash pronounced last year. The findings are further discussed according to each category.

Shifted Board Agenda All participants agreed that after more women were selected for corporate boards, the agenda and issues changed. “I am not sure if it is the women who changed it or the ethos of the time after the financial crisis of 2008. However, the pressure on transparency and social responsibility has increased enormously,” noted Freyja. Participants unanimously agreed that the quota law had dramatically

weakened the “old boys’ network” and that the board’s decision-making process improved overall. “Gender equality is almost not an issue anymore because everybody agrees on the importance of it,” suggested Viktoria. More stakeholders are involved, and the importance of sustainability is one of the issues that all participants agree on and thus discuss more frequently. Another issue that all participants highlighted is the increased role of proper governance. “I do not know if this has to do with more women on boards, but at least I feel that we have made a difference and that on the whole, the boards are more professional than before,” said Emma. According to participants, most corporate boards in Iceland have a specific performance evaluation system that they turn to regularly, a practice which emerged in the last decade. All participants agreed that they greatly emphasize both gender equality and staff issues and certainly more than they used to.

Increased Dynamic Diversity “I think that most would agree that it is more fun working in a diverse environment,” said Julia. All participants contended that having diversity on boards ensures a dynamic environment that can also enhance creativity. “The leadership becomes more varied and more points of view get included,” said Kristin. “Even though it takes time to change the culture . . . It can even be said that we have a new generation of men that are as equal-minded as women,” added Maria. Thus, female board members themselves experience positive feedback from their environment. This shows how more diverse ideas can help people think in new ways they never thought possible. There seems to be a synergistic effect as people who are exposed to new ideas are more likely as a group to build upon each other’s perspectives and thus create solutions that a single person would not have developed independently.

Enhanced Networking on Boards All participants agreed that appointment to corporate boards had had a positive influence on their careers. Half of the focus group participants are professional board members; they see both pros and cons associated with engaging this profession. “You get a little lonely as you are deciding to do something and that is exciting, and then there are others that do what needs to be done,” said Freyja. All of them agreed that they had much more opportunities after the gender quota, and some of them are sure that if the economic crisis of 2008 had not occurred, the law would never have been passed. Women in Iceland are a part of an international community called Women Corporate Directors (WCD) Foundation, which is the world’s largest membership organization and community of women corporate board directors. Most of the women in the group belong to both the Icelandic and the international networks. Participants noted their association with the community made a big difference that helped them to make new connections on both personal and professional levels with women who shared a similar mindset and, perhaps most importantly, made it easier to recommend and provide names when new board membership opportunities opened.

Enactment of Role Models All participants shared their awareness of the importance of having their own role models as well as the responsibility they felt for being role models for other women. According to participants, the law has strongly shaped their

position and enhanced the possibilities to strengthen the corporate female portrait. Icelandic boards of directors typically consist of five members and the focus group participants confirm that they feel a difference after the legal regulation. *“I could feel a great difference when there were three women in one of the seven boards that I was a member of. There was a change in the culture and the attitude,”* said Maria. The participants confirmed trying to include more women on boards and ensure that companies realize the process of women development up to the career ladder.

Backlash The women who participated in the focus group were concerned that they were experiencing some form of backlash and in particular that the *“#metoo”* revolution had made many men uncomfortable. Even though all participants supported the issue wholeheartedly and were sure of its purpose, they could feel a backlash in the boardroom. They acknowledged that the issue of *“#metoo”* was crucial and that it was necessary to take part in highlighting the mistreatment of women when they are not given equal rights, let alone positions of power. On the other hand, the participants confirmed they could feel that men were unsure of how they should react and this led them to reflect on the “good old days” when gender politics may have been less contentious or so much at the forefront of society. The participants also related these questions to the issue of judgment. They all agreed that women in business are treated differently by the media and the society. *“When a woman CEO makes a mistake, it is blown out of proportion both in politics and business,”* said Eva. They all claimed to be familiar with cases where women were blamed for making a wrong decision while men were more likely to “get away with it.” Nevertheless, the participants believe that women are more honest in the media and elsewhere and are often made to pay for their actions.

10.5 Concluding Remarks

This chapter has illustrated that most of the issues women are facing on corporate boards worldwide are similar in Iceland as they are elsewhere. Even though after the law on the 40% quota, Iceland is demonstrably more progressive in these areas compared to other nations, there is still a set of questions that need to be addressed. Some of the women who made their way to corporate boards have had the opportunity to serve on multiple boards, what has created the so-called “golden skirts” effect with a new generation of women who work solely as professional board members. The agenda and dynamics of boards tend to change when women are included on them; moreover, the pressure to offer greater transparency of board functioning and activities is evident. Women bring different perspectives and interests to the discussion. For example, social responsibility and sustainability are not solely a female concern, but active engagement of women on boards is associated with a more intense consideration of the questions. Just as in Norway, female board directors in Iceland perceive themselves as having more influence, receiving more information, and being more engaged in social interaction after the quota regulation

was implemented. Time will reveal if a backlash is only temporary and if women in business need to be aware of not losing what has been won. It is important to consider general public acceptance and promotion of women in upper management, males supporting their spouses and co-workers more. Iceland has put great value on egalitarianism, and as thus people need to support advances in gender equality at boards and in general on all levels. The attention Iceland has given to gender balance has focused on and had positive results for women; perhaps the scope will expand to include other issues such as gender identity and transgender or gender fluidity, again not necessary but a legitimate question to consider in the name of gender equality in the future.

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