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The Impact of Gender Quotas on Businesses in Europe

An Interview with Stephan Füchtner, Managing Partner—NGS Global

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Many countries in Europe have introduced gender quotas to encourage companies to increase diversity at the board level and inspire change from the top down. The number of male executives that serve in director roles and as senior managers far exceed that of women, causing many businesses to question how to best go about recruiting female talent to meet the quotas mandated by their governments. We spoke with Stephan Füchtner, Managing Partner in the Frankfurt office of NGS Global, to understand how companies in Europe are thinking about gender quotas and what they can do to boost female participation at the highest organizational levels.

Q: How are businesses in Europe addressing quotas around gender diversity?

SF: The atmosphere has lightened over the last one to two years because managers in today's business landscape recognize that they can't afford not to have women on their boards and in senior roles. When Norway first introduced the idea of a gender quota in 2006, other institutions began to quickly come up with excuses as to why a quota system wouldn't work in their country; some claimed that requiring a stronger female presence on boards would result in the same few women serving on multiple boards, underqualified women getting appointed just to check the box, or boards becoming less efficient in their decision-making processes.[1] Leaders are now more pragmatic and have gradually come to realize that having input from female executives at the highest levels can bolster returns and growth.

In fact, Credit Suisse surveyed 2,360 companies to understand the impact of gender diversity in businesses. They found that the root of the gender diversity discussion was originally based on principles of fairness and equality for all, but has shifted to focus on how women's contributions help businesses achieve superior results. After monitoring the companies for six years, Credit Suisse found that organizations with at least one female board member outperformed those with all male constituents in matters of stock prices, growth, and revenue, just to name a few.[2] As government recommendations and quotas for gender diversity continue to surface, so too does supporting research advocating the importance and benefits of having a diverse group of minds at the highest organizational levels. As such, the general opinion of businesses in Europe is in favor of gender quotas because it inspires action where change is needed.

Q: How do businesses in Europe go about recruiting women for Board of Directors seats? What challenges do companies face during the recruitment process?

SF: Before gender diversity on boards became a subject of discussion, most directors identified potential new board members through their personal and professional networks and relationships. This recruitment strategy brought together groups of like-minded individuals who would lead in relatively homogeneous ways. In an effort to bring new points of view into the decision-making process and color outside of the lines, boards have started to use executive search services more and more to gain access to a pool of candidates beyond of their immediate networks. Boards have started to change their processes for placing directors and are becoming more creative in their approach to tapping board candidates.

One challenge boards face when recruiting women for directorships is that in most cases, they are searching for women who have had board experience and proven that they can add a new and valuable perspective to the discussion. Many organizations are risk averse when it comes to appointing individuals to board seats, and placing a candidate with proven success—whether male or female—is the preferred option over taking a risk on a candidate with no previous experience.

When gender quotas first emerged, a criticism that continually popped up was that companies would start to place women on boards just to check the box. If you look to German companies as one example, especially the DAX 30—that is, the top 30 publicly traded companies by revenue—several female board members have stepped down from their roles in large part because the focus on their gender overshadowed their business contributions. While quotas encourage female executives to bubble up to the highest ranks of an organization, the challenge lies in making sure there is a strong enough management structure in place to keep them there.[3] It is critical for companies to consider cultural barriers that might impact acceptance and assimilation amongst board members while evaluating potential directors. This will increase the level of chemistry and productivity at the board level, and also demonstrate a sustainable model for future success in gender diversity.

Q: What advice do you have for companies looking to mitigate these challenges?

SF: Companies tend to overlook female candidates who have not yet served as directors, which can prevent them from hiring the person best-suited and most qualified for the role. The pool of female candidates who not only have board experience, but also the bandwidth to take on an additional role, is incredibly shallow. With demand far exceeding supply, our advice to organizations looking to diversify their boards is to look beyond generic qualifications of what a board member

[1] "The Spread of Gender Quotas for Company Boards," *The Economist*, March 2014, http://www.economist.com/blogs/economist-explains/2014/03/economist-explains-14

[2] Curtis, Mary, Schmid, Christine, and Struber, Marion, "Gender Diversity and Corporate Performance," *Credit Suisse AG*, August 2012.

[3] Rayasam, Renuka, "The German Gender Mystery," *The New Yorker*, September 2013, http://www.newyorker.com/business/currency/the-german-gender-mystery.

should be and instead assess the needs of the company to create a wish list of skills, experiences and abilities required for a new director to add value and affect change. We have to open the doors for more female leaders to enter senior roles, and companies should be amenable to appointing qualified business leaders whose backgrounds and skill sets match up with the needs of the company. To fix this systematic problem, organizations should consider moving away from the typical checklist of qualifications and toward a more custom approach based on the specific demands of the role.

Q: How will gender diversity quotas at the Board of Directors-level impact businesses' decisions around placing women in senior leadership roles, if at all? Do you think we will see quotas for women in management/senior positions in the future?

SF: Gender quotas at the board level will definitely impact businesses' decisions on hiring. With women representing about half of the world's population, companies that adhere to the "old boys club" mentality will miss out on the unique insights women can provide on consumer preferences, buying habits and leadership styles, among the several different strengths female business leaders possess compared to male executives. As measured benefits of having female directors on boards continue to surface in studies and articles, companies are starting to place more importance on creating a diverse management team. The reason for this is twofold; the first being that more female executives at the senior level will increase the pool of candidates from which boards can recruit for directorships. The second is that companies are looking to replicate the results, impact and value generated by gender diversity at the board level in their management teams.

While we have seen quotas for board positions, I think the implementation of quotas at the management level will depend more on the cultural and political landscape of each country. The European Commission has been the driving force behind gender quotas for board positions in Europe, and I think we would need to see a similar level of commitment from government agencies and alliances in other regions in order for an official mandate to take effect. In Japan, for example, there is a lot of regulation, which would make it easier for them to implement such a mandate at the government level and get buy-in from business leaders, compared to the U.S., as an example. We will continue to see a greater effort by organizations to develop more women into senior management roles, even if legislation requiring a certain percentage of female executives never comes to fruition. I think there will be more soft quotas and recommendations as an instrument to affect change, but I don't foresee a hard gender quota mandate for management roles anytime soon.

Q: What strategies have your clients used to develop women into senior positions that were successful?

SF: Our clients and companies in general tend to make decisions based on what they think will yield the least amount of risk, and as a result, are not as creative with hiring and talent development strategies as they could be. Many large conglomerates think systematically about succession planning and begin developing female talent early to help create a steady pathway for women to climb the corporate ladder to senior roles. Talent development is even more systematic in medium-size companies, but there is still room for improvement.

One of the biggest issues concerning gender diversity is that women in entry and middle management positions don't have many models of female success at the senior and board level. Without female role models, some women don't pursue senior positions because they think their efforts will be futile. If you look into the 30 largest companies in Germany, there is clearly a lot that needs to be done as it relates to gender diversity. Of the 183 board members in the DAX 30, only 10 are female as of July 2014. The proportion of women in senior and board level roles is higher in smaller companies, reaching approximately 25 percent.

Q: How are your clients changing business norms to make senior roles more attractive to women?

SF: Companies understand that one of the keys to improving gender diversity is increasing the compatibility of family and career. This means that organizations will need to be open to their senior managers having more flexible work schedules, or even introducing child care facilities and day schools as part of the company's benefits. While this would improve the logistics of maintaining work life balance, the issue of cultural norms and business risk is still very much in play. If a female and male executive were both being considered for the same role, but the female executive needed to work around her children's schedules or maybe remotely at a home office, the conservative decision would be to hire the male candidate who could work full time, regular hours. Greater acceptance of these flexible work models will in turn help improve gender diversity.

A second method for increasing female participation at the senior level is to introduce more talent development and succession planning systems. Making sure women have the right opportunities to grow as leaders and continue up the corporate ladder is critical to increasing gender diversity at the highest organizational levels.

The third strategy is to improve mentoring for women in senior roles; however, so as to not alienate other groups, mentoring programs for various cultures, special interest groups, genders, etc., would be most beneficial. While it is important to increase gender diversity, companies should take caution that they don't endorse or give special treatment to women over other groups for the sake of public opinion.

Q: What advice do you have for companies looking to attract and develop women into senior management positions?

SF: Practically speaking, companies should hire more female graduates. The process of developing more female executives into senior and board-level roles starts at the beginning; the more women that companies put into the pipeline, the more female senior managers they will have at the top.

However, the challenge regarding gender quotas is not just a problem of systematically hiring more women, but rather a question of shifting corporate values, societal norms, and talent development practices to ignite progress.

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ABOUT NGS GLOBAL

With offices across the Americas, Europe and Asia, NGS Global provides the extensive resources of major global executive search firms along with high-touch service, accelerated completion cycles and superior candidate access made possible by a mid-sized platform without external shareholders. Through our commitment to industry expertise, cultural knowledge and partner-led search execution, we deliver exceptional value to our clients.

ABOUT STEPHAN FÜCHTNER

Stephan Füchtner is Managing Partner at NGS Global and is a member of the firm's Global Operating Committee. He co-founded NGS Global's operations in Europe.

Mr. Füchtner specializes in the recruitment of executives in financial services industry and the public sector. His areas of focus include executive searches for senior leaders of medium-sized companies across a broad range of industries, often in the context of successions plans, corporate turnarounds or changes in ownership. He has conducted numerous CFO assignments across industries. He is co-editor of The Handbook of Executive Search, the second edition of which was published in 2012.

Mr. Füchtner entered the field of recruitment consulting while still enrolled in university, spending his early career working for Spencer Stuart and Roland Berger. He joined the executive search division of GEMINI Consulting in 1993 and eventually became a Vice President. In 2000, Mr. Füchtner initiated a management buyout to create the legally and economically independent executive search firm GEMINI Executive Search.

Mr. Füchtner studied Economics at the University of Frankfurt am Main where he focused on Personnel, Organization and Insurance Business Administration.

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