Good Practice for Promoting Women's Economic Empowerment

6. Female Board Member Quota

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Since around 2010, it has been found both in the world[1] and in Japan[2] that those listed companies with a female board member ratio above 10% show better business performance. This happy news attests to the effectiveness of consistent efforts by businesses around the world to improve their performance.

In view of this finding, securities exchanges in various countries now consider that the full involvement of more female board members in corporate management is crucial for any firm to secure longer-term profits. In the markets of leading countries, it has almost become the norm for listed companies to consider the diversity of their board membership, including sex and nationality, and to disclose their policy, objectives and progress in the corporate governance report. This practice, which has spread since 2010 among securities exchanges in various parts of the world, was also introduced to Japanese markets in 2015.

In connection with this trend among businesses and securities exchanges, national governments have also adopted a policy of encouraging listed companies and other large firms to increase the share of female board members. Although it is up to each firm to decide who sits on its board of directors, having a larger number of female top executives would promote the advancement of women working for the firm, and improved corporate performance will have a positive impact on the growth of the national economy. European countries legally require stock companies of a certain scale, including listed companies, to ensure that 30-40% of board members and other executives with the authority to make corporate policy decisions are women.[3] This positive action is known as the 'quota system'.

Some countries impose penalties on any firm that fails to meet the legal requirement for the women's quota, while other countries do not. Norway, the first country to introduce the quota system, has a very strict penalty regime as the court may delist any such firm from the register of corporations. Largely due to this threat, the share of female board members shot up from 6% in 2003 to 44% in 2010, declining only slightly since then.

In the Netherlands, for example, the 'comply or explain' rule requires firms to abide by the law as a matter of course, but no direct penalties are imposed on non-compliant firms, which are nonetheless required to explain the reason for their failure to fill the quota. Despite the varying degree of binding power of national quota systems, the share of female board members has increased substantially in countries adopting a quota system,[4] attesting to the effectiveness of a national policy to encourage corporate efforts through legal requirements.

It should be noted that the national targets for female board membership are set at 30% or above. These targets, known as 'critical mass', were endorsed as globally relevant in the 1990 UN Implementation of the Nairobi Forward-looking Strategies for the Advancement of Women. Of course, even though a 10% or 20% target may be somewhat effective, it is crucial to integrate the concept of 'critical mass' into the conventional wisdom of business management if we are to make a serious effort to create a corporate culture that allows female officers, managers and staff to fulfil their potential.

A lot of companies all over the world have already reached 30% of the target. We are able to share their good practice of management and peer activities of CEOs beyond borders among companies. This story is to be continued.

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[1] Credit Suisse, The CS Gender 3000: Women in Senior Management, 2014.

[2] Masaharu Ito, 'Analysis of Return on ESG Portfolio (1)', *DIR ESG Report*, 6 February 2015.

[3] http://www.gender.go.jp/kaigi/renkei/team/WEPs/pdf/h280802_weps02_3-2.pdf

[4] Progress by country (as of October 2015, based on author's research)

Country	Target	Effective in	Legal framework	Female board member ratio	
				2011	2015
Norway	40%	2005	Sanction possible	40.2%	38.7%
Spain		2007	Comply or explain	10.6%	18.8%
France		2011	Sanction possible	18.2%	34.4%
Italy	33%	2011	Sanction possible	4.2%	24.6%
Belgium		2011	Sanction possible	10.8%	27.0%
Netherlands	30%	2011	Comply or explain	16.2%	24.4%
Germany		2016	Sanction possible	13.2%	22.6%
Denmark	Voluntary	2013	Comply or explain	14.0%	26.5%