

## Women's Quotas – The Norwegian experience

By Arne Selvik, AFF at the Norwegian School of Economics (NHH)/Arne Selvik Consulting

### NORDIC HORIZONS

Lecture Theatre Moray House, Edinburgh University, December 2, 2014.

Chair, ladies and gentlemen:

Most of what I will tell you about women on boards of listed companies in Norway is upside - down **and** inside – out.

My perspective is that **what Norway has done, should not - and cannot - be copied** in any other country. It is an insane idea. But there might be some inspiration in such ideas. And, there is a story to be told, or should I say: There are a number of stories **being** told.

I am very thankful to Nordic Horizons, in particular Leslie Riddoch, Stephanie, Alison Balharry, and Linda Stewart of the University of Highlands & Islands for having this opportunity to tell my Norwegian quota story to such a distinguished audience. Thank you, for inviting me.

Although I have been working in universities most of my life, my background in corporate governance is **basically practical**. I have chaired and been a non-executive director on approximately 50 boards of directors, mostly in privately owned companies, some family firms, some listed companies and some public institutions like the Norwegian Broadcasting Corporation (NRK). Over the last 20 years I have been consulting to another 100 boards of directors. I have been

invited to observe them, give seminars and lectures, and performing board assessments. Companies actually pay me to be their external, independent critic.

Although I am warning against copying, there might be **something to be learned** from such a vast social and economic experiment as the Norwegian Quota Law. To that end, I have **five learning points** that I would like to share with you this afternoon.

My story goes like this:

1. The **Mr Gabrielsen Law** was not a male minister's work. He just got the recognition. Or should I say, **he stole it. In fact, it was not even a new law.** It is an **amendment** to the existing Public Limited Companies Act and to the State Owned Companies Act with a small sub-paragraph (ASA §6-11a).
2. Waiting for women to get executive experience first, then board positions, is a **waste of time** and not necessary. Quotas have created opportunities for ambitious Norwegian women. They are ready to **get on board**, even though many of them are against the quota principle.
3. Women on boards of listed companies do not automatically make the board better, or improve the bottom line. But, I think **it might make the men better.**
4. A "balanced" board changes the **attitude to risk** in the board room, because the average level of **testosterone naturally goes down and the cortisol** level increases. I shall elaborate on this later on.
5. Women on boards are not a success before the male members **laugh at the female members' jokes as much as they laugh at the men's jokes.**

First to **Mr. Ansgar Gabrielsen**, who was a relatively anonymous Conservative member of the Norwegian Parliament – Stortinget - before he was appointed to the government in October of 2001.

As a young a member of the conservative party, 46 years of age, he became the head of the Ministry of Trade and Industry in the 3 parties moderate conservative government, headed by the Christian Democrat, Kjell Magne Bondevik.

As my story about the Norwegian Quota Law goes, it was two **female** Christian Democratic ministers in Mr Bondevik's two governments who actually **did the groundwork of preparing** their party colleagues and the Norwegian society at large for such a radical reform.

**Mrss. Valgjerd Svarstad Haugland and Laila Dåvøy**, strongly supported by **Arni Hole**, Director General of the Ministry of Family and Equality Affairs, initiated discussions, drafted the law, completed the work and finally presented the Government's proposal to the Storting in 2003.

So when you hear about The Gabrielsen Law, remember it was not his idea, it was not prepared by his ministry, and it was actually **presented to the Storting by the Minister of Family and Equality Affairs, Mrs. Laila Dåvøy**, not by the Industry minister, which the business community and the media tend to think.

I personally checked this out with Mrs. Dåvøy in a lengthy conversation, and I heard Mr. Gabrielsen speak at a conference in Oslo without mentioning this part of the story with a single word. Nor did he give any credit to his former female colleagues from the Bondevik Governments.

Catching the right moment, taking his boss - Prime Minister Bondevik - by surprise, shocking his Ministry, as well as his conservative colleagues and

making headlines in the media was a demonstration of courage - and undoubtedly a skillful piece of public relations work.

After he left politics in 2005, Mr. Gabrielsen has earned his living as a successful **communication consultant**, and he seems to have learned his lesson of storytelling well. **Mrs. Laila Dāvøy** told me that she had **confronted** Mr. Gabrielsen with the fact that it was **she not he** who was the rightful “parent” of the law. A bit shameful he acknowledged her motherhood, but begged to be recognized as **the only father**.

This story of fatherhood and motherhood would not be complete without mentioning the pioneering work and relentless efforts to improve gender equality of **Norway’s “National Mother”, Dr. Gro Harlem Brundtland**. Aged 42, she formed her first government in 1981 with 4 women. Her second government had 7, and her third government in 1990 had 10 female ministers, which was 50%.

The importance of recognized **role models** plays a part in the process of creating gender balance in any society. When I recently mentioned to Dr. Brundtland that I was going to speak to you here today, she shared with me an encounter she had with Margaret Thatcher in Oslo. Asked why she had no women in her Cabinet, Mrs. Thatcher replied: **There wasn’t any with the necessary skills**. Gro, not content with the answer, gave The Lady the advice to look for competent women outside the Parliament, as she herself had done.

**My second point**, that **waiting for women to get executive experience** first, then board positions, is a **waste of time** and not necessary. Executive experience is **one of many** required skills for directors on boards of listed companies. **Integrity, available time for the task, relevant education, cognitive style, creativity, professionalism, interest in the company** are some of the other qualities that are asked for in a board member at the top of the business world. This goes for male directors, as well as for female members of the boards.

My observations of Norwegian boards – and assessments that I have performed for quite a few of them over the last decade - tells me that there is more to board diversity than gender. Indeed, **gender is probably overrated as a variable in the recruitment of board members.**

Let me elaborate a bit on this argument and explain to you what I mean. When I observe boards at work, I am struck by the **homogeneity** of board members in terms of behavior and strategic and ethical perspectives, **across gender**. I find more control freaks than is needed, I find too much politeness and respect for the chair and the CEO, and I find more **group think** and **myopia** than good corporate governance should tolerate.

I am looking for more courage, more constructive critical thinking, and more real independence in board members. I find that increasing the number of women on boards in Norway has contributed to a more **sophisticated type of diversity** in the way boards work. I also find that artists, entrepreneurs, college professors and researchers from a broad range of disciplines bring new dimensions to the board rooms. Professionals from outside the business world may be difficult to deal with, but they sure play the role of the Devil's Advocate well.

The opening up of the board room doors through the quota system in Norway seems to have affected **executive aspirations** among Norwegian women. Our institute for executive training (AFF) at The Norwegian School of Economics (NHH), which is listed in The Financial Times ranking of open enrolment programs, has experienced a steady growth in female participation in our most demanding 8 weeks program, The Solstrand Program. We had 26% women in the program in 2002, moving **up to 46% in 2014**.

Our AFF Leadership Survey, which has representative data from 2002 and 2011, shows a similar trend. The proportion of Norwegian women who report to have top executive positions increased from 11% in 2002 to 23,5 % in 2011. These data are from all types of companies, government agencies and institutions, and are **not representative for listed** companies. The increase is, however, greatest in the private sector, from 8% to 22 %. My experience from coaching quite a few of these women over the last decade supports this observation. An increasing number of women are seeking line positions, rather than support staff jobs, and more of them are heading for the boardrooms.

The Economist noted recently in an article called The Nordic Mystery that *There is much discussion about why Viking women have failed to crack the **glass ceiling***.

My AFF-colleagues (Rønning & Karlsen, 2014) have challenged the traditional **glass ceiling** hypotheses with what they call hypotheses of the “**sticky floor**” type. A 2014-survey of 1.012 respondents in six major Norwegian companies across industries (Hydro, Statkraft, Telenor, Deloitte, Orkla and NSB (The National Railroad) shows that **women hesitate** to seek top management positions, fearing that the workload will adversely affect their family and private lives. They have **more difficulty adapting to a male-dominated**

**corporate culture**, and they need more encouragement and support to aim for the top positions.

### 3

**My third learning point is** that women on boards of listed companies in Norway do not automatically make the board better, nor improve the bottom line, but it **might make the men better**. There is a growing body of research trying to document the impact that the diversification of the boards of listed companies might have had on the bottom line. I am not sure it is possible to isolate a quota effect from other factors so early in the process. Factors like the financial crisis, global depression, shifting business cycles in industries like shipping, and very profitable growth in petroleum related industries in Norway probably play more important roles in explaining the variation of profitability and share prices.

However, getting more women on boards of directors may have an effect on the men. Norwegian listed companies have the **smallest boards of directors in the world**. Norwegian boards count 6 members on average. They form tightly knit groups with a rather long seniority among the members.

Like in any other social group, a change in the composition of a group basically changes the character and the productivity of that group. The reason is this; as groups form, there is a tendency for the group to gradually **shift the attention from an external to an internal focus**.

The relationship between the members, and the **stability of the power play, tend to lower the productivity of the group**. In a Harvard Business Review study of product development groups the authors recommended that at least

one member should be replaced every six months. If this works for this kind of groups, imagine what an impact it might have on the workings of a board when one old buddy after another is being replaced by an unknown female director.

I imagine that in some boards, the male members may form a **protective subgroup to defend their roles and dignity** against intruders from the opposite sex. In other boards, however, they will face the competition bravely and strengthen their efforts to look good in front of 8 years younger women with better education than the average male director.

#### 4

**My fourth learning point** is easier to substantiate. There is some good updated research to support the argument that a “balanced” board changes the **attitude to risk** in the board room, because the average level of **testosterone naturally goes down and the cortisol** level increases.

In a study at Columbia and Harvard universities the researchers demonstrated that taking an open, expansive masculine posture, results in a significant increase in the level of testosterone in the participants, and a reduction in the production of cortisol. This goes for both men and women. Taking a more closed, contractive feminine posture has the opposite effect.

The implications of these findings are that male postures increases the feeling of power, and the lowered cortisol production increases the actors’ tolerance for risks.

The neuroscientist (and former Goldman Sachs Wall Street trader) John Coates of The University of Cambridge has studied **the biology of financial risk taking**



in his book *The Hour Between Dog and Wolf* (Penguin, 2012). In the last part of his book he sums up the following:

***What all these endocrine differences between men and women add up to is the following: when it comes to making and losing money women may be less hormonally reactive than men. Their greater numbers among risk takers in the financial world could therefore help dampen the volatility.*** (Page 271)

## 5

My fifth and final point is that **women are not fully accepted in the board room until** their male colleagues laugh as much at their jokes as they do at the men's jokes. Some of you may recognize Lucy Kellaway's voice in this argument. In her Financial Times column On Work (November 26, 2012) she refers to a study by Judith Baxter from Aston University. She has observed meetings in seven big companies and noted that three quarter of the women's jokes tended to be met by stony silence.

Mrs. Kellaway notes that ***if laughter varies with gender, it varies even more with power.*** Response to laughter is highly correlated to status and group belonging.

**Chair, ladies and gentlemen:**

**In concluding my remarks,** let me make clear that the somewhat cynical tone of my presentation should not be misinterpreted to think that I am against

quotas or, worse, that there is nothing to be learned from the Norwegian experience.

In fact, I can easily think of a number of areas of human endeavor outside the board rooms where quotas should be introduced. I, for one, would recommend low quotas on stupidity, warfare, subprime loans and markets for financial derivatives.

Without quotas for female board participation, it would take a hundred years for the many male clubs and brotherhoods to experience the thrills of being challenged and inspired by more independent and risk averse directors.

I understand that Lord Davies has estimated this process to be faster in the UK. As nature and business life goes, you will reach the summit of diversity within 70 years. I wish you all the best of luck. You are a patient nation. That is, south of the border. **With your new First Minister, Nicola Sturgeon, in place, you have a role model that can take women in Scotland as far as you want to go.**

As for the Norwegian experience, I will recommend that people who think it is a good idea to use the full potential of the human race, **get women on board, literally speaking.**

**Thank you very much for your attention!**