

Gender diversity on **MENA** boards

Let's start with a story. A leading retailer operates department stores in malls across the Middle East. The company's customer base is overwhelmingly female – in fact, women make up more than 80 per cent of its customers.

It would stand to reason, then, that the team building strategy for this company, whose fortunes are so intertwined with catering to the tastes of its female customers, would include several women. But, no. On a nine-member company board, only one director was female.

This begs the question: for a company playing in a competitive industry so heavily reliant on being right about fast-moving fashion trends and consumer tastes, how could they make good decisions if they didn't have representation from among the ranks of the very people who would – or would not – buy their products? The point here is not to single out one company. Rather, the point is that having more female representation at the board and senior management levels enables companies to make better decisions, which will drive stronger performance, increased profitability, improved valuation and greater potential for growth.

Qualified women bring strong skills, fresh perspectives and a different way of handling issues than their male counterparts. Numerous studies have shown that diverse boards enable companies to operate more efficiently and perform more effectively, helping them improve profit margins, return on equity and valuation, while reducing their risk of exposure to corruption, fraud and scandal.

Such evidence of outperformance is making investors sit up and take notice. Recently, US-based State Street Global Advisors, one of the world's largest asset managers, announced that it will be issuing new gender guidance to increase female representation on the boards of companies in which it invests. It's not merely because women comprise 50 per cent of the global workforce and it's the right thing to do. Rather, the issue is achieving strong financial performance, determined in large part by the direction of the board sets.

"As the third largest asset manager in the world and a significant shareholder, we believe that board diversity enhances board quality – bringing together directors with different skills,

Shattering the glass ceiling is an economic imperative in the Middle East

Sanaa Abouzaid
IFC Corporate Governance
Lead, MENA



backgrounds and expertise," said Jill Mavro, senior managing director at State Street.

On women in leadership positions, MENA lags behind other regions

In 2016, publicly traded companies in 16 countries worldwide averaged three or more female directors – considered the critical mass needed to optimise the positive benefits of diversity. Of these 16 nations, all but two – Canada and South Africa – were in western and northern Europe, according to research from executive search firm Egon Zehnder. Other regions, such as Latin America and Asia, aren't doing all that well.

The Middle East and North Africa region lags behind them all. Here, the lack of diversity is severe. The numbers are actually quite alarming. A 2016 study of nearly 1,500 publicly listed companies in 13 countries across the MENA region by Shareholder Rights and the EuroMena Funds found that only 17 per cent had some female representation on their boards. Out of the 249 companies that did have female representation on their boards, only four per cent had female board chairs. "Arab markets on average have female board members in one of six companies. This is much lower than the ratios in most developed economies," the report noted.

Of the industry sectors reviewed, the banking and financial services industry had the highest female representation, with 93 companies reporting that they had at least one female director. Among the worst performers were media companies, none of which had a single woman on their boards.

Another study, this time by IFC, of just one country – Jordan – revealed similar findings. Of more than 1,200 Jordanian companies surveyed in this IFC study, nearly 80 per cent had no female representation on their boards. Of the companies that did have women directors, fewer than four per cent had more than one woman on the board.

The same IFC study draws a link between greater diversity and improved financial performance, as reflected by return on assets and equity: the Jordanian companies with female directors had three times the return on assets and double the return on equity compared to companies with no women on their boards. One female Jordanian executive – the founder and general manager of a confectionary company – summed up the business case for more women in the boardroom this way: "Diversity leads to excellence in business, less corruption and more proactive and productive boards."

Why the stakes are so high for MENA countries

Simply put MENA countries really need vibrant private sectors. In a region where many countries struggle with instability, unemployment is high, opportunity is limited and the public sector is overwhelmed, growing the private sector is the path to economic progress. However, this requires attention to the factors that are getting in the way of private sector growth, including an overall gender gap in the labour pool and lack of female representation at the highest levels of business leadership.

The International Monetary Fund recently quantified the value of increased women's participation in the global workforce at all levels. Among the statistics cited in this paper, one stands out: closing the gender gap in Egypt's labour market would raise that country's GDP by more than 34 per cent. Imagine what that would mean in real terms: higher personal incomes, reduced poverty, more manufacturing and services output, greater private sector growth and increased tax revenue to support critical public sector projects and social welfare initiatives.

Understanding root causes of inequality is key

The reasons for MENA's poor performance on measures of gender parity, particularly when it comes to board and senior management, are many, complex and inter-related – too lengthy to detail fully in this short article. However, it's important to share a few of these issues, because any effort to create lasting solutions requires an understanding of these underlying causes. For instance, the region still has a long way to go in ensuring equal access to quality education. While this is not the case region-wide, female literacy remains a huge challenge in many countries. If you can't read and write, very little will follow. ►►



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» In other countries, even though educational attainment is quite high and more women than men graduate from university, fewer of these women enter the workforce. In Kuwait, for example, women comprise 60 per cent of university graduates and only 22 per cent of the workforce. Several dynamics play into this disparity, including cultural barriers, family wealth that obviates the need for two incomes and struggles with work-life balance.

Other factors include attrition at the mid-management levels, with women often dropping out of the workforce during their child-bearing years. The result is that the female talent pipeline, which may have been closer to equivalency at the entry level, begins to narrow mid-way through. With a smaller pool of qualified women who have come up through the ranks, more of the senior management positions go to men. A similar phenomenon seems to occur in other professions, creating a shortage of qualified women who could potentially serve as independent directors, such as bankers, accountants and consultants.

Also playing into the problem is lack of training for potential directors and limited information on available female candidates. In addition, the nature of boards, with very little turnover and static composition – drawing from the same small group of male professionals – means that on the rare occasion when an opening does occur, the seat is quickly filled by someone well known to everyone else who is within the same male-dominated networks.

Progress requires solutions that address underlying problems

How to address such complex problems? The answer requires multipronged approaches tailored to the specific country, industry and market context. Just as there are many factors contributing to the problems, the responsibility for solving them must be shared.

To begin, we need to raise awareness on the issue. It always comes as a surprise when smart, capable and effective male leaders, who are otherwise acutely tuned in to indicators, such as declining share value, revenue shortfalls, or failure to hit profitability targets, don't realise that the lack of diversity in the boardroom could be a reason for disappointing performance.

In particular, leaders of family-owned companies have an outsized role to play, given the predominance and size of such firms in the MENA region. These leaders – often the family patriarchs – are in a powerful position and can bring about significant change. By encouraging a steady career progression for their female family members, they are nurturing a growing talent pipeline, ensuring that these women develop the qualifications and experience to eventually assume senior-level responsibilities.

At the company level, individual firms must get better at providing career planning,

coaching and mentoring to keep women from dropping out of the workforce or falling behind at the mid-point in their professional lives. Meanwhile, their boards need to make room for the women who are coming up through the ranks by setting term limits, mandatory retirement ages and a mechanism to evaluate performance. If directors are not doing the job, they should be asked to step aside.

Training is a critical aspect as well. Training for all board directors, particularly in emerging market countries, has proven helpful in providing grounding in board fundamentals. For women, additional modules focussed on soft skills, such as making one's voice heard and dealing with strong personality types, will increase their effectiveness as they perform their directorial duties. Local corporate governance institutes can provide such programmes, as well as networking and knowledge-sharing opportunities. They also can serve as central clearing houses, maintaining databases of qualified female candidates so that companies in search of more diversity can easily access lists of potential directors who could meet their needs.

Regulatory bodies also have a part to play in this. To be sure, quotas are a controversial topic. However, regulators can still take steps to prioritise gender diversity, even if they don't want to go the quota route. For example, encouraging more gender diversity on the board aligns well with the growing international push for more independent directors as a way to broaden perspectives and add complementary skills.

Finally, women themselves need to own the issue. Rather than sitting back and blaming others for lack of opportunity, they can do

their part by working hard, moving up through the ranks, being prepared and actively seeking out ways to build their skills and networks – signing up for training, joining professional organisations, networking and reaching out to others who have made it.

Focus on diversity yields results

The retailer I mentioned at the start is but one of many companies in MENA that are now paying more attention to board composition as part of a broader corporate governance strategy aimed at strengthening the company. Another firm, a Jordanian microfinance institution with a 96 per cent female customer base, recently worked with IFC on an overhaul of its board of directors, in addition to other governance upgrades. The company weeded out poor performers and brought on more women and independent directors, among other actions. Today, the board is comprised of 42 per cent women, while 70 per cent of its workforce and 80 per cent of its branch managers are women. The firm's top three executives – general manager, chief operating officer and chief financial officer – are all women. These changes have yielded significant benefits: increased access to capital, lower cost of financing, improved decision-making, expanded product portfolio and enhanced market reputation.

The bottom line here is that for MENA, failure on the diversity issue truly is not an option. Increased female representation in the boardroom and among the ranks of senior management is an absolute must to boost private sector performance and improve economic growth across a region that desperately needs it. 🌐

