Where are the women in ECA boardrooms?

When I first began advising companies in Eastern Europe and Central Asia (ECA) on corporate governance some years ago, the degree of uptake on issues around gender diversity in the boardroom was minimal. Today, it’s a different story.

Often, when I interact with representatives of companies that work with the IFC, they acknowledge the importance of diversity. They readily volunteer information about the number of women on their boards and their path to improving gender diversity throughout the organisation.

Some of this attitude shift can be attributed to the increased global spotlight on gender inequality. It’s also a result of seeing first-hand the benefits from the presence of women on their boards. There’s another dynamic at play as well. Companies in the region are faced with a new reality: investors care about this issue. And it will become increasingly difficult to raise funds without demonstrating commitment to diversity. IFC, for instance, has mainstreamed a focus on environmental, social and governance considerations, including boardroom diversity, into its core investment due diligence – part of its overarching mission to create markets and equal opportunity. Progress towards aligning with international good practices in these areas is now a condition of IFC financing. Women currently represent 30 per cent of directors we place on the boards of our investee companies worldwide and we are pushing toward a goal of full parity by 2030. While investors are looking for more transparency on the diversity issue as they conduct their investment due diligence, activist shareholders and proxy advisors are also putting pressure on their portfolio companies, demanding more on the gender front.

Despite the heightened awareness, the situation in boardrooms throughout the region is only slightly better than it was a few years ago. Consider this: in Eastern Europe, women held about 8.5 per cent of board positions as of 2016, according to the International Labour Organisation – just 8.5 per cent of the number of women on large Turkish company boards since 2014. On the other hand, in Czech Republic, Latvia and Slovakia there are fewer women on boards today than in the past.

Board diversity contributes to better company performance. Business studies on gender diversity have repeatedly shown that companies with gender diverse management teams and boardrooms achieve better financial results on average than companies with homogeneous management and boards. A 2016 OECD report showed that companies with gender-diverse executive committees outperformed those without women in senior positions, achieving an average of 47 per cent higher return on equity and 55 per cent higher gross income. A 2018 Harvard Business Review survey of 1,700 companies in eight emerging and developed markets found a ‘statistically significant’ relationship between diversity in leadership and increased innovation.

In Eastern Europe and Central Asia, studies such as a 2018 report by Sabanci University’s Corporate Governance Forum have also connected gender-diverse leadership with an increased focus on ethical conduct and risk mitigation. This represents an important role for female leaders in a region characterised by a comparatively under-developed private sector in the early stages of growth. Taken together, such findings should represent a powerful motivating force for ECA companies to prioritise diversity in leadership. Yet, progress remains slow.

In fact, it seems as if company decision-makers themselves remain puzzled by this disconnect. After one recent presentation on the business case for diversity in the boardroom and C-suites of ECA companies, an audience member – a principal in a financial institution – approached me with an interesting observation. “We don’t need to be persuaded of the business case. We know it there,” he said. His point: it is one thing to appeal to the rational side of human nature. That will only go so far and there will always be sceptics. It is another thing entirely to persuade people that changing the status quo – one that is often rooted in a complex stew of gendered societal, cultural and family expectations – to achieve a new and more equitable normal is an imperative that yields broader benefits over the long term.

How can we accelerate the pace of change, to upend long-held traditions and help ECA companies thrive over the long term by increasing the number of women in leadership? Here are five suggestions:

1. Address generational shifts in what workers value

Estimates suggest that Millennials will represent 46 per cent of the workforce by 2020. And younger workers – who eventually become the seasoned talent pool from which managers are selected – are accustomed to a different reality than their parents’ generation. They are used to working in collaborative and diverse teams as they likely did at university and they expect a similar level of diversity at work as well as equal pay for equal work. They are more attuned to work-life balance and more concerned about environmental and social stewardship. They will tailor their job searches accordingly, meaning that companies that fail to place a greater priority on such issues could be at risk of losing out on top talent – including capable women who have the potential to become future leaders.

2. Fix the ‘leaking pipeline’ of female talent

In many countries and in certain industry sectors, there’s a nearly equal divide between the number of male and female entry-level workers. As workers transition into mid-career managerial posts, gender imbalances become more apparent, due in part to the number of women who drop out of the workforce or slow down their career development paths to focus on the family. This causes leaks in the pipeline of women with the potential to ascend through the most senior ranks of management and, since management experience is a key criterion for board qualifications, the drop-off reduces even more the number of women with the skills and expertise to ascend into the boardroom.

It’s a global problem that also affects ECA. Only 20 per cent of firms in the region have female top managers. IFC research from 2013 has found. And, while there are countries in the region, such as Belarus, where the share of firms with women in top management is among the highest in the world, there are also places like Kosovo, which has almost no companies with women at the top.

Encouraging women to remain in the job and work their way up the corporate ladder to grow the pipeline requires action on multiple fronts: implementing women- and family-friendly workplace policies, such as flexi-time arrangements, providing child-care benefits and encouraging women to work after stepping off the career track by rewarding alternate experience and offering transitional opportunities for women to ease back in.

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Gender Diversity
Women in the region hold just 8.5 per cent of board positions
Promote female managers into front-line roles

The lack of experienced women with the qualifications to ascend to board positions means that when there is an external push for greater diversity – say as the result of a regulatory requirement or a demand from an activist shareholder – the risk increases that the resulting board appointments are simply tokens.

The designated women might not be up to the task. It’s not necessarily because they lack the smarts, skills or business savvy. Rather, it could be that their career trajectory didn’t give them the hands-on exposure to core operations that would enable knowledgeable contributions to board discussions on strategic direction. Frankly, the optics of this situation are worse than if there were no women on the board at all.

To address this issue, heightened attention should be on the career trajectory of mid-career female managers. In Eastern Europe, the talent pool clearly exists, with women representing 25 to 40 per cent of the mid-senior level management ranks in countries throughout the region. But a look beneath this statistic reveals clear stratification by gender and job function: female managers typically supervise departments that support core business functions, while male managers oversee key operational and financial units. The ILO study cites a recent survey of 100 companies by the Montenegro Employers Federation, which found that around 80 per cent of these firms’ female managers work in human resources, communications, or public relations.

Important as these functions are, female managers should be encouraged to seek out – and be given equal access to – additional challenging assignments and key operational responsibilities. This will increase their exposure to the broader range of experience and better prepare them for a future that might include board directorships.

Invest in women’s professional development

In my role as a corporate governance professional, I have presented on the value of diversity in leadership to hundreds of male and female business leaders. The single most common thing I hear from the women – regardless of age, experience level or industry – is that they are not comfortable when they reach that long-wanted directorship. The reasons vary. Some do not feel accepted as an equal to their male colleagues and worry that they got the position because of their gender and not their qualifications. Others are insecure about their skills and capabilities. Still others simply feel lonely, since most are the only female member and therefore feel like the odd (wo)man out.

Conquering that little voice inside women’s heads that tells them they are not up to the task is a monumental challenge. At IFC, we’ve seen first-hand that women – even the most accomplished and experienced – need training and coaching on how to assert themselves, how to tap into their own strengths to build their personal leadership style and how to communicate in high-powered, male-dominated settings.

We have teamed with local organisations in Bosnia and Herzegovina, Kazakhstan, Kosovo, Macedonia, Serbia and Ukraine to offer workshops specifically designed to prepare high-potential women for board service. The feedback from participants has been remarkably positive, with many noting a greater degree of self-confidence that has stayed with them well after the training.

Raise the visibility of female candidates

In meetings with company representatives, I often hear a common refrain when I raise the issue of board diversity: ‘we’d like to appoint a woman, but the nominating committee doesn’t have any qualified female candidates’. It’s not that the candidates aren’t there, though. It’s that they might not be visible to those with power over the nominations process who may be relying on their own male-dominated social or business networks to identify prospective directors.

Pulling together information on qualified candidates who fall outside of these networks and making this information easily accessible helps address this issue. Such a seemingly simple fix is having demonstrable results. For example, the database created by Turkey’s Independent Women Directors at Sabanci University is helping Turkish companies tap into a pool of candidates previously unknown to the companies’ nominations committee.

Beyond tokenism and merely ticking the diversity box, such databases ensure that companies committed to increased female representation can identify candidates who meet the company’s business needs.

Other efforts, such as the global ‘Ring the Bell for Gender Equality’ events associated with International Women’s Day, are raising the profile of female leaders as well. Last year, such events were held at 65 stock exchanges around the world, including those in Istanbul, Tbilisi and Bucharest, highlighting the push for more gender diversity on boards.

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More work needed

I am encouraged by the successes I have witnessed: a woman-founded small enterprise that grew into a significant market player under her leadership; a board chairman who told me that adding women to his board opened his eyes to unaddressed risks and new opportunities; male business leaders who are speaking to large audiences of their peers about the benefits of gender diversity.

Yet, much work remains, particularly in a region with tremendous potential but very real economic and social challenges – including high youth unemployment – and where key industry sectors, such as manufacturing and energy, remain predominantly male. Accelerating the pace of women joining the boards of companies in all industry sectors stands to make a real difference, contributing to private sector growth, expanded economic opportunity and job creation.