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Perspectives into topical issues in society and ways to support political decision making.

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Board and management team positions in listed companies - the challenges of women's career development

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Based on the project's interview and survey results, it became clear that the selection of women to board and management team positions is influenced by numerous interconnected factors related to the operating environment, company characteristics and the individual. These results are consistent with previous studies. The recruitment process emerges as an opportunity to ensure gender equality in order to find the best talent among board member candidates. Women's own activity is also important. Quota legislation can serve as an enabling transition period tool to increase the number of women on the boards of listed companies.

Gender equality creates value

Several Central European countries have had regulations in place to promote gender equality for years, especially in the boards of listed companies. Among the Nordic countries, Norway has had quota regulation since 2006 and Iceland since 2010, while the other Nordic countries rely on self-regulation.

One of the goals of the Finnish government is to increase gender equality in different areas of society, as mentioned in the government program, and make Finland a leading country in terms of equality. The government pays special attention to increasing equality in working life and families. In order to achieve the goals, an equality program has been drawn up, which is used to coordinate measures to increase gender equality. The purpose of the project is to support the Finnish government's goal of equal representation of genders on the boards of listed companies.

In Finland, the share of women on the boards of listed companies has clearly increased in the 21st century. However, the positive development seems to have slowed down in recent years. In 2022, 31% of board positions were held by women. On average, women make up 35% of the boards of large listed companies and 25% of the boards of small listed companies. The board can be considered equal when the representation of genders is at least 40%. Based on this criterion, in 2022 in Finland, approximately 30% of the boards of listed companies were equal. (Central Chamber of Commerce, 2022a).

Among all listed companies in the Helsinki stock exchange (N=131), there are only nine female CEOs, four of whom lead large companies. At the management team level, there is plenty of room for improvement in gender equality in companies in general.

Boards play a central role in the operation of companies. Their task is to organize the company's administration and operations and to define the company's operating principles and strategic goals. Based on academic research, the composition and functionality of the board has a significant impact on the company's success. Companies with a diverse board composition also perform better on average than other companies. Thus, promoting gender equality in both boards and management teams is also in the interest of companies.

The board of directors is elected by the shareholders at the general meeting. In addition, the articles of association set forth that less than half of board members can be appointed in an alternate way. The board can establish a nomination committee for the preparation of the selection and remuneration of the board. Alternatively, the general meeting can establish a shareholders' nomination board for these tasks. Based on the Finnish Corporate Governance Code, the tasks of the nomination committee and shareholders' nomination board may include, for example, the preparation of the board composition proposal for the general meeting, the preparation of principles regarding board diversity, and succession planning for board members. (Securities Market Association, 2020.)

Although the proportion of women on the boards of listed companies has increased in the 21st century, there is still room for improvement. The project identified factors that influence the selection of women, promote or prevent the recruitment of women to the boards and management positions of listed companies, and what should be done to promote equal representation between the genders.

Research methods and data

The project used literature searches, interviews and a survey as the main data collection methods. The focus of the interviews was with the members and chairs of the nomination committees and shareholders' nomination boards of listed companies, but there were also representatives from human resources. The sample also included large unlisted companies, board professionals, representatives of management mentoring programs and senior management recruitment companies. There were a total of 42 interviews. The survey's target group was based on the five hundred largest Finnish companies, covering a wide range of company management in addition to the groups mentioned above. A total of 146 responses were received.

Results, conclusions and recommendations

Based on the results, women's career progression is influenced by numerous interconnected factors from the operating environment, company characteristics and the individual. The change in the operating environment with its changing values, parental leaves, operating models and regulations supports the selection of women for management positions. On the other hand, the characteristics of the company, such as the industry, size and ownership emerged more as barriers to women's selection to leadership positions than promoters.

Many of these factors are beyond the reach of the management recruitment companies and the applicant's ability to influence. This is why a systematic recruitment process and women's own activity, such as networking and further development of their own competence, are factors that can be actively tackled in order to promote gender equality on the boards of listed companies.

Finding the best talent is at the heart of the recruitment process. Based on the results, one can ask to what extent unintentional factors such as the evaluator's or recruiter's own expectations or ways of evaluating a candidate's competence may affect the selection. This includes both the identification of potential candidates and their competences and the evaluation and selection of candidates during the recruitment process.

The characteristics of the recruitment process therefore emerge as an opportunity to further improve equal treatment of different genders, starting from the definition of competence needs, the body responsible for recruitment and the use of a sufficiently broad candidate base and the due diligence process used to evaluate candidates. In the different stages of the recruitment process, the influence of personal expectations and habits to evaluate others should also be recognized. Thus, the systematic recruitment process is the opportunity to evaluate candidates of different genders as equally as possible, either by the nomination committee, the shareholders' nomination board or a recruitment company.

A key factor positively affecting the number of women on the boards of listed companies will be the new EU gender balance directive for company management that will come into force in 2026. According to it, in large EU-listed companies, at least 40% of the independent members of the board must represent the minority gender. Based on the results, quota regulation can work well as a tool during the transition period.

According to previous studies, gender equality in boards has a positive effect on the value creation of companies. According to the results of the project, this is not necessarily known to nomination committees and shareholders' nomination boards, at least in small and medium-sized listed companies.

Based on the results of the project, it is possible to make the following recommendations.

The Finnish state

- The new EU gender balance directive (DIRECTIVE (EU) 2022/2381 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 November 2022 on improving the gender balance among directors of listed companies and related measures, L 315/44, Official Journal of the European Union) to

be included in national legislation without delay along with the prerequisites of the directive.

- Raising awareness of the advantages of a systematic recruitment process for companies. We propose drawing up recommendations on the features of the systematic recruitment process based on research results and best practices in the field. If necessary, this should be preceded by a study of the management recruitment companies' methodologies, methods and techniques in compiling candidate lists, both for foreign and Finnish candidates.
- Updating the corporate responsibility (reporting) guidelines and instructions for companies so that they contain information about the importance of diversity in management teams and boards, and especially gender diversity, in increasing the company's value.
- More research is needed to study in detail the results obtained and evaluation of practical applications to increase the equal representation of genders on the boards of listed companies

Companies

- In the Corporate Governance Code of listed companies, recommendations 7, 8 and 9 concern the preparation of a proposal related to the composition and diversity of the board. The recommendation is that listed companies ensure that the process for following these recommendations is also systematic in practice and follows best practices for promoting gender diversity.
- In the corporate governance code for listed companies, recommendations 15, 18 and 19 especially apply to the nomination committees and shareholders' nomination boards. The recommendation is that for promoting gender diversity, listed companies ensure that the nomination committees and shareholders' nomination boards operate systematically and in accordance with the best practices to define competence needs, the body responsible for recruitment and the use of a sufficiently broad candidate application base and due diligence process in both domestic and international searches.
- The recommendation for both listed and large unlisted companies is to review their practices in informal recruitment processes, also regarding middle management. It is good to follow the best practices of the industry in the recruitment process.
- Recommendations for both listed and unlisted companies:
 - examine the current and planned diversity of the board and management teams, especially from the perspective of gender, and take an active role in improving gender diversity with the company's value creation in mind. This also supports large listed companies in preparing for the EU's gender quota directive.

- start promoting gender diversity in the boards and management teams of group entities in order to increase the number of women with appropriate skill profiles
- check the existence and up-to-dateness of sufficient policies, principles and practices to ensure adequate career planning for personnel in a way that promotes gender diversity.

Other actors

- In light of the results, we highlight the importance of women's own proactiveness and activity in career development, networking and indicating their interest in board positions.
- In addition, encouraging women's networking, for example from the employer's side, is important, especially for networks representing different genders.
- For shareholders, we encourage consideration of gender equality and wider diversity in the boards and management teams of the investees, as well as an analysis of the level of systematicity in the recruitment process. In addition, we encourage consideration of the career development opportunities of the personnel of the investees from the perspective of gender equality and wider diversity.
- For industry associations, we recommend an active informative approach to pinpoint the importance of gender diversity in management teams and boards among their members. Attention should also be paid to gender-neutral remuneration practices. For example, guidelines on the best practices in the field regarding the recruitment process and remuneration practices for management teams and board member candidates value practical actions.
- Universities and other educational institutions should pay attention to gender equality in major subject choices and the factors that may impact the selection. In addition, we recommend integrating gender equality and wider diversity across the curriculum rather than specialised courses.
- We also recommend that management recruitment companies increase awareness of the benefits of gender diversity to offer high-quality recruitment services.

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