

Exchange of good practices on gender equality

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Operation Chain Reaction

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Introduction

The Operation Chain Reaction (OCR) was introduced in November 2010. The main purpose of the programme is to make sure that all the best talents come into play in the process of electing the supervisory boards for Danish companies. This is done by involving all parties in the recruitment chain for the boards including owners, the supervisory boards and the recruitment companies. By signing a series of recommendations, the companies commit themselves to develop and recruit more female managers to the supervisory boards of Danish limited liability companies.

Hence, the OCR is based on voluntary commitment of the companies and it is emphasised in the description of the programme that the OCR does not interfere with the individual companies' rights to manage. As the programme was introduced under the previous government (Conservative and Liberal parties) and under a liberal minister of gender equality, the voluntary nature of the programme reflects the political view that legally binding quotas for women on the supervisory board are to be avoided. The current government, however, is more in favour of introducing binding quotas.

Background

There has been an increasing focus on the (low) female representation on the supervisory boards of the Danish companies. In studies of the female representation on corporate boards and these firms economic performance, it has been demonstrated that the share of women has been fairly stable in the 1990'es around 10-12% (in the 2500 largest firms, excluding board members elected by the staff) (Smith *et al.* (2006)).

Over the later years data have been collected more systematically by The Committee on Corporate Governance in Denmark, including all the Danish corporate firms and hence all the board members. According to their data the number has increased over the later years to a level around 19% (again excluding the members elected by the staff). Focusing on the corporate boards of the listed companies shows that the female representation on these boards is much lower than for other firms. Hence, the female representation in 2008 was 5%, and in September 2011 it had increased to 6.5%. This corresponds to 62 women out of 956 board members of listed companies.

Furthermore, the share of women among CEO's in Danish companies is relatively low. For the 2500 largest firms around 6-7% of the CEO's are female, whereas for the listed firms it amounts to max 2%. Thus, it is relevant to discuss, whether there is a sufficiently large base for recruitment to Danish boards in the Danish companies and also whether the Danish boards are doing a good job in the process of hiring CEOs in terms of female representation. Therefore, including the recruitment companies in the OCR appears to be very important, as these are often involved in the recruitment process of higher positions.

Purpose of the Operation Chain Reaction

The overall purpose of the OCR is to increase the share of women on the supervisory boards of the Danish limited liability companies. The idea is, by involving all parties participating in the process of recruiting board members, to increase focus on the board composition, in order to ensure that all talents are used optimally in order to ensure diversity on the boards and hence make sure that company performance and Denmark's competitiveness are maximised.

In order to improve the number of women in management positions in general, a programme was launched in 2007 by the Minister of gender equality, namely the "Charter for more women in management". Private firms and public institutions could sign the charter, and thereby commit themselves to focus on gender equality in their organisation. The content of the charter was to focus on career opportunities of the women in the organisations, to set specific targets for the representation in higher managing positions and evaluate whether the targets had been reached. Also in the case of the charter, joining and signing was voluntary. At the same time a "corps of ambassadors for more women in management" was formed. The corps consisted of top-managers in large, well-known Danish companies. Their task is to increase focus on the low proportion of women in management and to promote the idea of working actively for more women in management. The two programmes are still running, and currently the ministry is evaluating the effects of the programmes in order to be able to decide, whether these voluntary measures are efficient in increasing women's position in management.

The introduction of the OCR is in line with the previous programmes, with a focus on the female representation on the supervisory boards. A document with recommendations was prepared in a process of cooperation with the (previous) Danish minister for gender equality, representatives of Danish industry and trade and the Confederation of Danish Industry (The OCR's Task Force).

The co-signatories of the OCR undertake to:

- Increase the percentage of female candidates for supervisory board membership.
- Monitor, evaluate and follow up on the percentage of female supervisory board members in the Annual Report management's review.
- Account for the recruitment and selection criteria applied in connection with filling directorships in the annual report.
- Increase the pool of potential female supervisory board member candidates by working consistently to increase the number of corporate executives in general. Moreover, listed companies undertake to work towards meeting the "Recommendations on Corporate Governance" in terms of diversity.

The "Recommendations on Corporate Governance" are issued by the Committee on Corporate Governance in Denmark. The main purpose of the Committee is to issue "soft mechanisms", reflecting best practice in corporate governance and characterised by voluntariness. The Recommendations on Corporate Governance are primarily aimed at Danish companies whose shares are admitted to trading on a regulated market. Furthermore, the objective is that

the recommendations comply with Danish and EU law, OECD's Principles of Corporate Governance and recognised best practice.

In terms of gender diversity, the recommendations say:

"Diversity improves the quality of the supreme governing body's work and the cooperation between its members, including through different approaches to the performance of the management tasks." Furthermore, it is stated that "when assessing its composition and nominating new candidates, the supreme governing body must take into consideration the need for integration of new talent and the need for diversity in relation to experience, gender and age, etc."

Therefore, when board candidates are selected and nominated, the company's objective of diversity on the supervisory board should be taken into account.

The intention of the ministry is to monitor the OCR closely and furthermore investigate other methods for increasing the share of women on the supervisory boards.

Recruitment of firms

The formulation of the recommendations was, as previously described, performed by a task force including both representatives from Danish trade and industry and the Confederation of Danish Industry. Hence, at least some of the Danish companies were involved in the process and it should be expected that these will be co-signatories of the recommendations.

The recruitment strategy has mainly been informal, as the network of the previous minister has been exploited to promote the OCR. According to employees in the ministry, the recruitment was performed in three steps. In the first and second "steps" of recruitment, the minister called persons in her large network among managers in large Danish firms. In the third round additional letters were sent. The minister promoted the OCR in the media, every time interviewed in the press about the low representation of women on the supervisory boards and thereby making the programme visible.

Furthermore, the large focus on this topic, as the Norwegian practice has created a heated debate about quotas, has made it possible to a large extent, to promote the initiative. The debate has reflected the general perception, that gender equality is positive, however, the methods applied to increase the female representation divides politicians, managers, researchers and people in general. One question in focus is whether politicians should interfere with the private companies' right to elect board members and managers in general. In addition, some high-profiled managers and researchers argue that there are simply not enough qualified women in Denmark to fill in e.g. 40% of the board members. One reason for this is the low number of women in higher managerial positions. Another discourse applied among people, and especially among women, is to question whether women should be appointed to certain positions, including membership of the supervisory boards, because of their sex (and not only because of their qualifications).

At this point 55 companies have signed the Recommendations. A full list is to be found in the Appendix.

Evaluation – so far

An evaluation of the OCR programme will be carried out in the beginning of 2012. Thus, no formal evaluation results are available yet. Currently the ministry is sending out questionnaires to the signing companies in order to use their feedback to evaluate the implementation process in the firm.

According to the news media, some of the firms that have signed the recommendations have recruited more women to the boards already. E.g. Carlsberg A/S has expanded their board with two female members and made a target of 40% women and 50% international experienced members on the board in 2015. Novo Nordisk A/S has appointed one woman to their board. Furthermore, Novozymes has appointed two women to its board as well as AMROP A/S and AXCEL have replaced men with women on their boards.

Discussion

As no formal evaluation has been performed at this point in time, it is not possible to determine whether Operation Chain Reaction is a success. However, the initiative may suffer some weaknesses, which will be discussed below.

First of all, changing members of supervisory boards is not done overnight. Usually the supervisory boards of the firms are elected for a four year period. Hence, the full effect of the initiative cannot really be expected to be visible at this early stage. Hence the final evaluation can only be made in 2015.

Secondly, the OCR does not specify a target for the female representation on the boards, hence the criteria for success is unclear. It is left up to the individual firms to specify what their target is.

Thirdly, signing the Recommendation for more women on supervisory boards is voluntary and it is questionable, what is the degree of commitment by doing this. This relates to a fourth point, namely that there is no (specified or visible) sanction from not following the recommendations.

Questions for debate at the seminar

1. Are voluntary measures sufficient for obtaining gender balance on supervisory boards?
2. From a women's perspective: Do women want quotas – or do quotas give the impression that women have been selected because of their sex rather than their qualifications?

Appendix: Signing firms of Operation Chain Reaction

- Alectia
- AMROP A/S
- A.P.Møller Mærsk
- ATP
- AXCEL
- Carlsberg A/S
- Codan
- Coloplast A/S
- Danfoss A/S
- Danmarks Skibskredit A/S
- Dansk Shell A/S
- Danske Bank A/S
- Deltag A/S
- Det østasiatiske kompagni A/S
- Diba Bank A/S
- DONG Energy A/S
- D/S Norden
- Egon Zehnder International
- EQT Partners A/S
- F. E. Bording A/S
- GN Store Nord A/S
- Grundfos Koncernen
- Heidrick and Struggles
- Hempel A/S
- IC Companys A/S
- InterMail A/S
- ISS A/S
- Jeudan A/S
- J. Lauritzen A/S
- Lønmodtagernes Dyrtidsfond
- Lego A/S
- Lundbeck A/S
- Matas
- Middelfart Sparekasse
- Nordic Tankers
- Novo Nordisk A/S
- Novozymes A/S
- Nykredit
- Odgers Berndtson A/S
- PFA-Pension
- Polaris Private Equity
- Royal Greenland A/S
- RTX Telecom A/S
- Sampension KP Livsforsikring A/S
- TDC A/S
- Tivoli A/S
- Torm A/S
- Topdanmark Forsikring
- Tryg
- Tryghedsgruppen
- Vestas Wind Systems A/S
- Victoria Properties A/S
- William Demant Holding A/S
- VKR Holding A/S
- Aarhus Universitet

Sources

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Danish Ministry of gender equality: www.lige.dk

The Committee on Corporate Governance in Denmark: www.corporategovernance.dk

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