ISSN: 2634-1050

# CORPORATE GOVERNANCE & BOARDS

## VIEWS & INSIGHTS

ISSUE 3
FEB 2021

HELLENIC OBSERVATORY OF CORPORATE GOVERNANCE

ΕΛΛΗΝΙΚΟ ΠΑΡΑΤΗΡΗΤΗΡΙΟ ΕΤΑΙΡΙΚΗΣ ΔΙΑΚΥΒΕΡΝΗΣΗΣ

# FEMALE PRESENCE IN THE BOARDROOM OF EU SYSTEMIC BANKS

1. *Bank governance – the role of the board of directors*

An optimum composition of the board of directors is often considered as an effective approach for achieving robust corporate governance. Broadly, the board of directors exercises four critical roles: "advice and counsel, channels of information flow, preferential access to resources, and legitimacy"[1]. In banks specifically, the board sets, approves and supervises "the overall business strategy and the key policies", "the overall risk strategy" and ensures "an adequate and effective internal governance and internal control framework" [2]. Poorly designed corporate governance was blamed for the collapse of "banks too big to fail", as well as for the emergence of systemic problems around the globe. Lack of accountability and control seems to have led to imprudent and disproportionate risk-taking on the part of financial firms as well as to unethical behavior [3].

Given their systemic importance for the economy and the multiplicity of stakeholders involved, banks' corporate governance is especially important, and has been persistently under supervisory scrutiny. Only recently, the member of the Supervisory Board of the European Central Bank (ECB), Ms Elizabeth McCaul, declared, during a seminar on the supervisory expectations for bank boards, that governance has been a key area of supervisory focus. In this context, she underlined that optimum decision-making derives from good governance and effective controls, concluding that, "during a crisis, good governance can mean the difference between a bank that merely wobbles and a bank that ultimately collapses"[4].

2. *Gender diversity in the board*

One of the aspects of banks' boards that has drawn the attention of supervisory bodies and which is related to their structure, is the level of diversity in their composition. Diversity refers to heterogeneity in directors' characteristics, which are believed to dictate directors' actions, and thus affect firms' performance. As early as 2010, the European Commission called for the implementation of measures to increase various forms of diversity in the boards of financial firms, including gender diversity.

Gender diversity is one of the most researched aspects in the corporate governance literature. Extensive research on the effect of female directors on firm outcomes, has shown that women are more likely to maintain an independent role and to criticize CEOs in case of poor stock performance. Women were also found to offer additional perspectives and therefore help to avoid uncritical groupthink.

The presence of more women directors was found to contribute to more accurate financial reporting, to less earnings manipulation practices in Europe and to the elimination of managerial opportunistic behavior, thereby contributing to the reduction of agency costs. The debate also prompted the "tokenism" and "critical mass" discussion suggesting that a very small number of women on the board restrains any meaningful contribution[5,6,7,8,9,10].

In light of the above identified benefits contributed by female directors, the scarcity of women in the boardroom is quite puzzling. Even more so, if one considers the changes in gender stereotypes in the last century, the increasingly stronger calls for social equality, as well as arguments that it makes no business sense to ignore the talent of half the population of earth. Market research conducted by top consultancy firms and other international organisations, reveals that the female gender is still under-represented in the board, not only in developing but also in developed countries: in 2017, the Deloitte Global Centre for Corporate Governance reported that globally only 15% of board seats were held by women. Also, in a 2020 benchmarking exercise on diversity practices in 834 credit and financial institutions in Europe, the European banking watchdog, European Banking Authority (EBA) reported that only 15% of banks' executive directors and 24% of banks' non-executive directors are female[11]. Our own research, as mentioned below, has also observed a "glass ceiling" phenomenon, showing that women face more obstacles for their professional elevation in the upper echelons of large European banks, especially as executive directors.

### 3. *Supervisory initiatives for gender diversity in EU banks' boards*

In light of the above, a number of European countries resorted to the introduction of compulsory or voluntary quotas for enhancing gender diversity in corporate boards and for breaking "the glass ceiling". Only recently, political consensus appears to have been reached in Germany, for a compulsory presence of at least one woman in listed and cooperative firms, whereas 30% of the supervisory boards of government-owned entities must be female[12].

In the banking industry, a series of coordinated supervisory interventions took place in the last decades, for strengthening banks' governance and promoting board diversity in the EU, in order to "break the glass ceiling". Such measures included the renowned Capital Requirements Directive (2013/36/EU or "CRD IV") of 2013, which requires the use of diversity as one of the criteria for the composition of boards and expects this to be addressed in banks' diversity and recruitment policies[13]. Also, the enactment of the Single Supervisory Mechanism in 2014 (SSM), imposed a common regulatory

 ISSN: 2634-1050

framework upon the largest banks in the Eurozone, including governance arrangements. Furthermore, the European Securities and Markets Authority (ESMA) and EBA issued common Suitability Guidelines in 2017 which require an optimum board composition through a diverse board of directors, in terms of gender, age, experience and geographical descent[14]. The main corporate governance and board composition supervisory requirements for European banks, are shown in the Table below.

| Document | Issued by | Relevant Authority | Requirement | Applicable to: |
|---|---|---|---|---|
| **Directive 2013/36/EU (CRD IV)** | **European Parliament and the Council** | **EBA, ECB** | Art. 74: Institutions are required to have robust governance arrangements. | EU Credit institutions & investment firms |
| | | | Art 88: Responsibilities of the board, including governance arrangements, obligation to set up nomination committee, set a target for the under-represented gender. | |
| | | | Art. 91: Board composition to reflect broad range of experiences. To consider diversity when recruiting new members for the board | |
| | | | Art.91(10): to engage a broad set of qualities and competences when recruiting members to the management body…. Adopt policy promoting diversity in the board | |
| | | | Art 109(2): Governance arrangements to be implemented on a consolidated basis | |
| **Guidelines on Internal Governance, 2017** | **EBA** | **EBA** | **Responsibilities, tasks and organisation of the board requirements for ensuring sound management of risks** | EU Credit institutions & investment firms |
| **Guidelines on the assessment of suitability 2017** | **ESMA & EBA** | **ESMA & EBA** | Par. 104: Institutions should have and implement diversity policy for the board….to achieve a variety of views, facilitate independent opinion and sound decision making… | EU Credit institutions and investment firms |
| | | | Par. 105: Diversity refers at least to educational and professional background, gender, age…The diversity policy to set target for the under-represented gender…& time frame to be met. | |
| | | | Par. 111: Diversity to be taken into account when recruiting new members | |
| **Guide to fit and Proper Assessments, 2018 (15)** | **ECB** | **ECB** | **The policies and processes used when assessing the suitability of banks' directors** | **Significant Eurozone banks** |
| | | | Par. 4: The assessment criteria Experience is assessed taking into account the need to have sufficient diversity and a broad range of experiences in the board. | |
| | | | Par. 4.5: The collective suitability of the board needs to be assessed in the course of ongoing governance supervision | |

**Table 1**: Corporate governance and board composition supervisory requirements for European banks

## 4. *The female presence in European banks' boards and board committees*

In light of the targeted steps taken by EU banking regulators to increase gender diversity in banks' boards, the question arises whether the introduction of new regulations has indeed been effective in increasing women's presence in large EU banks. To answer this question, we have examined a sample consisting of 48 of the largest European banking groups from 15 countries, which correspond to the sample of systemic banks subjected to stress tests by the EBA in 2018[16]. The sample includes both 1-tier and 2-tier board structures as well as three types of banks: state-owned, private/listed and cooperatives. We have examined the five-year period starting from 2014, which coincides with the introduction of the SSM, when the majority of the sample banks were subjected to common supervisory and broadly common accounting rules, including governance policies and board selection criteria. Secondary demographic data on directors' characteristics and board and committee structures were hand-collected from Annual Reports in the sample banks' websites.

As expected, the overall conclusion from the empirical observation of the above sample, was that the presence of women in the boards of directors and in the board committees of the sample banks is more limited than the presence of male directors. The results of our research also confirmed the existence of a "glass ceiling" in the management board that potentially obstructs the elevation of women in the upper echelons of banks. At the same time, a constant escalation in the number of women directors was also observed during the period 2014-2018, which is sharper in the management board than in the supervisory board, as shown in Chart 1 below, consistent with the emergence of supervisory measures and the SSM.

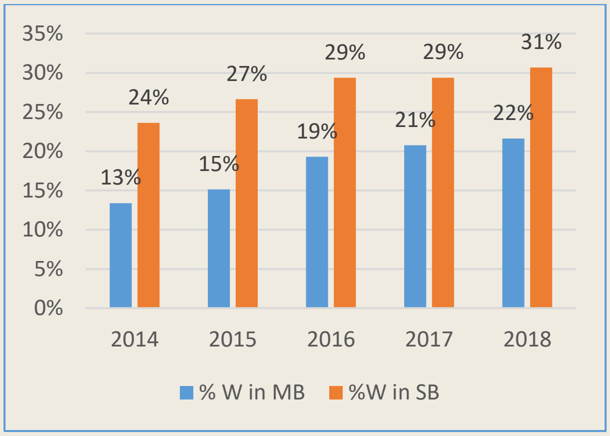


**Chart 1**: % of women in the management board and in the supervisory board of EU banks

On average, 23% of board seats (18% in the management board and 28% in the supervisory board) were held by women during the period under review, whereas in 2018 the average participation climbed to 26.5%. These numbers are consistent with recent evidence published by the European Parliament (17) on a sample of large European banks between 2011 and 2018, showing an increase in female directors to 26.7% in 2018. It was also observed in our sample that there were a number of "all male" management boards, or with only 1-2 women, a fact that is quite interesting, taking into consideration that the sample is exclusively composed of large banks in Europe, where gender stereotypes are less dominant.

Finally, and consistent with the International Monetary Fund which reported that in 2018 only 2% of bank CEOs were female, only 1 female CEO was identified among 60 CEOs (In some of the sample banks, the CEO was not member of the board and therefore was not included in the measurements), as shown in Chart 2, a fact that underlines the limited number of female executive directors and the "glass ceiling" phenomenon.

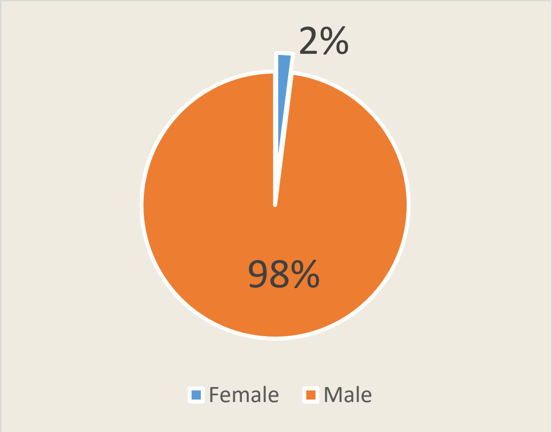


**Chart 2:** % of Female CEOs vs Male CEOs

## Committees

Large European banks, in addition to any other board committees, are broadly required to establish an audit, a risk, a nomination and a remuneration committee, in order to support the board and to facilitate the implementation of a sound internal governance framework. Board committees contribute to very important and strategic decisions, and thus have a significant bearing on bank outcomes.

As shown in Chart 3, the number of female members in the above-mentioned four committees of the 48 EU systemic banks (consisting of only non-executive members), followed a sharp upward trend throughout the period under review, from 23% in 2014 to 34% in 2018. Interestingly, a very small number of banks had no women in these four committees, during the period under review.

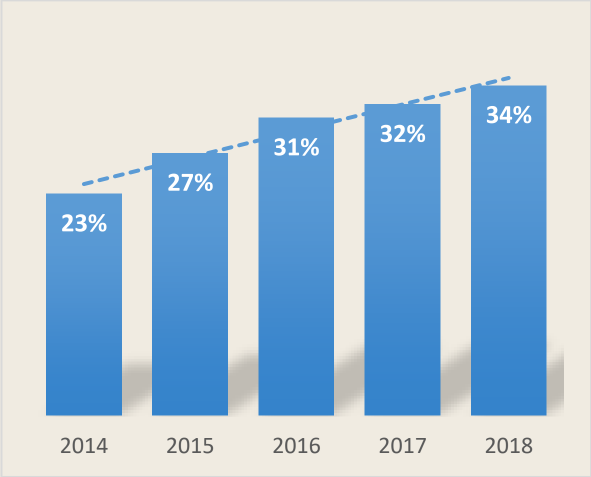


**Chart 3:** Average participation of female directors in board committees

It appears that female committee participation over the period stood on average at 29%, which is identical to the average percentage of women in the supervisory board. This clearly indicates that banks to some extent take into account gender diversity policies not only at board composition level, but also when considering committee composition.

It also reveals that women directors are no longer "tokens" but are in a position to affect committee deliberations and thus monitoring effectiveness, significantly[5].

As regards the percentage of the above-mentioned four committees that were chaired by women, this stood on average at 18%, whereas the absolute number of female chairs took off from 17 in 2014, to 46 in 2018, as shown in Chart 4. In other words, on average approximately 34 out of the 157 committees were chaired by women.

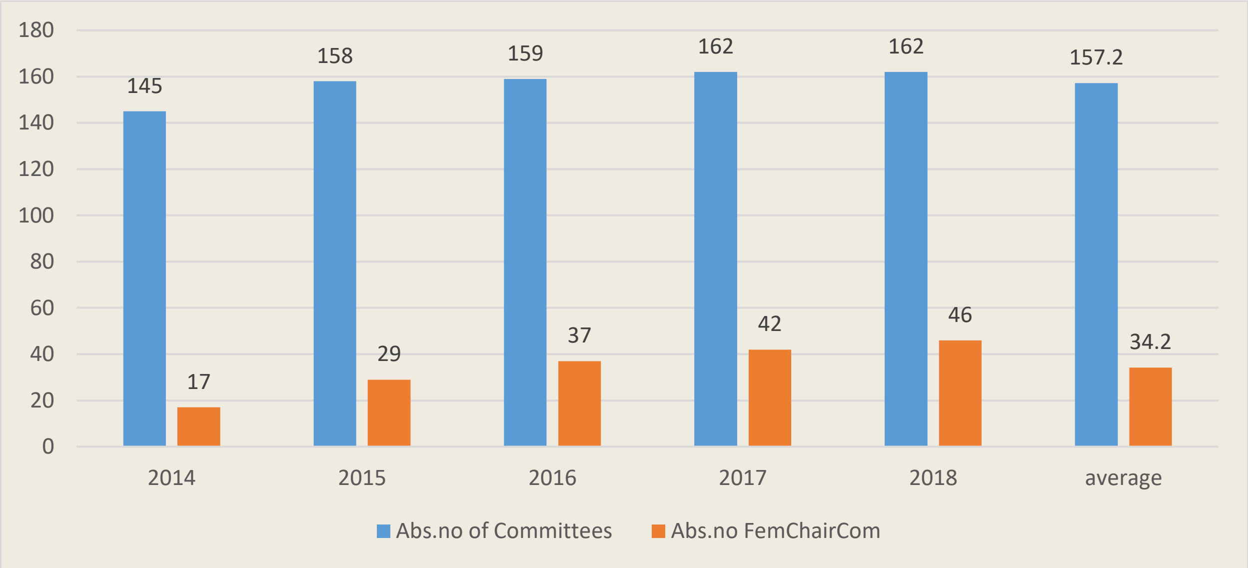


**Chart 4:** Female committee chairs vs. absolute number of committees

## Conclusion

Our research has revealed that the imposition of new regulations pursuing diversity, has been successful in increasing the number of female directors in the board and in the board committees and generally promoting diversity in large EU banks. Having said that, the imposition of compulsory quotas for a minimum number of women in the boards should be implemented gradually and with caution, having regard to the presently limited pool of female candidates. Most importantly, the relationship between gender diversity and firm performance has not been clearly established, as most prior research is inconclusive regarding the link between the two. For this reason, numerous scholars advocate the existence of a "black box" and call for further investigation, before making a business case for the inclusion of more women in the boardroom[18,19,20].

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**Elena Makri**

Licensing and Authorisations, Supervisory Governance and Approvals, Central Bank of Cyprus

**Dr. Dimitrios N. Koufopoulos**

Director of the Global MBA programme at the University of London, Visiting Professor in the School of Law, Centre for Commercial Law Studies, Queen Mary University of London, UK, Honorary Research Fellow at Birkbeck University and Founder and Director of Research at the Hellenic Observatory of Corporate Governance.

**Dr. Ioannis Gkliatis**

MBA Director, Hertfordshire Business School, University of Hertfordshire, Senior Research Fellow of the Hellenic Observatory of Corporate Governance.

**Konstantinos Athanasiadis**

Senior Research Associate, Hellenic Observatory of Corporate Governance, PhD Candidate Birkbeck University.

**Michail Fygkioris**

Research Associate, Hellenic Observatory of Corporate Governance.

**Dr. Chris Grose**

Assistant Professor, Department of Accounting and Finance, International Hellenic University, Senior Research Fellow of the Hellenic Observatory of Corporate Governance.

Published by the **Hellenic Observatory of Corporate Governance**.



**Citation**: HOCG (2020), “Female presence in the boardroom of EU systemic banks”, Corporate Governance and Boards: Views and Insights, Issue 3, February, ISSN: 2634-1050

DOI: http://dx.doi.org/10.13140/RG.2.2.10480.17924

Accessed at: http://hocg.eu/wp-content/uploads/2021/02/HOCG-Issue-3-Female-presence.pdf

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