

INDUSTRY IMPACT ON STRUCTURE AND GENDER DIVERSITY OF COMPANY BOARDS: EVIDENCE FROM THE CZECH REPUBLIC

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Abstract

Paper tries to contribute to solution of the research question, which factors influence the Structure and Diversity of Company Boards as the latter one represents the ratio of female to male members as Gender Diversity. In this paper we concentrated on the impact of Industry on the Gender Diversity. Paper tries to investigate the relationship between Industry as exogenous factor and Gender Diversity in the Company Boards as endogeneous factor.

The paper methodology deals with extended literature review on Gender Diversity mainly represented by Anglo-Saxon authors. The paper examines data sample collected from companies' annual reports on Company Board members at year end of 2014 in the Czech Republic. Different regression and correlation models are employed in order to demonstrate the dependence between these two variables- type of industry and gender diversity.

The paper findings show that female directors are dispersed differently among the industries in the paper statistical. The paper draws conclusions that Gender Diversity is driven more by selected socio-economic factors as female education, female employment rate, birth rate and investments in female education rather than industry sector itself. The managerial role of women as chair persons on one side and as only board member is salient too.

Key words: Structure, Gender Diversity, Company Board, Industry Impact, Socio-economic Factors

JEL Code: G34, G39

Introduction

Female executives are ambitious and sure of their own abilities to become top managers, though they are much less confident that their companies' cultures can support their rise. In the paper on gender diversity and industry impact there is minor connection regardless the industry in which are situated the researched companies. The study employs data in the field from August 20 2014 to December 31, 2014, and it covers 700 executives (624 men and 76

women) representing the full range of regions, industries, company sizes, tenures, and functional specialties from the top one hundred Czech companies. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP. The results indicate that collective, cultural factors at work are more than twice as likely as individual factors to link to women's confidence that they can reach top management. Carter, Simkins and Simpson (2003) make a "business case for diversity"¹ and present arguments for and against a diverse board make-up. A first argument in favor of diversity is the idea that gender diversity in TMTs generates a better understanding and penetration of the marketplace and thereby enhances firm performance. Second, diversity may increase board independence (Adams & Ferreira, 2009; Carter et al., 2003). Furthermore, dynamics and processes in teams may be altered through diversity, leading on the one hand to the stimulation of creativity and innovation, efficient problem-solving and an increase in the effectiveness of leadership; but on the other hand to more conflicts. The employment rate of women in the Czech Republic lies around the EU-27 average. Also, women still do not participate to the same degree as men in the labour market. The difference between the male and female employment rate in the Czech Republic was around 17 percentage points in 2011. This situation remains unchanged since 2002.

In addition, it is notable that the female employment rate has not increased since 2002. It is therefore a core challenge to support any initiatives directed at encouraging more women to enter the labour market.

1 Gender Diversity

According to our collected data on the gender diversity in the top one hundred Czech companies among the different industries at the end of year 2014 analysis of shows that many companies are implementing measures to increase gender diversity within their management teams. Indeed, majorities of executives have said in earlier research that their companies had implemented at least one measure to recruit, retain, promote, and develop women—yet few companies have seen notable improvements as a result. The 2014 results confirm that, beyond specific actions, culture has a critical role to play in either supporting or hindering efforts to advance diversity. The general participation rate of women in the Czech labour market lies at 57.2% - which is close to the EU average (58.5%) – the rate of women actively searching for work (8.0%) is also close to the EU-28 average (9.8%) The rate of Czech women working

part-time (8.5%) is significantly lower than the EU average (31.6%) – the female average part-time weekly working hours (22) are about as high in the Czech Republic as on EU average (20) College/university (tertiary education) attainment of Czech women has increased to 16.0% but still remains below the EU average (24.8%) – gender segregation in the choice of education is pronounced in the Czech Republic as well as in the EU-27 The under-/overrepresentation of women and men in occupations or sectors² is pronounced in the Czech Republic as well as in the EU-28 – it is necessary to motivate graduates to enter gender atypical sectors The under-/overrepresentation of women and men on hierarchical levels³ is pronounced in the Czech Republic and in the EU-27 – the proportion of women on supervisory boards lies around EU-28 average (15% vs. 14%); the proportion of women in parliament lies far below EU average (18% vs. 35%)

The unadjusted gender pay gap – the overall difference in income between women and men – is significantly higher in the Czech Republic (25.5%) than on EU-28 average (16.4%).

The responses suggest that mind-sets and company culture are significant in affecting women's confidence to achieve their career goals; they also highlight the particular aspects of corporate culture that make it most difficult for women to reach the top. Yet there is still a notable gap in how men and women regard the gender-diversity problem. Men are much more likely than women to disagree that female executives face more difficulties in reaching top management, and men see less value in the diversity initiatives that can correct the gender imbalance. Workforce gender diversity is increasing in countries all over the world (International Labour Office, 2007). For example, women's representation in the United States civilian labor force has increased from 29.4 percent in 1950 (U.S. Census Bureau, 1970) to 46.3 percent in 2006 (U.S. Bureau of Labor Statistics, 2007). Similarly, women's representation in the Australian labor force has increased from 22.9 percent in 1954 (Commonwealth Bureau of Census and Statistics, 1958) to 46.1 percent in 2006 (Australian Bureau of Statistics, 2006). The increase in workforce gender diversity has attracted the attention of both researchers and practitioners. In particular, a question arises whether the gender composition in an organization's workforce will affect individual, group, or organizational level performance. In the early 1990s, both scholars and practitioners were generally optimistic about the effects of workforce diversity on performance. For example, Cox and Blake (1991) argued that diversity can be a source of competitive advantage. However, theories and empirical research thus far suggest that diversity can lead to either positive or negative outcomes. The resource-based view of the firm (Barney, 1991) suggests a

positive diversity-performance relationship, whereas social identity theory (Tajfel, 1978) suggests a negative diversity-performance relationship. Further, empirical research has found inconsistent results suggesting that diversity can be either good or bad for businesses (for reviews, see Jackson, Joshi, & Erhardt, 2003; Svyantek & Bott, 2004).

The female executive members number is measured with the gender diversity coefficient which is represented by the following formula:

$$O_n = 1 - \left[\frac{n - 1}{N - 1} \right]^h$$

where,

O_n – gender diversity coefficient

n - female executive members, N - male executive members

For instance, Svyantek and Bott (2004) reviewed nine diversity studies (published during 1989-2003) that investigated the gender diversity-performance relationship. Out of the nine studies, four found no main effects, two found positive effects, two found negative effects, and one found a nonlinear effect. The body of literature on diversity sends a confusing message to practitioners on whether gender diversity is good for businesses or not. The mixed evidence suggests the value of focusing on competing predictions (Armstrong, Brodie, & Parsons, 2001), including nonlinear predictions (Richard, Kochan, & McMillan-Capehart, 2002), and of considering the effect of context on the diversity-performance relationship (Jackson et al., 2003). Competing predictions are useful when ‘prior knowledge leads to two or more reasonable explanations’ (Armstrong et al., 2001: 175). Moreover, Jackson et al. (2003) advised scholars to describe their studies’ contexts in detail to enable cross-study comparisons that might explain inconsistent results. Studying the moderating effect of context might help explain inconsistencies in past research and achieve a ‘more precise and specific understanding’ of the primary gender diversity-performance relationship (Rosenburg, 1968: 100). The share of women in the boardrooms of the largest 500 companies in the Czech Republic has increased year-on-year from 12.2% to 16.7%. Although the number of female leaders in the largest companies in the Czech Republic has significantly increased since 2001, no major changes have taken place in comparison with the past two years. This is according to

the Deloitte CE TOP 500 rankings and the statistics of the Czech Republic's Deloitte Corporate Governance Centre. Women represent 16.4% of the board members of the largest publicly listed companies in the Czech Republic (PX-GLOB index). This proportion is higher than the EU average (15.8%). There are 16.7% women board chairs, significantly above the EU-average. But there are no women CEOs in the companies covered (see Table 1).

Tab. 1: Female executive members

	Czech Republic	EU-28
Board Chairs	16,7%	3,3%
CEOs	0%	2,4%
Members of Boards	16,4%	15,8%

Source: European Commission

2 Company Board

The Czech Republic has a dual (or two-tier) board system, characterised by the existence of both a supervisory (Dozorčí rada) and an executive board (Představenstvo). In the European Union, corporate governance codes recommend a unitary-board system in 8 countries and a dual-board system in 10 countries, though there may be some exceptions. In the remaining 9 countries a hybrid system applies and companies can choose between a one or two-tier approach. Of all requisite competencies, industry expertise is perhaps the most important attribute for board members because it equips directors with a deeper understanding of the risks and opportunities in a specific industry and also enhances directors' knowledge of the regulatory environment and key industry players. These points are well understood by practitioners. The consulting firm McKinsey & Co. states in a 2006 report: "...in our work with boards we find that too many simply lack directors who have industry expertise to participate effectively in shaping strategy... We believe that on a board of, say, a dozen directors, a litmus test of strategic energy is the presence of at least three or four members who have deep industry expertise in the core business and market conditions the company faces" (Carey and Patsalos-Fox, 2006). Similarly, 40% of respondents in a recent survey of S&P 500 firms identified industry expertise as a desired background for director candidates, second only to financial expertise at 42% (Spencer Stuart, 2011). Nevertheless, there is a conspicuous void in the literature concerning the impact of this board attribute. We aim to fill this gap by examining whether, how, and in what circumstances directors' industry expertise

enhances board effectiveness and if there is a correlation between board members and industry sectors.

3 Industry Significance

Nowadays, industry is still very important to the economy of the Czech Republic. As regards the percentage share, industry stands at 35% (62.3% services, 2.8% agriculture). Over 40% of all economically active citizens work in the industrial sector. The main pillars of the Czech industry are engineering and machine engineering, mining, chemistry and foodstuff production, followed by the energy industry, civil engineering and consumer industry. The engineering industry is ranked among the most traditional industrial branches in the Czech Republic. Its most important part is the automotive industry, which is a very strong exporter as well. In 2010, according to the Czech Statistic Office, 54.2% of export was from products of the automotive industry. The automotive industry in the Czech Republic employs over 120 thousand people. The largest and most significant producer of automobiles in the Czech Republic is Škoda Auto. Share of women employed in the nonagricultural sector (% of total nonagricultural employment) in Czech Republic was last measured at 46.10 in 2011, according to the World Bank. Share of women employed in the nonagricultural sector is the share of female workers in the nonagricultural sector (industry and services), expressed as a percentage of total employment in the nonagricultural sector. Industry includes mining and quarrying (including oil production), manufacturing, construction, electricity, gas, and water, corresponding to divisions 2-5 (ISIC revision 2) or tabulation categories C-F (ISIC revision 3). Services include wholesale and retail trade and restaurants and hotels; transport, storage, and communications; financing, insurance, real estate, and business services; and community, social, and personal services-corresponding to divisions 6-9 (ISIC revision 2) or tabulation categories G-P (ISIC revision 3). This page has the latest values, historical data, forecasts, charts, statistics, an economic calendar and news for Share of women employed in the nonagricultural sector (% of total nonagricultural employment) in Czech Republic.

Tab. 2: Regression analysis

	Services	Merchandising	Production
Turnover	-0,25795	-0,236680197	-0,87229
Number of Employees	-0,11301	0,841189964	-0,04136
Females in Boards	0,178243	-0,616935171	0,387094

Source: Own research

Table 2 depicts that there is positive relation between the female representatives in the company boards and the different industries in which are nested the researched companies. However, the industry sector does not affect directly the number of female representatives in the boards across the companies which mean that the Industry sector does not have significant influence on the gender diversity in the covered companies. The standard deviation across the variables is 40904391,56.

Table 3 shows that the variables are not dependable on each other and that the Czech companies possess low number of female representatives on their boards. Moreover, the table illustrates that there is significant need of increasing of female members on the board of the companies.

Tab. 3: Accumulative table

Variables	Median	St.Dev	Variance
Females in Boards	350	33 767 287	21684296
Number of Employees	439	29 657 786	20456704
Turnover	346	40 567 809	30456778

Source: Own research

Conclusion

The paper findings proved that the Industry Sector does not impact significantly the gender diversity in the companies' boards. Along with that the female who are taking senior position in the companies are not the decision makers which means that in the future it has to be improved. More important factors for the formation of the companies' boards are the socio-economic parameters as rate of unemployment of females, birth rates, investment in education, etc. It means that in the future these factors will determine and shape the future look of the company boards regardless the industry impact.

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