JUSTICE

Exchange of good practices on gender equality

Women in economic decision making

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Women in economic decision making in Germany[1]

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Introduction

The low percentage of women in top-level management positions in Germany has been attracting increasing attention among the general public and policy-makers alike, particularly since the March 2010 introduction of a women's quota by Deutsche Telekom—the first and still the only of Germany's 30 largest publicly traded (DAX30) companies to implement such a quota. The policy stipulates that by the end of 2015, the company will employ at least 30 percent women at all of its locations worldwide and across all levels of the company hierarchy, with exception of the executive and supervisory boards. Since then, the issue has become the subject of intensified public discussion.

The objective of increasing and maintaining the number of women in executive positions is one to which the majority of German business leaders and policy makers aspire. But there are differences in how — and how quickly — they aim to meet this objective. This topic has been a component of policy plans and projects for many years and indeed decades.

The 2001 Agreement between the Federal Government and the Central Associations of German Business on Promoting Equal Opportunities for Women and Men in the Private Sector was passed with the aim of increasing the proportion of women in executive positions. This voluntary approach has had hardly any effect. The 2009 coalition agreement between the CDU, CSU, and FDP underscored the call for a "substantial" increase in the proportion of women in leadership positions in both the private sector and in the civil service. In the current legislative period, a step-by-step plan is to be designed to increase the proportion of women on executive and supervisory boards in particular.

The Government Commission of the German Corporate Governance Code initiated a public discussion and in May 2010 extended their recommendations to include "due consideration" of women for appointments to supervisory and executive boards. In 2010 and 2011, the Deutsche Juristinnenbund DJB (German Women Lawyers Association) raised corporate and public awareness of the problem by visiting 150 Annual General Meetings of large listed companies as part of their project "Women Shareholders Demand Gender Equality." They inquired into the proportion of women in top management and proposed specific measures to increase this share. The DJB found that while many companies reported having made efforts on their supervisory boards, they still remained largely unwilling to question the gender composition of their executive boards.[2]

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1 The situation in Germany from 2006-2011 is analyzed in detail in two articles by Elke Holst and Julia Schimeta: "Top-Level Management in Large Companies: Persistent Male-Dominated Structures Leave Little Room for Women." *DIW Economic Bulletin* (4) 2012, 3-15, and "Passed Over for Promotions: Women Still Severely Underrepresented on Financial Sector Boards," *DIW Economic Bulletin* (4) 2012, 15-23.
http://www.diw.de/documents/publikationen/73/diw_01.c.396471.de/diw_econ_bull_2012-04.pdf

2 See Deutscher Juristinnenbund e.V., *Aktionärinnen fordern Gleichberechtigung – 2011. Erhöhung des Frauenanteils in Führungspositionen im europäischen Kontext* (Berlin: 2011), 93.

In 2011, various sides called for a women's quota on corporate boards. The Verband Deutscher Unternehmerinnen VdU (Association of German Women Entrepreneurs) has been advocating this goal for some time. The Ministers for Justice of the Länder took a majority decision that a federal gender quota for executive positions on company boards is not only constitutionally permissible but also urgently needed. Federal Minister of Labour and Social Affairs Ursula von der Leyen called for a fixed quota system both in Germany and at the EU level. In contrast, Federal Minister for Family Affairs, Senior Citizens, Women and Youth Kristina Schröder advocated voluntary participation and, if necessary, a "flexi-quota" whereby companies with a certain minimum number of employees should be legally obligated to introduce internal gender quotas for their supervisory and executive boards. On March 30, 2011, Schröder invited business leaders from the DAX companies to the Women's Quota Summit. On October 17, 2011, representatives of DAX companies attended a further summit meeting held by the federal government. Most of the companies in attendance presented targets for the proportion of women in corporate management (although with differing standards for the definition of corporate management) but failed to provide information about the actual and future appointment of women to executive and supervisory boards.

In November 2011, North Rhine-Westphalia submitted a bill to the Bundesrat to introduce a gender quota for executive boards. It was rejected. In the Bundestag, further motions by the parliamentary groups of the opposition parties SPD and the Left Party ("Die Linke") to introduce quotas for gender-balanced representation on supervisory and executive boards and a bill by the Bündnis 90/Die Grünen parliamentary group that was restricted to supervisory boards suffered the same fate. The most recent effort by policy-makers came in the form of a bill by the SPD for a minimum of 40 percent women on supervisory and executive boards that was submitted to the Bundestag for approval (March 2012).

In December 2011, an alliance of women from all of the parties represented in the Bundestag signed the "Berliner Erklärung" (Berlin Declaration) calling for at least 30 percent women on supervisory boards. More than 15,000 people have signed the Berlin Declaration to date. In February 2012, 350 women journalists sent a letter to editors in chief, publishers, and managers across the country demanding that at least 30 percent of all management positions in editorial offices be filled by women within the next five years. In April 2012, former German chancellor Gerhard Schröder urged that a gender quota be introduced at least in supervisory boards, and said that if this first step is not taken, little will change in the years to come.[3]

Nonetheless, in Germany's largest companies, women still play only a marginal role in the most important economic decision-making processes.

Situation

Germany has a "two-tier" system of corporate management divided between executive and supervisory boards. Appointments to supervisory boards are governed by the system of employee co-determination: depending on which of Germany's three laws on

[3] See, e.g., *Der Spiegel*: http://www.spiegel.de/politik/deutschland/0,1518,825884,00.html (April 5, 2012).

co-determination apply to the company in question, the employees appoint either one-half or one-third of the supervisory board members.[4]

As of the end of 2011, only 3 percent of executive board members in Germany's top 200 companies (excluding the financial sector) were women (28 women out of 942 members). At the same time, women held an 11.9 percent share of seats on supervisory boards (269 of 2268). Over two-thirds were employees' representatives; very few women were appointed by the shareholders. In this respect, there has been barely any change in the top 200 companies in comparison with previous years. The largest 30 publicly traded (DAX 30) companies have been the focus of public attention. Here, the percentage of women was 3.7 percent in 2011 (7 of 180), which represents an increase of 1.5 percentage points from the previous year (3 women). The proportion of women in the boards of medium (MDAX) and small (SDAX) publicly traded companies was similarly low. There are hardly any women CEOs.

A similar situation can be found in the financial sector—despite the fact that more than half of all employees are women. Opportunities to increase the proportion of women board members in Germany's financial sector were missed during the post-crisis period of management shakeups. As of 2011, the proportion of women on executive boards was still as low as in previous years: 3.2 percent in Germany’s 100 largest banks and savings banks and 3.6 percent at 59 insurance companies surveyed. The percentage of women on supervisory boards is higher than on executive boards: women make up 16.6 percent of supervisory board members at banks and savings banks and 13.1 percent at insurance companies. At the banks, this represents an increase of 1.5 percentage points over 2006, or 0.14 percentage points per year. The higher proportion of women on supervisory boards is also the result of German co-determination law: 70.9 percent of the women on bank and savings bank supervisory boards and as many as 94.7 percent—that is, almost all—of the women on insurance sector supervisory boards were appointed to these positions as employees’ representatives. Compared to the previous year, the proportion of female shareholder representatives declined again. There are hardly any women CEOs.

In companies with government-owned shares (some of which are considerably smaller than the top 200 companies) 8.2 percent of executive board members and 17.7 percent of supervisory board members are women. This underscores that women are still far from achieving gender equality in the boardroom. The percentage of exclusively male supervisory boards increased significantly—by 8.8 percentage points—from 2010 to 23.6 percent in 2011. Significant efforts are necessary in the public sector if it is to act as a role model for the private sector.

All in all, the results (tables 1 and 2) for Germany show almost no significant changes over the last years. The absolute numbers and low percentages of women on corporate boards show that a few scattered appointments of women are not sufficient to change the situation as a whole. Although some companies have announced plans to appoint a handful of women to their supervisory boards in 2012, the resulting overall increase will nevertheless be very moderate. The situation is slightly better on supervisory boards. More decisive steps are needed to change the situation.

[4] In companies with more than 1,000 employees in the coal, iron, and steel industry as well as in mining (if the company is an AG, GmbH, or Einheitsgesellschaft), the supervisory board is made up of equal percentages of shareholder representatives and employee representatives, plus one “neutral” member. In Kapitalgesellschaften (corporations) outside the coal, iron, and steel industry with more than 2,000 employees, half of the supervisory board is made up of employee representatives; in corporations with 500 to 2,000 employees, one-third are employee representatives. For more details, see: http://www.boeckler.de/5543_33350.htm

Table 1

Share of Women on Executive and Supervisory Boards in Germany 2006-2011[1]

	2006	2007	2008	2009	2010	2011	*Change* *2011-2010*	*2011-2006*	2011-2008
Executive Boards			in Percent				*in Percentage points*		
Top200 companies (Excluding the Financial Sector)	1,2	1,8	2,5	2,5	3,2	**3,0**	*-0,2*	*1,8*	0,5
Top100 companies (Excluding the Financial Sector)	0,2	1,3	1,3	0,9	2,2	**2,4**	*0,2*	*2,2*	1,1
DAX30			0,5	0,5	2,2	**3,7**	*1,5*		3,2
MDAX						**2,3**			
SDAX						**4,8**			
Major and Savings Banks	2,5	2,3	1,9	2,6	2,9	**3,2**	*0,3*	*0,7*	1,3
Insurance Companies	2,5	3,2	2,4	2,8	2,5	**3,6**	*1,1*	*1,1*	1,2
Supervisory Boards									
Top200 companies (Excluding the Financial Sector)	7,8	8,6	9,3	9,8	10,6	**11,9**	*1,3*	*4,1*	2,6
Top100 companies (Excluding the Financial Sector)	8,6	8,6	9,8	10,1	9,6	**11,2**	*1,6*	*2,6*	1,4
DAX30			13,1	12,7	13,1	**15,7**	*2,6*		2,6
MDAX						**11,4**			
SDAX						**10,7**			
Major and Savings Banks	15,1	15,4	15,5	16,8	16,3	**16,6**	*0,3*	*1,5*	1,1
Insurance Companies	11,3	12,7	13,5	12,4	11,9	**13,1**	*1,2*	*1,8*	-0,4

1 Only companies that provided information on the composition of the relevant top-management bodies.
Source: calculations by DIW Berlin.

Table 2

Women on Executive and Supervisory Boards of Companies with Government-Owned Shares in Germany in Percent 2011

	Companies with government-owned shares	Public - sector banks	Note: Banks and savingsbanks	Note: Cooperative banks
Executive Boards				
No women on the board	**83,3**	**92,5**	**85,3**	**76,9**
Proportion of Women	**8,2**	**2,5**	**3,3**	**5,4**
Chairs	**5,5**	**0,0**	**2,9**	**0,0**
Supervisory Boards				
No women on the board	**23,6**	**5,7**	**23,5**	**7,7**
Proportion of Women	**17,7**	**16,8**	**16,6**	**15,5**
Chairs	**15,1**	**3,8**	**0,0**	**0,0**

1 Only companies that provided information on the composition of the relevant top-management bodies.
Source: calculations by DIW Berlin.

Policy Recommendations

The main arguments in favour of mandatory gender quotas on Germany's corporate boards are the current low representation of women in these boards, which points to an ongoing severe loss of talent, and therefore the "business case" of promoting a new generation of talented leaders (talent pipeline)—especially before the background of a serious demographical change after 2015. From the side of politics, equal opportunity is also a key argument.

Arguments against mandatory gender quotas have been put forward with the argument that companies are better able to manage the process by themselves and that state interventions (quotas) might hinder their economic outcomes and growth.

The main alternative to mandatory quotas currently under discussion in Germany is that of Federal Minister for Family Affairs, Senior Citizens, Women and Youth, Kristina Schröder. She is strictly opposed to fixed quotas and favours voluntary participation and, if necessary, a "flexi-quota" (the specifics of which have not yet been released). In general, the proposal is to obligate companies with a certain minimum number of employees to implement and enforce their own internal gender quotas for executive and supervisory boards. According to the proposal, the voluntarily agreed targets will be enforced if the percentage of women on executive and supervisory boards on national average has not increased threefold.[5]

What can companies do to improve the situation? We propose five steps: increasing the proportion of women in executive management should (1) be adopted as a *central corporate objective* applying to all levels of management. In order to achieve the objective, (2) a *binding schedule* should be drawn up with specific measurable objectives and timeframes as well as responsibilities and sanctions. (3) *Transparency* in appointments to executive positions and, in particular, top positions. This could help expand the pool of candidates. Moreover, transparency with regard to salaries and other benefits increases the probability of equal pay for equal work and thus contributes to acceptance of female managers. Furthermore, (4) as far as *human resources development* is concerned, it should be ensured that women are included in career development from the start of working life. More flexible career paths will give both sexes the opportunity to play more than a limited gender-defined role in society. To make this possible requires (5) *opening up corporate culture* to women and their everyday realities.

In Germany, media pressure has played a crucial role in disseminating knowledge and maintaining a high level of attention on the issue of women in decision making. The decision by Deutsche Telekom to introduce a gender quota has given additional momentum to the discussion. Also the constant and clear demand for a fixed gender quota by Federal Minister of Labour and Social Affairs Ursula von der Leyen, as well as the other political efforts mentioned above, have been important in spotlighting the male “monoculture” on corporate boards as a problem that needs to be solved. Last but not least, reliable indicators showing the persistence of these male monocultures in Germany’s corporate boardrooms were a prerequisite for understanding the extent to which female talent is being wasted and the urgency of the need to change the situation.[6]

For Germany, upcoming policy action at the EU level will be of key importance — particularly decisions expected this summer from EU Commissioner and Vice President Viviane Reding regarding her recent announcement (March 2012) that an EU-wide quota for women on supervisory boards is under consideration. It remains also to be seen whether and how the next elections to the Bundestag (lower house of German parliament) in 2013 will influence the priority given to gender policies.

Finally, the discussion surrounding women’s role in decision making, especially on corporate boards, should not be an elite discussion. The current discussion of the number of women on corporate boards should be incorporated into a broader discussion of gender balance throughout the corporate hierarchy. A (more) balanced representation of women in the business world would not only underscore the importance of more equal gender participation in society and indeed move society further toward this goal; it may also act as a tool to reduce the gender pay gap. Gender differences in pay have an effect across the life course: the gender pension gap in Germany is 59 percent.

[5] See for details: http://www.bmfsfj.de/BMFSFJ/gleichstellung,did=168620.html and http://www.bmfsfj.de/RedaktionBMFSFJ/Abteilung4/Pdf-Anlagen/Stufenplan-Schema,property=pdf,bereich=bmfsfj,sprache=de,rwb=true.pdf.

[6] DIW Berlin has been producing indicators since 2006.

Discussion of Papers from Norway, Denmark, and the UK: Transferability

The national-level papers are very interesting with regard to the different approaches being used to increase the number of women in decision-making positions and to expand the pool of women candidates for supervisory boards and middle management leadership positions. The approaches taken range from voluntary commitments (Denmark, UK) to mandatory regulations (Norway). The results suggest that combined approaches offer the most effective way to increase the percentage of women in decision-making. A thorough evaluation of the Danish and British approaches will only be possible, however, when longer-term results are available.

The fixed quota in Norway very quickly increased the number of women in boards but has not, at least up to now, significantly changed the situation of women in management positions at lower hierarchical levels. More time may be needed to evaluate the impact of the quota, which was only introduced a few years ago on a broader scale in large private companies. Furthermore, the majority of private firms in Norway are not affected by the quota. Keeping in mind that social change is slow in general, a few more years may be needed to compare the improvements brought about by mandatory and voluntary commitments. Nevertheless, voluntary activities such as those in Denmark may be useful to complement the mandatory quota in Norway and thus to speed up progress in the positions below the board level.

The UK's approach to increasing the percentage of women in boards has been driven mainly by a government-appointed commission, and the discussion paper makes clear how fragile the situation is when success depends crucially on the involvement of key players. As long as they are involved, however, this approach may prove to have positive effects.

For Germany, I currently see progress in the discussion of these issues, but little movement towards an "Operation Chain Reaction" plan (Denmark) or a "Davis Report" (UK). On the side of companies, there is a great deal of diversity on the question of how and how quickly the rate of women in decision making should be increased, or whether one should instead just wait, based on the argument that highly qualified women will eventually make their way into management more or less automatically. Some companies are already making great efforts; others are still unprepared to do so. On the political side, it is not clear yet which way to go— quota or voluntary flexi-quota.

Up to now, Germany has little positive experience with the proposed and still vaguely defined system of voluntary commitments. Clear targets as well incentives and sanctions when targets are (not) reached could accelerate the process. Nevertheless, the voluntary actions of Denmark and UK might encourage more companies to open up their corporate culture to women in decision-making and therefore increase the probability of more women entering these jobs. A quota like that implemented in Norway would probably need more support before gaining a majority in the current administration. As a result, the decision of EU Commissioner Vivian Reding concerning an EU-wide gender quota has received special attention. In general, it can be said that companies that are already actively working to increase the number of women in decision-making will undergo this process at lower costs than those that are unprepared to do so.

However, the rate of improvement also depends on the respective country's culture, which determines the regulations and/or approaches that are chosen. Voluntary commitments might affect rates in one country but not necessarily in another. For example, the use of either an individual tax or an income-splitting tax on married couples (*Ehegattensplitting*) provides different incentives for women to work, for women's working hours, and for (the perpetuation of) stereotypical expectations about married women's role in society. Countries in which the income tax system, child facilities, and other policy frameworks are constructed to support (full-time) working women and men equally and in which corporate cultures are open to women on all levels of management will probably improve faster through voluntary commitments than countries in which more traditional frameworks exist and where women face higher and more difficult obstacles to pursuing a successful career.