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WOMEN DIRECTORS ON CORPORATE BOARDS

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ABSTRACT India is one of the first developing countries to have enforced a legal framework to push for greater presence of women in company board rooms. The 2013 Companies Act (Section 149) and SEBI regulations make it mandatory for listed companies as well as companies with a paid-up share capital of at least Rs 100 crore or turnover of at least Rs 300 crore to appoint at least one woman director.

More than four years since the legal requirement was enacted, have company boards complied in both letter and spirit?

The paper dwells on the penetration of women on corporate boards and its trend in National Stock Exchange (NIFTY 500) Index companies over a period of four years after to the implementation of mandatory provision (i.e. 2013-2017) The results of data analysis revealed that in India women participation on corporate boards is at the stage of tokenism as only larger boards have few women directors.

KEYWORDS : Woman Directors , Companies Act 2013, SEBI, Corporate Boards.

INTRODUCTION

Gender diversity on boards continues to be a hotly debated topic across the world. Proponents of greater diversity contend that female representation brings in a different perspective, intuitiveness and a more collaborative style of leadership into corporate boardrooms. Their views are supported by a growing body of academic evidence linking gender diversity and financial performance.

Consequently, multiple jurisdictions across the world have adopted legislation to promote diversity at the leadership level. The European markets have taken the lead in this initiative with Norway, Germany, France, Belgium, and Italy, all having enacted mandatory quotas for female representation on the board. Other countries, including Austria, Sweden, and the UK, have adopted voluntary targets.

India is one of the first developing countries to have enforced a quota – the legal framework now mandates listed companies to have at least one women director on the board. While this is less stringent than some of the thresholds prevalent in global markets, it is a welcome step in changing the extant market dynamic.

Companies have woken up from their inertia and are more mindful of the need to have women directors at the board level. Female representation in the NIFTY 500, which was at 5% as on 31 March 2012, has increased to 13% as on 31 March 2017. A large proportion of women directors (60%) are independent – which is contrary to the popular notion that women directors are only getting appointed from the promoter family to comply with the regulations. But clearly more needs to be done. At 13%, women are still underrepresented in stewardship roles despite constituting a significant portion of the talent pool in corporate India. This is much lower than countries like Norway (39%), France (34%), UK (23%), and USA (21%). Only 26 boards in the NIFTY 500 had three or more women directors on 31 March 2017. 15 companies had no female representation on the boards, as compared to only six companies in the S&P 500 on 31 March 2017.

Literature Review

Gender Diversity in the Boardroom and Firm Value

If gender diversity displays a positive relationship with firms profits, then the economic implications of gender diversity are influential as they enable higher overall economic activity, in line with predictions described by McKinsey and Company in a 2015 report (Woetzel et. al, 2015).

Economic Arguments and Greater Gender Diversity

In order to assess the complexities of gender diversity and firm economic performance, an appropriate pluralistic approach for the theoretical underpinnings of evaluating the causal relationship between gender diversity and firm performance is required (Low et. al, 2015 and Roberts et. al, 2006).The three major theories, namely: (1) Agency Theory, (2) Resource Dependence Theory and (3) Social Psychological Theory, relate boardroom gender diversity and corporate governance and are the most commonly cited among academics. However, the cumulative effects of these three arguments are still ambiguous. For example, while Agency Theory supports gender diversity and firm performance, Social Psychological Theory provides arguments otherwise. Hence, these effects have to be empirically tested in order to determine the effect board gender diversity has on firm performance.

The Indian Scenario

The Companies Act of 2013, Section 149 (1) requires every company of a prescribed class to have "at least one woman director"; the prescribed class comprises all listed companies (with some exceptions) and every other public company having a paid up share capital of INR 100 crore or more, or, turnover of INR 300 crore or more. As regards listed companies, this provision is reflected in the Clause 49 (II) (A) (1) of the Listing Agreement. Also, SEBI had mandated that the appointment of woman directors to the board must happen no later than 1 April, 2015.

Which listed companies are not mandated to have women directors?

Listed companies having paid up equity share capital not exceeding Rs 10 crore and net worth not exceeding Rs 25 crore, as on the last day of the previous financial year are not obliged to comply with Clause 49 of the Listing agreement. These listed companies are not required to have women directors, since the mandate to have 'at least one woman director' holds only for those listed companies in respect of which the Clause 49 is applicable.

Following this criteria, as on 1 April 2015, out of all active (i.e., not suspended from trading) listed companies of NSE, it was not mandatory for 21 companies (source: Prime Database) to adhere to the provisions of Clause 49and therefore to the provision of "at least one woman director in the board".

Analysis of NIFTY 500 Companies

These 500 companies had a total of 4,750 members on their boards as on November 20, 2017. As many as 4,100 of these were male. Thus, for the entire cohort, women made up around 14 per cent of all members of boards of these companies.

TABLE 1 Members On The Board Of Nifty 500 Companies

MALE	86%
FEMALE	14%

Source: Prime Database

In March, 2012 before the legal enactment, female representation on boards of NIFTY 500 was 5 per cent. The amendment does seem to have triggered off the right trend. However, at 14 per cent the NIFTY 500 is still behind countries like Norway (39 %), Sweden (35%), France (34%), Finland (32%), Belgium (27%) that are leading the global trends on ensuring greater presence of women in company board rooms.

There is high compliance for the requirement of "at least one woman director" under the Companies Act. 71% of the 500 companies, had one woman on their board – the minimal requirement under law. While 26% of the companies went beyond the minimal limit, there were 98 companies with two women on their boards and 31 with three or more women.

In absolute numbers, the companies with maximum number of female board members were Ultratech Cement Ltd, Cipla Ltd, Apollo Hospitals Enterprise Ltd, and Godrej Consumer Products Ltd. with four females on their boards each. However, 14 companies did not have a single woman on their boards as of November 20, 2017. 8 of the 14 in this list of misses were PSUs.

TABLE 2 Female Members On The Board

NO FEMALE MEMBERS ON THE BOARD	3%
1 FEMALE MEMBERS ON THE BOARD	71%
2 FEMALE MEMBERS ON THE BOARD	20%
3 OR MORE FEMALE MEMBERS ON THE BOARD	6%

Source: Prime Database

When the law made it mandatory for "at least one woman director", there were concerns that this may result in companies placing someone from the promoter-director families, or from within on the board to comply. In an encouraging trend, only 16% of all women were also promoter directors (just a degree more than the 15% of all men).

Data for the NIFTY 500 shows 60 % of all females on all boards were independent. This was a greater proportion than for males, 49% of whom were listed as independent.

TABLE 3 Members On The Board Listed As Independent

MALE	49%
FEMALE	60%
OVERALL	51%

Source: Prime Database

In our analysis, we found 83 women who were members of boards of more than one company, with three women present on as many as six boards. Multiple board membership isn't unique to women, several male members also occupied positions on multiple boards, with one being present on nine of the 500 NSE companies.

Another positive trend–women were not just listed as members on the board, but were actively attending meetings. For 1,296 board members where all relevant data was available, male and female members faired nearly the same on attendance with both having had attended 89 and 88 per cent of board meetings during their tenure in 2016-17.

If companies are to take gender diversity and women empowerment beyond just buzz words, they need to go beyond just ensuring female presence. To assess of how companies were faring when it came to the nuts and bolts, we studied two additional metrics – earnings and membership of committees. The disparities begin to appear here.

About 15% of board seats in listed Indian companies are now held by women, reflecting their rising sway in the corporate world. The numbers have risen from just 4 per cent three years ago, following a SEBI directive to have at least one woman director.

Among the 1,691 NSE-listed firms, Godrej Agrovet and IT services provider Airan Limited are the only ones with five women members on the board, including three independent directors, according to statistics from the Prime Database Group. Five others have four women directors — Indraprastha Medical Corp, Apollo Hospitals Enterprise, Cipla, Ultratech Cement and Godrej Consumer Products. Most companies, however, continue to have only one woman director, to comply with the SEBI norm.

As on October 31, 2017, of the 13,327 directorship positions in NSE-listed companies, 1,977 positions — about 15 per cent — were occupied by women according to Credit Suisse.

Overall, 1,633 out of the 1,691 NSE-listed companies had a woman on their board at the end of last month. However, of these, 616 positions are of non-independent women directors. Seven companies have never had a woman on their board even after the April 1, 2015 deadline.

While women are adding diversity to boardrooms, it is not yet established if they are able to have a strong say in decision-making. Most Indian companies are taking it as another compliance matter without realising how it may add value, or how they should see this as an opportunity to find highly qualified directors.

CONCLUSION

India Inc. has made a good start in adopting gender diversity. Although, it is one of the first developing countries to push for female representation, it still has some way to go to catch up with developed markets, where the average proportion of women directors generally ranges between 20%-40%.

Companies, on their part, need to embrace the diversity and put in place systems and processes which will end discriminatory practices and create an environment which allows for equal opportunity and collaboration. Increased visibility of women at the senior leadership will send a clear message that companies value diversity of thought and expertise – this sets the tone for advancing their overall governance agenda.

But for this, there needs to be a market-wide effort to support the initiative to better the gender diversity.

Recommendations

Increasing gender diversity in the workplace through strategic initiatives can be effective in the following ways:

- Boosting employee morale
- Sensitizing the workforce to the need for inclusive behaviour
- Bringing the inclusion perspective into strategic discussions around operational priorities conducted at the C-suite level

Until now, policies around inclusion appear to have remained restricted to the printed word for Indian employers. These policies need to be woven into the fabric of an organization for employees from diverse backgrounds to feel secure about discussing their work-life dynamics and successfully delivering on expectations - both inside the workplace and outside.

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