Women Directors in Corporate- A Kindling Move towards Women Empowerment

Dr.Manisha Singh
Faculty of Finance, IBS, Bangalore, Karnataka, Email: manisha@ibsindia.org

Akinchan Buddhodev Sinha
Assistant Director, ICSI-CCGRT, Navi-Mumbai & Research Scholar, ICFAI University Jharkhand
Email: akinchanbsinha@gmail.com

Abstract

In India, recognizing the significance of the role of woman in the growth and development of the corporate, The Securities and Exchange Board of India vide its circular date 17th of April, 2014 made it compulsory for all the listed companies to appoint at least one Woman Director on their Board by 31st of March, 2015 in alignment with the requirements of Section 149 of the Indian Companies Act, 2013, under corporate governance norms. Thus days are gone when women were ignored and their role was undermined. Today women are pillars of the business organization and making noteworthy contribution towards the success of business. In view of the burgeoning significance of women in corporate houses, this article makes an endeavor to delve deep into the need of women empowerment, how presence of women on corporate boards have enhanced the performance of the business organizations, the regulations governing the appointment of women directors on corporate boards and legal ramifications, takeaways from global practice and other important aspects.

Keywords: Women empowerment, start-ups, Corporate performance, Legal framework

Prologue- Women Empowerment

According to Nobel Laureate and Founder of UNDP's Human Development Index, Amartya Sen, once stated that empowering women and girls with more choices and more freedoms is vital to accomplish a better future for all. Women agency and freedom are among the significant catalyst for increasing development. It has been observed that countries which have expanded opportunities for women and girls in education and work in recent decades have largely attained prosperity and moderated population growth while restricting child mortality and accomplishing social progress for all.

Despite numerous initiatives taken both legal and political the condition of women is not so impressive, especially in corporate. In an article titled, *"What's Keeping Women From the Corporate Heights"?*, wherein there is a mention of existing discrimination in corporate boards. With reference to Europe the quotas to improve gender balance on corporate boards and threats to introduce them have gone some way to pushing Europe in terms of female representation in directorships. But the fact is on a global scale women are amazingly scarce in the higher spheres of corporate management.

In the U.S., gender-based discrimination is illegal, yet the June 2014 issue of Fortune magazine reported that the proportion of women CEOs had touched the historical level of 4.8 percent. What was striking that this development was described as "impressive progress", as in 1998 only one Fortune 500 company was led by a woman. Even in the gender and socially progressive Scandinavian countries female presence in executive management remains abysmal. One of survey revealed that merely 3 percent of the 145 biggest Scandinavian market capitalizations have a female leader. The same was found true with France.

Coming to India, according to a recent study on 'Women On Board 2016' by global recruitment tendering platform MyHiringClub.com and online job portal JobPortal.co.in presence of women members on boards of Indian companies is seen to be lower than the overall average for developing countries. In the mentioned study conducted online, a total of 38,313 listed corporate houses participated globally and in India 1,459 listed employees participated. The study revealed that overall percentage of women directors on board is 6.91% in these listed incorporations as against 6.69% in 2015. Norway once again led the table with a higher percentage of women on board at 40.12%, followed by Sweden (29.31%), Finland (25.89%), South Africa (18.31%) and the United States (17.37%). The report further noted that the average board life of male directors in India is 3 years more than their female counterparts while globally, the difference is merely about 2 years. Moreover, it was observed that women directors on an average are 5 years younger than males.

Review of literature

Gender diversity in corporate leadership relates to efficient allocation of human talents as an economic resource. The issue has increasingly inveigled the attention of academics and regulatory institutions in recent years. Several governments overtly urge corporate houses to step up female representations in boardrooms and senior management positions. For instance, United Kingdom (UK) proposes a minimum of 25%, Norway mandates 40%, and Germany mandates 30% female representation in boardrooms. These legislative initiatives are based on the view that tapping female talent pools could exert a positive impact on the corporate governance and performance. Academic studies using European and United States (US) data, however, could not reached to a definite conclusion. For instance, while Carter, Simkins, and Simpson (2003) exhibit a positive relation between gender diversity and corporate performance, Adams and Ferreira (2009) observed a negative effect.

Grant Thornton International (2015), drawing on 5,404 interviews in 35 economies and 20 in-depth interviews with senior business leaders, reports that women's progress is restricted by numerous factors, from ensconced social norms and gender bias to parenthood and antiquated business practices. The report also recommends initiatives to improve the advancement of women in corporate leadership. These measures include for society to stop holding female leaders up to a higher standard, for government to build requisite infrastructure and legislation, for women to reach for higher level assignments, and for corporate houses to make a top-level commitment to support women leaders.

Three theories have been put forward to explain the low ratio of female leadership, i.e. "Glass ceiling", "Motherhood", and "Selection process". The glass ceiling theory views the low representation of females in corporate leadership as a remaining gender discrimination issue, given that women were historically discriminated in social rights until the last century. Albrecht, Bjorklund, and Vroman (2003), based on a survey of 19,941,998 individual labourers in Sweden labour market create barriers for women from reaching the top of the wage distribution- a glass ceiling effect in top management. After extensive controls for gender difference in age, education (both level and field), sector, industry and occupation, the authors observed that the glass ceiling effect in the raw data persists to a considerable extent. Lyness and Judiesch (1999) studied over 30,000 employees from multinational financial services firms in the US. Consistent with predictions based on sex stereotype research, they show that relative to men, women were more likely to be promoted than hired into management positions, and also relative to men, women in higher-level positions received fewer promotions than women in lower level. Based on a two year follow up study with eBay workforce, Angier and Axelrod (2014) report that women experience the company in strikingly different manners from men, even though they possess equal desire to move up. More women than men feel that they are not understood and their opinions are not listened to.

The Need for Women Empowerment

If one refers to the Indian constitution, then one can clearly see that there is no place for inequality, which is unfortunately present in the society. The Indian constitution also enshrines the provisions which deal with the significance accorded to women in workplaces too and that women do have equal means of livelihood as compared to that of men. Other recognition includes provision for equal pay for equal work done by a women, maternity relief and such other provisions. It can be said without an iota of doubt that women have proved themselves in all spheres of career. Recognizing the growing importance of women, The Indian Companies Act, 2013 have incorporated the concept of '*Women Directors on Corporate Board'*.

Now the pertinent question emerges why women empowerment is required or in other words what advantages an economy can derive by embracing the idea of women empowerment. Probably the answer lies in the following points:

a) *Entrepreneurial quality*: Women possess paramount entrepreneurship abilities, in the sense that from home based micro-businesses to small start ups, they can set up and bring into operation any form of businesses. According to Forbes, women will generate over half of the 9.72 million new small business jobs by 2018. Not only are women creating jobs, the National Federation for Independent Businesses opined that women-owned small businesses can withstand recessions more effectively and display more adaptability than men owned small businesses.

b) *Ability to innovate*: Women have been innovators and have proved their excellence in the fields of science and math for hundred years despite witnessing discrimination and harassment. There is a noteworthy instance of a girl from Nigeria who constructed pee-powered generator. A Turkish girl who figured out how to turn bananas into bioplastic and Ada Lovelace who invented the first computer program. In a nutshell, more empowerment implies more women in science, which means more life-saving inventions.

c) *Half the globe's populace is women*: As it is considered that almost half of the population of the planet comprises of women, and of this what is shocking is that 50% of world's women population suffers discrimination, enhanced risk of assault and other problems almost on a daily basis. Now when on the one hand women possess tremendous potential in contributing substantially towards the economic development of a country, it is extremely shameful that they are exposed to such atrocity, thereby exerting a deleterious impact on their creativity.

d) *Beneficial for economy*: Financial empowers provide impetus to economic growth of a country, which in turn, play a crucial role in providing stability, alleviating poverty, and enhancing global competitiveness. In other words, having more bargaining chips on the table can assist a country's leaders in striking better deals with other governing bodies, as well as receive assistance and succor more effectively.

e) *Food for All*: The majority of women (almost 80%) is engaged in agriculture. Empowerment to grow, buy, and sell the crops they want reduces malnourishment in producing countries and enhances the quantum of food available for export.

It is a well-established fact that more women on team can provide an impetus to the performance. For instance, citing private internal research of 20,000 client teams, EY's vice chair Berth Brooke has stated that the more diverse teams enjoys higher profitability and high client satisfaction than non-diverse teams.

At this juncture it will be interesting to note the study done by Professor Aaron A. Dhir. Professor Dhir conducted a qualitative, interview-based study of Norwegian corporate directors, peeping deeply into the experiences of 23 Norwegian directors, men and women who had appointments both pre and post quota. The observations were as follows: First, several women brought to the boardroom, and to decision making, a different set of perspectives, experiences, angles, and viewpoints than their male counterparts. Board members also observed that female directors are more likely than their male counterparts to investigate deeply into the issues on salver by putting forward more questions, resulting into a strong intra-board deliberations. Most women appeared to be uninterested in presenting a portico of knowledge and were reluctant to formulate decisions they did not fully understand. Board members observed that female directors tended to have a different style of engagement, seeking the opinions of others and trying to ensure that everyone in the boardroom participate in the discussion.

It will be interesting to observe the outcomes of other research also pertaining to impact on performance of corporate houses due to inclusion of women on corporate boards. Charlotte Laurent-Ottomane, of the Thirty Percent Coalition, in American lobbying group devoted to have women fill thirty percent of the U.S. board seats by 2015, stated that companies witnessed better corporate governance when at least three women sit on their boards, which amounts to thirty percent on a ten person board. Since with this critical mass, female board members are in a positon to express their viewpoints / opinions.

Other research, though appears to show that female representation on boards may not have substantial impact on corporate performance. A 2011 study by two University of Michigan professors showed that the stock price of Norwegian companies took a dip when they started including women to their boards to comply with the country's requirement that women comprise forty percent of supervisory bodies. Better performance by corporate houses with female board members doesn't necessarily prove that that women led to robust performance, either, it also implies that corporate houses that are financially successful tend to be more inclusive.

In a study conducted on publicly traded companies by Credit Suisse Research Institute, it was observed that over a period of six years (*the study was published in an article, titled, "Do More Women on the Board Mean Better Results?, dated 19th November, 2013*), the share prices of companies with at least one woman on the board outshined those with no women on the board. Interestingly, while performance seemed to have little correlation with female board membership when the economy was booming, from 2005 to 2007, this changed with the recession. From 2008 to 2012, the stock prices of companies with at least one woman board member, on average, twenty-six percent higher than for corporate houses with no female board members. The authors concluded that more balance on the board brings less volatility and more balance through the cycle.

Legal Framework Exploring India

According to Indian Companies Act, 2013, every listed company and every other public company having (a) paid-up share capital of one hundred crore rupees or more or (b) turnover of three hundred crore rupees or more shall have a woman director. Now on this legal requirement, several experts have opined that the limit for the requirements for women director for unlisted companies should be reviewed and substantially enhanced. Mandating gender diversity may not be supported by a practical outlook in India. Board power needs to be enriched by bringing together the appropriate blend of members with the requisite or desirable skills needed for running the business proficiently.

The management should have an 'Inclusive Board', wherein there is a diversity of skills, thought, experience, knowledge, understanding, perspective and age. It needs to be noted that board members are leaders who evolve in their respective areas to be competent for the hierarchal role in the organization. Mandating legal requirement for this may put forward a challenge since one cannot be suitable for Board Member's role by dint of law since it has to come through the right education, skill, work experience, training and expertise in the business.

It is also provided that any sporadic vacancy of a woman director shall be filled-up by the Board at the earliest but not later than immediate next Board meeting or three months from the date of such vacancy whichever is later. However, it is also equally true that the period of three months is extremely short for finding the correct candidate since the quality of board is vital, i.e. there should be same rigor for women as for other directors. Also the culture needs to be ensconced into the organization so that diversity is fostered throughout the hierarchy and not adhered only at the director level. In view of this, the experts have suggested to increase the period to at least six months.

The Securities and Exchange Board of India vide its circular dated 17th of April, 2014 made it compulsory for all the listed companies to appoint at least one Woman Director on their Board of Directors by 31st of March, 2015 in alignment with the requirement of Section 149 of the Indian Companies Act, 2013, under corporate governance norms.

In response to SEBI's directions, more than 250 companies from Adani and Essar Groups, appointed women directors. However, an anomaly was observed in such appointments, i.e. majority of the companies appointed the wives or daughters of their promoters or top executives.

The initiative of BSE Ltd. regarding appointment of Women Directors should be exalted. According to a report published in Business Today, dated 15th of July, 2015, wherein there was a mention of the exchange levying fine on 530 listed companies for failing to meet the deadline of appointing a woman director in their Boardrooms.

Espousing the provisions of the SEBI Circular, BSE Ltd. by 13th of July, 2015 issued advisory to 530 companies regarding levy of fines for non adherence with the said provision within the prescribed timelines. It is important to note that according to a report, dated 19th of April, 2016, as many as 56 companies including Tata Power, Alstom India, state-run ONGC and GAIL have failed to comply with regulator SEBI's norms to appoint at least one woman director on board. These non-compliant firms include a host of PSUs (Public Sector Units) and PSBs (Public Sector Banks).

Impact on Corporate Performance

In this section an endeavor is being made to reconnoiter the impact of the presence of Women Directors on corporate performance in terms of Reported Net Profit After Tax. For this purpose randomly four companies have been selected out of which two companies had women directors whereas the other two have appointed women directors post SEBI's (Securities and Exchange Board of India) directors regarding mandatory induction of women directors on corporate boards. For analysis purpose the actual names of the corporate houses have been kept anonymous but actual financial data is referred for deriving conclusion.

F-test (One Factor Model) have been used to comprehend whether there is a significant impact on the Reported Net Profit After Tax or not due to presence of women directors on board. The companies which have women on their board have been named as A ltd and B ltd. and companies which have appointed women directors on 1st of April, 2015 in order to adhere to SEBI's directors have been named as C ltd and D ltd. Now to understand whether there is a significant impact or not on the profits of the mentioned companies, the period considered for the study is 2010-2014, since the other two companies, i.e. C ltd. and D ltd. does not had women directors on board for the mentioned period. The rationale behind considering the mentioned period is that a report titled, "*Standard Chartered Bank: Women on Corporate Boards in India 2010",* Cranfield University, School of Management, wherein the information pertaining to presence of women directors on corporate boards in 2010 have been provided. The four companies represents Steel, Banking , Power and Engineering, Procurement and Construction (EPC) sectors.

F-test (One Factor Model)

Null Hypothesis (H0) : There is no significant difference on the Reported Net Profit After Tax of Companies with and without Women Directors on Corporate Boards.

Alternative Hypothesis (H1): There is a significant difference on the Reported Net Profit After Tax of Companies with and without Women Directors on Corporate Boards.

Years	A ltd. (X1)	B ltd. (X2)	C ltd. (X3)	D ltd. (X4)
2010	1553.29	2478.14	170	567.87
2011	1659.38	3344.67	513.8	654.52
2012	1493.20	4218.51	-294.5	120.16
2013	1188.43	5233.79	-2295.01	-1,060.92
2014	387.97	6309.17	-290.55	-2,355.48
	$\bar{X}1$ = 1256.454	$\bar{X}2$ = 4316.856	$\bar{X}3$ = -439.252	$\bar{X}4$ = -414.77

Grand Mean = 1256.45 + 4316.86 + (-) 439.3 + (-) 414.8 / 4

$\bar{\bar{X}}$ = 1179.80

Variance Between Samples

$(X1 - \bar{\bar{X}})^2$	$(X2 - \bar{\bar{X}})^2$	$(X3 - \bar{\bar{X}})^2$	$(X - \bar{\bar{X}})^2$
5875	9841145	2621485	2544025
5875	9841145	2621485	2544025
5875	9841145	2621485	2544025
5875	9841145	2621485	2544025
5875	9841145	2621485	2544025
29375	49205725	13107425	127720125

SSC = Sum of Squares between samples = 29375 + 49205725 + 13107425 + 127720125 = 190062650

Variance Within Samples

X1	$(X1 - \bar{X}1)^2$	X2	$(X2 - \bar{X}2)^2$	X3	$(X3 - \bar{X}3)^2$	X4	$(X4 - \bar{X}4)^2$
1553.29	88114	2478.14	3380891	170	371246	567.87	965640
1659.38	162353	3344.67	945153	513.8	908400	654.52	1143445
1493.20	56051	4218.51	9673	-294.5	20967	120.16	286182
1188.43	4627	5233.79	840761	-2295.01	3443660	-1,060.92	417471
387.97	754258	6309.17	3969299	-290.55	22127	-2,355.48	3766239
	1065403		9145777		4766400		6578977

SSE = Sum of Squares within samples = 1065403 + 9145777 + 4766400 + 6578977 = 21556557

ANOVA Table

Source of variation	Sum of squares	v	Mean squares
SSC = Between samples	190062650	3	63354217
SSE = Within samples	21556557	16	1347285
Total	SST = 211619207	19	

Test Statistic: F = MSC / MSE

= 63354217 / 1347285 = 47.02

Decision: Since the calculated value of F= 47.02 is greater than the tabled value $F_{0.05}$ = 3.24, so that the null hypothesis is rejected. Hence there is a significant difference in the Reported Net Profit After Tax of Companies with and without Women Directors on their Boards.

Thus, it can be said without an iota of doubt that presence of women on corporate boards does exert a positive impact on its performance.

Way Forward

Several institutional investors are now laying thrust upon gender composition of company boards. A research study conducted by MSCI revealed that companies in the MSCI World Index with strong female leadership generated a Return on Equity of 10.1% per annum versus 7.4% for those without (as of September 9, 2015, gauged on an equal weighted basis).

Academic research in management and psychology has proved that groups with more diverse compositions tended to be more innovative and formulate better decisions. In the research study conducted by MSCI revealed that companies bereft of board diversity witnessed more governance related controversies than average. The possibility of performance benefits coupled with non-financial studies suggesting diversity could improve decision-making have been cited by both global asset owners and advocacy groups in support of endeavors to foster a 30% global female director goal.

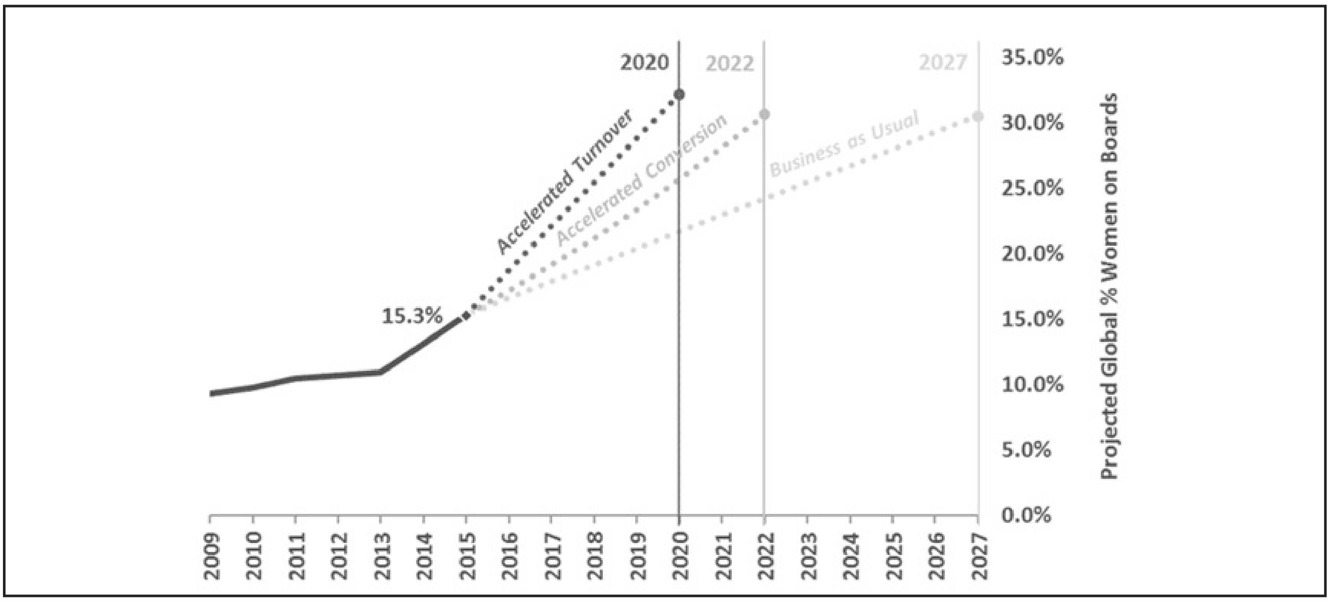
MSCI ESG Research estimates that based on current “business as usual” trends, women are unlikely to comprise 30% of directorships in publicly held companies until 2027. However, based on two alternative approaches, it may be possible to attain the 30% target at an astounding pace:

a) The Accelerated Conversion approach would double the proportion of new board seats taken by women reducing the 30% estimate by five years, and;

b) The Accelerated Turnover approach would keep the current rate of women taking new board seats at the historical rate, but turnover of existing board seats could enhance resulting in a less disruptive “refresh” attaining the 30% target by 2020 (please refer exhibit 1).

Figure-1

Projections for Reaching 30% Women on Boards



Source: MSCI

Bibliography

- "Companies With More Women Board Directors Experience Higher Financial Performance", http://www.catalyst.org/media/companies-more-women-board-directors-experience-higher-financial-perfor mance-according-latest, Accessed on June 1st, 2016.
- "No woman director in 56 NSE Listed companies", http://indiatoday.intoday.in/story/no-woman-director-in-56-nse-listed-companies/1/646192.html, Accessed on June 2nd, 2016.
- "Gender Diversity on Boards", https://www1.nseindia.com/research/content/res_QB10.pdf, Accessed on June 3rd, 2016.
- "Women's Leadership and Corporate Performance", http://www.adb.org/sites/default/files/publication/179587/ewp-472.pdf, Accessed on June 3rd, 2016.
- "Women Directors Change How Boards Work", https://hbr.org/2015/02/women-directors-change-how-boards-work,Accessed on June 4th, 2016.
- "Do More Women on the Board Mean Better Results?",http://www.newyorker.com/business/currency/do-more-women-on-the-board-mean-better-results, Accessed on June 5th, 2016.
- "The Companies Act, 2013 & The Companies Rules, 2014", http://cii.in/WebCMS/Upload/Companies ActRepresentation.pdf, Accessed on June 6th, 2016.
- "India: Mandatory Women Directors in Listed Companies", http://www.mondaq.com/india/x/395340/Corporate+Governance/ Mandatory+ Women +Directors+In+Listed+Companies, Accessed on June 10th, 2016.
- "BSE fines 530 companies for delay in appointing women directors", http://www.businesstoday.in/current/corporate/bse-fines-530-companies-delay-appointing-women-directors/story/221716.html, Accessed on June 12th, 2016.
- "No Woman Director in 56 NSE-listed companies", http://www.rediff.com/money/report/no-woman-director-in-56-nse-listed-companies/20160419.htm , Accessed on June 12th, 2016.
- "Empowering Women is key to building a future we want", http://www.undp.org/content/undp/en/home/presscenter/articles/2012/09/27/empowering-women-is-key-to-building-a-future-we-want-nobel-laureate-says.html, Accessed on June 12th, 2016.
- "What's Keeping Women from the Corporate Heights?", http://knowledge.insead.edu/leadership-organisations/whats-keeping-women-from-the-corporate-heights-3817, Accessed on June 12th, 2016.
- "A Critical Analysis of the Need for Women Directors in Indian Companies", http://www.legalservicesindia.com /article/article/the-need-for-women-directors-in-indian-companies-1774-1.html, Accessed on June 12th, 2016.
- "12 Reasons Why Empowering Women should be the World's Top Priority", http://matadornetwork.com/change/12-reasons-empowering-women-worlds-top-priority/, Accessed on June 14th, 2016.