# Board Dynamics and Diversity on Board

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***"When women are at the table, the discussion is richer, the decision-making process is better, management is more innovative and collaborative, and the organization is stronger. Because companies that advance and empower women are, in our view, better long-term investments. we are encouraging companies in our portfolios to enhance their performance on gender issues."***

***- Joseph Keefe President and CEO, Pax World Funds***

A board composed of directors representing a range of perspectives leads to an environment of collaborative discussion that is the essence of good governance. Organizations that aim to deliver the highest standards of leadership require a diversity of thought, skills, experience, working style and talent capability. It is increasingly being recognized that by bringing together men and women from diverse background and giving each person the opportunity to contribute their skills, experience and perspectives, the corporates are able to deliver the best solutions to challenges and sustainable value to their stakeholders.

Over the years, regulators have placed great emphasis on addressing different matters relating to the board of directors. Until recently, there has been an urge for diversifying the board. Diversity means having a range of many people that are different from each other. There is, however, no uniform definition of board diversity. Traditionally speaking, one can consider factors like age, race, gender, educational background and professional qualifications of the directors to make the board less homogenous. Board diversity aims to cultivate a broad spectrum of demographic attributes and characteristics in the boardroom. A simple and common measure to promote heterogeneity in the boardroom – commonly known as gender diversity – is to include female representation on the board.

Gender diversity in the boardroom makes fundamental business sense. The boardroom is where strategic decisions are made, governance applied and risk overseen. It is therefore imperative that boards are made up of competent high calibre individuals who together offer a mix of skills, experiences and backgrounds.

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 found to be lower than the overall average for developing countries. India has secured the 26th rank globally in terms of presence of women members on boards of companies with just a 7 per cent score while Norway tops the chart with over 40 per cent. The Companies Act, 2013 in India recognized the importance of gender diversity and provides for mandatory appointment of atleast one women director in the listed and other specified class of companies.

## Rationale for Gender Diversity on Boards

The desirability of having more women in the boardroom is agreed upon by both proponents of better corporate governance and champions of women's rights. Shareholders, institutional investors, as well as corporate governance rating agencies around the world believe that in an increasingly complex global marketplace, companies that effectively hire, retain and promote women are often better equipped to capitalise on competitive opportunities than those that do not.

Companies with more women in executive positions tend to have higher profits. MSCI ESG Research's research shows that companies in the MSCI World Index with strong female leadership generated a Return on Equity of 10.1% per year versus 7.4% for those without measured on an equal-weighted basis (as of September 9, 2015).

An analysis of return on equity (ROE) data of top 100 Indian companies (BSE 100) by Randstad, a leading HR services provider, says that companies with women on their boards have a positive impact on ROE. The study reveals that the board of a private sector company, run by a professional CEO with a mix of both men and women, helped ROE rise by 4.4% in 2014 over the previous year. In contrast, a similar company with a men-only board saw its ROE rise by a mere 1.8% in the same period.

Greater gender diversity, can also lead to better than average performance, whilst homogenous teams can suffer 'groupthink' and are less effective at scrutiny, challenge and innovation. Credit Suisse cites research from Professor Katherine Phillips and her colleagues at Columbia University who studied the impact of greater diversity in team exercises and found that:

- individuals are, on average, likely to do more preparation for any exercise that they know is going to involve working with a diverse rather than a homogenous group
- a wider range of available data inputs are likely to be debated in a diverse rather than a homogenous setting
- the diverse group, in the end, is more likely to generate the correct answer to a particular problem than is the case for the homogenous group
- it is not necessarily the performance of the minority individuals that have enhanced the result but that the majority group improves its own performance in response to minority involvement.

A recent McKinsey Global Institute report finds that $12 trillion could be added to global GDP by 2025 by advancing women's equality. The public, private, and social sectors will need to act to close gender gaps in work and society.

Some Benefits of having a good representation of female board members are highlighted as under -

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| Female board members can bring a different perspective to boardroom discussion/decisions. | It helps to reflect the wider diversity in society and in the company's client base. |
| Boards with a good degree of gender diversity can improve business performance. | Female directors at the top of the organisation serve as positive role models. |
| Boards with a good degree of gender diversity are more innovative and creative. | It helps to promote the organisation's reputation externally as a diverse employer. |

## Women on Boards - Global Scenario

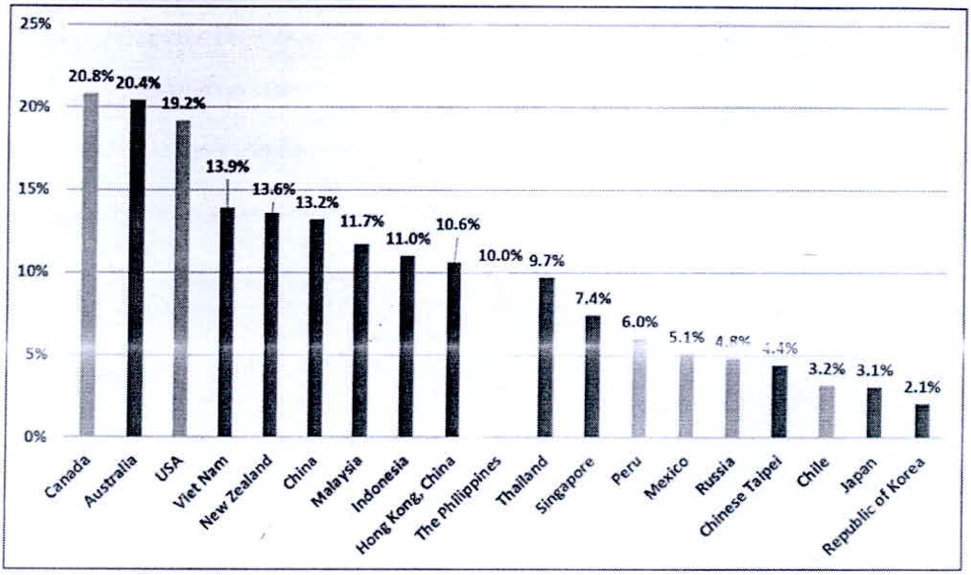
Globally, the call for more gender diversity on corporate boards has been gaining momentum. Some countries have taken legislative action and imposed quotas, while others have used other measures like moral persuasion and introduced voluntary measures.

Norway was the first country which enacted legislation to increase the percentage of female board members in 2003, requiring 40% female board members by 2008, and they achieved that goal. Other countries have followed suit in passing legislation mandating gender diversity on public company boards, including Belgium, Finland, France, India, Italy, the Netherlands, Spain, the and Belgium. Germany has also passed a law requiring 30% of board seats to be filled by women by 2016. In most countries, the "target" or "quota" was set somewhere between 30% and 40%.

Female representation on corporate boards globally has increased noticeably over the past several years across several markets and market capitalizations. *According to 2015 CWDI Report, markets with mandatory quotas generally have higher female board representation than those without quotas. Women Board Directors among APEC economies, Australia and Malaysia have high rates of increase in appointing women to board seats due to proactive initiatives to accelerate women's access to board seats. Malaysia is the only APEC economy with a government-driven quota or target of 30% for women board directors of either publicly-listed or state-owned companies. Set as a policy by the Prime Minister's Cabinet in 2011, Malaysian companies increased 5.6% from 6.1% in 2009 to 11.7% in 2015. Outside of APEC, there are now 21 economies with legislative mandates or quotas to increase gender diversity on boards, which have succeeded in increasing the percentage of women directors. France and Italy, both with quotas in place, have had the most dramatic increases in the percentage of women being appointed to board seats.*

Percentage of women directors in various Countries 2015

***Source: 2015 CWDI Report: Women Board Directors in APEC Economies***




## Gender diversity in INDIA

Legal Provisions - India has adopted the mandatory approach to gender diversity. Section 149(1) of the Companies c 2013 provides that certain classes of companies must have at least one woman director. Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014 specifies following classes of Companies-

- every listed company
- other public companies having a paid-up share capital of Rs. 100 crore or more or turnover of Rs. 300 crore or more.

Regulation 17(1) of the Securities and Exchange Board of India through SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 provides that the composition of board of directors of the listed entity shall be as follows:

- Board of directors shall have an optimum combination of executive and non-executive directors with at least one woman director and at least 50% of the board of directors shall comprise of non-executive directors.

Present Situation - SEBI had mandated that the appointment of woman directors to the board must happen no later than 1 April, 2015. According to Prime Database Press release - April 2015, out of 1456 listed companies, 180 companies (12 %) did not have any woman on their board on 1st April 2015. In the year 2014-2015, 832 women have been appointed to 912 directorship positions in 872 companies. Of these 872 companies, 43 companies already had a woman on the board before the SEBI guideline was announced. 789 women have been appointed to 861 directorship positions. At least 363 of these 861 directorship positions have been filled by non-independent women.

As per nseinfobase.com, across all 1456 NSE-listed companies, after the recent appointments of women, there are now 1,222 women presently occupying 1431 directorship positions, representing 12% of the total 11,935 directorship positions, up from 5% in February 2014. Only 33 companies have a woman chairperson/co-chairperson, of which only 1 is an independent director.

While some of the progressive companies had women board members prior to SEBI's directive, data showed that nearly 57% of listed companies on the National Stock Exchange appointed wives, sisters, daughters etc. to their boards to avoid strict penalties for non-compliance.

## Barriers to gender diversity

Despite modest improvements in the past few years, women are under represented at every level in the corporate pipeline - especially the senior level. India has a huge pool of talented women professionals waiting to be identified and given an opportunity to bring value to the boardroom. Boards are composed primarily of men, who tend to hire people like themselves - other men. This creates a self-perpetuating cycle in which women are not able to join boards and therefore gain no board experience - and so are overlooked for other openings. Also, corporate culture is not familyfriendly, with mothers who take time off from work are not considered suitable candidates for executive positions. Childcare costs, policies, and hours make it difficult for many women to juggle work and home life in a way normally expected of corporate board members.

In its April 2014 issue, 'Gender Diversity on Boards' A Business Imperative, Diversity Task Force, Singapore has highlighted the following possible reasons for poor gender diversity:

- There is low awareness about the importance and benefits of gender diversity on boards and little is being done by companies to improve the situation. Many companies are not yet convinced about the benefits of gender diversity, thus boards rarely discuss the issue and little is being done by companies to address it.
- Some boards may not be comfortable recruiting directors not known to them, or who may hold certain views on gender roles in family and business. What is at play here could be what many refer to as "unconscious bias" whereby people apply their attitudes, thoughts and values, to the decision-making process without realising it.
- There is also a lack of the use of a formal search and nomination process when boards recruit directors. Most rely heavily on their personal networks, making it more difficult for qualified females to be identified and appointed. Out of the SGX-listed companies which responded to the survey, 89% use personal networks, with 42% using other method.
- In addition, directors look for certain attributes like previous board experience, or experience in traditionally male-dominated industries (e.g. engineering, science) or functions (e.g. information technology, sales). This further limits the opportunities for women to join boards.
- There are various factors affecting the supply and pipeline of women. Family responsibilities tend to fall on women and many sacrifice their career or cut down on work-related activities. This is especially so when there is extensive travelling involved or inflexible work arrangements. Some women are uncertain of how their skill sets fit the needs of the boards and are shy in putting themselves forward for board positions. Men are seen to be more assertive in putting themselves forward.

## Conclusion

Even after decades of progress toward making women equal partners with men in the economy and society, the gap between them remains large. *A CEO's guide to gender equality, McKinsey & Company November 2015 shows that fewer men than women acknowledge the challenges faced by female employees at work. For instance, when asked whether "even with equal skills and qualifications, women have much more difficulty reaching top-management positions," the gender divide was striking: 93% of women agreed with the statement, but just 58 % of men. And while just 5% of women disagreed with the statement, some 28% of men did.*

There are necessary steps in the path to successful board diversity. An open organisational culture that supports gender diversity is a precursor for improving the gender diversity of boardroom executives. Other factors like supporting work–life balance for all including flexible working, universal childcare and family disability support, unbiased HR policies and practices that are monitored and reviewed etc. are some of the factors for improving gender diversity.

Board diversity is justified as a key to better corporate governance. The following extract from academic literature by Conger and Lawler (2001) serves as a good summary of board diversity:

*'The best boards are composed of individuals with different skills, knowledge, information, power, and time to contribute. Given the diversity of expertise, information, and availability that is needed to understand and govern today's complex businesses, it is unrealistic to expect an individual director to be knowledgeable and informed about all phases of business. It is also unrealistic to expect individual directors to be available at all times and to influence all decisions. Thus, in staffing most boards, it is best to think of individuals contributing different pieces to the total picture that it takes to create an effective board.'*

In implementing policies on board diversity, both the company's chairman and the nomination committee play a significant role. The most important ingredient to the success of board diversity, however, would most probably be the board members' changing their mindset to welcome a more heterogeneous board, as well as to place greater trust in one another and work together more effectively. ■