WOMEN ON BOARD – IT MAKES BUSINESS SENSE

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About the Authors

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Diversity: The Gender Perspective

What's the one common factor that plays a crucial role in the success story of the 'Best Boards'? We will answer this in one simple word- Diversity. Hay Group's work with some of India's most successful corporates and our detailed study of what makes 'India's Best Boards' unique has always pointed to the element of diversity. It could be gender, age demographics, culture or education-diversity contributes to the big picture in various ways. If your workforce comprises of employees from diverse backgrounds, especially at the management and executive level, it directly links to shareholder returns by enabling divergent thinking, innovation and ultimately performance. Hay Group research indicates that diversity in the workplace improves creativity, problem analysis, problem solving and well-rounded decision making, therefore more effectively mitigating risk and providing a significant and measurable competitive advantage.

So, how do women fit into the realm of things and why does it make 'business sense' to have them on board? It's not that women are inherently more talented than men or that they necessarily have skills men lack. What makes the winning difference is that companies which identify and promote female talent into leadership roles have cultures that enable them to recognise talent in any form and leverage those strengths while designing organisations and high-performing teams. The female voice is valuable in boardrooms because it provides diverse perspectives and at times strongly contrarian ones, thereby creating an atmosphere for healthy debate. In today's corporate environment where most Indian boards are guilty of 'Groupthink' biases, this should be viewed as a welcome change and a must-have for effective corporate governance.

The same principles apply to grooming young talent and building boards with a diversified cultural and ethnic background. This is not about gender alone. This is about diversity. In this article, we provide you a perspective on gender diversity trends in Indian corporate Boards and its impact on corporate performance.

It is widely accepted and you would agree that managers need to create environments that foster employee collaboration and productivity. Our research shows that women display the traits and behaviours required to do so, more consistently. Women executives score twice as high as their male counterparts on empathy and conflict management capability, and five times higher on self-awareness. They also maintain a firmer grip on who they are and the impact they have on others, as they begin to occupy more senior roles in their organisations. Another recent study by Hay Group on 163 executives in the United States showed that outstanding female executives, when compared to their typical counterparts and male executives, created greater engagement from their direct reports, which supports high performance.

Despite these factors, women are not proportionately represented in Indian Corporate Boards, leadership roles and the workforce. There is a need for critical mass to create effective diversity. One voice is not enough – women must be present in sufficient numbers at senior levels to drive cultural change and better business results.

The mandatory quota

One of the major goals of the revised Companies Act, 2014 was to improve gender diversity across Indian Corporate Boards. A new sub-clause in the Act mandates appointment of at least one woman Director to the Corporate Board for -

- Every listed company
- Every public company with a minimum:
    - o Paid-up share capital of INR 1 billion
    - o Turnover of INR 3 billion

Companies meeting these criteria are required to comply within one year, while those newly incorporated must appoint a woman director within six months of incorporation. The Securities and Exchange Board of India (SEBI) also revised its Equity Listing Agreement to align with the requirements of the 2014 Act and now requires all listed companies to appoint at least one woman Director to their boards, no later than April 1, 2015.

The recent last minute rush by companies to meet the deadline set by SEBI raised a very obvious question for us. Did this quota really help in improving women's representation at the top? If so, did this in turn result in better financial performance and governance? We decided to analyse this by looking into the changes in board composition and financial performance of over 1300 companies, over the past 5 years. This sample set ensured representation from every sector and company size (by market cap). In addition to this, we also spoke to select Women Directors in India.

What does the data reveal?

As part of Hay Group's annual India's Best Boards (IBB) study, we analyse multiple corporate governance parameters to arrive at a maturity index for each Corporate Board. Our Board Evaluation Framework evaluates Boards on three main dimensions:

1. People – The directors
2. Process – The governance mechanisms
3. Performance – The corporate economic performance

For this article, we studied the compliance status on Women Directorship using Prime Database, the database partner for IBB. We correlated board gender diversity and financial performance basis the IBB database. Further, we did a qualitative analysis to obtain insights beyond the data. The main insights of the analysis are provided below:

1. We are still not at 100% compliance

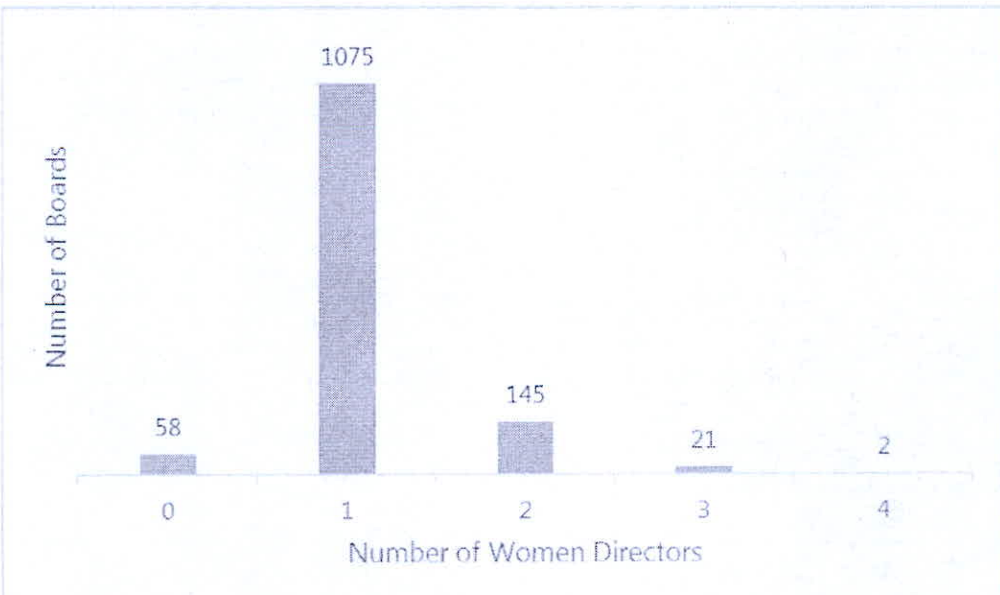
Despite the mandatory guidelines, 53 listed companies still do not have a woman representative on their respective Boards. Some of the companies, guilty of non-compliance, are large state-owned corporates, such as Oil and Natural Gas Corporation, GAIL and Bharat Petroleum Corporation. Moreover, only 22% of the companies in the data set considered incorporating more than one woman Director and as low as 4% of the Boards are chaired by a female Director. As a result of this, women still hold only 13% of the directorship positions.

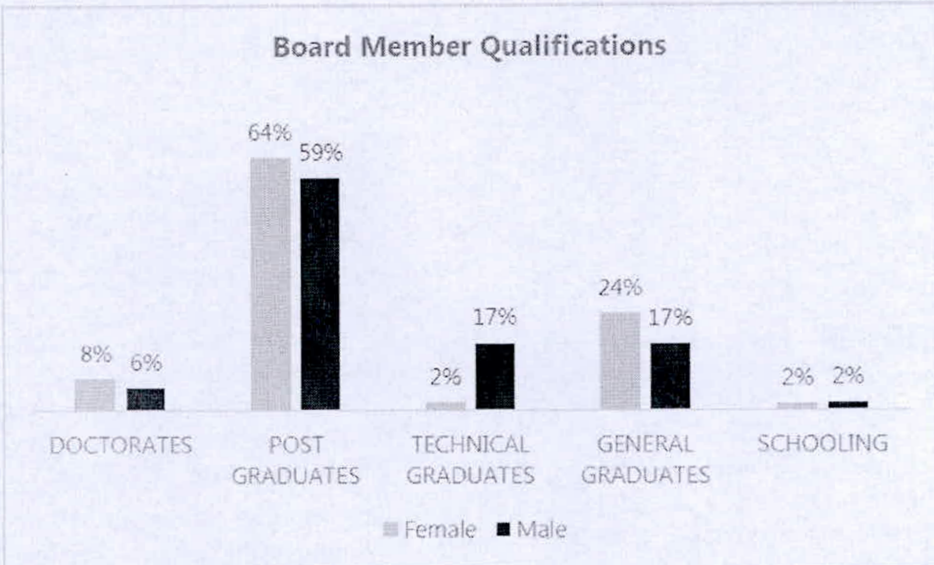
2. We are a long way from achieving true diversity

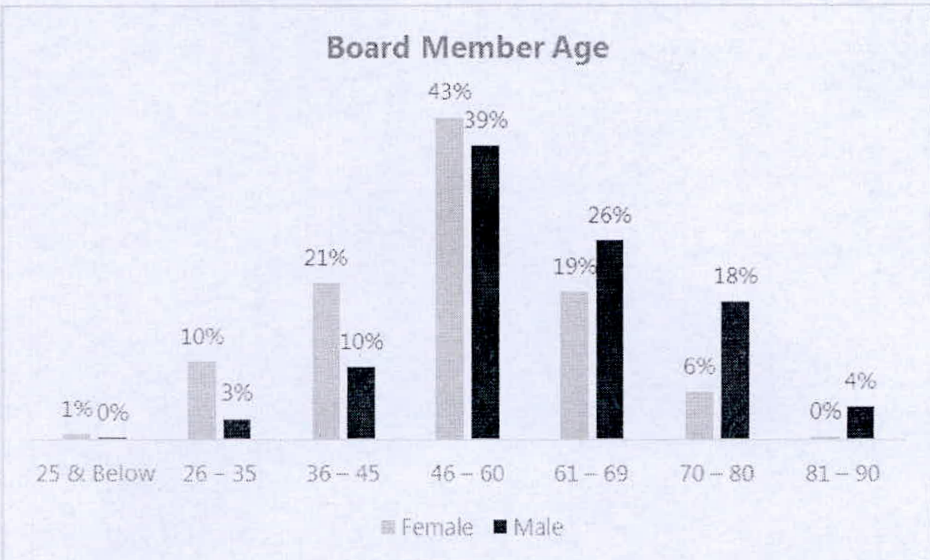
As low as 12% of organisations have more than one Woman Director on their Board. We could literally count the number of companies with 4 Women Directors on one hand.

3. Promoter nominations can lead to a compromise

A sizeable proportion of the new appointments till date have come from the promoter group (a founding or controlling owner, often a family member) or are







Non-Executive Independent Directors, while only 17.6% of the women are Executive Directors. Companies which have appointed female relatives of key executives as directors include Reliance Industries, Mangalore Chemicals and Fertilisers Ltd., Raymond Ltd, Asian Paints, Godhra Phillips, Videocon Industries and JK Cement.

4. There are positives

While the first three insights paint a negative picture for gender diversity and corporate governance, the following two data-points make for interesting news:

- Higher percentage of Doctorates and Post Graduates amongst Women Directors

- Higher percentage of Sub-60 age group amongst Women Directors.

5. Financial performance

Once these facts were in place, we went a step further and analysed the correlation between gender diversity within a board and the financial performance of the company in the past 3 years. The metrics considered were Y-o-Y growth % on Revenue, PAT and ROCE. The median data for each is provided below:

Number of Women Directors	Y-o-Y Growth % Revenue	Y-o-Y Growth % PAT	Y-o-Y Growth % ROCE
0	22%	4%	5%
1	25%	6%	9%
2	27%	1%	8%
3	32%	-2%	6%

While there is a positive correlation on median values for revenue growth, the same cannot be said for PAT and ROCE growth, which exhibit a mild negative correlation. We strongly acknowledge the difference between correlation and causality and therefor it would be premature to derive a conclusion from the above data. However, this does provide a base data for future comparison.

Where are the gaps?

Be it Hay Group's study on gender diversity or other global research studies- all of these advocate that fostering women into leadership positions has a tangible impact on improving business performance. Yet, the quota which was established for the same purpose, has seemingly failed to achieve basic objectives.

There is no doubt that the quota has brought focus on the need for increasing diversity at the Board level. However, it has been largely unsuccessful in building a buy-in from the corporates on the importance of promoting diversity at the board level. In most cases, the increase seems to have been for the sake of increase itself and consequently has not led to any remarkable improvement in performance. Figures from the Prime database showed 189 out of 1,457 firms listed on the National Stock Exchange (NSE) of India had not appointed any women directors by 4.30 p.m. on April 1, indicating that 58 firms had named a woman director in the last 24 hours. Many others have simply appointed relatives onto the Board, which defeats the very purpose behind the quota.

While the quota may have helped in promoting gender diversity, these efforts need to be supplemented with larger initiatives to build a robust talent pipeline and ensure success for their women board members. An externally driven initiative is not going to close the gap, unless companies and their board individually commit to the concept of building diversity. Rather than complying with a norm and making token appointments, they must reach out to create opportunities for women rising up the management ranks, and provide mentorship to help them succeed in the boardroom.

A popular opinion, especially among female Directors, is that quotas often undermine the credibility and capacity of female candidates and lead to resentment among others, thereby hindering their performance on Boards. Quotas are not a long term solution. They can only help marginally in the current scenario. Rather, if companies view diversity, in link with business results – then we have a greater chance of witnessing real change.

Organisations need to realise that diversity can benefit them tremendously.

What do the Best Boards do differently?

Insights from India's Best Boards has shown that successful corporates are those that lean in and go beyond, and not focused on just meeting mandatory norms. Their focus is on enabling women to seize the numerous opportunities that are provided to them. The attempt to improve diversity needs to be driven internally and it and must go beyond company boards. If we are working towards better representation for women, then it must be established at all levels in an organisation. For this, companies need to act at multiple levels.

Fish differently

A number of boards claim that one of the toughest challenges that they face is the lack of a diverse and qualified leadership talent pool. It is true that Boards that enter the recruiting market today are likely to find more men than women, with the required capabilities. However, the best companies realise that failing to recruit women is a symptom of where and how they fish, and not the number of fish in the pool. The most successful companies have sharpened their approach to recruitment to attract the very best talent, often fishing for it in different places from those that they've previously relied on. Similarly, recruiting across industries and being more specific about the required capabilities uncovers better talent. For example, looking for 'experience in managing B2B supply chain complexities' should be a better descriptor of a search process for an industrial goods company rather than '15 years' experience in managing supply chains.

For board recruitment, there needs to be a formal and comprehensive assessment of the skills and experience of incumbent Directors. These need to be reviewed against current and future requirements of the company and only then can a company identify the gaps. Using specialised search firms to fill these gaps would help the Board focus on what's most important- a match of the candidate's skills and capabilities with corresponding Board requirements. Search firms are aware of how to find the most capable women candidates- they've developed relationships with these potential candidates, are in constant communication with them, and know the type of Board where they would contribute in the most effective manner.

Redefine 'diversity'

The need of the hour is for corporates to stop defining diversity as differences in caste, colour, gender, sexual orientation or physical capability. Diversity is all about variety in thought. Forward thinking companies do not simply look for more employees of a particular gender or creed. Their aim is to understand and measure the personalities in the organisation. Several decades of hiring achievement-focused and target driven individuals may have led to higher productivity and efficiency. However, this could have blunted attempts to foster collaboration and enhance diversity of thought. Assessing recruits and measuring against the desired behaviours and values of the role, through means such as psychometric testing, gives a better understanding of the psychological motives and predilections of the workforce and speeds up the process of change.

Examine your purpose

The best companies have acknowledged that most people don't get energised by a corporate goal defined as 'to have a progressive dividend payment policy' or 'to delight our customers'. Instead they've redefined their purpose, grounding it in things that their employees and customers value, and invested in demonstrating that purpose throughout the company. This is not simply a rebranding exercise, cooked up by the marketing department, or a communication exercise carried out by HR. Instead, this is a coherent and planned examination of the needs of customers and the motivations of employees of all gender, creed and age.

Age is just a number

Currently, more than 58% of the directors across boards are above 60 years of age. As a result, the average age of directors is 59. Boards will need to break this age barrier and look beyond the top five corporate officers as candidates across gender. Successful businesses today already put a great deal of effort into identifying the rising stars in their organisations, and then giving them the career development opportunities and experiences they need to build their skills and advance up the management chain. It is true that less experienced candidates won't have the same gravitas and expertise to offer initially and mentorship will be critical. Recognizing the talent at the management ranks and providing them with the right opportunities is only half the battle. The other half would be to provide them with mentorship and ensure that they are "board ready". Investing in their success would help them succeed in the boardroom.

Seal the leakages

Companies today are increasingly facing high attrition rates, amongst mid-management women employees. There needs to be a sustained and focused effort on expanding the mid-management female workforce by supporting and mentoring women who are rising up the ranks.

Firstly, cultures tend to be self-perpetuating. Organisations naturally continue to seek more of what they already have, recruiting and promoting people in the same, male dominated vein. And secondly, research shows that women are generally less openly self-promoting when it comes to securing promotions and pay rises. Organisations therefore need to think very differently, top-down and bottom-up.

Although important, addressing everyday processes such as job design, recruitment, performance management, development and promotion will not be enough. Yes, these need to be fair, transparent and inclusive- if they are to leverage women's leadership skills on an equal footing with men's. But businesses also need to challenge their existing cultures, values and power relationships. Culture results from the 'unwritten rules' that govern how organisations operate. It is a product of not just the processes and procedures in place, but also how people behave, interact and communicate day-to-day. Businesses need to examine all aspects of their culture, and consider whether the same messages are being routinely conveyed to women, as they are to men. This will prove to be challenging, as cultures tend to be self-perpetuating. Therefore, it is an exercise that needs to start at the very top. Leadership teams must reflect on the sort of organisation that they want to create, especially if they want to leverage male and female talent.

Final Thoughts

There is no denying the fact that if companies are to thrive, diversity – across boards, as well as the workforce, must undeniably become a centrepiece of their game plan. The situation is improving, driven to a large extent by mandatory requirements. But quotas don't solve problems. Shifts in cultural mind-sets do. Therefore, we look forward to the day, when diversity is listed as a key business driver and features on CEO performance scorecards.