Raising women's presence in corporate boards

Women's presence will improve results as well as governance. Regulation is not enough; India Inc must seize the initiative

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The *Time* magazine's "Woman of the Year 2024" shortlist includes an Indian-origin woman CEO who has proven the value of having gender parity amongst C-Suite executives. Clearly, there is a growing recognition for the importance of gender diversity in corporate leadership.

Regulatory mandates play a significant role in driving gender diversity on boards. Countries that have implemented quotas or legislative measures to increase female representation have seen tangible results.

The Indian Companies Act (2013) stipulates that certain categories of companies must have at least one woman on their boards. As a result, the percentage of women in Indian boards increased from 6 per cent in 2013 to 18 per cent in 2022 – a very slow growth. Either the regulatory body lacks teeth in strict implementation or there are not many qualified women board wannabes.

In India the fine for non-compliance of this norm is paltry. Around 45 per cent of Nifty-500 companies have just one woman director (Prime Database).

Regulatory interventions have sparked a broader cultural shift towards gender equality in corporate governance. Nordic countries (Norway, Sweden, and Finland only) have been at the forefront of promoting gender diversity in enterprise boards. Norway, in particular, introduced a quota in 2003 requiring public limited companies to have at least 40 per cent of each gender on their boards, leading to a significant increase in female representation.

The European Union too has directives mandating gender quotas. While progress has been slower compared to Nordic countries, these directives have contributed to a gradual increase in female representation. The United States lags behind many European countries in this regard. While some US states have introduced diversity quotas or disclosure requirements, progress has been uneven, Asian countries have been laggards all along and progress will take much longer.

Many studies have sought to quantify the impact of gender diversity on boards using various value creation metrics.

There exists a positive correlation between gender diversity on boards and financial performance metrics such as return on equity (ROE), return on assets (ROA), and stock price performance. A McKinsey study found that companies in the top quartile for gender diversity on executive teams were 25 per cent more likely to have above-average profitability than companies in the bottom quartile.

BOARDROOMS. Bringing in gender diversity GETTY IMAGES

INNOVATION, CREATIVITY

Gender-diverse boards are known for greater innovation and creativity. A report by Credit Suisse says that companies with higher female representation on boards exhibited superior innovation capabilities, as evidenced by higher rates of new product introductions and patents. Similarly, diverse perspectives contribute to more robust risk management practices. Research by Catalyst found that companies with more women on the board experienced fewer instances of financial restatements and governance issues.

Here are some best practices India Inc could embrace to increase women representation in boards:

First, understand the tangible benefits of gender diversity on their boards;

Second, leverage regulatory requirements to promote gender diversity on boards;

Third, use stakeholders to pressurise the change. Shareholders, customers, employees, and other stakeholders increasingly expect companies to embrace diversity and inclusion.

Fourth, implement transparent and merit-based recruitment processes to ensure equal opportunities for women to compete for board positions.

Lastly, lead by example – do not bring in wife, daughter or other female relatives to the board unless they are qualified on their own merit.

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