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"Women Directors Impact on Corporate Governance"

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Abstract

The subject of women on board of directors is a growing area of research. Corporate governance scandals, the Sarbanes-Oxley legislation, Higgs Review, and other initiatives draw attention to the importance of corporate governance, ultimately has turned to the composition of corporate boards of directors. Despite of so many years of equal opportunities policies there seems no such gender diversity on board composition which further necessitates throwing of light upon how gender diversity on board influence corporate governance. Research in respect of women's presence on the board is directly connected with other aspects of corporate governance like good relationship with stakeholders etc. The author through this paper shall make a comparison between positions of the same in India with Scandinavian countries that provide for a much higher reservation of women directors on board. Thereby to suggest measures that can adopted to bring our nation at par with the scenario of Norway, Sweden, and Denmark.

Keywords: Women Director, Corporate Governance, Board of Directors.

Introduction

In the arena of corporate governance, diversity in the boardroom has become a debatable topic. In today's world, there prevails a clear business case for greater gender diversity from the perspective of economics. From the perspective of micro economics, it is in terms of individual companies' performance and from the perspective of macroeconomics it is in terms of higher, sustainable rates of economic growth empowering women to take leadership position is important for economic growth.

A reasonably prudent investor considers the integrity of a company, and its officers and directors, as a material factor when making his or her investment decision. Because of these scandals, foreign investors began to think twice about investing in Indian companies. Thus, these scandals precipitated a critical examination of the quality of corporate governance in India by investors and companies alike.[1] To address weaknesses in its corporate governance system and to raise the bar of governance the parliament of India tried to make the Companies Act more relevant and contemporary to the corporates, regulators, and stakeholders as a result of which Companies Act, 2013 was enacted which received the assent of the president on 29th August, 2013. The enactment of the law triggered a dawn of new era having far reaching

[1] Sarah Alvy, 'India's Companies Act of 2013: A Governance Shift into The Sunlight' (2015) 2 Indon. J. Int'l & Comp. L. 187.

Volume 3, August 2018 ISSN 2581-5504

implications in the way corporate function in India.[2] The Companies Act of 2013 attempts to bring India's governance system closer to modern global standards by implementing new mandatory provisions.

The duties and role of board of directors has been the corporate agenda for years as they are the ones who act as the agents of shareholders. They form the pillar of the robust corporate governance framework. They are expected to collectively devise operational and financial strategies for the company. Women director are the part of the board and same importance is laid upon them as that of board of directors.

One of the areas of focus is women representation on the board as a step towards better governance. System of corporate governance should be reconciled for ground realties in this country; woman director is committed to not just good governance but to governance with global vision. Stakeholders are more interested in board diversity than ever. Diversity resembles that the board is diverse in in background, education, experience, knowledge, thoughts, perspective, independence and one those being ‘gender’ that brings difference in almost all of these aspects of diversity.

1. Corporate Governance

1.1 What is corporate governance?

Corporate Governance refers to the emergence of a culture by which the values, principles, management policies of a corporation are inculcated and manifested. Diversity on Corporate boards is an important aspect of good corporate governance which is now globally recognized by the corporates, Government, Investors etc.[3] It is the system of rules, practices and processes by which a company is directed and controlled which essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community.[4]

Some scholars have defined corporate governance as a ‘way of managing risk for investors, whose interests may not be protected by ineffectual or corrupt managers and directors, and risk for employees, communities, lenders, suppliers, taxpayers, and customers as well.’ Others view corporate governance as a system that imposes a set of constraints on the possibilities and incentives that determine if and how corporate executives and board directors expropriate the rights of company shareholders.[5]

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[2] Jayashree Swaminathan, ‘Women Directors- A Step much beyond Improving Gender Diversity’ (2016) 7 Lex Witness 32.

[3] ICSI, ‘Gender Diversity in Boardrooms’ (2015) <https://www.icsi.edu/WebModules/CompaniesAct2013/Gender%20Diversity-Latest20012015.pdf> accessed 10 July 2018.

[4] Corporate Governanace<http://www.investopedia.com/terms/c/corporategovernance.asp>accessed 10 July 2018

[5] Sarah Alvy, ‘India's Companies Act of 2013: A Governance Shift into The Sunlight’ (n 1).

Volume 3, August 2018 ISSN 2581-5504

The definition varies according to the analyst but there prevails an underlying uniformity in the thinking of all analysts that there is a definite need to eradicate corporate misgovernance and promote corporate governance at all costs.

It is typically perceived as dealing with the problem that results from separation of ownership and control. It can be defined narrowly as the relationship of company to its shareholders or, more broadly, as its relationship to society. OECD has emphasized following requirements of corporate governance-[6]

- Rights of Shareholders.
- Equitable treatment of shareholders.
- Role of stakeholders in corporate governance.
- Disclosure and transparency.
- Responsibilities of the board.

1.2 Evolution of Corporate Governance in India

The contemporary laws and codes rests on the Corporate Governance. It is the essence which gained prominence in the wake of liberalization during 1990s and was introduced by the Confederation of Indian Industry (CCI) as a voluntary measure to be adopted by Indian Companies which has acquired a mandatory status in early 2000s through Clause 49 Listing Agreement and in late 2009, Ministry of Corporate Affairs (MCA) released a set of voluntary guidelines for Corporate Governance with amended provisions in Companies Act, 2013.

The different committees on whose recommendations the Corporate Governance gained the essence are many. A few of those committees are- In the year 1998 Confederation of Indian Industry (CII) gave recommendation of first voluntary code of Corporate Governance this committee was set up to examine Corporate Governance issues focusing on listed companies. In the year 1999 Kumar Mangalam Birla Committee Initiative was undertaken by SEBI to make recommendations regarding board representation and independence, function and constitution of board audit committees. In the year 2000 in Clause 49 of listing agreement SEBI board accepted and ratified recommendations of Birla Committee and incorporated into Clause 49 of Listing Agreement of Stock Exchanges. Narayana Murthy Committee Set up by SEBI pointed out international developments and highlighted the need for further reforms in view of recent failures of Corporate Governance in USA.As a result of which in the year 2004 J.J. Irani Committee set up by Government of India introduced Companies Bill, 2008 to enable corporate sector to operate in regulatory environment characterized by best international practices. Companies Bill, 2011 included suggestions as per the recommendations of Parliamentary Standing Committee on France and suggestions of stakeholders. Companies Bill, 2011 representing a trend towards legislating on Corporate Governance, voluntary corporate governance guidelines acquired a mandatory status through consolidation into Companies Act, 1956. Finally came the Companies Act, 2013 that

[6] A. C. Fernando, *Business Ethics and Corporate Governance* (2nd edn. Pearson 2016) 35.

mandated the provisions with a view to overcome the issues the corporate governance and enhance the same. [7]

It is the tipping point in India's Inc. history, as it seeks to ensure adequate representation of women on the Board as well as to inculcate greater diversity of views across the boards of companies.

2. Issues in Corporate Governance

Different peoples and different meaning given to the corporate governance but at the end the aim of all authorities is on one subject which is the realization of the need of good corporate governance practices which is to be achieved and it is the aim for which corporates are formed. Authorities have identified some governance issues which is crucial and critical to achieve these objectives. Objectives specifically related to the board are:[8]

- Distinguishing the roles of board and management- The company is to be managed 'by and under the direction of' the board. This function is delegated to the board by CEO who further delegates it to other senior executives. So, board occupies an essential position between shareholders and the management.
- Composition of Board and related issues- Board of directors is a committee elected by shareholders of a limited company which is responsible for policy making of the company. Board composition refers to the number of directors of different kinds that distribute the work according to their portfolio. Kumar Mangalam Birla Committee's report defined the composition of board of a limited company according to which the board shall have optimum combination of both executive and non-executive directors. It states that at least 50% of the board of directors to be non-executive. It further stated that the number of independent directors depends upon the chairman. If the chairman is non-executive then at least one-third of the board should comprise of independent directors and if the chairman is executive member then the board should have half of the members as independent directors.
- Should the boards have committees- the different committees on the corporate governance have recommended inclusion of committees in the board like nomination and remuneration etc. The committees would reduce the workload from the shoulders of directors and would further enhance the performance of board.
- Appointment to board –in general sense it is the shareholders who appoint the directors but in practice it is on the behest of promoters that the board is appointed and the same persons are formally elected in the Annual General Meeting (AGM). This is not the ideal practice which is continuing because of the loopholes in the implementation of law in its actual spirit. Shareholders therefore only endorse the

[7] Meenu Gupta, 'A Study on 'Critical Issues & Corporate Governance Framework in India' (2016) 46 Chartered Secretary 74.
[8] A. C. Fernando, *Business Ethics and Corporate Governance* (2nd edn. Pearson 2016) 355.

Volume 3, August 2018 ISSN 2581-5504

board's nominees and only in rare case shareholders refuse to ratify the boards' nominees for directorship.

3. Diversity Brought by The Women Directors in The Boardroom

The data will clearly reflect the diversity that women bring to the boardroom. The main component of corporate governance is diversity that is how the people of different age, role, profession etc. improve the performance of the company. It is interesting to note how one single aspect of gender diversity brings along other aspects of diversity thereby giving an impact of overall diversity in the boardroom.

Summary by age of women directors in NSE-listed companies:[9]

- The youngest woman director is aged 23 years (MS. DIPIKA DWIVIDI) and the oldest is 91 years (MS. ANNA RAJAN MALHOTRA). 5 individuals are below the age of 25 years and 71 individuals are above 70 years.
- 8 individuals who are below 25 years hold 5 independent directorship positions.
- 71 individuals who are above 70 years and hold independent directorship positions.

Summary by Education of Women Directors in NSE- listed companies:[10]

- 56.83% of Directorship position are held by post graduates and above. Conversely, 43.17% of Directorship positions are held by graduates or below.
- 342 are Management Graduates (of which 39 are IIM graduates)
- 115 are Chartered Accountants, 34 are Company Secretaries and 12 are Cost Accountant.
- 155 are lawyers.
- 29 are Medical Doctors.
- 61 are Engineers.

From total number of women directors that is 1744 the number of women who hold Independent director position is 905 in NSE Listed Companies.[11]

4. Women on Board and Performance Analysis

Gender diversity has a significant bearing on corporate performance Research conducted suggests evidence of benefits of gender diversity on boards, including the positive contributions to good corporate governance practices, thereby enhancing balanced decisions, improved responsibility to shareholders and prudent risk management.

Researches and surveys:

[9] Indian Boards Database, NSE Infobase<http://indianboards.com/pages/snapshot-reports_wm. aspx? snap=WA> accessed 11 July 2018.
[10] ibid.
[11] Indian Boards Database, NSE Infobase<http://www.indianboards.com/pages/snapshot-reports_wm.aspx?snap=WA > accessed 15 August 2018.

- According to a Grant Thornton study on relative performance of companies with women on board and those without, the NSE CNX 200 companies with women directors did better in 2014-15. The companies with men-only boards suffered $14 billion in opportunity cost, the report said.[12]
- A Korn Ferry study of the 100 largest listed companies in 10 Asia-Pacific countries, including India, concluded that in 2015 the companies with more women on their boards were more profitable the companies with at least 10 per cent women directors delivered 14.9 per cent return on equity while the companies without women directors delivered only 12.6 per cent Return on Equity (ROE).[13]
- A paper by the Asian Development Bank in the year 2015 concluded that the appointment of female directors and a gender-diverse boardroom are, on average, positively associated with a firm's subsequent performance.[14]
- The CS Gender 3000: women in senior management: Asia Pacific report has indicated significant progress in gender diversity globally and India is said to have closed the gap with a global average of 14.7 per cent.[15]
  According to the report financial benefits is seen in the companies having women in their boardroom as better decisions are being taken by having a variety of views to choose from. While there is evident progress in female representation in the board rooms, the trend does not carry through to the overall participation of women in senior and other positions in companies.
- Research from the Commonwealth of Nations has shown that women have a more participative management style, and tend to be more inclusive and collaborative in their decision-making. They are also likely to have greater social sensitivity and are less willing to take impulsive risks.[16]
- According to a survey by MSCI in the year 2014, boards having gender diversity over and above the regulatory mandates or market norms had fewer instances of governance-related scandals such as bribery, corruption and fraud.[17]
- Times of India commissioned study in 2014 on the relation between companies with women on their boards and profitability. An analysis of return on equity (ROE) data of

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[12] Rekha Sethi, 'Diversity clearly makes a difference' (2016) *The Hindu Business Line*<https://www.pressreader.com/india/the-hindu-business line/ 20160730/28186 5822841195>accessed 15 August 2018.
[13] ibid.
[14] Meijun Qian, 'Women's Leadership and Corporate Performance' (2016) 472 <https://www.adb.org /sites/default/files/publication/179587/ewp-472.pdf>accessed 12 August 2018.
[15] Julia Dawsn and others, 'The CS Gender 3000: The Reward for Change' (2016) Credit Suisse <http://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=5A7755E1-EFDD-1973 A0B5C54AFF3FB0AE>accessed 12 August 2018.
[16] Namrita Jhangiani, 'Why India needs a female boardroom revolution' (2016) *Live mint* <http://www.livemint.com/Home-Page/1KschS1uu8htIKAb8L7A2K/Why-India-needs-a-female-boardroom-revolution.html>accessed 12 August 2018.
[17] Linda-Eling Lee and others, 'Women on Boards' (2015) MSCI <https://www.msci.com/documents/10199/04b6f646-d638-4878-9c61-4eb91748a82b>accessed 12 August 201812.

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.[18]

- Catalyst study on corporate performance and women's representation on boards (2007) found that companies with more women on their boards were found to outperform their rivals with a 42% higher return on sales, 66% higher return on invested capital and 53% higher return on equity.[19]

Certain other examples would be Chanda Kochhar, who heads ICICI bank and Kiran Mazumdar Shaw, director of Biocon Limited has shown a positive difference on return on equity.

Arundhati Bhattacharya is the only women to lead Stat bank of India in its 208 years of history said that more needs to done to get women to stay in workforce.[20]

Corporate governance rating agencies such as GMI Ratings are increasingly developing tools to measure gender diversity as a key performance indicator for corporate performance and investment recommendations.

Women on Boards of Best Governed Indian Companies

Company	**Total Board members**	**Women on Board**	**% of Women Director**	**Chairperson**
IOC Ltd.	13	1	7.69%	Male
HCL Technologies Ltd.	12	2	16.67%	Male
CMC Ltd.	7	1	14.28%	Male
Engineers India Ltd.	5	1	20%	Male
ONGC	14	Nil	0	Male
Powergrid Corporation of India Ltd.	14	2	14.28%	Male

[18] ICSI, 'Gender Diversity in Boardrooms' (2015) <https://www.icsi.edu/WebModules/CompaniesAct2013/Gender%20Diversity-Latest20012015.pdf> accessed 12 July 2018.

[19] The Bottom Line: Corporate performance and women's representation on boards (2007) <http://www.catalyst.org/system/files/The_Bottom_Line_Corporate_Performance_and_Womens_Representation_on_Boards.pdf>accessed 18 August 2018.

[20] K Srinivasan, 'What does it take to get women to lead the board room?' (2016)<http://www.dailyo.in/business/women-in-board-rooms-workplace-laws-equal-opportunity-gender-inclusion/story/1/13218.html>accessed 18 August 2018.

Source: Global Journal of Management and Business Studies[21]

The above table clearly reflects that even the companies titled as best governed companies do not have sufficient representation of women on their boards. None of the boards of above companies was chaired by a woman.

According to the latest data Bharti Airtel, India's biggest mobile carrier and the third-largest globally by subscriber base, on 11 January 2017 received the 'Best Governed Company Award' at the 4th Asia Business Responsibility Summit organised by the Asian Centre for Corporate Governance & Sustainability (ACCGS). [22] The board of this company has two women (Tan Yong Choo and Chua Sock Koong)[23]director a clear explanation to the reasons for this achievement.

Another latest data is that Institute of Company Secretaries of India (ICSI) has conferred its prestigious 'National Award for Excellence in Corporate Governance 2016' on L&T for following the highest standards of corporate governance in its business operations.[24]The board of this company has 2 women directors on their board (Naina Kidwani and Sunita Sharma)[25] reflects how the gender diversity creates a difference.

5. Women in Corporate Governance

Women generally by being good listeners may encourage participative decision-making. Besides their positive management style is likely to strengthen company's risk management practices.

The different essential elements of business support that female directorship creates a competitive advantage because this diversity-

- Improves firm performance.
- Leverages talent.
- Reflects the marketplace and builds a reputation, and
- Increases innovation and group performance.[26]

The women on board further aid to contribute better decision making by the board as the risk associated with the expert overconfidence that may be found in homogeneous boards is reduced and it also reduces the risk of groupthink. Though there are many research which is

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[21] Sakshi Verma, 'A Move towards "Gender-balanced Boards": Exploring Women Participation on the Boards'(2013) Research India Publications <https://www.ripublication.com/gjmbs_spl/ gjmbsv3n10_10.pdf>accessed 18 August 2018.

[22]The Economic Times, 'Bharti Airtel bags Best Governed Company award from ACCGS'(2017)<http://economictimes.indiatimes.com/articleshow/56478295.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst>accessed 18 August 2018.

[23]Prime Database Group, 'Indian Boards Database' NSE Infoabse <http://indianboards.com/pages/companyprofile.aspx?code=C0000176> accessed 18 August 2018.

[24]ICSI National Award for Excellence in Corporate Governance for L&T (2017) <http://www.larsentoubro.com/media/34188/2017-01-12-icsi-national-award-for-excellence-in-corporate-governance-for-lt.pdf >accessed 18 August 2018.

[25]Prime Database Group, 'Indian Boards Database' NSE Infoabse <indianboards.com/pages/ companyprofile.aspx? code=C0000766> accessed 18 August 2018.

[26] Sarah Alvy, 'India's Companies Act of 2013: A Governance Shift Into The Sunlight' (2015) 2 Indon. J. Int'l & Comp. L. 187.

the evidence supporting nexus between gender diversity and improved performance along with enhancement of governance, there has been very little research activity measuring this correlation specifically in India.

A study entitled "Women on Boards: A Policy, Process and Implementation Roadmap" conducted by Biz Divas and Khaitan & Company[27] provides useful discussion, analysis as well as some empirical findings about gender diversity in Indian corporate boards. It stated a few points to ensure that the mandate of having women on board in India brings out the best results for positive impact on corporate governance. Firstly, gender diversity must be accepted in spirit and not just as a matter of law which means that the compliance to be done should not be just out of compulsion. There is a need to guard against tokenism. What is required is a scrutiny and analysis of the strengths and contributions an individual woman director brings to the board. Secondly, the woman director's contribution must be valued. The requirement of one woman director is the beginning of the progress towards gender diversity which can be revised over a period to explore if changes are required so that this move lead towards greater number of women directors.

6. Women on boards of Scandinavian Countries and Corporate Governance

Scandinavian countries here is restricted to the study to Norway, Sweden, and Denmark. The disproportion between the number of women on corporate boards and their representation in the workplace prevails worldwide. During the last decade worldwide, only Scandinavian shows marked change. The counties that does not have any legislation enforcing quotas, the rate of increase in women's board representation has been slow but recommendable as in case of Denmark.

There are conflicting evidences as to whether female representation improves profitability. Corporations are unlikely to work actively to enlarge female representation on board. Proving that boards with women director's result in better financial performance would presumably clear the path for women.[28]

In a study by Ahern and Dittmar the effect of the quota requirement on board diversity for 248 publicly listed Norwegian firms during was examined within 2003–2009. They find that the 2006 announcement of the quota a target of 40% female directors at a time when only 9% were in place caused a significant drop in the stock price and a large firm got themselves delisted. The initial reaction and consequences were not appreciable because of the mandate requiring a great number of women representation on board. A study of 2015 show that the new reserved seats were filled with women who are observationally better qualified to serve on boards than the women appointed before, suggesting that there was indeed a glass ceiling stopping qualified women from rising. It also examined the effect of this same quota introduction on corporate policy decisions. They find that the effects are strongest among

[27] Biz Divas and Khaitan& Company, 'Women on Boards: A Policy, Process and Implementation Roadmap' (2014)<http://www.bizdivas.in/wp-content/uploads/2014/09/women_on_boardV3-PRINT.pdf> accessed 20 August 2018.
[28] Mildred Woryk 'Women In Corporate Governance: A Cinderella Story' (2012) Dayton L. Rev. 21.

Volume 3, August 2018 ISSN 2581-5504

firms that had no female board members before the quota was introduced and present even for boards with older and more experienced membership.[29]

In case of Norway only three years after mandating of the quota and only one year after 40 percent female board of director representation was achieved. The quota was fully complied with in 2008 and makes the nation a useful ground for examining the effect of gender diverse boards of directors on firm financial performance, mainly due to a considerable spike in the number of female directors. The study would help ascertain women director's role in corporate governance. Theoretical perspectives commonly used to explain the impact of gender diversity of corporate boards on firm financial performance are agency theory and resource dependency theory. Both theoretical perspectives suggest a positive effect of gender diversity in Norway.[30]The OECD 2016 Economic Survey of Norway brings out finds that quotas are now considered a success in enhancing diversity and better business decisions.

For enhancement of Corporate Governance by involvement of more number of women on board a general measure was taken up. In March 2011, EU Justice Commissioner Viviane Reding challenged all publicly listed companies in Europe to sign up to the "Women on the Board Pledge for Europe" and commit voluntarily to increasing women's participation on corporate boards to 30% by 2015 and to 40% by 2020.[31]

In Denmark, Corporate governance has increased speedily since the original Danish recommendations were published in 2001recommendations that were revised thrice. Soft law reflects best practice in corporate governance and is characterised by voluntariness, which ensures adequate flexibility in the recommendations.

In case of Sweden, The Swedish company act stipulates which corporate bodies a public company must have, the tasks of each of these and the responsibilities of the people within each body.

In Sweden, there is a debate about introducing quota systems to increase the gender diversity on boards for public companies. There are many motivational factors why the number of women on boards should be increased. Relationship between women on the board of directors and financial performance in public companies listed on the Stockholm NASDAQ OMX stock exchange in Sweden during 2005-2013 shown through different measure reflects positive outcome in the form of Return on Equity, Return on Invested Capital, Return on Sales and Return on Assets. The data in this study was collected from 250 public companies, results of which supports that the gender diversity on the board of directors affect the financial performance.[32]

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29 Meijun Qian, 'Women's Leadership and Corporate Performance' (n 15).

30 Jonas Vob<http://essay.utwente.nl/67280/1/Vo%C3%9F_BA_Mzanagement%20and%20 Governance .pdf >accessed 20 August 2018.

31 Linda-Eling Lee and others, 'WOMEN ON BOARDS' (2015) MSCI Report <https://www.msci.com /documents/10199/04b6f646-d638-4878-9c61-4eb91748a82b>accessed 20 August 2018.

32 Isabelle Wegmann, 'Does gender diversity on the board of directors affect the financial performance?' (2016) <http://www.diva-portal.org/smash/get/diva2:932274/FULLTEXT02>accessed 13 June 2017.

Given that women have been appointed with relative ease in Europe, it must give other nations specially India, confidence that further progress will be made.

Conclusion

Gender Diversity means to think about and uphold diverse skills, different resources and potentials of women and men as equivalent. Through this article one thing becomes clear that sooner or later the presence of women on board will enhance the quality of the functions performed by the board. The role played by the women in corporate governance can be witnessed by the financial outcomes shown through several researched. More diverse boards like that of Scandinavian countries is a mere result of much of cultural norms in that market, which are often reflected in policies and educational programs that are in place to facilitate female participation in the workforce. India has started it journey, the outcome of which will be reflected even better in the years to come.