

**“Need For Gender Diversity on the Board”**

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**“Behind every great man, there is a great woman. Behind every great company board there are at least two woman” – BofA ML**

**ABSTRACT**

Gender diversity in the company’s board is one of the most debated topics especially in India. This research paper is based on how there is a paucity of women directors in a Company’s board and the need for independent women directors. There is a direct relationship between woman directors and the performance of the companies. Having a woman director in the Company’s Board has better financial results and better diligence in decision making. Gender diversity acts as a strategy towards reduction of risk and better financial management. The company’s performance is maximized and there is good corporate governance. The traditional society and its challenges stop women from acquiring their needs and fulfilling their dreams and also it is one reason why the betterment of the economy is still a dream which is yet to be fulfilled. There are many examples in the Indian economy which are discussed in the later part of this paper which show that the economy runs better when there is gender diversity and a value for the same is understood by the society running the economy. There are many Countries where the women are unrepresented and change can be brought about only when there is dynamism in the mind-set.

**INTRODUCTION**

The importance of gender equality has been provided in the Indian Constitution despite that the society has always remained in the dominance of men. Work places are the most observed spaces where this discrimination as well as dominance is noticed where women are not treated equally as men. Representation of females in decision making is a crucial issue for policy makers. Developing countries like India and China are starting to recognize and realise the importance of developing women power up to the board level. According to the Indian Law i.e. Companies Act 2013, it is mandatory for the appointment of at least one woman Director in certain types of companies the non- compliance of which results in fine of Rupees 10000 and a further fine of Rupees 1000 if the contravention continues.<sup>1</sup> As per the Companies (Appointment and qualification of directors) Rules 2014,<sup>2</sup> the following companies are required to appoint at least one director as a woman director.

1. Every listed Company
2. Every other Public company having

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<sup>1</sup> Companies Act 2013.

<sup>2</sup> Section 149(1) read with rule 3 of the Companies (Appointment and Qualification of directors) Rules, 2014

- a) Paid up share capital Rs.100 Cr or more
- b) Turnover of 300 Cr. Rupees or more.

Despite this legislation and after its implementation, the Companies such as Apollo, Asian Paints and Reliance Industries etc. began to employ their own friends or relatives to serve the mandate of having a woman director in the board. As a result of which, The Uday Kotak Committee set up by SEBI recommended that at least one director in the board shall be an independent women director.<sup>3</sup>

The purpose of the Law is to bridge the gap of discrimination between men and women in the society and bring the Women of the Country at par with men without any disparity in the Law. This step taken by the Government is revolutionary and one of the finest step towards empowerment of women. However, there are still many companies in India which are yet to appoint Women in their board as a director.

India is not the only Country taking this step. Countries like Norway, Belgium, Italy, Spain and France have also taken steps to implement legislations or quotas that make a mandate for appointment of woman as directors of the Companies.

### **STATEMENT OF PROBLEM**

This research paper focuses on how inclusion of women in the Board of Directors brings about a gender diversity in the corporate world and impacts the corporate governance outcomes that further influences the performance of the Company. The paper also discusses how women serve as an Asset to the company but have always been treated as a liability.

### **GENDER DIVERSITY, DISCRIMINATION AND MANAGEMENT**

Gender, racial composition and culture of the Board of directors are major concerns of the management and directors of various corporations.<sup>4</sup> Exclusion of women from the active work force and under representation in managerial positions have consequently made them be in unfavorable situations<sup>5</sup>. The European Commission has maintained their commitment to improve the gender balance particularly in the leadership positions by obtaining at least 40% representation of the female sex which is the less represented sex within the group of non-executive directors of listed companies.<sup>6</sup> The mandate provided by the European Commission to compel the European Union member Countries to increase the women representation in the board of listed companies have resulted in legislative reforms favouring the progressive incorporation in the Board of the listed companies. Furthermore, women have had been in a better place and have been given more importance than before on corporate boards in the recent years. 17.9% of board seats were held by women in 2015 in the Fortune 1000 Companies. The proportion has increased from 18,6% in 2014 to 23.33.% in 2016 of the female directors on the

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<sup>3</sup> Uday Kotak Corporate panel suggests a greater role for independent directors, Financial express, 2017

<sup>4</sup> Carter et al, 200

<sup>5</sup> Cech and Blair Loy, 2010

<sup>6</sup> Strategic engagement for gender equality 2016-2019, European Commission, 2016-2019.

Board of large public firms listed in 28 European Union member states.<sup>7</sup> In India certain examples are set such as Chanda Kochar, CEO of ICICI Bank, Kiran Mazumdar Shaw, director of Bicon Limited have shown a positive difference in the performance of the Companies they are directors in respectively.

### **BARRIERS**

Both intentional as well as unintentional barriers remains in the work place despite encouragement of diversity by the legislations with respect to leadership position of women.<sup>8</sup> Women face challenges such as discrimination at work despite High status occupations which can be of two different perspectives i.e. individual and organisational. Through the organisational perspective, managerial positions have always been gender stereotyped.<sup>9</sup> In general, as per the stereotypical beliefs, women are viewed as less suitable for managerial jobs when compared to the males in the work place. Male workers seem to represent knowledge, self-confidence, assertiveness and dominance. These technical competences are key demands to have access to managerial and professional jobs. The association of women with soft competences such as team-work, communication and emotional support. This kind of stereotyping results in biasness and the job access criteria is fostered.<sup>10</sup>

In certain cases, different group representatives have unequal access to employment positions. This phenomenon is known as occupational segregation model. This implies that some occupations are segregated as occupation for men and some as occupation for women. Because of this phenomenon, women are just left to watch men move few steps ahead of them in organizational position towards the top positions in the organization while the women are asked to dedicate themselves to the traditional family role play.<sup>11</sup>

The woman who are seen and observed to have hard skills and competences which are stereotyped as masculine traits are likely to face setbacks as per research. These women are not liked by the society because of not satisfying the stereotypical expectations of the society. The Women who are about to get into power and demonstrate so called male behaviors and do not fit the female stereotype are at risk of prejudice. They are not liked by the co-workers for not behaving in “feminine” way and are perceived as more competent but less socially skilled.<sup>12</sup> Due to this orthodox thought process, such women are very less likely to get promoted to top positions of the organization.

Various organizational cultures, structures and practices are such that they can lead a woman into thinking that certain type of job position and the procedure that they would have to go through to get that job position is not meant for them.<sup>13</sup> This leads to the assumption that

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<sup>7</sup> Pichler, S. Simpson, P.A. and Stroh L.K., the glass ceiling in human resources 2008

<sup>8</sup> Joshi, A., Son, J, and Roh, H when can women close the gap, 2015

<sup>9</sup> Schein, V.E. Women in management. Reflections and projections. 2007

<sup>10</sup> Ibid.

<sup>11</sup> Snyder and Green, revisiting the glass escalator, 2018.

<sup>12</sup> Rudman, self-promotion as a risk factor for women. 1998

<sup>13</sup> Liff and Ward, the construction of women’s understanding of promotions and senior management positions, P.2, 2001.

women are satisfied and content with their current positions while their male colleagues strongly show their readiness for the next step up towards the top positions and promotions.

Family responsibility of the females which has been of traditional value can be a huge hindrance to commitment to the organization and their lack of corporate networking limit their access to senior positions in the jobs. Women have been considered very skilful in terms of team building and communication but not in case of business knowledge and skills. Based on this stereotyping and attitude, women and men are considered perfect for different jobs requiring different traits and are matched to different jobs. The managerial jobs have been associated with male characteristics in the U.S. as well as several other countries.<sup>14</sup>

Women have been facing and suffering personal and social consequences of disadvantageous situation inside and outside the organization due to biased decision making process and prejudices management to restrict them from getting managerial positions. The discrimination is mainly based on stereotypes with regard to the competences in men and women.

### **CONTRIBUTION OF WOMEN TO PERFORMANCE OF THE BOARD**

The contribution of women to the organizations can be beneficial in many ways. Female directors have an influence on performance of the firm and increasing the firm value. The board of directors of a company is an important governing body and is ultimately responsible for the performance and profitability of the Company. It is the directors who are responsible for safeguarding the interests of the company and its shareholders as well as the supervisory tasks such as monitoring the CEO, strategizing, hiring and firing the CEO and examine and evaluate the CEO and management. An effective board of directors involves ensuring that there is diversity in the structure of the board in terms of gender neutrality, race and experience.<sup>15</sup>

Studies have also suggested that gender parity increases the effectiveness of the board and it is recommended that more women are appointed to the board as an organizational good practice.<sup>16</sup> Essar Group and Mahindra and Mahindra Ltd have appointed independent women directors to their Board from academic and research institutions to work diligently and add value to their companies. The Harvard Business Review 2011 has mentioned that women directors are in fact better than male directors as they have the quality to take initiatives and perform well and build better communications and relationships.<sup>17</sup>

It also broadens the knowledge base as per researches which in turn expands the set of experiences and point of view of an all-male member board.<sup>18</sup> There is a reduction of absenteeism and working environment is improved. Inclusion of women in the board of directors also makes the firm more acceptable in the society by adding legitimacy to the firm

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<sup>14</sup> Ibid 8

<sup>15</sup> Westphal and Milton, How experience and network ties effect the influence of demographic minorities on corporate boards, 2000.

<sup>16</sup> Higgs, D., The Higgs Report, Review of the role and effectiveness of Non-Executive Directors, 2003.

<sup>17</sup> Mahalakshmi V. and Dr. P Narayana Reddy, Corporate governance and presence of women directors on Board.

<sup>18</sup> Daily and Dalton, women in the boardroom: a business imperative, 2003.

since it reduces inequality in terms of gender which developed countries do not accept.

Studies have suggested that the diverse boards show better financial performance than all men board.<sup>19</sup> There is better governance, increase in innovation, and better Corporate Social Responsibility.<sup>20</sup> However, even though inclusion of women to the board results in better performance of the firm financially as well as socially, they are given the treatment of minorities and the influence that they have is indirect and latent. On the other hand, men forming the majority have a direct influence on the company through the Board and fast in public.<sup>21</sup> However, studies have shown that gender diversity reduces the firm's excessive risk to a moderate level<sup>22</sup> by contributing to lower variability of return from stock market.<sup>23</sup>

According to Bank of America Merrill Lynch (BofA ML) gender diversity can boost return on equity as well as market capitalization at reduced risk. According to their study, Asia's population comprises 49% women contributing to 36% of GDP but only 12% of board seats are occupied by Women.

### **VALUE FOR DIVERSITY: ANALYSIS AND CONCLUSION**

Based on the problem of the research and the research done my personal analysis is that there are a lot of reasons why there is gender discrimination in appointment of women as directors in the Board of the Companies, not only in India but also worldwide. After the Companies Act amendment in 2014 which said that every company shall have at least one woman as a director in the board, many companies found a loophole and employed their own friends/relatives as directors. SEBI made that change by suggesting that there shall be an independent woman director in Board of every company. Despite the legislations, the traditional as well as stereotypical beliefs hold the society back in letting any woman step ahead and become independent. Legislations might as well force every company to keep a woman in their board, however, the results of having a diverse board can only be successful by a change mind set and cultural beliefs of the people.

Women are still treated as that part of the society whose first job shall be to look after their families and not to have any trait that is similar to their male counterpart. They are still considered as a human of soft competence and are not treated as equally as men in terms of behavior and roles to be played. Women are still encouraged in the beginner's level but there are very less situations where there is a support that pushes them to higher levels and top positions. This is one of the reasons why woman only remain at the mediocre job positions and top positions are occupied mainly by men.

There are many reasons and challenges why woman work force face drop outs at the mid stages

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<sup>19</sup> Erhardt, N.L. Werbel Board of Directors Firm and financial performance 2003.

<sup>20</sup> Miller T. and Triana, Demographic diversity in the boardroom, 2009.

<sup>21</sup> Mugny G., Papastamou, minority influence and psychological identity 1980.

<sup>22</sup> Hutchinson M., who selects the right directors? An examination of association between board selection, gender diversity and outcomes, 2015

<sup>23</sup> Lenard M., Anne York, Impact of board gender diversity on firm risk, 2014.

of their careers whether voluntarily or due to societal pressures. Since women are traditionally given family roles, especially in India, the culture is that the priority of women in the very first case shall be her family which she has to look after. Due to which, right after their marriage or pregnancy, women find it difficult to balance their work life and family life and tend to quit their jobs to live up to her family's expectations.

If a work environment is such that it is not supportive of females, the rules, regulations, policies and conditions are not in favor of women, then it becomes difficult for a women to work in such an environment. Thus, every company shall have their policies favoring the women which shall give her maternity leaves and benefits so that pregnancy is not a reason why a woman leaves her job and not encouraged thereafter. Laws relating to sexual harassment at work place referring to the "*vishakha guidelines*" shall be implemented in every company to make the work environment safe and dignified for the women and any woman does not have to face any harassment to keep her job secured or to compromise to reach to a level that she wants and that she deserves.

In the previous year i.e. 2019 right before the time line given by SEBI to appoint at least one woman independent director in the Board of every company, there were 500 top companies in India which were yet to appoint a female in their board despite having enough qualified females who were appropriate for the jobs. The date given by SEBI to the companies was April 1, 2019 and precisely 51 companies failed to comply with the mandate and failed to induce woman as independent directors in the board. This in my analysis shows that even after having proper legislations and a proper pool of candidates, unless there is a value for diversity there is very less changes that are made and are seen.

According to studies done and researches conducted, the firm's financial value is increased when there is diversity in the board. There are women who have been a board member more than once, explicitly saying that the quality of dialogue and attention to detail of the board changes when there are more than one woman on the board and the board is diverse.<sup>24</sup>

The legislative changes are only a nudge to the companies and the change can only come through a mind-set change. Having said that, the pace is slow, yet positive. Although the companies are making changes typically because of mandates given to them the lag period might just take years and decades to bring about a very positive change. To bring about the change, the Board of the companies shall have an adjusting and attractive attitude towards women and it shall find value in being a part of them. The companies need to dig into larger pools rather than smaller pool of same individuals of recognized names. They should chase the skill-sets and value additions rather than familiar sets.

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<sup>24</sup> Vinita Bali, former managing Director of Britannia, Economic Times, 2019

## **REFERENCES**

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