

Diversity and Inclusivity of Corporate Boards

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Abstract: Having Women on Corporate Boards is a diversity measure justified on the basis of both social equity and business consideration. Global experience indicates that progress in the implementation of gender diversity is typically tardy unless mandated by law. European Countries in general and Scandinavian Countries in particular have progressed significantly in this field, with Norway heading the world with 35.5% representation of Women on their Boards. Effective from 01st April, 2015, Listed Companies in India were required to have at least One Woman Director on their Boards, close to 88% of the Companies reportedly have complied. In response to the recent SEBI mandate, a large number of Listed Companies in India seem to have appointed Women Directors, not surprisingly, most Indian Listed Companies have only One Woman Director, although studies have shown that Companies with three or more Women Directors have outperformed those that have had less. Aside from absence of critical mass of Women Directors, a number of other issues have emerged, viz., independence of Women Directors appointed, paucity of potential independent Woman Directors and Women Directors' own perception.

Capacity Building, Supportive Boards and Legislative Action are essential for successful progress in this field. From a Human Capital perspective, Women constitute 48% of the population of India and their participation in higher education has been increasing. Their presence in Senior Leadership Teams and in Boards of Companies, however, has not been significant enough. This paper is an attempt to explain the extent of participation of Women on Indian Boards, with a focus on cross-country experiences and finally, the competencies needed to be effective on a Board. The paper also provides some recommendations to improve the participation of Women on Boards.

Keywords: Diversity, Inclusivity, Glass Cliff

'Yatra Naryastu Pujyante, Ramante Tatra Devata' is the mythological saying which connotes that the God resides where the Women are respected and worshipped. ***Women are not the better-half rather they are the best half, constituting half of the population. This warrants a fair and due share to the Women in all dimensions. The Corporate Organisations are not an exception.*** With social and cultural shifts in society, there has been an increasing trend to promote greater diversity within organisations. ***Nearly 1 Billion Women who are set to enter the workforce in the next decade are viewed as drivers of economic growth, as the 'Third Billion' next only to India and China (Booz & Co., 2020). Yet, the inclusion of Women in the highest echelons of business and management has not been promising.*** As several authors (Fairfax, 2006, et al.,) have noted, while there has been progress in the last four decades in the participation of Women in employment in organisations, the increase at the levels of senior management has not been significant, given the large number of Women who are entering the workforce and acquiring higher education.

In the last two decades, several countries have introduced quotas for increased participation of women on the Boards Of Companies. Of particular significance is the European Union (EU) quota, according to which at least 40% of the Non-Executive Directors of Publicly-Traded European Companies should comprise Women by 2020, State-Owned Companies are expected to achieve this goal by 2018 (Ibarra, 2012). However, recent empirical evidence from the Scandinavian Countries indicates that while quotas have been effective in increasing the participation of Women Directors on Boards, the new Women Directors inducted to various boards had significantly less CEO experience and were younger than the existing Men Directors (Ahern and Dittmar, 2012).

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In a Pioneering Book ‘Leadership by Proxy’ by **Poonam Barua, 2016**, it is stated that lay an archival milestone for creating a ‘Brave New Mindset’ in Corporate India and Businesses Worldwide that will genuinely embrace ‘Balanced Leadership’ as a true goal of Corporate Enterprise, validate and verify equal opportunity with meritocracy, respect inclusive growth for Women who form 50% of the world population, and best practices in the workplace that will reject homogenous All-Male Corporate Leadership as a fundamental economic function to bring optimum rewards of diversity to business growth and societal progress.

In India, the Companies Act (Revised) approved in August 2013, for the first time, made it mandatory for all Listed Companies and Other Large Public Limited Firms’ to appoint at least One Woman Director to their Boards. Moreover, the Securities and Exchange Board of India (SEBI) also amended its disclosure requirements to include a similar provision. It requires the Boards Of Directors of all Listed Companies to have an optimum combination of Executive and Non-Executive Directors at least 50 per cent and Non-Executive with at least One Woman Director. This has led to an increase in the pace at which women are being appointed to Boards. Women still go largely under-represented on Corporate Boards and hold just 12.4 per cent of Board Seats in India, slightly lower than the global average of 15 per cent, says a **Deloitte Report**. The percentage of Women in ‘Top Leadership Roles’ is even lower as they constituted 3.2 per cent of Board Chairs in India in 2016, while the global average stood at 4 per cent. Based on a **Deloitte Analysis** covering 132 companies, the number of Women on Boards in India increased by 4.7 per cent to 12.7 per cent over the past two years.

Cross Country Canvas of Diversity

India is not the first country to do so, many others like Norway, France, Italy, Spain, and Belgium have already implemented such steps by introducing legislation or quota which makes it mandatory to appoint Women Directors in a Company’s Board.

As evident from **Table-1**, in majority of the Countries, including India, gender diversity on Corporate Boards is made mandatory. Except in India and the UAE, where the threshold limit for Women on Corporate Boards is fixed at least One Woman Director, in the rest of the Stated Countries threshold limit fixed for the Women on Corporate Boards ranged between 30 to 40 per cent. Despite the attractive thresholds set the reality is otherwise as could be observed from **Table-2**.

Table-1: Regulatory Thresholds for Gender Diversity on Corporate Boards

Country	Requirement Type	Threshold	Introduced in	Due Date
Belgium	Mandatory	33%	2011	2017
Denmark	Comply or Explain	40%	2013	–
France	Mandatory	40%	2010	2016
Germany	Mandatory	30%	2015	2016
Italy	Mandatory	33%	2011	2015
Malaysia	Mandatory	30%	2011	2016
Netherlands	Comply or Explain	30%	2013	2016
Norway	Mandatory	40%	2003	2008
Spain	Comply or Explain	40%	2007	2015
UAE	Mandatory	1 Woman Director (at least)	2012	–
India	Mandatory	1 Woman Director (at least)	2013	2015

Source: Catalyst Legislative Board Diversity: Women on Boards

Table-2: Average Proportion of Women Directors Per Country

Country	Proportion (in percentage)
India	13
Switzerland	16
Spain	19
USA	21
Germany	23
United Kingdom	23
Netherlands	24
Italy	25
Denmark	27
Belgium	27
Finland	32
France	34
Sweden	35
Norway	39

Source: www.globalwomen.org

As evident from **Table-2**, Norway is at the forefront with 39 per cent followed by Sweden, France 34 per cent, Finland 32 per cent, Belgium and Denmark 27 per cent, Italy 25 per cent and Netherlands 24 per cent. India stands with the least 13 per cent. The European Markets have taken the lead in promoting gender diversity, with most of them having adopted regulatory quotas for female representation. Norway was one of the first countries to set a benchmark in 2003, the Norwegian Government passed a law that required companies to have at least 40% of Board Members to be Women. The law came into effect in 2006 and it stipulated that, after an initial grace period of two years, a failure to achieve the 40% quota would invite regulatory action. The approach was subsequently adopted by Other Countries including France, Germany, Italy, Belgium and Denmark. The laws in these countries have resulted in a surge of Women Director Appointments since the last decade. For example, as per the **Corporate Women Directors International (CWDI) Report, 2015**, Female Representation in Italy went up from 1.9% in 2004 to 25.8% in 2014. In France, the number increased from 7.2% in 2004 to 30.2% in 2014. It indicates that Companies have responded to the regulatory sanctions.

Table-3: Global Comparison of Key Metrics

Women in Corporate Boards	NIFTY - 500 India	STOXX - 600 Europe	S&P - 500 U.S.A.
	(in percentage)		
Proportion of Women on Boards	13	25	21
Women as proportion of Independent Directors	16	34	-
Boards without Women Directors	3	5	1
Boards with Two or More Women Directors	21	80	76
Boards with Three or More Women Directors	5	49	25
Average No. of Women Per Board	1.2	2.8	2.3
Proportion of Women on Committees			
Audit Committee	12	29	22
Remuneration Committee	13	26	20

Source: Gender Diversity on European Boards, Spencer Stuart Study, Women Participation on Key Committees

The data from **Table-3**, suggests that India still lags on some key metrics. Only 21% of **NIFTY-500 Boards** have Two or More Women as compared to 80% in some other markets. On an average, India has 1.2 Women Directors on Boards, which is significantly less than its European and US Peers. Even on Committee Memberships, Women Directors are under-represented in India. India Inc. has made a good start in adopting gender diversity. Although, it is one of the first developing countries to push for female representation, it still has some way to go to catch up with developed markets, where the average proportion of Women Directors generally ranges between 20% - 40%.

Table-4: Proportion of Women Directors During 2010-2016 (NSE Listed Companies)

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Proportion(%)	4.5	4.6	4.9	5.4	12.5	13.7	13.7	15.2	16.1	17

Source: Prime Data Base, 2021.

Table-4 shows that in the year 2011 the proportion of Women Directors on Corporate Boards of NSE Listed Companies was only 4.5 per cent which stood at 4.9 by the year 2013, increased to 12.5 per cent in 2015 and stood at 17 per cent in the year 2020. Thus, number has more than tripled over the past 10 years from 4.5 percent in 2011 to 17 percent in 2020. This has helped India close the global gap average, which stands at a 23 percent. (**CS Gender 3000 Report**). Industry Bodies are speaking in unison that at 13%, Women are still under-represented in stewardship roles despite constituting a significant portion of the talent pool in corporate India. This is much lower than Countries like Norway (39%), France (34%), UK (23%) and USA (21%). Only 26 Boards in the Nifty-500 had three or more Women Directors as on 31st March, 2020. Fifteen Companies had no female representation on Boards as compared with only six companies in the S&P-500 as on 31st March, 2020. Following the example of Western Countries which have a '30% Club', India has come up with its own '20% Club', an aspirational target of achieving 20% gender diversity on Corporate Boards by 2022. Very few companies in India have looked at Women Directors in the true spirit of diversity as only 1.6% of the Companies had 30% or more Women on Boards, according to Prime Database.

Suggestions

(i) Commitment from Market Participants

Market Participants *viz.*, Companies, Industry Bodies, Investors and Regulators must together commit themselves to the goal of gender diversity. Companies, on their part, need to pick up the baton and take this initiative forward. It requires a shift in the corporate mindset. To reap the full benefits of diversity, companies have to embrace the legislative intent and put in place systems and processes which will end discriminatory practices. The ultimate test of the impact of the forced gender diversity is if companies begin to experience the difference, resulting in a stronger buy-in of the idea.

(ii) Must Raise the Bar for Higher Target

By pushing for gender diversity, the regulators have taken the first step. But, mandating only one Woman Director may not help achieve the final objective of ensuring gender parity at the leadership levels in Corporate India. Companies must raise the bar, and must target to have 20% of their Boards comprising Women by 2020 and further we need to reach our own Club of 30%.

(iii) Tokenism Does Not Work

One Woman on Board is tokenism when Women on the Corporate Boards are proved valuable. For a proportional representation Women should form 50% of the workforce. Unless one is convinced that this is really beneficial for a Board, Administrative Measures and Legislative Measures are just a tick in the box and don't serve the purpose. Women are believed to bring in a diverse perspective in addition to discipline to a Board with a better sensitivity to customer issues. Companies don't need to wait for a 'Superstar Women' to induct them on Boards.

(iv) Drive from Intention to Impact Warranted

Companies cannot expect progress by simply putting down policies on paper. According to the **BCG Survey on Gender Diversity in Indian Companies**, Women's representation in Indian firms stands at around 27 per cent of the country's total workforce, while globally, this figure is 38 per cent. Moreover, Women

account for just 17 per cent of Senior Management Positions in India, compared to 26 per cent in emerging Asia-Pacific countries. Deplorably, in the BSE-500 Companies, only 3 per cent of the CEOs' are Women.

Moreover, gender diversity initiatives have helped more Women Employees in MNCs' operating in India (33 per cent) than their counterparts employed by Indian companies (27 per cent). One of the key reasons behind the gender diversity programme being ineffective is poor implementation. True to say, nearly 50 per cent of interventions are ineffective not because they are poorly designed, but because they are poorly executed. The companies need to focus on practical challenges faced on the ground to make the interventions truly impactful. The Indian Corporate Sector has to drive itself from 'Intention to Impact'. For bridging the Diversity Gap in the Workplace and also the Corporate Boards the leading organisations in India have to understand the current status of gender diversity and obstacles in the way of improving gender balance. The issue of quotas through political mandates *versus* voluntary self-regulation by firms is one that requires further investigation in countries such as India, where Women Participation on Boards is very low compared to the rest of the World.

(v) Disclosure Norms

Given the legal context in India, there are several sound laws but weak implementation. A quota may not serve the purpose of increasing the true participation of women. A 10-year time frame to implement gender diversity in organisations with disclosures in the annual report of the number of Women Executives and Director-Level Appointments could result in the deepening of Women Participation on the Board.

(vi) Structured Interventions

More structured interventions from organisations such as Catalyst and Other Women's Network Organisations and Executive Search Firms could hasten the pace of potential assessment. Business Schools can provide platforms for the education of Women Directors. The mandate to have at least One Woman Director on the Board of a certain class of Companies and the Recent Amendments to the Companies Bill provides an opportunity to enhance the supply of Women Directors.

(v) The Start-up Engine Be Geared

Indian Start-ups should address the issue of gender diversity at workplace, hiring more Women across various roles to boost productivity. I do endorse the view because the Start-ups are growing at about 10 per cent and India has a very high chance to lead.

The booming Start-up eco-system in the Country, undoubtedly, has the potential to position India as the 'World's Start-up Engine'. India has done an amazing job as a country with some of the Top Women Leaders in Government and Business. But, as we go further down in the employment, we need to address the gender diversity in Start-ups. It requires commitment as a country to change.

(vi) Sensitisation to Widen the Spectrum of Inclusion

Issues like Women-in-Leadership and a leaky pipeline are a global phenomenon and detrimental to GDP growth. To arrest the leaky bucket, the Companies should run regular sensitisation and awareness workshops that address gender spectrum inclusion with both Men and Women.

(vii) Identification of Women Directors

There is every need to facilitate a more effective process of identification of Women Directors. There is no shortage of Competent Women Professionals in India across a variety of spheres. However, several of these Women are not in the business sector. Competent Women Professionals who are present in other spheres (such as development, media, law, politics, art, culture, and sports) and do not have access to commercial organisations, it is likely that Corporations are focused on a narrow talent pool, thereby fostering the perception that there is a scarcity of Women Professionals.

(viii) Building a Pool of Effective Directors

There is a need for an 'Effective Director Assessment and Building Process'. Mid-Career Women with high potential should be identified at the firm-level, and adequate exposure and grooming need to be provided for such 'Identified Directors'. There is a need for training and development of Women Directors. This process is likely to result in building a 'Pool of Effective Directors' who can serve as the desired pipeline for organisations. Existing Executive Directors can be groomed during their tenure to be Independent Directors in non-competing industries. This can be done as part of their personal development process tied to the HR Strategy of the Firm.

Conclusion - There is a Long Distance to Tread

Women still constituted a very small part of the board make-up. No doubt, there is a clear paucity of potential Independent Woman Directors. In India, the same Women are also found to be sitting on various Boards. At the present pace, it may take a century for Boards to achieve a high level of gender diversity. One third of Publicly Listed Indian Companies did not have a Female Board Member, despite a quota fixation requiring at least one. While Organisations are working on diversity and inclusion, and Women in the Boardroom and as Leaders, the number still remains small. Few factors preventing Companies from appointing more Women are inadequate statutory quotas for fostering gender diversity, lack of adequate number of qualified Women to hold board positions, traditional stereo-types and lack of Women Friendly Policies.

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