Women Directors-A Catalyst in Enhancing Board Performance

Prologue

In a report titled, "*The Bottom Line: : Corporate Performance and Women's Representation on Boards"*, published by Catalyst, states that *Fortune* 500 companies with the highest representation of women board directors accomplished substantially higher financial performance, on average, than those with the lowest representation of women Board Directors. In addition, the report points out, on average, notably stronger-than-average performance at corporate houses with three or more women Directors.

In India too, recognize the importance of the role of woman in the growth and development of the corporate, The Securities and Exchange Board of India vide its circular date 17th of April, 2014 made it compulsory for all the listed companies to appoint at least one Woman Director on their Board by 31st of March, 2015 in alignment with the requirements of Section 149 of the Indian Companies Act, 2013, under corporate governance norms.

So the days are over when women were ignored and their role was undermined. Today, women are the pillars of the business organization and making noteworthy contributions towards the success of the business. In view of the burgeoning significance of women in corporate houses, this research write-up makes an endeavor to delve deep into the need of women empowerment, how presence of women on corporate boards have enhanced the performance of the business organizations, the regulations governing the appointment of women directors on corporate boards and legal ramifications, the takeaways from global practice and other important aspects.

Sailing further

Generally it is construed that greater profits, greater CEO pay and increased problem-solving are the merely tip of the iceberg as far as the merits of increasing the number of women on company's board of directors. Now at times a question comes up that whether by adding women directors on the board does it usher in a powerful change? The answer to this question can be found in the following points-

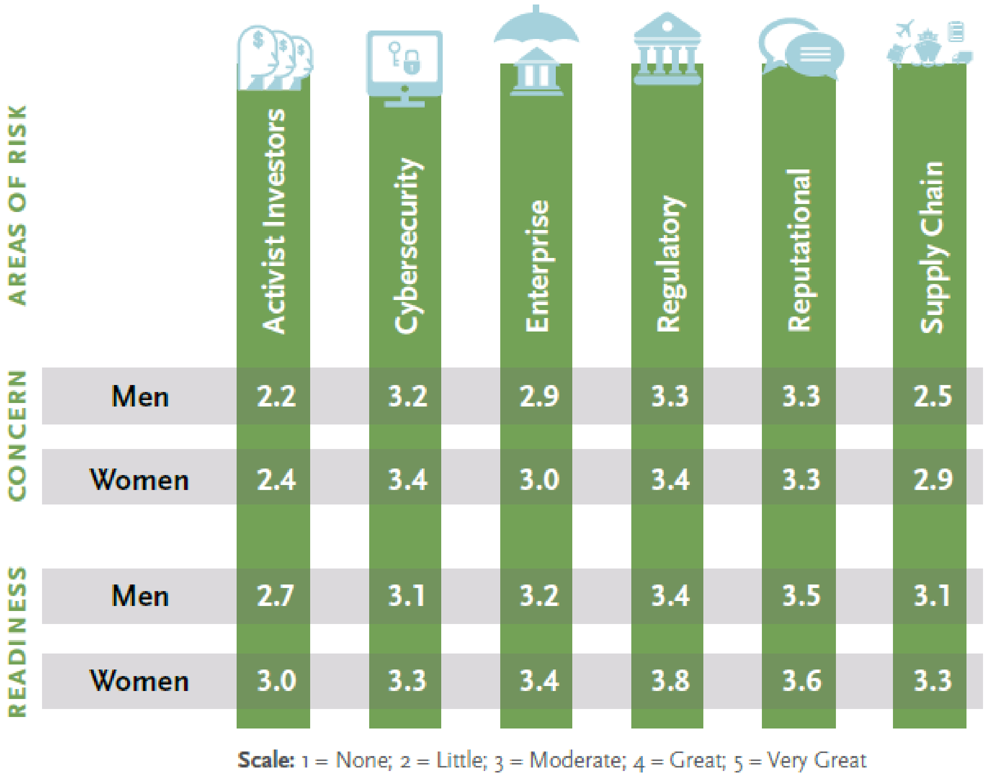
a) <u>Corporates with More Women Directors Experience Higher Financial Performance</u>: According to a research firm, Catalyst, the Fortune 500 companies that had the highest representation of women directors on boards enjoyed a higher return on investment, sales and equity. Catalyst indicates that those corporate houses with the most women on their boards received 66% higher return on investment than the companies with fewer women on their boards. The researchers at Catalyst ranked the Fortune 500 companies based on the percentage of female board members, and compared the top quartile with the bottom quartile. Those in the top quartile had a 66% higher ROI than those in the bottom quartile. Similarly, research studies conducted by other non-academic research organizations, both in the United States and at international level replicated the mentioned research findings. Further, the concept of women directors on boards could strengthen profits has been repeated in numerous media outlets including the New York Times, the Los Angeles Times and the Washington Post.

b) The more women on corporate boards' leads to better productivity and problem solving: The argument here is that in diverse boards, each board member brings different knowledge and experience to the company's problems, and, therefore, can solve the problems more effectively. Different views add value to the decision making process. Further, it assists in formulating unbiased decisions.

c) The more women on corporate boards result into higher CEO pay: Equilar, a compensation research firm found that companies with greater gender diversity on their boards also paid their CEO's about 15% more than those with less diverse boards.

In a survey conducted by WCD in 2016 (Women Corporate Directors), led by Susan Stautberg, CEO, Spencer Stuart, spearheaded by Julie Hembrock Daum, head of the firm's North America Board Practice; and their research colleagues wherein responses were collated from 4000 male and female directors from 60 countries around the world. The survey research revealed "a gap between best practice and reality" in boards' readiness to handle strategic challenges, especially regarding talent issues. While both public and private company directors named "attracting and retaining top talent" as one of the top challenges to their companies' achieving strategic objectives, respondents gave their own boards relatively low ratings when it came to talent issues such as board diversity, HR/talent management, CEO succession planning, and director evaluations. Other key findings in the report include:

i) *Women directors report higher concerns about risk than male directors*: Directors globally express the most concern about regulatory and reputational risks, followed by cyber security, and less about activist investors and supply chain risks. In general, directors report that their companies are prepared to handle the most important risks, with companies' level of readiness matching the most concerning areas of risk. However, directors of private companies systematically rank their boards as being less prepared versus public company boards when it comes to such risks. Nearly across the board, female directors report a higher level of concern about various risks to a company than their male peers — from concerns about activist investors and cyber security to regulatory risk and the supply chain. However, female directors also feel that their companies have a higher level of readiness to address these risks than do their male associates. Please refer the exhibit below.

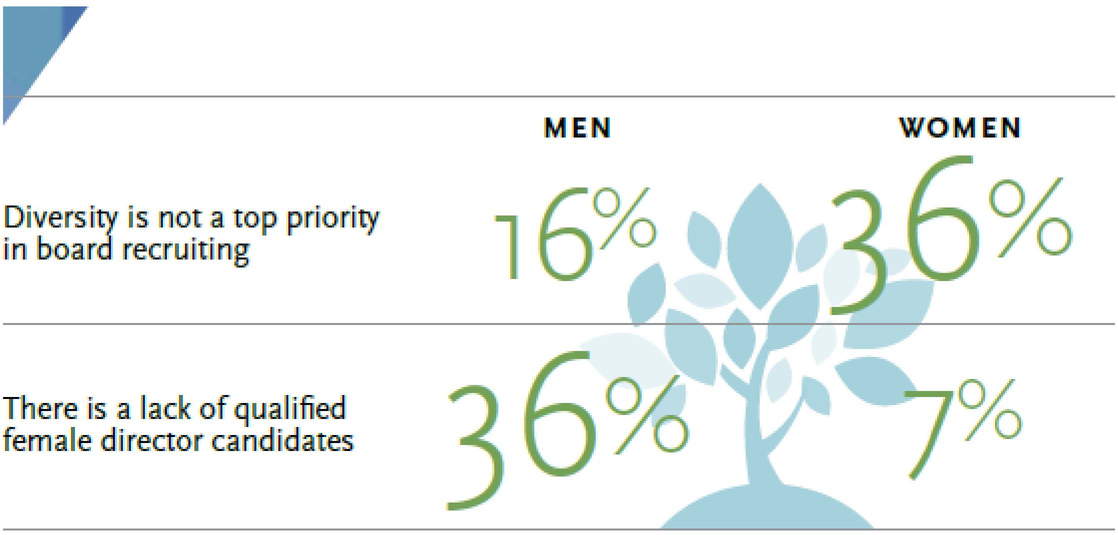


Source: 2016 Global Board of Directors Survey

ii) *Directors – especially women – favor tools to trigger board turnover*: A little more than one-third of the boards have term limits for directors, averaging six years, while approximately one-quarter of boards have a mandatory retirement age, averaging 72 years. Boards in Western Europe are most likely to have term limits, and boards in North America are least likely to set term limits. However, boards in North America are more likely to have a mandatory retirement age than boards in Western Europe (34% versus 18%). We also see a stark contrast between public and private companies in both term limits (39% versus 30%) and mandatory retirement ages (33% versus 12%). While these tools for triggering director turnover generally have not been widely adopted, the survey indicates that directors favour adoption of such mechanisms. Sixty percent of directors think that boards should have mandatory term limits for directors, and 45% think that there should be a mandatory retirement age. Even in private companies, which are considerably less likely to adopt these practices today, directors' shared similar opinions as compared to their counterparts in public companies. Female directors, even more strongly support triggers for turnover; 68% (versus 56% of men) favour director term limits and 57% (versus 39% of men) support mandatory retirement ages.

iii) *Why isn't the number of women on boards increasing*? As the percentage of women on boards remain stagnant, there is both a gender divide and a generation divide on why this is. Male directors, especially older respondents, report the "lack of qualified female candidates," while women directors most often cite the fact that diversity is not a priority in board recruiting and that traditional networks tend to be male-dominated. Younger male directors surveyed (those 55 and younger) are inclined to agree with women that traditional networks tend to be male-dominated.

According to Stautberg, men in the younger generation just see their qualified female colleagues out there, but know that the conventional board networks still tend to be male. It is often difficult to see an informal network if someone is in the middle of it, but one can observe it very vivid when one on the outside.



Source: 2016 Global Board of Directors Survey

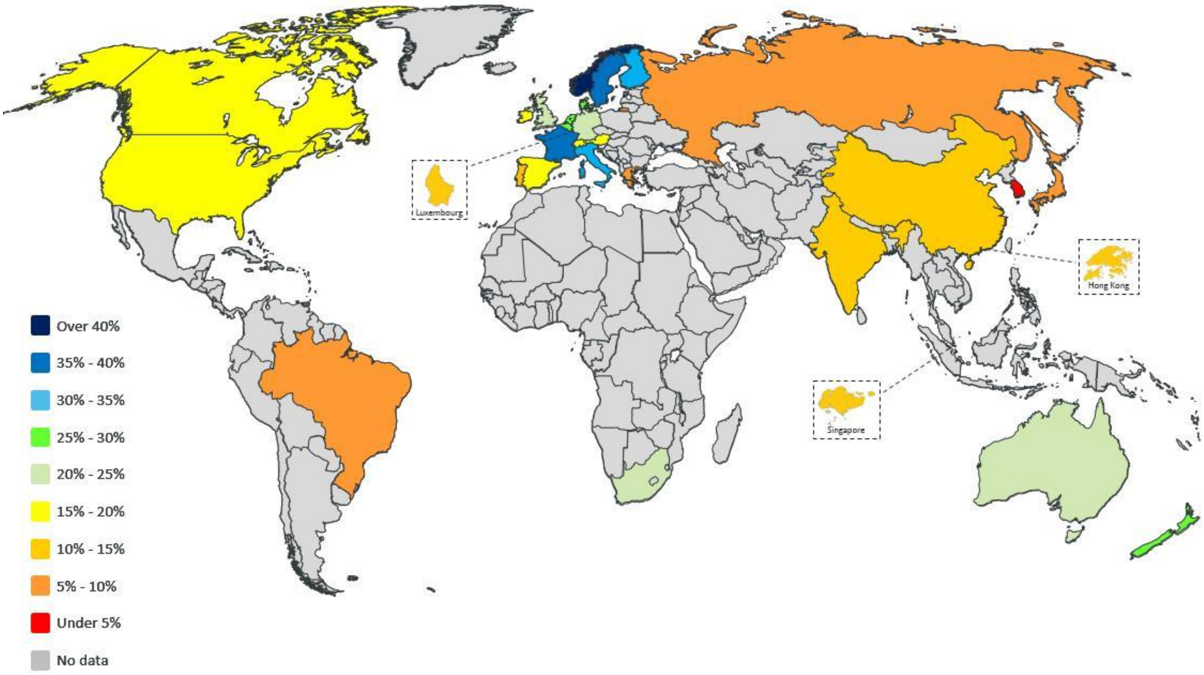
iv) ***Boardroom diversity quotas not supported overall*.** Nearly 75% of surveyed directors do not personally support boardroom diversity quotas, but support for quotas varies significantly by gender and, to a lesser degree, by age. Forty-nine percent of female directors support diversity quotas, but only 9% of male directors do. Older women are less likely to favor quotas than younger women; 67% of female directors ages 55 and younger personally support boardroom quotas, compared with 36% of female directors over 55 (the majority of male directors, of any age, do not support quotas). Female directors also are more likely to be in favor of government regulatory agencies requiring boards to disclose specific practices/steps being taken to seat diverse candidates.

Silver Lining- The Global Scenario

Globally, the number of women on boards has been increasing for at least the last three years. According to ISS Quality Score data, overall female representation has increased on boards from 14.5 percent in 2014, to 15.3 percent in 2015, and 16.9 percent in 2016. While this is still a small proportion of all directorships, the 1.6 percentage point increase from last year through this year is a large jump, and also represents a significant number of global directorships now held by women.

At first glance, the greatest predictor of a more gender-diverse board seems to be the strength of any regulation mandating some minimum level of diversity. Stronger regulations with mandates for minimum gender representations are in place in many of the markets with the highest percentage of female directors, while markets with less stringent regulations or no mandates tend to have fewer female directors. However, this is somewhat of a simplistic approach; the reality is that social norms in various markets often drive the regulatory framework, and how that regulatory framework is fulfilled—and in some regions, social norms seem to have obviated the need for regulation entirely. For example, the Scandinavian countries, Sweden and Finland are among the countries with the highest number of females on the boards, whereas they have no targets regarding gender diversity.

With this recognition, it'll begin by examining the global regulatory framework for gender diversity—and then take a closer look at the impact of social norms. As a starting point, a snapshot taken, among companies covered by ISS Quality Score, at the level of gender diversity on boards in each region, as of fall 2016:



Source:https://corpgov.law.harvard.edu/2017/01/05/gender-parity-on-boards-around-the-world/

The type of regulation has a significant impact on the rate of women on boards. Most of the countries of the world that have passed hard laws and hard gender quotas are in Europe. For example, Norwegian law defines precise and strict quotas that depend on the size of the board: (i) if the board of directors has two or three members, both genders shall be represented; (ii) if the board of directors has four or five members, each gender shall be represented by at least two members; (iii) if the board of directors has six to eight members, each gender shall be represented by at least three members; (iv) if the board of directors has nine members, each gender shall be represented by at least four members, and if the board of directors has more members, each gender shall represent at least 40 percent of the members of the board; and (v) the rules apply correspondingly for elections of deputy members of the board of directors. This has resulted in an average of 42 percent diversity on Norwegian boards in 2016. India has a law mandating that at least one director be female. France's regulation has gotten stricter over the past few years.

Many markets have guidance, a soft law, or a comply-or-explain provision. For example, while the U.K. does not have a hard law on the books, the U.K. government-backed 2011 Davies Review set a non-binding target of 25 percent women on the boards of directors of FTSE (Financial Times Stock Exchange) 100 companies by the end of 2015. Whereas the Quality Score data, which covers the FTSE All-Share (ex-investment trusts), shows that the current ratio of women is 20.8 percent as of Oct. 2016, all FTSE 100 boards have met the target of 25 percent, with an overall average of 26.7 female directors. Subsequently, in the five-year review, this target was raised to 33 percent on FTSE 350 boards by 2020.

Women Directors- Indian Scenario

According to a joint study entitled "Building Diversity in Asia Pacific Boardrooms", female board representation enhanced from 7.3 percent in 2013 to 8.6 percent in 2014. It was 5.8 percent in 2012 and was estimated at 12 percent in 2015. Three countries in the Asia Pacific region, namely Australia, India and Malaysia, showed substantial improvement in enhancing women's representation on boards across the companies. Further, a combination of government initiatives has contributed to the increase in women's representation according to the study. For example, Indian companies have been quick to react to the Indian Companies Act, 2013 by drawing on their existing networks, according to the joint study by Korn Ferry, a global people advisory, and National University of Singapore Business School's Centre for Governance Institution and Organization (CGIO). The Indian Companies Act, 2013 which needed all listed companies to have at least one woman on the board has assisted this broadening female representation.

However, the scenario in India is still abysmal. According to 2016 World Economic Forum Global Gender Gap report, the female-to-male ratio of boards of publicly traded companies is 0.11. Though Section 149 of the Companies Act, 2013 imposes a minimum mandatory quota on companies, the minimum quota is itself so small that it appears merely tokenistic. There is reasonable doubt over the difference one female director can make as compared with having at least three or more women directors on board. The Indian minimum mandatory quota of one female director also does not match up to global standards. For instance, Norway, Finland, France and Spain require 40% whereas Belgium, Kenya and Italy require 33% women on boards. At the least, the minimum mandatory quota must reflect the proportion of women working in the country's corporate world. The reforms also have a superficial understanding of gender diversification, as they mainly suggest that gender diversity is merely about appointing women to company boards and do not extend thought of creating equal opportunities to work and advance in careers. The instrumentalist approach that companies have taken in complying with the provisions also does not indicate gender diversification in corporate boards.

Sector-wise data analysis from March 2017 Corporate Governance Compliance report filings of appointment of Woman Director by Top 500 Indian companies listed in the Exchange are given below;

Sector Name	Woman Director Appointed (No. of cos.)	Woman Director Not Appointed (No. of cos.)	Total (No. of cos.)
Basic Materials	59	2	61
CDGS (Consumer Discretionary Goods & Services)	108	2	110
Diversified	5	-	5
Energy	11	5	16
Finance	74	9	83
FMCG (Fast Moving Consumer Goods)	37	1	38
Healthcare	42	-	42
Industrials	91	2	93
Information Technology	20	1	21
Telecom	7	-	7
Utilities	23	1	24
Total	**477**	**23**	**500**

Note: Above data is derived on basis of March 2017 Corporate Governance Compliance report filings at Exchange.

It is derived from the data analysis, an appointment of a woman director on the board from March 2017 Corporate Governance Compliance report filings at the Exchange by Top 500 Indian listed companies reveals that our country’s performance is quite good, but still there are some grey areas that are 4.6% of the Top 500 listed companies does not have women directors.

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