



How can Women Directors Contribute to Excellence in Governance

Dolly Dhamodiwala*

This year three women of Indian origin have made it to the Forbes list of 80 richest self-made women in America. They are the ceiling crashers and over-achievers, who have created new businesses on their own and amassed wealth. All three have a combined net worth of USD 2.76 bln. and have set up highly successful businesses in the IT sector – Computer networking, IT consulting and outsourcing and Streaming data technology. The youngest one with a net worth of USD 360 mln. is only 34. This is no mean feat and indicates that given equal opportunity women can bridge the divide and display unsurpassed ability to succeed even in male dominated areas.

Recently board rooms of top Indian corporate giants and even MNCs in India have started opening doors to women CEOs and experts in the fields of financial markets, banking, law, HR and IT industry. The shift has of course been slow.

India is one of the first developing countries to have enforced a legal framework to push for greater presence of women on company board rooms. The Companies Act 2013, mandated that at least one woman director should be on boards of all listed companies and all other public limited companies having paid up capital of Rs. 100 crore and turnover of Rs. 300 cr. Many companies appointed their family members and friends on their company boards to comply with this regulation. Later in October 2017, the Uday Kotak Committee recommended the appointment of at least one woman independent director on boards of all listed companies. Following this in 2018, SEBI issued an order making it mandatory for top 500 listed companies to appoint an

independent director by April 2019. SEBI had also announced that top 1000 listed companies should also appoint independent women directors by April 2020. The process however has been slow and not all of the top 500 companies have complied with this order.

Compliance with Regulatory Norms

On June 17, 2019, 11,216 persons held a total of 14,993 directorships in 1803 NSE listed companies and 573 BSE listed companies. (According to NSEInfobase). Of these only 1873 or 17 per cent are women occupying 2489 directorships. Over 1100 of these are independent women directors. There is presence of at least one woman on the boards of 1741 NSE listed companies.

Last year, the number of women directors on boards of BSE 100 companies was 160, while on boards of BSE 500 was 709, a little less than average 1.5 per board. These were all not Independent Directors but included family members of promoters who may be non-executive directors. Women constituted 15.06% of total directors on BSE 100 companies and 15.57% of total directors on BSE 500 companies.

International Trends in Board Diversity

Internationally gender diversity on boards was a prominent issue in 2018, and shareholders have been quite vocal in their expectations of companies. A CGLytics review entitled “Diversity in the Boardroom of S&P 500 Companies” reveals that some progress has been made in this direction. Companies have improved female board representation, but at a much slower rate than what is needed to meet targets set by

some proxy advisors and new legislation.

Women's representation on Boards in Australia, France, Italy, UK, the Netherlands, Switzerland and US had exceeded 20 per cent in 2017. Norway and France had the highest representation at over 40 per cent, followed by Sweden and Finland at over 35 per cent, while India remained at 13.8 percent.

An analysis of nearly 7,000 companies in 60 countries by Deloitte revealed that women held 15% of all board seats globally in 2017, up from 12% of board seats in 2015. While the global number of board seats held by women has increased by only 3 per cent in two years, the percentage of women on boards in Canada and UK had risen significantly at 5 per cent.

Appointments and departures of directors in S&P 500 companies between 2017 and 2018 show evidence that companies are actively trying to improve gender diversity on boards. While overall female representation grew by only 1%, there are some data points that demonstrate how S&P 500 companies are progressing. One of the most encouraging changes in 2018 was the increase in the percentage of female appointments to boards. Thirty-three percent of new appointments were female, up 25% from the previous year. Of the 60 new appointments under the age of 50, more than half were women, demonstrating that companies are recruiting younger female leaders

Almost all industries saw an improvement in gender diversity on their boards between 2017 and 2018. The financial sector showed the greatest improvement, with female appointments up by 2%. The telecommunications industry showed the largest representation of women on boards, at 28%.

Morgan Stanley Capital International - MSCI an independent research firm that develops global equity indexes; the MSCI ACWI, has shown that in 2017, nearly a third (31.5%) of global boards had at least three women, up from 27.4% in 2016. Research from scholars and organizations has found that three women or more are needed to create a "critical mass" of women, which can lead to better financial performance. Reaching critical mass can change boardroom dynamics substantially and "enhances the likelihood that women's voices and ideas are heard." It is now affirmed that Boards that constitute at least 30% women offer a positive environment for innovative ideas to spring from gender diversity.

Gender Diversity in top management positions is the key to Socio-economic Growth

"Women are the largest reservoir of untapped talent in the world" – Hillary Clinton. Presence of Women on Boards is the biggest differentiator for Company Performance. This has been proved by a raft of research studies conducted at leading global Institutes.

Gender diversity at workplace especially in the top positions is the key to growth, innovation and social development. This starts with building the right culture in the company, bold leadership, comprehensive action and practices that are family friendly, supportive of both the genders and an empowering policy environment that trusts employees and respects individual freedom. Businesses need to move away from traditional narrow views and embrace diverse perspectives. This requires a more innovative and agile approach.

Women bring substantive diversity to company boards in terms of their Composition, Skill sets and experiences. Their Intuitiveness, Negotiation skills and Collaborative and Inclusive styles of leadership help strike a fine balance with the more Process-driven leadership style of their male business peers and counterparts.

The number of women joining the workforce even in rural areas is increasing and so is the spending power of women. Women's needs and preferences dictate majority of purchase decisions in the consumer goods, FMCG and consumer durables markets. Women's communities are increasingly getting socially connected and decisions are driven by influencers in the globally connected world. In such a scenario, only a more equitable and balanced leadership team would be able to harness the opportunities created by these fast changing market conditions. A more collaborative approach is required between all the stakeholders, i.e. government, businesses and civil society to ensure that more women join the workforce, stay there with minimum dropouts and are able to climb the hierarchical ladder.

"Empowering women is not only the Right thing to do. It is also the smart thing to do" – Jingdong Hua, IFC, VP and Treasurer. "It can add trillions of dollars to global GDP, boost productivity, generate higher returns on investment and promote greater organizational effectiveness"

There is sufficient documentary evidence to prove that gender diversity on boards and at senior management levels has led to higher profitability, greater value creation, more innovative ideas and broader socio-economic growth.

A Credit Suisse Gender 3000 study in 2013 showed that companies with gender diversity recorded excess stock market returns and higher valuations and payout ratios – Average RoI stood at 14% compared to 11.2% for companies without women leaders.

The research firm MSCI has concluded that companies with strong female leadership have generated a RoI of 10.1% p.a. compared with 7.4% for those without. Investors have pushed companies to include more women on boards and have at times even refused investment in firms which fail. A Report by Catalyst 'The Bottom Line : Corporate Performance and Women's Representation on Boards' shows that with greater representation of women on

Boards, Return on Equity was higher by 53%, Return on Sales higher by 42% and Return on Invested Capital by 66%.

Board Composition at the Centre of Good Governance

The Performance of the Board and the performance of the Company depend greatly on its Board Composition. The Board's Size, Constitution, Expertise, Tenure and Independence should be in tune with the nature of the company's business and its subsidiaries and the expertise and experience desired to implement its strategies. It is imperative for Board members to act critically and independently of one another. Here a more diverse board has an advantage as it tends to avoid groupthink.

Companies in EU have recognized this and mandated 30 per cent representation of women on Boards. The focus in EU on women in managerial positions is huge. France under President Emmanuel Marcos has placed Gender Pay Parity on its Political Agenda

A balanced Board needs to be diverse in terms of Gender, Age, Expertise, Skills, Experience, Areas of Specialization and Accessibility. All these lead to better governance and higher company valuation. Boards now reach out to seek greater diversity, imbibing new and relevant skills and competencies, demographics and networks. All with the idea of generating 'Thought Diversity'. To embrace diversity, Boards have to formulate a policy and a reporting system on Board diversity and its positive impact on performance.

The WILL-KPMG Survey Report has brought out positive findings in favor of women leaders. Its results declare that:

- Women leaders are self-critical of their own strengths and weaknesses and tend to rebound gracefully from setbacks. They tend to be natural crisis managers enabling fair and sound judgment.
- They drive a democratic and inclusive approach by building an ecosystem and nurturing talent.
- Women have the ability to take initiative and make more rational decisions
- Women also have the capacity to multi-task and display greater sensitivity to a wider range of people, situations and catch-22 occurrences.

These characteristics make them efficient business leaders, capable of bringing in more robust risk management regimes and more effective governance structures, incorporating an ethical dimension to their leadership.

Views expressed by male board members in an IFC paper

The paper indicates that presence of even one woman on Board changes the Board dynamics. Men are of the opinion

that women tend to be more careful and conscientious in their work of supervision and scrutiny. Women have no qualms in asking questions when they don't understand. Men are constrained by their egos. This makes them better at Risk Identification and Risk Assessment

Women have specific inherent qualities that enable boards to function better – More Inclusive, Detail driven, Patient, Prudent in their reviews and have better Communication skills. This leads to better board interactions and superior performance. Women have different perspectives and style of conduct compared to men. They are more holistic, think more broadly and be more attuned to environmental and social concerns. Women are more in tune with relationships with stakeholders while men perceive themselves as more independent focusing more on company strategy and performance. Women have invariably proved to be more competent in taking decisions regarding HR policies, CSR policies, Consumer goods marketing, Advertising and PR and now increasingly on Compliance related issues. Women being more diffident are ready to ask questions at Board and senior management meetings. This brings in greater transparency in the Board's decision making process with greater emphasis on compliance with regulations. Women can thus bring about long term sustainable growth in their companies and higher company valuation.

Women Directors can be good role models for other aspiring women

Women on Boards being highly educated and experienced are perceived by other women in senior management as Role Models and Cultural Change Agents. Successful Women encourage Women at all levels to challenge their situations and empower them to grow in their chosen field. They groom future directors from within the company and within their network.

Expanding the Pipeline for Women Directors

Earmarking fixed quotas for appointment of women in senior positions does not necessarily work well. Companies need to hire competent women at the mid management level and create an environment that values work life balance and flexibility. Women will then be motivated to continue in the same company, display loyalty and work their way to the top. Successful women on top can act as women mentees and help other women to work their way up their career ladder

Men generally come to the Board with Credentials, Women with Performance. Women should seek board positions based on their Competence, Domain Expertise and Track Record. This will enable them to stay on despite challenges. A woman director must ensure that she is not sidestepped or ignored and develop a style to handle challenges and make her voice heard. The strength will emanate from Understanding the Business and Leveraging Personal

Strengths

Visibility is very important for women in a company. Women in senior positions constantly need to work on their visibility. This should be done from the middle management level itself. Building effective networks within and outside the company is equally important. Women themselves must adopt a proactive attitude and seek advice and guidance from senior management and directors and never shy away from expressing their ideas. They could proactively take up special training to qualify as directors in companies in the Social Sector, NGOs and Environment related sectors which offer niche areas to qualified and experienced women. Since women display dual challenges of home and profession, they have to proactively display their talent and expertise to beat patriarchy. Above all a strong support system from spouses and other family members plays a very important

role in the success of women.

In recent times when so many independent directors are quitting for various reasons including legal liabilities, reputational concerns, accountability for majority decisions and stringent scrutiny, women have to be more careful and select companies where they trust the management and promoters. Women's careers are built on a long term vision for self and one's profession. Building professional expertise, a great personal brand, a strong network of mentees, an effective career growth plan and good work life balance are some of the lessons which can be imbibed from the successful journey of women leaders.

*** Ms. Dolly Dhamodiwala** is Founder and CEO, Business Beacon Management Consultants; and Former Deputy General Manager, SIDBI.

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Board Nos.: +91-11- 41636294, 41636717, 41008704 • Email: info@goldenpeacockawards.com

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