



A Study on Appointment of Women Directors by Companies in Mumbai

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Abstract: Companies that are serious about corporate governance and business ethics are turning their attention to gender diversity at the most senior levels of business. This study examined whether the companies located in Mumbai (Listed as well as Unlisted) are appointing women directors and the reasons for not appointing woman as a director and the number of females represented on the board of directors after the commencement of appointment of Women Director under the Companies Act, 2013 and Listing Agreement. A questionnaire was distributed to the companies located in Mumbai. Women Director has a stronger positive effect on performance of the Board. Our study indicates that some of the companies have appointed Woman Director while remaining companies are yet to be appointed Woman Director on their Board. Women Director brings diversity of views, new perspective along with seriousness to the discussion of the Board. The research provides the reasons for non-appointment of woman director such as non-availability of Woman Director, male domination in management and also shows the extent of participation of women directors in the Board Meetings. The presence of women on corporate boards seems to increase board effectiveness through reducing the level of conflict and ensuring high quality of board development activities.

Keywords: Board effectiveness, Corporate boards, Companies Act, 2013.

1. INTRODUCTION

With the modern era the status of women is changing. The Government of India has taken a revolutionary initiation by the appointment of at least one woman director in certain classes of companies' board of directors under the Companies Act, 2013. The second proviso to section 149(1) of the act makes it mandatory that every listed company shall appoint at least one woman director within one year from the commencement of the second proviso to section 149(1) of the Act.

Every other public company having paid up share capital of Rs.100 crores or more or turnover of Rs.300 crore or more as on the last date of latest audited financial statements, shall also appoint at least one woman director within one year from the commencement of second proviso to section 149(1) of the Act.

The existing companies has to comply with the above requirements within one year and new companies incorporated under the new companies act has to comply within 6 months from the date of its incorporation.

Further, if there is any intermittent vacancy of a woman director then it shall be filed by the board of directors within 3 months from the date of such vacancy or not later than immediate next board meeting, whichever is later. This has been a welcome move.

India is not the first country to do so, many others like Norway, France, Italy, Spain and Belgium, Germany, Malaysia, Austria, Israel and European Union have already implemented such steps by introducing quota or legislation to appoint women directors in a company's board and have shown that due to the participation of women in their boards there has been increase in the income of the companies. According to latest Catalyst Bottom Line Report, companies with more women board director's experience higher financial performance. Experts also believe that female directors provide the greatest impetus for change in times of good performance and also companies with women directors deal more effectively with risk. It leads to more profitability and sustainability. Thus, the 2013 landmark enactment has paved way for gender diversity and more women participation.

2. OBJECTIVES OF THE STUDY

- a) To understand the concept of appointment of Women Directors in companies with the introduction of the provisions of Companies Act, 2013.
- b) To study which profession and qualification should a Woman Director should have.
- c) To understand the Board's performance after the appointment of Woman Director.
- d) To know the reasons behind the non-appointment of Women Directors on Board.
- e) To study about how to remove the obstacles for non-appointment of Women Directors on the Board by the companies.



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3. LITERATURE REVIEW

The following research papers have been reviewed:

a) **Mariateresa Torchia, Andrea Calabro, Morten Huse in an article titled “Women Directors on Corporate Boards: From Tokenism to Critical Mass” (August 2011)** has stated that most corporate boards have only one woman director or a small minority of women directors, therefore, they can still be considered as tokens. The article addresses the following question: does an increase number of women corporate boards result in a build-up of critical mass that substantially contributes to firm innovation? The aim is to test if at least three women could constitute the desired critical mass by identifying different minorities of women directors. Tests are conducted on a sample of 317 Norwegian firms. The results suggest that attaining critical mass makes it possible to enhance the level of firm innovation. Moreover, the results show that the relationship between the critical mass of women directors and the level of firm innovation is mediated by board strategic tasks. Implications for both theory and practice, and future research directions are discussed.

b) **Mijtje Luckerath –Rovers on research titled “Women on Boards and Firm Performance” (May 2013) published by Journal of Management and Science** investigates the financial performance of Dutch companies both with and without women on their boards. The analysis extends earlier methods used in research by Catalyst (The bottom line: corporate performance and women’s representation on boards, 2007) and McKinsey (Women matter. Gender diversity, a corporate performance driver. McKinsey & Company, USA, 2007), two studies that are often cited in the literature, although each has a methodological shortcomings. This articles adds to the international debate, which is often normative, through examining 99 listed companies in the Dutch Female Board Index. The results show that firms with women directors on boards perform better than those without women on their boards.

c) **Meredith B. Larkin, Richard A., Susan M. on research titled “Does Female Representations on Boards of Directors Associate with Increased Transparency and Ethical Behavior?” (2013)** has examined the association between corporate transparency and ethical orientation of Fortune 500 companies and the number of females represented on the board of directors from 2010 annual report data. The basis for this judgement was whether or not the firm was listed one either (both) Ethisphere Magazine’s 2010 and World’s Most Corporate Citizens List. The results indicate that as the number of women directors increased, the probability of a corporation appearing on these lists increases.

d) **Mehdi Nekhili, Hayette Gafaoui on article titled “Are Demographic Attributes and Firm Characteristics Drivers of Gender Diversity? Investigating Women’s Positions on French Boards of Directors” published by Journal of**

Business Ethics (December 2013) has examined the factors determining the representation of women on boards of directors by considering three main questions dealing with relationship between characteristics of ownership and governance on one side and female directorship on the other, the demographic attributes of women directors and women in senior positions on French boards in relation to firm characteristics and women demographic attributes. The study focuses on French large and mid-capitalized companies belonging to the SBF120 stock market index during a 5-year period running from 2000 to 2004. The results given evidence that the appointment of women directors is strongly related to family ownership and board or firm size as well as related to their professional services, valuable skills, and network links. French firms rely more on the demographic attributes of their women directors when they are appointed to senior board positions. It sheds light on the issues concerning the law that comes into force in 2016, which imposes quotas of women members on boards of directors in French Companies.

e) **Yogesh Patel, Charu Patel on research titled “Agenda of Women Empowerment At the Board- Amendment to Companies Act” published by International Journal of Innovations of Engineering and Management (July-December, 2013)** has stated that the new act introduces a new provision relating to Women Directors which stipulates at least one woman director’s appointment on the Board of a company. Women constitute 24 per cent of the Indian workforce. It has also stated that IPOs issued in India since 2002 and listed on Bombay Stock Exchange are investigated for women presence on board of directors. The sample for gender diversity of boards includes 404 IPO issuing company during the period of April 2002 to March 2012. The issues which were delisted, or listed on NSE or on which complete information could not be gathered were dropped out from the final sample. The total number of director positions in these 404 companies were 3143 and these total directorships were analysed for female presence compared to their male counterparts. Women constitute only 5.3% of the total number of board members in the top 100 companies by market capitalization on the Bombay Stock Exchange. Research studies indicate a more representative Board enhances governance, ethical behavior and shareholder value. Compulsion of appointing at least one women as a director can prove to be the balancing act but does that happen in spirit would have to be investigated.

f) **Karen Somerville, Catherine Elliott, Cathy Gustafson on research titled “Increasing Women’s Participation on Corporate Boards in the USA” in August 2014 published by Journal of Business and Economics** has explained the results from a qualitative study of 15 women executives working in small business in the United States indicate that while any of them have interest in participating on corporate boards, they do not have the time to take actions to secure such positions.



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As well, these results suggest that while most of these women agree that there is a problem with the lack of women on corporate boards, they do not support the approach taken by several European countries to legislate quotas. Instead, the majority of the women in this sample prefer a softer approach to increase the number of women on corporate boards in the United States, such as setting targets and publicizing the results.

g) *Mareva Sabatier on research paper titled “A women’s boom in the boardroom: effects on performance?” published in applied economics on 04 February, 2015* analyses whether improving gender diversity in boardrooms improves firms’ economic performance. In the context of French CAC40 – listed companies between 2008 and 2012, this research uses an instrumental variable panel regressions, including production frontier estimates, to arrive at two key results. First, gender diversity in boards depends on firms’ attributes including their previous gender promotion strategies. Second, promoting women in boardrooms has a significant and positive effect on economic performance while accounting for the endogeneity boards’ gender diversity. Gender diversity even reduces corporate inefficiencies and enables firms to come closer to their optimal performance.

h) *Catherine Seierstad, Gillian Warner- Soderholm, Mariateresa Torchia, Morten Huse on their research work titled “Increasing the Number of Women on Boards: The Role of Actors and Processes” (12 June, 2015) published by Journal of Business Ethics* has explained that understanding the spread of national public policies to increase the percentage of women on boards is often presented using different types of institutional theory logic. This article, look beyond the institutional setting by focusing on the role of actors. They explore processes that include who the critical actors that drive and determine these policies are, and what motivates them to push for change and employ a processual design approach using a longitudinal country-comparative case study exploring the case of Norway, England, Germany and Italy. They map the political games, both inside and outside legislative areas, including the micro-politics among various actors and groups of actors in the selected countries. Data are collected through participation observations, interviews and text analyses. The study contributes by filling important gaps in the literature by embedding the discussion about women on boards in politicking and national public policies and by introducing dynamic perspectives. Finally, by using a processual design approach, they capture the reality of the women on board debates at different points of time and in different actor and motivational contexts. The study has consequences for how policy-makers and businesses may follow up and act, based on the debates.

4. RESEARCH DESIGN AND METHODOLOGY

Sample:

The current population includes 9331 companies from the MCA portal. The sample size is 25 companies both listed and unlisted. The samples for the study were selected on the basis of Convenient Sampling Method. This study determined the size and gender composition of the corporate boards of directors by referring to the information provided under RTI and survey conducted by “Prime Database”, a corporate database.

Sources of data:

➤ Primary Data:

Primary data is originally data collected by researcher’s first hand. In our research project, the primary data was collected through survey of questionnaire.

➤ Secondary Data:

The secondary source of information was from books, existing researches and reports, internet and magazines in order to build the theoretical frame for the research and to achieve its objectives.

5. DATA ANALYSIS AND INTERPRETATION

The data analysis and interpretation of the research project is based on the questionnaire handed out to various companies.

a) Appointment of Woman Director:



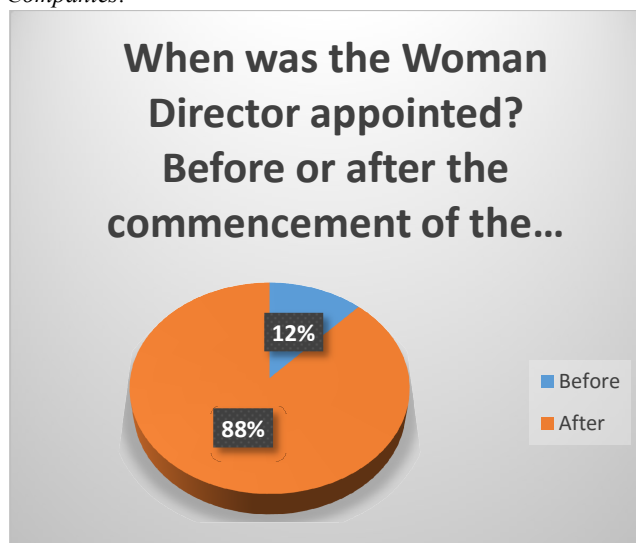
Interpretation: The study has shown that 20 companies have appointed Woman Director on their Board and remaining 5 companies yet to be appointed a Woman Director on their Board out of total 25 companies.

b) *Reasons for Non-Appointment of Woman Director:*



Interpretation: As the pie chart shows, the main reason for non-appointment of Woman Director on board is “non-availability of Women Directors” which carries 60%. Secondly, the orange area carrying 20% for the reason “Management is male dominated and do not want to diversify the Board”. Rest of the part carries 20% and 8% for the reason are “The Board are in search of woman independent director to comply with dual provisions of appointment of woman director and independent director and “Other Barriers” in grey and yellow area respectively.

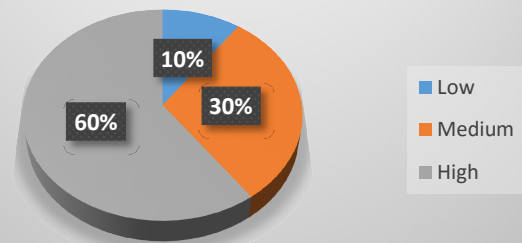
c) *When was the Woman Director Appointed by the Companies:*



Interpretation: 88% companies have appointed Woman Director only after the commencement of the Companies Act, 2013 and 12% companies have appointed Woman Director before the commencement of the Companies Act, 2013.

d) *Participation of Women Directors in Board Meetings:*

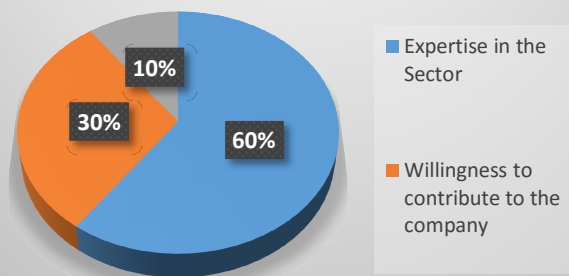
To what extent is the participation of Women Directors in Board Meetings?



Interpretation: Grey area of the above chart shows 60% of Woman Director having an enthusiastic participation in the meeting which is commendable, whereas orange area depicts 30% response was medium. Only 10% Woman Director having a low participation in the Board Meeting.

e) *Qualifications, Professional or otherwise for a Woman Director:*

What qualifications, profesional or otherwise are you looking for in the Woman Director?



Interpretation: As per the results shown, 60% companies expect the Woman Director should have expertise in the sector which can be seen in blue area. 30% companies expects the willingness to contribute to the company and only 10% companies expects capability to provide solutions to the situational problems which can be seen in orange and grey area respectively.



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6. FINDINGS, CONCLUSIONS AND SUGGESTIONS

The presence of women widens the talent pool which enables businesses to benefit from large number of able people. One benefit of diversity is that people with different backgrounds may have different viewpoints. It can also serve as a credible signal of greater focus on corporate governance and gender diversity and acceptance of women skills.

It comes to know from this study that maximum number of companies in Mumbai are appointing Women Directors and the reasons include for non-appointment of women directors by remaining companies are non-availability of Woman Director, Management is male dominated and do not want to diversify the board and the board are in search of Woman Independent Director to comply with dual provisions of appointment of woman director and independent director.

It can also be revealed from this study that maximum companies appointed Woman as a director only after the commencement of the Companies Act, 2013 and the participation of Women Directors appointed by the companies in Board Meetings was 60 percent which is commendable and surely shows an enthusiastic participation by women.

The results give evidence that the appointment of women directors is strongly related to family ownership and board and then the appointment of women directors is related to their professional services, valuable skills, and network links. Indian market regulators SEBI's move to get listed Indian companies to include women on its board of directors has met with mixed results with most firms choosing to merely install women relatives on the board instead of making an effort to fill the posts on merit, thereby nullifying the purpose of the law.

Though the legislation and quota can be effective to bring women to the top positions in the companies, its benefits will be short lived if there are no proper guidelines to implement it and if it is not properly supervised by the Government. Women should be accepted for their skills and not just because they are women. It's indisputable that only experienced women with the right qualifications should be appointed as a director of the boards. There are lots of talented women out there, the deserving and qualified women should be brought on board.

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