Glass Ceilings and Oak-Paneled Walls Women on Corporate Boards

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Gender diversity on corporate boards can be approached from two perspectives: first, women on boards are good for business since that contributes to better decision making and hence better governance and performance; second, as a social equity issue, women constituting about half the human resources pool need to have proportionate opportunities to serve and contribute to corporate governance and performance. It is in this background that the issue of women on corporate boards will be addressed in this paper.

The discussion is organized as follows: section I briefly sets out the business case and the social equity considerations; section II deals with women on boards in India and elsewhere; and section III concludes with some suggestions on the way forward.

I : Corporate Boards: A Philharmonic Orchestra

Incorporated companies are required by law to have a board of directors. The primary objective is to introduce an intermediary institution between the shareholders (all of whom cannot possibly manage the day to day operations of the company) and executive management whose job it is to create sustainable wealth for the shareholders. The board in this frame work has a three dimensional role: to contribute to the achievement of mandated objectives of wealth creation, to counsel executive management in their mission and to control the operation such that created wealth and wealth creating assets are protected and eventually distributed to or held for the ultimate risk taking owners. A truly effective board must have the requisite skills, wisdom and domain expertise to discharge these onerous responsibilities. This task is greatly facilitated by ensuring an appropriate composition of the board that would have the necessary competencies to fulfill these obligations. At the same time, it is unrealistic to expect all three role-competencies in equal measure in all members of the board. A carefully choreographed team with each member bringing these attributes in different degrees and complementing each other is what one should aim for in board composition. It is also in this context that board diversity in terms of gender, ethnicity, age, experience and domain disciplines assumes significance. Contrary to a non-diversified board that would think more or less similarly on issues leading to a *false consensus effect* where decisions may not necessarily be the best, a suitably diversified board will encourage protracted discussions and disagreements eventually leading to more informed, balanced and therefore better results. Constructive dissonance thus may be more productive than contrived cohesion. Overall, theoretical research postulates that diversity in board composition is conducive not only to improving shareholder returns (because of their favourable impact on the quality of strategic decision-making and monitoring) but also, perhaps more importantly, to enhancing stakeholder engagement and consequently stabilizing and improving the potential for sustainable growth for the corporation.

The need for diversity is increasingly being recognized as a necessary component of good governance. Illustratively, in the United States,effective February 28, 2010, the SEC requires corporate boards of publicly held corporations to disclose in their proxy materials more information about how diversity factors into board membernominations. The stated purpose of the rule is to provide investors with information on corporate culture and governance practices that would enable investors to make moreinformed voting and investment decisions (Burch 2011).

The Gender Issue in Board Diversity

While the relatively poor representation of women in executive ranks in corporations (the “glass ceiling” phenomenon) has been the subject of serious study for several years, the problem appears to be even more acute atboardlevels.Illustratively, the Tyson Report (2003)on non-executive directors in the UK had advocated a larger representation for women on company boards in the United Kingdom. This support was based not so much on the gender-agenda but more on the kind of skills and experience from the non-commercial sector and the relatively soft fields of human resources, communication, advertising and other such functions that women were perceived to bring to the table in larger measure than men.

Cadbury (2002) supported induction of more women on to corporate board for the following reasons. “The responsibilities which many women carry in voluntary organizations and public life will have given them a different type of experience from executives; as a result, they can bring a particular kind of value added to a board... They [boards] will gain from having directors with a wider spectrum of viewpoints than in the past, in line with the wider interests which they are now being called upon to take.” These perceptive observations apply even more strongly to emerging economies like India, as businesses have to cope with the twin challenges of operating profitably in a more competitive international environment and ordering their activities so that they are fully in accord with the more demanding societal expectations.

This business case was further augmented in the UK in its post-financial meltdown version of its Corporate Governance Code (2010), where in the context of board appointments, companies were advised to proceed "with due regard for the benefits of diversity on the board, including gender."[1]

The Davies Report (2011) cites a number of research studies throwing light on ways in which women directors help to improve corporate performance; among them: Female directors enhance board independence (Fondas and Sassalos 2000);Women take their non-executive director roles more seriously, preparing more conscientiously for meetings (Izraeli 2000);Women ask the awkward questions more often, decisions are less likely to be nodded through and so are likely to be better;similar board members, with similar backgrounds, education and networks. Such homogeneity among directors is more likely to produce 'group-think" which women can avoid (Huse and Solberg 2006);Women bring different perspectives and voices to the table, to the debate and to the decisions (Zelechowski and Bilimoria2004).

The second ground on which the gender agenda for boards is advocated is based on social justice and equity. Inclusivity is a keyword in political and developmental discourse not only in developing countries but also those that qualify as already developed. While this very desirable objective is usually articulated in the context of uplifting socially disadvantaged sections of society, the principle is universal in its application. Wherever there are opportunities, every one eligible and qualified must receive fair and unbiased consideration. Concomitantly, this also implies taking the task seriously of ensuring everyone willing and able is appropriately equipped to qualify and be eligible for such consideration. And in the meantime, some affirmative actions can help to geton to the mainstream most of those so excluded (Balasubramanian 2011).

To quote Cadbury (2002) again, "if there were more women on the boards of companies, a larger pool of potential directorial talent would be tapped and the make-up of boards would come closer to that of society as a whole."

The fact is that that numerically the population in societies is roughlyequal but in terms of opportunities – for education, employment, and other fruits of development – the genders are rarely if at all treated equally anywhere in the world. Corporate board membership is no exception. Other things being equal – in terms of suitability and competencies – there should be no justifiable reason for any sexual bias against women. But in practice, this logic does not seem to hold. Part of the reason is of women's own making: virtually all women tend to opt out of opportunities to bring up their families and in the process lose out on both counts – career advancement and competency building through education. Compounding this is the almost universal bias against women when filling up executive and board positions, partly because of the male-dominated selection processes. Mentoring also seems to thrive on same-sex selections: men tend to mentor and promote other men, while in case of women this facility is limited because of fewer female mentors in senior positions. Besides, women also intuitively dislike getting close to their male mentors and bosses where available for fear of possible societal disapproval and potential reputational loss. *Sponsorship*, which often involves an older, married male spending time with a younger female, can look like an affair—and the wider the power gap between them, the greater the risk to both parties. In short, sponsorship can be misconstrued as sexual interest, so ambitious women and highly placed men avoid it (Hewlett, et al 2011).

And yet, many women have dared and broken through these hurdles to reach top echelons of corporate hierarchies. Admittedly, the numbers are quite small in comparison to their male counterparts but their success serves as role models and augurs well for the future.

II : Women on Boards: A Reality Check

Out of 1112 director seats on the BSE-100 boards in 2010, just 59 or 5.3% were occupied by women. This compares unfavourably with the Canada – 15.0%, US – 14.5% and UK – 12.2% (SCB 2010).[2] Eight of these were executive or whole time directors. Thirteen of the BSE-100 companies have family-based boards;four of the 13 have women on theirboards, including the only female board chair in the BSE-100.

In reviewingboards, directors and other corporate governance related matters, the pattern of ownership and control of Indian companies needs to be kept in view. Unlike the US and U with their predominantly distributed share ownership, shareholdings in India are overwhelmingly concentrated with over ninety per cent of the listed companies having dominant shareholdings of twenty per cent or more. Such dominant shareholder groups generally are also in operational control of the businesses,often with minority shareholdings. Board positions in such cases, especially in family-controlled corporations, aremore often than not assigned on filial rather than on wholly merit-based considerations. Whether or not women finding themselves on boards on this basis can and do bring in the perceived benefits of gender diversity is open to debate.

Internationally, some interesting observations and findings can be discerned GMI 2009) in respect of women on boards. For example (as of 15 February 2009),

- Business sector-wise, 4.9% of the directors currently serving on the average board in the Automobile & Parts sector worldwide are women, compared to 13.5% for Retail (India (SCB 2010): Banks record the highest at 11.0% while several other sectors including aerospace, renewable energy and health sectors trail at the bottom with 1.0%)
- Geographically, women constitute less than 1.0% of board memberships in Japan while at the other end of the spectrum, the corresponding number in Norway is

the highest at 35.9%, possibly facilitated by a 2003 legislative mandate requiring between 33% and 50% female membership of boards
- Capital markets indices-wise, S&P 500 in the US had the highest 15.1% of board memberships held by women (The BSE number (SCB 2010) as noted earlier is 5.3%)

Does Female Boarding Really Help?

While getting women on boards as a measure of fairness, equality of opportunity and social justice might well be warranted, to justify such inclusion on a business case proposition would call for an assessment of the contribution such inclusions make to better corporate performance.

This business case is backed by a growing body of evidence. Davies (2011) affirms: Research has shown that strong stock market growth among European companies is most likely to occur where there is a higher proportion of women in senior management teams (McKinsey 2007).Companies with more women on their boards were found to outperform their rivals with a 42% higher return in sales, 66% higher return on invested capital and 53% higher return on equity (Joy, et al 2007).

Notwithstanding the various benefits articulated in the Davies Report, there does not appear to be any credible evidence attributable to board gender diversity, of superior corporate financial performance in the market place. There are of course several indirect benefits and more importantly, there are also some indications of negative impact of such appointments. Following is a select listing of some of the more recent research findings:

- Women have better attendance and participation records, are not afraid to ask tough questions, are more committed to their role and ensure better performance monitoring (Adams and Fereira 2011)
- Women are fully engaged and active members of the boards they are on, serving on various board committees as well (McCann and Wheeler 2011)
- board gender diversity did negatively impacts the decision to specialize in subprime lending in the context of the global financial meltdown during 2008-09. The greater the percentage of women on the board, the less likely a firm was to specialize in subprime lending. (Muller-Kahle and Lewellyn 2011)
- board gender diversity improves informativeness by increasing public disclosure in large firms (Gul, Srinidhi and Ng 2011)
- women on boards might potentially be a positive influence on sustainability, although not across all dimensions (Galbreath 2011)
- firms with strong profits (ROA) are more likely to appoint female directors but that female directors do not affect subsequent performance (Dobbin and Jung 2011)

The number of women, especially those without family connections, on Indian boards is quite small to provide any reliable conclusions on their contribution to sustained wealth creation or even to triple-bottom-line initiatives. Overall, it does seem that while having more independent women on corporate boards is a good thing in itself, generalized expectations of any significant positive impact on performance by reason only of such inclusion do not appear warranted based on experience.

III : The Road Ahead

Men and women ought to justify their positions on corporate boards based on what they bring to the table on the triple dimensional roles of contribution, counsel and control. As noted earlier, all directors may not necessarily bring in these traits in equal measure but overall the sum of all directors should be such as to raise the standards of performance of the board as a whole and the sustained performance of the corporation over a length of time.There does not appear to be any pressing evidence supporting the cause of gender diversity.

On the other hand, on grounds of equity and social justice, there is every reason to ensure inclusion of women on company boards. Keeping potentially competent and contributing people out of boards (as indeed in other walks of life)by reason only of their being women is wholly unjustified and against all canons of natural justice. That they bring in certain qualities and competencies not generally associated with men and as such they help to bridge the gaps in board expertise and acumen is not seriously in question. Corporations would thus be well advised to look for suitable female directors for their boards.

Closely associated with these discussions is the public policy issue of whether such gender-based inclusions should be mandated by the state. Experience elsewhere has amply demonstrated the futility of such impositions which lead to check-box compliance and lip service to the cause but little else.[3] Invited gender-based directors are any day likely to be far more effective than the imposed variety.

Nevertheless, governments have a job to do in the perceived interests of the people they govern. Social equity demands that women be provided equal opportunities in all walks of life and corporate boards cannot be allowed to be a privileged exception. Several countries have in fact already moved or planning to move towards varying degrees of legislated gender-based board membership (GMI).[4] But opinions vastly differ on the efficacy of such mandates and their compliance-in-spirit rather than only in letter. As the *Economist* (2011) points out: "Quotas are too blunt a tool … . The women companies are compelled to put on boards are unlikely to be as useful as those they place there voluntarily. Quotas force firms either to pad their boards with token non-executive directors, or to allocate real power on the basis of sex rather than merit. Neither is good for corporate governance. Norway started enforcing quotas for women in 2006. A study by the University of Michigan found that this led to large numbers of inexperienced women being appointed to boards, and that this has seriously damaged those firms' performance." In a country like India with its predominance of family controlled businesses, it is more than likely that boards would get populated with unwilling or unsuitable women from the family in the name of compliance.

Policymakers would be well advised to take heed; rather than foisting artificial numbers on corporate boards, it may be more prudent to ensure that appropriate opportunities are provided to interested women to qualify for board membership. More important than focusing on outcomes (as unfortunately most of our affirmative action initiatives do), the emphasis should be to build capacity by appropriate inputs. Equality of opportunity is more the need of the hour than some fruitless equality of outcomes. Developing *employability* as a board member is probably more potent instrument of state policy of achieving all round inclusivity rather than just ensuring employment as a director in the short run. A policy initiative that mandates an independent nominations committee of the board and a transparent discussion of how that committee goes about its job of building a balanced board – with diversity of competencies, skills, and experience of value to the company –and the processes adopted would possibly be a good beginning. More and more women would get on to corporate boards by virtue of their competence (as most women would doubtless like to feel) rather than being seen as people who don't belong there but have to be suffered because of a statutory whip.

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1 Supporting Principles under Main Principle B.2 of the Code
2 For a detailed discussion on gender boarding and some international comparisons, also see Balasubramanian (2010 pp. 129-131)
3 Mandating independent directors for listed companies is a case in point
4 A GMI sourced international comparison of gender-based initiatives is available at the 30% Club web site, http:// www.30percentclub.org.uk/research/international-comparison/