Gender diversity on boards – Mandatory or voluntary

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If you talk about cultural perpetuation, the image of the corporate board as an all-male domain has been promoted for decades. Power dressed and sitting in glass panelled rooms with the fate of the world in their hands. The depiction is at once, a caricature and an unfortunate reality. Not all corporate boards have in their hands the fate of the world, but a lot of corporate boards are full of men who, for all means and purposes, wield a lot of power.

As we all know, popular media is a great tool for reinforcing cultural stereotypes, and even if we like to think that the glass is half full, the truth is that women are highly under-represented in corporate structures. The under representation is so advanced that by the time employees reach to the Corporate Board level, women become non-existent. Of course steps are being taken to address that, around the world, governments and society are becoming more responsive to women who are staking a claim to what they're due. But proponents of Status Quo have constantly attacked a woman's right to be at the top. As a result, despite the successes, the elephant in the room, still looms as a powerful question – **Should Gender Diversity on boards be mandatory or voluntary?**

The answer to that question is not an easy one, proponents of either side will find facts, figures and anecdotes to support their claim and society will be left none the wiser. So let's consider.

In a 2009 report titled, Different is Better—Why Diversity Matters in the Boardroom by the US Based Russell Reynolds Associates, a board is defined as:

"A board composed of directors representing a range of perspectives leads to an environment of collaborative tension that is the essence of good governance. In a room where everyone has different points of view and there is a greater opportunity for cross-pollination of ideas, there are fewer unspoken assumptions, less "group think" and a greater likelihood of innovation. This allows the board to ask the probing questions and tackle the challenging issues, such as risk management and succession planning, which are at the centre of good corporate governance."

As a concept, diversity is crucial to the success of corporate boards. Success in the corporate world, of course is defined by profits. So does this mean that up till now, boards and companies could not make profits because of an acute lack of gender diversity? Definitely not, some of the world's biggest and best companies were nurtured by an all-male board and an almost all-male employee base. It is significant to note however,

- The reason that these companies were run (and continue to run in some cases) almost entirely by men is that there was a gross compartmentalisation of opportunities between men and women. Most of these companies were founded in a world, where women were not trained or even imagined to exist in a space outside of their home. In fact, in historical records from 18th Century Britain, it is noted that women could be (and were!) sent to mental hospitals for "reading too much." In such a world, one can imagine, it was near impossible for women to even enter the corporate set up, let alone stake claim in it.
- The liberation of women since then has been a painful and tedious process spread to over two centuries as concepts of Feminism and gender equality evolved. Of course, in some parts of the world, women still continue to fight these constricting norms – the implied effect of their cultural submission makes our claim to equality even harder. Are we seeking parity with men for all women? Or just the liberated ones with an access to education. Such a huge disparity in the fortunes of women across the globe will always give the proponents of status quo the opportunity to cite and keep on citing examples of regions where women belong within the confines of the Household.
- When Globalisation came in the 1990s, it became a two-edged sword. While a large part of the world was still mired in the same cultural stereotyping of women. A relatively smaller, but significant part of the world had women changing the rules of the game and playing an active role in defining policy, strategy and profitability.
- Suddenly, corporates were not just catering to a market that they had known and mastered for decades, but the whole world. Diverse markets necessitated a diverse board, especially as it was realised that while women may not be decision makers, but they are the biggest consumers. It thus, becomes necessary to have Women Directors to enable the board to understand the mindset of all the consumers.
- Moreover, as economies and populations got bigger, women have come to be recognised as a vast untapped resource pool. Development and &

Profitability are the baseline of any Government and Corporate effort and they have been slow to realise that a large female consumer market with no spending capacity (because of a lack of economic independence) is bound to do more harm than good- for women to be independent consumers, they must also be independent earners.

Consequently across the world today, more and more women are acquiring education to pursue independent careers and Companies on their end, are escalating efforts to retain female talent. Reports initiated by various organisations like Credit Suisse and McKinsey & Company on gender diversity in corporates prove that women directors outperform those with the least on ROIC by at least 26%. The reports state that "companies where women are most strongly represented at board or top-management level are also the companies that perform best." A study conducted by an asset management firm in the UK revealed that, the operational and share price performance of companies with at least 20% female representation across FTSE-listed boards was significantly higher than those whose boards showed less than 20% representation. If while occupying less than one-fifth of the total board, women can have such a significant impact- Imagine what they could do if they occupied one half of the board! Anywhere you look, the 'Business Case' for gender diversity is strong and robustly in favour of women.

It would be great if we could apply the results of these studies to the Indian context – posit women as this 'elixir' that can magically transform the floundering fortunes of our companies. But it is more difficult that one thinks, across the globe- there are counter studies, like a 2008 paper by economists Adams and Ferreira that declare that the mandatory existence of women directors for the sake of gender diversity has a "negative" impact on firm performance.

While I disagree with the study, I can understand the mental make-up of the economists when they penned this study. Inherently, the patriarchal setup of our society discourages women from reaching top positions and gender diversity on corporate boards is indicative of a change in culture that is bound to encourage the traditional backlash.

Also, when a system is introduced, it takes years for people to perfect it before the results start to show. Consider the Scandinavian countries for instance, today most of these nations are regarded as the benchmark for gender equality. Corporates based there have the largest female representation seen on corporate boards – even going up to 60% in some cases. The effect is clear, these nations are also the leaders in corporate governance and risk management. Rewind 60 years back, and women in almost all of these nations were bound by the same constricting norms that bind so many Indian women today.

Rebuilding that part of the world as a haven for gender equality was a laborious process where the buy-in of the government to encourage women as much as possible became fundamental. What started as a mandatory reservation for women has 60-70 years later turned into a system where reservation is neither required nor sought.

In this context, the mandatory reservation of one seat for women directors on corporate boards as outlined in the Companies Act is a step in the right direction.

The One-woman director rule is comparable to the CSR guidelines that recommended companies to spend 2% of their profits on CSR- as per the latest Companies Act by the Government of India. While the former is not mandatory, but it has resulted in the creation of an environment where social development has taken centre stage in the corporate world, with stakeholders, investors, consumers becoming increasingly conscientious of doing the right thing.

Let us examine the reasons why companies are usually hesitant to change?

- In a country like India, where the rules are still in a state of flux, a quota system carries the danger of less meritorious candidates eating into the opportunities of those who are more deserving. While the rule may be modern, it is introduced in a cultural vacuum where most women do not get the emotional support to develop a strong career for themselves. The talent pool that companies are forced to choose from is consequently smaller than and perhaps not as experienced as their male counterparts.
- Expectedly, the quota system could rapidly devolve into Tokenism; creating a situation where women are perceived as having power instead of actually having any. Such a situation is dangerous because it gives the impression that things are getting better without there actually being any real change.

Perhaps the one-woman director rule can evolve into a recommendatory one for at least 50% of the board in a few years down the line. But for now, Indian men need to understand (even if it is done forcefully) that women are equally competent and Indian women need constant reminders that inspire them to do better and instead of getting disheartened when they start families of their own. Having women directors is just the motivation they need to keep powering through.

Sample this, between 1990 and 2005, the percentage of working-age Indian women in the workforce rose from 35 percent to 37 percent. In the last decade, however, the country has reversed course, with female labour participation declining to just 27 percent by 2014. That's tied for 16th-lowest in the world. This is despite the fact that women have consistently outperformed men at the educational level. More women enter universities, pursue professional courses and even join the work force at the entry level. Despite begin more qualified, they lose out to men on experience- simply because we live in a society where women are domestic goddesses. And while 'Annapurna' stands as the golden example of domestic aspiration, there are not enough equivalent examples of professional aspiration that little girls and young women can look up to.

In 2011, for the first time, a woman was appointed as the Managing director of the International Monetary Fund. Similarly, in India we have examples especially in the banking & financial services sectors that have encouraged Indian women to give due respect to their careers- and it may be the main reason why more women are in these sectors as compared to other business sectors.

The Domestic Goddess argument is so beautifully damaging that it lulls society into the belief that while both sexes are equal their roles are compartmentalised. One might think that it is the responsibility of the family to provide the emotional environment so that married women are encouraged to work. But this attitude also defines our work places which are evident in the way corporates are still not fully supportive of working mothers, their lack of properly enforced sexual harassment policies, the absence of a fully free & safe working environment etc. that are all so crucial to the participation of women in the workforce.

For me, this is the most compelling reason why we need more women directors on boards. Only when we have women directors on board, can we introduce women friendly policies: flexible working hours, maternity leaves, child care facilities, anti- sexual harassment bodies are all situations that women directors can empathise with. And now, since they are in a decision making position, it gives them an opportunity to implement them. Losing out on 50% of the company's talent pool, simply because a corporate board has not entertained the idea that their employees need more than just good healthcare and better salaries, is indicative of a fundamental shortcoming in the Indian Corporate Setup that will cost us as we seek to expand our businesses.

In a world where patriarchy seeps deep into our culture, gender diversity is a concept that needs the support of laws and regulations to make it the norm rather than the exception initially. In their 2008 paper (mentioned earlier), economists Adams and Ferreira notes that a single (token) woman director may be under greater pressure and so underperform. Unsurprisingly, a 2012 'Bottom Line' report by Catalyst on the other hand indicates that "three or more may be the charm." It is human nature to find solace in numbers, and while the government may not be able to mandate the presence of 3 or 4 women directors on corporate boards, we should all be aware that increasing their numbers at the top will imply better performance. Perhaps when Corporate India is ready to accept women at top, the mandatory provisions could be done away with and it can move to a recommendatory system that values women for their merit and not simply because of a difference in anatomy.

We just have to wait for society to catch up!