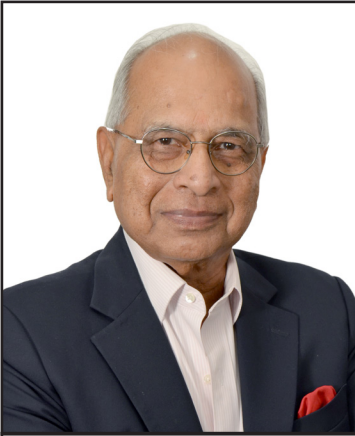


# Board Diversity



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There has been a lot of focus in the US and in Europe on having increased diversity in Corporate Board of Directors. In the US it has been largely driven by Institutional investors but in Europe, in some countries it has been mandated by law.

While initially the emphasis was on including women on corporate boards, but has now been expanded to include factors such as ethnicity, age, professional background

and skills.

In India, corporate boards, in the past, used to be old boys clubs, where directors, almost all of them men, were invited by the promoters who were their relatives or friends or promoters of other friendly companies. Gradually that changed and retired government servants, retired Bank Chairmen, senior Lawyers, Accountants, Management consultants, and even some academics and social sector experts began to be included in Boards.

The first major regulatory action was provision in the Companies Act 2014 which mandated that Boards should have at least one woman Director. This was later changed to at least "One Independent Woman Director". Gradually this diversity in Boards has taken root and now about 20% women directors. Many companies now have 2, 3, 4 or even more women directors.

I chair the Board of ICRA, a subsidiary of Moody's where we have 50% women Directors. Chairs of Audit Committee and NRC are also Independent Women Directors.

Now that we have 10 years of having women Independent Directors on Boards, there is discussion regarding our experience in this regards. Recently there was a research report published in Harvard Business Review: "How Women Improve Decision- Making on Boards". This study covered more than 200 publicly traded companies in the U.S. and Europe. It involved in-depth interviews with women and men directors to shed light on boardroom behavior and discussions when there are women Board members. Some of the interesting findings were:

Women come to Board meetings better prepared and are more willing to ask in-depth questions. Women also improves quality of discussion on Boards as executives are better prepared. Their presence lightens the atmosphere and de-politicizes the dialogue. Through their presence, women enable boardroom discussions that are more nuanced and deeper.

IIM. Ahmedabad is currently undertaking a similarly study in India to test the hypothesis that women bring slightly different and complementary strengths which leads to better board decisions and governance of companies.

EU has passed a regulation which requires firms to have 40% women directors by 2026. It is timely that we increase the requirement in India to have at least two Independent Women Directors on Boards. We must also encourage women to be appointed Committee Chairs and Board Chairs. Companies in India also improve gender balance at their senior management levels which is very at present with less than 10% women. Many of the women at senior management levels will in future be candidates for board membership in their current company or other companies.

Diversity at board level should extend beyond gender diversity to focus on Professional Background and Age Diversity. We already have retired government servants and Bank Chairmen, lawyers, accountants, HR professionals, and some academics and social sector experts on Boards. This should be expanded to include IT, Computer Science, Artificial intelligence and Sustainability professionals. We also should get a few younger people, Millennials on boards or boards exposed to them to better understand aspirations of younger people. . A very effective way for Boards to have exposure to younger generations will to include some of the high potential younger executives in board dinners/ cocktails periodically. Even board presentations by younger executives should be encouraged for exposure to the board.

Diversity at board level have shown to have several advantages:

1. Diverse boards bring in varied perspectives and insights leading to better decision making.
2. Diverse boards have stronger oversight which results in better Corporate Governance
3. Diverse boards effectively balance the interests of all stakeholders; shareholders, employees, customers and communities where company has operations.
4. Diverse boards, according to some studies, have shown positive correlation between diversity and financial performance.