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How Independent are the Women Directors?

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Abstract—*With the growing emphasis on appointment of women directors on corporate boards in countries worldwide and in India, studies on importance of women directors has gained momentum. However, it has been noticed that the Indian firms have resorted to appointment of female family members on the board just to fulfill the regulatory requirement of at least one women director on board, as stipulated by SEBI. This act hampers the independence of the women directors that have been appointed on the board, and the importance of independence of directors have been established by a number of studies. Therefore, this study analyses the changes in position of women directors on the boards of the 30 BSE SENSEX companies along with the status of independence of women directors on the board. Tables and figures have been used to depict the position of women directors on board. The study extends for a period of six financial years. The results conclude that the position of women on the board of the 30 companies has shown significant improvement. Also, the share of independent women directors on the boards of the companies has shown a rising trend over the period of six years.*

Keywords*: Board of directors, Women directors, Independence*

1. INTRODUCTION

The debate about the effectiveness of gender diversity on corporate boards i.e. the inclusion of women on the board of directors of companies has been carried on for many decades and is still continuing, especially in the developing countries. Extensive researches have been done on the topic of role of women directors in influencing the performance of the companies, performance being measured by various proxies like Tobin's Q, return on assets, return on equity, earnings per share, etc.[1] (Al-Matari, Al-Swidi, & Bt Fadzil, 2014) Even after the conclusions made by varied researches on gender diversity in countries worldwide about the positive effects rendered by gender diversity on boards, many countries had to resort to declaration of regulations, mandating the companies to ensure representation of women up to a compulsory level on corporate boards. The Norwegian government legislated a quota that both public and state owned companies must have 40% female representation on board by 2008. Iceland and Spain have introduced legislation requiring 40% of female representation on the boards of public listed companies. The Netherlands requires public companies with more than 250 employees to have female directors for 30% of board seats. In France, a bill was passed in 2011 requiring 40% female directorships by 2016. In North America, the Quebec's Bill 53, passed in 2006 requires an equal number of men and women on the boards of Crown corporations. Contrary to the regulations in other countries of the world, in India, the Companies Act of 2013 lays down the minimum criteria of female representation to be just one women director on company boards. If on an average there are ten board members on a company's board, the minimum percentage of women representation should be just 10%, much lower than the minimum percentage determined by other countries. The capital market regulator of India, SEBI had stipulated that there must be one female director on corporate boards before March 31, 2015. Despite the regulation and warnings, 180 out of 1456 companies listed on National Stock Exchange had no women director as of April 1, 2015. These non-compliant firms include a host of PSUs (Public Sector Units) and PSBs (Public Sector Banks). Moreover, in an urgency to appoint one women director to the board, just to fulfill the regulatory requirement, many companies had resorted to appointing female family members or relatives on the boards. [17] (Rvigrok, Peck & Tacheva, 2007) However, independence of directors on boards have been emphasized by regulations as well as by the researches done to prove the importance of independent directors on company boards. [15] (Ramdani & Witteloostuijn, 2010; Ogege & Boloupremo, 2014) Therefore, in order to have female directors contribute positively towards the performance of the companies, it is vital for them to have an independent say in the board decisions.

Therefore, the present study examines the status of women directors on the boards of BSE SENSEX companies for a period of six years. The study also highlights the position of independent women directors on the boards for the period of six years.

2. LITERATURE REVIEW

[6] **Carter, Simkins & Simpson (2003)** in their study on "Corporate Governance, Board Diversity and Firm Value" show positive significant relation between presence of women on board and firm value as measured by Tobin's Q.

[11] **Kang, Cheng and Gray (2007)** examined two of the board diversity attributes, gender and age, and board independence of the top 100 Australian publicly listed companies. The study investigated whether board diversity

and independence is associated with corporate factors including industry, board size and concentration of majority shareholder base. The study concluded that size of board significantly influences the age range of directors. The industry type affects the age range and independence of directors. The level of shareholder concentration significantly affects the gender composition and independence of board of directors.

[17] **Rvigrok, Peck & Tacheva (2007)** examined how board member's nationality and gender interact with directors' level of independence, number of directorships and demographic features. A sample of 210 Swiss publicly listed firms were used to analyze the features of all 1678 directors in the year 2003. Chi-square test and regression analysis was used as statistical measures. It was concluded that foreign directors tend to be more independent and women directors are more likely to be affiliated to firm management through family ties. Female and foreign directors are also different in terms of educational background, board tenure and age.

[5] **Carter, D'Souza, Simkins & Simpson (2010)** examined the relationship between number of women directors on board, number of ethnic minority directors on boards and financial performance measured by Return on Assets (ROA) and Tobin's Q. The study concluded that there is no significant relationship between gender and ethnic diversity and firm financial performance of US firms. The study also concluded that gender and ethnic diversity on board and firm financial performance appear to be endogenous.

[4] **Cabo, Gimeno & Nieto (2011)** investigated the gender diversity of the corporate boards of European Union banks. The study was conducted on a sample 612 banks from 20 countries. The aim was to identify factors and bank characteristics that determine gender diversity in banks. It was concluded that only 7% of board seats that is 555 out of 7868 are held by women. Proportion of women on the board is higher for lower risk banks. Banks with larger boards have a higher proportion of women on their boards. Banks that have a growth orientation are more prone to include women on their board, since they may be seen as providers of diverse external resources that are more valued by firms operating under critical circumstances.

[9] **Feijoo, Romeo & Rviz (2012)** investigated the effect of board gender composition on corporate social responsibility reporting. The study used data from the survey conducted by KPMG and Women on Boards report from Government Metrics International. The study found that boards with three or more women are determinants for CSR disclosure, produce less integrated reports, inform more on CSR strategy and include Assurance statements. It also finds that inclusion of women on boards mediates and moderates the effect of cultural characteristics on CSR reporting.

[7] **Ekadah, Wachudi & Mboya (2012)** analyzed the impact of gender diversity on boards on performance of commercial banks in Kenya for the period 1998-2009. Stepwise regression was used on 12 Kenyan banks and it was revealed that there was a negative relation between proportion of female directors and bank performance.

[3]**Bart & McQueen (2013)** studied the reason why women appear to make better directors than men. Using Defined Issues Test (DIT) instrument, on 624 board directors (75% male and 25% female), to determine their reliance on 3 reasoning methods (Personal Interest, Normative and Complex Moral Reasoning or CMR) to make decisions. The study concluded that female directors achieved significantly higher scores than their male counterparts on the CMR dimension which essentially involves making consistently fair decisions when competing interests are at stake. The male directors scored significantly highly on use of normative reasoning than females.

[18] **Sener & Karaye (2014)** examined the differences of board gender diversity between Turkish and Nigerian listed firms. T-test was used to study the difference between 102 Turkish and 94 Nigerian companies. It was concluded that board composition is correlated with strategic decision making and various organizational outcomes. There was no significant differences between the two countries in terms of board gender diversity and under-representation of female directors.

[8] **Evans (2014)** analysed whether to what extent women leadership styles and personalities are more suitable to current organizational requirements than ever in the past. The study was conducted to determine whether the developments are universal or subject to regional differences particularly between Europe, Asia and North America. 12 semi-directive interviews were carried out both in-situ and by phone with females occupying leadership positions in France. Analysis of responses was done with the help of content and cluster analysis. The findings of the study were: (i) in spite of several major barriers, slow and significant progress has been witnessed in many areas. (ii) progress depends on size of the companies and also on the regional practices that are used in promoting women in top positions.

[2] **Acar (2015)** examined whether a female candidate is likely to be perceived as more able under declining organizational performance condition than under successful organizational performance condition. The participants of the study were 281 Business Administration Department students of a major state university located in Ankara, Turkey. A factorial between-subjects design with independent variables of organizational performance and candidate gender and dependent variable of perceived leadership ability was used. The findings of the study were that there is no evidence in support for glass cliff that women leaders were selected to more precarious leadership positions.

A number of studies have been done on importance of women directors in determining the varied aspects of firm performance, but there is dearth of studies done to analyze the independence of women directors.

3. RESEARCH METHOD

Objectives of the Study:

The objectives of the present study are as follows:

(i) To study the status of women directors on the boards of BSE SENSEX companies for the period.
(ii) (i) To study the status of independent women directors on the boards of BSE SENSEX companies for the period.

Period of the Study:

The period of the study extends for six financial years from FY 2011 to FY 2016.

Data Source and Presentation:

The data for the present study has been collected from secondary data sources like the annual reports of the company, the official website of the company, etc. The data has been presented in a tabular form and various graphs have been used to depict the trend shown by factors under study.

4. ANALYSIS AND INTERPRETATION

Women Directors on Boards

The maximum number of women directors appointed on boards of the 30 companies during the six year period was 4 women directors appointed by ONGC in the FY 2012. The company which did not appoint a single women director over the period of six years was Adani Ports, except for the FY 2015 when the company had appointed one women director on its board. 4 companies that had appointed only one women director over the period of six years were Bajaj Auto Ltd., HDFC, Maruti Suzuki Ltd., and Dr. Reddy's Laboratories Ltd.

Table 1 depicts the mean ratio of women directors on the boards of the 30 companies for the period of six years. The mean ratio of women directors shows a gradual rising trend, as can be seen in Fig. 1. The dotted lines depict the rising trend of the mean ratio of women directors. However, the highest mean ratio of women directors was in the FY 2016 at 0.119 (11.9%), much below the share that women directors hold on the boards of firms in other countries.

Table 1: Ratio of Women Directors on Boards of BSE SENSEX Companies

YEAR	MIN	MAX	MEAN	S.D.
2011	0	0.18	0.053	0.055
2012	0	0.25	0.074	0.072
2013	0	0.20	0.069	0.061
2014	0	0.21	0.084	0.069
2015	0	0.30	0.099	0.065
2016	0	0.33	0.119	0.070

Source: Author's Compilation

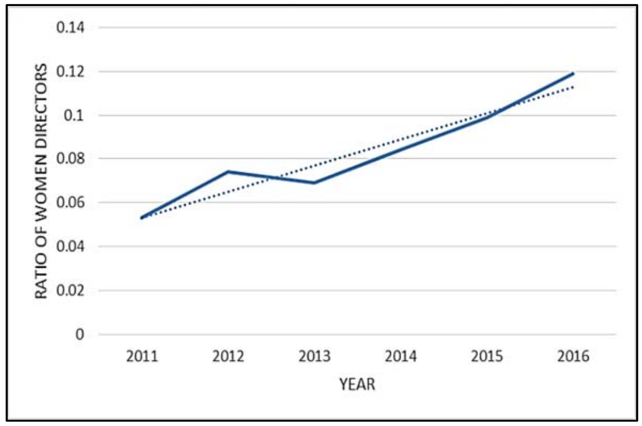

Fig. 1: Ratio of Women Directors on Boards of BSE SENSEX Companies

Source: Author's Compilation

5. INDEPENDENT WOMEN DIRECTORS

The maximum number of independent women directors appointed by the 30 companies over the period of six years was 3 independent women directors, where for Coal India Ltd., (in FY 2015) and Infosys Ltd. (in FY 2015 and FY 2016) the total number of independent women directors was equal to the total number of women directors on board. The companies which did not appoint a single independent women director on board over the period of six years were HDFC, Lupin Ltd., Reliance Industries Ltd., and SBI. There were some companies which had appointed only one independent women director on their boards, though those women directors were the only women directors appointed by the companies. These companies include Bajaj Auto Ltd. Maruti Suzuki Ltd. and Dr. Reddy's Laboratories Ltd.

Table 2 depicts the mean ratio of independent women directors on the boards of the 30 companies for the period of six years. The mean ratio of independent women directors to total number of women directors on board shows a gradual rising trend, as can be seen in Fig. 2. The dotted lines depict the rising trend of the mean ratio of independent women directors. The highest mean ratio of independent women directors was in the FY 2015 at 0.588 (58.8%). Except for the FY 2015, the percentage of independent women directors to the total number of women directors has been less than 50% though this percentage shows a rising trend.

Table 2: Ratio of Independent Women Directors to Total Number of Women Directors on Boards of BSE SENSEX Companies

YEAR	MIN	MAX	MEAN	S.D.
2011	0	1	0.23	0.40
2012	0	1	0.33	0.42
2013	0	1	0.43	0.44
2014	0	1	0.49	0.45
2015	0	1	0.58	0.45
2016	0	1	0.47	0.42

Source: Author's Compilation

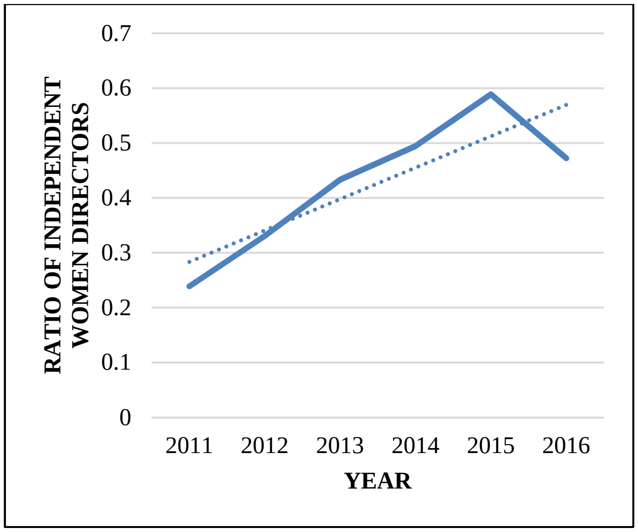

Fig. 2: Ratio of Independent Women Directors to Total Number of Women Directors on Boards of BSE SENSEX Companies
Source: Author's Compilation

6. CONCLUSION

The present study examined the position of women directors and independent women directors on the boards of 30 BSE SENSEX companies. The study was conducted on a sample of 30 companies included in BSE SENSEX on March 31, 2016, for a period of six years ranging from financial year 2011 to 2016. The position of women directors and independent women directors has been depicted with the help of tables and graphs.

The study reveals that the position of women directors on the boards of Indian companies is not satisfactory in comparison to the position of women directors in other countries, where the minimum percentage of women directors required on board is approximately 40%. Similarly, majority of women directors appointed on the boards of the 30 BSE SENSEX companies are non-independent in nature. The percentage of independent women directors out of the total number of women directors appointed on board does not exceed 50% in five years out of six years under study.

Many studies have shown that gender diversity to make a significant effect on performance of companies, a 'critical mass' of women directors is required. [12, 19] (Kramer, Konrad, Erkut, & Hooper, 2007; Torchia, Calabro, & Huse, 2011) Previous studies have also proved that independence of directors is crucial to better firm performance. Therefore, inclusion of women directors up to the critical mass and ensuring their independence may have the required positive effect on firm performance. By giving precedence to appointment of independent women directors on boards would provide the benefits of independence of directors and the application of the theory of critical mass would result in minimizing the act of appointing women directors just for the sake of fulfilling the regulations. Therefore, emphasis must be put on appointment of more women directors on boards of companies and ensure that the majority of such women directors are independent in nature.

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