

## A Study of Gender Diversity Index on Corporate Board

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### ABSTRACT

Research has proved that corporate boards perform better when they include the best people belonging to different backgrounds. Study by GMI Rating(a major international corporate rating firm) showed that as at march 2013 only 11% of Board directorships of 4,332 companies globally were held by women. Increasing the number of women in top leadership position has to be a priority not only because it is the right thing to do. But also because it is essential to build a high performance organisation. The aim of this study is to examine gender diversity index on corporate board by tracking 2010 fortune 1000 list of companies to study the trends of gender diversity from 2011 to 2015.

**Key Words:** Gender Diversity, Boards, Companies, women , performance.

### I. WORKFORCE DIVERSITY

Mulkeen (2008) define diversity as the variation in people consisting of diverse age, gender, education , culture and religion. Diversity should be managed in the organisation as it improves workplace productivity. Jones & George (2011) found that difference in demographic variables, cultural variables and people of diverse capabilities. Gupta , 2013 found that greater level of inventiveness, facilities better decision making and also give competing advantage to the firm. Armstrong (2006) states that people can maximise their own potential so that they can contribute in the growth of the organisation. Kunze et al (2011) declares that age diversity is a predetermined fact in establishing organizational performance. They further claim that individual tend to group themselves according to social identity or self categorization and as result individual is inclined to support members of their group more than they tend to support member of other group. According to Gelner and Stephen (2009) , age difference can adversely influence employee performance as a result of difference in values and preferences of different groups.

### II. GENDER DIVERSITY

Gender Diversity is the balance between the male and female in the organisation by giving them an equal treatment and same level of acceptance so that they can enjoy the same rewards, resources and opportunities with respect to gender. According to MC kinsey Global Institute, 2015 Gender diversity lead to additional growth and could add \$700 billion in the country GDP in 2025. According to Dataquest, 2006 the most acknowledged pattern of diversity in IT Indian Companies. Various act had been passed by the government like sexual harassment Act, 2013 for the prevention of women against discrimination in workplace was passed in

order to create an Internal Complaint Committee in the organisation. The Maternity Benefit Act 1961 has been passed in parliament to raised benefit for women which was not provided to women earlier but now a days their arises a need for every organisation to comply with conditions of maturity benefit act by giving them benefit of seven month maturity leave.

Mathur- Helm (2006) found that growth opportunities for the women in career has been decreased in the organisations. The career growth of the women also depends on the gender acting as the leaders working at different levels on the different post in the organisation. The organisational gender focussed policies build the supportive environment where the adverse effect of gender discrimination can be reduced. The effect of gender diversity on individuals and teams build on the members' pre-existing beliefs about appropriate behaviours and roles associated with women and men (Eagly, 1987). In the beginning of team members interaction gender related stereotypes appears to the higher as the team members are not having much interactions between them during the beginning but later on with the span of time and team members interaction will increase the knowledge which act as the moderating element in way of gender diversity which influence team performance (Harrison 2002). Dr Muhammad Ali presented the definite reaction of gender diversity on productivity although it depends on the number of work family programs in the organisation. Madikizela and Haupt (2009), described the fact there are some industries where gender focussed policies are not presented.

### **III. LITERATURE REVIEW**

In the extensive survey conducted by McKinsey & Company (2010), in Indian corporate on “Women matter: Gender diversity, a corporate performer”, to assess the impact of female board representation compiled the current constituents of MSCI AC World Index detailing how many women on the board of each constituted companies of different countries since 2005. It encompasses data for 2360 companies. Out of sample of 71 companies taken overall in India in year 2005 percentage of women on the board is 30.4% in 2011 the percentage increases to 46.5%. In this study the return generated by companies with one or more women on board compared with those having no women on the board. The sample was divided into two baskets taken on sector neutral basis containing companies with market capitalization greater than USD 10 billions and by looking the return generated. Result find out that for large cap stock the companies outperformed by 26% having women on board. Women on board has excellence in the performance of small to mid stock with 17% over same period. The study further used data set to consider the average financial metrics of companies with women on board versus those without by calculating ROE ( Higher Return on Equity) which show that average ROE of companies with at least one women on the board over past six year is 16% as compared to 12% having no female board representation. Net debt to equity of companies with no women on the board averaged 50% over the past six year than 48% having women on board noting the much faster reduction in gearing that took place at companies with women on the board. Aggregate Higher price / Book value for companies with women on board( 2.4)is on average third higher than ratios with no women on board(1.8). Net income growth for companies with women on the board has averaged 14% over the past six year compared to 10% for those with no female board representation. As per KPMG Survey which was highlighted in the newspaper on 30 march

2017 "Proportion of women directors up 180%, but gender diversity lags in India". KPMG survey results showed that many companies are still lacking in gender diversity and there needs to be a change of mindset for it. According to a KPMG survey, proportion of women directors in NSE listed companies jumped 180% between 2013-2016 after the Companies Act, 2013. But there is very little to cheer about this hike, as the jump only translates to a 13.7% representation of women in 2016 from a meagre 4.9% in 2013. The Companies Act, 2013 and guidelines issued by Securities and Exchange Board of India (Sebi) made it mandatory for all listed companies to have at least one woman on their boards—either as an executive or a non-executive director—before April 1, 2015. However, findings of the KPMG survey are not very reassuring. KPMG in India's Board Leadership Centre and Women Corporate Directors India (WCD) conducted a survey in 2016 to assess the progress and challenges. The survey results showed that many companies are still lacking in gender diversity and there needs to be a change of mindset for it. In order to achieve greater diversity there needs to be a change of mind sets, voluntary diversity targets, alignment between board composition and strategy, and looking beyond personal networks for director appointments. The worrisome factor is that the survey respondents feel the need to comply with the regulation has become a primary driver of gender diversity and it is stronger than the belief that it adds value or creates the brand image of a progressive organisation. Over 50% of the respondents indicate that companies are hiring women directors primarily to comply with the regulatory mandate. As much as 70% of the survey respondents indicate that the mandate has opened up board-level opportunities for women that were previously not considered for this role. On the flip side, 25% of the respondents indicate that it has only opened up opportunities for candidates in the promoter's network. Respondents largely agree that women improve board dynamics by creating a positive environment (68%) and are better at providing inputs and feedback in a constructive manner (51%)—traits that help in decision making at the board level. A significant majority (68 %) of the respondents agree that women create a positive environment within the boardroom improving its culture and dynamics. While nearly half of the male respondents agree that women bring in a comparatively balanced view of risks as there is little agreement between them on other traits that women bring to the table. When it comes to parity in remuneration, the survey said compensation of board members are gender neutral, and both men and women receive the same package. However, a recent study reveals that the average compensation of women executive directors at 163 NSE listed companies is 20% less than their male counterparts. According to the study, this could be because more male executive directors are in revenue-generating roles while female directors are usually in support roles such as communication, corporate social responsibility, etc.

#### **IV. OBJECTIVES OF THE STUDY**

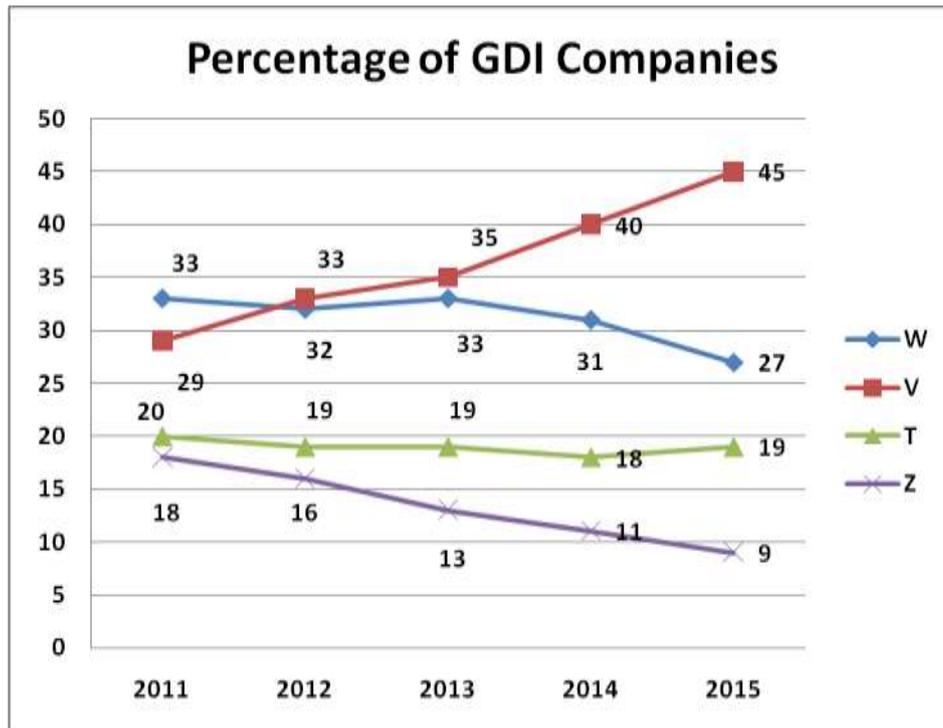
The main objective of this study is to highlight the Gender Diversity index on Corporate Board.

#### **V. RESEARCH METHODOLOGY**

Gender Diversity Index is highlighted by tracking the trends in gender diversity index from 2011 to 2015 using the 2010 Fortune 1000 list of companies. Information is collected by company size, state and sector. In 2015,

64% of Index Companies are grouped into four categories as Winning, Very close Categories, Token companies , Zero companies 64% of the index companies are in the winning as compared to 49% in 2011. , 45% in very close categories, % of token companies decreased to 27% in 2015 , compared to 33% in 2011. Zero companies have decreased by half to 9% in 2015 as compared to 18% in 2011.

**2011-2015 Trends Gender Diversity Index**



**Key Findings and Analysis**

**Gender Diversity Index**

**More Women on Boards**

Of the 842 active companies , women hold 18.8% of board seats. An increase from 17.7% in 2014 (14.6% of boards seats were held by women in 2011).

**Women Gain 75 Board Seats**

Women gained 75 board seats in 2015, compared to 52 board seats in those companies in 2014. This is net of companies losing a female board members.

**Number of Winning companies is Up**

45% of all companies now have 20% or greater women on their board. In other good news Zero companies declined to 9%.

**Percentage of Women on Boards Increase in All Sectors**

Companies in five sectors now have over 20% female board members : Consumer defensive, Financial services, Health Care, Real Estate and Utilities.

**Companies Lacking Gender Diversity Drop off Index**

Over 55% of the companies that became inactive in this year 's Index were in the Token Company or Zero

Company categories, Of the 29 Newly inactive companies seven are Zero companies and nine are token companies.

**2015 Fortune 1000 Companies**

**More Women on Board**

Women hold 17.9 % of seats on board of the 2015 Fortune 1000, the current year ‘s list of the 960 active companies which are the largest U.S companies ranked by total revenue, While the 2014 Fortune 1000 list is not included in this report, we know that in 2014 , the percentage of board seats held by women was 16.9% of the 971 active companies.

**Breakdown of F1000 Showing F100, F500 and F501-1000**

Fortune 1000	2015Fortune 1000	2015 GDI	2014GDI	2013GDI	2012GDI	2011GDI
% Women on Board	17.9%	18.8%	17.7%	16.6%	15.6%	14.6%
Total Women	1771	1660	1585	1526	1493	1440
Total Directors	9875	8845	8973	9207	9593	9846
Active Companies	960	842	867	893	928	951
<b>Fortune 100</b>						
% Women on Board	22.3%	22.9%	22.2%	20.6%	19.9%	19.6%
Total Women	260	260	250	238	233	233
Total Directors	1166	1134	1124	1153	1168	1188
Active Companies	98	95	97	98	99	100
<b>Fortune 500</b>						
% Women on Board	19.7%	22.9%	22.2%	20.6%	19.9%	19.6%
Total Women	260	260	250	238	233	233
Total Directors	1166	1134	1124	1153	1168	1188

Active Companies	98	95	97	98	99	100
<b>Fortune 501-1000</b>						
% Women on Board	15.9%	17.0%	15.9%	14.8%	13.6%	12.5%
Total Women	715	648	620	598	584	554
Total Directors	4507	3804	3899	4044	4260	4436
Active Companies	476	392	405	422	449	462

### Smaller/New Companies are less Diverse

Smaller Companies and newer companies are less diverse than established companies, In the 2015 Fortune1000, 199 companies have joined since 2010. Of these, percentage of board seats by women is only 13.5%.

### Analysis of Fortune 1000 Board Composition by State

State	2015 Fortune 1000		2015 GDI		2014GDI
	% of Companies	% Women on Board	% of Companies	% Women on Board	% Women on Board
California	95	18.2	76	19.4	18.2
New York	95	19.5	87	20.6	20.8
North Carolina	21	16.0	20	16.7	16.3
Texas	104	15.3	85	16.6	14.3
India	10	8.5	8	9.1	8.9
Washington	15	23.4	13	23.9	21.0
Maryland	11	22.6	9	23.5	20.2
Michigan	25	20.6	21	22.5	21.0
New Jersey	31	20.4	38	20.8	20.5

Six states has exceeded 20% women on their boards on both the 2015 Fortune 1000 and the GDI, with Maryland, Michigan , New Jersey and Washington consistently exceeding 20% for the second year in the Row. New York exceeds 20% on the GDI but is only at 19.5% on the 2015. Fortune 1000 as result of eight new companies being added. Wisconsin has one less company on the 2015 fortune 1000 list which resulted in reaching 20.5% compared with 19.9% on the GDI.

### Sector Analysis

On the 2015 Fortune 1000, three sectors now have more than 20% women on their boards: Consumer Defensive, Financial Services and Utilities, Healthcare and Real estate exceed 20% on the GDI, but in the 2015

fortune 1000 the addition of new companies of new companies bring the percentage down below 20%. The Energy sector continues to lag with only 11.5% women on the 2015 Fortune 1000 and 13.3% on the GDI.

Sector	2015 Fortune 1000		2015 GDI		2014 GDI	
	Compani es	% women in Board	Compa nies	% women in Board	Compa nies	% women in Board
Basic Material	67	15.8	63	16.7	63	18.3
Communication	16	18.3	19	17.0	19	16.3
Consumer Cyclical	190	18.5	169	19.1	169	17.7
Consumer Defense	79	21.8	69	21.7	69	21.1
Energy	83	11.5	51	13.3	51	11.5
Financial services	123	20.8	121	20.8	120	19.2
Healthcare	72	15.8	69	20.6	69	19.3
Industrials	171	15.9	140	17.0	139	16.2
Real Estate	15	19.0	12	20.7	12	20.2
Technology	99	16.4	79	16.5	77	16.3
Utilities	45	21.0	50	21.7	50	20.9

#### **Board Turnover**

Over the past year from 2014 to 2015, 58% of GDI companies changed the composition of their board , either adding or losing women or total boards seats. During the past year 147 GDI companies added at least one women, Despite these gains 138 companies increased the size of their board by adding one or more male director and no women.

#### **VI. CONCLUSION**

The 2015 Gender Diversity Index shows that companies of all sizes, sectors and geographic locations are adding women to their boards. The 2015 Fortune 1000 also shows improvement but at a slower pace. While this

progress is inspiring there is a need to create a corporate imperative for diversified boards. The board room is changing but there is still a need to focussed to achieve the goal of maintaining gender equality on corporate board.

## **VII. RECOMMENDATIONS**

It should implement initiatives or programmes to help qualified women to take on senior management or board position.

1. Having a gender diversity awareness programmes.
2. Having a function or a designated executive looking into gender diversity.
3. Implementing initiatives to attract female ex-employees holding management position back to work.
4. Implementing a mentoring or sponsorship programme for women who are candidates for senior management or board positions.
5. Helping women who are candidates for senior management or board positions to build their network.
6. Tracking of gender representation , promotion rates by gender or attrition rates by gender, at different levels of seniority.

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