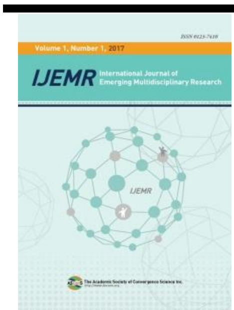

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Emerging Dimension of Board Gender Diversity in Corporate Governance- An Analysis

Shweta Taluka[1] and Dr. Suhasini Verma[2]

[1]Research Scholar, Faculty of Management & Commerce, Manipal University Jaipur 303007, Rajasthan, India.
[2]Associate Professor, Faculty of Management & Commerce, Manipal University Jaipur 303007, Rajasthan, India.

Abstract

Background/Objectives: Though, the existence of Corporate Governance issues are always there since the existence of business organization, it has gained a significant attention in last three decades. The prevalence of bankruptcy and financial scams of large companies worldwide like world.Com, Enron, Tyco International, HIH Insurance, Paramalat and Satyam and recent saga of Infosys Limited in our own country becameexamples of laxity of good governance.**Methods/Statistical analysis:** In the entire corporate governance mechanism, board structure is the most important factor. It is the body, which is responsible to approve strategic decision, which in turn decides the future of the organization. As suggested by the recent studies, one of the significant ways to enhance the quality of corporate governance practices and performance of the company, is to include women directors in the board of directors. **Findings:** In this study, efforts are made to investigate the significance of Board Gender Diversity and to investigate the relationship between firm performance and board diversity. It is an analytical study, where BSE Sensex data are used. The period is of ten years and total30 company's data are analyzed. **Improvements/Applications:** Board Gender Diversity used as proxy variables for corporate governance practices and Return on Asset as a measure for performance of selected firms

Index Terms

Board Gender Diversity, Corporate Governance, Firm Performance, Return on Asset

Corresponding author: ShwetaTaluka
staluka13@gmail.com

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I. INTRODUCTION

Though, the existence of Corporate Governance issues are always there since the existence of business organization, it has gained a significant attentionin last three decades. The prevalence of bankruptcy and financial scams of large companiesworldwidelikeMaxwell Communication plc,world.Com,Enron, TycoInternational,HIH Insurance, ParamalatandSatyam in our own country became examples of laxity of good governance . This situation gave rise to the debate on the need of good governance.It has formalized in UK with the formation of Cadbury Committee to address the issue of unfair practice.The committee presented the general principles to adhere to, to assure proper governance.Inthe entire corporate governance mechanism, board structure is the most important factor. It is the body that is taking strategic decision,like appointment of key official, capital structure, Merger and Acquisition (M&A) etc. During the past few decades, research in this area has increased dramatically. Previous studies have identified several elements of board such as board size [1] audit committee[2,3] independent directors [4,5] board chair and CEO positions[6,7]women on the boards[8-10]etc.,which in turn decides the future of the organization.

Litrature suggests that board of directors plays a very significant role in the entire corporate governance framework. A strong board, in terms of diversity, can greatly impact the corporate governance and profitability in a positive way. Generlly, diversity is considered as the inclusion of a broad spectrum of demographic properties-male/female, geographic region, age etc and aims to improve the quality of decisions. Inclusion of female members is one of the simple and important measure of the board diversification, given the inherent traits of a woman.

Though the concept of governance dwells in India sinced the time of Arthshastra, when there were kings and subjects, and kings served the country as their representatives, taking care of the interest of the subjects. Now days, management and shareholders has taken the place of them, but the principles are remain same. During modern times, it is wake of the liberalization, privatization and globalization (LPG)which gave rise to the concept of corporate governance The first initiative was taken by CII in 1996. In the year 1999, Kumar Manglam Birla committee was appointed. The committee made several mandatory and non-mandatory recommendation regarding, remuneration of the board members, management, shareholder, audit committee etc. In 2000, SEBI came up with mandatory corporate governance code in place of voluntary under listing agreement clause 49 andfinallyannounced revised clause 49 in 2004. The revised clause 49 made significant changes in improving quality of financial disclosure, disclosure to shareholders, definition of independent directors, increasing the responsibilities of audit committee etc. Apart from this, efforts are also being made by the legislature to amend the Companies Act 1956. As a result, the new Companies Act, 2013 has been enacted.Very recently, Kotak committee was formed and it has made very strong recommendation regarding independent director, presence of women director in the board including several other important recommendation.

In the literature, there is an an interesting argument about whether the presence of the women directors in the board of a firm influence its performance. Various studied suggest thatcharacteristics as board, such as board size, number of independent directors of board composition, board leadership structure, gender diversity, etc. have significance influence on board performance that leads to better firm performance [11-13]. Rhods and Packel reiterated the need to constitute gender diverse boards. They concluded that diversity of board help it to take quality decisions as well as monitoring of the system, because of the presence of women specific traits.[14,15]. Many findings from literature shows that firms with board consists of more female directors have higher firm performance according to marketing and accounting measures. Even external independent directors are contributing more to the firm performance when board is gender diverse[16,17]. Contrary to these findings, there are studies that found the negative relationship between the board diversity and performance of the firm[14]. Again, there are studies, which found no relationship between both the variables [18].

In this connection, Grant Thortonconducted a significant study on the financial impact of corporate decision–making and the involvement of women directors. The study shows that Indian listed companies had to bear $14 billion as opportunity cost in the year 2014 because of absence of women directors in their boards. In 2015, Korn Ferry and Natioanl University of Singapore conducted a comparative study of boards, with and without women directors, covering 100 largest public traded companies in Asia-pecific, including India. The study concluded that presence in women directors have positive impact on the performance of the firm as diversified firms earned a ROE of 14.9 percent, whereas the male only firms earned a ROE of 12.6 percent.

In India, the presence of women in the board is very low. As per Prime database, on 1,556 NSE listed companies, only 13.5 percent of all directors position are with women. In compliance with the companies Act 2013, which forced companies to include women directors, 80 percent companies inducted only one women director and nearly 70 companies still do not have women directors in its board. Only 2 percent companies showed the presence of more then3 women directors in their boards. A similar kind of study was conducted by Standard Chartered Bank and its associates in the year 2015. The study reaveled the presence of only 5.3 percent women directors in BSE 100 companies in 2015[19].

II. Objectives of the Study

- Study the corporate governance practices of listed companies in India.
- Study the relationship between board genderdiversity and firm performances.
- Examine the impact ofratio of women directors in board on the firm's performance.

III. Scope of the Study:

This study examines the relationship between Board Gender Diversity and Firm Performance of companies listed in BSE. The study analyses data of ten years spanning from 2007-08 to 2016-17. The measure of firm performance is Return on assets (ROA).

IV. Research Methodology

A. Study Design and Sampling Technique

It is an analytical paper where efforts are made to investigate if there is any relationship between the board diversity and firm performance. The study started with the review of available literature including research papers, articles etc. to gain insight and to define the research problem. Data are collected from the secondary sources. BSE Sensex data are usedfor this purpose.

B. Sample Size

Sample size of 30 companies from BSE Index has been taken which includes banking and financial institutions. However, banking and financial institutions have different board structure from the other companies. Therefore, for the sake of uniformity we considered sample of companies other than banking and financial institutions[20].

C. Data Source & Reference Period

The data has been gathered for ten (10) years starting from 2007-08 to 2016-17 through companies' annual reports, financial reports and other documents. The secondary source of data were used.

D. Variables Used in the Study

Table 1. Variables and Measurement

Variables	Measurement
Independent Variables:	
Board Gender Diversity (BGD)	Number of women directors on the board
Dependent Variable:	
Return on Assets (ROA)	It is measured as net income divide by total assets
Control Variable	
Other Dimension of the Board	Size of the Board, Audit Committee etc
Capital Structure	Debt, equity Ratio

Table 1 shows the different variables as independent, dependent and control with their measurements. Board gender diversity is independent variable, Return on Assets (ROA) is dependent variable and other dimension of board and capital structure are control variables

V. Result and Discussion

Table 2. Gender Diversity of Board and Average Profit of Companies

i) No. of women directors and average profits[2007-2012]

Name of the Company	Number of Women directors [2007-2012]	Average Profits [2007-2012]
Adani Ports and Special Economic Zone Ltd.	00	37.56
Asian Paints	00	10.38
Bajaj Auto Ltd.	00	12.95
BhartiAirtel	00	27.66
Coal IndiaLtd.	00	28.24
Dr. Reddy's Laboratories Ltd.	00	9.26
Hero MotoCorp Ltd	00	10.08
Hindustan Unilever Ltd.	00	11.57
Infosys Ltd.	00	26.69

ITC Ltd.	00	22.42
Larsen and Turbo Ltd	00	7.82
Mahindra and Mahindra Ltd.	00	7.18
Maruti Suzuki	00	6.80
NTPC Ltd.	00	17.56
Oil and Natural Gas Corporation Ltd	00	19.39
Power Grid Corporation of India Ltd	00	30.34
Reliance India Ltd.	00	9.52
Sun Pharma -cueticals	00	38.25
Tata Consul -tancy	00	22.43
Tata Motors	00	4.09
Tata Steels	00	3.32
Wipro Ltd.	00	16.01

II) NO. OF WOMEN DIRECTORS AND AVERAGE PROFITS [2012-2017]

Name of the Company	No. of Women directors [2012-2017]	Average Profits[2012-2017]
Adani Ports and Special Economic Zone Ltd.	01	44.47
Asian Paints	02	11.04
Bajaj Auto Ltd.	02	15.88
BhartiAirtel	00	3.64
Coal IndiaLtd.	02	14.98
Dr. Reddy's Laboratories Ltd.	01	13.27
Hero MotoCorp Ltd	01	9.11
Hindustan Unilever Ltd.	01	12.29
Infosys Ltd.	03	21.81
ITC Ltd.	02	24.64
Larsen and Turbo Ltd	02	5.71
Mahindra and Mahindra Ltd.	01	4.16
Maruti Suzuki	02	7.08
NTPC Ltd.	01	13.93
Oil and Natural Gas Corporation Ltd	00	13.64
Power Grid Corporation of India Ltd	01	29.77
Reliance India Ltd.	01	7.16
Sun Pharma -cueticals	01	27.16
Tata Consul -tancy	01	21.65
Tata Motors	01	4.90
Tata Steels	01	-2.32
Wipro Ltd.	01	16.30

Source:- Annual Report of the Companies and BSE Index[2007-2017]

Table 2 indicates that there is no strong positive relationship between the Board Gender Diversity and Profitability of the firm. Though 33% time it shows a positive relationship, rest of the companies are not indicating the same.

VI. CONCLUSION

The present analysis shows that there is not so strong relationship between both the variables, but if we go by the analysis of the already available resources, it is strongly indicating the positive influence of Board Gender Diversity on Profitability of the Firm.Not only it has a positive influence on the profitability, but on the environment of the board also. Presence of the women enhances the quality of decision as well as it provides a holistic view of every situation, because of it's inherent quality like compassion, empathy etc.

VII. FUTURE SCOPE OF THE RESEARCH

Previous literature in finance, economics and law suggests that Board Gender Diversity affects the working and performance of the company in a positive way. Latest formed Kotak committee also emphasized the importance of presence of women directors in the board and recommended that not only executive women but independent women director should be included in the board. The current situation indicates that at world level the presence of women directors are very low. It is increasing at an increasing rate but still it is 28%. In this situation it is a big question that howthestock of women directors, fulfilling the proper requirements for the posts can be increased? What kind of measures can be taken for providing the proper stock of women directors? Addressing these types of questions will definitely help to gain insight of this particular dimension of corporate governance and fulfill the broader objectives of it.

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