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Gender Diversity on Corporate Boards: A Literature Review

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ABSTRACT: *This paper highlights the progress of literature on gender diversity on corporate boards.The corporate boards around the globe are dominated by male. The presence of female on corporate boards is very dismal.The percentage of female on corporate boards is hardly 20 – 30 percent. Rising concern about gender-diversity on corporate boards led policy makers around the globe to implement gender-based quotas. India introduced its quota system on 1st October 2014 which mandates at least one female director on corporate boards. Though after introduction of the quota system the scenario has changed but still the picture is perturbing and needs to be further strengthened.*

KEY WORD: *Gender Diversity, Corporate Boards, Female Director, Gender Quota, Firm Performance*

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I. INTRODUCTION

Half of the world population are women but on corporate boards it is not even one fourth of the total board size. The gloomy presence of women in corporate boards shows the level of gender imbalance. We have examples of women leaders successfully leading global organisations like Indra Nooyi (PepsiCo), Kiran Mazumdar Shaw (Biocon), Falguni Nayar (Nykaa). Women seem to be loyal, honest and better manager of people. They bring in innovative ideas, different insights to decision making. Lawfulness, reliability is some of the characteristics of women leaders that can reduce the amount corporate frauds and lessen the problems arising out of corporate governance issues. Stakeholder confidence enhances when women present in boards.

India has been rated among the lowest internationally in terms of female representation in business. Around half of Indian population are women, but only 23 percent women work in private sector; which is a perturbing picture. Representation of women at the top level is also limited as their role is restricted to entry and middle level jobs. Industry groupings imitated the similar drift as within countries (i.e.) women were sparse among senior position (Haldar et. al., 2014).

The corporate boards around the globe are dominated by male. The presence of female on corporate boards is very dismal. The percentage of female on corporate boards is hardly twenty to thirty percent. The number of women present on corporate boards is tepid. In response countries around the world legislated gender quota system to strengthen presence of women on corporate boards. Rising concern about gender-diversity on corporate boards led policy makers around the globe to implement gender-based quotas. Norway is one of the first countries to implement gender-based quota in 2003 followed by the European countries with their own quotas for gender-diversity on corporate boards. Following other countries, India also introduced its gender quota policy in 2014. The quota policy mandates at least one female director for listed companies, effective since 1 October 2014. Accordingly, every listed company or public companies with equity capital of INR 1000 million or more or turnover of INR 3000 million or more come under the new quota policy in India.

Initiatives to raise the proportion of women directors on boards are constructed upon the argument that it will not only enhance social justice, but also governance and firm performance (FP), by bringing in more talent, new ideas, and better decision making (Shamsul et al., 2015; Adams & Ferreira, 2009). Presence of women can benefit the firm financially rather than being considered as a social phenomena. McKinsey (2007) cited that female directors have leadership qualities that enhance their firms' financial performance. The empirical result shows firms with women on their boards can increase FP. Eagly and Johannesen-Schmidt (2001) emphasized that presence of female directors develop five leadership traits which are people development, expectations and rewards, becoming a role model, providing inspiration and participative decision making.

The remainder of the paper is organised as follows: Section 2 gives a review of the literature. Section 3 describes board gender diversity (BGD) and its impact on FP. In section 4 we present gender diversity in audit committee. Section 5 presents and discusses the theoretical prospective of BGD. Section 6 states Indian scenario of BGD and finally, in Section 7, we present the conclusion and future scope of our study.

II. Literature Review:

According to resource dependency theory, organizational behaviour is affected by external resources. It also states that board of directors play a vital role due to their elevated level of connections with the external environment. Board of directors can build up external linkages for the organization (Pfeffer and Salancik, 1978). The boards set up channels of communication, secure commitments of support from significant organisations, and, in the end, help the organisation gain external legitimacy. These board resources can be characterized as insiders, business experts, support specialists, and community influential (Hillman et. al., 2000). These many director kinds offer the firm a variety of resources that are advantageous. Therefore, a more diversified board will provide the firm more beneficial resources, improving performance.

Gender diversity on corporate boards is influenced by external factors such business size, board size, industry, type of ownership, clientele, and social and cultural traits. Brammer, Millington, and Pavelin (2007) focus on a firm's external business environment and its customer base to explain board gender diversity. The authors examine firms that represent corporate boards of 243 firms listed on the London Stock Exchange to analyze board diversity, size, and composition. They find significant cross-sector variation in gender diversity, with a higher representation of women directors in industries such as Retail, Utilities, Media, and Banking that predominantly serve end-consumers.

Large firms have a considerably greater possibility of women directorship (Hillman, Shropshire, and Cannella, 2007). Additionally, they discover that a company is more likely to have women on its own board of directors if it is connected to other companies with female directors. In order to determine whether organisational features have an impact on the gender diversity of the board, De Cabo, Gimeno, and Nieto (2012) studied European banks. They concentrate on elements including the bank's riskiness, the size of the boards, and the emphasis on expansion. Women are more likely to be on the boards of banks with lower risk, bigger boards, and a focus on growth. Gender diversity on boards is positively impacted by family ownership. Family ownership and board size have a significant impact on board gender diversity, according to Nekhili and Gatfaoui's (2013) research of French business boards.

Bianco, Ciavarella, and Signoretti (2015) find that the majority of gender-diverse boards tend to contain at least one woman director who is connected to the controlling shareholder in addition to establishing a high influence of family connection on women director membership in Italian boards. In their 2007 study of companies registered on the SWX Swiss Exchange, Ruigrok, Peck, and Tacheva found evidence that, women directors are less likely to be independent and more likely to be related to the corporate management.

Bear, Rahman, and Post (2010) argue that female directors improve financial reporting quality, corporate reputation and give confidence to shareholders and stakeholders. A second trend examines the contribution female board members make to board decisions and how that directly impacts FP. Findings suggest that females have higher meeting attendance rates than male directors (Adams and Ferreira 2009). Also, female board directors are more risk-averse (Price 2012). They also frequently have an open mindset and contribute fresh viewpoints to the group (see The Economist Intelligence Unit 2019).

III. Board Gender Diversity and Firm Performance

Mostly the research on BGD is empirical and focused on the impact of BGD on FP. In this section the author presents some seminal work on BGD and FP. The studies show a mixed result. Some studies provide positive results whereas some studies negative result.

Using panel data from 243 listed firms during the period 2012–2018, the authors found that BGD in Latin America does not lead to any change in FP, mainly because the underrepresentation of women on boards in the region compared to their male counterparts (Valentina et. al. 2022). Using a sample of 68 publicly traded Spanish firms over the period 1995-2000, Campbell & Minguez-Vera (2008) find that board diversity has a positive impact on firm value, whereas firm value has no influence on gender diversity. Using a sample of 3,876 public firms from 47 countries, (Terjesen et al., 2015) find that the presence of more female directors may increase FP as measured by Tobin's Q and ROA. FP depends on the presence of independent directors only when the board is gender diverse. Conyon & He (2017) studied a sample of 3000 US firms from 2007-2014 and found out that the presence of female directors has a positive effect on FP; and that the effect of female directors is stronger in high-performing firms relative to low-performing firms.

IV. Gender Diversity in Audit Committee

The basic objective of audit committee is monitoring the financial reporting process, the audit process, the corporate internal control system and legislative compliance. For an audit committee to understand the potential impact on financial statements, significant accounting and reporting issues need to be reviewed, as well as recent professional and regulatory pronouncements. Female directors on audit committee are expected to oversee management effectively and thereby improve audit quality because female directors are more likely to show lower tolerance towards opportunistic behaviour (Srinidhi et al., 2011; Zalata et al., 2018). Financial expertise plays a vital role in the effectiveness of audit committees because a financial expert possesses more significant knowledge of financial statements (Bilal et al., 2018; Tanyi & Smith, 2015).

V. Theoretical Background

Most of the literature on board gender diversity is empirical in nature and sources its theoretical underpinnings from management literature. The often-cited theories include human capital theory, social identity theory, social network and social cohesion theory, resource dependency theory, and agency theory.

a. Resource Dependency Theory:

The resource dependence view suggests that some corporations are more powerful than others, given their interconnection and positioning in social space (Pfeffer and Salancik 2003). Hillman et al. (2000) claimed that variations of conditions drive adjustments in corporate policy, which may be supported through an amendment in board structure. Further, Robinson and Dechant (1997) asserted that women ensure an improved knowledge of markets and customers.

b. Agency Theory:

Agency theory accentuates the information asymmetry between executives and stockholders, also the conflict between directors (agents) and owners (principals). However, the board's responsibility is to certify managers' active supervision (Fama and Jensen 1986). Diverse boards with a rational number of independent directors can supervise directors properly (Aggarwal et al. 2019). Improved gender diversity can direct to an active board (Marinova et al. 2016). Further, Ain et al. (2020) confirm that boards with a significant majority of female directors record a better inclination to lower agency costs as related to their token membership.

c. Human Capital Theory:

Human capital theory, Becker (1985) observes the effect of an individual's cumulative repository of skills, education, and experience in developing productive and cognitive capabilities, which in turn, benefit the individual and his/her organization. Investments in Education and training can increase productivity. Productivity is derived from intellectual and human capital. A company's board of directors is viewed as a primary resource for its success due to its diverse and unique human capital.

VI. Indian Scenario:

The gender quota policy was legislated in India in the year 2014. The allocation policy makes it mandatory for at least one female director on a listed entity's Board, effective October 1, 2014.As a consequence, every listed company or public companies with equity capital of INR 1000 million or more or turnover of INR 3000 million or more come under the new quota policy in India. Prior to this enactment very few companies had representation of women on their boards. A current study by Deloitte India states that board seats held by women in Indian companies had gone up to 17 per cent.

Akshita Arora (2021) study BSE 500 Indian companies and find that inclusion of women directors on board has a significant relationship with FP. Though diversity can be achieved by employing directors with varied experience, age, qualification, nationality but it can best be achieved by hiring women on corporate boards with diverse skills and competencies.

VII. Conclusion & Future Scope:

It is evident that women directors are under-represented on corporate boards. The quota system in various countries helped in improvement of gender diversity on corporate boards. It happened with India also, where after 2014 Indian corporate boards have more women on their boards due to the legislation regarding the quota system. But still the proportion of women present on the boards of Indian companies is not notable. The companies should take initiative to take on more women on their boards.

On the prospective of different theories highlighted in this article, it is obvious that presence of women in corporate boards do have significant impact. Though, empirical research on this topic shows a mixed result; on the positive side presence of women will definitely benefit the firms economically as well as socially.

Very few studies have been conducted on gender diversity in Indian context. Most of the studies have been targeted to developed countries like US and Europe. BGD is a promising topic for research and in Indian context there is enormous scope.

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