Role of Gender Diversity in Corporate Governance and Financial Performance of Indian Industries

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Abstract

The term corporate governance has gained much attention since the past decade. This is mainly because of failure of board to maintain the code of corporate governance. Now, the corporate community around the world is talking about creating a gender-balanced board. Gender equity has become an important social justice goal. In the changing corporate scenario, the presence of woman director has become the legal and strategic need.

The role of woman director has shifted from the issue of Equality to Superior performance. The study makes an attempt to analyse the participation of women in corporate board and its impact on financial performance of the companies from five different sectors. The study is Quantitative and analytical research in nature. The data of the study is collected from secondary sources and time period taken for the study is 5 years from 2012-13 to 2016-17. To measure the impact of women participation in financial performance F-test is used i.e. one-way ANOVA. The study concluded that there is a positive impact of participation of women director on financial performance of the company. It is suggested that organisations should comply the law not only in language but in sprit too.

Key words: Corporate Governance, Gender-balanced Board, Woman director, Financial Performance, Code of Corporate Governance

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1 INTRODUCTION

Presence of woman director in the Corporate Board has become highly debatable topic because of some reasons. These are:- i)The huge difference between the ratio of man and woman present in corporate board. ii) Government intervention in the form of legal provisions in this regard. In the past few years, some countries have adopted legislation mandating female board representation. iii) The role of woman director has shifted from the issue of Equality to Superior performance.

The participation of Women director in the company's board is governed by the provisions of Companies Act 2013 and SEBI (LODR) Regulations. Under second provision to **section 149 of**

Companies Act 2013, provides that such class or classes of companies as may be prescribed in Companies (Appointment and Qualification of Directors) Rules, 2014, shall have at least one-woman director. Rule 3 of Companies (Appointment and Qualification of Directors) Rules, 2014, prescribes the following class of companies shall appoint at least one-woman director- (i) Every listed company; (ii) Every other public company having:- (a) Paid–up share capital of one hundred crore rupees or more; *or* (b) Turnover of three hundred crore rupees or more.

The companies need to comply with such provisions within a period of six months from the date of its incorporation. Regulation 17(i) of the **SEBI (LODR) Regulations** also requires that at least one-woman director shall be appointed on the board of all **listed entities.**

2 REVIEW OF LITERATURE

The review of the literatures about the participation of women in corporate governance and financial performance of the companies are structured as follows**-**

Palaniappan G., (2017) studied about" Determinants of corporate financial performance relating to board characteristics of corporate governance in Indian manufacturing industry: An empirical study". The study examined the effect of board characteristics to the effectiveness of firm's performance regarding market and accounting based financial performance of manufacturing firms in India. The study draws on data from 275 firms listed in NSE during from 2011 to 2015, using a multiple regression model. The finding supports an inverse association between the extent of board characteristics and the firms' performance indicators. The study also finds a statistically significant negative relationship between board size and Tobin's Q, ROA and ROE.

Dave.M. (2017), examined "Women empowerment: Women Directors on Corporate Boards (A step towards effective corporate governance)". The paper analyzed whether companies have appointed women directors in their corporate boards or not. It was also noticed that some big companies have appointed women relatives on the corporate boards. It was found that woman

can and do have a positive impact on boards. There is a need to get diversity of views in board room discussions and the same is impossible without the women. Women help to balance the board room discussion and bring different perspectives to deliberations**.**

Bushra.M. and Dr.Mishra. K. (2016), analysed "Impact of Gender Diversity on Financial Performance of Indian Companies". The study is primarily based on qualitative literature review method. For the purpose of study secondary data were collected from various reports, SEBI circulars, journals, articles, newspapers & websites etc It can be concluded from the paper that promoting gender diversity helps in enhancing the firm's performance. Also, mere fulfilling the criteria will not serve the purpose and there is need to bring more competent women on boards otherwise it will be difficult to analyze the real impact on the financial performance**.**

Jonas Vob, examined about "The impact of gender diverse boards on firm financial performance in Norway". The study used theoretical perspectives which include agency theory and resource dependency theory. The data was taken from 55 Norwegian public limited liability companies, which are listed on Oslo Stock Exchange from 2006 to 2013 and linear mixed regression models were used to examine the relationship between gender diversity and firm financial performance measured in ROA, ROE and Tobin´s Q. The study did not find any significant link between gender diversity of corporate boards and firm performance.

Rai.S., studied about "Female presence in boardrooms: Review of global scenario in the context of legislative reforms in corporate governance". The paper represented a comparative study across developed nations (viz. European countries, US, Canada) and some developing nations to understand where they stand in the current perspective related to women representation on Corporate Boards. The concluded that Norway seems to be the only country that has vociferously supported women empowerment in business through mandatory corporate quotas in public sector companies.

Dr. Okioga.C.K. (2013), analysed "The role of women in corporate governance on organizational performance, a Kenyan case" contributed toward the role of women in corporate management in developing countries in Africa with special emphasis on corporate women in Kenya. The study was conducted using a survey questionnaire

and the data was analysed using a Likert scale. Regression analysis was also used to determine the relationship between women in corporate governance and organization performance. The research results show that 71% of the organization had women in management while 29 percent did not have women in management positions.

3 RESEARCH METHODOLOGY

Objectives of Study- The objective of the study is to analyse the participation of women in corporate board and its impact on financial performance of the companies from five different sectors.

Hypotheses

H_0: There is no significant difference on the Reported Net Profit after Tax of Companies with and without Women Directors on Corporate Boards.

H_a: There is a significant difference on the Reported Net Profit after Tax of Companies with and without Women Directors on Corporate Boards.

Nature of Study – The study is Quantitative and analytical research in nature.

Source of Data Collection – The data of the study is collected from secondary sources and time period taken for the study is 5 years from 2012-13 to 2016-17. Data is collected from the annual reports of the companies, various report of government, websites and articles also.

Sampling Design-The data has been selected through Random sampling. The target population is Indian companies from which the five companies are selected from different sector based on the strata of top 10 companies from each sector on the bases of their market share.

Presentation of Data – In the study, the data is presented both in theoretical form and tabular form to make it easy to understand and draw the conclusion.

Analysis of Data –The gender disparities and financial performance is the dependent variables and board composition and women participation in the board is treated as explanatory variable. To measure the impact of women participation in financial performance F-test is used i.e. one-way ANOVA.

4 ANALYSIS AND FINDINGS OF THE STUDY

For the purpose of the study, the five companies have been selected from five different sectors. The corporate governance structure of the companies has taken from the annual report of the year 2016-17. These companies are:-

Table 1: Sector-wise Selection of Companies for the Purpose of Study

Sectors	Name of the Companies
Telecommunication sector	Bharti Airtel Limited
Fast moving consumerable goods sector	Hindustan Unilever Limited
Banking and Finance sector	ICICI Bank
Information Technology sector	Infosys
Automobile sector	Tata Motors

Table 2: Number of women directors in selective companies from 2012 to 2017.

Years	Bharti Airtel	HUL	Infosys	Tata Motors	ICICI Bank
2012-13	3	0	1	1	2
2013-14	3	0	2	1	1
2014-15	3	1	3	1	1
2015-16	2	1	3	1	2
2016-17	2	1	3	1	2

Source: Compiled from annual reports

In this section an effort is being made to know the impact of the presence of Women Directors on corporate performance in terms of Reported Net Profit after Tax. For this purpose of the study randomly five companies have been selected from given different sectors. In which all the companies have women directors in last five year some have more than one women director but some have only one woman. But only in case of HUL there is no women director from 2012-2014. For analysis purpose the actual names of the Companies have been kept anonymous but actual financial data is referred for deriving conclusion. The companies are names as X1, X2, X3, X4 and X5.

To analyse the data F-test (One Factor Model) have been used to know whether there is a significant impact on the Reported Net Profit after Tax or not due to presence of women directors on board. Now to understand whether there is a significant impact or not on the profits of the mentioned companies, the period considered for the study is 2012-13 to 2016-17. The F-test is conducted on five percent significance level.

Table 3 Calculation of Mean and Grand Mean of last five years profit of the Companies

Years	Bharti Airtel Ltd.	HUL	ICICI Bank	Infosys	Tata Motors
	X1	X2	X3	X4	X5
2012-13	5096.3	3796.67	8325.47	9116	301.81
2013-14	6600.2	3867.49	9810.48	10194	334.52
2014-15	13200.5	4315.26	11175.35	12164	-4738.95
2015-16	7546.5	4082.37	9726.29	12693	-62.3
2016-17	-9925.6	4490	9801.09	13818	-2479.99
Mean	**4503.58**	**4110.358**	**9767.736**	**11597**	**-1328.982**

Total of Mean	28649.692
Grand Mean	5729.9384

Table 3 shows the Net profit after tax i.e. reported profit of the year. The profit is taken for last five year of the five selected companies representing five different sectors. The table also shows the Average (Mean) of last five years profit and the total of Average profit of all the companies is Rs. **8649.692.** Then Grand mean is calculated for all the companies by dividing the total of mean from five as there are five companies. The grand mean is Rs **5729.9384.**

Table 4 Variance between Samples

Years	Bharti Airtel Ltd.	HUL	ICICI Bank	Infosys	Tata Motors
	$(X1\text{-}GM)^2$	$(X2\text{-}GM)^2$	$(X3\text{-}GM)^2$	$(X4\text{-}GM)^2$	$(X4\text{-}GM)^2$
2012-13	1503954.925	2623040.672	16303809.46	34422411.82	49828357.21
2013-14	1503954.925	2623040.672	16303809.46	34422411.82	49828357.21
2014-15	1503954.925	2623040.672	16303809.46	34422411.82	49828357.21
2015-16	1503954.925	2623040.672	16303809.46	34422411.82	49828357.21
2016-17	1503954.925	2623040.672	16303809.46	34422411.82	49828357.21
Total No:	**7519774.626**	**13115203.36**	**81519047.29**	**172112059.1**	**249141786.1**

SSC = Sum of Squares between samples=
7519774.626+13115203.36+81519047.29+172112059.1+249141786.1=**523407870.43806**

Table 5 Variance within Samples

Years	$(XI\text{-}X1)^2$	$(X2\text{-}X2)^2$	$(X3\text{-}X3)^2$	$(X4\text{-}X4)^2$	$(X5\text{-}X5)^2$
2012-13	351316.9984	98400.16134	2080131.215	1766193.156	2659482.547
2013-14	4395815.424	58984.86542	1827.049536	1968409	2767238.904
2014-15	75636417.49	41984.8296	1981377.173	321489	11627881.76

2015-16	9259362.126	783.328144	1717.770916	1201216	1604483.289
2016-17	208201235.5	144128.0482	1112.489316	4932841	1324819.416
Total	**297844147.5**	**344281.2327**	**4066165.698**	**10190148.16**	**19983905.92**

SSE = Sum of Squares within samples=

297844147.5+344281.2327+4066165.698+10190148.16+19983905.92

Total =**332428648.512004**

Table 6 ANOVA Table

Source of variation	Sum of squares	V	Mean squares
SSC = Between samples	523407870.43806	4	130851967.609515
SSE = Within samples	332428648.512004	20	16621432.4256002
Total	855836518.950064		

Whereas, N= 25 and K= 5.

F= MSC / MSE

F= 7.87248441

Decision: Since the calculated value of F= **7.87248441**is greater than the tabled value F0.05 = 3.24, so that the null hypothesis is rejected. Hence there is a significant difference in the Reported Net Profit after Tax of Companies with and without Women Directors on their Boards. Thus, it can be said that the participation of women directors in corporate governance has positive impact on its performance.

5 CONCLUSION

The results of the paper on "Women Participation in Corporate Governance and Financial Performance of Company" seem to provide empirical evidence that how less participation of women in the boardroom affects firm performance in the context of India. Gender diversity in the boardroom is the key to better governance. The organisation with gender balanced board has different perspective of same situation which enhance their efficiency. As other countries has mandate the quota of women directors so India also need to specify the quota of women.

The studies show that presence of women in the board has positive impact on financial performance of the company. Organisation can perform better with gender balanced board as it contributes in its efficiency.

6 SUGGESTIONS

The study has examined the participation of women on corporate board in five different sectors. On the bases of results analysed in the study, it is suggested that only one woman in the board is not enough. Mostly organisations follow the law in language but not in spirit. In countries like Norway, Sweden, France the average proportion of women directors in the board exceed 30%.

Many countries have made regulation regarding certain percentage of women directors in the board. In India the law needs to be amended to ensure on boarding of independent woman directors. India should also mandate 40-50% board representation by women directors. India may also define the position of women director as Non-executive or Independent director. Women directors can also be compulsorily place in Board committees as an independent director.

This will give the company the benefit of the knowledge and expertise of professional woman. To promote gender diversified board, those companies could be recognised by the SEBI and Central government who promote women directors in their board. Organisations can promote women directors by appointing them more than the limit specified by the law, conducting training and development programs for them, enhancing their participation in the governance of the organisation. Women directors can also be placed in nomination committee to remove gender biasness in appointment of directors.

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