

## INDIAN COMPANIES IN THE LIGHT OF DIVERSIFIED BOARD COMPOSITION: AN EMPIRICAL STUDY WITH REFERENCE TO FAMILY AFFILIATION

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Rozy Lasker\*  
Dr. Amit Majumder\*\*

### ABSTRACT

*Gender balance of boardroom has been gaining utmost attention in the diversity arena in affiliation with different origin, race, religion, age, and gender. In recent years, boards in European and Scandinavian countries like France, Germany, Norway, Sweden, Denmark have reflected the significant existence of gender divergent board composition. India came vigorously with its sincere move on gender diversity under section 149(1) of the Companies Act, 2013. With effect from 1<sup>st</sup> April 2015, it is compulsory to appoint at least one woman director in the category of Indian companies. But in the real stage, it appears that the 'family affiliation' trapped women directors and preclude other flourishing knowledge to reach organizational apex position. In this context, the objective of the study is to find out the perception of 'family affiliation', influence, and practices in the composition of gender diversified board in a backdrop of Nifty 50 companies. After careful observation, we find out that most of the companies scale down their effort of diversified board composition after touching the basic legal quota. As far as family affiliation is concerned, it can be concluded that the degree of gender diversity with top board position is not that correlated with family affiliation.*

**KEYWORDS:** Gender Diversity, Family Affiliation, Empirical Study, Legislature, Legal Compulsion.

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### Introduction

A gender diversified Board leads to a multidimensional vision in an organizational structure. As a host of the unique psychological construct, a woman brings a whole new and different perception about the situation and influences the decision making of the management. As there is a positive linkage between board diversity and shareholders' value, women's representation results in an assertive impact on the outcome of the organization. The diversified board helps to tackle various issues from a different viewpoint. As a result, a single decision is established by different ideas from divergent backgrounds. In past years, women made their representation only at the lower level of the workforce. In recent years, boards in European and Scandinavian countries like France, Germany, Norway, Sweden, Denmark have reflected the significant existence of gender divergent board composition and some of them also include it in their legislature. India came vigorously with its sincere move on gender diversity by Companies Act, 2013. With effect from 1<sup>st</sup> April 2015, it is compulsory to appoint at least one woman director in the category of a company under section 149(1) of the Companies Act, 2013. But the real impact of this legislation is that the companies confined themselves only up to legal compulsion.

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\* Research Scholar, University of Calcutta & Assistant Professor of Commerce, Bhairab Ganguly College, India.  
\*\* Associate Professor of Commerce, Bijoy Krishna Girls' College, India.

### **The Objective of the Study**

In India, after getting higher importance through the legislature, gender diversity becomes the focal point in board composition. In this context, this study is undertaken to achieve objective to examine how far family affiliation influence gender diversified board composition in Indian companies.

### **Corporate Scenario: The Indian Women**

Men's concentric board composition has been a common corporate culture in India since the inception of the industrial revolution. Though in the last decade some powerful woman personalities reached the crescendo of success in the corporate world and acquired the top position. Smt. Arundhati Bhattacharya (Chairperson, SBI), Smt. Anshula Kant (MD, SBI), Smt. Shikha Sharma (MD&CEO, AXIS Bank), Smt. Chanda Kochhar (MD&CEO, ICICI Bank), Smt. Aarshi Subramanian (ED, TCS), Ms. Radha Singh (Non-Executive Chairperson, YES Bank) has been holding the batons of gender diversified board composition for the last decade. On the other hand Smt. Nita M. Ambani (Non-Executive Non-Independent Director, Reliance Industries Ltd.) and Ms. Vinita Gupta (CEO, UPL) are the few women directors who have reached the top of the corporate house on the backdrop of family affiliation. Those personalities were the only dynamic women, during the last five years, who have achieved the top post after the implementation of the Companies Act, 2013. In this context, the rationale of this study is 'glass ceiling' and family affiliation regarding gender diversified board composition.

### **Literature Review**

Researchers have explored different board characteristics and numerous board composition. They have found an assertive link between gender diversity and corporate financial outcomes.

In their study, **Nina Smith, Valdemer Smith, and Mette Verner (2006)** discovered that "the proportion of women in top management jobs tends to have positive effects on firm performance. It also demonstrated that the positive effects of women in top management are heavily dependent on the quality of women's representation." [18]

According to **Renee B Adams and Daniel Ferreira (2007)**, "the likelihood of a female director having an attendance problem is 0.29 percent lower than for male directors. Firms with more diverse boards offer more pay-for-performance incentives to their directors." [1]

According to the findings of **Claude Francoeur, Real Labelle, and Bernard Sinclair Desgogne's** research, "firms operating in complex environments do generate positive and significant abnormal returns when they have a high proportion of female officers." [11]

**Sabina Nielsen and Morten Huse (2010)** conducted a survey of 201 Norwegian firms and discovered that "the proportion of women directors is positively associated with board strategic control. According to the survey, increased board development activities and a lower level of conflict mediate the positive effects of female directors on board effectiveness." [20]

**Frank D'Souza, David A Carter Betty J. Simkins and W. Gary Simson (2010)** found that "the business case for the inclusion of women and ethnic minorities on corporate boards does not support the inclusion of women and ethnic minorities on corporate boards." [6]

According to **Jasmin Joecks, Kerstin Pull, and Karin Vetter (2013)**, "the evidence for gender diversity negatively affects firm performance, and only about 30% of women have been reached to be correlated with higher firm performance than all-male boards." [16]

According to the research of **Kevin Campbell and Antonio Minguez Vera (2016)**, "investors in Spain do not penalise firms that increase their female board membership and membership, and greater gender diversity may generate an economic gain." [4]

According to **Orhun Guldiken, Mark R. Mallon, Stav Fainshmidt, William Q. Judge, and Cynthia E. Clark (2019)**, "having more female top managers and sole female directors serve on the nominating committee increases the likelihood of additional female director appointments." Younger members of boards and nominating committees, on the other hand, amplify these effects. [12]

### **Research Gap**

It can be perceived from the assorted literature that discrete dimensions have been explored by the researchers regarding gender diversified board composition and its distinct effects on financial performances, strategic control, and corporate performance. But there is no concrete endeavors have been found on the degree influence of 'family affiliation' on gender diversified board composition after the implementation of section 149(1) of the Companies Act, 2013. So, through this research work, we are trying to fill the lacuna, bridge the gap and explore the above-mentioned area.

### **Research Methodology**

In this context of section 149(1) of the Companies Act, 2013, this research study explores degree of 'family affiliation' for the representation of woman directors in the board of the topmost Indian corporate. We are considering demographic data of Nifty 50 companies, the face of the Indian economy. For this purpose, the Annual Report of the last 5 financial year (from 2015-16 to 2019-20) of these companies have been explored. Also, the various website for electronic disclosure has been studied.

### **Woman Representation: A Composite Picture of Nifty 50 Companies from 2015-16 to 2019-20**

The Annual Report for the last 5 financial years (2015-16 to 2019-20) of Nifty 50 companies articulate a clear picture of board composition, specifically women representation. Before the legal mandate, recognition of woman representation at the top level was sporadic. But from the financial year 2015-16, it catches the speed though the pace is slow. Most of the companies scale down their effort after touching the basic legal requirement. On the other hand, companies like Godrej Consumer Products Ltd., Asian Paints Ltd., Bharat Petroleum Corporation Ltd., BhartiAirtel Ltd., Cipla Ltd., Grasim Industries Ltd., ICICI Bank Ltd., Nestle India Ltd., Tata Motors Ltd., UltraTech Cement Ltd. articulated the highest level of female representation having 3 or even 4 women directors in their boardroom in the year 2019-20. From 2015-16 to 2018-19, the other companies that showed true intention for diversified board composition were Infosys Ltd., HCL Technologies Ltd., HDFC Life Insurance Company Ltd, Hindustan Zinc Ltd., BhartiInfratel Ltd., ICICI Bank Ltd., Axis Bank Ltd., Idea Cellular Ltd., NTPC Ltd. Though companies under Nifty 50 are the mirror of the Indian economy, some of the companies like Zee Entertainment Enterprises Ltd. in 2019-20, GAIL (India) Ltd. In 2017-18, Indian Oil Corporation Ltd., Maruti Suzuki India Ltd., Oil & Natural Gas Corporation Ltd. in 2016-17, Oil & Natural Gas Corporation Ltd. in 2015-16 still sustaining with only men boardroom. Godrej Consumer Products Ltd., Asian Paints Ltd., and Ultratech Cement Ltd. embraced a different path to achieve higher firm value by equitable board composition beyond legal compulsion with a true spirit.

### **Number Speaks**

#### **Vanquish intellect: Family Affiliation in the light of Nifty 50 companies for last 5 financial years**

With effect from 1<sup>st</sup> April 2015, it is compulsory to appoint at least one woman director in the category of an Indian company under section 149(1) of the Companies Act, 2013. As an aftereffect of this legislation, it was a general misconception that the companies, not yet have any women directors, will rely on the family members of the promoters and appoint women directors with family affiliation. But the palpable outline is different. This can be constructed from the data of Table 1. It reflects that out of Nifty 50 companies only 4 companies-Asian Paints Ltd., UltraTech Cement Ltd., Reliance Industries Ltd., and Godrej Consumer Products Ltd. appointed women directors with family affiliation in the last five years.

### **True Picture: Findings**

From the above data analysis, it can be erected that '*tokenism*' became the consequence of gender diversified board composition of Nifty 50 companies. Other than Godrej Consumer Products Ltd., Ultratech Cement Ltd., and Cipla Ltd., most of the board of Nifty 50 companies are composed of only 1 or 2 women directors. The driving force of appointing women directors is section 149(1) of the Companies Act, 2013 which compels to appoint at least one woman director in the category of the Indian company. The preconceived notion of the higher authority of the companies is that the woman as a director is less experienced and has less national/ international exposure. So, it is advocated by them that legal compulsion is the only inflict to compose gender diversified board. It can be also constructed from the sample that discrimination in promotion decisions has become a common practice in these companies which ends up in a symbolic invisible barrier for certain demography. When it comes to 'family affiliation' it was a consensus that the companies will be going to appoint a female family member to comply with the legal notions. But the phenomenon is different in a real scenario. Only 4 companies-Asian Paints Ltd., UltraTech Cement Ltd., Reliance Industries Ltd., and Godrej Consumer Products Ltd. appointed women directors with family affiliation in the last five financial years.

### **Conclusion**

Directors, through the lenses of their thoughts, try to play a pivotal role towards the winning edge of a company. Here board diversity, explicitly gender representation, frames a positive link between woman directors and shareholders' value. This leads to effective decision making, utilizing the talent pool, tracking better competitive opportunities, and also complying with national and global corporate governance norms. The Nifty 50 companies, before 1<sup>st</sup> April 2015 were not giving gravity to the equitable

board composition. After the Companies act, 2013 women's representation in the board got its attention. The study concludes that most of the companies only try to achieve basic criteria to comply with the legislature. From 2015-16 to 2018-19, the companies that showed true intention for diversified board composition are Infosys Ltd., HCL Technologies Ltd., HDFC Life Insurance Company Ltd, Hindustan Zinc Ltd., BhartiInfratel Ltd., ICICI Bank Ltd., Axis Bank Ltd., Idea Cellular Ltd., NTPC Ltd. Though companies under Nifty 50 are the mirror of the Indian economy, some of the companies like Zee Entertainment Enterprises Ltd. in 2019-20, GAIL (India) Ltd. in 2017-18, Indian Oil Corporation Ltd., Maruti Suzuki India Ltd., Oil & Natural Gas Corporation Ltd. in 2016-17, Oil & Natural Gas Corporation Ltd. in 2015-16 are still sustaining with only men boardroom. Godrej Consumer Products Ltd., Asian Paints Ltd., and Ultratech Cement Ltd. embraced a different path to achieve higher firm value by equitable board composition beyond legal compulsion with a true spirit. Though it is a bigoted conception that the companies will go to appoint a female family member to comply with the Companies Act, 2013. But the palpable outline is different as only 4 companies-Asian Paints Ltd., UltraTech Cement Ltd., Reliance Industries Ltd., and Godrej Consumer Products Ltd. appointed women directors with 'family affiliation' in the last five financial years out of Nifty 50 companies. They mainly concentrated highly educated, qualified, well established, female corporate personalities and also from administration background at the time of composing gender diversified boardroom. The preconceived notion of the higher authority of the companies is that the woman as a director is less experienced and has less national/ international exposure. So, it is advocated by them that legal compulsion is the only inflict to compose gender diversified board.

**Table 1: Family Affiliated Women Director in Nifty 50 Companies**

2019-20	2018-19	2017-18	2016-17	2015-16
Asian Paints Ltd.	Reliance Industries Ltd.	Asian Paints Ltd.	Asian Paints Ltd.	Asian Paints Ltd.
UltraTech Cement Ltd.	Asian Paints Ltd.	UltraTech Cement Ltd.	UltraTech Cement Ltd.	UltraTech Cement Ltd.
	Godrej Consumer Products Ltd.			

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