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Glass Ceiling Effect In The Indian Corporate Sector: A Reality Check

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GLASS CEILING EFFECT IN THE INDIAN CORPORATE SECTOR: A REALITY CHECK

ABSTRACT

India ranked 123 out of 162 countries in the currently available Gender Inequality Index of 2019. Out of 11,667 individual directors on the board of companies listed in the National Stock Exchange, only 2106 happens to be women directors. The Companies Act 2013, however, made it mandatory for all listed firms to appoint at least one women director on the board. In this paper, we analyze how this gender quota legislation had been able to change the constitution of Board of Directors among listed firms in India. Further to this, we also examine if these women directors are internally promoted which also provides evidence towards the probable existence of an invisible glass-ceiling above the women employees in the Indian workplaces.

KEYWORDS: glass-ceiling, women directorship, executive directors, gender discrimination

INTRODUCTION

Companies listed on National Stock Exchange have 11,667 individuals holding 14293 directorship positions, out of which only 2106 women directors are present, holding a total of 2661 directorship positions[1]. Therefore, the presence of such small proportion of women on the boards stands out to be a matter of concern that requires immediate attention. In India, the mandate by Companies Act 2013 had compelled the listed firms to have at least one women director on board. The introduction of such a policy is bound to change the landscape of the constitution of board of directors. In this paper, we raise and eventually answer two very critical research questions. Firstly, using data from the listed firms in NSE we explored how the act of 2013 had altered the constitution of BOD for the Indian corporates. And secondly, we make a deeper analysis to understand if these women who are able to secure a seat on a company's

[1] Source: Prime Infobase as on August 24, 2021

board are internally promoted or externally hired. It is at this juncture that we raise the question if the well-known *glass-ceiling* metaphor is applicable in this context.

In the next section of the paper, we discuss the general status of women in the Indian workplace. We then move forward to put up our research questions and thereafter explore the current state of women directorship in the companies listed in the National Stock Exchange of India.

Women in the Indian Corporate Sector

The role of women in Indian society has seen significant changes since the 1960s. India was one of the leading countries with a woman as the head of the government as early as 1966. In the corporate sector, the introduction of information technology and financial services had also brought in broad opportunities for women's employment in India (Nath, 2000). Yet, women are often discriminated against in this country in several spheres of life. Previous research had clearly indicated the low work participation rate among Indian women (Raju, 2014). India ranked 123 out of 162 countries in the currently available Gender Inequality Index of 2019 (*Human Development Reports*, 2019). Talking about the representation of women on the boards of Indian corporates, the lack of qualified women having sufficient experience at the executive stage had been pointed out to be a prominent reason for less number of women representation on the Indian Boards (Vaibhavi & Soundarya, 1970). To combat the underrepresentation of women on the board of directors, gender quotas have been used as a helpful weapon in several countries. It started in Norway in 2003 and was followed by several countries like France, Spain, Israel, Austria etc., including India in 2013 (Aguilera et al., 2021). In India, as per Section 149 of the Companies Act, 2013, which was a major revision on the original 1956 act, the board of directors should have a minimum of six directors, and there has to be an optimal blend of executive and non-executive directors. As per the act, at least one director has to be a woman, and at least half of the board should comprise non-executive directors. These regulations had to be followed by all the listed companies in the stock exchange within a year, i.e., 2014. Again, as per Regulation 17(1)(a) of SEBI, an amendment by SEBI, each company must have a minimum of one independent women director on board.

To analyze the holistic picture of the Indian women on boards of corporates post this mandate, we put forward our first research question -

RQ: Does the adoption of gender quota legislation impact the constitution of the BoD in Indian firms?

The importance of having women directors onboard has been heavily researched by scholars. Previous research has shown that diversity among the board of directors has a positive impact on the financial performance of enterprises (Erhardt et al., 2003) and reduces the probability of financial distress (Garcia & Herrero, 2021). The relationship between gender diversity of the board and superior firm performance is found to be mediated by the corporate social responsibility (CSR) of the firm (Galbreath, 2018). Therefore, correctly said, women are crucial yet heavily disregarded resources of any organization (Arfken et al., 2004). With the mandate from the national authorities, it, however, becomes binding for companies to appoint women on their boards.

Indian firms listed on National Stock Exchange had seen a rise in the number of women directors after the Companies Act 2013. In 2013, where there were only 660 companies having women on their board of directors, it is pleasing to see that as of March 31st, 2020, the number of companies having women directors had increased to 1759. Almost all firms listed on the National Stock Exchange now have at least one women director on their board. Figure 1 shows the number of Indian companies with women directors on board at the end of each financial year since 2013.

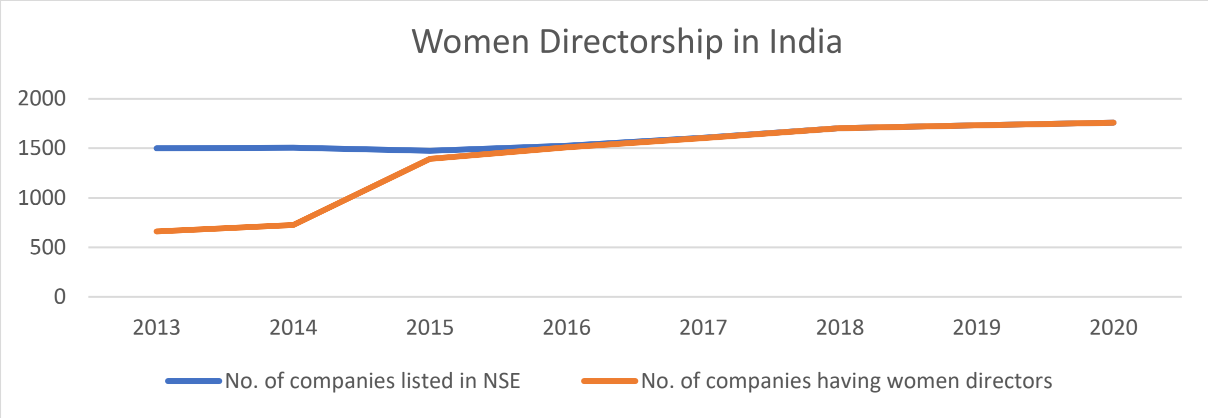

Fig 1: Women Directorship for listed companies in NSE since 2013. [2]

Now, as we see, most companies are complying with the legal requirement by having at least one woman on their board of directors; the focus of research is now shifting towards attaining the critical mass of women on boards of organizations and the effect of the same on various aspects of firms. The concept of critical mass emerges from the work of Asch (1955) that confirmed that people get more influenced by the majority that consists of at least three people. Interestingly, a number beyond three didn't seem to significantly increase the likelihood of conformity, thereby making three the *magic number* for the majority (Asch, 1955). When it comes to the board of directors, the presence of three women or more had been found to significantly normalize the idea of women directorship that in turn breaks the male-stereotyping that each individual woman faces otherwise (Konrad et al., 2008). The attainment of critical mass has been found to contribute positively to the firm innovation (Torchia et al., 2011) and even the firm performance had been seen to take a positive turn when 30% of board members were women (Joecks et al., 2013). In addition to this, having a critical mass of women representation on boards improves the effectiveness of the board in terms of stakeholder management (Ben-Amar et al., 2017), preventing costly misconduct by improved monitoring (Arnaboldi et al., 2021), increasing market value as well as the profitability of firms (Garanina & Muravyev, 2021). Favorable outcomes had also been found in terms of governance

[2] Source: Prime Infobase as on Aug 31, 2021

disclosures (De Masi et al., 2021; Radu & Smaili, 2021), and response to natural disasters (Jia & Zhang, 2013). Therefore, although not a legal requirement, attaining a critical mass of women in BOD has become a moral obligation for firms setting standards for others. If we see Indian firms listed on NSE, we find that over the years, since 2013, the number of companies having three or more women directors on board had increased considerably. In 2013, where only 11% of the companies had a critical mass of women directors on board, it is overwhelming to note that 31% of the listed Indian firms, as of 2020, have three or more women on their boards. This speaks in favor of normative compliance by the corporates. Also, as the attainment of the critical mass of women in the board of directors is extensively spoken about in the present business context, having three or more women directors on board will also provide the enterprises the valuable legitimacy they can leverage to operate successfully. Figure 2 shows the number of Indian firms listed on the National Stock Exchange that had attained a critical mass of women directorship over the years.

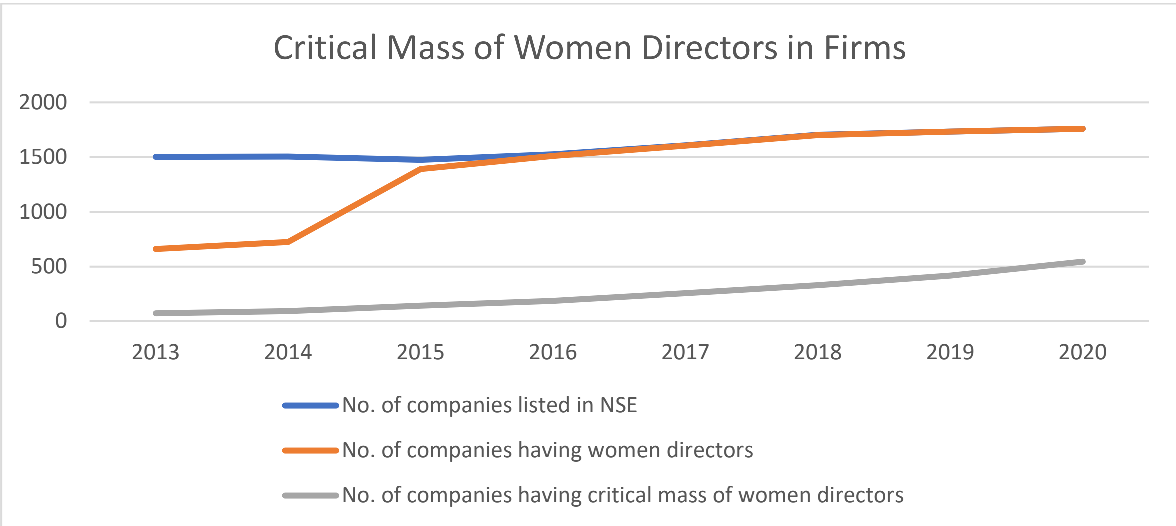

Fig 2: Companies listed in NSE since 2013 having three or more women directors on their board.[3]

While this is indeed portraying a very positive picture of the Indian corporates, it is depressing when women in the board of directors of Indian firms are often described as just a governance

[3] Source: Prime Infobase as on Aug 31, 2021

need whereby the role of women directors is to only "*sign on the dotted line* (Ljee et al., 2014). It will therefore be interesting to see the composition of the board based on the designation of the women directors. We now focus our attention towards the inside story of women directorship on boards of Indian corporates over the years. We analyzed the data on women directorship for firms listed on National Stock Exchange since 2013 when the Companies Act was implemented, and what emerges out is a very different picture than what is expected of the progressive Indian firms. In 2020, out of 1759 companies with women directors on their board, only 445 firms had appointed women as executive directors, which is approximately 25%. The rest of the women directors are all non-executive directors who constitute the critical mass in the board of directors we discussed earlier. What makes the story worrisome is that while in 2014 and 2013, there were around 45% of the firms had women as executive directors, the data thereafter shows a lesser proportion of firms appointing women executive directors on their board. Fig 3 shows the number of women executive directors appointed by Indian corporates over the years.

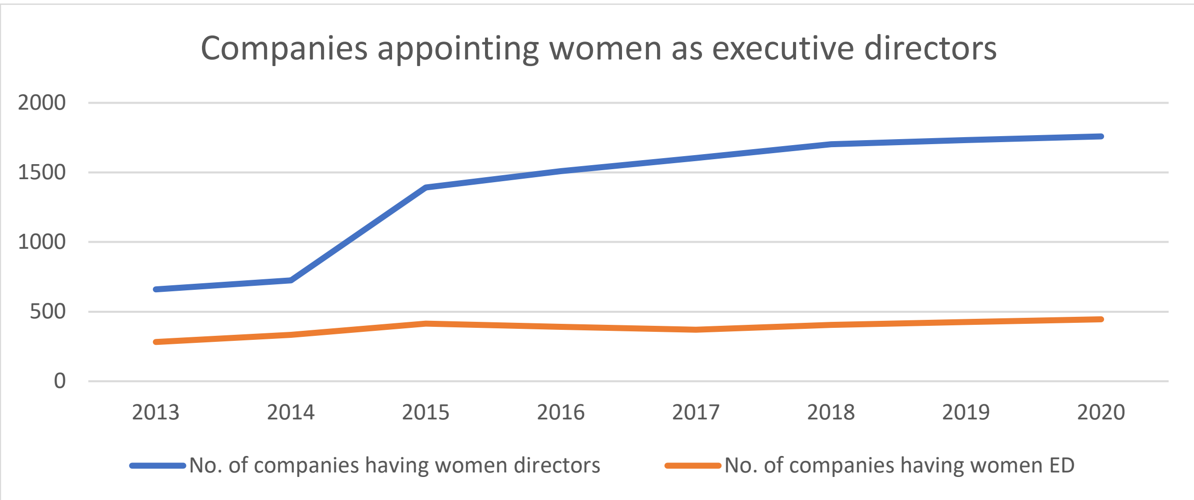

Fig 3: Companies listed in NSE since 2013 that have appointed women executive directors on board.[4]

In order to understand the gravity of the problem, we now navigate the literature of corporate governance to analyze the importance of the designation of directors in the board.

[4] Source: Prime Infobase as on Aug 31, 2021

There are two major categorizations of directors in the companies – executive and non-executive directors. Executive directors are the members of the organization's board of directors and also are executive managers of the company, therefore, holding key leadership positions in the firm. Executive directors are also termed inside directors in the United States as they rise to this position by internal promotion within the organizations. They are the employees of the enterprise who procure the seats on the board through the standard progression in their career. They can be simultaneously the member of the board circle and also a part of the top management triangle that includes being the Chief Operating Officer (COO), the Chief Finance Officer (CFO) and finally the Chief Executive Officer (CEO).

In contrast, the non-executive directors of the board are external to the firm, also termed as outside directors in the United States. They do not hold the management position in the organization, and neither can be a part of the management triangle. These individuals are appointed to the board due to their expertise, networks or previous experience. There are two further categorizations of non-executive directors – one being the independent non-executive directors and the other the non-independent non-executive directors. Independent non-executive directors have no relationship with the company concerned other than just being a director to pass on independent and unbiased judgments in any decisions to be taken by the board.

A fewer number of executive women directors on the board of Indian corporates implies that although a greater number of women are able to secure a seat on the board, a handful of them only are promoted internally within the organization. Although the number of firms appointing women directors had improved significantly after the Companies Act, 2013, the number of women executive directors had not seen any significant change over the years. The majority of companies had appointed women as non-executive directors on their boards and had even attained a critical mass of female directors. But when it comes to promoting their own female employees and offering them a seat on the board, it seems somewhere Indian firms had lost the race. It is at this juncture that we propose our second research question –

RQ2: Does the glass ceiling effect apply here?

The glass ceiling is a metaphor introduced in 1986 that had been first described as an invisible barrier that in the American workforce hinders the career progression of women (Hymowitz & Schellhardt, 1986). Such a barrier doesn't allow women employees to reach the top of the corporate ladder (Linehan & Walsh, 1999). It is most prominent from the middle to the top of the corporate ladder (McCormack, 1985). The fewer executive women directors in key leadership roles on the boards of the listed Indian corporates is a clear indication of the existence of glass-ceiling in the Indian corporate world.

The picture is in agreement with what research had found in the past about women directorship. Women directors had been seen to be present in a lesser number of executive committees and more number of committees dealing with public affairs (Peterson & Philpot, 2007). Also, even when the appointment to the board increases, there is less probability of diverse directors being in the leadership positions (Field et al., 2020) as we have now seen in the case of the Indian firms listed on the NSE. Research had pointed out that only in sectors where there is greater women employment, the presence of more women as executive directors had been found (De Cabo et al., 2011; Ellwood & Garcia-Lacalle, 2015). It has been critically argued that mere appointing more women directors will not be able to create any major change in the situation. What is imperative here is the assignment of the women directors to the critical leadership roles (Cook et al., 2019). For that, women should be able to shatter through the *glass ceiling* that impedes their upward journey along the corporate ladder.

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