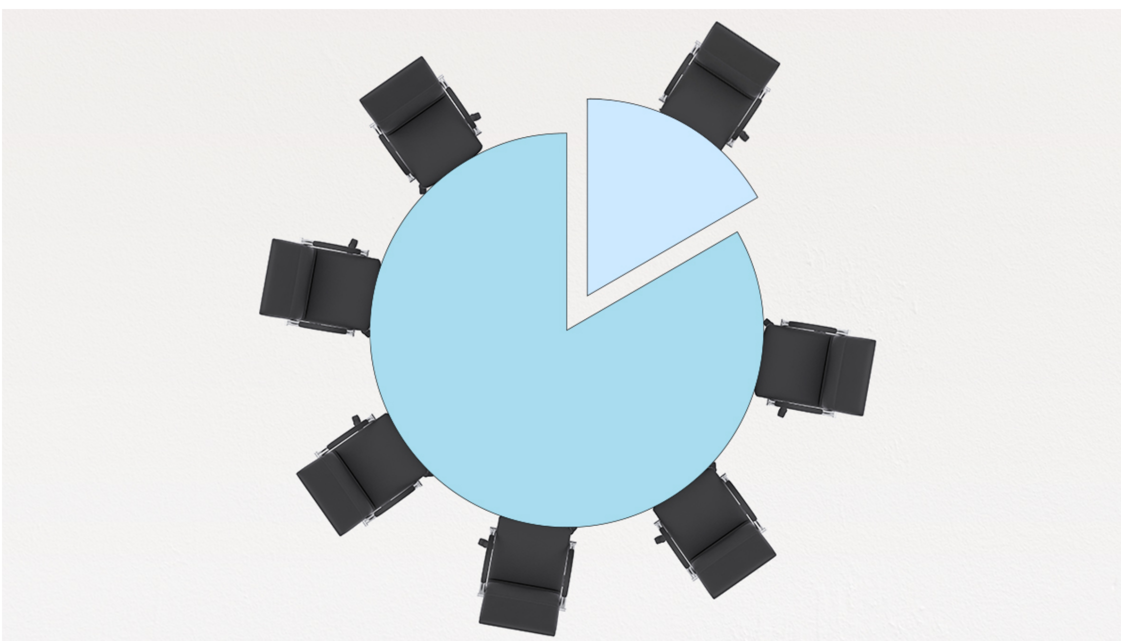
Harvard Business Review

Corporate Governance

What Happened When India Mandated Gender Diversity on Boards

by Ruth V. Aguilera, Venkat Kuppuswamy, and Rahul Anand

February 05, 2021



HBR Staff/cherezoff/Getty Images

Summary. In recent research on diversity quotas in India, one of the first instances of an emerging market adopting gender quotas, the authors found that firms' gender quotas represented a step in the right direction but did not go far enough. Firms which, at face value, seemed to be complying with gender quotas by appointing women on merit from outside the organization still "buffer" their existing activities through selective committee appointments, relegating the new female quota fillers to less consequential committees. For gender quotas to

achieve their purpose as an internal corporate governance mechanism, corporate boards must embrace the appointment of well-qualified women who bring a valuable perspective to the board. **close**

Gender quotas on corporate boards have emerged as a popular tool for policymakers to promote gender equality in the workplace. The movement began in 2003 when Norway instituted a 40 percent quota for women on its country's corporate boards. Spain, Finland, Iceland, France, Israel, Kenya, Italy, Belgium, Portugal, Germany, and Austria have followed suit with their own quotas. In March 2020, the European Commission announced it would attempt to reach a gender balance of 50 percent within its own management structure by the end of 2024. In 2018, California became the first U.S. state to mandate gender quotas for publicly traded companies incorporated in the state or risk facing heavy fines. But do these top-level initiatives produce substantive change, or are they merely symbolic?

In recent research, we examined the effects of board diversity quotas in India, one of the first instances of an emerging market adopting gender quotas to promote diversity. Given longstanding societal norms deterring the advancement of women in the workplace, we sought to understand whether Indian firms would respond to gender quotas in a superficial manner. We found that firms' gender quotas represented a step in the right direction but did not go far enough.

Quota fillers or contributing members?

The 2018 California mandate was met with claims that new female board members wouldn't be selected on merit, but simply to fulfill the mandatory quota. This belief, along with accusations that the practice of appointing "insiders" (female relatives of the controlling owner or female executives of the firm) is rife, suggest that while the appointment of women complies with quota requirements, their presence may not be seen as legitimate. For gender quotas to achieve their purpose as an internal corporate governance mechanism, they must embrace the appointment of well-qualified women who bring a valuable perspective to the board.

The prospect of symbolic actions in board appointments is particularly salient in emerging markets with lower corporate transparency, weak institutions, and less progressive societal attitudes towards gender equality. India is one such emerging market to embrace gender quotas: the 2013 Companies Act made it compulsory for all publicly listed firms to have at least one woman director.

We examined the compliance choices of NIFTY 500 firms from 2013 — the top 500 firms ranked by market capitalization on India's National Stock Exchange (NSE). Of these firms, 303 firms (60.6%) had no women on their board in 2013 and needed to appoint at least one female director by April 1, 2015. The boards of these 303 firms consisted of 3,320 directors between 2013 and 2017, whose profiles we individually constructed from corporate filings, press releases, and online sources. By 2017, 82.8% of previously non-compliant firms appointed a single woman to their board, while 13.6% of these firms had appointed two or more women to the board.

We found that unlike the effects of the original Norwegian quota, where a small group of prominent women became directors on multiple boards in the so-called "golden-skirt phenomenon" (in many cases on a non-executive basis), India's 2013 Companies Act was successful in significantly enlarging the pool of distinct women serving as directors.

Contrary to our expectations, we found that most boards fulfilled the quota by appointing female directors who were independent, rather than insiders — 70.4% of women appointed to previously all-male boards were classified as independent. Yet, while these newly appointed female directors in Indian boards were also considerably more educated and more likely to have political experience than their male counterparts, they were also less likely to be appointed to key board committees such as compensation or nomination committees. Independent women — those appointed from outside the firm, with no family or ownership ties — were particularly less likely to sit on prominent committees, compared to similar male directors who were also independent. For instance, the probability of an independent female director serving on the audit committee was nearly 40% lower than it was for an independent male director on the same board. Firms which, at face value, seem to be complying with gender quotas by appointing women on merit from outside the organization still "buffer" their existing activities through selective committee appointments, relegating the new female quota fillers to less consequential committees.

This gender bias in committee memberships continued to exist after our analysis controlled for the prior board experience of each director. Interestingly, this effect was significantly greater for independent, highly experienced female directors — the very directors encouraged by key external monitors and a visible signal of good governance — than female directors who were insiders to the firm. By sidelining new independent female board members from the more influential board committees, predominantly male boards were able to limit the extent of actual governance reform in their internal board processes.

Implications for corporate boards

The visibility of compliance is an important issue for policy makers to address. We need to recognize the limits of corporate transparency and acknowledge that many firms — particularly in emerging markets — are obfuscating the process by over-conforming on the surface, but limiting substantive change with less visible, harder to track internal decision-making.

We also need to understand how these buffering processes are designed and conducted to achieve the same desired end result for boards, regardless of the number of women appointed to them. As global governments continue to move forward with gender equality regulations, we must acknowledge the importance of accounting for not only independence, but also the competence of women and their voice on the board through committees. It is critical to hold firms accountable and enhance the transparency that allows for regulatory scrutiny and standardized non-financial reporting standards on human capital and diversity issues.

Armed with this knowledge, policymakers, active investors, search firms, and boards can push forward with reforms to reduce gender inequality in the boardroom and target the symbolic response of firms in future legislation and board composition.

RA

Ruth V. Aguilera is the Darla and Frederick Brodsky Trustee Professor in Global Business at the D’Amore-McKim School of Business, Northeastern University. Her research interests are at the intersection of international corporate governance and sustainability. She is a Fellow at the Academy of International Business and the Strategic Management Society.

VK

Venkat Kuppuswamy is an Assistant Professor of Entrepreneurship & Innovation at the D’Amore-McKim School of Business, Northeastern University. His research investigates the influence of race and gender in entrepreneurship and other economic domains, including the evaluation of interventions that seek to mitigate racial and gender biases in these contexts.

RA

Rahul Anand is an Assistant Professor at Aarhus BSS, Denmark. His research interests revolve around corporate strategy and corporate governance in developing as well as developed economies.