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## **GENDER DIVERSITY PROPOSALS: CASTING THE FEMALE LEAD ON THE BOARD OF DIRECTORS**

Nishita Mahajan<sup>1</sup>

### **ABSTRACT**

Gender diversity is closely associated with a number of significant social issues, including inclusion and equality. Recent research has shown that gender diversity is more than just discrimination, it is also closely associated with good corporate governance and growth. So, Corporate governance is the process by which companies are guided and controls are put in place. The key standard for good corporate governance is the European Organisation for the Development of Economic and Social Cohesion (OSCE)'s (the principles), one of the 12 Core Standards for sound financial systems. The principles were first published in 1999 and updated in 2004 and 2015.

Corporate governance literature in the past focused on the need for boards to draw on the expertise and experience of a diverse range of members. However, in recent years, the focus has shifted to the potential impact gender diversity can have on decision-making processes. Evidence has now emerged to support the notion that a gender-balanced board can improve corporate performance, as well as to demonstrate that companies with a higher percentage of female directors are less susceptible to governance scandals that involve bribery, fraud, and other negative elements that can reduce business confidence.<sup>2</sup>

### **KEYWORDS**

Female Representation, Board of Directors, CEO Dominance, Corporate Governance, Female Jurisprudence, Gender Balanced Board.

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<sup>2</sup> Marie-Anne Birken and Gian Piero Cigna, Gender Diversity on Boards: A Cause for Multilateral Organizations, available at: <https://brill.com/display/book/9789004408326/BP000003.xml?language=en&body=fullhtml-60832>. Visited on July 24, 2023.

## INTRODUCTION

Women have been an integral part of the country's growth and development since its inception. From domestic chores to national governance, they have achieved remarkable feats. However, the lack of female representation in companies, such as a seat on the board, has been a persistent issue. The Companies Act, 2013<sup>3</sup> addressed this issue by mandating that all companies must appoint female directors. Non-compliance with this requirement is subject to criminal penalties. In order to comprehend the significance and influence of women in managerial positions in companies on corporate governance policies, it is essential to comprehend the concept of corporate governance. Corporate governance can be broadly defined as a system of regulations, practices, and procedures that are employed to govern and direct the operations of an entity. The aim of corporate governance is to reconcile the interests of an organization with those of its stakeholders, such as shareholders, management personnel, customers, financiers, and the general public. A good corporate governance practice ensures that an organization is adhering to ethical business practices. It is assessed on the basis of four criteria: accountability; transparency; fairness; and accountability. The board of directors is ultimately responsible for ensuring that corporate governance practices are in line with the company's objectives, as they have the power to make all essential decisions that are necessary for the successful functioning, growth, and development of a company. Agency theory suggests that female directors can play a crucial role in resolving conflicts between shareholders and company managers. They are particularly valued for their visionary strategic control, focusing on long-term strategies and monitoring the business environment through qualitative indices. Female directors often exhibit higher sensitivity to internal compliance policies and discriminatory practices, making them valuable as independent board members.<sup>4</sup>

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<sup>3</sup> Companies Act, 2013 (Act No. 18 of 2013).

<sup>4</sup> Michelle K. Weck, "Why and when female directors are less engaged in their board duties: An interface perspective", available at:

On the other hand, the resource-based perspective argues that firms can gain a competitive advantage by embracing a diverse pool of female talent, skills, capabilities, and networks. Corporate boards act as essential links between companies and their environment. An effective linkage to the ecosystem provides valuable information, facilitates communication, gains support commitments from stakeholders, and helps legitimize the organization. In this context, female directors can contribute to building a complementary and diverse set of resources, enhancing a firm's overall competitiveness and success.

### **DIVERSITY AND FINANCIAL STABILITY IN THE BOARDROOM**

The Board Gender Diversity metric is a measure of the number of female and male directors on a company's Board of Directors. It is calculated by comparing the number of female directors nominated to the number of male directors serving on the Board.<sup>5</sup> This metric provides an indication of the gender balance in the boardroom and is indicative of the company's commitment to gender equality and diversity in decision-making. Achieving gender balance on corporate boards is a key factor in promoting inclusivity, improving decision-making and improving organizational performance.

The characteristics, skills and attributes of bank board members have been receiving a great deal of attention in corporate governance literature. This is due to the fact that previous studies have demonstrated that board members' characteristics have an impact on the firm's value. Furthermore, gender diversity is a key board characteristic that has been the subject of much discussion in the current climate, due to its implications for equality, inclusion and other demographic factors. According to resource dependence theorists, monitoring board of directors is essential for the efficient allocation of resources and the

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<https://www.sciencedirect.com/science/article/pii/S0024630121000546>. Visited on July 10, 2023.

<sup>5</sup> Dorota Korenkiewicz & Wolfgang Maennig, "Impact of women on corporate boards of directors on product quality", available at:

<https://link.springer.com/article/10.1007/s10997-023-09677-6>. Visited On June 4, 2023.

mitigation of risk. These characteristics are taken into account in addition to functional attributes, such as independence, leadership and financial expertise, as well as professional attributes, such as education, nationality and experience. Gender diversity is generally defined as the percentage of total directors that are female. Having a high number of female directors on a bank board can improve the quality of its governance mechanisms, its financial performance and its ability to comprehend complex business issues.

The assessment of diversity in corporate governance has become increasingly important, with growing interest in understanding its impact on firm performance. Specifically, researchers are interested in exploring the relationships between different dimensions of diversity, such as gender diversity on corporate boards, and how they might affect a firm's financial performance. This research seeks to analyse the connections between the presence of female directors on corporate boards and firm financial performance. Additionally, the study aims to investigate whether the influence of female board members on performance is influenced or moderated by family ownership within the company.

The expected outcomes of the research provide valuable insights into the relationship between gender diversity on boards and firm performance. It may shed light on whether having a greater number of female directors positively impacts financial results. Moreover, the investigation into the role of family ownership as a potential moderator could reveal if family-owned firms experience different effects from gender diversity compared to non-family-owned ones.<sup>6</sup>

Overall, it contributes to the ongoing discussion about the importance of diversity in corporate governance and its potential implications for firm success. By highlighting the impact of gender diversity on financial performance and understanding how family ownership might influence

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<sup>6</sup> Ali Amin and Rizwan Ali, "Female presence in corporate governance, firm performance, and the moderating role of family ownership", available at: <https://www.tandfonline.com/doi/full/10.1080/1331677X.2021.1952086>. Visited on June 20, 2023.

this relationship, the study aims to inform corporate practices and policies that promote better governance and improved performance.

## **SOCIAL RESPONSIBILITY AND POSITION OF A WOMAN ON THE BOARD**

The presence of female leaders in corporate governance could improve the quality assurance level, as they are more likely to be responsive to sustainable market developments and technologies. Women are passionate about providing innovative managerial, engineering and product development expertise. They are also more motivated and committed than their male colleagues to organizing and managing publicly available internal sustainability and quality reports, and are more proactive in networking across and beyond corporate structures to anticipate, identify, and manage quality issues within organizations (e.g., product recalls, warranty policies, customer service).

According to stakeholder theory, heterogeneous boards can be more creative, but it may take more time to negotiate and reach consensus. By hiring female directors, companies can benefit from relationships with stakeholders, especially when defining business purpose and customer focus, which can become important aspects of the superior quality of delivered goods. Gender diversity on boards can also have a political component, as companies may be more interested in diversity when they are looking to improve their public image.<sup>7</sup>

Corporate Social Responsibility (CSR) in India has evolved through various stages. The capacity to make a positive impact on society and enhance the standard of living has been demonstrated by some corporates. All corporates should strive to bring about a transformation in India's current social landscape in order to find a lasting and effective solution to the nation's social problems. By facilitating partnerships between companies, non-governmental organizations and the

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<sup>7</sup> Er. Akansha Gupta and Dr. Vinod Kumar, "Role of Corporate Social Responsibility in Women Empowerment", Vol-4 Issue-1 2018, available at: [http://ijariie.com/AdminUploadPdf/Role\\_of\\_Corporate\\_Social\\_Responsibility\\_in\\_Women\\_Empowerment\\_ijariie7398.pdf](http://ijariie.com/AdminUploadPdf/Role_of_Corporate_Social_Responsibility_in_Women_Empowerment_ijariie7398.pdf). Visited On July 6, 2023.

Government, a combination of expertise, strategic planning, manpower and financial resources can be leveraged to initiate far-reaching social transformation, thus accelerating India's socio-economic growth. Today, empowerment is increasingly viewed as a process whereby those without power gain control over material possessions, knowledge and ideology.

Gender diversity on boards matters for several important reasons:

- 1. Improved Decision-making:** Diverse boards with a balanced representation of women and men bring a broader range of perspectives, experiences, and insights to the decision-making process. This diversity of thought can lead to more comprehensive and well-informed decisions, reducing the risk of groupthink and enhancing overall board effectiveness.
- 2. Enhanced Corporate Governance:** Gender diversity fosters stronger corporate governance by promoting transparency, accountability, and ethical behaviour. Boards that include women are more likely to challenge the status quo and ask critical questions, leading to better oversight of management and risk management practices.
- 3. Better Financial Performance:** Numerous studies have found a positive correlation between gender diversity on boards and improved financial performance. Companies with diverse boards tend to outperform those with homogenous boards in terms of profitability and shareholder returns.
- 4. Talent Retention and Attraction:** Demonstrating a commitment to gender diversity can help attract and retain top talent. Diverse boards create an inclusive corporate culture, making the company more attractive to a diverse pool of potential employees.
- 5. Meeting Stakeholder Expectations:** Stakeholders, including customers, investors, and the general public, increasingly expect companies to prioritize diversity and inclusion. Boards that lack

gender diversity may face reputational risks and may be viewed as out of touch with modern societal expectations.

- 6. Innovation and Creativity:** Gender-diverse boards are more likely to foster a culture of innovation and creativity. Different perspectives and experiences can lead to the development of innovative solutions and strategies.
- 7. Legal and Regulatory Compliance:** In some jurisdictions, there are legal requirements or guidelines regarding gender diversity on boards. Companies that fail to prioritize diversity may face legal and regulatory consequences.
- 8. Social Responsibility:** Promoting gender diversity on boards aligns with broader social responsibility goals of promoting gender equality and diversity in the workplace, contributing to a more inclusive society.

## **IMPACT OF WOMEN ON CORPORATE BOARDS OF DIRECTORS ON PRODUCT QUALITY**

Women are always believed to be builders and strong headed, research has shown that the presence of women on corporate boards of directors can have a positive impact on product quality. Several reasons contribute to this phenomenon:

- 1. Diverse Perspectives:** Women directors bring diverse perspectives and experiences to board discussions. Their unique viewpoints can shed light on consumer preferences, needs, and concerns, leading to a better understanding of the market. This understanding can help companies design and produce products that are more attuned to customer demands.
- 2. Attention to Detail:** Studies have indicated that women directors tend to be more detail-oriented and risk-averse in decision-making. This focus on attention to detail can translate into a higher



emphasis on product quality, ensuring that potential issues are identified and addressed early in the product development process.

- 3. Stakeholder Engagement:** Women directors often excel in stakeholder engagement and relationship-building. They may seek feedback from customers, employees, and other stakeholders to gather insights into product performance and identify areas for improvement.
- 4. Ethical Considerations:** Women directors are found to prioritize ethical considerations and corporate responsibility. This ethical orientation can influence decisions related to product quality and safety, ensuring that products meet necessary standards and adhere to regulatory requirements.
- 5. Improved Team Dynamics:** Having a diverse board, including women directors, fosters an inclusive boardroom culture. This inclusivity can enhance communication and collaboration among board members, leading to more constructive discussions about product quality.
- 6. Reputation Management:** Product quality is closely linked to a company's reputation. Women directors may be particularly attuned to the reputational impact of product quality issues and take proactive measures to maintain and enhance the company's reputation.

In a nutshell, the presence of women on corporate boards can positively impact product quality by contributing diverse perspectives, attention to detail, stakeholder engagement, ethical considerations, and improved team dynamics. Companies that prioritize gender diversity on their boards are more likely to benefit from these advantages, leading to better product outcomes and ultimately enhancing their competitiveness in the marketplace.

## **CONCLUSION**

Gender Diversity refers to the concept of considering and preserving the skills, resources and potential of men and women as equal. This article makes it clear that sooner or later, having women on board will improve the quality of functions performed by the board. This can be seen in the financial outcomes of several researches. More diverse boards, such as those found in Scandinavian countries, are a result of much of the cultural norms in the market, which are often reflected in the policies and educational programs put in place to facilitate the participation of women in the work force. India has started its journey, and the results will be even more visible in the coming years.

The success of any women empowerment strategy depends on various factors such as education, upgrading social custom, family planning, health and sanitation, initiating livelihoods, environment, tree cultivation, kitchen gardening etc. Collective strategies by organizations and various NGOs on the ground level are required to build which is more than just micro-credit in order to increase women's endowments, improve their exchange outcomes with the family, with the markets, with the state and with the community and with the social, cultural and political spaces which are needed for poverty reduction as well as women's empowerment.

As a company, it is your responsibility to manage your role in society in a responsible and sustainable way as a producer, an employer, a marketer, a customer and a citizen. CSR activities are not only about brand recognition but also about making an impact in the society. The world is moving away from the old-school patriarchy. The fact that women are being included in senior management positions, political positions, in the armed forces, etc., is a huge step forward in this direction. There are many dimensions that women will add to the board. These include emotional intelligence, self-branding, self-confidence, etc. The inclusion of women in the board will not only lead to better corporate governance within the organisation, but it will also help in promoting the ideology of gender diversity.