INSTITUTIONAL INVESTOR ADVISORY SERVICES

WOMEN on CORPORATE BOARDS Mentorship Program

CORPORATE INDIA: WOMEN ON BOARDS

PRIME DATABASE GROUP

MAY 2017

This study is a joint effort by Women on Corporate Boards (WCB) Mentorship Program, Institutional Investor Advisory Services (IiAS), and PRIME Database Group

About Women on Corporate Boards Mentorship Program (WCB)

'Women on Corporate Boards Mentorship Program' is aimed to enhance the gender balance and increase the effectiveness of corporate boards. The program was founded by Mr. Arun Duggal and Ms. Anjali Bansal in 2013. Under this program, experienced and respected Board chairmen, directors, corporate leaders and senior professionals coach and mentor qualified, high potential women to take up board positions. The participants are selected from diverse backgrounds and go through a meticulous screening process. The program is currently in its fourth year and has been very successful. The program's participants currently serve on 150 boards, some of them as Committee Chairs. Right from its inception, the program has been steered by very capable chairpersons, who have put all their energies behind its success. It is presently being chaired by Mrs Sudha Pillai, former Member Secretary, Planning Commission of India.

The program is a unique program in the world. It is a voluntary program and there is no fee to participants or the corporates inviting them to join their Boards. It is not a training program but genuinely fosters mentoring, passing on valuable corporate governance experience from experienced Board Members to women leaders starting their Board career. It has had broad support from corporate India, with seasoned and highly statured board directors as mentors who have contributed their time and insight and partnering from leading legal and accounting firms for content and convening. The mentee group comprises of accomplished women leaders from corporate, financial institutions, professional from accounting and law, government and academia. Over the past few years it has developed into a vibrant community of women board directors and is promoting peer learning and best practice sharing. The Women on Corporate Boards program continues to grow in size and impact in enhancing corporate governance in India.

About Institutional Investor Advisory Services (IiAS)

Institutional Investor Advisory Services India Limited (IiAS) is a SEBI-registered proxy advisory firm, dedicated to providing participants in the Indian market with independent opinions, research and data on corporate governance issues as well as voting recommendations on shareholder resolutions for over 650 companies. IiAS also assists institutions in their engagement with company managements and their boards, including legal assistance. In addition, IiAS offers two cloud based solutions - IiAS ADRIAN, and ComPAYre. IiAS ADRIAN captures shareholder meetings and voting data and provides packaged data that can be used to gain insights on how investors view specific issues and gain greater predictability regarding how they might vote. ComPAYre provides users access to remuneration and pay versus performance data for executive directors across S&P BSE 500 companies over a five-year period. IiAS has equity participation by Axis Bank, Fitch Group Inc., HDFC, ICICI Prudential Life Insurance, Kotak Mahindra Bank, Tata Investment Corporation, UTI Asset Management Company Limited and Yes Bank. For more information, visit www.iias.in.

About PRIME Database Group

PRIME Database Group (www.primedatabasegroup.com) is an 'information management' specialist. The Group has developed several unique databases and websites: primedatabase.com- database dedicated to the primary capital market, nseinfobase.com- database on listed corporates, including on Board of Directors, watchoutinvestors.com - database of economic offenders, primemcadatabase.com - database containing RoC-filed data of over 16 lakh companies, primebbdatabase.com - database on Bulk and Block Deals, primecrmdatabase.com - database on credit rating migrations, primecbdatabase.com - database on corporate bonds, primemfdatabase.com - database on AuM of Mutual Funds and primedirectors.com - to help companies find independent directors.

PRIME also provides a variety of other services including database creation and management, content generation, website development and management, information consulting and data cleaning and standardization. By leveraging its deep understanding of information management, its clients are able to take better business decisions, improve their internal information processes and systems and also significantly enhance their public information platforms.

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EXECUTIVE SUMMARY

Gender diversity on boards continues to be a hotly debated topic across the world. Proponents of greater diversity contend that female representation brings in a different perspective, intuitiveness and a more collaborative style of leadership into corporate boardrooms. Their views are supported by a growing body of academic evidence linking gender diversity and financial performance.

40%

Female representation on boards mandated in Norway

Consequently, multiple jurisdictions across the world have adopted legislation to promote diversity at the leadership level. The European markets have taken the lead in this initiative with Norway, Germany, France, Belgium, and Italy, all having enacted mandatory quotas for female representation on the board. Other countries, including Austria, Sweden, and the UK, have adopted voluntary targets.

In the UK, the 30% Club launched in 2010 has set a goal to achieve a minimum of 30% women on the FTSE-100 boards – currently that figure stands at 27%, up from 12.5%. The 30% Club has now extended its original target – it has set a goal of 30% women on FTSE-350 boards by 2020 (currently at 23.2%)[1].

But not everyone subscribes to this view. Critics of enforced diversity lament the lack of experienced and professional women candidates to be promoted or appointed. Others oppose such quotas on the grounds of meritocracy – they believe that it may denigrate the board nomination process and lead to selection of unqualified directors.

Research suggests that boards with adequate number of women have a

~3%

higher ROE

While there may be genuine concerns at an individual level, empirical evidence suggests that such fears are unwarranted. A recent IMF study[2] has found that firms with a larger share of women in senior positions have significantly higher return on assets (ROAs). The study further goes on to state that replacing one man by a woman in senior management or on the corporate board is associated with 8–13 basis points higher ROAs. This is corroborated by a 2015 MSCI study[3], which concluded that companies in the MSCI World Index with strong female leadership (at least three women directors or female representation higher than country average) generated a return on equity (ROE) of 10.1% versus 7.4% for those without. These are key differentiators and calls for a more concerted push on gender diversity.

India is one of the first developing countries to have enforced a quota – the legal framework[4] now mandates listed companies[5] to have at least one women director on the board. While this is less stringent than

[1] https://30percentclub.org/about/chapters/united-kingdom
[2] https://www.imf.org/external/pubs/ft/wp/2016/wp1650.pdf
[3] https://www.msci.com/documents/10199/04b6f646-d638-4878-9c61-4eb91748a82b
[4] Companies Act 2013 and SEBI (Listing Obligations and Disclosure Requirements), 2015
[5] Also, applicable to companies with a paid-up share capital of at least Rs.100 crore or turnover of at least Rs.300 crore

some of the thresholds prevalent in global markets, it is a welcome step in changing the extant market dynamic.

The push seems to have worked – at least for now. Companies have woken up from their inertia and are more mindful of the need to have women directors at the board level. Female representation in the NIFTY 500, which was at 5% as on 31 March 2012, has increased to 13% as on 31 March 2017. A large proportion of women directors (60%) are independent – which is contrary to the popular notion that women directors are only getting appointed from the promoter family to comply with the regulations.

13%

of directors in the NIFTY 500 are women

But clearly more needs to be done. At 13%, women are still underrepresented in stewardship roles despite constituting a significant portion of the talent pool in corporate India. This is much lower than countries like Norway (39%), France (34%), UK (23%), and USA (21%). Only 26 boards in the NIFTY 500 had three or more women directors on 31 March 2017. 15 companies had no female representation on the boards, as compared to only six companies in the S&P 500 on 31 March 2017.

21%

of directors in the S&P 500 (USA) are women

By having only one woman director, companies may not be able to fully realise the potential of gender diversity as an actual driver of change and efficiency. There is a need to increase the gender diversity on boards. This could be approached in two ways:

1. Ensure that boards have at least one woman independent director in the next 18 months[6].
2. Have a target to achieve 20% for female representation by 2020.

20%

by 2020

India must impose more stringent thresholds for female representation

Companies, on their part, need to embrace the diversity and put in place systems and processes which will end discriminatory practices and create an environment which allows for equal opportunity and collaboration. Increased visibility of women at the senior leadership will send a clear message that companies value diversity of thought and expertise – this sets the tone for advancing their overall governance agenda.

But for this, there needs to be a market-wide effort to support the initiative to better the gender diversity. To that extent, it will take corporates, industry bodies, regulators and investors to push for the agenda.

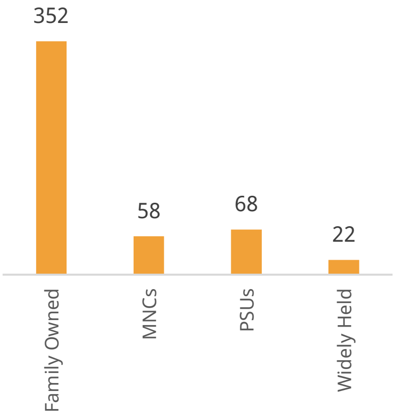
[6] *On 31 March 2017, 60% of all women directors are currently independent: companies can strive to increase the participation of women as independent directors on their boards*

THE STUDY

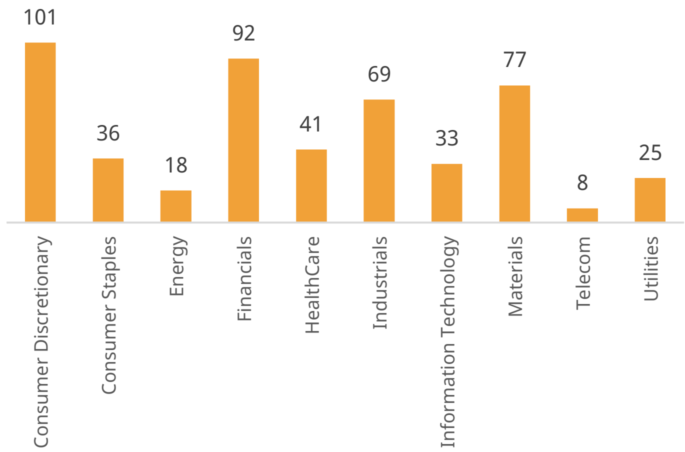
To understand the trends on female representation and the efficacy of the new regulations, Institutional Investor Advisory Services (IiAS), Women on Corporate Boards Mentorship Program (WCB) and PRIME Database Group have jointly conducted a study on the board composition of the NIFTY 500 companies, which represents more than 95% of the of the free float market capitalization of the stocks listed on the National Stock Exchange (NSE) as on 31 March 2017[7]. The study covers 4,690 directors: the study classifies these directors across multiple categories (professionals, independent directors, promoter representatives and nominees)[8].

The research also examines global trends and how India compares with the developed markets in terms of gender diversity. A brief profile of the companies and directors covered under the study is provided below for reference:

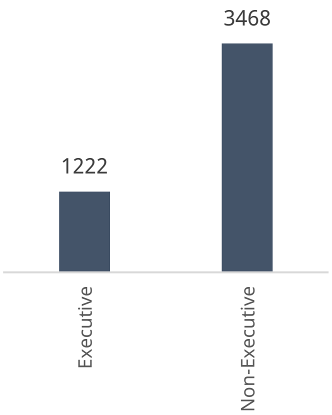
Company Ownership



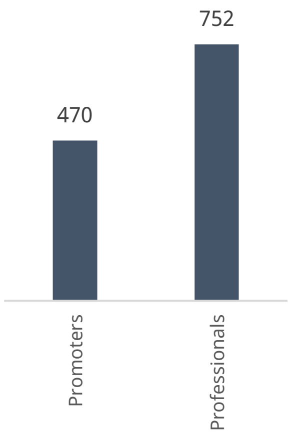
Company Sectors



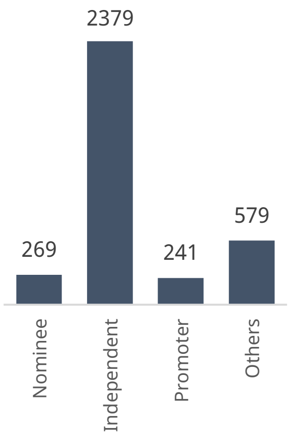
Director Mix



Executive Directors



Non-Executive Directors



Source: IiAS Research, PRIME Database Group

[7] https://www.nseindia.com/products/content/equities/indices/nifty_500.htm
[8] The base data for the study has been sourced from www.indianboards.com, a director repository developed and powered by the PRIME Database Group. All the data points are as on 31 March 2017.

GENDER DIVERSITY IN INDIA: NOTABLE IMPROVEMENT

The mandatory requirement of having at least one women director was first codified in the Companies Act 2013, which became effective from 1 April 2014. Soon after, SEBI put out its new listing regulations which had a similar norm for enforcing gender diversity.

Box 1: Section 149 (1) of Companies Act 2013, read with relevant rules

Every company shall have a Board of Directors consisting of individuals as directors and shall have:
- (a) a minimum number of three directors in the case of a public company, two directors in the case of a private company, and one director in the case of a One-Person Company; and
- (b) a maximum of fifteen directors:

Provided that a company may appoint more than fifteen directors after passing a special resolution:

Provided further that such class or classes of companies as may be prescribed, shall have at least one woman director.

Companies (Appointment and Qualification of Directors) Rules 2014:
Every listed company and every other public company having paid-up share capital of at least Rs.100 crore or turnover of at least Rs.300 crore shall appoint at least one woman director.

Box 2: Regulation 17 (1) of SEBI (LODR) Regulations, 2015

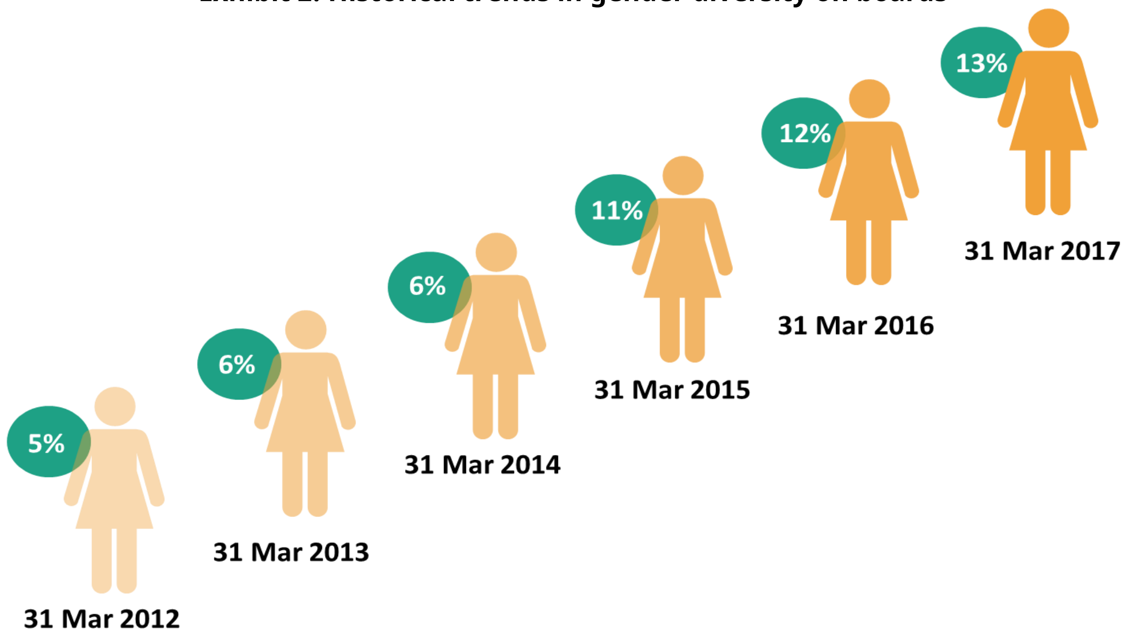
The composition of board of directors of the listed entity shall be as follows:
- (a) board of directors shall have an optimum combination of executive and nonexecutive directors with at least one woman director and not less than fifty percent. of the board of directors shall comprise of non-executive directors

The effects of the regulatory push are clearly visible in the board mix trends – from 5% female representation in 2012, the board composition is significantly more inclusive now with women constituting around 13% (622) of the total directors (4690) in the NIFTY 500. Without accounting for multiple directorships, there were a total of 477 unique women directors in these companies as on 31 March 2017.

Exhibit 1: Gender Diversity in NIFTY 500 as on 31 March 2017

Source: IiAS Research, PRIME Database Group

Exhibit 2: Historical trends in gender diversity on boards



Source: IiAS Research, PRIME Database Group

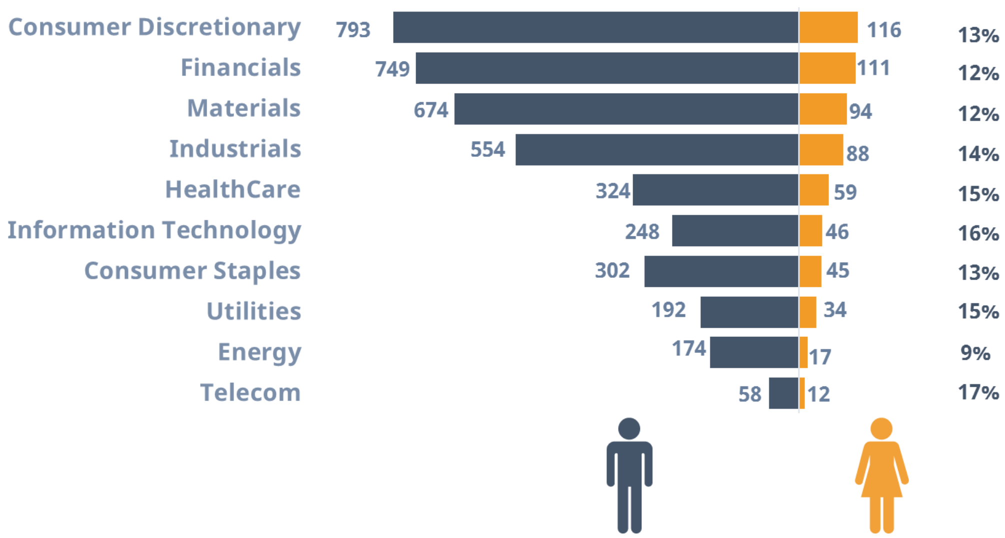
The Healthcare sector has an average of

1.4

women directors on the board – highest in India

The Telecom, Information Technology, Health Care, Utilities and Industrials sectors have a higher than average proportion of women directors with the energy sector at the lowest end at 8.9%. Barring the Energy sector, there is no large variance in the proportion of women directors across sectors, possibly indicating that there are no specific and large scale industry related factors influencing the number of women on boards.

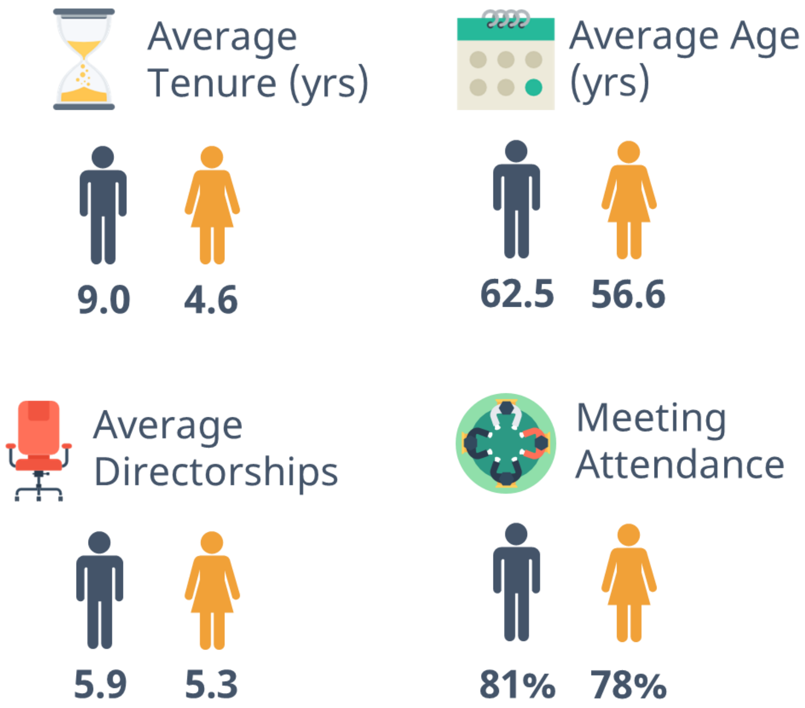
Exhibit 3: Director mix across sectors



Source: IiAS Research, PRIME Database Group

The average tenure on boards for women directors has been 4.6 years, compared to a much higher tenure of 9.0 years for male directors – this can be attributed to a large number of women directors being appointed only after Companies Act, 2013 came into effect.

Exhibit 4: Gender Metrics



Note: Several promoters and nominee directors have low attendance
Source: IiAS Research, PRIME Database Group

INDIAN BOARDS ARE LARGELY COMPLIANT: BUT PSUs TRAIL BEHIND

76%

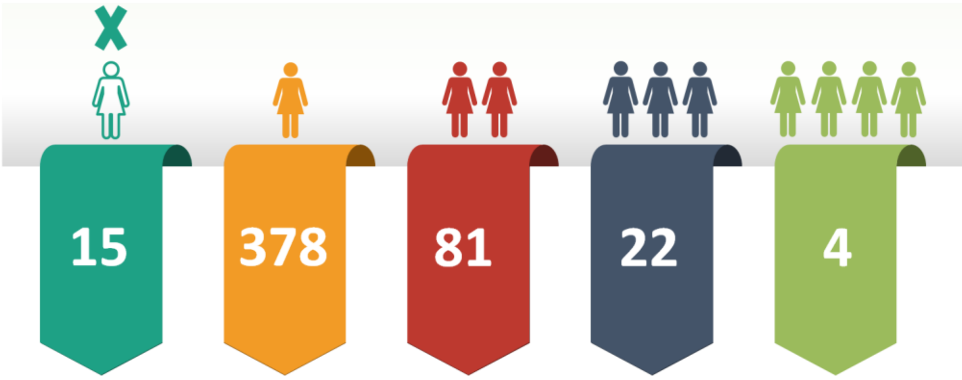
of companies in the S&P 500 (USA) have two or more women directors

A large majority of companies (485) are compliant with the regulatory thresholds. 107 companies have exceeded the quota of one woman director on board and four companies (Ultratech Cement Limited, Cipla Limited, Apollo Hospitals Enterprise Limited and Idea Cellular Limited) had four women directors on their board (Exhibit 5).

However, 15 companies in the study did not have a woman director on the board on 31 March 2017. Bulk of these companies (11) were from the public sector, where the appointment process is delayed/stalled due to pending approvals from the relevant ministry. On a comparative scale, even without any regulatory compulsion, only six companies in the S&P 500 (USA) did not have female representation on their boards[9].

[9] https://www.spencerstuart.com/~/media/pdf%20files/research%20and%20insight%20pdfs/spencer-stuart-us-board-index-2016_1mar2017.pdf

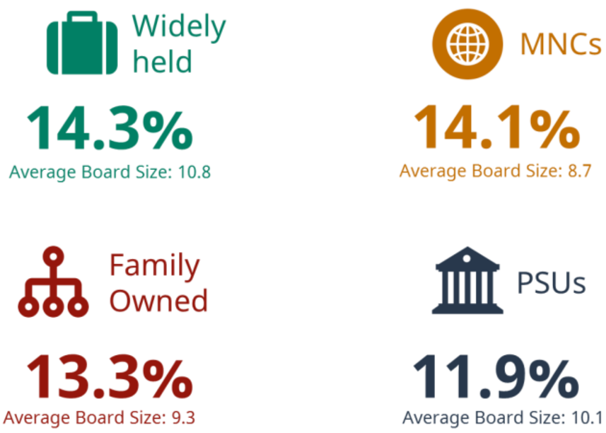
Exhibit 5: Distribution of women directors across companies



Source: IiAS Research, PRIME Database Group

In widely-held companies where there is no discernible promoter or promoter entity, the proportion of women directors is the highest at 14.3%. This is not surprising considering that a bulk of these companies are from the financial services sector, where there is high institutional ownership. Once again, PSUs trail behind with only 11.9% female representation.

Exhibit 6: Women directors by company ownership

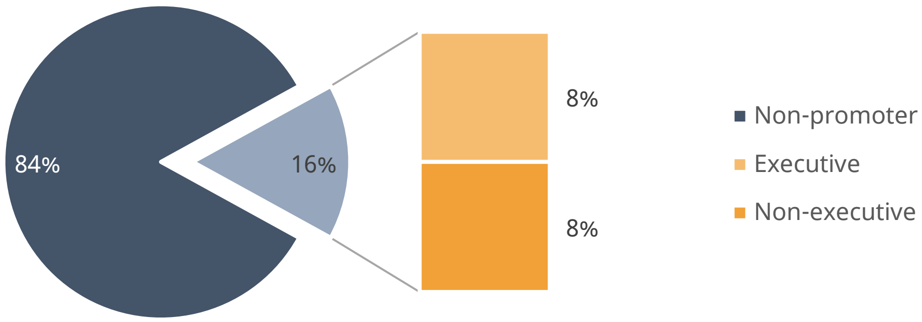


Source: IiAS Research, PRIME Database Group

DIRECTOR ROLES: NO FAMILY FREEBIES

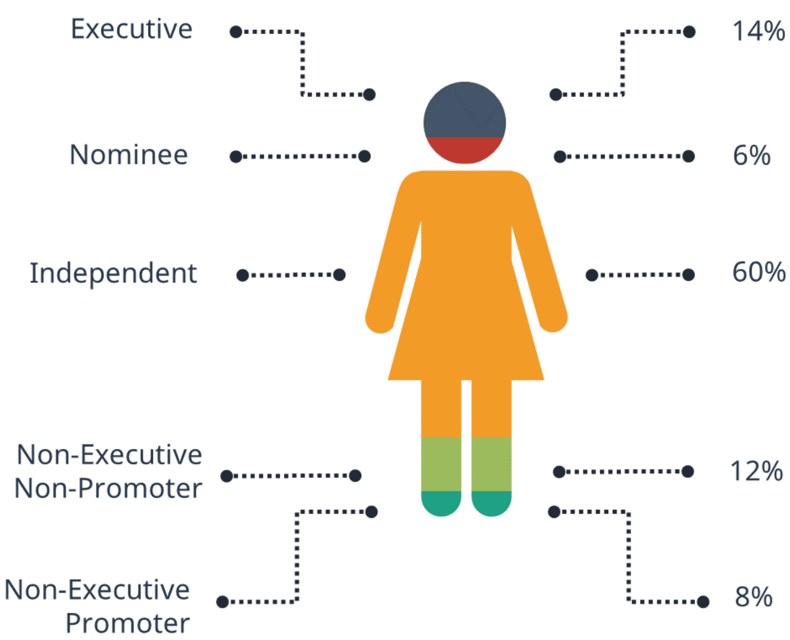
There were some initial concerns that a sizeable portion of new women directors belong to the promoter family and are being appointed in a non-executive capacity just to comply with the norms. But the latest data set invalidates this assumption. There are only 98 promoter women directors (16%) in the NIFTY 500. Of this set, 50% are executive and are driving the company in a leadership capacity. This implies that bulk of the women getting appointed have professional experience and expertise – which suggests companies are not paying mere lip-service to the regulations by promoting family members, but have internalized the legislative intent of the mandated thresholds.

Exhibit 7A: Women Director Classification – Promoter vs Non-Promoter



Source: IiAS Research, PRIME Database Group

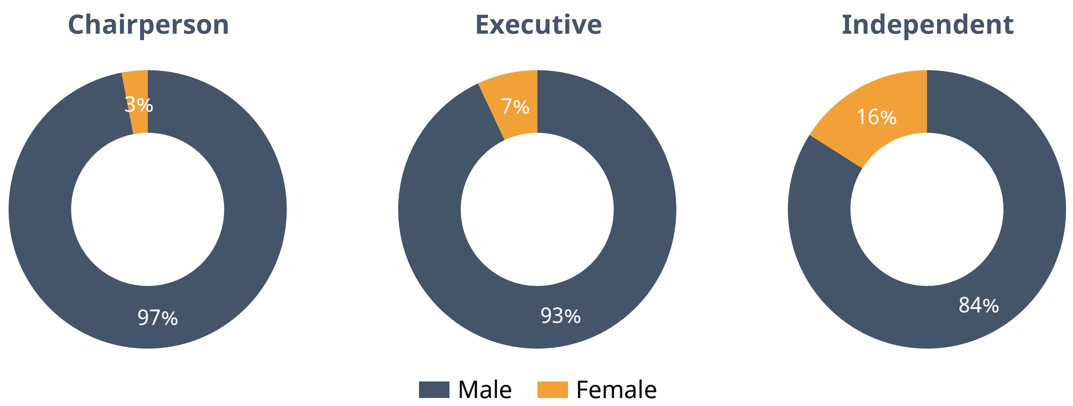
Exhibit 7B: Women Director Classification – Detailed



Source: IiAS Research, PRIME Database Group

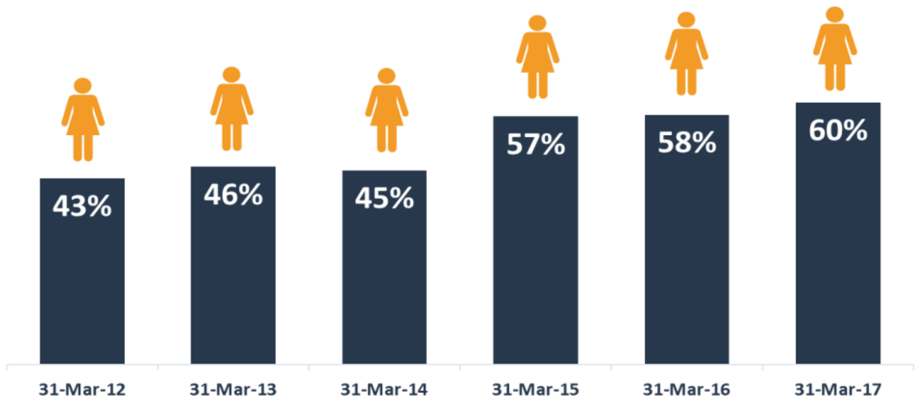
3% of boards are headed by women (as Chairperson) and women directors now account for 7% of executive directorships in the NIFTY 500. This is comparable to European markets, where 4% of chairpersonships and 7% of executive directorships are held by women[10]. But where India falls behind is independent representation – only 16% of independent directors in India are women as compared to 34% in the STOXX Europe 600 Index.

Exhibit 8: Board Demographics



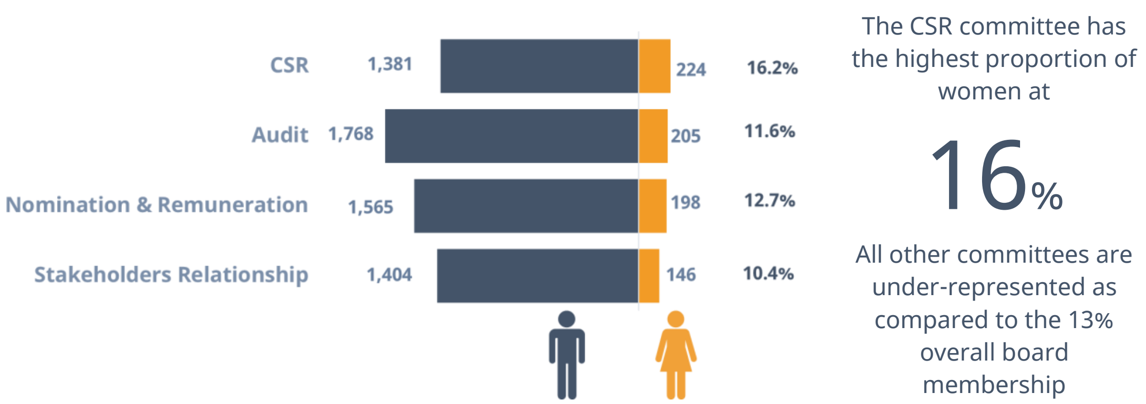
Source: IiAS Research, PRIME Database Group

Exhibit 9: Independent women directors over the years



Source: IiAS Research, PRIME Database Group

Exhibit 10: Women in Board Committees



10 http://european.ewob-network.eu/wp-content/uploads/2016/04/EWoB-quant-report-WEB-spreads.pdf

Source: IiAS Research, PRIME Database Group

GLOBAL COMPARISON: EUROPE HAS TAKEN THE LEAD

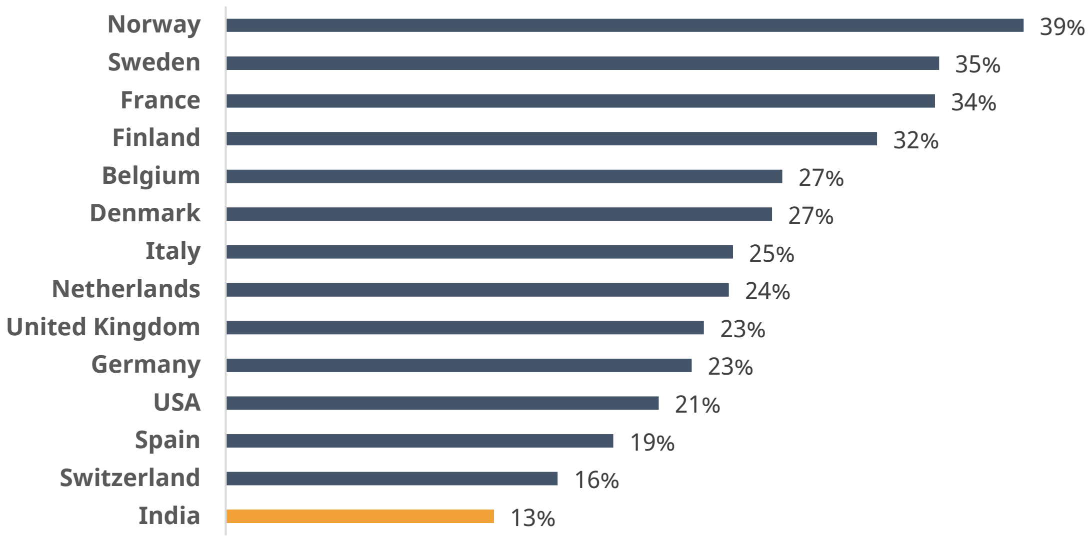
The European markets have taken the lead in promoting gender diversity, with most of them having adopted regulatory quotas for female representation. Norway was one of the first countries to set a benchmark - in 2003 the Norwegian government passed a law that required companies to have at least 40% of board members to be women. The law came into effect in 2006 and it stipulated that, after an initial grace period of two years, a failure to achieve the 40% quota would invite regulatory action. The approach was subsequently adopted by other countries including France, Germany, Italy, Belgium and Denmark. The laws in these countries have resulted in a surge of women director appointments since the last decade. For example, as per a 2015 Corporate Women Directors International (CWDI) report[11], female representation in Italy went up from 1.9% in 2004 to 25.8% in 2014. In France, the number increased from 7.2% in 2004 to 30.2% in 2014. Clearly, companies have responded to the regulatory sanctions.

Exhibit 11: Regulatory thresholds for gender diversity on corporate boards

Country	Requirement Type	Threshold	Introduced in	Due Date[1]
Belgium	Mandatory	33%	2011	2017
Denmark	Comply or explain	40%	2013	-
France	Mandatory	40%	2010	2016
Germany	Mandatory	30%	2015	2016
Italy	Mandatory	33%	2011	2015
Malaysia	Mandatory	30%	2011	2016
Netherlands	Comply or explain	30%	2013	2016
Norway	Mandatory	40%	2003	2008
Spain	Comply or explain	40%	2007	2015
UAE	Mandatory	At least one woman director	2012	-
India	Mandatory	At least one woman director	2013	2015

Source: Catalyst Legislative Board Diversity; Women on Boards
[1] Refers to the due date for compliance with the prescribed thresholds

Exhibit 12: Average proportion of women directors per country



[11] www.globewomen.org/cwdi/2015FG200KeyFindings.html

Source: Gender Diversity on European Boards
Data for all countries (other than India and USA) is updated till 31 December 2015. Data for USA is as on 31 December 2016 and for India is as on 31 March 2017.

Exhibit 13: Global comparison of key metrics

	NIFTY 500	STOXX 600	S&P 500
	India	Europe	U.S.A.
Proportion of women on boards	13%	25%	21%
Women as proportion of independent directors	16%	34%	-
Boards without women directors	3%	5%	1%
Boards with two or more women directors	21%	80%	76%
Boards with three or more women directors	5%	49%	25%
Average number of women per board	1.2	2.8	2.3
Proportion of women on committees			
Audit Committee	12%	29%	22%
Remuneration Committee	13%	26%	20%

Source: Gender Diversity on European Boards, Spencer Stuart Study, Women Participation on Key Committees

The data suggests that India still lags on some key metrics. Only 21% of NIFTY 500 boards have two or more women as compared to ~80% in some other markets. On average, India has 1.2 women directors on boards, which is significantly less than its European and US peers. Even on committee memberships, women directors are underrepresented in India.

India Inc. has made a good start in adopting gender diversity. Although, it is one of the first developing countries to push for female representation, it still has some way to go to catch up with developed markets, where the average proportion of women directors generally ranges between 20%-40%.

THE WAY AHEAD: INDIA NEEDS TO BUILD ON THE START

Given the nascent stage of the regulations in India, available literature on the impact of mandated gender diversity on Indian boards is minimal. However, there is a long list of academic research globally, which suggests there is a direct correlation between gender diversity and financial performance. Consequently, multiple jurisdictions around the world have framed laws to enforce higher female presence in boardrooms – either as a mandatory threshold or as a voluntary target.

In India, the beneficial impact of the stipulated gender quota will play out only over the next few years, as companies adjust their board composition to include more women directors. By pushing for gender diversity, the regulators have taken the first step. But, mandating only one woman director may not help achieve the final objective of ensuring gender parity at the leadership levels in corporate India.

Companies must raise the bar, and must target to have 20% of their boards comprising women by 2020. In the interim, companies must attempt to have at least one woman as an independent director on their boards over the next 18 months. Informal discussions reveal that several market participants, professionals, board members, and corporate managers support this goal.

Companies, on their part, need to pick up the baton and take this initiative forward. Gender diversity is not a regulatory or compliance exercise – along with structural changes in the board composition, it requires a shift in the corporate mindset. To reap the full benefits of diversity, companies have to embrace the legislative intent and put in place systems and processes which will end discriminatory practices and create an environment which allows for equal opportunity and collaboration.

For example, in the UK, the 30% Club launched in 2010 has set a goal to achieve a minimum of 30% women on the FTSE-100 boards – currently that figure stands at 27%, up from 12.5%. The 30% Club has now extended its original target – it has set a goal of 30% women on FTSE-350 boards by 2020 (currently at 23.2%). In tandem – and in order to ensure that this 30% remains sustainable – the 30% club also established a pipeline target of a minimum of 30% women at senior management level of FTSE-100 companies by 2020 (currently women make up 19.4% of FTSE 100 Executive Committees).

The ultimate test of the impact of the forced gender diversity is if companies begin to experience the difference, resulting in a stronger buy-in of the idea. Therefore, we believe that market participants – companies, industry bodies, investors, and regulators – must together commit themselves to the goal of gender diversity.

DISCLAIMER