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Impact of Board Gender Diversity on Financial Performance in Indian NIFTY50 Companies

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ABSTRACT :

Corporate sustainability combines financial performance with environmental, social, and governance (ESG) factors. Women, due to their unique characteristics, can significantly contribute to promoting sustainable practices and strategic decision-making, thereby positively impacting a company's financial performance. The main objective of this study explores the financial performance of Indian companies and its relationship with women on their boards. Building on previous research methods from Catalyst (The bottom line: corporate performance and women's representation on boards, 2007) and McKinsey (Women matter. Gender diversity, a corporate performance driver. McKinsey & Company, USA, 2007), this analysis examines 50 listed companies in the NIFTY50 index. Our findings contribute to the ongoing international debate, often driven by normative perspectives, by demonstrating by showing that companies with female representation on their boards achieve superior financial performance.

Introduction :

Boards of directors play a crucial role in corporate governance by monitoring management, advising on strategic decisions, preparing and disseminating information to stakeholders, and providing valuable external contact networks (Endrikat, J.; De Villiers, C.; Guenther, T.W.; Guenther, E.M.,2021). Consequently, extensive research has examined how certain board characteristics or practices positively impact company performance and market value (De Villiers, C.; Dimes, R., 2020). Recently, there has been a growing focus on board diversity, defined as the variety within the board's composition (Campbell, K.; Mínguez-Vera, A., 2010) Given that women are often under-represented in "old boys' networks," board gender diversity refers to the inclusion of more female directors and top management positions such as CEO or CFO. Diversity in gender, age, nationality, or ethnicity brings different opinions, perspectives, experiences, and connections, enhancing problem-solving skills and the ability to monitor and resolve stakeholder conflicts (Baker, H.K.; Pandey, N.; Kumar, S.; Haldar, A., 2020). Women, due to their personal characteristics, tend to be more concerned with social causes, environmental protection, and ethical issues (Liu, C. , 2018). Therefore, gender diversity in companies is a significant driver for sustainable actions (Naciti, V., 2019) and helps improve their reputation (Navarro-García, J.C.; Ramón-Llorens, M.C.; García-Meca, E., 2020; European Commission. Proposal for a Directive of the European Parliament and of the Council on Improving the Gender Balance among Non-Executive Directors of Companies Listed on Stock Exchanges and Related Measures.)

In recent years, the impact of board gender diversity on firm performance has become a crucial topic in corporate governance and sustainable development. Research by scholars (e.g., Adams and Ferreira 2004; Burgess and Tharenou 2002; Sealy et al. 2007), professionals (e.g., McKinsey 2007), and societal pressure groups (e.g., Catalyst 2007) suggests that increasing female representation in boardrooms and reducing the prevalence of all-male boards is essential for several reasons. Some authors (e.g., Brammer et al. 2007) highlight the link between female presence in leadership and good corporate governance, arguing that a homogeneous group of directors fails to reflect the society it serves, indicating weak corporate governance and a missed opportunity.

This study examines the relationship between board gender diversity and firm performance among NIFTY50 companies in India, contributing to the ongoing discourse on Sustainable Development Goal (SDG) 5 (Gender Equality) and SDG 8 (Decent Work and Economic Growth).

Diversity and Corporate Governance

Van der Walt and Ingley (2003) describe diversity in corporate governance as the composition of the board and the blend of various qualities, characteristics, and expertise of its members, which influence decision-making and other board processes. Gender is just one aspect of this diversity. However, this article focuses solely on gender for several reasons. Firstly, the normative debate around boardroom diversity has led to gender quota legislation in several countries, including Norway, Spain, France, and the Netherlands. Secondly, gender is the most easily distinguishable demographic characteristic compared to age, nationality, education, or cultural background. Lastly, our study aims to replicate the methodology used in popular studies by McKinsey (2007) and Catalyst (2007), which also concentrate on gender.

Research Methodology :

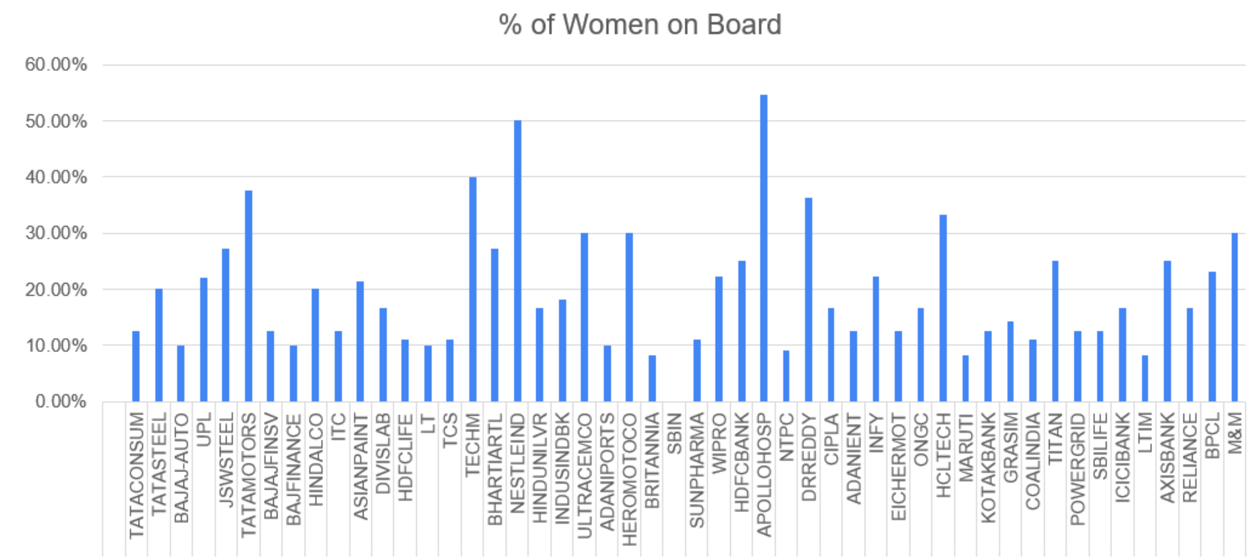
The study focuses on 50 listed companies from the NIFTY50 index in 2024. Data on board characteristics was manually collected from company annual reports and websites, supplemented by financial data from public sources. The research employs multiple linear regression analysis to test the hypothesis that board gender diversity positively affects firm performance.

Variables

- Dependent Variable: Tobin's Q (measure of firm performance)
- Independent Variable: Percentage of women on the board
- Control Variables: Board size, Firm size (Market capitalization), Firm age, Return on Equity (ROE)

Findings :

a. Descriptive Statistics



The average share of women on boards in the sample was 20.36%. Notable companies with high female representation include:

- NESTLEIND: 50%
- APOLLOHOSP: 54.55%
- TATAMOTORS: 37.50%
- TECHM: 40%

b. Regression Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.855[a]	.730	.699	2.400455652437975	.730	23.296	5	43	<.001

a. Predictors: (Constant), ROE, Firm Size (Market Cap.), Board Size, % of Women on Board, Firm Age

b. Dependent Variable: Tobin's Q

- Model Summary

R: 0.425

R Square: 0.181

Adjusted R Square: 0.164

Std. Error of the Estimate: 4.25524
Durbin-Watson: 1.657

- ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	671.185	5	134.237	23.296	<.001[b]
	Residual	247.774	43	5.762		
	Total	918.959	48			

a. Dependent Variable: Tobin's Q
b. Predictors: (Constant), ROE, Firm Size (Market Cap.), Board Size, % of Women on Board, Firm Age

F: 10.585
Sig.: 0.002
- Coefficients:

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-1.493	1.681		-.888	.379
	% of Women on Board	.070	.033	.177	2.112	.041
	Board Size	-.156	.134	-.098	-1.165	.251
	Firm Size (Market Cap.)	-2.324E-7	.000	-.019	-.237	.813
	Firm Age	.030	.015	.175	2.073	.044
	ROE	.186	.021	.754	9.015	<.001

a. Dependent Variable: Tobin's Q

Constant: B = 1.265, Sig. = 0.310
% of Women on Board: B = 0.180, Beta = 0.425, Sig. = 0.002

Interpretation of Results :

The regression analysis reveals a statistically significant positive relationship between board gender diversity and firm performance as measured by Tobin's Q. For every one percentage point increase in women's representation on boards, Tobin's Q increased by 0.180 units ($p = 0.002$). This finding supports the hypothesis that greater board gender diversity is associated with better firm performance.
The model explains 18.1% of the variance in Tobin's Q (R Square = 0.181), indicating that while board gender diversity is a significant factor, other variables also contribute to firm performance.

a. Implications:

These results have several important implications for various stakeholders:

- **For Companies**

The findings suggest that increasing gender diversity on boards could be a strategic move to enhance firm performance. Companies should consider actively working towards more balanced gender representation in their top leadership. However, it's crucial that this is done thoughtfully, ensuring that women directors are selected based on their qualifications and ability to contribute meaningfully to board discussions and decisions.

- **For Investors**

The positive relationship between board gender diversity and Tobin's Q indicates that investors might consider board composition as one factor in evaluating companies' potential for value creation. Firms with more diverse boards may be better positioned for long-term success, aligning with growing emphasis on Environmental, Social, and Governance (ESG) factors in investment decisions.

- **For Policymakers and Regulators**

The results provide empirical support for policies aimed at increasing women's representation in corporate leadership. This could inform the development or refinement of quotas, disclosure requirements, or other regulatory measures designed to promote gender diversity in boardrooms. However, policymakers should also focus on creating conditions that enable women to develop the skills and experience needed for board positions.

- **For Women in Business**

The study highlights the value that women can bring to corporate boards. This may encourage more women to pursue career paths and experiences that prepare them for board roles, potentially leading to a more diverse talent pipeline for board positions.

b. Relevance to SDGs

This research directly contributes to the achievement of SDG 5 (Gender Equality) by demonstrating the positive impact of women's participation in leadership roles. It also aligns with SDG 8 (Decent Work and Economic Growth) by showing how gender diversity can contribute to improved firm performance and, by extension, economic growth.

c. Research Limitations

There is evidence suggesting a correlation between the presence of women on corporate boards and the performance of firms; however, establishing a definitive causal relationship proves to be more complex. Hambrick and Mason (1984) highlight the necessity of addressing causality in such studies, as the characteristics of a company can also affect its board composition. For example, a retail firm may exhibit a higher proportion of female directors compared to an oil and gas company, influenced by the gender demographics of its workforce and clientele. An increased number of female employees across various levels within an organization is likely to lead to a greater representation of women in senior roles and ultimately on the board. Moreover, a company with a significant female customer demographic may feel compelled to engage and resonate with these customers through female representation at all organizational levels, as posited by Pfeffer and Salancik (1978) in their Resource Dependency Theory. Additionally, prior research indicates that the market response to the appointment of women to boards is not universally favorable (see Lee and James 2003; Ryan and Haslam 2005).

d. Future research could address these limitations by:

- Expanding the sample to a broader set of Indian companies across different size categories and industries.
- Employing longitudinal data to examine how changes in board gender diversity over time relate to changes in firm performance.
- Investigating potential mediating and moderating factors in the relationship between board gender diversity and firm performance.

Conclusion :

This research presents empirical evidence that supports the business rationale for gender diversity on the boards of prominent Indian corporations. The results indicate that enhancing the representation of women in corporate governance is not solely a matter of social justice; it can also align with the financial objectives of organizations and their shareholders. Consistent with prior empirical investigations, our findings may reinforce the idea that the inclusion of women on boards is indicative of a more innovative, contemporary, and transparent organization, where high performance is realized across all tiers of the company (e.g., Singh and Vinnicombe 2004). Furthermore, the results may suggest that firms with female board members maintain stronger relationships with pertinent stakeholders at all levels, thereby bolstering the organization's reputation. This perspective is consistent with resource dependency theory, which asserts that the board of directors acts as a conduit to all relevant stakeholders (see Pfeffer and Salancik 1978; Hillman et al. 2007). Additionally, female employees in companies with women on their boards may experience increased motivation to succeed, recognizing that they can attain senior positions (Rose 2007). Organizations with female representation on their boards may achieve greater success as promotions are determined by merit rather than demographic factors (Krishnan and Park 2005), enabling them to tap into the full spectrum of talent available for capable directors rather than limiting themselves to half. Nonetheless, further research is essential to comprehend the underlying factors contributing to the superior return on equity performance and other aspects noted for these specific firms. Additional exploration is also necessary to determine whether women on boards exhibit different management or supervisory styles compared to their male counterparts, whether companies with a higher proportion of women on their boards demonstrate greater diversity at other levels, and why shareholder returns do not consistently correlate positively with diversity. Such investigations could elucidate the cause-and-effect dynamics between diversity and corporate performance.As India continues to develop its corporate governance practices and compete in the global economy, embracing board gender diversity may be an important factor in maximizing firm performance and contributing to sustainable economic growth.

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