



## DO WOMEN DIRECTORS HAVE STRONG BUSINESS ACUMEN? - A HIGHLY RESOURCEFUL ROLE IN THE BOARDROOM

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### **Abstract**

*The conceptual research study throws light on the representation of women on board of directors, women talent exposure and competence in taking ahead the board of directorship. It also focus on the rules pertaining to the appointment of women directors in India, the time frame of appointment, duties and liabilities, their qualification and industry experience. The general features of business acumen which enable people to thrive and flourish well on directorship particularly women is also excavated. The study identifies the importance of executive level thinking, certain distinguishing traits, financial literacy, business management and leadership, business simulation and the importance of psychological assessment. The latter part of the study is a literature review on women and their sharp business acumen.*

**Keywords:** *Business acumen, Women directorship, Board of Directors*

### **Introduction**

Male and female are equal and have ubiquitous qualities were both can exceeding do well. All religious scriptures and even our constitutions confers that female has unique powers and shall be given freedom were she can explore herself and be an equal partner for the family. If it can be for family then why cannot it be for business? All said and done are women given opportunities to think on her own and develop her innate qualities and acumen.

***“Theory of contract, theory of social contract, a husband and wife are bound by a contract which says ‘you (woman) look after the household chores and satisfy me, I (man) will take care of your needs and will protect you’, and until she delivers her duties without fail, he keeps her on the contract and if she fails to honour the contract, he disowns her.”***

***-Mohan Bhagwat (RSS Chief, January 2013).***

Setting apart the controversies, the above statement reveals the archaic mentality of Indians which is embarrassingly noticeable in the statistics relating to the representation of women on board, both nationally and internationally.

### **Representation of Women On Board- A Bird’s Eye View**

In India the representation of women on corporate boards is currently at an abysmal low of about 4.7 per cent. Of the top 500 companies on the Mumbai Stock Exchange, at least 300 do not have a single woman on their on their board, says Arun Duggal, Chairman Shriram Capital who leads a mentorship programme that aims to get high potential executives on the board. Women hold 10.6 percent—or 643—of the total 6,081 board seats on Fortune 500 companies, an increase of **18** percent since 1994, and of three percent in the past year, according to the 1997 Catalyst Census of Women Directors of the Fortune 500.

Even internationally, scenario is no different as developed nations, US, UK witnessed women’s representation of around 20% whereas in Japan its only 1.1%. Some countries, including France and Italy are considering significant action to improve women representation. Others including Norway, Sweden and Finland have already done so, which resulted in drastic increase in number of women representation which is now 40.5%, 27% and 26.8% in Norway, Sweden and Finland respectively.

Women now make up 24% of Financial times Stock exchange (FTSE) 100 board positions and are increasingly represented in high profile science, technology, engineering and maths (STEM) roles. Both the Royal Academy of Engineering and the Institution of Engineering and Technology have appointed female presidents in the last year; Dame Ann Dowling and Naomi Climer respectively. The Institute of Physics has Frances Saunders at the helm, and Louise Kingham is Chief Executive of the Energy Institute.

Many women are also at the cutting edge of business. Many people believe that presence of a woman in the board would bring a new perspective as “women are forthright, ask pertinent questions, are not silent spectators, they want to be heard, they want to be relevant,” says Kiran Mazumdaar Shaw, Chairman Biocon Ltd. The demand for women director has increased drastically owing to the fact that a person can’t be on the board of more than seven companies and simultaneously there is a problem of scarcity. As a consequence, obvious candidates like Mazumdaar shaw, Chanda Kochar (MD,ICICI

Bank), Vinita Bali (Former MD, Britannia Industries) already approached by many companies. Many of them don't have time to commit. Manisha Girotra (CEO of Indian Unit of investment bank, Moelis), who is already a part of three boards, said though she gets offers, she cannot accept any more. Moreover, most of the women are approaching membership very cautiously. Many of them are evaluating facts like their future role, composition of existing Directors and track record of the company. This existing demand supply problem forced companies to go beyond obvious names in corporate sector. But here question is that what kind of value, do women actually bring to business through their participation in board? Many companies are opting for an easy way by appointing their women family members on boards. This is quite disappointing as this kind of practices would defeat the ultimate purpose of the law. It should be insured that no one is appointed on the board just because she is a woman. Thus achievement of the ultimate purpose of law is a tedious task as it is easy to change a law, but changing a mindset is a mountain to climb which requires considerable time. This research attempts to reflect on whether women on boards do possess sharp business acumen and having a robust business mindset in what way they contribute to business.

### Women Directors

#### i) Rule pertaining to the appointment of women directors in India.

Section 149(1) of Companies Act, 2013 deals with women director. It states that every company shall have board of directors who are individuals with minimum number of three directors in case of a public company and two directors in case of a private company and one in case of One Person Company. The maximum limit is fifteen.

Further it is also stated that such class or classes of companies as mentioned above shall have at least one women director. Rule 3 of Companies (Appointment and Qualification of Directors) Rules, 2014 deals with women director on the board. With regard to section 149, the following companies shall appoint at least *one women director* on the board. Firstly, for every listed company and every other public company having.

- a) Paid-up share capital of one hundred crore rupees or more or,
- b) Turnover of three hundred crore rupees or more.

The paid up share capital or turnover as stated above shall be the one which is mentioned in the latest audited financial statement. Moreover any company which is incorporated under the new companies act shall comply with the above conditions *within six months* from the date of incorporation. However, any company which has been incorporated under the old companies act shall comply with such conditions within one year from the date of incorporation.

In case if there is vacancy in the post of women director, such vacancy has to be filled as early as possible and it should not be later than the next immediate board meeting or after three months from the date of the post being vacant, i.e. whichever is later.

All listed companies must have at least one woman director on their board, according to new corporate governance norms finalized by capital market regulator Securities and Exchange Board of India (SEBI).

For appointment of Women Director, paid up share capital or turnover, as the case may be, as on the last date of latest audited financial statements has to be taken into account.

- ii) **Time Frame for appointment:** The Companies which were incorporated under The Companies Act 1956 and companies which were covered by Section 149 (1) were provided with the time limit to comply with such provisions within a period of 6 months from the date of its incorporation. Further as per interpretation other existing Companies were required to appoint Women Director within a period of 1 year as mentioned under Section 149(2).
- iii) **Intermittent Vacancy:** In case of any intermittent vacancy of woman director the same has to be filled-up by the Board at the earliest but not later than immediate next Board meeting or three months from the date of such vacancy whichever is later (Rule 3 of Companies (Appointment and Qualification of Directors) Rules, 2014 hereinafter referred in this chapter as Rule).

#### iv) Duties and Liabilities:

The following are the duties and liabilities imposed on the directors of companies, by the companies Act of 2013. He shall-

- Act in accordance with the articles of association (AOA) of the company
- Act in good faith, in order to promote the objects of the company, for the benefits of the company as a whole, and in the best interests of the stakeholders of the company.
- Shall exercise the duties with due and reasonable care, skills and diligence and shall exercise independent judgement
- Shall not involve in a situation in which she may have direct or indirect interest that conflicts or possibly may conflict, with the interest of the company.



- Shall not achieve or attempt to achieve any undue gain or advantage either to herself or to her relatives, partners or associates and if such directors is found to be guilty of making any undue gain, she shall be liable to pay an amount equal to that gain to the company.
- Shall not assign her office and any assignment so made shall be void.
  - If a director contravenes the provisions of this section such director shall be punishable with fine which shall not be
  - less than 1,00,000/- but which may extend to 5,00,000/-

**v) Qualification/industry experience:**

The Companies Act, 2013 does not prescribe any qualification or minimum criteria for candidature as Women Director of any applicable company. This means that all women with professional business acumen and flair to think creatively and contribute to the company have an equal chance.

Thus the government has now empowered women to participate as one of the Board members of the company. This step against gender discrimination is welcomed by many leading companies some of which appointed Women Directors immediately on commencement of Companies Act, 2013.

**Business Acumen**

**Business acumen** ("Business savvy" and "business sense" are often used as synonyms) is keenness and quickness in understanding and dealing with a "business situation" (risks and opportunities) in a manner that is likely to lead to a good outcome as cited in Wikipedia.

**Features of business acumen**

**a) Executive level thinking**

In his 2012 work, *Seeing the Big Picture, Business Acumen to Build Your Credibility, Career, and Company*, Kevin R. Cope put forward that an individual who possesses business acumen views the business with an "executive mentality" - they understand how the moving parts of a company work together to make it successful and how financial metrics like profit margin, cash flow, and stock price reflect how well each of those moving parts is doing its job. Cope proposes that an individual who has the following five abilities could be described as someone having a strong sense of business acumen:

1. See the "big picture" of the organization—how the key drivers of the business relate to each other, work together to produce profitable growth, and relate to the job.
2. Understand important company communications and data, including financial statements
3. Use knowledge to make good decisions.
4. Understand how actions and decisions impact key company measures and leadership objectives.
5. Effectively communicate ideas to other employees, managers, executives, and the public.

**b) Distinguishing traits**

Raymond R. Reilly of the Ross School of Business at the University of Michigan and Gregory P. Reilly of the University of Connecticut document traits that individuals with business acumen possess:

- An acute perception of the dimensions of business issues.
- Ability to make sense out of complexity and an uncertain future.
- Cognizance of the implications of a choice for all the affected parties.
- Decisive.
- Flexibility for further change if warranted in the future.

Thus, developing stronger business acumen means a more thoughtful analysis, clearer logic underlying business decisions, closer attention to key dimensions of implementation and operation, and more disciplined performance management.

**c) Financial literacy**

Financial literacy is a comprehensive understanding of the drivers of growth, profitability, and cash flow; an organization's financial statements; key performance measures; and the implications of decisions on value creation. In a SHRM article entitled, "Business Acumen Involves More Than Numbers" Chris Berger, member of human resources at CTPartners, explains that business acumen starts with the ability to understand how a company makes decisions, and that leaders must be financially literate and be able to understand numbers on company financial statements. It entails the ability to take the knowledge of business fundamentals and use it to think strategically and then take appropriate action.



According to E. Ted Prince, "Financial literacy is almost never the need for senior managers and high potentials. Most already possess degrees in business, including MBAs, and many have also had experience in the business sides of their professional roles. The need for these managers is to understand how their actions and their behaviour impact their financial decision-making and how this in turn affects financial outcomes at the unit and the corporate level." It's evident that an individual with business acumen has some level of financial understanding and knowledge - but someone who is financially literate doesn't necessarily possess strong business acumen.

#### **d) Business management and leadership**

Bob Selden, faculty member of Mobilizing People, a leadership development program based in Switzerland, observes a complementary relationship between business acumen and leadership. Selden states the importance of nurturing both the development of strategic skills and that of good leadership and management skills in order for business leaders to achieve effectiveness.

A study published in Human Resource Management International Digest titled, Business acumen: a critical concern of modern leadership development: Global trends accelerate the move away from traditional approaches, reveals why traditional leadership development approaches, which rely on personality and competency assessments as the scientific core of their approach, are failing. The paper demonstrates the importance of business acumen in leadership-development approaches and contends that business acumen will have an increasing impact on leadership development and HR agendas. Research into this relationship resulted in the creation of the Perth Leadership Outcome Model, which links financial outcomes to individual leadership traits.

In a study that interviewed 55 global business leaders, business acumen was cited as the most critical competency area for global leaders.

In their 2011 work, *The Leadership Pipeline*, Ram Charan, Stephen Drotter, and James Noel study the process and criteria for selecting a group manager, and suggest that the process and criteria are similar for selecting a CEO. According to them an obvious criterium for selecting a leader is well-developed business acumen.

An organization full of high business acumen individuals can expect to see leaders with a heightened perspective that translates into an ability to inspire and excite the organization to achieve its potential.

Programs designed to improve an individual or group's business acumen have supported the recognition of the concept as a significant topic in the corporate world. Executive Development Associates' 2009/2010 survey of Chief Learning Officers, Senior Vice Presidents of Human Resources, and Heads of Executive and Leadership Development listed business acumen as the second most significant trend in executive development. A 2011 report explores the impact of business acumen training on an organization in terms of intangibles and more tangible expressions of value. The findings support the notion that business acumen is a learned skill - developed on the job by learning the required skills from knowledge mentors while working in different employment positions. They also suggest that the learning process ranges widely, from structured internal company training programs, to an individual's self-chosen moves from one position to another.

The combination of these reports and surveys indicate that business acumen is a learned skill of increasing importance within the corporate world. There are different types of business acumen development programs available.

#### **e) Business simulations**

A business simulation is another corporate development tool used to increase business acumen. Several companies offer business simulations as a way to educate mid-level managers and non-financial leaders within their organization on cash flow and financial-decision-making processes. Their forms can vary from computer simulations to boardgame-style simulations.

#### **f) Psychological assessments**

The advent of personal assessments for business acumen is based in the emerging theories of behavioural finance and attempts to correlate innate personality traits with positive financial outcomes. This method approaches business acumen not as entirely based in either knowledge or experience, but on the combination of these and other factors which comprise an individual's financial personality or "signature". The results from this research have been limited, but noteworthy.

#### **Women And Business Acumen**

*"Women are the fastest growing market."*

This quote came from Grameen America's CEO, Andrea Jung, at the ATD International Conference and Expo in May. She highlighted the importance of having a balance of business acumen and vision to succeed in a world of board of directors.



In many cases women are caught up in the middle management, trying for a seat at the top. And what does it take to get there? Business Acumen. In a research conducted by Sharon Hadary and Laura Henderson, former executive directors confirmed that women with innate leadership skill with acute perceptual and cognitive skill flair well in board room decision making.

The core traits of women for business have helped the firms reap heaps of benefits. More women on board do not only mean the mode to attract sales and production but also creates some public image. It does increase financial return as well rather than mere media attention. In terms financial returns means that the *return on equity* (ROE) increases.

In one of the studies it was found that at the board of a private sector company, run by a professional CEO with a mix of both men and women, helped ROE rise by 4.4% in 2014 over the last year. In contrast, a similar company with a men-only board saw its ROE rise by a mere 1.8% in the same period. Certain other examples would be Chanda Kochhar, who heads ICICI bank and Kiran Mazumdar Shaw, director of Biocon Limited has shown a positive difference on return on equity. The above analysis shows that women do constructively participate on the boards and that the fair gender has the business shrewdness to further the future and survival of the company. Failure to have acute sharpness in management and leadership skill would lead to serious economic consequences in future. Research has shown that women on company boards not only successfully increase production and sales but enhance the company's corporate image as well by attracting more positive media attention. Moreover there are so many countries which leave women unrepresented and disempowered. Change gets accelerated only when there is dynamism in the mind set of people. Because of the skill of intelligent women on board, RPG Enterprises Ltd, Essar Group, Mahindra and Mahindra Ltd which are among the large conglomerates who are looking at bringing in women from government agencies, academic and research institutions, non-profit organizations, and audit firms. It is also a known fact that most of the eligible women in the corporate world is already part of many boards.

Henceforth, need for intellectually capable women director in Indian companies has become inevitable. There are many reasons for scarcity of representation of women in senior leadership positions. Experts say that women on boards lead to more profitability and sustainability only because of their distinctive skills and traits which made them business savvy. Recognising this, more legislation are paving ways for more gender diversity thus reducing male centric decision making and encouraged more women participation. This is a good sign for the fair gender competence leading to corporate growth in the country.

According to a study of (Mathisen, Gor et. al., 2013) conducted on 491 directors from 149 BoDs, it was revealed that there were generally few differences in the way female and male directors experienced boardroom dynamics. Female chairpersons of BoDs did not perceive the dynamics differently than other female directors. Female directors with non traditional educational backgrounds perceived the boardroom dynamics somewhat more negatively than other female directors, but the differences were not statistically significant. The conclusions from this study are that there are reasons to believe that female directors are welcomed into boardrooms, not perceived as out-groups, and BoDs are able to benefit from the female directors' experience and skills. This study shows that it is abilities and acumen of women are increasingly been recognised by the male counterparts as well.

According to a recent survey conducted in 201 Norwegian firms (Neilson, Sabina and Huse, Morten, 2010), it was found that women directors are positively associated with board strategic control. Also the enhanced board development activities mediated the effected of women directors and strategic control. Another finding was that a decreased level of conflict enhanced the effect of number of women directors and strategic control. The presence of women on corporate boards seems to increase board effectiveness through reducing the level of conflict and ensuring high quality of board development activities.

Based on survey data from multiple respondents in 120 Norwegian firms, we find that women directors influence board strategic involvement through their contribution to board decision-making, which in turn depends on women directors' professional experiences and the different values they bring along. Drawing upon stereotype threat theory, we further find that perception of women as unequal board members may limit their potential contribution to board decision-making (Neilson Sabina and Huse, Morten 2010).

As per Bhavani Balasubramanian (2014), women directors can also review recruitment and human resource policies to ensure gender diversity, better work-life balance, and the creation of a special and harassment-free workplace for women. They can lead their companies to develop strong human-focussed operating plans that would contribute to the sustainability of all business operations and the health and welfare of their employees. They are better placed to supervise mechanisms in respect



of assessing and managing human rights and developing avenues for the differently- able. Likewise, they can review and assess the adequacy of grievances to address customer concerns and feedback on products from service by companies Babita Mathur-Helm (2006) investigated women's low numbers in their top management jobs. Was it actually because of the incompetency of women on board? A total of 40 women managers were interviewed for their in depth responses, which were content analyzed. It was found that the glass ceiling considered a myth by many, is real and is nurtured by the organizational culture, policies and strategies besides women's own inadequacies. Only the most decentralized organizations, characterized by a culture that supports women's top positions, will help in breaking down the glass ceiling, along with women's own efforts to grow, develop and empower themselves through academic and career development. It was also found that women's academic, professional acumen with a zeal to excel alone can break the myth of glass ceiling.

### Conclusion

Business acumen is an in-depth understanding of how a business works, how it makes money, and how strategies and decisions impact the financial, operational, and sales results. 50% of middle management is women, yet only 1/3 of that number is in executive seats. We need to understand that, what it needs to break the glass ceiling and to get to the top is business acumen. From the research study it is proved that women do have a flair for business and can steer the wheels of business to prosperity and profit. But it is also seen that somewhere down the lane, women are sidelined. We need to identify and address this issue. This could be yet another topic of research. To close the gender gap at the end, we need to have business acumen. So we must focus more on developing and demonstrating our understanding of business financials, know where the business is heading, and clearly align our day to day activities to delivering the business imperatives. Get out there. Get strategic. Focus on what matters most. And open the door to your career advancement by demonstrating your business acumen.

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