

Corporate Boards in India Blocked by Caste?

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An examination of the caste diversity of Indian corporate boards of a thousand top Indian companies – accounting for four-fifths of market capitalisation of all companies listed in the major stock indices in India – measured by the Blau index shows that their median score for 2010 is zero, indicating that there is no diversity at all. Indian corporate boards continue to remain “old boys’ clubs” based on caste affiliation rather than on other considerations (like merit or experience).

Economic disparities between various ethnic and racial groups brought the issue under the spotlight globally. In India, this debate is centred on the issue of how caste-based systems foster social discrimination and economic inequality (Srinivas 1962; Beteille 1992, 2012). Caste is an important determinant of social, economic, corporate and political power in contemporary India. There are a number of studies on caste differentials in consumption, income, education, occupation and development indices (Deshpande 2011; Siddique 2011; Thorat and Newman 2007, 2010; Munshi and Rozenzweig 2006, 2009). Meanwhile, there is little attention given to the influence of caste on corporate boards and its network effects. The near consensus in these studies is that the less privileged caste groups tend to be worse off than others in terms of outcome indicators such as education level, employment, wages, consumption, etc. across India. Studies have also shown that the wage premium between scheduled castes/tribes (scs/sts) and non-scs/sts is around 21% (Hnatkovska et al 2012). Apart from the discrimination in the hiring process, the wage differentials between lower and forward castes, and intolerance and prejudice at work are matters of increasing concern.

Our study examines the caste-wise composition of Indian corporate boards as these boards are the ultimate repositories of corporate power. The present study contributes to this literature by examining the caste-wise composition of corporate boards in India in 2010 in order to understand who controls corporate India. This could provide evidence of its link with political power as many studies have shown the close and profound influence of corporates in political and economic decision-making (Gupta

2005; Kohli 2007). This study is a preliminary attempt to understand the influence of caste in determining corporate control in India. In the process, it indirectly evaluates the progress made by 60 years of affirmative action in promoting educational, job and social mobility in the Indian society. Section 1 reviews the literature on the subject. Section 2 outlines the data source and methodology. Section 3 presents the empirical results and Section 4 summarises the conclusions.

The term “caste” in English translates into two distinct concepts – the varna and the jati (Deshpande 2011). The varna system divides Hindu society into four distinct mutually exclusive and occupation-specific varnas: brahmin (priests and teachers), kshatriya (warriors and royalty), vaishya (traders, merchants and moneylenders) and shudra¹ (menial jobs). The operative category in India is the jati which shares the basic characteristics of the varna but is more complex and hierarchical as there are more than 3,000 jatis in existence. Given the difficulties associated with the classification of Hindu society based on the jati, it would be less controversial to classify the population in India into the four broad varnas. In India, the term “lower caste” is used to refer to three broad groups which enjoy affirmative action – the scs, sts and Other Backward Classes (obcs). The bottom of the social hierarchy consists of a heterogeneous group of castes which were historically treated as “untouchable” – they were considered unclean and not permitted to use public facilities.² Similarly, there are also indigenous tribal groups, known collectively as the sts.

The caste system and caste-based discrimination is officially outlawed and the government introduced “reservations” (the quotas imposed in government jobs, educational institutions and legislature) for the scs and sts shortly after Independence. Subsequently, the list of groups eligible for reservation was extended and other disadvantaged castes categorised as obcs³ were added to the list in 1990 based on the recommendations

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of the Mandal Commission.⁴ OBCs are a collection of caste groups that are placed above the SCs/STs in the social hierarchy in India. Although there is no reliable demographic account of the composition of the lower castes (SC, ST and OBC) in India's population, estimates based on the Mandal Commission put it at three-fourths of India's population.⁵ However, despite 60 years of affirmative action programmes in India, the socio-economic divide between the high- and low-caste groups persists (Deshpande 2011; Thorat and Newman 2007, 2010). The current debate in India centres on whether or not to introduce caste-based quotas in the private sector to close the caste divide and promote inclusion and proposals to introduce sub-quotas (for the minorities) so as to equalise opportunities among the lower castes.

Industrial and commercial activity continues to be dominated by the vaishya caste (Damodaran 2008). Ownership of industry and trade in India has historically been concentrated in the hands of a few caste groups and the top jobs were always kept within the "small world". Earlier research in India has shown that substantial discrimination exists in the labour market with regard to recruitment (Thorat and Newman 2007, 2010). There is very little evidence on caste-wise ownership of private enterprises. Available evidence shows that the SCs/STs own only a small proportion of private enterprises (especially in the urban areas) and operate more household enterprises (Thorat and Sadana 2009). Proposals for prescribing quotas in the private corporate sector have attracted a hostile reaction from industry and commerce.

1 Review of Literature

The framework most widely used to analyse job market discrimination is Becker's (1957) seminal *The Economics of Discrimination*. Becker's analysis focused on the relationship between racial prejudice among whites and discrimination against racial minorities in a competitive model. In contrast to much of the contemporaneous literature, Becker formalised the definition of racial preferences, depicting them as an aversion to cross-racial interaction. Using a series of models,

he analysed the effect of the possession of such preferences among customers, co-workers, and employers on black relative wages. An employer discriminates against untouchables, women, or other minority members when he refuses to hire them though they are cheaper relative to their productivity than the persons he does hire. According to Becker, this kind of discrimination raises the employer's costs and lowers his profits. This puts him at a competitive disadvantage relative to employers who maximise their profits by hiring only on the basis of productivity per dollar of cost. Strongly discriminating employers, therefore, tend to lose out to other employers in competitive industries that allow the easy entry of new firms.

Defending Becker's theory, Arrow (1972, 1973) defined discrimination in terms of an employer's perception or reality. To him, employers discriminate not because of their "taste to discriminate" but because of uncertainty. Other explanations for discrimination that do not depend on racial prejudice include imperfect information as theorised by statistical discrimination models (Phelps 1972). Phelps prefers to call his theory a "statistical theory of discrimination". Arrow and Phelps developed the theory of discrimination on the basis of an employer's lack of information about job

applicants. In addition, there could be other reasons for the discriminatory behaviour like the influence of social customs (Akerlof 1976, 1980).

These theories of labour market discrimination invariably have a micro-economic foundation and are centred on the explanation of the causes for the discriminatory behaviour among employers. Of the various explanations given, the most probable are those relating to individual taste (Becker 1971), uncertainty in the labour market (Arrow 1972; Phelps 1972), social customs (Akerlof 1976), etc. Only a few of these theories delve further into the effects of discrimination on the economy. The framework of Becker (1971), Arrow (1972, 1973), Akerlof (1976, 1980), and Phelps (1972) are insufficient to analyse caste-based discrimination. The economic pursuit in the caste system is not based on individual choice. The principle of individual choice is violated in the caste system insofar as it appoints an individual to perform a task selected not on the basis of training or capacity, but on the basis of the social status of his/her parents. The caste system also puts a low value on "physical" work, as compared to "mental" work, with the result that the dignity of physical labour is nearly absent in the work ethics of the caste system. In view of the above, a more holistic framework needs to be

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adopted, rather than the simplistic explanations offered by Becker (1971), Arrow (1972, 1973), Akerlof (1976, 1980) and Phelps (1972).

Labour Discrimination Studies

The economic impact of the caste system has been studied extensively. Examples of studies which examine caste-based discrimination in the urban settings of India include Lambart (1963), Morris (1965), Lynch (1969), Banerjee and Knight⁶ (1985), Borooah and Iyer⁷ (2005), Madheswaran and Attewell (2007), and Ito (2009). These studies examined the extent of wage discrimination faced by scs/sts in the urban labour market of India.

Following the pioneering study of Bertrand and Mullainathan (2004), many studies used field experiments as a tool to measure caste discrimination. The study by Thorat and Attewell (2007) is based on the methodology of Bertrand and Mullainathan (2004). Based on the response to job advertisements in various major national and regional newspapers in India between 2005 and 2007, they found that the odds of a dalit applicant getting a positive response was only 0.67% of that of an upper-caste Hindu; the odds of a Muslim applicant getting a response from a prospective employer was even lower (0.33%). Banerjee et al's study of software and call centres in Delhi found little evidence of discrimination against the non-upper caste (sc, st and obc) for software jobs, but significant (lower) call back rates for call centre jobs. Siddique's (2011) study of white collar jobs in Chennai, India also corroborated the conclusions of Thorat and Attewell (2007).

There are also some studies on wealth inequality between various caste groups in India. Zacharias and Vakulabharanam's (2011) study based on All-India Debt and Investment Survey (AIDS) for 1991-92 and 2002-03 found that forward castes enjoy a wealth advantage over oBCs and scs/sts in both the rural and urban areas. The study also found a disturbing trend – that the relative median wealth of the rural and urban sts was lower in 2002 compared to 1991. However, a recent study by Hnatkovska et al (2012)

found that educational attainment levels and median wage differentials of scs/sts compared to non-scs/sts have narrowed during the period 1983 to 2004-05.

In their work in related areas, Munshi and Rosenzweig (2009) document the lack of labour mobility in India. Most of the studies on social mobility find social and economic mobility for lower castes to be extremely low (Nafziger 1975; Munshi and Rosenzweig 2006, 2009; Deshpande and Palshikar 2008; Jodhka 2010). But most of the studies in India relate to discrimination in education, employment and inequality in consumption and wealth between various castes. To our knowledge, there has so far been no attempt to look into the diversity in Indian corporate boardrooms. That is attempted in this study.

2 Database and Methodology

Database

The study is based on the OSIRIS⁸ database which provides information on about 4,000 Indian firms listed in the Indian and overseas stock exchanges. From the 4,000 odd Indian firms in the OSIRIS database, we selected the top 1,000 companies based on size (total assets) for 2010. These companies account for four-fifths of the market capitalisation of companies listed in National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) in 2010. The study covers both private and public sector firms which are publicly listed. The data obtained from OSIRIS were cleaned for duplicates (same person occupying more than one position in the board using a unique identifier provided by the database). Similarly company secretaries listed as part of the board were also removed as most of them have non-voting status in the board of the company. The OSIRIS database provides names of corporate board members, which provide the starting point of our investigation. In India, the surname normally refers to the caste affiliation. Based on the surnames, we classified the corporate board members into (a) forward caste (brahmins, kshatriyas and vaishyas), (b) Other Backward Classes, (c) scheduled caste and schedule tribe, and (d) others (foreign directors). In cases

where the corporate board members' names were caste-neutral (e.g., K Ramakrishnan), we had to rely on our social networks to identify the caste category. Such an endeavour was not difficult as these board members occupy an important place in the economic and social fabric of Indian society. Such cases refer to approximately 15% of the board directors of 1,000 companies. We also collected data on size (market capitalisation) and industry classification (sic code) from the database OSIRIS so as to examine caste diversity among Indian corporates based on size and industrial categories.

Methodology

Substantial literature has arisen using cross-country studies to measure the impact of racial and ethnic diversity on the performance of economies and governments (Alesina et al 2003; Fearon 2003; Alesina and La Ferrara 2005, for a survey). There has also been significant work on the effects of racial and ethnic diversity in the US. At the core of the analysis is the idea that the more ethnically divided a society, the less able is the society to provide public services and infrastructure on a cooperative basis. Instead, coalitions will form, divided by ethnicity, which will then compete to acquire political and economic power, using ethnicity as the basis of

Table 1: Caste-wise Distribution of Indian Corporate Board Members (2010)

Caste	Numbers	% to Total
1 Forward caste	8,387	92.6
Of which		
(a) Brahmin	4,037	44.6
(b) Vaishya	4,167	46.0
(c) Kshatriya	43	0.5
(c) Others#	137	1.5
2 Other Backward Class	346	3.8
3 SC/ST	319	3.5
4 Total (1 to 3)	9,052	100.0

Refers to forward castes (like Syrian Christians).

Table 2: Caste Diversity (Blau) Index of Indian Companies – Descriptive Statistics (2010)

	Blau – Caste
Mean	0.12
Median	0.00
Maximum	1.00
Minimum	0.00
Std Dev	0.19
Skewness	1.16
Kurtosis	-0.28

exclusion of those from other ethnic groups. The diversity index typically used in social science and policy analysis is known as the Blau index, which measures the probability of two individuals chosen at random from the population of different races or ethnicity. Blau (1977) proposed the measure in a study devoted to sociological theory. The Blau index is constructed as

$$D = 1 - \sum_j p_j^2$$

where D is diversity and p_j is the proportion of the total population from group j . If the entire population (in our case, the corporate board) is from one single group (caste), D will equal 0. In the extreme case of a corporate board with a diverse caste population, D will approach 1 in value. So a higher D means more caste diversity.

3 Empirical Results

This section presents the empirical results of the study. The average board size of the top 1,000 companies in India was found to be nine members; nearly 88% of them were insiders and 12% were independent directors. The distribution of board members according to caste shows that nearly 93% were forward caste members; 46% vaishya and 44% brahmin. The OBCs and SCs/STs were a meagre 3.8% and 3.5% respectively (Table 1, p 41). This clearly shows that the Indian corporate board consists of a small world dominated by forward castes and lacks diversity.

Table 2 (p 41) reports the diversity indices compiled from the sample. The median score of the Blau diversity index based on the castes of the corporate board members is zero, indicating that there is no diversity. It implies that almost all corporate directors are from one caste – a forward caste. The positive skewness indicates that most of the values are closer to zero rather than to the average. Similar trends are visible in the gender diversity index as well.

If we examine the distribution of the caste diversity index, nearly 70% of the Indian corporates have a Blau caste index of zero which implies that there is no diversity. Nearly 5.6% of the Indian companies have a Blau caste index between

0.01 to 0.25 and 24.7% greater than 0.25 to 0.50. Only one company had a Blau caste index of 1. These findings pose an important question as to whether Indian corporate boards should reflect their broad clientele (nearly three-fourths of the Indian population is from a lower caste).

Table 3: Caste Diversity (Blau Index) of Indian Corporate Boards (2010)

Blau Index	Frequency	% to Total
0	697	69.7
0.1 to 0.25	56	5.6
0.26 to 0.50	246	24.7
More than 0.51	1	0.0
Total	1,000	100

We also examined the caste diversity in terms of industrial classification (using the sic code of each firm) and the results are provided in Annexure 1 (p 43). The industries for which we found the lowest (below 0.10) diversity are the basic metals, iron and steel products, rubber and plastic products, chemicals, natural gas transmission and construction materials. The trade and services firms generally have a low diversity compared to the manufacturing sector. In the area of banking, the caste Blau index is very low.

4 Conclusions

The present study examines the caste diversity of corporate board structures in India based on a sample of top 1,000

companies listed in the Indian stock exchanges for 2010. The empirical results show that caste diversity is non-existent in the Indian corporate sector and nearly 65% of the Indian corporate board members are from one caste group – the forward caste – indicating that it is a small and closed world. In the corporate world, social networking plays an important role. Still, Indian corporate boards belong to the “old boys’ club” based on caste affiliation rather than on other considerations (like merit or experience). It is difficult to fathom the argument that lack of merit is the cause for under-representation. Caste is an important factor in networking. The small world of corporate India has interaction only within their caste kinship. This raises important questions about the possibility of interlocking of directors within the same caste among Indian companies. Is this small world of corporate directorships reflected in the selection of auditors as well? These are some of the important questions which are in the ambit of our future investigation.

NOTES

- 1 Some commentators include a fifth category called *Atishudra* or former untouchables, see Deshpande (2011), p 91.
- 2 The term “Scheduled Caste” comes from the Ninth Schedule of the Indian Constitution which lists, for each state, the specific caste

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- groups that are eligible for the benefit of affirmative action.
- 3 The estimates of OBC population range from 25% to 52% of the total population. See Ramiah (1992), Yadav (2002), Desai (2010). According to the 61st round (2004-05) of National Sample Survey of the Central Statistical Organisation of India, nearly 41% of India's population self-declares itself to be OBCs.
 - 4 The Mandal Commission recommended that the reservation policy be extended to OBCs; based on a 11-point criteria it identified 52% of the population as belonging to OBCs and recommended that 27% of jobs and seats in educational institutions be reserved for them. But in 1963, the Supreme Court of India ruled that reservations could not exceed more than 50% in any institution of employment or education.
 - 5 Presently a caste-based headcount is underway in India which has evoked substantial hostility (see editorial, *Economic & Political Weekly*, 22 May 2010).
 - 6 Banerjee and Knight (1985), in their examination of wage differentials between SC and non-SC migrant workers in the urban labour market, sought to distinguish two components: discrimination in wages within the same occupation (wage discrimination) and discrimination in access to certain occupational positions (job discrimination). They found that "unexplained" components account for a significant part of observed wage differentials, and that "wage discrimination" dominated "job discrimination".
 - 7 Borooh et al (2007) examined differences in employment rates between the upper and backward castes in the urban labour market and found that "job discrimination" against the backward classes explains only part of the observed differences.
 - 8 OSIRIS is a comprehensive database of financial information of globally listed companies, banks and insurance companies of more than 125 countries. It is published by Bureau Van Dijk Electronic Publishing.
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Annexure 1: Caste Diversity of Indian Corporates According to Industry (2010)

Industrial Classification	Blau Index
A Manufacturing	
1 Food products and beverages	0.10
2 Basic metals	0.09
3 Iron and steel products	0.08
4 Paper and paper products	0.16
5 Rubber and plastic products	0.00
6 Pharmaceuticals	0.15
7 Chemical and chemical products	0.09
8 Petroleum products	0.15
9 Cement products	0.17
10 Machinery and equipment	0.14
11 Electrical machinery	0.12
12 Motor vehicles and accessories	0.10
13 Transport equipment	0.14
14 Other transport equipment	0.16
15 Television and communication services	0.14
16 Natural gas transmission	0.02
17 Construction material	0.01
18 Computers and computer equipment	0.18
B Trade and services	
19 Jewellery store	0.15
20 Commercial banks	0.03
21 Investment advisory	0.14
22 Hotel and motels	0.00
23 Computer programming services	0.18
24 Engineering service	0.17
25 Oil services	0.09
26 Other services	0.23