

Gender Diversity: Strengthening the “S” in ESG – From Compliance to Corporate Strategy

The ESG paradigm has transitioned from a voluntary sustainability initiative to a mainstream corporate governance benchmark. Institutional investors, global funds, credit rating agencies, and regulators now evaluate companies through ESG metrics, linking sustainability with capital allocation. Within this framework, the “Social” pillar assesses how corporations manage relationships with employees, customers, communities, and society at large. It encompasses labour practices, diversity and inclusion, human rights, community development, and workplace ethics.



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INTRODUCTION: REIMAGINING THE “S” IN ESG

ESG integration is no longer limited to sustainability reporting but has evolved into a governance-linked performance parameter influencing enterprise valuation.

Social capital, particularly workforce diversity, is increasingly being recognised as an intangible asset impacting organisational resilience.

Gender diversity has emerged as a central indicator within this pillar because it reflects:

- Equality of opportunity.
- Fair representation in decision-making.
- Inclusive organizational culture.
- Ethical corporate conduct.

In the Indian context, gender diversity has evolved from a moral aspiration to a statutory obligation. Yet the true transformation lies not in numerical representation but in equitable participation and leadership empowerment.

The contemporary ESG discourse reflects an increasing transition from financial performance-based corporate evaluation towards broader sustainability-oriented governance frameworks. While environmental considerations have historically dominated sustainability

narratives, the Social (“S”) dimension is progressively being recognised as an equally significant determinant of long-term corporate resilience. The social pillar addresses the manner in which organisations manage human capital, institutional relationships, and workplace equity, thereby directly influencing organisational culture, ethical conduct and stakeholder trust.

In contrast to environmental governance metrics that are often quantifiable through technological and operational indicators, social sustainability is inherently linked to organisational behaviour, leadership inclusivity and decision-making processes. As a result, diversity and inclusion—particularly gender diversity—have emerged as measurable proxies for assessing internal governance quality and institutional maturity within corporate structures.

The increasing emphasis on stakeholder capitalism has further expanded the scope of governance evaluation beyond financial returns to encompass social legitimacy and ethical accountability. Corporations are now expected to demonstrate responsible business conduct through equitable representation in leadership, transparent employment practices and inclusive organisational policies. Gender-diverse leadership structures contribute towards cognitive heterogeneity within boards, enabling multi-dimensional evaluation of strategic alternatives and strengthening oversight mechanisms.

The growing convergence between regulatory mandates and market-driven accountability has transformed gender diversity from a voluntary corporate responsibility initiative into a governance-linked performance parameter. Statutory requirements relating to board composition, coupled with disclosure obligations under sustainability reporting frameworks, signify an institutional acknowledgement of diversity as an economic enabler rather than merely a social aspiration.

Accordingly, the Social pillar of ESG is being reinterpreted not only as a measure of workforce welfare but as a strategic instrument facilitating balanced risk assessment, ethical decision-making and stakeholder-centric governance. Organisations embedding gender diversity within leadership structures are more likely to demonstrate adaptability, reputational legitimacy and sustained value creation in an increasingly dynamic corporate environment.

CONCEPTUAL FOUNDATIONS OF GENDER DIVERSITY IN CORPORATE GOVERNANCE

Gender diversity in corporate governance extends beyond the appointment of women directors. It encompasses:

1. Representation – Presence of women at board and managerial levels.
2. Participation – Active involvement in deliberations and strategy.
3. Influence – Meaningful contribution to policy direction.
4. Equity – Equal pay, growth opportunities, and workplace safety.

Diversity enhances cognitive heterogeneity within boards, enabling multi-dimensional evaluation of strategic alternatives.

Gender diversity in corporate governance must be understood as an institutional governance mechanism rather than merely a demographic characteristic of board composition. The presence of women in leadership roles introduces diversity in cognitive perspectives, professional experiences, and ethical orientations, thereby enhancing the deliberative quality of decision-making processes within corporate boards.

The conceptual foundation of gender diversity therefore extends beyond representational parity to encompass leadership participation, policy influence and equitable access to organisational resources.

Inclusive governance structures contribute to enhanced ethical sensitivity, improved stakeholder engagement and greater alignment between corporate objectives and sustainability-driven performance indicators.

Consequently, gender diversity functions as both a social equity instrument and a governance efficiency enabler, reinforcing organisational resilience in dynamic regulatory and market environments.

Thus, gender diversity is both a social justice concern and a governance efficiency tool.

LEGAL AND REGULATORY FRAMEWORK IN INDIA

India has adopted a combination of statutory mandates, listing regulations and disclosure-based governance frameworks to institutionalise gender diversity within corporate leadership and workforce structures.

1. Companies Act, 2013

Section 149(1) of the Companies Act, 2013 mandates prescribed classes of companies to appoint at least one woman director on their Board.

Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014 extends this requirement to:

- a. Listed companies.
- b. Public companies with:
 - ◆ Paid-up share capital of ₹100 crore or more, or
 - ◆ Turnover of ₹300 crore or more.
- c. This provision seeks to introduce gender inclusivity at the highest decision-making level.
- d. Mandatory appointment has contributed towards structural diversification of boards that were traditionally promoter-dominated.
- e. Inclusion of women directors enhances deliberative quality in strategic and governance matters.

2. SEBI (LODR) Regulations

The Securities and Exchange Board of India strengthened this initiative by requiring specified listed entities to appoint at least one independent woman director under the Listing Obligations and Disclosure Requirements (LODR), 2015.

- a. Regulation 17 of SEBI (LODR) Regulations mandates specified listed entities to appoint at least one independent woman director.
 - Top listed companies (by market capitalisation) are required to maintain independent women representation to strengthen governance oversight.
 - This requirement reduces the risk of token appointments by promoter groups.
- b. Independent women directors contribute to:
 - ◆ Objective monitoring of management decisions.
 - ◆ Improved audit committee effectiveness.
 - ◆ Enhanced transparency in governance practices.

3. Business Responsibility and Sustainability Reporting (BRSR)

The Ministry of Corporate Affairs introduced BRSR as part of India's evolving ESG disclosure framework.

Under BRSR, companies must disclose:

- a. Gender-wise workforce composition;
- b. Women representation in top management;
- c. Gender pay gap information;
- d. Maternity benefits and return-to-work rates;
- e. POSH compliance metrics.

Appointment of women directors has shifted board composition from promoter-dominated to professionally diversified structures. Independent woman directors

The Social pillar of ESG is being reinterpreted not only as a measure of workforce welfare but as a strategic instrument facilitating balanced risk assessment, ethical decision-making and stakeholder-centric governance.

strengthen the audit committee functioning through unbiased oversight. Regulatory disclosure mandates under BRSR facilitate comparability of gender metrics across industry sectors.

4. National Guidelines on Responsible Business Conduct (NGRBC), 2019

- a. Issued by the Ministry of Corporate Affairs, NGRBC emphasises inclusive growth and equitable workplace practices.
- b. Principle 3 of NGRBC promotes employee well-being, non-discrimination and equal opportunity.
- c. The guidelines encourage corporates to adopt diversity-driven human resource policies aligned with ESG objectives.

5. Prevention of Sexual Harassment (POSH) Act, 2013

- a. The POSH Act mandates constitution of an Internal Complaints Committee (ICC) in organisations employing ten or more persons.
- b. Employers are required to ensure:
 - Safe working environment.
 - Gender-sensitive grievance redressal mechanism.
 - Periodic awareness programmes.
 - Workplace safety forms an essential component of social sustainability under ESG frameworks.

6. Equal Remuneration and Labour Welfare Legislations

- a. The Code on Wages, 2019 mandates non-discriminatory remuneration practices.
- b. Organisations are required to ensure equal pay for equal work irrespective of gender.
- c. Compliance with compensation equity principles strengthens workforce governance.

7. ESG-Linked Regulatory Developments

- a. SEBI’s evolving ESG disclosure norms increasingly integrate diversity indicators within sustainability reporting frameworks.
- b. Gender diversity metrics are gradually being recognised as governance performance indicators by investors and rating agencies.
- c. Regulatory emphasis is shifting from policy declarations to outcome-based reporting.

GENDER DIVERSITY AND BOARD EFFECTIVENESS

Diversity reduces groupthink—a phenomenon where homogeneity discourages dissenting views. Women directors often bring distinct leadership experiences and stakeholder perspectives, enhancing deliberative quality.

Board diversity supports long-term sustainability strategy by incorporating broader stakeholder expectations. Companies with inclusive boards often demonstrate improved compliance culture.

Board effectiveness is intrinsically linked to the quality of oversight, independence of judgement and diversity of perspectives within the governing body. Gender diversity contributes to strengthening these dimensions by enhancing the breadth and depth of boardroom deliberations. Inclusion of women directors introduces varied experiential insights, leadership approaches and stakeholder sensitivities, thereby facilitating balanced evaluation of strategic alternatives.

Gender-diverse boards are often associated with improved monitoring of executive decision-making due to increased independence in board dynamics. Women directors may contribute to strengthening committee-level governance, particularly within audit, nomination and remuneration, and risk management committees, by promoting objective assessment of financial disclosures, executive compensation structures and enterprise risk frameworks.

Inclusive board composition also enhances the board’s ability to evaluate ESG-linked risks and opportunities. Diversity in leadership perspectives supports comprehensive assessment of sustainability investments, workplace governance policies and social impact initiatives, thereby aligning corporate strategy with stakeholder expectations.

Further, heterogeneous boards tend to foster constructive dissent and reduce the prevalence of conformity-driven decision-making processes. By encouraging open dialogue and critical evaluation, gender diversity mitigates the risk of groupthink, thereby improving the quality of governance outcomes and strategic decision-making.

From an institutional governance standpoint, gender-balanced boards contribute to enhanced reputational legitimacy and investor confidence. Stakeholders increasingly perceive inclusive leadership structures as indicative of ethical governance practices and long-term organisational stability.

In addition, diversity within board leadership may improve succession planning frameworks by promoting merit-based leadership development and equitable access to executive roles. This supports continuity in governance practices and strengthens organisational adaptability in dynamic regulatory environments.

Accordingly, gender diversity enhances not only representational equity but also functional board performance by improving oversight mechanisms, risk governance and stakeholder responsiveness.

INVESTOR PERSPECTIVE AND ESG SCORING

Global investors increasingly integrate gender metrics into investment decisions.

Institutional investors examine:

- Percentage of women directors.
- Gender pay equity.
- Leadership pipeline data.
- Diversity targets.

In recent years, institutional investors have increasingly incorporated ESG considerations into their investment appraisal frameworks, recognising sustainability indicators as determinants of long-term enterprise value. Gender diversity within corporate leadership has emerged as a material governance metric influencing ESG ratings assigned by global sustainability assessment agencies.

Investors now examine diversity-related disclosures as part of their stewardship responsibilities, particularly in assessing the effectiveness of board oversight and organisational commitment to inclusive governance practices. Indicators such as representation of women on boards, participation in senior management roles, gender pay equity policies, and leadership development initiatives are evaluated as proxies for governance transparency and workforce sustainability.

ESG rating agencies integrate these diversity parameters into composite governance scores that influence investment risk assessment. Companies demonstrating limited gender representation in leadership positions may be perceived as possessing weaker internal governance mechanisms, potentially affecting their ESG rankings and attractiveness to sustainability-focused investment funds.

Furthermore, asset managers and proxy advisory firms often utilise diversity metrics while formulating voting recommendations on board appointments and executive compensation policies. Inadequate representation of women directors may invite shareholder activism or negative stewardship commentary, thereby exerting reputational pressure on corporate management. Consequently, gender diversity is increasingly being viewed by investors not merely as a social responsibility initiative but as a governance-linked performance parameter influencing capital allocation decisions, cost of funds and long-term financial stability. Thus, gender diversity directly influences capital access and cost of funds.

ECONOMIC AND FINANCIAL IMPLICATIONS

Gender-inclusive leadership promotes balanced risk-taking behaviour. Gender diversity within corporate leadership structures has significant economic implications extending beyond social inclusion objectives. Diverse management teams are often associated with improved organisational adaptability, as varied perspectives enable more comprehensive evaluation of market opportunities, operational risks and strategic investments.

From a financial governance standpoint, gender-inclusive boards may contribute towards enhanced decision-making efficiency by incorporating balanced risk assessment approaches. Behavioural finance research indicates that heterogeneous leadership teams tend to adopt more prudent financial strategies, thereby mitigating excessive risk-taking behaviour and promoting long-term capital preservation.

Inclusive leadership structures may also support innovation-driven growth by facilitating broader problem-solving capabilities and encouraging alternative viewpoints during strategic deliberations. Organisations with diverse executive teams are better positioned to respond to evolving stakeholder expectations, technological disruptions and competitive market dynamics. Additionally, gender diversity may influence organisational productivity by fostering equitable workplace practices, improved employee engagement and reduced

attrition levels. Retention of skilled human capital enhances institutional knowledge continuity and minimises recruitment and training costs associated with workforce turnover.

From an investor perception perspective, companies demonstrating inclusive governance frameworks often enjoy enhanced reputational capital and stakeholder trust. This may translate into improved market valuation, stronger brand equity and increased access to sustainability-linked investment opportunities. Consequently, gender diversity contributes to financial sustainability not only by strengthening governance mechanisms but also by supporting innovation, operational efficiency and long-term strategic alignment.

CHALLENGES IN ACHIEVING SUBSTANTIVE DIVERSITY

Despite regulatory advancements, challenges remain.

- a) **Tokenism:** Appointments made solely to satisfy statutory requirements may limit meaningful participation.
- b) **Limited Leadership Pipeline:** Women’s representation declines at senior managerial levels, reducing board-ready candidates.
- c) **Gender Pay Gap:** Persistent pay disparities undermine claims of equality.
- d) **Cultural Barriers:** Workplace norms, unconscious bias, and inadequate support systems limit career progression.
- e) **Board Dynamics:** Inclusion requires not only representation but respect, voice, and influence in deliberations.

Addressing these issues demands structural reform rather than symbolic compliance.

ROLE OF GOVERNANCE PROFESSIONALS IN ADVANCING GENDER DIVERSITY

Governance professionals, particularly Company Secretaries, play a critical role in translating statutory diversity requirements into effective governance practices. Their involvement extends beyond regulatory compliance to policy formulation, board advisory and ESG disclosure management.

1. Advisory Role in Board Composition Planning

Governance professionals advise the Nomination and Remuneration Committee (NRC) on achieving an optimal board mix aligned with statutory requirements and governance best practices.

In listed companies, the appointment of an Independent Woman Director under SEBI (LODR) Regulations often involves identifying qualified professionals with sectoral expertise. The Company Secretary facilitates due diligence, independence verification and documentation of appointment to ensure both regulatory compliance and strategic board composition.

2. Formulation of Diversity and Inclusion Policies

Company Secretaries assist in drafting Board Diversity Policies that define measurable objectives relating to gender representation at board and senior management levels.

Several Indian corporates have adopted formal diversity policies incorporated within their Corporate Governance Reports. The governance professional ensures that such policies align with ESG reporting parameters under BRSR and are periodically reviewed by the Board.

3. Ensuring Accurate ESG and BRSR Disclosures

BRSR mandates disclosure of gender-wise workforce composition, participation in leadership roles and pay equity indicators. Governance professionals ensure the accuracy and consistency of such disclosures in annual reports.

During preparation of sustainability disclosures, the Company Secretary coordinates with Human Resource and Compliance departments to compile data relating to:

- Women representation in senior management.
- Return-to-work rates post maternity leave.
- Gender pay gap metrics.

This supports transparent ESG reporting and regulatory compliance.

4. Strengthening POSH Compliance Framework

Workplace safety forms an essential component of gender-inclusive governance. Governance professionals monitor compliance with the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013.

The Company Secretary may:

- Ensure constitution of Internal Complaints Committee (ICC).
- Monitor timely filing of annual POSH reports.
- Facilitate training and awareness sessions.

Such measures contribute towards safer workplace environments and social sustainability objectives.

5. Integration of Diversity Metrics into Board Evaluation

Governance professionals assist in conducting performance evaluations of boards and committees, incorporating diversity parameters as part of governance assessment.

Board evaluation questionnaires may include criteria such as:

- Inclusiveness of board discussions.
- Participation levels of independent directors.
- Representation of women in key committees.

This ensures that diversity is assessed as a governance performance indicator.

6. Monitoring Pay Equity and Inclusive HR Policies

Company Secretaries may also support periodic governance audits examining pay parity and equitable promotion practices. Audit findings relating to gender pay disparities may be placed before the Board or NRC for policy intervention, thereby strengthening transparency and accountability.

STRATEGIC ROADMAP: FROM COMPLIANCE TO INCLUSION

For corporates seeking long-term ESG strength, the following measures are recommended:

1. Establishment of Voluntary Gender Diversity Targets

Corporates may institutionalise internal diversity benchmarks at board and senior management levels that extend beyond statutory mandates. Adoption of measurable representation targets enables systematic monitoring of leadership inclusivity and demonstrates commitment to sustainable governance practices. Periodic review of diversity ratios by the Nomination and Remuneration Committee (NRC) may further strengthen accountability in leadership appointments.

Several listed companies in India voluntarily aim to achieve 25–30% women representation in senior management roles despite the Companies Act mandating only one woman director at board level. This demonstrates commitment to inclusive leadership beyond minimum compliance.

2. Leadership Development and Mentorship Programmes

Structured mentorship frameworks may be introduced to facilitate career progression of mid-level women professionals into executive and governance roles. Leadership incubation initiatives, sponsorship programmes and succession planning mechanisms support the development of a sustainable talent pipeline for board-level appointments, thereby addressing the challenge of limited representation at senior managerial levels.

IT sector organisations frequently implement women leadership incubation programmes wherein senior executives mentor high-potential women employees to prepare them for managerial and governance positions.

3. Periodic Gender Pay Equity Audits

Regular compensation audits may be undertaken to identify disparities in remuneration structures across comparable roles. Audit findings may be placed before the Board or NRC for policy intervention and corrective action. Transparent implementation of pay equity measures enhances employee morale, workforce retention and institutional credibility in ESG disclosures.

Audit observations indicating variance in pay scales between male and female employees at similar managerial levels may be reviewed by the Nomination and Remuneration Committee for policy intervention.

4. Integration of Diversity Metrics into ESG-Linked KPIs

Incorporation of gender diversity indicators into Key Performance Indicators (KPIs) of senior management aligns leadership incentives with sustainability objectives. Evaluation parameters may include gender-balanced recruitment, promotion rates of women professionals, retention post-maternity leave and participation in leadership development programmes.

Performance appraisal of leadership teams may include evaluation of:

- Gender-balanced hiring.
- Promotion of women professionals.
- Retention rates post maternity leave.

This aligns organisational performance with ESG objectives.

5. Flexible Work and Return-to-Work Policies

Adoption of flexible workplace arrangements such as hybrid work models, extended maternity support and structured return-to-work programmes may support retention of experienced women professionals during mid-career stages. Such policies contribute towards workforce continuity and minimise attrition-related productivity losses.

Companies adopting hybrid work models and extended maternity support programmes often report higher retention of women employees in mid-career stages.

6. Inclusion of Diversity Criteria in Vendor and Supply Chain Governance

Organisations may extend diversity principles to vendor selection frameworks by incorporating evaluation of supplier workforce inclusion standards and ethical employment practices. This enables alignment of supply chain governance with ESG objectives and strengthens responsible sourcing practices.

Vendor selection frameworks may incorporate evaluation of supplier diversity policies or workforce inclusion standards as part of ESG procurement practices.

7. Board Sensitisation and Inclusion Training

Periodic governance training sessions for board members and senior management may be conducted to address unconscious bias and promote inclusive decision-making processes. Such initiatives support active participation of women directors in strategic deliberations and committee-level governance functions. Board-level workshops on inclusive decision-making and stakeholder governance help enhance participation of independent women directors in strategic deliberations.

8. Transparent Succession Planning

Succession planning frameworks may incorporate gender diversity objectives to ensure equitable leadership continuity. Identification of high-potential women executives for senior management roles strengthens the leadership pipeline and reduces reliance on external appointments. Nomination and Remuneration Committees may recommend inclusion of qualified women executives within succession pipelines for senior management roles.

9. Diversity-Focused Internal Governance Audits

Internal governance audits may periodically assess implementation of diversity policies and workforce representation across organisational hierarchies. Audit observations may be reviewed by the Board to facilitate policy refinement and compliance monitoring. Internal audit reports highlighting gender imbalance in leadership roles may be placed before the Board for corrective action planning.

10. ESG-Based Public Disclosures

Transparent disclosure of diversity indicators in annual sustainability reports enhances stakeholder confidence and supports informed investment decisions by institutional investors. Public reporting of gender metrics aligns corporate governance practices with evolving ESG disclosure standards. Disclosure of gender-wise workforce composition and leadership participation in annual sustainability reports supports institutional investment decisions.

CONCLUSION

Future ESG paradigms are likely to emphasise outcome-based diversity reporting that evaluates leadership influence, decision-making participation and equitable access to organisational opportunities rather than mere compliance with representational thresholds. Regulatory evolution may increasingly require corporates to demonstrate measurable progress in leadership diversity, workforce inclusivity and pay equity through structured sustainability disclosures. Further, stakeholder activism and investor stewardship initiatives are expected to play a pivotal role in accelerating diversity-driven governance reforms. Institutional investors may continue to integrate gender inclusion indicators into capital allocation frameworks, proxy voting guidelines and sustainability-linked financing mechanisms.

Technological advancements in ESG data analytics may enable real-time monitoring of diversity metrics across organisational hierarchies, thereby enhancing transparency and governance accountability. Integration of diversity indicators within enterprise risk management systems may also facilitate early identification of social sustainability risks and workforce governance challenges. In this evolving regulatory and market environment, governance professionals, particularly Company Secretaries, will be required to transition from compliance facilitators to strategic advisors by embedding diversity considerations within board evaluation processes, succession planning frameworks and sustainability reporting practices.

Organisations that proactively align leadership diversity with long-term strategic planning are likely to strengthen stakeholder trust, enhance reputational capital and improve resilience in dynamic business environments.

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