CHAPTER 2

REVIEW OF LITERATURE

“If I have seen further than others, it is by standing upon the shoulders of giants.”
- Isaac Newton

The existing literature on corporate sustainability and gender diversity, both in the
global and Indian context, has been extensively referred in order to identify the
research gaps and formalize the objectives and methodologies for this research.
The review of literature has been focused on two main aspects of the research
topic namely the conceptualization and measurement of corporate sustainability,
and the role and contribution gender diverse boards can make to meet
sustainability challenges. This chapter is organized in two sections, each devoted
to address the above mentioned aspects. The elaborate literature reviewed for
creating a corporate sustainability disclosure measurement index and appropriate
analysis tools has been cited in detail in the relevant sections of the chapter on
research methodology.

CONCEPTUALIZATION OF CORPORATE SUSTAINABILITY

Interest and concern for sustainability has grown tremendously over the last
quarter of a century. It has been a widely debated topic in the academic and
corporate circles. Extensive research on corporate governance, corporate social
responsibility and corporate sustainability has now established that the activities
of an organization deeply effect its external environment including the natural
environment and the society. Therefore organizations today are accountable to a
much wider audience as against the notions of accountability only towards their
shareholders. This is a major shift from what Milton Friedman described as “the
only business of a business is to make profits” assuming the responsibility of
business only towards the shareholders, to the idea of being responsible to all the
stakeholders such as the employees, customers, creditors, society etc. All
stakeholders are not only directly or indirectly affected by the operations of a
business but may have some amount of direct or indirect control over them.
A whole new idea of social and environmental performance, responsibility and accountability of a business, as a part of the larger social order around the world, has emerged. Many researchers have established that financial results and emphasis on the single bottom line of ‘profits’, is holding back even the large corporations from accepting their accountability towards the society and the environment. Gray et al. (1987) challenged the prevailing accounting practices as falling short of complete transparency, relevance, full disclosure and highlighted the need of a stakeholder approach to accounting which recognizes the wide stakeholder community. White (2007) emphasized the need to rewrite and redefine the ‘contract’ or relationship of commitment that exists between a company and its stakeholders which is based on trust of ensuring a sustainable and better future. According to White (2007), the purpose of a corporation, in a generic but flexible statement is “to harness private interests to serve the public interest”.

Sustainability

The term ‘Sustainability’ is not free from controversies or confusions as divergent views on its meaning and scope exist. Significant efforts have been made to decipher what sustainability means in general and for a business organization in particular. The Brundtland Report may be taken as the first organized global attempt to address the issue of sustainability. The Commission was created by United Nations, with an objective of evaluating, creating awareness and addressing challenges posed by the rapid depletion of natural resources and degradation of the environment due to unabated and irresponsibly conducted commercial and economic activities. The Brundtland Report highlighted the harmful effects of such relentless activities on environment and social development. It presented a global framework for drafting policies for sustainable development. It defines sustainability, in what is known as the most acknowledged definitions, as “meeting present needs without compromising the ability of future generations to meet their own needs” (WCED, 1987). The underlying principle behind this definition of sustainability lies in the finiteness of the resources available in this world. So if any resource is relentlessly used in the present without any effort being made for its replenishment or replacement or
regeneration, it is bound to exhaust and become extinct and unavailable in future e.g. coal, oil etc. Alternatives will need to be adopted consciously and voluntarily in the present to preserve these resources or as a compulsion in the future when these resources become extinct, to fulfill a particular need necessitated by that resource. Sustainability advocates a controlled use of resources depending upon their regenerative powers also defined as the carrying capacity of the ecosystem (Hawken, 1993). This principle is equally applicable to nations, societies as well as corporations and individuals.

Traditionally, the term sustainability, the origin of which can be traced back thirty years (Reed & DeFillippi, 1990), also implies permanence and continuity (Marsden, 2000; Hart & Milstein, 2003; Aras & Crowther, 2008). Many researchers and organizations have viewed the terms sustainability and sustainable development as synonymous, an assumption also made for the purpose of this study.

**Corporate Sustainability**

In the organizational context, McElroy et al. (2007) define sustainability in terms of its impacts on all the stakeholders – present as well as future, including the natural environment and society. But, a mere recognition of environmental and social issues will not create sustainable organizations. Integration of these issues in the core strategy and operations is paramount (UNGC-Accenture, 2010). As a constituent part of the social and ecosystem, the effects of an organization’s operations should not only be measured in cost-benefit terms in the present but also in terms of its potential impacts in future (Hart, 1997). Initiatives and strategies adopted by companies committed to sustainability like producing recycled paper, replanting trees, producing recyclable vehicles and electronic goods etc. not only help in accommodating for their unsustainable operations but also internalize the costs in the present rather than passing them to the future (Aras & Crowther, 2008). Acknowledging and managing the effects of economic activity, positive and negative, in a manner that leads to overall advantages in the long term is integral to the idea of corporate sustainability.
Grayson et al. (2008) have presented a new perspective on corporate sustainability, by underlining the importance of innovation to increase profits and at the same time add value to the environment and society at large. An approach of conducting business activities that generates huge amounts of wastes, consumes large amounts of energy, ignores the community interests and pollutes the environment needs to be radically changed. Harnessing innovations in these areas would not only transform a business towards sustainability but also present a great untapped business opportunity. Corporations can create and sustain value for all stakeholders by adopting a long term approach in embracing these opportunities, mitigating risks and distributing the favourable and adverse effects in a way which pays attention to the future as well as the present (Aras & Crowther, 2010). So, Corporate Sustainability can also be defined as a way of enhancing shareholder value by mitigating risks arising from economic, ecological and social environments (Sustainability Asset Management – SAM Group).

**Dimensions of Corporate Sustainability**

The dimensions of sustainability are closely linked to or derived from the stages of evolution of this concept. Many scholars in the past have conceptualized corporate sustainability without considering the economic or financial performance as its important dimension or integral part. Such authors were primarily confined to defining corporate sustainability as being synonymous with corporate social responsibility. The widely accepted assumption has been that the goals of maximizing financial gains or profits and improving environmental and social performance are contradictory and conflicting. However, Aras & Crowther (2008) argue that financial performance is a vital element of corporate sustainability. They have defined the four dimensions of sustainability as societal influence, environmental impact, organizational culture and finance which can be depicted as a two-dimensional model of sustainable development as Figure 2.1.
Several scholars and organizations, adopting the definition of World Commission for Economic Development, have conceptualized sustainability as having three mutually dependent dimensions - environmental quality or concern, social equity or sensitivity, and economic growth (Bansal 2001, 2005; Elkington, 1997; Galbreath 2011; Wilson & Lombardi, 2001). The success of any one of them is contingent to the success of the other two (Bansal, 2001). Figure 2.2 presents a graphic summary of the literature on conceptualization of sustainability.

Bansal (2005) emphasizes the role that organizations play in improving the standard of living by creating and distributing wealth through its commercial and economic activities. According to Conner (1991), firms can create additional value for customers by lowering the cost of products and services they need through process or production innovations and efficiencies. However, these activities may lead to depletion of natural resources, ecological degradation, pose serious threats to health and hamper public welfare. Thus, economic growth must be tied intrinsically to environmental quality and social equity (Bansal, 2001, 2005; WCED, 1987) while conceptualizing corporate sustainability. It is also pertinent to mention here that the economic responsibility of an organization is not only to increase value and profits or to accept its accountability through
transparency and reporting of authentic financial data, but it involves assuming responsibility for all direct or indirect economic impacts that its operations have on the stakeholders.

Figure 2.2: Conceptualization of Sustainability

The environmental concern dimension of corporate sustainability aims to ensure that a company’s operations do not adversely impact and exploit the three elements of nature – air, water and land (Bansal, 2005) beyond the limits of replenishment or regeneration and renewal. To quote T. S. Eliot, “A wrong attitude towards nature implies, somewhere, a wrong attitude towards God.” The adverse environmental impacts of organizational activities, cultures, products, processes and technology are easily visible in things such as generation and disposal of waste, emissions and effluents discharged, high energy consuming processes and technology, the lighting office facilities etc. Scholars have identified three main areas for development of strategies for sustainable environment. First, companies need to shift from pollution control through activities such as responsible waste disposal to pollution prevention through cleaner production processes which focus on minimizing or eliminating waste before it is created (Hart, 1997). Secondly, strategy of reducing greenhouse gas emissions (Klassen & Whybark, 1999) through innovation in production
processes and investing in ‘tomorrow’s’ technologies rather than relying on historical competencies (Hart, 1997). Lastly, by engaging in product stewardship, companies can mitigate cradle-to-grave impacts of their products (Bansal, 2001), starting with using fewer materials in production to recycling or reuse at the end (Hart, 1997).

There is a kind of ‘social warming’ (Negrón, 2010) taking place around the world. Porter & Kramer (2006, 2011) argued that a company will not be able to make profits at the cost of the society in the long run. They challenged and criticized the outdated approach to value addition adopted by companies which ignored the needs of customers and suppliers, or the economic distress of communities in which they operate. They proposed the principle of shared value, where economic value is created alongside creation of value for society rather than treating them as tradeoffs. Today, organizations are increasingly being pushed by a multitude of stakeholders like employees, consumers, institutional investors, governments, non-governmental organizations (NGOs) etc. to respond to social issues (Aguilera et al., 2007). Today, markets are defined and governed more by ‘social needs’ rather than the conservative ‘economic needs’ (Porter & Kramer, 2011). Social initiatives may include those internal to an organization like changing labor relationships, working conditions and those external to an organization such as investing in infrastructure development for local communities or involvement in philanthropic activities (Aguilera et al., 2007). This is also supported by Carroll (1979) through his three-dimensional model of corporate performance which highlights a company’s responsibilities towards society and community. Social harms can create internal costs for firms, so by shifting social issues from the periphery to the core of business operations, a company can achieve better economic success (Porter & Kramer, 2006; 2011). This consciousness and obligation for the direct and indirect social impacts of an organization forms a critical dimension in the cause of promoting corporate sustainability.

Environmental concern and social involvement should no longer be considered ‘adjuncts’ of an organization’s core activities (Bansal, 2001). In the context of sustainability, an organization should be committed to achieving economic prosperity by engaging in activities that are good for the environment as well as society. Wilson & Lombardi’s (2001) analysis of ‘Triple bottom line reporting’
showed that there is a general acceptability by businesses, of their responsibilities regarding environmental impacts of their operations, however social accountability and reporting is yet to become mainstream.

**Initiatives to Assess and Measure Sustainability**

Infusing sustainable practices in an organization and inculcating a sustainability culture requires a systematic long term approach and actual authentic data. Although many sustainability initiatives have been implemented around the world there is a need for a more planned, logical, fact and data based method with a high degree of transparency for sustainability disclosures. Till this is achieved the real sustainability performance of companies can never be evaluated. As the old saying goes - ‘What cannot be measured cannot be achieved or improved’.

Different methodologies have been adopted thus far to measure sustainability qualitatively and quantitatively. These can be broadly categorized into disclosure or reporting based and stock market based methods. New techniques of evaluating the effects of organizations on the natural environment and the society at large and analyzing organizations’ sustainability performance are continuously evolving.

Australia, Austria, Canada, Denmark, France and Japan are a few countries which had enforced mandatory sustainability reporting guidelines upto 2008. In India, Clause 49 of Listing agreement of Securities and Exchange Board of India (SEBI Circulars, 2000, 2004, 2006), aimed at ensuring compliance to principles of good governance, is mandatory for all listed companies. However, integration of environmental and social activities in company reports is purely voluntary. Mandatory regulatory frameworks, wherever existing, complement the principles and standards laid down by various global voluntary sustainability initiatives such as UN Global Compact, Millennium Development Goals, IFC led Equator Principles and GRI sustainability reporting guidelines. Some of the initiatives for sustainability reporting and assessment methodologies are discussed at length in the following sections.
The Global Reporting Initiative (GRI) framework for sustainability reporting is well established and widely accepted by businesses, academicians and researchers alike. GRI is a non-profit, multi-stakeholder, network based organization founded in Boston in 1997. The first version of the GRI Guidelines was launched in 2000. GRI reporting framework adequately enumerates both ‘what’ and ‘how’ to report. The identification of content of a sustainability report is based on the principle of materiality, stakeholder inclusiveness, sustainability context and completeness. The quality of a sustainability report is determined by balance, clarity, accuracy, timeliness, comparability and reliability (GRI, 2006). GRI is continuously evolving and improving its comprehensive guidelines to enable organizations to measure, report and become accountable for their governance and sustainability performance. In March 2011, GRI published the G3.1 version with supplementary guidelines related to reporting on gender and human rights performance of companies. The sector specific supplements make GRI guidelines applicable to organizations of all sizes, sectors and location.

The GRI Guidelines are often juxtaposed with other international initiatives and sustainability frameworks. GRI has many global strategic partnerships, one of them being with the United Nations Global Compact (UNGC). GRI guidelines are the reference points of the UNGC principles. Its framework also enjoys synergies with the Environmental, Health, and Safety (EHS) Guidelines, Performance Standards on Environmental and Social Sustainability as well as the Equator Principles formulated by the International Finance Corporation (IFC). The UN Global Compact (unglobalcompact.org) is the largest voluntary corporate citizenship and sustainability initiative in the world that was launched in 2000. It encourages and supports organizations around the globe to bring their strategies and operations in line with the ten UNGC principles addressing environment, labour practices, human rights, and ethical conduct.

Another initiative in this direction, reinforcing the above, is the declaration of the UN Millennium Development Goals (MDGs) in September, 2000. The eight goals focus on reducing poverty and financial disparity, improving quality of life, sustainability of natural environment and connecting globally through cooperation, networking and collaborations (un.org). Specific targets have been set for each of the goals, to be achieved by 2015. Although the prime
responsibility of achieving these targets rests with the governments, it would also make good business sense to contribute towards the same. Companies, especially the private sector, can contribute by providing products and services which are environment friendly with no harmful effects on health of consumers and are reasonably priced, by creating jobs and providing career advancement and growth opportunities, valuing human rights and maintaining labour standards, engaging in responsible and ethical practices, generating income and investment and developing infrastructure. Efforts towards achievement of the MDGs would create a safe environment, manage costs and risks, and create new opportunities for all.

International Finance Corporation’s (IFC) Equator Principles, launched in June, 2003, are widely accepted benchmark in finance sector and are widely used by project financiers to evaluate the social and environmental risks. Its ten principles centered on social responsibility and safeguarding environment serve as guidelines for project development and financing. As per the official website of Equator Principles, till June 2013, 79 financial institutions had formally implemented the Equator Principles. Spread over 35 countries these made up over 70 per cent of international Project Finance debt in emerging markets (equator-principles.com). IDFC is the only Indian institution to adopt the equator principles.

In addition to the equator principles, IFC, a part of the World Bank Group (IFC & Mercer, 2009) has also formulated Environmental, Health, and Safety (EHS) Guidelines and IFC Performance Standards on Environmental and Social Sustainability to identify risks and impacts in relation to project-level activities.

All the above initiatives mutually emphasize the need for organizations to implement sustainability policies in their business practices.

The close connection between investment potential and responsibility as established by prior studies in this domain has also led to the emergence of several inclusive market – based and investor-led sustainability initiatives and ratings such as the Dow Jones Sustainability Index (DJSI), FTSE4Good Index Series and S&P BSE-GREENEX.
The Dow Jones Sustainability Indexes (DJSI) is the oldest global benchmark for sustainability assessment which was launched in 1999. It is a family of 16 indices each composed of sustainability leaders identified by using a comprehensive assessment process which employs multiple criteria such as energy consumption, climate change strategies, employee and stakeholder relations and corporate governance. In 2012 the Dow Jones Indexes merged with indices of Standard & Poor's, an American financial services company, to create S&P Dow Jones Indices. These are jointly administered by S&P Dow Jones Indices and RobecoSAM (sustainability-indices.com).

The ratings of FTSE4Good Index Series were launched in 2001 from the London Stock Exchange(ftse.com) and are calculated by FTSE International Limited (“FTSE”) and Ethical Research Services (EIRIS) Limited or their agents. The indices provide investors information on performance of companies around the world that have adopted responsible business practices. Involvement of a company in environmental sustainability and countering climate change, safeguarding human rights, maintaining good labour practices, challenging corruption and bribery, form the criteria for inclusion in the index. This index serves as an important guide for multiple stakeholders such as investors, bankers and stock exchanges. UNICEF is the main beneficiary of all licensing revenues of FTES4Good. The indices are reviewed twice a year and are constantly being improved.

India has also joined the world by launching its own S&P BSE-GREENEX in February, 2012. It is the 25th dynamic index hosted on the Bombay Stock Exchange which assesses the ‘carbon performance’ of stocks based on purely quantitative performance based criteria using publicly disclosed energy and financial data (S&P BSE-GREENEX, 2012).

The Carbon Disclosure Project (CDP) is another investor-led sustainability initiative which helps organizations and cities globally to measure and share environmental information, disclose and control their impacts on the environment (cdp.net). CDP is an international, not-for-profit organization which is globally the largest repository of voluntary disclosure reports and data on environmental impacts and risks, and climate change. This data can be used by cities, companies
and investors to take informed and long term decisions for a sustainable and better world.

Varieties of other sustainability metrics are evolving and are being validated. New approaches for measuring sustainability impacts are emerging. Sustainability Balanced Scorecard is one such approach which helps in linking organization’s strategic objectives and goals with measures and actions (Grayson et al., 2008). Grayson et al. (2008) also advocate a new approach to corporate sustainability called S²AVE - Shareholder and Social Added Value with Environment restoration, committed towards all stakeholders including society and environment.

Context-based measurement models like the Ecological Footprint (EF) tool (Rees, 1992) also exist for environmental reporting. However, they are rarely used in business context. McElroy et al. (2007) devised a quantitative quotients-based method - the Social Footprint to assess and disclose the social commitment and performance of an organization. The concept and approach of ‘sustainability quotients’ as measures of a company’s environmental and social performance rely on quantifying the effects of organizations on, what McElroy et al. (2007) call ‘the carrying capacity of non-financial or ‘anthro’ capital’.

**Drivers of Corporate Sustainability**

Sustainability is perhaps one of the most challenging issues confronting the policy makers today. Bansal (2001) suggests that companies that fail to tackle sustainability issues will lose any opportunity of building competitive advantage and will eventually perish. This criticality attached to sustainability has led to extensive efforts being made towards understanding how firms respond to sustainability and integrate it in their strategy and operations.

Both, external as well as internal drivers of sustainability have been proposed with more stress being laid on external drivers. Population growth and climate change have compelled the society as well as corporations to recognize the need and respond to sustainability issues. Poverty and inequality are placing demands of employment generation and active participation of the corporate sector in
providing food, healthcare and shelter (Cumming, 2004). Economic globalization has driven companies operating in multiple countries to meet the international expectations and environmental and social standards. Advances in connectivity and digital communication have ushered an era of transparency by making it easy for stakeholders to track a company’s sustainability performance and also to share their opinions widely through the social networks. It has drastically reduced the time taken to build as well as destroy an organization’s reputation (CERES Report, 2010).

Results of other studies in this area suggest that all stakeholders such as customers, employees, investors, suppliers, public, the government, law makers and regulatory agencies influence organizations to adopt sustainability practices. Customers are fast becoming conscious of the environmental and social impacts of the products and services they buy, giving strong preference to ‘green’ products that are bio-degradable or recyclable and produced without exploitation of labour or other unethical and corrupt practices. Employees show allegiance towards organizations which have a culture of fair and non-discriminatory practices and are socially responsible. Investors and suppliers look at the sustainability performance of a company to evaluate its future and long term growth prospects. The government, law makers and regulatory bodies are constantly engaged in developing policy frameworks for effective implementation of various sustainability initiatives. Mandating achievement of minimum standards in terms of sustainability performance and disclosures is one of the important determinants of corporate sustainability. Bansal (2005), in her identification of factors that influence corporate sustainability, found that media pressure was important only in the early periods. She also found a positive correlation between corporate sustainability and international experience, and mimicry. Political agenda and conflict can also be identified as factors leading to expectations from corporates to deliver on the Millennium Development Goals (MDGs) and responsible governance (Cumming, 2004).

A number of internal factors that have been found to impact or drive sustainability of a company include organization’s culture, policies, management and its board of directors.
Figure 2.3 depicts the sustainability value framework as an adaptation from Hart & Milstein (2003) and a CII report on global and Indian trends in sustainable business. The figure highlights the drivers of corporate sustainability along with appropriate strategies within each quadrant that would lead to potential gains and a win-win situation for all.

Figure 2.3: Sustainability Value Framework

The Board of Directors is identified as the most important internal driver of sustainability. They have been described as the ultimate decision making group and overseers within corporations acting as the ultimate steward of the well being and performance of the organization (White, 2006). Hendry & Kiel (2004) argue that boards keep a check over the management through financial and strategic controls and thus significantly influence strategies. They ratify and monitor the crucial decisions of an organization (Fama & Jensen, 1983a, 1983b) which have a direct impact on its performance.
The evolution of the modern age large scale corporations has added more complexity to the roles of the board of directors. The board plays an integral role in shaping the culture and values of the organization, approving strategies, reviewing and monitoring financial performance, ensuring compliance with laws, setting compensation of the top executives and structuring its own governance processes and procedures (White, 2006; Arfken et al., 2004). Rindova (1999) argues that directors use their valuable problem-solving skills for strategic decision making by performing cognitive tasks such as scanning, interpretation and choice. With so much power vested in the board, determining its right composition assumes critical importance.

The external drivers of sustainability are well established and supported by literature in comparison to internal determinants of an organization’s sustainability practices, which are far less in number and thus, present a definite opportunity for further research and investigation.

**GENDER DIVERSITY ON BOARDS AND CORPORATE SUSTAINABILITY**

Board composition and especially the diversity on corporate boards have emerged as one of the most important issues faced by the modern corporation (Kang et al., 2007). Diversity in the composition of boards can be categorized into easily observable characteristics such as gender, ethnic backgrounds, age and nationality as well as variety of characteristics that represent less visible forms of diversity like qualifications and educational backgrounds, professional experience, personal style, religion and affiliations and memberships of organizations (Kang et al., 2007; Arfken et al., 2004). In the context of stakeholder governance, board composition must ensure adequate representation of diverse stakeholders (White, 2006). Although diversity and heterogeneity may lead to initial intra-group conflicts in decision making (Jehn, 1995; Carter et al., 2003), they can be turned in favour of the organization by managing the structure of the group and group norms. Forbes & Milliken (1999) recommend the need to understand group dynamics and manage the board processes to enable boards into effective strategic decision making groups.
Lynall et al. (2003) theorized that board composition and its impact on the firm’s performance is a demonstration of the firm’s life cycle stage. The board composition is expected to change, as an organization progresses through different stages of its life cycle, in response to the changes in the environment. Diverse boards with a mix of knowledge and experience result in generation of a variety of ideas and perspectives of a problem, add to creativity and innovation, which help in critical evaluation of multiple alternatives and making astute decisions (Carter et al., 2003; Arfken et al., 2004). Diversity further strengthens the three pillars or underlying principles governing board’s actions – loyalty, care or due diligence and good business judgement (White, 2006). Arfken et al. (2004) propose better understanding of the market, better product positioning and promoting accountability as additional benefits of diversity on boards. However, the positive impacts of diversity on the organization are more intangible in nature and difficult to measure, because of which board diversity sometimes falls short of becoming a top business priority (Robinson & Dechant, 1997).

**Contribution of Women on Boards**

Gender is undeniably the most contemporary and widely discussed issue, not only in the political and social arena but also among the top management and decision makers in corporations (Kang et al., 2007). Gender diversity on corporate boards, by virtue of its many advantages, is being recognized as an important factor in sustainable development. Having gender diverse boards provides legitimacy to an organization in the eyes of stakeholders (Hillman et al., 2007). It reflects an organization as being representative of the population it serves by promoting equity and justice, which improves its reputation in the eyes of the public and other stakeholders (Rhode & Packel, 2010). However, organizations with only legitimacy as their target, may appoint women on their boards as mere tokens. Results of Kesner (1988) and Bilimoria & Piderit (1994) affirm that women are much more than cosmetic additions to the boards or tokens and that women directors add value to boards through their knowledge, competence and affiliations (Hillman et al. 2002) which can prove to be beneficial for the organization they serve.
The generic differences between men and women in terms of their nature, mannerisms, attitude, as well as their competence and skill sets provide a valuable assortment of attributes needed for better decision making. Adams & Ferreira (2009) find a positive association between board’s level of gender diversity and its effectiveness. The new insights, new information and new perspectives provided by women on boards help in meeting the sustainability challenges. Female directors bring much more than their feministic perspectives to the board room. Nielsen & Huse (2010a; 2010b) support this argument with the findings of their study of Norwegian firms where women directors were found to significantly contribute to boards’ strategic decision making by virtue of their different values as well as their prior professional experiences. Hillman et al. (2002) find that although women directors generally come onto boards from non-business backgrounds, they often hold advanced degrees in areas like marketing, public relations, and law as well as have leadership experience at the local community or government level. A study of boards of directors of UK companies by Singh et al. (2008) reveals that there is a higher probability of women holding an MBA degree and having international exposure as compared to men. Many studies in the past have highlighted women as being the major decision makers when it comes to purchasing. This supports the arguments by Kang et al. (2007) and Brennan & McCafferty (1997), that women have a better understanding of the needs and behaviour of consumers. Women can play an important role in addressing the needs of the customers and therefore, contribute actively to the bottom line and add value. Burke (1994) suggests that although women on boards have little direct impact on the other women in their companies, they might serve as role models for these women and contribute indirectly by bringing out ‘women friendly’ policies. Another indication of women’s contributions far exceeding the legitimacy argument is the appointment of women as members of important board committees. Although the number of women as members of such committees is on the rise, studies like Rhode & Packel (2010) highlight underrepresentation of women as chairs of some of the most influential compensation, audit, and nominating committees.

Central to corporate sustainable development, is the idea of stakeholder management, building stakeholder relationships and representing and
safeguarding their diverse interests in decision making (Bansal, 2005). A responsible business stands committed not only to its shareholders and investors but also to its employees, suppliers, communities and the environment. The Board of directors are faced with the challenge of balancing their diverse interests and conflicting demands. Evidence from Rosener (1995) suggests that women are better equipped with temperament and skills to tackle ambiguity, conflict, and uncertainty making them proficient problem-solvers. By virtue of their strong moral overtone (Arfken et al., 2004) and belief of nurturing relationships and focus on needs of others, women are better at representing the interests of different stakeholders and keeping them connected to the organization (Biggins, 1999; Hisrich & Brush, 1984; Rosener, 1995 and Hillman et al., 2007). These relational abilities of women on board help an organization demonstrate its social responsiveness (Galbreath 2011). Contrary to men who are more focused on monetary and technical issues, women on corporate boards contribute more effectively on qualitative, human and ethical issues like managing social impacts of their company (Huse et al., 2009; Huse & Solberg, 2006; Rosener, 1990; Bear et al., 2010; Ibrahim & Angelidis, 2011). This enables women directors to broaden the strategic discussions in the boardroom from societal perspective pressing for stronger controls and enforcement wherever necessary. Grosser & Moon (2005) in their study on the role of corporate social responsibility in gender mainstreaming, also argued in favour of increased participation of women for better societal governance. A study of companies in the finance sector and basic materials sector conducted by Schnake et al. (2006) finds that representation of women on boards is positively related with the social responsiveness reflected by lower number of 10K investigations or cases against the companies in Finance sector, where as no significant relationship could be established in the Basic materials sector companies.

The economic crisis has acted as a catalyst for pushing the case for greater female participation at the top. Although this has led to a slow paced increase in the representation of women in corporate leadership positions, yet the presence of women on boards is hardly noticeable (Singh & Vinnicombe, 2004). The arguments in support of gender diversity at the top are beyond the discussions on principles of equity and justice alone; they are strongly and objectively focused on
the astute business judgement for warranting long term growth and organizational success (Maitland, 2009). Women have been known not only to improve the quality of boardroom discussions and behaviours but their presence has also been associated with quantitative aspects such as performance of an organization and economic growth. Previous research and literature presents some evidence of links between presence of women on boards and the economic, social and environmental - sustainability performance of organizations (Galbreath, 2011).

**Impact of Gender Diversity on Boards on firm’s performance**

Huse et al. (2009) emphasize that gender diversity on boards is essential for value creation. Some research has been conducted in the past which provides evidence that presence of women on boards affects a company’s economic performance. However, such research has been limited owing to the present business environment, where shareholder value is a multi dimensional construct and economic results are dependent on performance on environmental and social dimension (Hart & Milstein, 2003). Of the research studies conducted on exploring the link between presence of women on boards and the company performance, some report positive association while others report negative or no effects. Figure 2.4 presents a graphic summary of the literature linking gender diversity on boards of directors and sustainability.

The strong morality and ethical conduct associated with women presence (Arfken et al., 2004) is supported by Galbreath (2011) who finds that boards with more women offer higher transparency, effective monitoring and accountability which increase shareholder and investor confidence. Gender diverse boards are perceived to uphold integrity with fewer conflicts of interests (on the part of the directors) while taking decisions having implications for other stakeholders. Trust based upon this underlying assumption results in improving the organization’s reputation leading to better contracting opportunities and joint benefits for all stakeholders (Hosmer, 1995). Ethical conduct and trust requires lesser number of controls, supervision or governance mechanisms (Barney & Hansen, 1994) which reduces transactions costs for enforcing contracts and leads to competitive advantage. Investor trust, better oversight and governance, reduced transaction
costs and ethical utilization of funds would lead to better economic performance of the organization (Galbreath, 2011; Hosmer, 1995). Torchia et al. (2001) in their survey of CEOs of Norwegian companies find a positive link between number of women on boards and the organization’s innovation capacity. They find that it takes at three women directors on a company’s board to enable them to contribute significantly towards their company’s innovation.

Figure 2.4: Linking Gender Diversity on the BODs and Sustainability

Erhardt et al. (2003) report a positive association between women on boards and the ROA and ROI, two widely used measures of economic performance. Galbreath (2011) has reported a positive link between proportion of women on boards and the economic growth of a firm measured by the proxies ROE and market-to-book value. However, no significant relationship of women on boards was found with ROA, which is also supported by Dobbin & Jung (2010). This study also recognized a positive link between women on boards with social responsiveness and no significant relationship with environmental quality. Shrader et al. (1997) examined the effects of gender diversity on four financial performance measures of ROS, ROA, ROI, and ROE. They found no significant link between women in top management and women on boards with any of the four financial performance variables. Lückerath-Rovers’ (2010) study also used
multiple performance measures for testing the effect of women presence on boards and financial performance, finding a positive relationship with ROE and no significant relationship with ROA, ROS and ROIC (Return on Invested Capital). Bear et al. (2010) in their study of top Fortune 2009 companies from healthcare sector found a positive relationship between the number of women on boards and the ratings for CSR and firm reputation. Miller & Triana (2009) in their study of Fortune 500 companies, find a positive association between board gender diversity, measured as a proportion and using Blau’s Index, and innovation using research and development expenses as a proxy for innovation. However, they found no significant relationship between gender diversity and ROI, ROS and reputation measured using scores from 2004 Fortune Corporate Reputation Survey. Carter et al. (2003, 2007) and Rose (2007) investigated the relationship between women on boards and firm’s financial performance measured by Tobin’s Q. Although, significant positive relationships were found between the presence of women or minorities on the board of Fortune list firms and firm value by Carter et al. (2003, 2007), no significant relation between Tobin’s Q and gender diversity on boards of Danish companies was found by Rose (2007). At the same time Dobbin & Jung’s (2010) study showed negative relationship between women directors on boards and Tobin’s Q. Carter et al. (2003) also found positive relationships between the presence of female directors and firm size and board size and an inverse or negative relationship with the percentage of insiders on the board. In a later five year study of S & P 500 companies, Carter et al. (2010) used absolute numbers of women on board rather than proportion of women (used in their studies in 2003 and 2007) to represent gender diversity on boards and found no significant association and a positive association with Tobin’s Q and ROA respectively. Campbell & Minguez-Vera (2008) used panel data analysis of Spanish companies to conclude that gender diversity of boards affect the financial performance of the firm. They found that gender diversity, measured by the proportion of women on the board and the Blau Index and the Shannon Index, has a positive effect on the firm value measured by Tobin’s Q. Adams & Ferreira (2009) find an average negative consequence of gender diversity on firm performance, confining the positive impact only in case of companies with weak governance. Gender diversity on boards was linked to higher revenues in a study of Canadian companies (Burke, 2000). Dezso & Ross (2012) used 15 years of
panel data of S&P 1,500 firms and found that, other things remaining constant, a company with at least one woman on its board has higher Tobin’s Q as compared to companies with no women on their boards. This association between women on boards and financial performance is significant only when the company is focused on innovation. Bonn (2004) finds that although the proportion of female directors in Australian companies is less than 5%, female director ratio is positively associated with firm performance measured by the market-to-book value ratio. Rather than using stock returns or accounting ratios, Francoeur et al. (2008) used level of risk when comparing women presence and firm performances, for a large sample of companies listed on the Toronto Stock Exchange over the period 1990 - 2004. Results showed that with higher percentage of women on board, firms operating in high risk environments generated high positive abnormal returns (Francoeur et al., 2008).

Although the body of evidence strongly backing the benefits associated with increase in the representation of women on corporate boards is growing and governance codes are being reformed, the world’s boardrooms still remain predominantly male. A report by Catalyst (2012b) shows that Scandinavian countries, such as Norway (40.1%), Sweden (27.3%) and Finland (24.5%), have the highest representation of women on boards. Countries in the rest of the world each have less than 20% women on boards. USA and UK have 16.1% and 15% board seats held by women, whereas China has 8.5% women on corporate boards. India has a meagre 5.3% representation of women directors on boards, only a slight improvement from a figure of 5% in 2010. 54% of companies on the BSE100 in 2010 had no women board directors (Catalyst, 2012a). Despite these small improvements in the representation of women on boards of directors of corporations around the globe, these slow trends point towards existence of certain barriers which need to be investigated and analyzed.

**Barriers to Gender Diversity in the Boardroom**

A substantial amount of empirical data and evidence lends support to the benefits of increasing the number of women on boards. According to Goldman Sachs, gender equality in the workplace could improve United States’ GDP by 9 per cent,
Europe’s by 13 per cent and Japan’s GDP by 16 per cent (Maitland, 2009). Despite these figures, the results of a census study of Women in Leadership, conducted by the Equal Opportunity for Women in the Workplace Agency (EOWA), an Australian Government agency, in 2010 shows that women hold only 8.4 per cent of Board Directorships in ASX 200 companies compared to a figure of 8.2 per cent in 2002. The trend data shows there has been no significant change (EOWA, 2010). This miniscule increase of 0.02 per cent over 8 years is a cause of concern.

Arfken et al., 2004 found women almost non-existent in the boards of directors of Tennessee’s companies. One of the most frequently cited reasons is the existence of a ‘glass ceiling’ (Hillman et al., 2002) which limits the progression and growth of qualified women up the top management and leadership ladder. Women’s growth in an organization is also hampered by ‘glass walls’ which confine and limit women only to specific areas and positions, such as human resources, public relations etc. (Arfken et al., 2004). Gender discrimination and stereotyping portrays women as being unprepared and unworthy of succeeding to higher positions such as board directors (Hillman et al., 2002), women are generally not perceived to be ready for such positions (PwC, 2008). In contrast to a male, for a female to be seen as worthy by virtue of her abilities, she is usually required to prove her competence. Hillman et al. (2002) describes this situation faced by women in the workplace as “twice as good to be considered half as good” theory. In addition to these hindrances, women have a higher chance than men to be appointed in unstable and insecure positions like directors of companies which are performing badly or are facing certain lawsuits, a phenomenon described as the “glass cliff” (Ryan & Haslam, 2007). Prevalence of such biases makes it more difficult for women to perform and prove their competence. Nielsen & Huse (2010a; 2010b) also find that stereotypes and perceptions of women as ‘unequal’ board members have a tendency to limit their contribution.

Another barrier is what Martha Frase-Blunt (2010) calls the "Mini-Me" syndrome. For filling up important positions in the company, the management and decision makers tend to appoint person with whom they are more at ease, people who are similar to them in characteristics such as gender, age and background. The process of appointment of directors on boards, which traditionally relies on accessing the
existing network and pool of experienced and high profile executive officers or retired executive officers of corporations, tends to exclude the female talent pool as women generally do not follow these traditional career paths (Hillman et al., 2002). More male directors are found to be CEOs/COOs of large companies, whereas female directors generally have board experience of smaller companies (Singh et al., 2008). The different occupational choice considerations of women and the tendency of people already on board to appoint more people similar or like themselves is leading to loss of opportunities for both women and the organizations. Ruigrok et al. (2007) found that in Swiss companies, women are generally appointed as board members based on their affiliation to the management through family ties and that possession of an understanding of business or advanced educational degrees are not significant. Claringbould & Knoppers’s (2007) study provides evidence that men tend to frame such processes of recruitment on boards so as to maintain their control and dominance, whereas women, generally use their competence and experience as a proof of their worthiness for appointment as directors. Besides these entry barriers and lack of equal promotion opportunities, the work of Bibb & Form (1977) finds the prevalence of wage discrimination leading to disproportionate earnings and low incomes of females. Female executives generally have lower levels of objective career success than their male counterparts (Judge et al. 1995). These barriers lead organizations to a situation where they are confronted with loss of female talent best described as a leaking pipeline analogy, ultimately resulting in high attrition and replacement costs, loss of opportunities for growth and advancement and prevalence of an archaic organizational culture (PwC, 2008).

The results of some studies also suggest that once appointed on boards, participation and inputs from women directors may not be openly accepted or welcomed by their male colleagues. Men directors disregard inputs from their female colleagues on issues related to engineering and technologies (EOWA, 2008) and those related with science such as emissions, waste management and climate change. This is likely to have an impact on firms' environmental quality and performance. Issues dealing with the impact of business activities on the natural environment and investment in environmental ‘green’ technologies in manufacturing are considered to be more technical and match with the profiles of
male directors (Klassen & Whybark, 1999; Mann et al., 1998). Hillman et al. (2002) find a distinct pattern of qualifications and expertise between the men and women directors, with men having stronger backgrounds in business as well as technical disciplines such as engineering and science and women with backgrounds in non-profit and community service-based organizations. So, for technical issues such as those related to environmental quality, male directors generally rely on inputs from their male colleagues who have technical backgrounds as opposed to women directors. Even though environmental issues involve ethical ramifications and require a long term perspective, the inputs of women directors are generally ignored. Due to these differences between men and women directors with regard to their educational backgrounds and experiences, gender-based biases and stereotypes might find their way into the boardrooms (Galbreath 2011). Bilimoria & Piderit (1994) also found evidence of sex-based bias in committee memberships in Fortune 300 companies, with preference given to men for compensation and finance committees and to women for public affairs committee.

Many authors worry that tokenism will lead to women being appointed on boards as ‘trophy’ directors and thus, reduced to a role of a rubber stamp. Companies also lose their sense of urgency for achieving adequate representation of women on their boards after appointment of one or two token female directors (Rhode & Packel, 2010). Kanter (1977) affirmed that effectiveness of women in the corporation depended on proportions in which they found themselves. Women found in minority in skewed groups (85:15) could be called ‘tokens’ and treated as representative or symbols of their category. Women in ‘token’ status have high visibility which tends to create performance pressures, they face polarization and exaggeration of differences with the dominant (male directors in higher proportion) leading to self-consciousness and isolation, and women as tokens are easily stereotyped and their assimilation of these generalizations results in role encapsulation (Kanter, 1977). Thus, tokenism impairs performance of women on boards and makes it more difficult for them to contribute on merit and as equal members (Rhode & Packel, 2010). Zimmer (1988) argues that the solution to the problem of tokenism does not only lie in making structural changes at the organizational level and increasing the number of women but lies more in
bringing about changes at the broader level of the sexist society of which the organization is a part. More efforts may be required in this direction.

Norway is particularly interesting in this context and has received international attention for innovative approaches for improving gender diversity in the boardroom. Embarrassed that women held just 7.5 per cent of board positions, the Norway government issued a directive requiring its 650 public companies to appoint at least 40% women on their boards by 2005 (Goldsmith, 2002). In 2003, challenging the prevalence of ‘old-boys' network’ in the boardroom, Norway government enacted and enforced this law of 40% quota for women on boards of all listed companies in Norway (Ferreira, 2009). By the year 2008, 93 per cent of Norway's public limited companies were in compliance. The stick approach, through Norway's law, worked and the women representation on boards increased from 7% to 39% (Janet, 2008). Other countries like Spain and Sweden are contemplating a similar strategy (Ferreira, 2009). India has also taken steps to promote gender diversity on boards of its listed companies by the enactment of the new Companies Act, 2013 which mandates appointment of at least one woman director on boards of listed companies with paid up capital of 100 crore or more or Turnover of 300 crores or more. The impacts of these efforts will only be seen in the future.

In the words of Maitland (2009), companies must ensure that ‘women are fairly represented at all levels, from the showroom to the boardroom.’ Around the world, countries and corporations are recognizing the importance of developing, training and promoting women up to the board level. Results of Adams & Ferreira (2009) suggest that imposing mandatory quotas for women directors in companies with strong governance tends to have a negative effect on their value. So whether legislations and quotas to this effect are the right solution remains to be further evaluated.

**Summary of review of literature**

WCED (1987) definition of sustainability is its most accepted conceptualization, as “meeting present needs without compromising the ability of future generations to meet their own needs”, with many previous scholarly works quoting this /
making it the base of their research. This makes every entity in the present and future as stakeholders. Integration of environmental and societal consciousness alongside the economic considerations, in the core strategies will lead to long term sustainability of a company. These three dimensions of corporate sustainability are mutually dependent and can lead to improved performance of an organization. To present a strong business case for embracing practices that promote ethical conduct of business which safeguards the interests of all stakeholders and inculcates a culture of sustainability, organizations are increasingly adopting mechanisms to record, report and analyze their overall performance on these dimensions. There is also a common strong support, in literature, against the ‘on size fits all’ system for prescribing sustainability disclosure reporting requirements with evidence of different corporate sustainability frameworks being used by different companies to assess their relative performance or rating and taking corrective steps in future. Frameworks provided by GRI, UN Millennium Development Goals, UN Global compact, Equator principles and DJSI are some of the major international initiatives to promote corporate sustainability practices and disclosures.

External and internal factors are known to drive of sustainability initiatives taken by a company. All stakeholders, especially the leadership and the composition, especially the role of diversity in the composition of board of directors have been shown to play an instrumental role in establishing a sustainability culture in their organization. In any debate on diversity, gender diversity becomes pertinent. Although potential benefits of gender diversity in general have been established in the past, there has been a recent small stream of research on gender diversity with specific reference to the board of directors and the role it can play in the long term sustainability of the organization. The existing literature in presenting a case for putting more women on boards, highlight the intangible as well as tangible benefits women presence on boards can to bring to organizations. However, there exist some ambiguity and contradictions on impact women have especially on the financial performance of a company. It is also found that there is also no consistency in the choice of measure of gender diversity as well as measurement variables reflecting the three dimensions of sustainability.
Also a few scholarly works, although separately suggest that women have an influence on the economic performance, social responsiveness and the environmental consciousness reflected by a company, there is very less research investigating their impact on all these three sustainability together was found.