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Does Gender Diversity Improve Firm Performance? Evidence from India

By Ruchika Joshi

December 2017

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Executive Summary

The relationship between gender diversity and firm performance has been the subject of research inquiry for over three decades now. However, if businesses were to turn to this body of literature for insights to drive their talent recruitment and management practices, they would be hard-pressed to find consistent evidence[1] on what to do. While some studies say that fostering gender diversity improves firm outcomes, others claim the opposite is true. Yet another set of studies find that there is no significant link between gender diversity and organizational performance. As a result, when it comes to fostering gender diversity as part of their workplace strategy, private sector firms are often left to rely on past experiences, stereotypes and anecdotal assertions. This is a problem.

The workplace forms the backdrop against which diversity-enhancing policies get introduced, and firms wield sufficient influence on the day-to-day implementation of these policies.

With only about one in four women working or looking for work,[2] India faces a dilemma of rapid economic growth alongside lower economic participation of women.[3] While the productivity losses from squandering the potential of nearly half of India's workforce are clear,[4] there has not been enough focus on identifying and implementing effective policies aimed at improving women's workplace experiences.

Despite recent attempts by the government to institute policies geared toward fostering gender diversity in the workplace in hopes of encouraging more Indian women to join the workforce, many of them have fallen short in practice. This is partly because of their limited take-up by private sector actors, who lack consistent evidence on how gender diversity shapes their outcomes. At the same time, the workplace forms the backdrop against which diversity-enhancing policies get introduced, and firms wield sufficient influence on the day-to-day implementation of these policies. Since firm actions and priorities are motivated by considerations of organizational performance, this paper examines the key question: Does gender diversity affect firm performance in India?

Existing literature is mostly limited to examining gender diversity in corporate boardrooms and senior management. But reaching these positions depends on the opportunities and resources that women are afforded early on in their careers. If women are missing from the traditional career pipeline, they will be absent in corporate boardrooms as well.

This paper analyzes secondary data for Indian firms based on the World Bank 2014 Enterprise Survey,[5] to evaluate the gender diversity-performance link at the organizational level. The findings show that while there is no significant effect of gender diversity on firm performance overall, disaggregation by sector reveals a positive impact of gender diversity on performance of businesses in the retail sector.

Drawing from these results and highlighting the different channels through which diversity affects organizational performance, this paper argues against narrow definitions of both 'firm performance' as well as 'gender diversity'. Limitations of data availability have so far confined researchers to examining gender diversity as the proportion of women and men, mostly within a corporate boardroom. But gender diversity is not a numbers game alone. Instead, it must be evaluated based on the opportunities women get and the challenges they must navigate, across all ranks and at every stage of their professional advancement. The way in which gender diversity impacts firm outcomes depends considerably on the context within which this relationship is examined, making it imperative to collect and analyze data, both quantitative and qualitative, that captures this complex reality.

Gender diversity is not a numbers game alone. Instead, it must be evaluated based on the opportunities women get and the challenges they must navigate, across all ranks and at every stage of their professional advancement.

Against this backdrop, the right question to ask is not just whether gender diversity improves performance, but also whether firms are fostering an inclusionary climate to leverage the benefits of diversity toward better performance. On the other hand, if firms don't actively promote gender diversity in the workplace, they stand to miss out on the potential of nearly half the talent pool and will struggle to keep up with the challenges of serving an increasingly diversifying consumer base.

To achieve greater parity in the workplace, this paper recommends a policy framework geared towards creating a supportive labour market for women in collaboration with the private sector, fostering an inclusionary climate in the workplace throughout women's career trajectories, promoting policies that ensure work-life balance, and strengthening the evidence base on the gender diversity-performance link across all ranks in an organization.

Declining Female Labour Force Participation and Scope for Private Sector Involvement

Female labour force participation[i] (FLFP) rate in India has historically been significantly lower than its male counterpart, but in an alarming trend is decreasing even further. Despite rapid economic growth, declining fertility rates and rising levels of education,[6] India's FLFP rate fell sharply from just over 37 per cent in 2005 to 27 per cent in 2016.[7] Indian women continue to perform the bulk of unpaid work. When they are employed to do paid work, it is disproportionately in the informal sector where working conditions and wages are poor.[8] In the formal sector, women remain glaringly absent from leadership positions[9] and are paid considerably less than their male counterparts for the same job.[10]

Women's low workforce participation is not just bad for their economic empowerment but also has serious macroeconomic implications for the country. Complete gender parity could add nearly USD 2.9 trillion to India's annual gross domestic product (GDP) by 2025 – a massive 60 percent more[11] than if women's participation stays constant. This makes sense considering that presently the productive potential of nearly half the population is not being harnessed effectively. Higher female labour force participation can also help expand[12] the available pool of skilled workforce and mitigate the talent shortage faced by Indian firms – a pertinent issue discussed in more detail later. Since employment is a critical channel through which the benefits of economic growth reach most population, some commentators have gone so far as to argue that in emerging economies, women's work may be the most crucial lever[13] for poverty reduction.

Economic benefits of gender parity in the labour market do not rest on merely bringing more women into the workforce, but instead on bringing them into quality jobs.

However, the economic benefits of gender parity in the labour market do not rest on merely bringing more women into the workforce, but instead on bringing them into quality jobs so that their productive potential can be harnessed toward a more sustainable growth trajectory. To facilitate this, India has introduced various policies ranging from mandating listed companies to appoint at least one woman director on every board[14] to recently increasing paid maternity leave from 12 to 26 weeks[15] – the third highest

[i] *Labour force participation rate is the proportion of the population ages 15 and older that is economically active.*

globally[16] after Canada (50 weeks) and Norway (44 weeks). Legal provisions mandate payment of equal remuneration to men and women for the same work, and protection of women workers from sexual harassment, whereas government programmes like the Support to Training and Employment Program for Women, and the Rajiv Gandhi National Creche Scheme for Children of Working Mothers, seek to enable sustainable employment opportunities for women.[17]

Yet many such policies often face implementation hurdles. Sexual harassment in the workplace continues to be a big problem[18] for Indian women and employers are often reported to not fully comply with the requirements of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act 2013.[19]

Reservations for women in corporate boardrooms initially led to the perverse outcome that many of the appointed women directors were token representatives with no real decision-making power. In one instance, it was reported[20] that a woman director was serving on the boards of as many as seven listed companies! In 2017 – three years after the deadline for complying with the act had passed – women directors constituted only 13 percent of all representation in the boardrooms of the top 500 companies listed on the National Stock Exchange.

Similarly, when asked how their hiring approach would change with India's new maternity bill in place, over a quarter of respondents[21] from a sample of more than 4,300 entrepreneurs, start-ups, and small & medium enterprises, said they would now prefer to hire male employees since providing extended maternity leave and childcare facilities were expected to negatively impact their business and profitability.

Private sector actors can significantly shape the challenges and opportunities that women workers face in their day-to-day professional tasks and interactions with their colleagues, and help overcome implementation hurdles to women-friendly employee policies. On the other hand, if firms don't actively promote workplace gender parity, other efforts to increase women's economic participation are bound to fall short.

This is particularly important for countries like India, where one significant long-run factor underlying declining FLFP is the occupational segregation of women[22] into specific industries and jobs. Regressive gender norms as well as adversarial labour markets riddled with problems of wage discrimination, poor working conditions and lack of adequate skills training for women, mean that women in India are disproportionately present in occupations that have not seen employment growth overall. Between 1994 and 2010, women took up less than 19 percent of the new employment opportunities generated in India's 10 fastest growing occupations which accounted for 90 percent of all employment growth.[23] This, in turn, has limited the number of job opportunities available to women and poses a barrier to their participation. In fact, in the same period, only 9 million women in India gained employment – a figure that could have nearly doubled[24] if women had equal access to the same industries and occupations as their male counterparts.

Firms are expected to foster diversity, if doing so improves their performance in an increasingly competitive marketplace. However, as the next section shows, empirical evidence on such a "business case for gender diversity" tells a complex story.

Literature Review

Broadly, the existing literature has sought to narrow down the ambit of research to examining the relationship between women in senior management and corporate boardrooms, and (i) firm financial performance and (ii) actions taken by the board.[25]

The existing literature has sought to narrow down the ambit of research to examining the relationship between women in senior management and corporate boardrooms, and (i) firm financial performance and (ii) actions taken by the board.

Globally, there is strong evidence that gender diversity in top management positively affects firm performance.[26] Not only do certain corporate decisions pertaining to acquisitions and equity offer yield higher announcement returns when they are taken by women rather than men,[27] but gender diversity in the boardroom also improves the monitoring role of the board and positively influences corporate governance, especially in countries that lack strong external oversight mechanisms.[28] In India, Sarkar and Selarka analysed more than 10,000 firms over a 10-year period to find that gender diversity in the boardroom has a positive impact[29] on both firm value and firm profitability. Examining the presence of independent women directors on the board, another recent study of large listed Indian companies also concluded that independent gender diverse boards positively influenced[30] the financial performance of firms.

However, there is also some evidence to the contrary. In their study of 1,939 American firms, Adams and Ferreira found that although gender diversity in boardrooms is positively associated with firm outcomes such as greater participation of directors in decision-making and better alignment of shareholder interests through equity-based compensation, the average effect of gender diversity on firm performance is negative.[31] In Norway, where a ground-breaking law was passed in 2003 mandating 40 percent of all public-limited firms' directors be women, Ahern and Dittmar[32] found that the constraint led to a significant fall in the stock price, less experienced board composition, increase in leverage and acquisitions, and a decline in firm performance.

Most existing research focuses on the impact that women in corporate boards have on firm outcomes, which creates a critical gap in the literature especially when one considers that for women to reach the boardroom, they need to be present throughout the pipeline, i.e. from entry-level to executive and management positions. In contrast, one-third of all global businesses in 2016 had no women in senior roles[33] – a statistic that had remained unchanged since 2011. Traditionally, the primary route to becoming a board director has been through CEO-experience.[34] Since women presently constitute merely 6.4 percent of all Fortune 500 CEOs[35] and only a quarter of all executive and management positions,[36] it is easy to see that a key reason why women are absent from corporate boards is their under-representation in the traditional pipeline to board service.[37]

Even when women are promoted to senior managerial roles, they find their progress hindered by lack of experience in roles that center on revenue-generation or profit and loss responsibility.[38] Additionally, lack of mentoring relationships and networking opportunities prevent women from climbing up the corporate ladder.[39]

Addressing these issues requires alignment between organizational priorities, strategies and processes. Moreover, since gender diversity affects firm performance through several processes within workgroups, it is important to examine how these dynamics play out at executive and mid-management levels as well, where the day-to-day functional decisions are taken and executed. While senior executives may set the broader corporate strategy, it is the middle management, department managers and salaried supervisors who are key to how these policies are implemented on ground.[40]

Although there remains a serious dearth of research pertaining to the impact of gender diversity,[41] evaluating performance as return on equity, McMillan-Capehart found it had a positive association[42] with organizational gender diversity. Other studies indicate that the relationship might in fact be non-linear. According to Frink et al. gender composition and firm performance have an inverted U-shaped relationship,[43] with the organization's profitability being highest when equal proportions of men and women were present in the workplace. Using employee productivity as a measure of firm performance, another study found partial support for both a positive linear gender diversity-performance relationship, along with evidence for an inverted U-shaped curvilinear association[44] which qualified and refined the linear prediction, to give more layered insight. The study reported that at low and moderate levels of gender diversity, the relationship between diversity and performance was positive, after which it levelled off and then became negative as gender diversity increased.

Interpreting these mixed results depends on a nuanced understanding of the channels through which gender diversity affects performance, as well as, of the data, methodology and performance indicators being used. More importantly, the existing body of research points towards a pressing need to define gender diversity beyond the numerical representation of men and women in an organization, and highlight instead, the context within which the diversity-performance link is being examined.

Channels through which Gender Diversity Affects Firm Performance

The demography of a work-group critically influences group processes,[45] which affect group performance, which in turn shapes organization performance.[46] Diverse groups encourage individuals to access other individuals with different backgrounds, experiences, networks, information, education and expertise than their own. By facilitating a positive environment of constructive disagreements, debates and discussions, diversity furthers novel insights, creativity and innovation, and advanced problem-solving geared toward higher-order outcomes – far better than what would be possible in more homogenous teams.[47] This is because when presented with conflicting opinions, knowledge and perspectives, a diverse group can consider, discuss and evaluate all relevant interpretations, alternatives and consequences, before narrowing down to a common resolution and making the relevant task-related decision. Through this channel of information-processing, gender diversity can be a source of sustained competitive advantage[48] for the organization.

By facilitating a positive environment of constructive disagreements, debates and discussions, diversity furthers novel insights, creativity and innovation, and advanced problem-solving geared toward higher-order outcomes.

Amidst intense competition firm-level gender diversity allows businesses to serve their clients better.[49] By matching their firms' demographic composition to those of critical consumer groups, companies can leverage familiarity with niche markets to gain a competitive advantage. Considering that the "niche market" in question refers to nearly a billion women who would enter the global economy by 2020 for the very first time as employees, entrepreneurs and consumers,[50] it is critical for firms to have a gender diverse workforce if they are to tap into the spending power and economic potential of the "third billion".

Having a more gender-diverse team equips firms to understand the unique requirements and spending behaviour of their women consumers, and consequently serve them better to gain a competitive edge[51] in an increasingly diversifying marketplace.. For instance, one study[52] quoted the CEO of a healthcare firm who said, "…most decisions about healthcare are made by women …You get a much better sense of what's going on in the real world if you have the woman's viewpoint in the boardroom".

Another example is that when voice recognition software in cars was first launched, it barely recognized women's voices because the original design team had low female representation and consequently female inputs, during the development stages. As a result, the software ended up calibrated to the voices and speech patterns of the male members of the design team, and when launched failed to serve female end-users[53] since their commands were not recognized by their cars.

Increased gender diversity at team level also enhances the innovative capacity and performance of both individuals and teams, and consequently for firms.

But the case for gender diversity in teams extends beyond identity group representation. Increased gender diversity at team level also enhances the innovative capacity and performance of both individuals and teams, and consequently for firms. Analysing a sample of 1,500 S&P firms, Dezsö and Ross showed that firms with female representation in senior management not only exhibited greater "innovation intensity", but also generated, on average, USD 40 million more in economic value[54] compared to firms which had no women in their top management teams.

The importance of gender diversity to spur innovation is especially relevant today as businesses across sectors are struggling to cope with the disruptions[55] accompanying sweeping technological advancements. From automation to artificial intelligence, these transformations bring opportunities as well as challenges for businesses as they strive to stay competitive against new products, services or business models that are completely supplanting the existing versions.

Women managers are positively associated with such "disruptive innovation",[56] as they are more likely than men to exhibit key leadership behaviours,[57] such as investing in people development and matching professional expectations to suitable rewards. Despite being critical to the business needs of the future, these leadership qualities are in short supply today,[58] strengthening the case for firms to foster gender diversity and leverage it toward navigating a rapidly changing marketplace.

A more pessimistic view of diversity however, is that it creates social divisions which hinder social integration and cohesion, in turn leading to negative outcomes for the group.[59]

When individuals categorize themselves and others in a hierarchical structure at the personal or group levels, there are differences in expectations for in-group and out-group members, leaving out-group members more prone to stereotyping than those within.[60] These stereotypes feed into "in-group" bias toward individuals belonging to similar social categories, and negatively affect group performance.

For instance, in male-dominated settings, women as out-group members are often excluded from informal networks of advice, sponsorship support and mentorship. While women's achievements and competence are attributed to external factors of luck and special treatment, the success of their male colleagues is attributed to intrinsic strengths of intelligence, commitment and ambition. Despite having displayed objectively equal performance, women are held to higher standards and have to be better than their male counterparts to be considered for the same role.[61] As authors of one study[62] argue, "women's competence has to be widely acknowledged in the public domain or through family connections before boards . . . will be prepared to 'risk' having a woman on the board."

Against such a backdrop, if gender diversity produces negative behaviour such as reduced communication, and cooperation among employees, it may contribute to diminished aggregate organizational performance.

Against such a backdrop, if gender diversity produces negative behaviour such as reduced communication,[63] and cooperation[64] among employees, it may contribute to diminished aggregate organizational performance.[65]

Considerations of Data, Methodology and Performance Indicators

The other key reason for conflicting empirical evidence is the lack of high-quality granular data. Typically, only data from publicly listed companies is available, which is often restricted to gender composition in the boardroom, and results in a sample size too small to be meaningful.[66] Not only does this make it difficult to detect a statistically significant effect of gender diversity – especially if it is small in magnitude – but it also excludes the broader corporate sector comprising of small- and medium-sized enterprises. In addition, there is very little accessible data on gender composition by hierarchy within organizations.

Methodological shortcomings such as short-term observations of performance measures, and difficulty in controlling for reverse causation (i.e. effect of firm performance on gender diversity), measurement errors, endogeneity issues and omission of important variables that affect performance, also contribute to the varied empirical results. Mixed findings might also stem from the variation in time periods, countries, economic environments and type of firms under examination, as well as from the varied measures performance indicators used across studies.[67]

Measuring performance in terms of return on assets, return on equity and stock prices, fails to capture the true extent of impact of gender-diversity. Workplace diversity dynamics are complex, and affect firm performance through many channels, the effects of which may not be captured in narrow measures of financial performance. In addition to direct measures of firm profitability, we need to examine how gender diversity affects broader firm outcomes such as talent recruitment and retention, as well as corporate reputation, which in turn drive economic dividends.[68] These effects are often complex to measure and may not be accurately assessed if the performance variables being examined are uni-dimensional.

The link between corporate reputation and gender diversity is of more relevance now than ever before. Recent episodes of sexism reported in major companies depict the new reality that a company's internal culture and workplace dynamics are no longer 'internal'.

Corporate reputation

Increased membership of female directors is positively associated with corporate reputation.[69] A survey of all Global Fortune 500 companies[70] found that well-reputed companies had twice as many women in senior management compared to those held in lesser regard. Another study[71] found that as the number of women directors on the corporate boards of the Fortune 500 companies increased, the probability of the companies to be ranked high on corporate responsibility and ethical orientation increased, which in turn had clear economic benefits for the firms. For instance, a positive corporate reputation can improve the company's corporate branding which is instrumental for launching new products and tapping new markets,[72] along with increasing its financial performance, share price, and the institutional investment it attracts.[73]

The link between corporate reputation and gender diversity is of more relevance now than ever before. Recent episodes of sexism reported in major companies depict the new reality that a company's internal culture and workplace dynamics are no longer 'internal'.[74] With rapid advancements in how we consume and disseminate information, consumers can now see every aspect of how a business functions. As workgroup processes become a fundamental part of a company's brand, and consumers have more agency to reward or punish firms based on their internal culture, there is a pressing urgency for firms to increase gender diversity to stay competitive.

Talent acquisition and retention

The other firm outcome that must be evaluated as part of performance is talent. In an increasingly diverse labour market, actively promoting gender diversity can help firms to attract and retain the best talent, which is critical for firms to perform well.

More than half of those employers facing the challenge of bridging the talent gap feel that they are not able to serve their clients satisfactorily, which decreases their competitiveness in the market.[75] To recruit the best people, an organisation must take advantage of the entire talent pool and tap into the potential of eligible women candidates. This is especially important if there exists a competitive talent shortage, as is the case for firms in India.[76]

With only 2 percent of India's labour force qualifying as formally skilled,[77] 58 percent of firms in India encounter difficulty finding qualified employees.[78] Moreover, estimating for the period between 2013 and 2022, the National Skill Development Corporation found the non-farm sector would require an additional 120 million skilled workers, in turn indicating that the shortage of workers is likely to remain a major concern for firms in India.

As the proportion of Indian women pursuing secondary and tertiary education increases,[79] it makes sound business sense for firms to foster gender diversity and draw in women candidates, who are more likely to prefer working for organisations that value gender diversity and are therefore more likely to invest in their professional growth and job-satisfaction. If firms limit their hiring to male candidates, despite the presence of eligible women candidates, the talent shortage would be more severe.

Retaining the best talent is equally important, since employee turnover is expensive. It has been estimated that the cost to replace an employee can amount to half of their annual salary, while total turnover costs can range from 150 to 200 percent.[80] Actively affirming their commitment to diversity in the workplace can help firms decrease turnover,[81] since employees are inclined to stay on in firms where they are treated fairly and have access to the same opportunities as their colleagues.[82]

Importance of Context in Evaluating the Diversity – Performance Link

Most previous studies have incorrectly reduced gender diversity in the workplace to a simple numbers game, making it even more difficult to capture its impact on performance. Gender diversity goes much beyond just the proportion of men and women in a firm. It matters when, where and how women participate in the workplace, which in turn can have different implications on firm outcomes.

There is emerging evidence that the influence of women directors on corporate boards is considerably shaped by the broader context,[83] i.e. the situational settings within which professional working relationships and interactions occur. While theoretical perspectives of information processing, similarity-attraction, and social categorization and identification theory explain why gender diversity might manifest in specific work-group or organizational outcomes, a careful consideration of the context is important to understand when, where and how it happens. By determining the specific constraints as well as opportunities that shape team dynamics, situational settings can either reduce or amplify the direct impact of gender diversity on performance,[84] thus reconciling some of the mixed empirical evidence from past research.[85] Broadly, the key contextual influences that affect the gender diversity-firm performance link are occupational demography, industry setting and climate for inclusion.

When one demographic group dominates an occupational setting, negative stereotypes against underrepresented groups are exacerbated whereas distinguishing information about minority group members at an individual level is ignored.

Occupational demography

When one demographic group dominates an occupational setting, negative stereotypes against underrepresented groups are exacerbated whereas distinguishing information about minority group members at an individual level is ignored. Status differences in the broader social context between the dominant demographic group and the minorities may also filter into team-level interactions, with overrepresented individuals being perceived as having greater expertise. This, in turn, hampers performance of individuals from the minority demographic group, negatively affects team interaction, and contributes to poor performance outcomes.[86]

Joshi and Roh give the example of one such occupational category of production engineers. Given the broader context where majority of production engineers in the labour market are male, female engineers within a mixed team are prone to negative stereotyping such as possessing inferior technical competence. They also have lesser access to resources, which shapes their overall team performance unfavourably. The authors' meta-analysis of 8,757 teams, confirms that in a male-dominated occupational setting, gender diversity had more negative effects on performance outcomes compared to more gender-balanced settings, where these effects are weaker.[87]

Research evidence increasingly points towards the notion that for gender diversity to affect performance, a 'critical mass' of women must constitute the work group.

Another example is when women are appointed as token members to symbolise diversity in the boardroom and in senior management. Studies confirm that token members often experience social isolation, greater scrutiny and marginalisation, which leads to poor outcomes.[88] Tokenism perpetuates gender stereotypes as women in a minority feel compelled to make themselves socially invisible by downplaying their distinct skills, attributes and perspectives so as to avoid disrupting perceived group harmony and alleviate any discomfort felt within the male-dominant group.[89] This, of course, hinders their performance and reinforces false notions that women don't bring anything new to the table.

Research evidence increasingly points towards the notion that for gender diversity to affect performance, a 'critical mass' of women must constitute the work group.

Examining a sample of 458 women directors on Norwegian boards, one study[90] concluded that women perceive their influence on decision making processes of the board to be higher as the ratio of board membership held by women directors increases. Analysing the supervisory boards of 151 German stock exchange firms over a five-year period, Joecks at al. report that at very low levels of gender diversity there are negative effects on firm performance. But this changes when the proportion of women reaches 30 percent, following which diverse teams demonstrate superior performance to more homogenous teams.[91] Similar results have been observed in organization-level analysis as well, but results on what proportion constitutes the optimal critical mass vary considerably.[92]

As Konrad et al.[93] note, "While a lone woman can and often does make substantial contributions, and two women are generally more powerful than one, increasing the number of women to three or more enhances the likelihood that women's voices and ideas are heard and that boardroom dynamics change substantially…Suddenly having women in the room becomes a normal state of affairs. No longer does any one woman represent the 'woman's point of view,' because the women express different views and often disagree with each other. Women start being treated as individuals with different personalities, styles, and interests. Women's tendencies to be more collaborative but also to be more active in asking questions and raising different issues start to become the boardroom norm."

Industrial setting

Industrial setting, which refers to the specific business environment in which the workgroups are embedded, also moderates the relationship between gender diversity and performance. These go beyond occupational settings to include contingencies of technological change, regulatory pressure, customer demands and market competition – factors that differ by industry and have significant bearing on organizational processes.

The market insight advantage of gender diverse workgroups is more likely to improve the performance of firms in the retail sector where customer satisfaction and retention are more closely linked to employee attributes.

For instance, compared to the manufacturing industry, which relies more on physical capital and equipment, the service industry – which includes sectors such as education, retail trade and hospitality – is more customer-oriented. Close interaction and engagement with the customers creates more room for discretionary behaviour on the part of employees as part of operating teams, which has direct consequences for performance outcomes such as sales, customer satisfaction and customer retention.[94]

In fact, one way this context manifests in performance outcomes is how demographic diversity can give a competitive edge to a firm in the service industry market.[95] For example, the market insight advantage of gender diverse workgroups is more likely to improve the performance of firms in the retail sector where customer satisfaction and retention are more closely linked to employee attributes. As discussed previously, a retail firm that fosters gender diversity is more likely to attract women customers and increase sales, compared to a firm that fails to improve its employee diversity and market share. Similarly, high-technology industries that depend on invention and innovation to develop globally competitive short-cycle products are more likely to benefit more from the varied skills, knowledge, attitudes and networks that fostering employee diversity brings.[96]

In comparison, firms in the manufacturing sector depend more on equipment, technology and raw materials to improve performance outcomes, and are more likely to implement HR practices that involve greater supervision of employee behaviour. This may lead to diminishing the impact of diversity on organizational performance.[97] Moreover, along with having a lower degree of job interdependence,[98] separate workstreams in manufacturing industries means that there is little interaction between men and women making it difficult for organizations to leverage the benefits of collaboration toward higher-order outcomes.[99]

Indeed, empirical evidence supports the argument for evaluating the effect of gender diversity on firm performance in context of industry setting. In their analysis which reveals that firm performance peaks in gender-balanced settings, Frink et al. find that this holds true in the service industry but not in manufacturing, thus suggesting that industries differ in their ability to benefit from fostering gender diversity.[100] Sampling Australian firms, Ali et al. also found evidence of moderating effects of industry type indicating that the positive impact of gender diversity is stronger for firms in the services industry and the negative impact of gender diversity is stronger for firms in the manufacturing industry.[101]

To leverage the true potential of gender diversity in firm performance, employers need to go beyond the short-term goals of token representation, plurality and diversity management, to focus more on creating an environment of inclusion.

Present research also corroborates this. Analysing the 2014 World Bank's Enterprise Survey data on Indian firms, this study[ii] found that while the effects of gender diversity on employee productivity and total output of the firm respectively, were statistically insignificant overall, the effect of gender diversity on employee productivity was statistically significant and positive in enterprises operating in the retail sector. While the retail sector is relatively a low productivity sector overall, gender-diverse firms[iii] in the retail sector have higher labour productivity as compared to more demographically homogenous retail firms.

Climate for inclusion

Another critical factor for harnessing the productive potential of women employees is creating an enabling climate of inclusion for them. To leverage the true potential of gender diversity in firm performance, employers need to go beyond the short-term goals of token representation, plurality and diversity management, to focus more on creating an environment of inclusion.

It must be noted that while valuing differences and introducing diversity training and management to prevent sexual harassment and discrimination and promote mentoring, skills training, and family-friendly policies are crucial, they do not automatically lead to inclusion and empowerment of minority employees.

As Sabharwal[102] explains in her study, "employees making use of work/life balance programs or alternative work arrangements report backlash and are often singled out as receiving preferential treatment. These programs will not be successful as long as they are viewed as "accommodations" that benefit one group more than the others. Employees taking advantage of such policies are deemed to work in less desirable jobs. Single mothers taking advantage of alternative work arrangements are labelled to be on the

[ii] See appendix for the detailed methodology and results.
[iii] In the current analysis, only firms with a female to male employee ratio between 0.7 to 1.3 are considered to be gender diverse.

"mommy track," are taken less seriously, and are often passed over for promotions (Saltzstein, Ting, & Saltzstein, 2001). Very few men use such policies for fear of career derailment or of being labelled as "uncommitted". Such perceptions are strengthened by unsupportive organizational culture in which supervisors do more to create an exclusionary, rather than an inclusionary, work environment."

The positive channel of information-processing– through which gender diversity improves performance – will not automatically result from having more women in the workplace. Instead, this channel needs to be enabled by an inclusionary environment. To integrate and utilize a diverse workforce toward achieving organizational goals, firms need to encourage minority employees to freely express themselves, as well as to deliberately include them to bear on the organization's decision-making processes. There is a need to create an environment where employees feel valued and recognized for their work, have a higher sense of self-esteem and feel comfortable to express their ideas and opinions safely. Achieving this requires effective commitment from top leadership and empowering all employees with the right resources to deliver high performance.[103]

There is growing evidence to support the importance of a climate for inclusion in evaluating the diversity-performance link. Examining data from a survey of public managers in the state of Texas in the U.S., one study found that inclusive organizational behaviours that foster commitment from top leaders and involve employees in decision-making processes positively impact organizational performance.[104] Another study reported that climate for inclusivity moderates the link between gender-diversity and workgroup dynamics, such that lower levels of conflict are experience by gender-diverse groups.[105]

Conclusion

Against this backdrop, it is clear that gender diversity is not just about ensuring fair representation of men and women in teams. There is a pressing need to include the context in which the diversity-performance link is examined. This has important implications for resolving the mixed results observed in previous studies. It is not enough to ask whether gender diversity improves performance. We need to address further whether firms are fostering the right climate of inclusion to leverage gender diversity towards better firm performance. Examining the broader situational settings is a step in that direction.

Doing so shows that diversity spurs innovation and higher-order problem-solving, both of which are key levers for firms to cope with the disruptions accompanying technological advancements.

Not only are women's perspectives, skills and leadership behaviours crucial to meeting the business needs of the future, they are of particular relevance to firms operating in the service industry, as well as those in the manufacturing industry increasingly searching for innovative organizational strategies to increase their market competitiveness.

If Indian firms do not proactively foster gender diversity in the workplace they are poised to lose out on the economic dividends of higher corporate reputation and better talent management. To remain competitive in an increasingly globalising and diversifying marketplace, private sector actors must bring women's diverse perspectives and skills to bear on their decision-making and operational processes. Similarly, as businesses in India continue to face a talent shortage hindering their productivity, promoting gender diversity can help them expand their talent pool and retain diverse employees towards better performance outcomes.

Policy Recommendations

1. **Creating a supportive labour market for women**
   a. Policymakers should increase focus on skilling women workers so that women are not stuck in low-productivity jobs and can increase their contribution in mixed groups. At the same time, they also need to address the demand side challenges of the labour market and take proactive steps to help women break the initial barrier to quality employment.

   b. The state must ensure that women employed away from their place of residence have access to secure accommodation, and that separate toilets and safe transportation facilities are made available to all women workers. The public sector could either directly provide these services or subsidize private firms which do so.

   c. In addition to encouraging the private sector to recruit and promote more women through information campaigns, the government should also provide firms with consultative support on the right approach to diversification, and hold them accountable to achieving diversity goals. This can be done by organizing knowledge-sharing events, mandating regular gender audits, and offering financial incentives such as tax rebates to companies that achieve gender diversity targets.

   d. To create an enabling working environment for women, stringent measures to abolish workplace sexual harassment need to be enforced. The state must ensure that all firms comply with the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act 2013, and firms should further cultivate a professional culture that makes women employees feel safe, respected and valued.

2. **Promoting private-sector engagement in designing and implementing policies**

   a. The government should actively engage private sector stakeholders to understand their unique talent needs, and include their inputs in designing women-friendly employee policies. Not only can firms significantly shape the extent to which these policies are successfully implemented, they are also better equipped to identify the skills gap prevalent in the employment landscape. Additionally, affirmative action policies such as mandating gender quotas to increase women's representation in leadership positions, are likely to be more effective[106] if developed and applied in consultation with employers.

   b. Leveraging insights from firms, as well as channelling their professional expertise, policymakers can also design targeted training programmes and apprenticeships for women and men to enter job fields that are not stereotypical, thereby reducing occupational segregation. While the government may partially or completely fund such programmes, they can be executed by firms who then have the option to recruit from a larger talent pool tailored to their specific skills demand.

3. **Fostering a climate of inclusion in the workplace**

   a. Firms, especially those in the services sector and geared towards innovation, must strive to create an inclusionary climate where women employees can freely express their differences and have access to equal resources. It is especially important that women are afforded equal opportunities in their careers early on, so they can climb up the corporate ladder as fast as their male colleagues, and the gender gap can be closed before it widens further.

   b. Implementing effective diversity management strategies and instituting strong leadership – with fair representation from both men and women – dedicated to increasing women's participation in decision making processes, must be a high priority for businesses to improve their performance.

   c. Firms should also have formal programs and measurable targets to foster an environment that benefits all employees, enables high performance from everyone and effectively checks any diversity backlash. To support this, firms must adopt practical mechanisms that promote equal access to training, recruitment, and promotion, as part of gender-sensitive human resources management systems.

4. **Strengthening policies that support work-family balance**
   a. Women disproportionately shoulder the responsibilities for unpaid household and care work, which limits their economic potential. To mitigate this, the government must ensure that policies such as maternity protection for all women workers are being adhered to, and that all children have access to quality early-childhood care.

   b. Additionally, policymakers should make the reduction, recognition and redistribution of unpaid care work a high-priority issue. Ensuring public provision of basic infrastructure and services, especially in rural areas, creating quality jobs in the care economy, and making affordable care services accessible to working parents, are crucial to addressing this issue.

   c. On the other hand, firms should promote family-friendly flexible working arrangements for their employees, implement gender-transformative leave policies, and invest in childcare services like creches to support working parents.

5. **Expanding the evidence base on gender diversity across all organizational levels**
   a. Granular data that captures the context in which diverse teams work, the status of women employees in mid- and entry-level positions, as well as on nuanced indicators pertaining to diversity management and inclusion, needs to be collected periodically and made available for transparent analyses.

   b. Despite increasing consensus on the value of diversity, very few businesses are formally tracking their own progress in improving firm-level gender diversity. This needs to change. Firms should monitor and evaluate metrics that track women's progress from entry to leadership, as well as capture contextual factors, to determine why, where and when outstanding talent drops out of the race for leadership positions, and consequently bridge the gaps that emerge.

   c. Finally, there is a need to explore further which management practises together constitute a successful diversity inclusion program and how they can be integrated as part of organizational processes.

Appendix

Empirical methodology and results

The main objective of this study is to analyse the effect of gender diversity on firm performance. Gender diversity relates to the gender composition of a firm. A firm with perfect gender diversity is one which has an equal proportion of men and women However, allowing for random variation around the even gender ratio, companies with an uneven gender ratio may still qualify for gender diversity if the imbalance is not significant.

In the current analysis, only firms with a female to male employee ratio between 0.7 to 1.3 are considered to be gender diverse, i.e. in a company with a total of 100 employees, if female employees are more than 41 and less than 57, then the company is designated as a gender-diverse enterprise.

The lower limit of 0.7 and the upper limit of 1.3 have been selected for two reasons. First, this helps separate the effect of balanced workforce since the limits are not far away from equal distribution, and allow for random variations around the even gender ratio. Second, under these limits, the dataset provides a significant number of gender-diverse firms, thereby reducing the chance factor during the estimation. Although the number of gender-diverse firms under examination would have increased if a wider interval had been selected, doing so would have also diluted the concept of gender diversity. However, since there remains an element of subjectivity in setting these limits, scholars' opinions may differ on what the appropriate range should be.

Firm performance, on the other hand, is measured by average employee productivity which is calculated by dividing total sales value by the number of employees. Economic literature shows that one of the important factors that affects productivity is capital stock. Capital stock also accounts for technology in a company. In this study, capital stock is controlled for by including fixed capital in the empirical model.

Data for the present study is from the World Bank's Enterprise Survey of Indian firms in 2014. It provides information on female and male employment for 2,112 enterprises distributed across eleven industrial sectors in India. Of these, only 190 firms are gender diverse as per the chosen definition.

To capture the effect of gender diversity on firm performance, this study uses the dummy variable technique, which helps investigate whether the performance – measured here as labour productivity – of gender-diverse firms is significantly different from those lacking gender diversity, after controlling for other important factors affecting the dependent variable. The dummy variable is 1 for gender-diverse firms (i.e. firms where female to male ratio is between 0.7 and 1.3) and 0 for firms without gender diversity (i.e. firms where female to male ratio below 0.7 or more than 1.3).

In addition to exploring whether there is a significant differential effect of having a gender-balanced workforce on productivity, this study also investigates whether differential effects exist across industrial sectors. In other words, this study attempts to examine whether the effect of gender diversity on firm performance varies by industry setting. To do that, it separately estimates a dummy variable interaction model, where the gender-diversity dummy variable interacts with the industry dummy variables.

Formally, the basic form of the empirical model that we estimate is as follows:

$$Y_i = \alpha_0 + \alpha_1 \text{Genderdiversity}_i + \alpha_2 D_i + \alpha_3 \text{Genderdiversity}_i {*} D_i + x_i\beta + \varepsilon_i (i \in 1,2...,n)$$

where Y_i is the log of employee productivity in firm i. This is calculated by dividing total sales value by total number of employees. Gender diversity is a dummy variable taking value 1 for firms with a balanced workforce, and zero otherwise. D_i is industry dummy. $x_i\beta$ is a 1xk vector of control variables, expressed in log form. Finally, ε_i is the error term. The coefficients α_1 and α_2 capture the differential effect of gender diversity on productivity, and industrial differential intercepts, respectively. Whereas, the coefficient on the interaction term (α_3) captures the effect of gender diversity on employee productivity in a particular industry.

Several robustness checks are performed, such as the use of robust standard errors, which overcomes issues arising from heteroscedasticity[iv] and autocorrelation. In another robustness check, the dependent variable is measured differently.

It may further be noted that of the 11 industries under examination, interaction effects were introduced for only five industries due to lack of sufficient number of gender diverse firms in the remaining six industries. The signs and statistical significance of the control variables used in the model are consistent with economic theory, indicative of correct specification of the econometric model.

This study finds that as the share of female to male employee increases, average employee productivity falls. The total value of output in firms with relatively higher share of female workers is lower than in firms with higher share of male employees. But these effect of gender diversity on both total output and employee productivity is statistically insignificant.

[iv] *Bertrand, M., E. Dufflo, and S. Mullainathan. 2004. "How much Should We Trust Difference in Differences Estimates?" Quarterly Journal of Economics CXIS: 249–275.*

Table 1

Effect of Gender Diversity on Total Output

Independent Variables	With robust standard errors Dependent variable: logarithms of total output	
Constants	7.364*** (0.020)	5.124*** (0.251)
Gender Diversity	0.029 (0.063)	-0.060 (0.062)
Technology	---	0.151*** (0.048)
Number of workers	---	0.910*** (0.040)
R-square	0.0001	0.578
No. of observations	1946	611

Note: (a) figures in parenthesis represent robust standard errors (b) *=p<0.10, **=p<0.05, and ***=p<0.01.

Table 2

Effect of Gender Diversity on Average Employee Productivity

Independent Variables	With robust standard errors Dependent variable: logarithms of output	
Constants	5.876*** (0.013)	5.080*** (0.250)
Gender Diversity	-0.082** (0.037)	-0.068 (0.062)
Technology	---	0.133*** (0.0422)
Number of workers	---	0.910*** (0.040)
R-square	0.001	0.056
No. of observations	1946	611

Note: (a) figures in parenthesis represent robust standard errors (b) *=p<0.10, **=p<0.05, and ***=p<0.01.

In the retail sector, of a total 328 firms there are only 18 firms where gender diversity exists as per the given definition. The effect of gender diversity on output per worker is statistically significant and positive in enterprises operating in this sector. In terms of responsiveness, a one percent increase in gender diversity in retail sector raises the overall output per worker by 0.34 percent. These results suggest that gender-diverse firms in the retail sector have higher labour productivity as compared to more demographically homogenous retail firms.

Table 3

Effect of Gender Diversity on Productivity and on Employee Productivity in Retail

Productivity (Log)	Coefficients	Robust Standard Error	t	P > |t|	[95% Confidence Interval]	
Capital (log)	.1211893	.0436564	2.78	0.006	.0354532	.2069255
Gender Diversity	-.1078196	.0682026	-1.58	0.114	-.2417618	.0261225
Retail	-.1777133	.0678882	-2.62	0.009	-.311038	-.0443887
Gender Diversity in Retail	.3410722	.1650677	2.07	0.039	.0168979	.6652464
Constant	5.172824	.2635952	19.62	0.000	4.655153	5.690495

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