NUS National University of Singapore

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Women independent directors boost companies' finances: Study

It also finds that board gender diversity positively affects corporate governance

Women independent directors have a direct positive effect on the financial performance of companies, according to a study conducted by the National University of Singapore (NUS) Business School's Centre for Governance, Institutions and Organisations.

If the average number of women independent directors on a board increases by one, the company's financial performance, as measured by Tobin's Q ratio of market value to book value, would rise by 11.8 per cent.

A useful measure to value a company, the Q ratio links the market value of a firm to the replacement cost of its assets.

The findings of the study were presented yesterday at a seminar on board gender diversity organised by the Diversity Action Committee (DAC), a body comprising corporate leaders and professionals from the business, people and public sectors that was set up by the Government to address female under-representation on company boards.

The study analysed data from 500 companies listed in Singapore over the past five years, excluding real estate investment trusts and business trusts.

It was also mentioned that the presence of one woman independent director on a board, compared with having none, leads to a higher corporate governance score of 55.12, which in turn improves the financial performance of a company. The corporate governance score for having no woman independent director on a board is 45.53.

"Women's representation in leadership and leadership roles, especially on corporate boards, matters a great deal," said McKinsey & Co senior partner Diaan-Yi Lin.

Commenting that research shows the presence of three or more women on boards is positively correlated with factors such as stronger organisational health, better decision-making and greater diversity of thought, she added: "Increasing the number and percentage of women on corporate boards is not only equitable, it is also an effective approach to strengthen companies and national economies, by enabling them to tap the best available people across entire talent pools."

55.12

Corporate governance score when there is one woman independent director on the board, compared with a score of 45.53 when there is none.

DBS Group Holdings chief executive Piyush Gupta said: "Having diversity on the board helps avoid groupthink and results in wider views and opinions, as well as richer dialogue, that translate into better strategies and decisions. Boards that strive for effectiveness and embrace diversity as a mechanism to deliver effectively are likely to perform better than other boards."

The study, led by NUS Business School's Associate Professor Lawrence Loh, also found that board gender diversity has a "positive and statistically significant" impact on corporate governance score, which in turn has a similar effect on financial performance.

It is the first in Singapore to establish a relationship between board gender diversity and a company's financial performance.

"This study is timely as proposed revisions to the Code of Corporate Governance promote diversity policy transparency and board renewal," said DAC chairman and Singapore Exchange CEO Loh Boon Chye. "We hope that companies will now appreciate the benefits and take action to bring more women onto their boards."