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COMMENTARY

Board gender diversity and business performance: Understanding and completing the narrative

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Singapore

THE gender diversity deficit in business leadership has been lamented as a critical concern all across the world. But the exhortation must be more substantiated.

It has to go beyond having women for the sake of having women. It has to go to the root of the matter in why having such diversity matters for business.

We need a new storyline to convince businesses that it is in their very interests to embrace gender diversity in leadership.

Indeed, the missing narrative is the potential performance impact of gender diversity. And more than anything else, if this comes out, it has to be evidence-based.

Performance Conundrum

The statistical evidence for performance has been somewhat discouraging. The vast majority of studies found that the relation between board gender diversity and company performance is either non-existent or very weakly positive. This conclusion was based on aggregative analyses that had considered more than 100 separate studies across some 30 countries in five continents.

For Singapore, there was an earlier study of listed companies for the period 2012-2013 conducted together with three other Asian jurisdictions – Hong Kong, Malaysia and South Korea. While board gender diversity was found to exert a general positive effect on firm performance, this was actually most diminished in the case of Singapore.

The Centre for Governance, Institutions and Organisations (CGIO) at NUS Business School has just completed a five-year pooled study of Singapore's listed companies. We established that board gender diversity has an indirect impact on financial performance through corporate governance.

Most striking, however, is a specific finding that women independent directors are directly related to financial performance.

Independence Connexion

The phenomenon of women independent directors deserves greater examination.

In our study, 46 per cent of the companies have women on boards. But the proportion of women independent directors among all independent directors is, on average, only 6 per cent even if the range is from zero to 67 per cent. This proportion is definitely on the very low side, in fact, too low to be desired.

As a starting point, we looked at the role of women directors in board processes. We found that when the overall proportion of women directors increases, the number of board meetings decreases. One might have thought that having more women on board leads to better efficiency and hence fewer meetings.

Yet, the strange thing is the number of board meetings increases when the proportion of women independent directors among all independent directors also increases. This is the reverse effect of overall board gender diversity. Indeed, it may be due to the higher level of scrutiny by women independent directors.

The finding actually squares with an observation from an earlier study made by CGIO pertaining to the 100 largest companies in Singapore. There we found that when the board has a non-independent chairman, the overall women representation on boards increases from 9.9 per cent to 11.3 per cent. On the other hand, women representation among independent directors decreases from 11.8 per cent to 11.2 per cent.

In other words, non-independent chairmen bring in more women to the board but these directors are non-independent and are probably relatives of these chairmen. It may be that this then reduces the incidence of board monitoring and hence board meetings.

Independence Contribution

In our current study, we then looked at the influence of women directors on corporate governance. While we established that the overall proportion of women directors has a positive impact on corporate governance scores, the proportion of women independent directors has 1.5 times more impact than that by just the overall proportion of women directors.

The most interesting finding probably relates to the impact on the company's financial performance. Our study determined that the proportion of women independent directors has a positive direct impact on the company's financial performance as measured by the ratio of the firm's market value to its book value.

Notably, the proportion of women independent directors has 17.3 times more impact on financial performance than that induced by the overall proportion of women directors.

Performance Context

Arising from our study, companies will need to appreciate the unique role played by women independent directors, not just women directors in general. But it does not mean that all companies should beat a path to the boardroom door and admit more such directors.

The analyses are based on specific data ranges obtained especially for the women directors. For instance, in our sample, the proportion of women directors on boards ranges from zero to 0.5 and the number of women independent directors ranges from zero to three. Any attempt in prediction or extrapolation has to be done cautiously.

More importantly, our results are statistical in nature using the averaging of large numbers. As everyone will agree, every company is unique and merits consideration distinct from the overall "line of best fit".

With our study, we are beginning to stand on an evidence-based narrative to foster better guidance for board gender diversity. This goes beyond just having women for the board to look good or for the company to showcase itself as doing good.

The case for board gender diversity has to be business-rooted. Inclusion has to be achieved not by default, but by design.

Lawrence Loh is director of Centre for Governance, Institutions and Organisations at NUS Business School, National University of Singapore. This commentary expands on his presentation at the "Resolving the Performance Puzzle of Board Gender Diversity" forum organised by the Diversity Action Committee on 29 June 2018.