

Making a strong case for board gender diversity

The link between having more women on corporate boards and financial performance has never been clearer. **BY FRANCIS KAN**

A DEBATE has been raging in recent years over the link between greater female representation in leadership roles and financial performance. While there is mounting evidence that having more diverse management and boards does lead to better decision-making and, ultimately, returns for companies, some dissenters believe that proof of this correlation is inconclusive.

For instance, a study by Wharton University in 2017, titled "Does Gender Diversity on Boards Really Boost Company Performance?", suggested that the women added to boards may not differ much in their values, experiences, and knowledge from the men who already serve on these boards; and women, being the minority, lack the influence to change the board's decisions.

So does having more women as board directors really help boost a company's bottom line? The first in-depth attempt to answer that question in a local context was released last week in the form of a report by National University of Singapore (NUS) Business School. Employing econometric techniques, the report found that women board directors do indeed have a positive impact on the financial performance of companies (see sidebar).

In the study of about 500 Singapore-listed companies pooled across five years, the findings also indicated that women independent board directors increased financial performance by elevating the company's market value in relation to its book value. According to the study, if the average woman independent directors on boards increases by one, the company's financial performance would increase by 11.8 per cent.

"Up to now, studies across the world have found that the impact of board gender diversity on financial performance is either non-existent or weakly positive. Through econometric techniques, our study is the first in the Singapore context to establish that such a relationship exists through corporate governance," said associate professor Lawrence Loh, director of NUS Business School's Centre for Governance, Institutions and Organisations (CGIO).

Loh Boon Chye, chairman of the Diversity Action Committee (DAC), said that the study's findings are timely, as proposed revisions to the Code of Corporate Governance promote diversity policy transparency and board renewal. "We are seeing more women being appointed to the boards of SGX's largest listed companies. We hope that companies will now appreciate the benefits and take action to bring more women onto their boards."

The value of gender diversity

Board chairmen and directors echoed the report's findings, and believed that more females should be encouraged to join the boards of listed companies here.

"Board diversity is an important contributor to board effectiveness and high-performing boards. While gender diversity is only one dimension of diversity, it is an important one and this is recognised by progressive boards," said Simon Israel, chairman of Singtel and SingPost in his keynote address at the seminar "Resolving the Performance Puzzle of Board Gender Diversity" organised by DAC on June 29.

He added: "Ultimately it is the strength of governance, diversity, the quality of the individual directors irrespective of gender and collective decision-making that lead to the best decisions and outcomes."

Koh Poh Tiong, who chairs the nominating committee of the board of SATS, a ground handling service provider, said that women bring a different perspective to a company, and can act as role models for female employees within an organisation. "As women constitute a great percentage of consumers in the market, women directors can also contribute more to the understanding of consumer behaviour," he noted.

S Chandra Das, deputy chairman at Yeo Hiap Seng, agreed: "During my tenure as chairman of NTUC FairPrice there were two women board members. Both of them made valuable contributions, especially when our shoppers are largely women. It is beneficial to have



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A recent study by NUS Business School has found that women board directors do indeed have a positive impact on the financial performance of companies. PHOTO: FREEMAGES

good directors on board, be it man or women."

Penny Goh, chairman of Keppel Reit Management, pointed out that having a pro-active policy of ensuring women representation on a company's board and senior management is also likely to be viewed positively by stakeholders.

"It is worth noting that increasingly, global investors are placing emphasis on a company's diversity policy in evaluating corporate governance. As more companies take heed of this development, it will encourage boards to place greater attention on gender diversity," added Mrs Goh, who is also co-chairman and senior partner of law firm Allen & Gledhill LLP.

Need to step up?

While there was a consensus that women bring value to a corporate board, the directors BT spoke to also agreed that not enough females were stepping up to take on this role. The reasons cited ranged from the expectations of women in Asian societies, the existence of glass ceilings in certain organisations to self-doubt among prospective female candidates.

"The pressures to balance work and family are immense. Policymakers in both government and corporates need to foster a supportive ecosystem to help women continue their career progression and pursue leadership experiences and roles. This builds the pool of female talent for future board appointments," explained Mrs Goh.

Christina Tan, who has been a director of Keppel Reit Management since September 2016, believed that her over 20 years of experience in investing and fund management globally allows her to bring valuable perspectives to the boards she serves on.

"Women have to first and foremost overcome their own fears, and any self-doubt which leads them to think they are not as good as men. There is also a misperception by some women that they need to behave like men to be successful. That is a fallacy. Women should bring their natural personalities and perspectives to the board," said Ms Tan, who is also the CEO of Keppel Capital, the Keppel Group's asset management arm.

Meanwhile, Luo Dan decided to become a non-executive director at Yeo Hiap Seng in 2017 as she wanted to continue to contribute even after she had left her previous executive roles. She was previously the managing director of Lego Singapore and had spent more than a decade with the Heinz Group of companies.

"Being a board member allows me to contribute to different businesses in various industries using my skills and experience. At the same time, serving as a board director helps my personal development, by learning from other board members and potentially learning about different industries and different organisational cultures," she said.

She advised women aspiring to be board members to build their executive careers and brand, as well as expand their network with people who are already board members. "Registering your interest at the Diversity Action Committee and becoming a member of the Singapore Institute of Directors could greatly help enrich your network and make your profile available in their database for potential opportunities," she noted.

Jessica Tan, a director at SATS, agreed that women have to make it known that they are ready to and willing to take on a board role. "If you do want to be a director, do express your interest. You will have to connect and step forward so that people will know you and your abilities," she said.

She noted that beyond her professional experience, her active participation on committees in a cross-section of sectors – including education, sports, community and economic – helps to bring different perspectives to her role at SATS. Among other roles, she is a Member of Parliament for East Coast Group Representative Constituency, director of group commercial at Raffles Medical Group, and president of Netball Singapore.

Encouragingly, Ms Jessica Tan is seeing more women taking an active interest in being part of boards. "With the various platforms that are promoting and enabling women to better understand board roles and opportunities, more women are engaging and making time to better understand board responsibilities and stepping forward to offer themselves as directors. Women should continue on this," she felt, adding: "However, this is not enough. Leaders, especially women leaders should actively sponsor and raise the level of visibility of able women for board positions."

Women do make a difference

A STUDY by the NUS Business School's Centre for Governance, Institutions and Organisations (CGIO) investigated the relationship between board gender diversity and corporate governance score, and between these variables and financial performance, using regression models.

The results of the findings were announced last Friday at a seminar "Resolving the Performance Puzzle of Board Gender Diversity" organised by the Diversity Action Committee (DAC).

Discussions at the seminar centred around the impact of women representation in senior leadership and highlighted how to achieve a more gender diverse leadership for better stewardship and governance.

The study used a combination of publicly available data of director profiles, company corporate governance scores from the Singapore Governance and Transparency Index (SGTI) and company financial performance indicators obtained from Bloomberg.

Key findings

- Board gender diversity was found to have a positive and statistically significant impact on corporate governance score.
- Corporate governance score was found to have a positive and statistically significant impact on company financial performance.
- No direct effect by board gender diversity on company financial performance was found.
- There is a positive linear relationship

between the number of women independent directors and company financial performance. That is, in general, financial performance of companies with more women independent directors would be better than those with fewer or no such women on the board.

Conclusions

- The findings suggest that board gender diversity has an indirect effect on financial performance, acting through its intermediate effect on corporate governance scores.
- The results infer probable causality between women on the board and corporate governance score, and as a result to financial performance. The findings are a necessary though not sufficient condition to

prove causality.

■ The regression study also provides a framework to make predictions about a company's financial performance based on board gender diversity as well as other explanatory variables pertaining to board and firm characteristics.

■ The effect of the fraction of women independent directors on Tobin's Q (ratio of market value with book value), which was positive and statistically significant, would suggest that companies should pay more attention to the number of women independent directors on their boards.

■ According to the study, if the average number of woman independent directors on boards increases by one, the company's financial performance is expected to increase by 11.8 per cent.

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