DIVERSITY ACTION COMMITTEE
SINGAPORE

National University of Singapore

News Release

NUS Business School study: Women board directors have positive impact on financial performance of companies

- **Using econometric techniques, this is the first study in Singapore to establish a relationship between board gender diversity and company's financial performance, acting through corporate governance. This is a necessary condition towards establishing a definitive causality between these two aspects.**
- **Women independent directors have a positive direct effect on financial performance.**
- **Adding one woman independent director, on average, is expected to improve financial performance by 11.8%.**

Singapore: June 29, 2018 – Gender diversity on boards has a positive impact on financial performance of companies through corporate governance, a National University of Singapore (NUS) Business School study has found.

In the study of about 500 Singapore-listed companies[1] pooled across 5 years[1], the findings also indicated that women independent board directors increased financial performance by elevating the company's market value, vis-a-vis the company's book value. According to the study, if the average woman independent directors on boards increases by one, the company's financial performance, as measured by Tobin's Q ratio of market value to book value, would increase by 11.8%.

The results were announced today 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, conducted by NUS Business School's Centre for Governance, Institutions and Organisations (CGIO), examined the impact of women board representation on a company's corporate governance scores and financial performance.

DAC Chairman, Mr Loh Boon Chye said, "The findings of CGIO's study point to what many have suggested about the business benefits of having gender diversity on the board. This study is 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[2]. We hope that companies will now appreciate the benefits and take action to bring more women onto their boards."

[1] REITS and Business Trusts were excluded from the study as they were not captured in the initial years of the Singapore Governance and Transparency Index (SGTI).

[2] According to the latest statistics released by the Diversity Action Committee (DAC) on 13 February 2018, women's participation on boards in Singapore's Top 100 primary-listed companies have shown its largest increase over the past 3 years, achieving 13.1 per cent of women on boards. This is the highest increase over the past three years, after 10.9% in 2016, 9.5% in 2015 and 8.6% women on boards in 2014.

Associate Professor Lawrence Loh, Director of CGIO, NUS Business School, said, "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."

Summary of the Study

The CGIO study investigated the relationship between board gender diversity and corporate governance score, and between these variables and financial performance, using ordinary least squares (OLS) regression models.

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[3] 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[4].

Conclusion:

- 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%.

For more information, the study can be accessed at bit.ly/NUSCGIOreport.

[3] Both return on equity (book measure) and Tobin's Q (hybrid measure) were considered.

[4] It should be noted that the sample has a maximum of three women independent directors. Thus caution must be exercised to extrapolate the relationship beyond this number.

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About Diversity Action Committee

The Diversity Action Committee (DAC) is an 18-member Committee comprising corporate leaders and professionals from the business, people and public sectors, formed to address the under-representation of women on boards of companies in Singapore. Mr Loh Boon Chye, CEO of SGX, was appointed as Chairman in October 2016 by Mr Tan Chuan-Jin, then Minister for Social and Family Development. The DAC was first formed in 2014 to take forward the recommendations published by the Diversity Task Force regarding women on boards.

In April 2017 the DAC announced a triple-tier target of 20% by 2020, 25% by 2025 and 30% by 2030 for SGX-listed companies. Larger companies are called to take the lead and create a momentum of change.

About the Centre for Governance, Institutions and Organisations

The Centre for Governance, Institutions and Organisations (CGIO) is a research centre of the National University of Singapore (NUS) Business School. It aims to spearhead relevant and high-impact research on governance and sustainability issues that are pertinent to Asia. The Centre's studies are on publicly listed companies, family firms, state-owned enterprises, business groups, and investment entities. CGIO also organises events such as industry roundtables, academic conferences and executive programmes on topics related to governance and sustainability.

NUS Business School is known for providing management thought leadership from an Asian perspective, enabling its students and corporate partners to leverage global knowledge and Asian insights.

The School is one of the 17 Faculties and Schools at NUS. A leading global university centred in Asia, NUS is Singapore's flagship university, which offers a global approach to education and research, with a focus on Asian perspectives and expertise. Its transformative education includes a broad-based curriculum underscored by multi-disciplinary courses and cross-faculty enrichment. Over 38,000 students from 100 countries enrich the community with their diverse social and cultural perspectives.

For more information, please visit bschool.nus.edu.sg, or go to the Think Business portal, which showcases the School's research.