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Women independent directors add to companies' financial performance: NUS study

Having one woman independent director - vs having none - also raises a company's corporate governance score, study finds

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The members of the panel discussing the issue at the seminar were (from left) DBS Group CEO Piyush Gupta; head of APAC Investment Office at UBS Global Wealth Management Min Lan Tan; first vice-chairman at the Singapore Institute of Directors Tham Sai Choy; senior partner of McKinsey & Company Singapore Diaan-Yi Lin; and Associate Professor Lawrence Loh, director of the Centre of Governance, Institutions and Organisations of the NUS Business School. PHOTO: DIVERSITY ACTION COMMITTEE

Singapore

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

If the average number of woman independent directors on boards goes up by just 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.

The Q Ratio, representing a way to value a company, links the market value of a firm to the replacement cost of its assets.

The findings of the CGIO study were presented on Friday at a seminar on board gender diversity organised by the Diversity Action Committee (DAC), a body set up by the Singapore government. The committee comprises corporate leaders and professionals from the business and people and public sectors 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 also pointed out that the presence of one woman independent director on the board, compared to 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 on the board is 45.53.

Diaan-Yi Lin, Senior Partner of McKinsey & Co Singapore, said: "Women's representation in leadership and leadership roles, especially on corporate boards, matters a great deal."

Commenting that research shows that 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 into the best available people across entire talent pools."

Piyush Gupta, chief executive of DBS Group, said: "Having diversity on the board helps avoid group-think, and results in wider views and opinions as well as richer dialogue, which translates 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 the 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 raises financial performance. It is the first in Singapore to establish a relationship between board gender diversity and a company's financial performance.

DAC chairman and chief executive of Singapore Exchange Loh Boon Chye said: "This study is timely as proposed revisions to the Code of Corporate Governance promote diversity policy transparency and board renewal.

"We hope companies will now appreciate the benefits and take action to bring more women into their boards," he said.