

Listcos with diverse leadership are more profitable, NUS study finds

Results show that companies with equal numbers of male and female leaders peak in financial performance

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THERE was an uptick in the number of top 100 Singapore-listed companies by market capitalisation with all-male boards last year, from 18 companies in December 2020 to 21 by June 2021 – and these companies might want to rethink their leadership policy.

An inaugural study covering all 577 publicly-listed companies in Singapore has found hard evidence that a company peaks in financial performance when it has an equal number of male and female leaders in senior management and board positions.

All else being equal, an increase in the proportion of female leaders by 10 percentage points contributes to an increase in the ratio of net profits to total income, or return on assets (ROA), by 0.44 percentage point, the findings released on Tuesday (Feb 22) also showed.

Meanwhile, the same study – developed and led by National University of Singapore (NUS) Business School's Centre for Governance and Sustainability (CGS) – found that companies performed poorer when a higher proportion of their leaders are older than 60 years.

An increase in the proportion of

leaders aged between 61 and 70 by 10 percentage points brings about a 0.41 percentage point drop in ROA.

The same increase in the proportion of leaders aged above 70 translates to a more significant 0.63 percentage point drop in ROA.

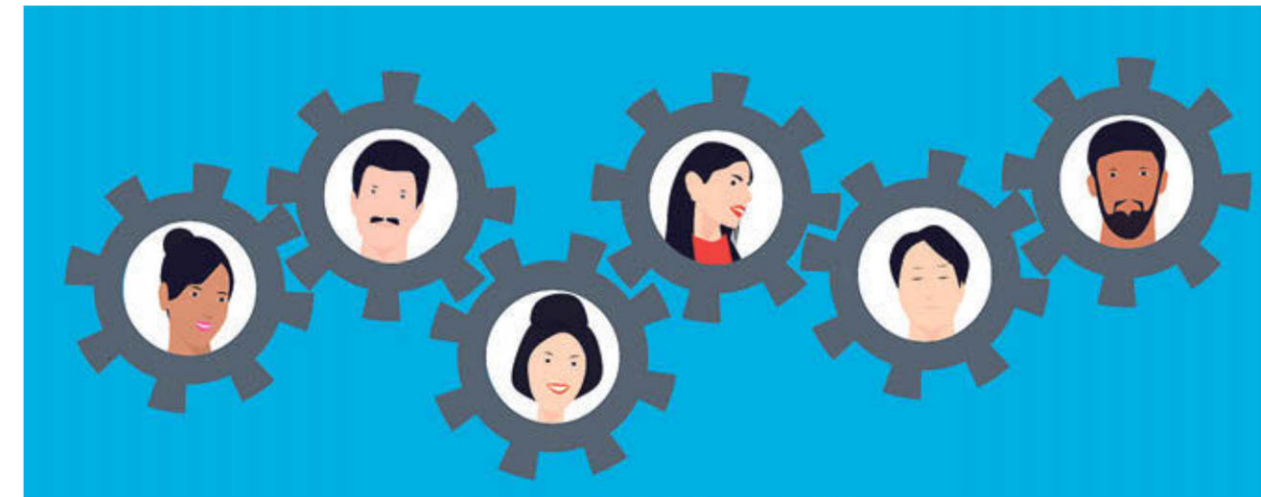
As at June 2021, some 46 per cent of Singapore-listed companies still had all-male boards, and close to 40 per cent of their leaders are aged above 60, the study noted.

The findings were released at a webinar opened by Singapore Exchange Regulation chief executive Tan Boon Gin on Tuesday.

Given the findings that diversity has a bearing on a company's performance, Tan, in his opening address, urged boards to be clear on their diversity targets.

Meaningful progress in diversity, he noted, should not be assessed through a "headline, title-driven" appointment exercise, but a "granular assessment" of how a company is able to tap the various perspectives of its board to effectively chart the company's path amid uncertainty and complexity.

And when picking board candidates, nominating committees and incumbent directors should consciously take concrete steps to counteract the "natural tendency to search within their usual networks" or rely on "what feels familiar", Tan

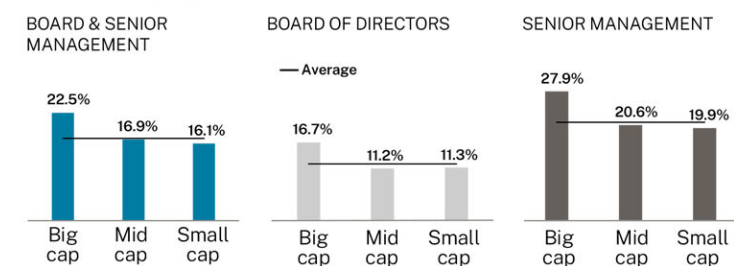


Speaking as a panellist at the webinar, Euleen Goh of SATS stressed that leadership diversity "needs to be considered as a business imperative, not a social imperative".

ILLUSTRATION: PIXABAY

Gender representation

Percentage of females

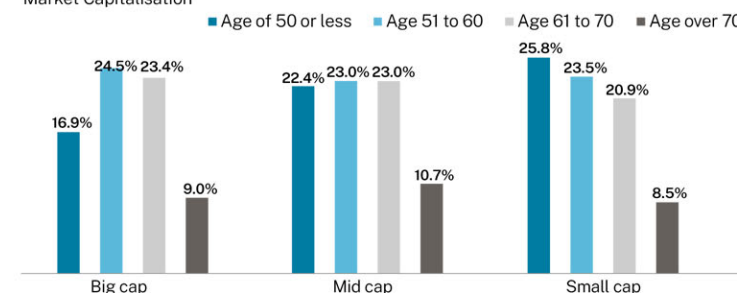


Note: Market capitalisation as at 31 December 2020
Big cap >S\$1 billion (n=87); Mid cap S\$300 million-S\$1 billion (n=75); Small cap < S\$300 million (n=415)

Source: Centre for Governance and Sustainability, Connecting the Dots & EDGE Strategy

Age diversity

Market Capitalisation



Note: Market capitalisation as at 31 December 2020
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Source: Centre for Governance and Sustainability, Connecting the Dots & EDGE Strategy

stressed. "A diversity of candidates can only come from a diversity of sources," he said.

He also suggested that boards consider engaging an external search firm or insisting that a diverse slate of candidates be presented for consideration.

Directors can also consider sponsoring the mentorship of diverse leaders, whether within their companies or through their extended networks, he said.

Meanwhile, he encouraged companies that could not deliver on their targets to be transparent

about their unfruitful search process, so that the market can give suggestions for how such processes may be improved.

Agreeing, Euleen Goh, non-executive chairperson of SATS who was speaking as a panellist at the webinar, stressed that leadership diversity "needs to be considered as a business imperative, not a social imperative".

Goh, also the non-executive director, deputy chair and senior independent director of Royal Dutch Shell, then went on to rebuke a practice of companies which, in many instances, starts by saying that they would like to have a board director who "sat on a dozen other boards".

"I don't think board experience matters as much as what a new member of the board would bring in terms of the insights, in terms of the perspectives," she said.

"It is imperative for the board to be (asking) what it is that we need that is a blind spot for us."

Goh continued: "By the way, age may be a blind spot. Because with all the social media, with all the different channels emerging, particularly driven by the pandemic, age may be an important diversity."

When presenting the findings, Professor Lawrence Loh, director of CGS, highlighted that the study could not find any statistically significant impact of increasing the proportion of leaders aged under 60 on ROA.

He also noted that the benefit of diversity does not apply to industry experience, where leaders with more than 10 years of experience in their specific industry led to a statistically significant positive impact on the company's performance.

Specifically, a 10 percentage point increase in the proportion of leaders with more than 10 years of experience contributes to an ROA increase of 0.59 to 0.68 percentage point.

Prof Loh pointed out as well that the growth in ROA from more female leaders declines when the proportion of female leaders is more than half.

This suggests that companies should aim for an equal number of male and female leaders, he said.

Data from the Council for Board Diversity showed the participation of women on the boards of all Singapore-listed companies averaged 13.2 per cent for the first half of 2021. Among the top 100 companies by market capitalisation, the figure was 18 per cent.

According to the study's technical report, the research team had tried to investigate the effect of gender pay gap on firm performance but could not conclude any effect due to limited data.

It stated that only 141 of the 577 listcos disclosed the exact remuneration of their leadership here. And among these companies, only 88 had at least 1 woman in leadership.