Publication: The Business Times, Pg 18
Date: 26 September 2018
Headline: Spotlight on board gender diversity

Spotlight on board gender diversity

In Asia, where the business community is resistant to boardroom changes, government entities can play a role. BY TORU YOSHIKAWA

GENDER diversity on corporate boards has become an increasingly important issue around the world including in Asia. Large institutional investors and proxy advisers are pressuring firms to appoint and increase female representation on corporate boards.

Currently, the ratio of female directors varies substantially from country to country. In some European countries where the board diversity quota is mandated such as Norway, France, and Italy, the ratios of female directors range from around 30 per cent to over 40 per cent.

In contrast, Asian countries are lagging in terms of the appointment of female directors and the ratios are much lower. For example, the female ratios were only 2.3 per cent in South Korea, 5 per cent in Japan, 10.2 per cent in China, and 10.5 per cent in Singapore in 2016.

Given such huge gaps in the female representation on boards, Asian firms are under increasing pressure to address this issue. While it seems like quite a sensible aim to have a more balanced board representation, we should be clear about what we want to achieve by increasing the number of female members on boards.

A call for board gender diversity is often justified on the grounds that more diverse boards enhance firm performance. The key rationale provided to support such an argument is that board members who have different backgrounds can provide new insights, experiences, values, and perspectives to discussions in the boardroom and hence such boards can make better decisions.

Firms that have greater female board representation tend to have slightly higher returns on assets, according to one recent study (Post & Byron, Academy of Management Journal, 2015). PHOTO: CREATIVE COMMONS

If we look at a vast number of academic studies, the relationship between board gender diversity and firm performance is not conclusive.

However, one recent study (Post & Byron, Academy of Management Journal, 2015) that examined over 140 prior research studies on the impact of board gender diversity on firm performance in numerous countries found that firms that have greater female board representation tend to have slightly higher return on assets, although it is not related to stock market performance, including shareholder returns. Therefore, the claim that board gender diversity increases firm performance appears to be somewhat justified.

More interestingly, this study also shows that the impact of greater board gender diversity on stock market performance is more pronounced in countries where women enjoy more equality in terms of participation in economic and political activities, access to education, and social well-being.

This suggests that the positive implication of female board representation is influenced by the extent to which each society offers gender equality. This leads to the next critical issue: what is the objective of greater board gender diversity?

The number of European countries that impose the board diversity quota has been increasing since Norway first implemented it. Despite the fact that board gender diversity is now accepted in those countries, there was strong resistance from the business community before the implementation.

The main reason for opposition was an insufficient pool of qualified female candidates. The appointments of less qualified female directors could disrupt board discussions, which may subsequently impact firm performance negatively.

In order to deal with the newly imposed quota, there were firms that reduced the board size (and consequently the number of required female appointments), and even delisted their shares from stock exchanges as the rule applies only to listed firms. Some also appointed foreign female directors who may have qualified expertise but may not be familiar with the domestic business environment.

Despite such opposition and drastic measures adopted to meet the quota in the business sector, corporate management eventually reluctantly accepted the board quota after a strong push by governments.

The main reason why European countries pushed for greater gender representation on boards is not only for the enhancement of the firm's economic performance, but more importantly, for social justice.

As women account for 50 per cent of the population, it is just to see more women represented in the highest body of the firm and it is an injustice to have great gender gaps there, they believed. So, it is not surprising that the board gender quota has started to be implemented in European countries where the protection of human rights is deeply embedded.

Given that the aim of greater board gender representation is to attain social justice and enhance firm performance by leveraging diverse experiences, values, and perspectives, how should Asian firms respond to the increasing pressure to deal with this issue?

Compared to some European countries, gender equality in terms of participation in economic and political activities is far lower in Asia for cultural and historical reasons.

The notion that it is unjust to have a great gender gap at the highest level of economic organisations is still relatively weak in many Asian countries. As social values will not change quickly, how then can we increase the board gender diversity in Asia?

If we look at the European examples where the board gender quota was imposed, we can see that the governments played an important role in pushing changes through despite resistance from the business community.

This suggests that some external forces are needed to enforce changes to board composition. In the Asian context, stock exchanges and government entities can play a role to gently encourage domestic firms to embrace changes.

For example, Japanese firms are now required to report the appointment of female directors and provide reasons if they have no female director. This rule is pushing many Japanese firms to search for qualified female candidates more seriously.

India has implemented the board gender quota, although at the lowest level – at least one female director. Institutional investors and proxy advisers are also pushing for greater board gender diversity.

What we can expect is that continued pressure from public entities and capital market participants can result in incremental changes, although these changes will be less drastic compared to what a quota can achieve.

Furthermore, top executives and male board members can also play a role. In my studies on Japanese boards, I have found that firms with older CEOs are less likely to appoint a female director, presumably because older CEOs are more resistant to change in the boardroom.

If CEOs and male directors are willing to embrace changes and accept new boardroom dynamics, female directors' experiences and perspectives would be more effectively utilised, which in turn would enhance the legitimacy of having more female members on boards.

Without any immediate change in social values, we need to rely on external forces and enlightened executives for incremental change.

■ The writer is Professor of Strategic Management at Lee Kong Chian School of Business, Singapore Management University.