

Women's Leadership and Corporate Performance

Gender imbalance in boardrooms has been an issue that has attracted lot of attention in recent years and has turned into a worldwide debate. It is surprising that women representation in corporate boards has remained abysmally low in most countries across the globe, even today. This is despite the improvements that have been observed in female education and labour participation, and the efforts being put forth by governments' towards minimising gender disparity over the years. Though this is a global phenomenon, the ratio of women to men in boardrooms have been found to be higher in European or American companies vis-à-vis their Asian counterparts. This has been revealed by a recent study conducted by the Asian Development Bank (ADB) on gender diversity. In its working paper – 'Women's Leadership and Corporate Performance', ADB has examined the gender diversity practices in 10 economies in Asia and the Pacific region, and has tried to assess its impact on firm performance.

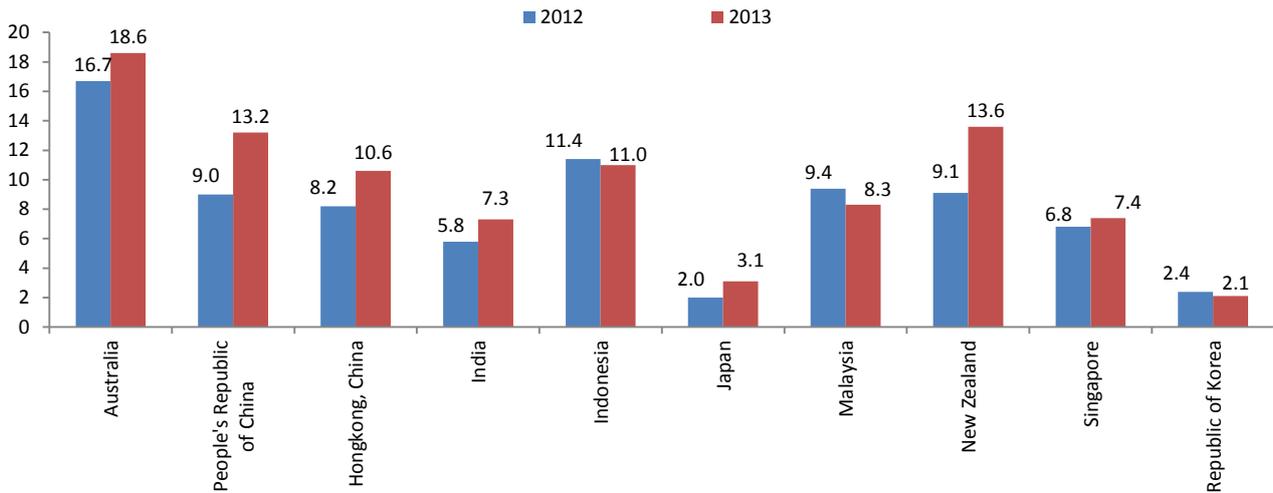
Gender Diversity in Boardrooms in Asia

Studies conducted in 2011 and 2012 shows that about 90% of the US Standard & Poor's top 500 companies have at least one woman on their board, and the proportion is 60% for FP500 Canadian companies. In Europe, some countries explicitly urge companies to have female representation in boardrooms and senior management positions. The prescribed quotas of female representation in leadership in the UK, Norway and Germany are 25%, 40% and 30% respectively. This is driven by the perception that having more women in a position of power make corporations more effective and profitable, and less corrupt. As compared to North America and Europe, gender diversity in boardroom is much lower in Asia and the Pacific, with around 8% female representation on average in 2012.

The present ADB study analysed practices and financial performances, measured in terms of Return on Assets (ROA), Return on Equity (ROE) and market valuation of top 100 listed firms (in terms of market capitalisation during years 2013 and 2014) spread across 10 economies: Australia; the PRC; Hong Kong, China; India; Indonesia; Japan; the Republic of Korea; Malaysia; New Zealand; and Singapore. The 1,000 sample firms included in the survey covered the following industries: materials, utilities, financials, real estate, health care, consumer discretionary, industrials, energy, information technology, consumer staples, and telecommunication services.

The examination showed that overall boardroom gender diversity in the 10 economies studied has improved between 2012 and 2013; female representation on boards rose from 8.0% in 2012 to 9.4% in 2013. Country-wise data showed that the greatest improvements in percentage points were seen in New Zealand (4.5%) and the PRC (4.2%). In 2013, Australian companies had the highest female representation on boardrooms (18.6%), while it was lowest in case of companies in the Republic of Korea (2.1%).

Chart 1: Female Representation on Boards in Asia and the Pacific*



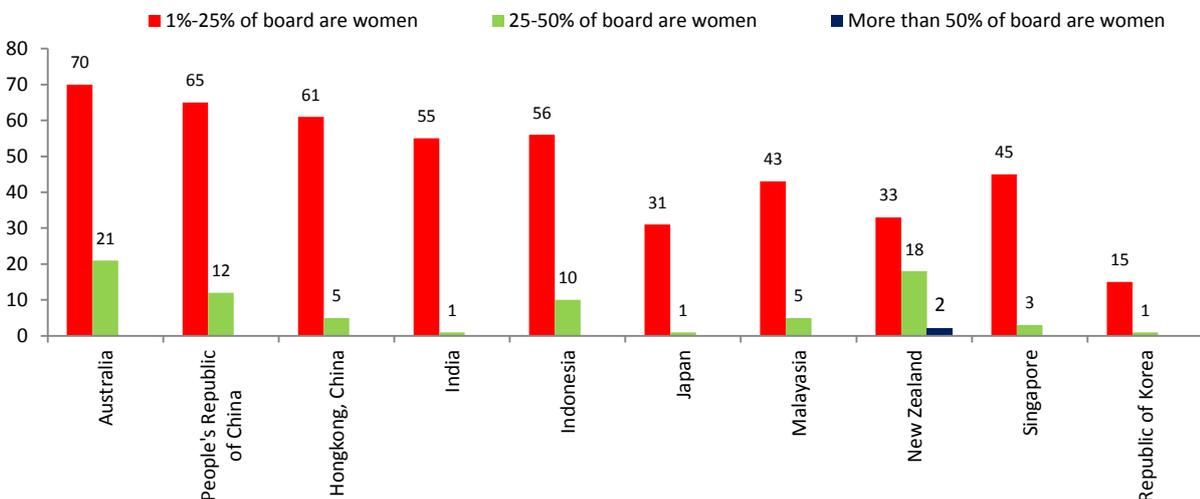
* Note: Sample includes companies having female representation on their boardrooms

The Republic of Korea also had the highest percentage of all male boardrooms (84%) while it was lowest in Australia (9%). In 2012, more than half of the boardrooms had all male directors in 6 of the 10 economies studied which included developed countries like Japan, New Zealand and Singapore, but there was no boardroom which had all female directors.

The percentage of all-male boardrooms however decreased in 2013. New Zealand showed the maximum improvement by 18%. In Indonesia, the proportion of all male boardrooms increased from 25% in 2012 to 34% in 2013.

The study further indicates that though there has been improvement in gender diversity in boardrooms, percentage of female representation in boards continues to be small, generally a quarter or less. In India, 1% of the boards have 25-50% female representation, while a majority 55% of the boards has less than 25% female representation. Amongst the economies studied, 2% of the boards in New Zealand have more than 50% female representation on the boards.

Chart 2: Proportion of Female Directors, 2013

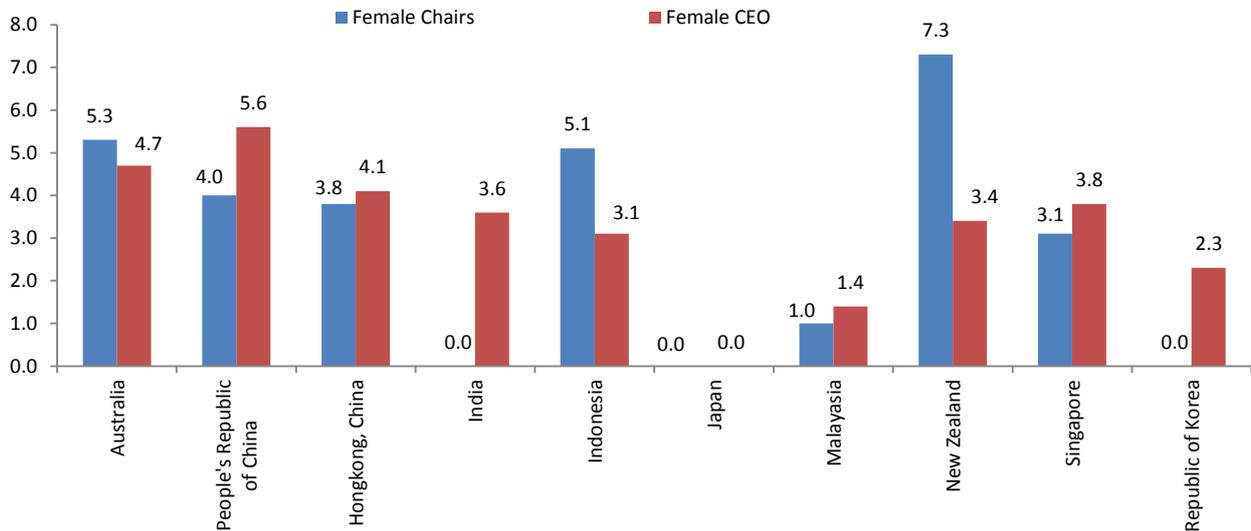


Female boardroom representation by sector shows that the traditionally female-dominated industry like healthcare has the highest proportion of female directors at 13.6%, while it is just the opposite for sectors like information technology, industrials etc.

Female Leadership in Corporation

The report also studied the proportion of women in top leadership positions across countries, which showed that Australia and New Zealand have at least 10% of their female directors holding key leadership roles as CEO or Board Chairperson. Amongst the 10 economies studied, People's Republic of China (PRC) has the highest percentage of female CEOs (5.6%), while New Zealand has the highest percentage of female board Chairpersons (7.3%). In Japan, there are no women in either of the position in the top 100 companies of the country.

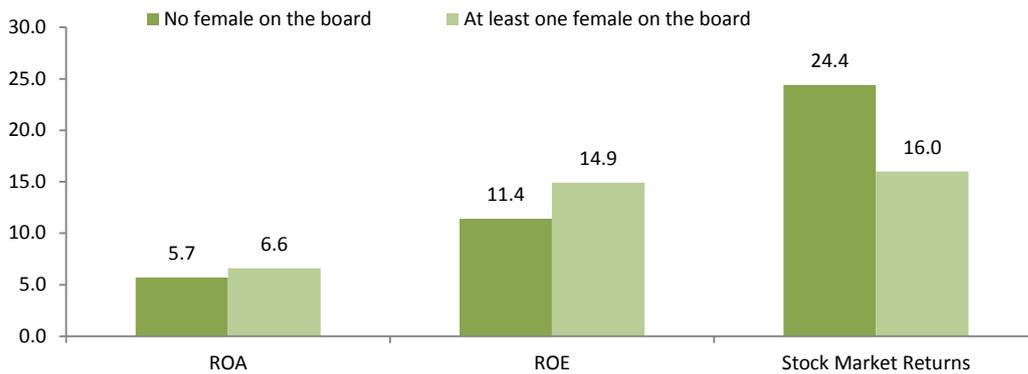
Chart 3: Female Board Leadership in 2013 (%)



Gender Diversity and Firm Performance

Examination of company financials indicated a positive association between presence of female directors in the boardroom with the firms' financials in terms of Return on Assets (ROA) and Return on Equity (ROE). However, association between a female presence on the board and stock market returns showed a negative relation in most of the countries, except in the PRC and the Republic of Korea.

Chart 4: Female Board Membership and Returns (%)



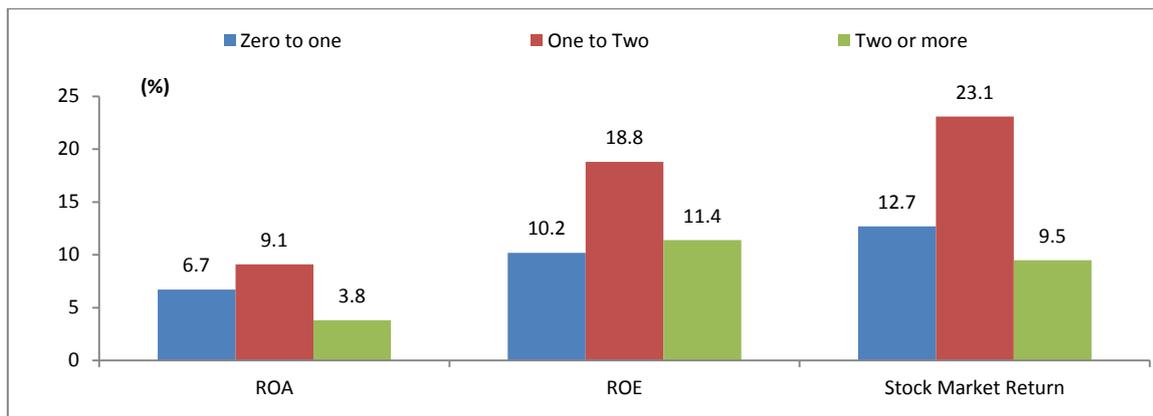
ROA for firms with at least one female on the board was 6.6% as compared to 5.7% for all-male boards. There are however variations across countries, while in New Zealand they outperformed the all-male boards by 3.2 percentage points and in PRC by 2.1 percentage points, in Australia, Indonesia, Japan, Malaysia, and the Republic of Korea, companies with all-male boards seemed to perform better. Similarly, ROE for firms with at least one female on the board was 14.9% as compared to ROE of 11.4% for all-male boards.

The largest difference was observed in the case of PRC (4.6 percentage points). In case of Australia, Japan and Malaysia, firms with all-male boards outperformed the other diverse boards.

Female Director Appointment and Firm Performance

The paper also attempted to understand how a firm's performance changes following appointment of female directors. It revealed that firms that appointed female directors between 2012 and 2013 had the highest ROA at 6.9% and firms which kept the number of female directors unchanged had the lowest ROA.

Chart 5: The Step-wise Impact of Adding Female Directors



Among the firms which appointed female directors, firms with two female directors on board showed the best performance. To further understand whether there is a causality relation between gender diversity and firm performance, ADB performed a two-stage regression analysis to address the endogenous concerns on gender diversity determinants, which brought out the following key results:

- First, past performance of firms does not explain or predict corporations' choice of female directors. That is, the reverse causality argument of financial performance to gender diversity is not true. Firms do not necessarily increase female representation when performing well.
- Second, country-wise data analysis showed that gender equality in college education has a significant and positive correlation with boardroom gender diversity present in a particular country. However, female labour participation shows a negative effect on boardroom gender diversity. Finally, infant survival equality has a negative and significant relation to boardroom gender diversity.
- Third, female representation on the board, when determined by the economic factors, predicts significant and mostly positive firm future performance.
- Finally, changes in gender diversity that are unrelated to the economic factors have no predictive power on firm performance.

The ADB report therefore recommends that improving the overall gender equality in a country in terms of providing girls/women greater opportunities for education, work and other aspects of society can be more effective in enhancing the gender diversity in boardrooms of Asian companies, rather than mandating quotas for the same.