Welcoming more women on board

A total of 158 more seats for women are required to help S-Pore reach the 10 per cent boardroom-diversity mark achieved in developed countries. By Marleen Dieleman, Juana Woodward, June Foo and Krishnarshni Sivasan

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diversity in the boardroom is quickly becoming one of the metrics against which good governance is measured globally. Effective boards benefit from a mix of skills and experiences. While causal effects are debated, most studies have demonstrated that companies with greater gender diversity in the boardroom enjoy better financial performance and higher governance standards.

Recent global developments show that gender diversity in the boardroom is now seen by many as being vital to businesses, with the shift to greater diversity in the boardrooms being driven through various channels - government initiatives, changes to the corporate governance code guidelines, landmark quotas, as well as voluntary targets set by companies.

In Australia, the government has introduced revised guidelines to strengthen board appointment processes for Government Business Enterprises (GBEs). This will ensure that GBEs will take note of the Gillard government’s 40 per cent target for women on boards. At present, 29 per cent of positions on these GBE boards are filled by women.

In the United Kingdom, amendments to the Corporate Governance Code will require listed companies to report annually on their boardroom diversity policies - including gender diversity. The report requires boards to set measurable objectives to track policy implementation and the progress made in achieving the objectives. Importantly, the evaluation of board effectiveness under the updated code includes gender diversity in their boards.

France has put in place a quota system. Some 2,000 companies that are either listed or have more than 500 employees or revenues of over 50 million euros are now obliged to hire at least 20 per cent of board members made up of women by 2016, and 40 per cent within six years. If a company does not comply, their board nominations will be void and all fines for board members will be suspended.

Moving away from outright quota measures, the 30 per cent Club in the UK is a group of organisations who have voluntarily committed to bringing more women onto boards, to reach 30 per cent goal. Companies participating in the 30 per cent Club include Lloyds, HSBC, Santander, PwC, GlaxoSmithKline, and Marks & Spencer.

So how does Singapore score on boardroom gender diversity? A report launched in October by NUS Business School’s Centre for Governance, Institutions and Organisations and Boardgender, an initiative of the Singapore Council of Women’s Organisations, paints a bleak picture.

Female directors made up only 6.8 per cent of all directors in Sgx-listed companies in 2010. More than 60 per cent of Sgx-listed firms have zero women on their boards. This compares unflatteringly to many developed and developing countries.

Developed countries typically have a minimum of 25 per cent female participation on boards and are aiming 30-40 per cent female participation. Norway leads the world’s rankings with almost 40 per cent female in the boardroom. In terms of regional comparison, a study by Korn Ferry showed that Singapore falls behind Hong Kong, China and Malaysia where female boardroom participation is 4.6 per cent, 8.1 per cent and 7.8 per cent respectively.

With Singapore’s large pool of well-educated and professionally experienced female talent, we believe that the Singapore business community can take steps to improve boardroom diversity. Based on 2010 statistics, 158 more board seats for women are required to help Singapore reach 10 per cent female representation in Sgx-listed companies. Our study also revealed some interesting patterns that may allow companies to take steps to appoint more women on boards quickly.

Companies that hire more women find it easier to attract more women to their boards. This makes sense. If you are not averse to hiring women, you are more likely to hire women.

Our study suggests that companies that are keen on diversity are more likely to hire women. More women in top positions are creating a larger pipeline of female board aspirants. Today, women make up 39.3 per cent of executive directors. Almost all of these women executive directors have only one directorship. Comparatively, only 5.4 per cent of non-executive directors are women, and fewer, 4.5 per cent of independent directors are female.

Studies in other countries have also shown that selection and promotion processes within firms are often well-defined, whereas the hiring of non-executive directors is often less structured and transparent. Board recruitment committees could be well-served to widen their search through other channels - such as search firms and board match programmes to seek more candidates, including qualified female candidates for non-executive directorships. Our study also found that 16 per cent of Sgx directors below 40 years of age are female. At the other end of the spectrum, there are only a handful of women aged 50 and older holding Sgx board positions. In comparison, there are numerous male directors above 70, and even above 80.

On a worldwide basis, the retirement age for directors is rising as people stay healthy and sharp longer, but women seem to leave when they may still have much to offer to firms - be it in executive or non-executive roles.

An accepted good governance practice is for firms to set a mandatory retirement age for directors. According to the most recent Spencer Stuart Board Index (2010), nearly two thirds of Sgx 200 boards have such mandatory retirement policies. If the retirement practices of male and female directors were more balanced, this could be one step towards improving gender diversity in Singapore boardrooms.

As companies and governments in other countries take action to raise the number of women serving on boards, with targets to have 30-40 per cent of female directors, Singapore can focus on two relatively easy ways to improve diversity in its boardrooms - the appointment of more female non-executive independent directors through more targeted search processes; and the banking and retirement practices that attract women to stay longer, while encouraging others to pass their seats to younger qualified candidates on their retirement age.

We believe that these actions may lead to the first signs of positive change in Sgx boardrooms and bring Singapore closer to the 10 per cent diversity mark achieved in developed countries. However, we also believe that the achievement of more ambitious targets, such as those currently adopted in developed countries, can come about only through concerted action by companies and regulatory bodies.

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