



Realizing Sustainability Through Diversity

The Case for Gender Diversity Among Sri Lanka's Business Leadership

Updated Edition

IN PARTNERSHIP WITH



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This document was prepared in good faith, based on information collected through primary and secondary research. Much of the statistical data came from desk research of publicly available information, including annual reports. Primary research consisted of focus group discussions and interviews with male and female board and senior management from select companies. Financial data of the 30 largest companies listed in the Colombo Stock Exchange (CSE – <https://www.cse.lk/home/market>) were collected from each company's annual reports. These companies were selected based on their market capitalization. Together, they account for approximately 60 percent of the total market capitalization of the CSE.

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March 2022

About Corporate Governance for Women in Sri Lanka

IFC's Corporate Governance for Women in Sri Lanka is a four-year project funded by the Women In Work Program in partnership with IFC and the Australian Government, that began in March 2018. It aims to increase the participation of women on corporate boards and in senior management by promoting the adoption of corporate governance best practices among Sri Lankan companies. To achieve this objective, the project will: 1) raise awareness of the business case for gender diversity among business leadership; 2) collaborate with Sri Lanka's regulators to improve the gender component of the local corporate governance framework; 3) build the capacity of local market intermediaries to advance gender diversity and provide governance training and services to women-owned small and medium enterprises; and 4) work directly with Sri Lankan companies to improve their governance practices.

About IFC's Women in Work Program in Sri Lanka

Women in Work (WiW) is a five-year, \$9.5 million initiative launched in partnership with the Australian government in April 2017. It is IFC's largest, standalone country-based gender program designed to close gender gaps in the private sector while improving business performance. The program, which benefits from multisector program design and works closely with the World Bank on research, tackles women's access to jobs and assets at the same time. It aims to increase women's workforce participation in Sri Lanka's private sector, create more and better jobs for women, and has the potential to increase profits and drive overall economic growth. WiW also contributes to the vision of the government of Sri Lanka, where all citizens can achieve higher incomes and better standards of living by 2025.

Acknowledgements

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The team would like to thank Aroshi Nanayakkara, Chandima Gunawardena, Indira Malwatte, Kasturi Chellaraja Wilson, Nadija Tambiah, and Premila Perera for dedicating their time to the interviews. IFC Consultant Samurdhi Lakshani Perera coordinated the interview effort and summarized the information, which has helped enrich the publication's content.

Foreword

The COVID-19 pandemic has accelerated the mainstreaming of environmental, social, and (corporate) governance (ESG) investing. Investors and regulators worldwide are becoming keenly aware of the importance of improving environmental, social, and governance standards in capital markets to help identify growth opportunities, manage risks, and promote sustainability.

As a global leader in ESG standard-setting, IFC has always believed that good ESG practices are not merely add-ons but essential components in well-functioning companies with positive spillover effects on their communities and societies. Gender diversity is a critical metric that helps to strengthen ESG performance. Research has shown that gender-diverse business leadership is positively connected to ESG performance. Better ESG standards and practices are associated with enhanced company performance—including financial performance. Gender diversity gives both financial performance and impact.

This Updated Edition of *Realizing Sustainability through Diversity: The Case for Gender Diversity Among Sri Lanka's Business Leadership* highlights the progress made by Sri Lankan companies in bringing more women to their boardrooms. Over the last three years, the number of women directors has increased from 144 in 2018 to 221 in 2021. Interestingly, the positive correlation between financial performance and gender diversity in Sri Lanka's 30 largest companies within the last five years remains robust despite the challenges faced by companies in Sri Lanka.

Much more work needs to be done to bring gender parity to Sri Lanka's boardrooms and business leadership. This publication is the only one of its kind that uses data from Sri Lankan companies contextualized to the local realities. We hope that it inspires discussions and reflections on how we can work together to bring more women to the top.



Kate Lazarus

Senior ESG Advisory Lead, Asia Pacific
IFC ESG Sustainability & Gender Solutions Department

Message

This report should inspire Sri Lankan businesses to invest in more robust pipelines of women leaders and foster more equitable and inclusive workplaces. It highlights the business case for increased gender diversity in Sri Lanka's corporate leadership and provides insights into the impact of the pandemic on corporate gender equality. The recommendations provided are drawn from global best practices and strategies to increase female representation in business leadership.

The updated report analyzes the relationship between financial performance and gender-diverse leadership in Sri Lankan businesses. It finds that firms with more women on their boards and senior management perform better on return on assets and share value.

Global research shows that gender-diverse business leadership positively correlates with successful financial/operational performance and ESG performance—a key focus of socially responsible investors.

Research also shows that women's leadership during COVID-19 contributed to psychological safety, sustainability, and empathetic decision-making. Yet the World Economic Forum's Global Gender Gap Report 2021 finds the pandemic has widened the salary gap between women and men by a generation. At the current rate of progress, closing the global gender gap in economic participation and opportunity alone will take 267 years.

McKinsey Global Institute estimates that Sri Lanka could achieve an estimated US\$20 billion increase in GDP by expanding female labor participation, increasing the number of paid hours for work done by women, and adding more women to higher productivity sectors.¹

As this report attests, produced through Australia's Women in Work partnership with IFC, a growing number of Sri Lankan businesses are welcoming more women, including at the decision-making table, and providing more equitable and inclusive work environments.

I challenge you to join them.



H.E. David Holly
Australian High Commissioner to Sri Lanka

¹ Jonathan Woetzel et al., "The Power of Parity: Advancing Women's Equality in Asia Pacific", McKinsey Global Institute (April 2018): 5.

Executive Summary

Empirical evidence from around the world shows the importance of gender diversity in improving firms' overall performance, including financial performance. Gender diversity among business leaders, defined as the representation of at least 30 percent women, also promotes better decision-making processes and greater monitoring and strategy involvement.

The business case for gender balance at the top goes beyond financial performance. Extensive research shows that having more women in business leadership positions leads to higher environmental, social, and governance standards, with an apparent connection when women achieve a critical mass of roughly 30 percent on company boards.² Companies with enhanced environmental, social, and governance standards also perform better on critical metrics: stronger internal controls and management oversight, reduced risk of fraud or other ethical violations, positive workplace environments, greater stakeholder engagement, and improved reputation and brand, leading to better overall business performance. Ultimately, diversity is about ensuring companies' competitiveness, performance, and long-term sustainability.

This report is an updated Edition of [Realizing Sustainability Through Diversity: The Case for Gender Diversity Among Sri Lanka's Business Leadership](#). It expands the data used in the 1st edition to include financial and non-financial information from the last two years (although the indicators collected remain the same). Thus, the report consists of two sets of data from the largest 30 companies in Sri Lanka:

1. The first set includes the largest 30 companies by market capitalization as of October 31, 2018. Their **financial and non-financial data** were extracted from each company's annual reports for **2015, 2016, and 2017**.
2. The second set includes the largest 30 companies by market capitalization as of February 19, 2021. Their data were extracted from each company's annual reports for **2018 and 2019**.

Eleven of the companies that were included in the first set were no longer in the top 30 as of February 19, 2021. However, most of the companies remain constant.³ Together, these 30 companies account for approximately 60 percent of the total market capitalization of the Colombo Stock Exchange (CSE).

² Alexandre Di Miceli and Angela Donaggio, "Women in Business Leadership Boost ESG Performance: Existing Body of Evidence Makes Compelling Case," Private Sector Opinion: IFC Corporate Governance Knowledge Publication 42 (2018): 4. Available at https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cg/resources/private+sector+opinion/women+in+business+leadership+boost+esg+performance

³ Since the report tracks the 30 largest CSE-listed companies and there have been changes to the market capitalization of some of the companies, it was decided that the report will use this original classification as opposed to continuing with the same set of companies in the 1st edition.

To analyze the relationship between gender diversity in business leadership positions (C-suite and board of directors) and the financial performance of Sri Lankan companies, a series of financial and gender variables were collected from the 30 largest listed companies on the Colombo Stock Exchange between 2015-2019, which yield a database of 238 firm-year observations.

Board composition of the 30 largest companies on the Colombo Stock Exchange

The board size varies from 5 to 17 among the 30 largest listed companies between 2015 to 2019, with a median of 10 members. The typical board has one woman among its members. *Forty percent or twelve of the companies in the top 30 have all-male boards.* Less than five percent of the companies have three or more women on the board. Around two-thirds of the companies do not have any female independent directors. Two-thirds of audit committees are all-male, while only around 10 percent of audit committees have two or more women as members. Only one company had a woman chairing its board (for just one single year).

Senior management composition of the 30 largest companies on the Colombo Stock Exchange

Women make up around 20 percent of the senior management teams, with the median company having two women in the C-suite. The typical size of the senior management team is 15 members. Women occupy less than one-quarter of the senior management positions for 75 percent of the companies in the sample. Women in business leadership positions (board of directors and senior management) vary from 0 to 11 members, with a median presence of three women.

Key Findings

Overall results show that the relationship between gender diversity on the board and senior management and the financial performance of these companies is more likely to be positive than negative. The following are the main findings:

- The correlations between gender diversity and ten of the 15 financial performance variables studied were mostly positive. Due to the relatively small sample size, not all these results were statistically significant, however, they all indicated a positive relationship between gender diversity and financial performance.
- The share of *women among independent directors* is positively correlated with the return on total assets, suggesting companies with a higher share of women independent directors also had higher asset values.
- The share of *women on senior management teams* and in *business leadership positions* is positively correlated with the price-to-earnings ratio.

- In most cases, financial performance among companies with greater gender diversity was higher than among those with lower gender diversity, although a direct correlation could not be made. The performance difference between the two groups was not statistically significant on most occasions, meaning it is not possible to conclude from the statistical standpoint that companies with greater gender diversity in business leadership positions are indeed more profitable and valuable than those with lower gender diversity.

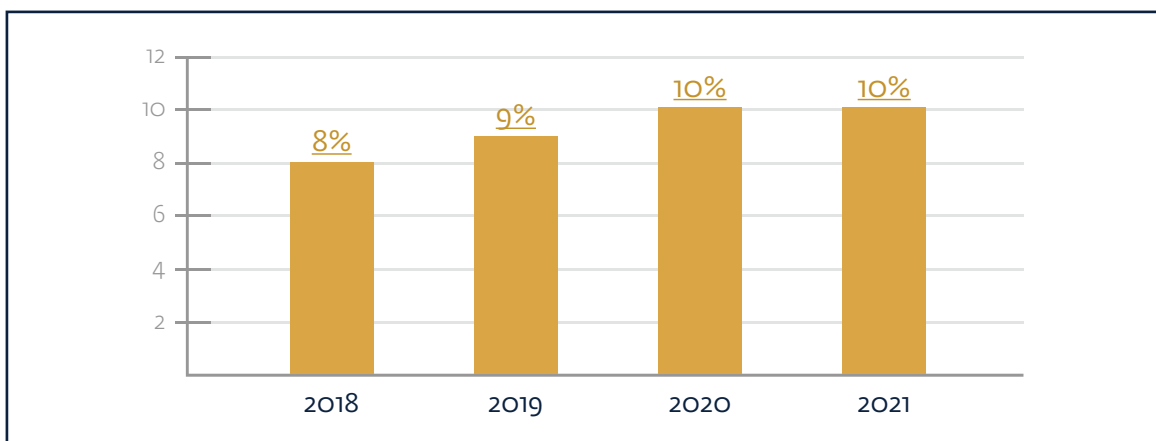
In addition to the business case, equity and fairness are important arguments on their own to justify promoting gender diversity among Sri Lanka's corporate leaders regardless of the financial "utility" that might result from having more women at the top. Building fairer and more inclusive businesses that better reflect their diverse shareholders and stakeholders is an ethical imperative.

PROGRESS SINCE THE 1ST EDITION

Moving the Needle in the Boardroom

Since the 1st edition, Sri Lanka has made great strides in bringing more women to the boardroom. The proportion of women directors on the CSE-listed companies has progressively increased from around 8 percent in 2018 to 10 percent in 2021, representing a 53 percent increase in the past three years. In terms of absolute numbers, there were 144 women directors in 2018 compared to 221 women in 2021.⁴ While this percentage is comparatively higher than in some more advanced economies such as Japan (5 percent) and South Korea (2 percent), Sri Lanka still trails behind global trends, such as India at 14 percent, Australia at 25 percent, and Norway at 41 percent.⁵

Figure 1. The percentage of women directors on the Colombo Stock Exchange-listed companies



The progress has been catalyzed by a combination of multiple factors: a greater awareness of the business case for gender-diverse leadership (through the CSE participation in Ring the Bell annual events, which led to increased media exposure on this issue), the nurturing of female talent pipelines (through intensive training programs conducted by the Sri Lanka Institute of Directors and other local partners with IFC support), and strengthening the network of women directors (through the publication of Women on Boards of Companies Listed on the Colombo Stock Exchange and other similar publications). The Ministry of Finance has played an

⁴ Economy Next, "Sri Lanka's Boardrooms Need 500 More Women to Close the Gender Gap in the Corporate World," March 11, 2021. Available at <https://economynext.com/sri-lankas-boardrooms-need-500-more-women-to-close-the-gender-gap-in-the-corporate-world-79686/>

⁵ Deloitte, "Women in the Boardroom: A Global Perspective 6th Edition," (2019): 11

invaluable part in pushing for a progressive quota to encourage more women representation on corporate boards. Meanwhile, the companies themselves have begun to internalize the benefits of greater diversity, driven by the regulators and the overall market push.

IFC Programs in Driving Corporate Gender Diversity

IFC has undertaken several key initiatives in Sri Lanka that will help companies in their effort to increase diversity in senior leadership positions.

- IFC published two editions of [Women on Boards of Companies Listed at the Colombo Stock Exchange](#). The directory lists women on boards of CSE-listed companies as of December 2018. This publication encouraged other institutes to publish additional resources. The Institute of Chartered Accountants of Sri Lanka issued a directory titled "Board Ready Female Members Directory" in August 2019. Altogether, these resources will enable companies to find women with the relevant skills and qualifications for their boards.
- Recently, IFC established a local chapter of Women Corporate Directors (WCD), which is the largest international corporate community globally, with chapters in 80 countries. WCD members serve on over 8500 company boards worldwide. Having a local chapter will allow Sri Lankan women board members to network, learn from the experiences of board members around the world, and be more visible to the international corporate community.
- IFC has organized a Training of Trainers Program for Women on Boards and in Business Leadership in partnership with The Sri Lanka Institute of Directors (SLID). The training is designed to develop a pool of qualified trainers who can train current and potential women directors, strengthening the talent pipeline.

IFC also works directly with firms and companies to provide advisory services that can further help institutionalize companies' gender strategies and objectives. Among others, IFC conducts Board Evaluation, Board Skills Mapping, Succession Planning, and drafts key policies.

COVID-19 and Gender Progress

On March 20, 2020, the Sri Lankan government imposed a total lockdown. As a result, Sri Lanka avoided a large-scale public health crisis during the first wave. By the end of August, there were 12 deaths and 2,953 confirmed cases.⁶

⁶ Health Promotion Bureau, 2020.

However, the socio-economic impacts of the pandemic and the subsequent lockdown were much more severe, particularly for women. Women held a large proportion of healthcare jobs in Sri Lanka, which puts them at a higher risk of contracting the virus. At the same time, women also made up 67 percent of those who lost their jobs in tourism.⁷ The Department of Census and Statistics reported that in the first quarter of 2020, female unemployment was at 10 percent while the number was 4 percent for their male counterparts.⁸ Sri Lankan women bore the brunt of the pandemic's impacts. The crisis further exacerbates the prevailing harmful gender norms. In a recent survey, more than half of respondents in South Asia reported that men have more rights to a job than women when jobs are scarce.⁹ These attitudes help to partly explain the massive gap in unemployment figures during the pandemic.

Pushing for Greater Diversity

The pandemic and its impacts threaten to reverse hard-won progress in gender diversity, further exposing the fault lines in highly unequal societies while exacerbating women's pre-pandemic vulnerabilities. The business case for greater gender diversity on Sri Lanka's corporate boards and senior management remains robust. However, much more work needs to be done to prevent backsliding and advance gender diversity.

Diversity is more than just about gender, ethnicity, or religion. The notion of diversity covers a range of issues, from knowledge, skills, and experience to age, culture, socio-economic background, disability, and sexual orientation, among others. This report, however, focuses on promoting gender diversity, defined as the representation of at least 30 percent women, particularly in the corporate boardroom and among senior management. Gender diversity needs to be prioritized as it is an important first step in creating more equal workplaces, communities, and societies.

The structure and composition of the board of directors are one of the most important pillars of corporate governance because it contributes directly to the functioning, dynamics, and effectiveness of the board. Diversity among board members and business leaders is about bringing different perspectives, experiences, and knowledge to drive better decision-making processes, avoid the trap of groupthink and other cognitive biases, and deliver greater value to stakeholders. Ideally, every company and every boardroom should strive for diversity of mind. Research shows that balanced and diverse groups tend to outperform homogenous groups since they are more likely to consider, discuss, and integrate disparate knowledge, information, and perspectives, which typically leads to better decision-making and spurs innovation.¹⁰

⁷ Thilini N. K. Meegaswatta, "The Balancing Act: Employed Women Navigating the COVID-19 Lockdown in Sri Lanka", *South Asian Survey* 28(1) (2021):157–171.

⁸ Sri Lanka Department of Census and Statistics, *Sri Lanka Labour Force Statistics Quarterly Bulletin: Sri Lanka Labour Force Survey 1st Quarter – 2020*, ISSN 1391-3050 Issue No. 88.

⁹ McKinsey Global Institute, "COVID-19 and Gender Equality: Countering the Regressive Effects," (2020). Available at <https://www.mckinsey.com/featured-insights/future-of-work/covid-19-and-gender-equality-countering-the-regressive-effects>

¹⁰ Denise Lewin Loyd, Cynthia S. Wang, Katherine W. Phillips, and Robert B. Lount, "Social Category Diversity Promotes Premeeeting Elaboration: The Role of Relationship Focus," *Organization Science* 24, no. 3 (June 2013): 757–772.

Inclusive organizations also have more expansive talent pools to draw from. Since women exert an increasingly greater influence and control over household purchasing decisions,¹¹ gender-diverse boards can stand to benefit significantly from female insights vis-à-vis their customer base. Balanced boards are generally better-positioned to consider the interests of their diverse stakeholders and take into account both financial and non-financial performance. They, therefore, help to ensure their companies' sustainability in the long run.



Gender-Diverse Boards Lead to more robust Decision-making

"I have often unfortunately been the lone woman in a board room. The few instances when I've been joined by other female colleagues have been very welcome. In my experience, whenever there is more gender diversity in leadership, there is more debate and exploration of various viewpoints. This leads to informed decisions that reflect consumer experience realities, making our products more competitive in the market. I have observed enhanced levels of accountability, integrity, risk management, and empathy in boards and sub-committees when there is a better balance of men and women leading to a better approach to risk and compliance."

With a career in leadership spanning over 20 years, Premila Perera has extensive experience in local and international tax; recognized as one of Sri Lanka's most eminent tax professionals. She is a strong advocate for increased diversity within business leadership.

Ms. Premila Perera

Independent Non-Executive Director
John Keells Holdings (JKH)
Sector: Diversified holdings

Increased visibility of women in business leadership as role models can further catalyze change by prompting other women to reimagine their role and contribution in society, potentially transforming rigid societal/gender norms that determine women's and men's roles both at home and in the workplace. Overall, professional, well-functioning, diverse boards can help companies attract and retain investors, grow and create employment, provide jobs for local communities, and contribute tax revenues to help address critical national development objectives.

¹¹ Michael J. Silverstein and Kate Sayre, "The Female Economy," *Harvard Business Review* (September 2009).



Board Gender Diversity Improves Risk Management in Banks

"The board enters into detailed discussions when a new strategy is being drafted, so there is a habit of mine to conduct scenario planning before rolling out policies and procedures. This way, the organization is better prepared to face any negative consequences."

A member of Sampath Bank's board strategic planning sub-committee, Aroshi Nanayakkara, has experienced the impact of diversity on the rigor with which risks are managed and mitigated at the bank. Nanayakkara attributes the bank's successful navigation of the pandemic to this strong culture of inclusivity. "We have 25 percent women in our senior management, and the empathy and understanding they bring in have been vital to our long-term sustainability in times of crisis."

In her experience, boards with more balanced numbers of women and men take informed risks after carefully considering the issue at hand. Nanayakkara also observes that the more diverse the team, the more inspired they are in problem-solving. "In instances where we seem to have hit a dead-end, the diversity of the group comes into play. Alternative, innovative paths and ideas are presented and explored. The creativity of the board as a group increases."

Ms. Aroshi Nanayakkara

Independent Non-Executive Director
Sampath Bank
Sector: Bank, Finance, and Insurance

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Chapter 1

Putting Sri Lanka into Perspective

1.1 The Current Gender Landscape

Sri Lanka has made impressive progress, particularly in female educational attainment. Sri Lanka's female enrollment in secondary education has long been near parity with its male counterparts. *The Global Gender Gap Report 2021* reported that 92 percent of Sri Lankan women had reached at least secondary level education compared to 90 percent of their male counterparts. More females enrolled in tertiary education (23 percent) than males (16 percent).¹²

However, these impressive educational achievements have not translated into better economic outcomes for Sri Lankan women. Sri Lanka's female labor force participation rate stagnated at around 35 percent from 2011–2019 compared to the steady male participation rate of 74 percent during the same period.¹³ Its female labor force participation was ahead of South Asia at 25 percent, but trails behind the global average of 53 percent.¹⁴ The average female unemployment rate in Sri Lanka remained more than double that of men (7 percent for females and 3 percent for males) in 2011–2019.¹⁵

Sri Lanka's ranking in the Global Gender Gap Report¹⁶ has declined precipitously within the past decade. In 2006 (the year the Global Gender Gap Report was first introduced), Sri Lanka ranked 13th out of 115 countries. In 2021, its ranking dropped to 116th out of 156 countries. Several factors drove this dramatic descent.¹⁷ First, Sri Lanka's relative performance has declined throughout the years. Since 2006, almost all South Asian countries (except Bhutan) have made significant progress closing their gender gaps.¹⁸ Furthermore, the decline in its ranking since 2010 was mostly caused by one indicator in the political empowerment sub-index (the female to male ratio of years as the head of state in the last 50 years). When the indicator for having a woman head of state is removed from the equation, Sri Lanka's performance (measured by its score instead of its ranking) since 2006 remains roughly the same.¹⁹

Social and cultural norms, in addition to discrimination, strongly influence the terms of female labor force participation. McKinsey's research finds that women's share of unpaid care work²⁰ negatively correlates with women's participation in paid work and with women's opportunity to participate in professional/technical jobs or assume leadership positions at work. Globally, women typically do an average of 75 percent of the world's total unpaid-care work, including

¹² World Economic Forum, *The Global Gender Gap Report 2021* (Geneva: WEF, 2021): 353.

¹³ Sri Lanka Department of Census and Statistics, *Sri Lanka Labour Force Survey: Annual Report 2019*, ISBN 978-955-702-187-4

¹⁴ World Bank Open Data, accessed in May 20, 2021, <https://data.worldbank.org/indicator/SL.TLF.ACTI.FE.ZS?view=chart>.

¹⁵ Sri Lanka Department of Census and Statistics, *Sri Lanka Labour Force Survey: Annual Report 2019*, ISBN 978-955-702-187-4.

¹⁶ The Global Gender Gap Report is an annual publication by the World Economic Forum that measures the relative gaps between women and men across four key areas: health, education, economy, and politics in 156 countries and tracks their progress over time.

¹⁷ Verite Research, "Reducing the Gap in Understanding Sri Lanka's Gender Gap," 2021. Available at <https://www.veriteresearch.org/2021/03/08/reducing-the-gap-in-understanding-sri-lankas-gender-gap/>

¹⁸ Gender gaps include economic participation, educational attainment, health and survival, and political empowerment.

¹⁹ Sri Lanka elected Sirimavo Bandaranaike, the world's first woman head of state in 1960. She served three terms (1960–1965, 1970–1977 and 1994–2000). The Global Gender Gap Index calculates for the female to male ratio of years as the head of state in the last 50 years. Bandaranaike's first term was counted less after 2010 and not at all after 2014, which caused that indicator to decline.

²⁰ Unpaid care work refers to all unpaid services provided within a household for its members, including care of persons, housework, and voluntary community work.

childcare, caring for the elderly, cooking, and cleaning. This proportion is even higher in certain regions, including South Asia.²¹

Research by OECD further confirms that "a decrease in women's unpaid care work is related to a ten-percentage point increase in women's labor force participation rate." The higher the inequality in the distribution of care responsibilities between women and men, the higher the gap between women and men's labor force participation."²² Not surprisingly, in countries where women shoulder most of the responsibility for unpaid care work, such as Sri Lanka, there are persistent gender gaps in employment outcomes (even when there is a decreasing gender gap in education).



Increased Household Responsibilities Impact Women's Career Prospects

"We have identified that the main rung we lose women is at mid-level management. For JKH, it drops from more than 40 percent to about 25 percent. This phenomenon seems to occur when women take on the role of primary caregiver: mother, wife, or caretaker of elderly parents and find it difficult to juggle the increased demands of home with work obligations. In this part of the world, even if they keep working, women are expected to take on a larger burden of care on the home front, which means less time to invest in networking or learning new skills."

A champion of John Keells Holdings' (JKH) Diversity, Equity, and Inclusion initiative, Nadija Tambiah observed that despite a robust policy framework around equal opportunity, they were still losing talented, qualified women who had to choose between care duties and career goals – a choice most men in Sri Lanka did not seem to face. To stem this talent leakage, Tambiah was instrumental in launching 'ONE JKH', through which targeted interventions for women and group-wide exercises such as unconscious bias awareness were implemented. Women employees were provided with training, sponsorship, mentorship, agile working facilities, employee-supported childcare, and enhanced maternity leave to support every level of the female talent pipeline.

Ms. Nadija Tambiah

President - Group Executive Committee
John Keells Holdings (JKH)
Sector: Diversified holdings

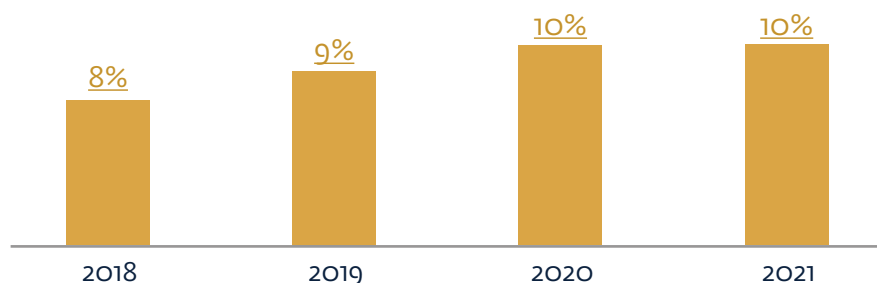
²¹ McKinsey Global Institute, "COVID-19 and Gender Equality: Countering the Regressive Effects."

²² OECD Development Centre, "Unpaid Care Work: The Missing Link in the Analysis of Gender Gaps in Labour Outcomes," (2014): 5-6.

1.2 Gender Diversity in Sri Lanka's Corporate World

Despite a low female labor participation rate, there is near parity between Sri Lanka's female and male professional/technical workers (the female/male ratio is 0.92). However, the percentage of women who make it to the boardroom is much smaller, despite some progress over recent years. The proportion of women directors on the CSE-listed companies has progressively increased from around 8 percent in 2018 to 10 percent in 2021, representing a 53 percent increase in the past three years. In terms of absolute numbers, there were 144 women directors in 2018 compared to 221 women in 2021.²³

The percentage of women directors on the Colombo Stock Exchange-listed companies



In the 2019 budget announcement, the Sri Lankan government proposed the introduction of a progressive quota to encourage more women representation on corporate boards as follows:²⁴

- i. The Ministry of Finance announced that it would introduce a voluntary target of 30 percent of women in director boards of companies listed on the CSE. All listed companies shall disclose the percentage of women on their boards in their annual reports.
- ii. By December 31, 2020, all listed companies that are unable to meet the 30 percent voluntary target will be required to disclose reasons for being unable to do so.
- iii. By December 31, 2022, all listed companies shall have at least 20 percent of board seats occupied by women.
- iv. By December 31, 2024, all listed companies shall have at least 30 percent of board seats occupied by women.

It is likely that the increase in the percentage of women directors has been encouraged by the announcement made by the Ministry of Finance during their budget speech, although the proposals have not been turned into regulations or laws.

²³ Economy Next, "Sri Lanka's Boardrooms Need 500 More Women to Close the Gender Gap in the Corporate World," March 11, 2021. Available at <https://economynext.com/sri-lankas-boardrooms-need-500-more-women-to-close-the-gender-gap-in-the-corporate-world-79686/>

²⁴ Minister of Finance, Budget Speech – 2019 (March 5, 2019): 90.



Building the Pipeline for Women in Leadership

"Compared to other countries in our region, we still have a lot of work to do to increase the pipeline of corporate women leaders. Most companies in Sri Lanka have legacy stakeholders, and while this has its positives, women's leadership must also be developed from within the ranks of the organization."

With a career spanning over 30 years at Carson Cumberbatch, Chandima Gunawardena has risen through the ranks to become one of the longest-serving board members of the company. With diversified businesses ranging from portfolio and asset management, leisure, beverages, oil palm to real estate, Carson's has operations across Sri Lanka, Singapore, Malaysia, India, and Indonesia.

Gunawardena has witnessed the organization's leadership transform into a more gender diverse and inclusive team with time. "Once we stepped out of our decades-old comfort zone, the organization automatically moved from a top-driven management style to providing accountability and motivation for young professionals to move up the ladder. Through capacity building and mentoring, young professionals have equal opportunity to become leaders."

Gunawardena also pointed out a gap in the pipeline of women leaders in diversified fields and expertise. "Most women board members I know in Sri Lanka come from the financial and banking sector. We need a wider spectrum of talent from different disciplines to create a more far-reaching impact. Regionally, we see women engineers, agriculture-economists, environmental scientists, and many more breaking barriers and excelling in non-traditional fields, but Sri Lanka is still lagging behind."

Sharing his insights into the changes he witnessed in boardroom dynamics and the impact on the business when more women joined the discussion, Gunawardena said, "The mix of men and women in leadership has allowed us to have interesting, in-depth, out-of-the-box conversations that have a more focused business direction. Decisions have progressed beyond short-term gains to long-term sustainability, thereby strengthening our overall business model. I attribute this change to increased gender diversity in leadership, among other things."

Mr. Chandima Gunawardena

Non-Independent, Non-Executive Director
Carson Cumberbatch PLC
Sector: Diversified holdings



Gender-Balanced Leadership Promotes Creativity and Resilience During a Crisis

Premila Perera shared that COVID-19 impacted multiple levels of the JKH Group. "Women, typically known for their multi-tasking skills, pragmatism in a crisis, and empathetic reactions have been assets as leaders during this pandemic contributing to an environment where people are encouraged to engage, adapt, and be innovative in their thinking." From interruptions in consumer trends (due to social distancing and safety concerns), technological disruptions to maintaining employee engagement, the new normal propelled the company leadership to lead by example in being agile, adaptable, and open to disruptive innovations and digitization.

Ms. Premila Perera

Independent Non-executive Director
John Keells Holdings (JKH)
Sector: Diversified holdings



"There was a lot of debate on customer preference for in-person as opposed to online shopping. But as the only woman in the room, I was in a unique position to share insights on the changes in consumer patterns when adapting to pandemic regulations, which turned out to be a driving force in accelerating our digital platforms. We're now running successful supermarket operations online." Indira Malwatte's insight into consumer behavior of Cargills' primary customer base, equipped the board with a more authentic and pragmatic understanding of market realities, which led to expedited rollouts of digital solutions for the supermarket chain during the start of the Covid-19 pandemic.

Ms. Indira Malwatte

Independent Non-Executive Director
Cargills (Ceylon PLC)
Sector: Food and Beverages



"The variety of perspectives and experience help an organization thrive by breeding creativity and, most importantly, driving innovation. During times of crisis, the company can navigate better, be more agile, and react to changing customer needs faster."

The first female Group CEO of a public quoted conglomerate in Sri Lanka, with a strong presence in pharmaceuticals and healthcare, Kasturi Chellaraja Wilson, shared the important role of diversity in navigating the COVID-19 pandemic. Hemas adapted quickly to the consumers' needs by providing in-demand products (bacterial pens, shield sanitizers, Actiseif soap), developing an online platform for retailers, and embracing disruptive technologies (e.g., introducing a mobile application to connect customers to pharmacies, creating the first automated guided vehicle (AGV) robots in Sri Lanka to treat COVID-19 patients).

Ms. Kasturi Challeraja Wilson

Executive Director/CEO

Hemas Holdings PLC

Sector: Diversified holdings

1.3 The Business Case for Gender Diversity

Gender diversity is good for business. Evidence points to the positive correlation between gender diversity at the senior management and board level and firms' financial and non-financial performance.

Gender Diversity is Positively Correlated with Accounting Returns

A 2015 paper titled "Women on Boards and Firm Financial Performance: A Meta-Analysis" combined the results of 140 studies with data from 90,070 firms spanning 35 countries. The research found that the presence of women on boards is positively related to accounting returns, which measure a firm's profitability or how well a firm utilizes its assets and investments to generate earnings.²⁵ Since women bring a different set of knowledge, experience, and values, their presence on boards shapes not only what types of information are considered but also how decisions are made, which ultimately affects firm performance. Female representation on corporate boards is also positively related to greater board monitoring and strategy involvement, both of which are among the board's key responsibilities.

²⁵ Corinne Post and Kris Byron, "Women on Boards and Firm Financial Performance: A Meta-Analysis," *Academy of Management Journal* 58, no. 5 (2015): 1546–1571. *Academy of Management Journal* is a peer-reviewed academic journal.

The latest research from McKinsey in 2020 found that companies in the top quartile of gender diversity on their senior management teams were 25 percent more likely to have above-average profitability than peer companies in the bottom quartile. They also found that the higher the representation of women, the higher the likelihood of outperformance. There is a 48 percent difference in financial performance between companies with more than 30 percent women in their senior management teams and their less diverse peers (e.g., those between 10 and 30 percent women and those with fewer or no women).²⁶

Gender Diversity is Positively Correlated with Environmental, Social, and Governance Performance

In another paper published in 2016 "Women on Boards of Directors and Corporate Social Performance: A Meta-Analysis," the authors aggregate 87 studies from 20 countries and find that female board representation is positively correlated with corporate social performance. Corporate social performance is broadly defined as "principles, processes, and outcomes that relate to an organization's societal relationships"²⁷ (such as socially responsible business practices, relationships with various stakeholders, and commitment to environmental and societal issues).

Consistent with the above research, a comprehensive literature review conducted by IFC in 2018 of 70 peer-reviewed papers (published between 2008 and 2017 and spanning multiple countries and time periods) finds that having more women in business leadership positions is positively correlated with better environmental, social, and governance (ESG) standards and performance, such as stronger sustainability practices, improved environmental and social performance, more robust disclosures on environmental and social issues, gender-equitable hiring and promotion practices, and family-friendly policies, among others. This correlation is stronger when women comprise a critical mass of about 30 percent of a company's board. Consequently, these companies also perform better on critical metrics: more robust control environments, reduced risk of fraud/ethical lapses, positive workplace culture, greater stakeholder engagement, and improved reputation and brand.²⁸

There is a clear business case for gender diversity on corporate boards and in business leadership. The empirical evidence shows the importance and value of gender diversity in improving firms' overall performance, including but not limited to financial performance. Gender diversity among business leaders typically leads to more well-rounded decision-making processes, stronger monitoring and strategy involvement, and greater attention to ESG issues. These factors are critical for companies to achieve the triple bottom line of people, planet, and profit. Ultimately, diversity is about ensuring companies' competitiveness, performance, and long-term sustainability.

²⁶ McKinsey & Company, "Diversity wins: How inclusion matters," (2020).

²⁷ Kris Byron and Corinne Post, "Women on Boards of Directors and Corporate Social Performance: A Meta-Analysis," *Corporate Governance: An International Review* 24, no. 4 (2016): 429. *Corporate Governance: An International Review* is a peer-reviewed academic journal.

²⁸ Di Miceli and Donaggio, "Women in Business Leadership Boost ESG Performance: Existing Body of Evidence Makes Compelling Case," 4.



Gender Diversity in Business Leadership

Leads to

- Better decision-making process
- Stronger monitoring and greater strategy involvement by the board
- Greater attention to ESG issues

IMPROVES
Financial & Non-Financial
PERFORMANCE



Gender-Diverse Boards Lead to Better Financial Results

"When there are both women and men in the boardroom, more viewpoints are debated, which might slow the process down. However, this inclusivity allows for a well-rounded decision. It enables a deeper understanding of the market and consumer, leading to better financial performance, positively impacting the growth and aspirations of the business."

Kasturi Chellaraja Wilson noticed changes in the decision-making process when gender diversity increased in top management. Board members respected the shared views and made an effort to understand the reason behind opinions that differed from their own, with a greater appreciation of the value of diverse thoughts and ideas. Chellaraja Wilson shared that the board's willingness to embrace this change positively impacted the development and scope of the business.

Ms. Kasturi Challeraja Wilson

Executive Director/CEO

Hemas Holdings PLC

Sector: Diversified holdings



Gender Diversity Driven by the Need to Stay Competitive in a Global Market

"Throughout the last 30 years, the company has adapted to stay competitive in a challenging global market. These institutional changes have been very good for business, contributing to a more mature and open environment that welcomes gender diversity at all levels."

Mr. Gunawardena observed that the organization's expansion into the global market with operations in other Asian countries had contributed to a growth in diversity. "When I was younger, the board had only men. We thought that this was the norm and were reluctant to change. But when we went out into the world and grappled with global challenges, we saw that we need to be inclusive if we are to survive and be welcomed by the next generation."

Mr. Gunawardena also shared that the diversified nature of the group, encompassing multiple enterprises in Sri Lanka and overseas, drove it to seek the competitive advantages brought on by diversity in leadership thinking. The group today boasts multiple women directors and senior managers across the various sectors.

Mr. Chandima Gunawardena

Non-Independent, Non-Executive Director
Carson Cumberbatch PLC
Industry Sector: Diversified holdings

Chapter 2

Gender Diversity and Financial Performance among the Largest 30 Companies on the Colombo Stock Exchange

2.1 The Companies

To build a case for gender diversity in Sri Lanka's corporate leadership, we analyzed the relationship between gender diversity in business leadership positions and the financial performance of the 30 largest companies listed on the CSE based on their market capitalization from 2015 to 2019. There are two sets of data referring to the largest 30 companies used in this report:

1. The first set includes the largest 30 companies by market capitalization as of October 31, 2018. Their financial and non-financial data were extracted from each company's annual reports for 2015, 2016, and 2017.
2. The second set includes the largest 30 companies by market capitalization as of February 19, 2021. Their data were extracted from each company's annual reports for 2018 and 2019.

While most companies remain the same, 11 of the companies that were included in the first set were no longer in the top 30 as of February 19, 2021. The CSE has 282 companies representing 20 industry groups as of March 31, 2021. Together these 30 companies account for approximately 60 percent of the total market capitalization. Below are the main characteristics of the 30 companies included in the sample:²⁹

Between 2015-2019, the following were the top three sectors in Sri Lanka with the largest number of board directorships held by women:



²⁹ For a full list of the 30 largest listed companies in Sri Lanka, see Appendix 1.

Table 1. Gender diversity in the 30 largest CSE-listed companies from 2015 to 2019

Variable	Acronym	Average	Min	Median	Max
Size of the board of directors		9.3	5	10	17
Women on the board	Number of women on the board of directors	0.95	0	1	4
	Percentage of women on the board of directors	11%	0%	9%	38%
Independent women on the board	Number of independent women on the board of directors	0.49	0	0	3
	Percentage of women among independent directors on the board of directors	10%	0%	0%	67%
Size of the senior management team		15.2	6	14	29
Women on the senior management team	Number of women on the senior management team	2.9	0	2	8
	Percentage of women on the board of directors and on the senior management team	19%	0%	17%	50%
Size of the business leadership positions		24.2	12	23	39
Women in the business leadership positions	Number of women on the board of directors and on the senior management team	3.9	0	3	11
	Percentage of women on the board of directors and on the senior management team	16%	0%	16%	39%
Size of the audit committee		3.5	0	3	7
Women on the audit committee	Number of women on the audit committee	0.44	0	0	3
	Percentage of women on the audit committee	11%	0	0	75%

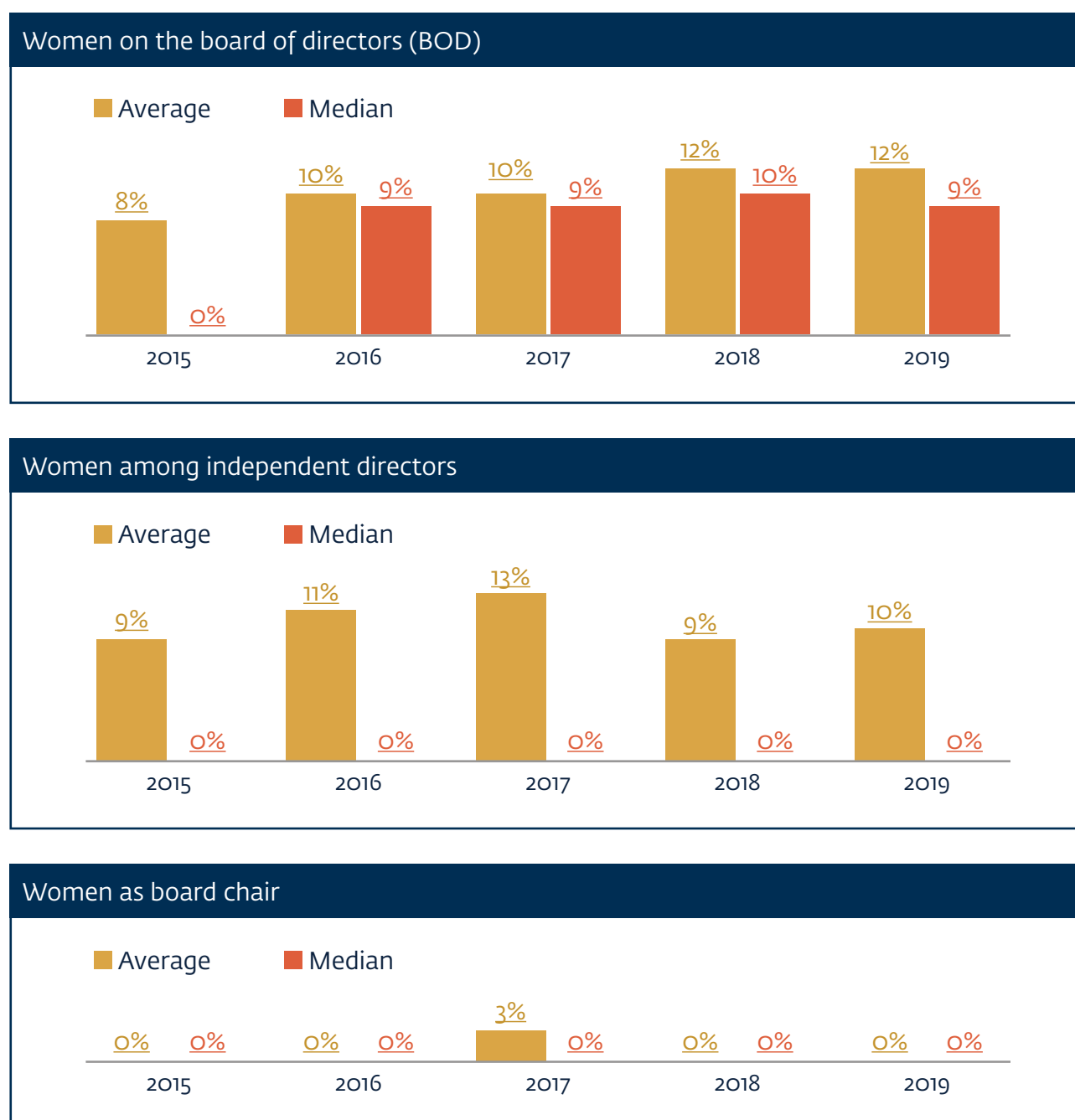
Board composition of the 30 largest CSE-listed companies

As shown on Table 1, the board size varies from 5 to 17 among the 30 largest listed companies between 2015 to 2019, with a median of 10 members. The typical board has one woman among its members. **Forty percent or twelve of the companies in the top 30 have all-male boards.** Less than five percent of the companies have three or more women on the board. Around two-thirds of the companies do not have any female independent directors. Two-thirds of audit committees are all-male, while only around 10 percent of audit committees have two or more women as members. Only one company had a woman chairing its board (for just one single year).

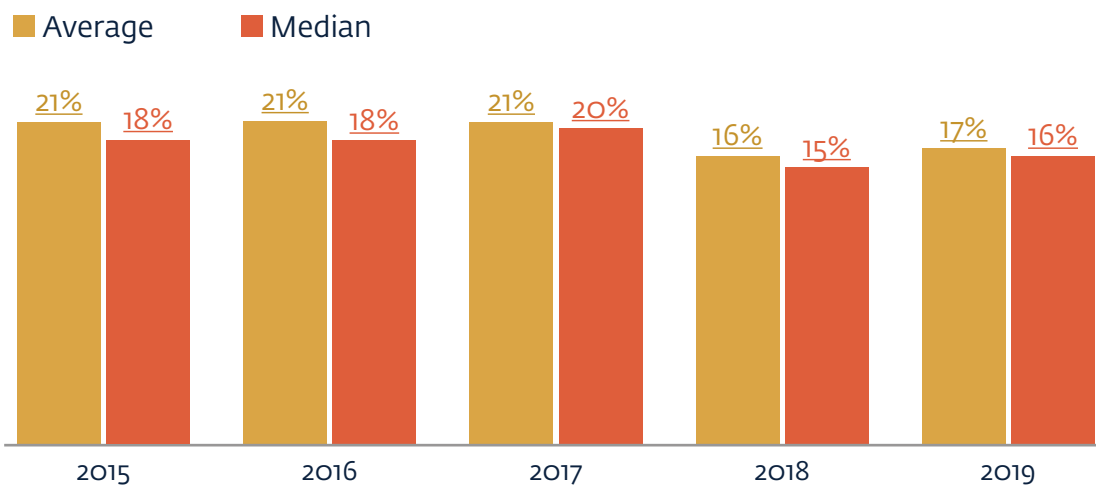
Senior management composition of the 30 largest CSE-listed companies

As shown on Table 1, women make up around 20 percent of the senior management teams, with the median company having two women in the C-suite. The typical size of the senior management team is 15 members. Women occupy less than one-quarter of the senior management positions for 75 percent of the companies in the sample. Women in business leadership positions (board of directors and senior management) vary from 0 to 11 members, with a median presence of three women.

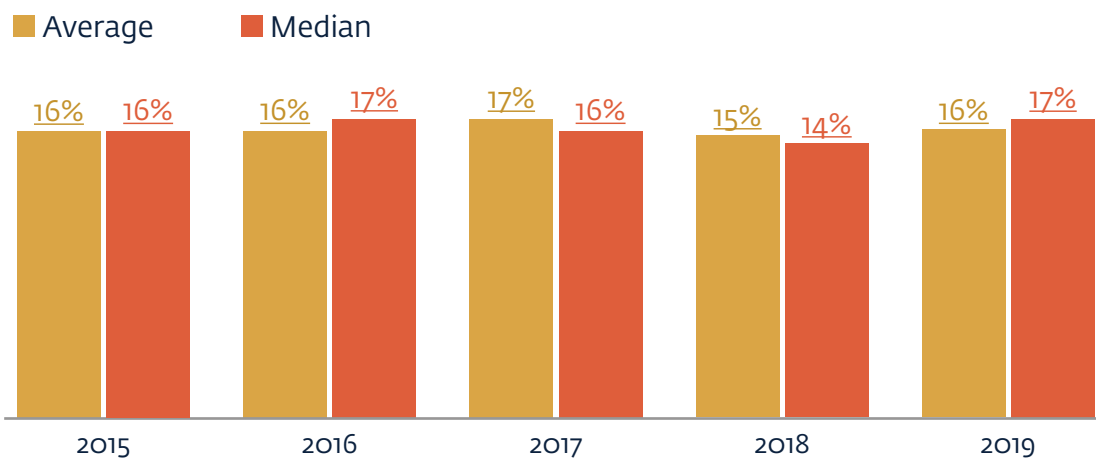
Figure 2. The proportion of women in business leadership positions in Sri Lanka's 30 largest companies



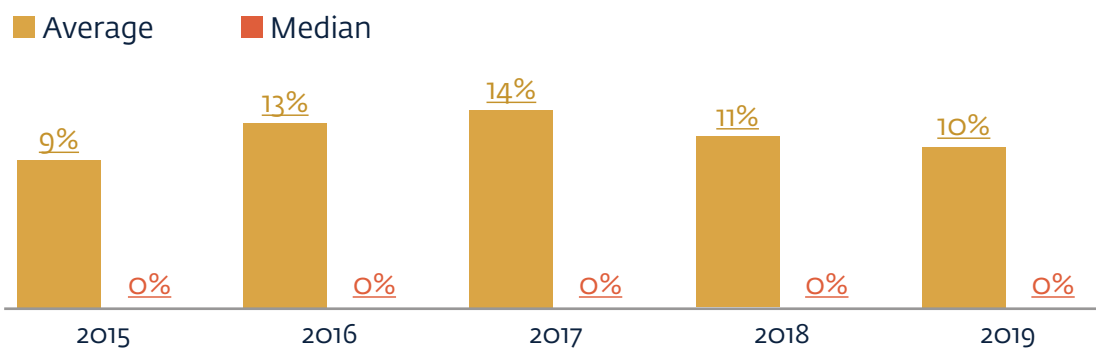
Women on the senior management team (SMT)



Women in business leadership positions (BOD + SMT)



Women on the audit committee



In 2019, women comprised around **12 percent of directorships and approximately 17 percent of senior management**. Women also made up about **10 percent of independent board members and 10 percent of audit committee members**. **Women comprised around one-sixth of business leadership positions in Sri Lanka's 30 largest companies.**

2.2 The Research Variables

To analyze the relationship between gender diversity in business leadership positions (C-suite and board of directors) and the financial performance of Sri Lankan companies, a series of financial and gender variables were collected from the 30 largest companies in Sri Lanka between 2015-2019, which yield a database of 238 firm-year observations (see Table 2 and Table 3).

Table 2. Financial variables and their definitions

Variable	Acronym	Definition
Return on equity	ROE	A short-term measure of company performance, which measures net income as a percentage of shareholders' equity. It captures how well a company uses investments to generate earnings growth.
Return on total assets	ROTA	A short-term measure of company performance, which measures a company's earnings before interest and taxes relative to its total net assets. It indicates how effectively a company utilizes its assets to generate earnings before contractual obligations must be paid.
Price-to-earnings ratio	P/E ratio	Calculated by dividing price per share by earnings per share. The P/E ratio helps investors to determine the market value of the company's stock compared to its earnings.

Table 3. Gender variables and their definitions

Variable	Definition	Measurement
Women on the board	Number of women on the board of directors (NFEM_ BOD)	Number of female board members.
	Percentage of women on the board of directors (PFEM_ BOD)	Number of female board members divided by the total number of directors.
Independent women on the board	Number of independent women on the board of directors (NFEM_ INDEPD)	The number of female board members classified as independent directors by the companies.
	Percentage of women among independent directors on the board of directors (PFEM_ INDEPD)	The number of independent female directors divided by the total number of independent directors.

Variable	Definition	Measurement
Women on the senior management team	Number of women on the senior management team (NFEM_SMT)	The number of women on the statutory senior management team.
	Percentage of women on the senior management team (PFEM_SMT)	The number of women on the statutory senior management team divided by the total number of members.
Women in business leadership positions	Number of women on the board of directors and on the senior management team (PFEM_BLP)	The number of women on the board of directors and on the senior management team.
	Percentage of women on the board of directors and on the senior management team (PFEM_BLP)	The number of women on both the board and senior management team divided by the total number of members on the two governance bodies.
Women on the audit committee	Number of women on the audit committee (NFEM_AUDCOM)	The number of women on the audit committee.
	Percentage of women on the audit committee (PFEM_AUDCOM)	The number of women on the on the audit committee divided by the total number of members.

Overall, the results show that the relationship between gender diversity on the board and in senior management and financial performance among Sri Lanka's 30 largest companies is likely more positive than negative.

2.3 Findings from Subgroup Analysis

To analyze the relationship between gender diversity and financial performance, companies were segregated into two groups based on their share of gender diversity on the board. TOP GENDER DIVERSITY refers to the group of firms in the top third in terms of board gender diversity from 2015 to 2019. BOTTOM GENDER DIVERSITY refers to the group of firms in the bottom third in terms of board gender diversity over the same period.

Overall, results from subgroup analysis show that the financial performance of the companies with greater gender diversity (measured as the percentage of women on boards, women among independent directors, women in business leadership, and women in the audit committee) was generally higher than the performance of those companies with lower gender diversity. However, because the difference in performance between the two groups was not statistically significant on most occasions, it is not possible to argue conclusively that companies with greater gender diversity are more profitable and valuable than those with lower gender diversity.³⁰

³⁰ Statistical significance is the likelihood that a relationship between two or more variables is caused by something other than chance. Significance levels show how likely it is that a pattern in the data is due to chance. For example, statistically significant at a 10 percent level means that the finding has a 90 percent chance of being true; statistically significant at a 5 percent level means that the finding has a 95 percent chance of being true.

Figure 3 compares the performance indicators of firms that belong to the top 33 percent versus the bottom 33 percent *in terms of board gender diversity* among the 30 largest companies in Sri Lanka from 2015 to 2019. It shows that, on average, companies with higher board gender diversity exhibit better financial indicators than those with lower gender diversity in terms of return on equity (ROE), return on total assets (ROTA), but a lower price-to-earnings (P/E) ratio.³¹

Figure 3. Board gender diversity and financial performance

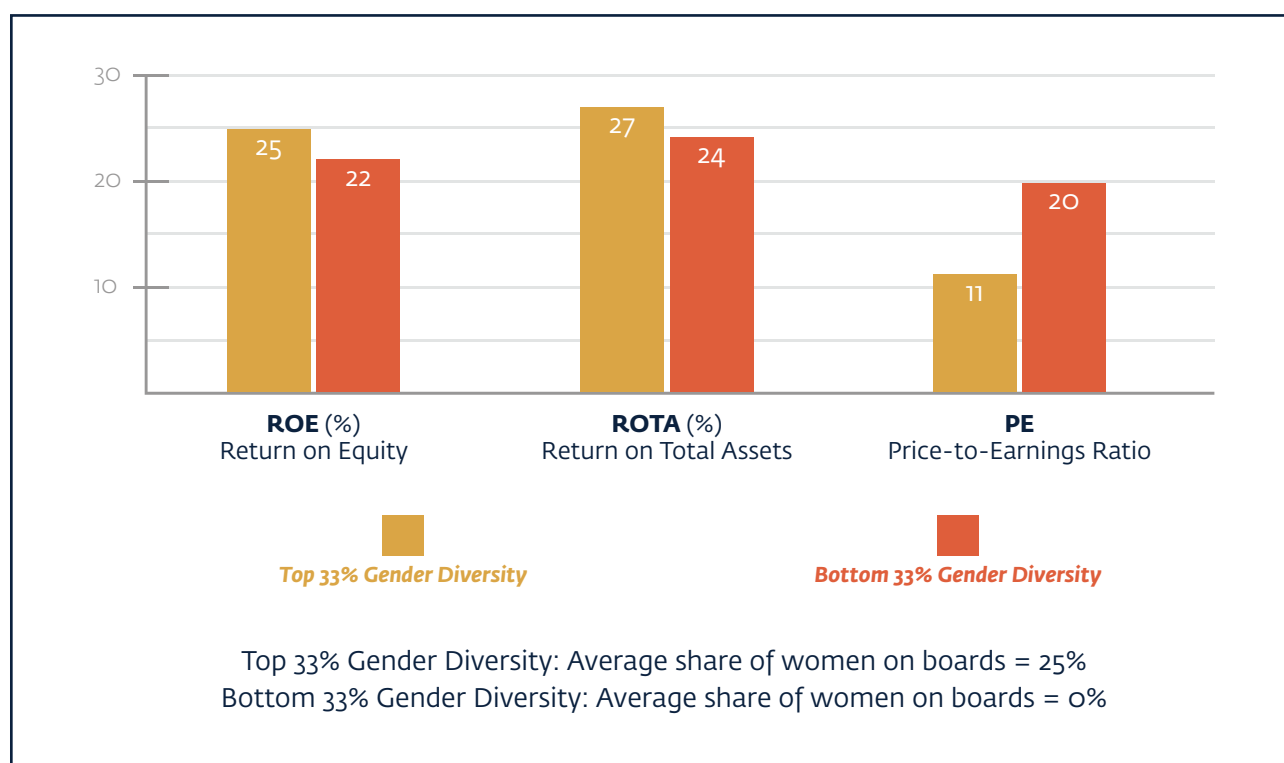


Figure 4 compares the performance of firms in the top 33 percent versus the bottom 33 percent *in terms of the percentage of women among independent directors* among the 30 largest companies in Sri Lanka from 2015 to 2019. It shows that, on average, companies belonging to the group with a higher proportion of women among independent board members exhibit much better ROEs and ROTAs than those with lower gender diversity but lower P/E ratios.³²

Figure 5 compares the performance indicators of firms that belong to the top 33 percent versus the bottom 33 percent *in terms of the percentage of women on the senior management teams* among the 30 largest companies in Sri Lanka from 2015 to 2019. On average, companies with more women on the senior management team exhibit lower ROEs and ROTAs (statistically significant at the 10 percent level) but higher P/E ratios (statistically significant at the 5 percent level). These mixed results, therefore, indicate that companies with more women at the C-level exhibit lower profitability but a higher firm value.

³¹ Since the results are not statistically significant, it is not possible to conclude decisively that companies with greater board gender diversity are indeed more profitable and valuable than those with lower gender diversity.

³² Since the results are not statistically significant, no definitive conclusions can be inferred.

Figure 4. Percentage of women among independent directors and financial performance

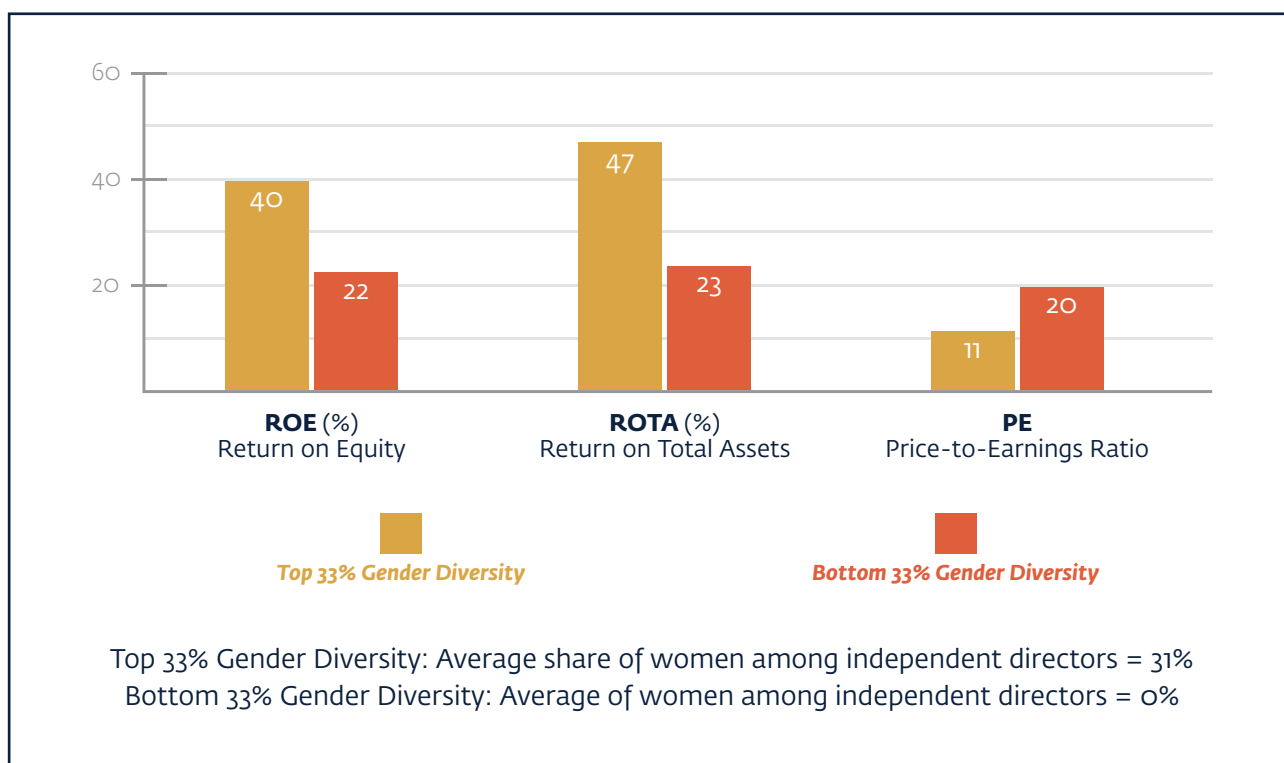


Figure 5. Gender diversity in senior management teams and financial performance

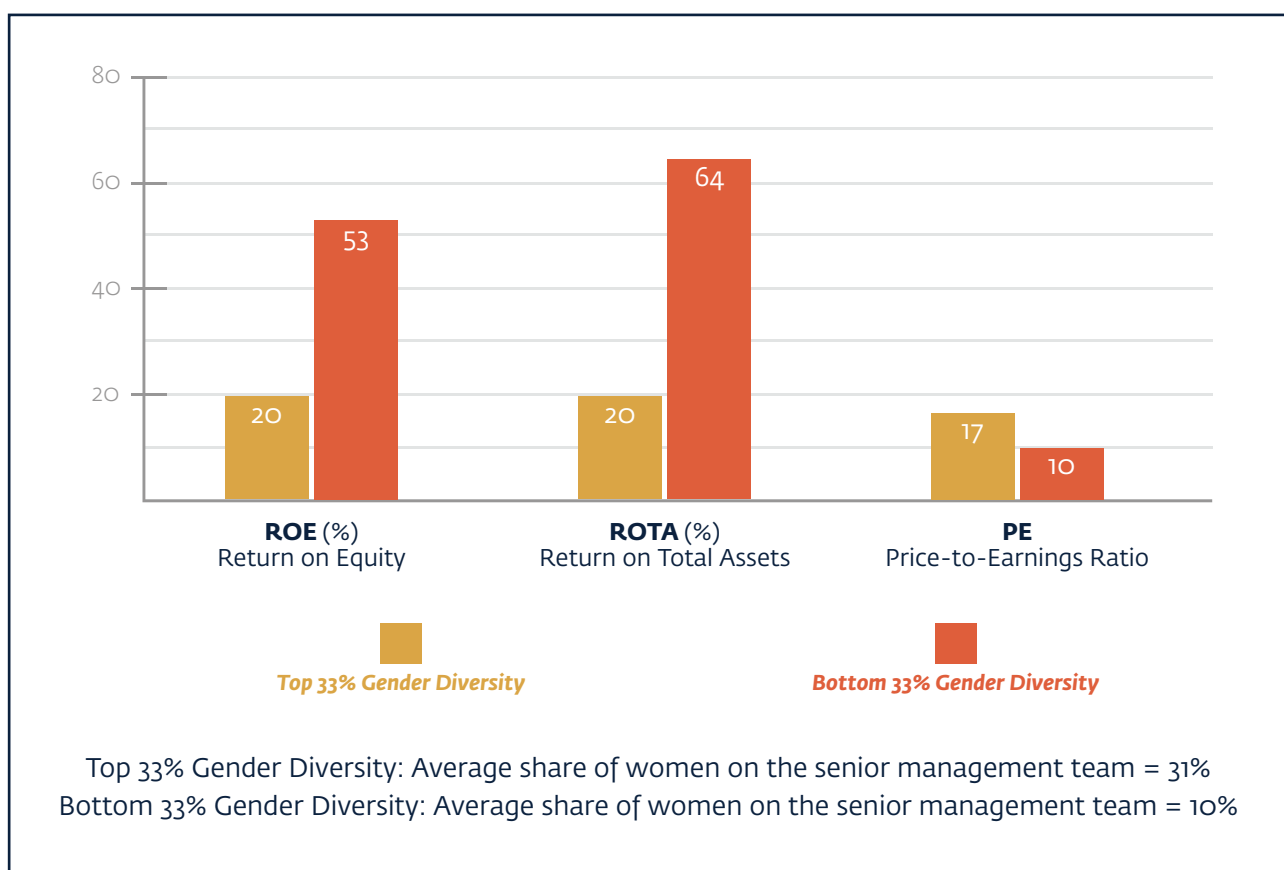
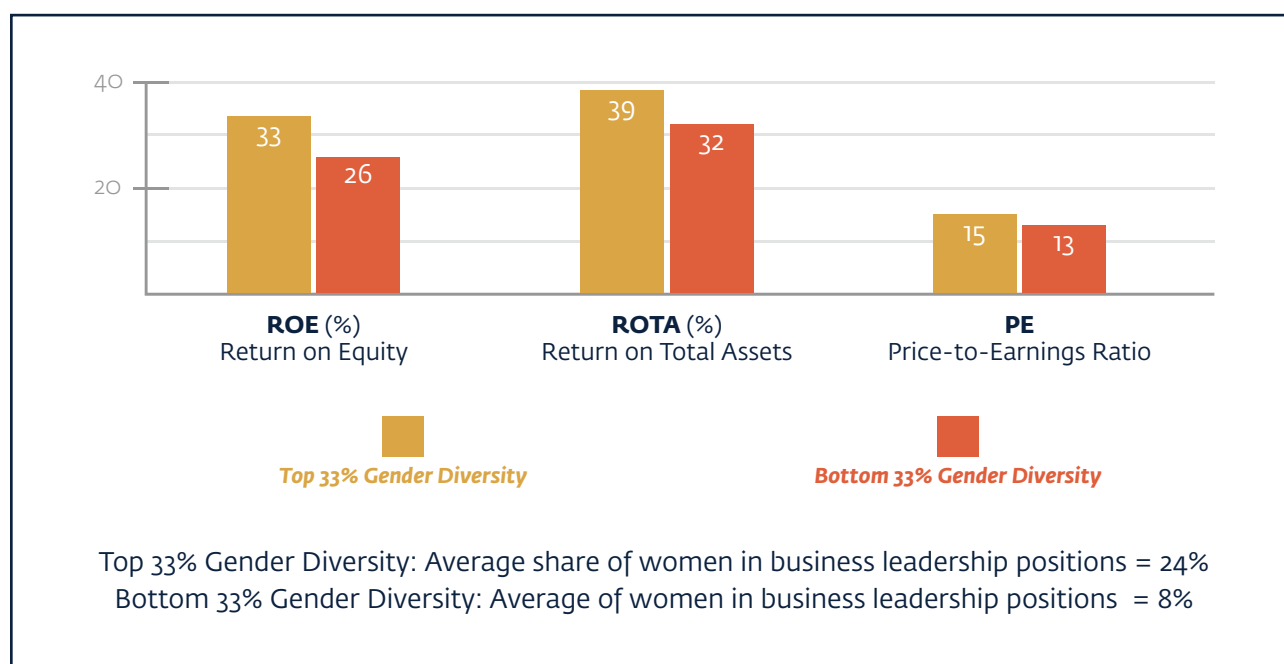


Figure 6 compares the performance indicators of firms that belong to the top 33 percent versus the bottom 33 percent *in terms of the percentage of women in business leadership positions* among the 30 largest companies in Sri Lanka from 2015 to 2019. It shows that, on average, companies from the group with higher gender diversity exhibit better financial indicators than those with lower gender diversity in terms of ROE, ROTA, and P/E ratio.³³

Figure 6. Gender diversity in business leadership positions and financial performance



These results suggest it is not enough to merely have a diverse board or a diverse senior management team since each metric is associated with a different financial outcome. More importantly, companies should ensure a strong gender balance across all dimensions of leadership since companies with *a greater percentage of women in business leadership positions* (which combine both the board and senior management team) exhibit better financial indicators across the board (in terms of ROE, ROTA, and P/E ratio).³⁴

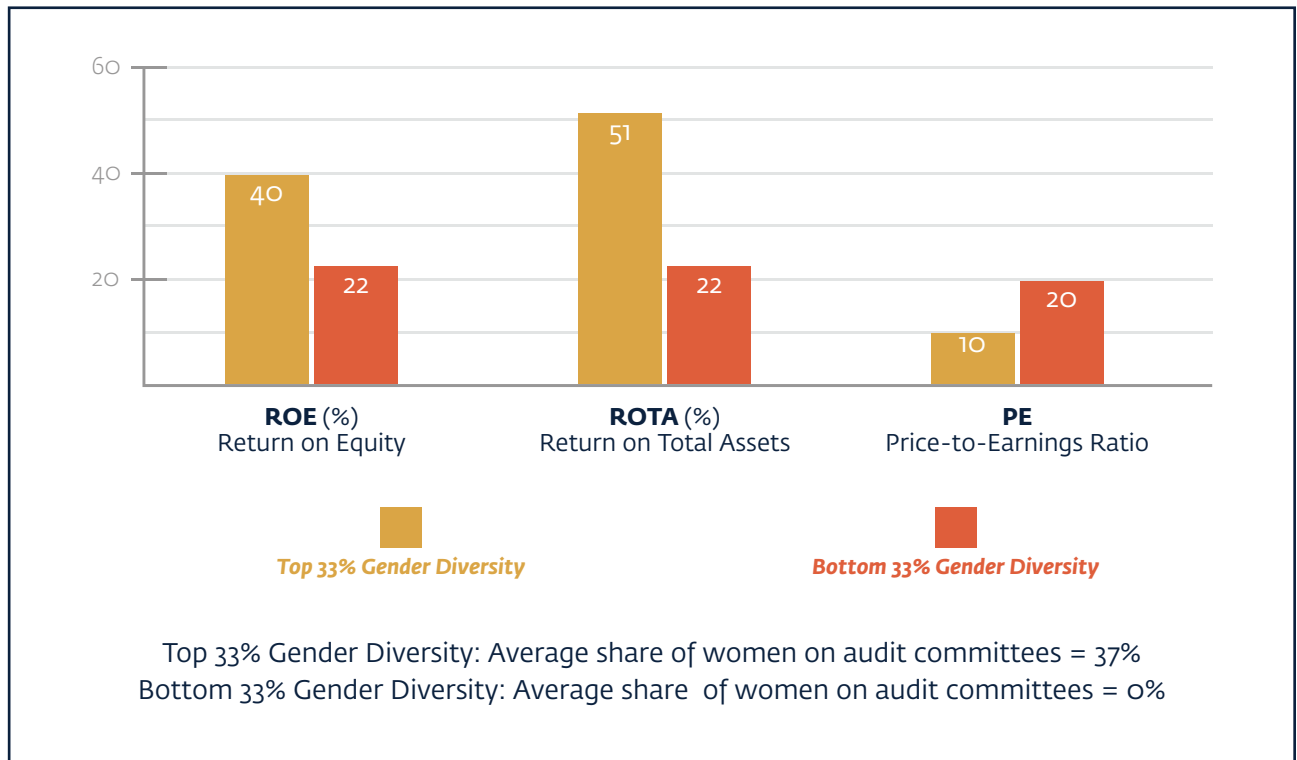
Figure 7 compares the performance indicators of firms that belong to the top 33 percent versus the bottom 33 percent *in terms of the percentage of women on audit committees* among the 30 largest companies in Sri Lanka from 2015 to 2019. It shows that, on average, the group of companies with more women on audit committees exhibit higher ROEs and ROTAs (in this case, at the 10 percent level of statistical significance) but lower P/E ratios (at the 10 percent level of statistical

³³ Since the results are not statistically significant, no definitive conclusions can be inferred.

³⁴ The correlation between gender diversity and financial variables does not indicate causality.

significance) compared to the group of companies with a lower percentage of gender diversity. Thus, we only found partial support for our hypothesis of a positive relationship between gender diversity and improved financial performance.

Figure 7. Gender diversity on audit committees and financial performance



Demystifying ROE, ROTA, and P/E Ratio

Both ROE and ROTA measure a firm's profitability or how well a firm utilizes its assets and investments to generate earnings. Meanwhile, the P/E ratio (which is calculated by dividing price per share by earnings per share) helps investors determine the company's stock market value compared to its earnings. An above-average P/E ratio typically indicates increased demand for the company's shares because investors expect earnings growth in the future (commonly referred to as growth stocks). A lower than average P/E ratio indicates that the company's shares are trading below what they are worth and, therefore, theoretically will provide a superior return (commonly referred to as value stocks). Value stocks are typically found in larger, more established companies. While ROE and ROTA measure the firm's performance, the P/E ratio reflects investors' expectations.

The mixed results between board gender diversity and these variables align with the results from a meta-analysis study that combined 140 studies with data from 90,070 firms spanning 35 countries. The study found that the presence of women on boards is positively related to accounting returns or profitability (which are typically reflected in variables such as ROE and ROTA).³⁵ However, the relationship between women on boards and market performance (such as the P/E ratio) is near zero. This relationship is positive in countries with greater gender parity and negative in countries with low gender parity. The authors argue that the negative relationship is possibly due to investor bias, which occurs in countries where cultural/societal norms call women's leadership abilities into question and therefore negatively influence investors' evaluations of the earning potential of firms with greater gender diversity.

Women as Board Chairs

There were 15 companies listed on the Colombo Stock Exchange that were led by a woman chairperson and five with a female deputy chairperson as of March 2020:

Companies with woman chairperson:

- Abans Electricals PLC
- Abans PLC
- Alliance Finance Company PLC
- Ceylon Guardian Investment Trust PLC
- Ceylon Investment PLC
- Chevron Lubricants Lanka PLC
- Dialog Finance
- HNB Assurance PLC
- Housing Development Finance Corporation Bank of Sri Lanka
- LB Finance PLC
- Royal Palms Beach Hotels PLC
- SANASA Development Bank PLC
- Swadeshi Industrial Works PLC
- Tess Agro
- The Autodrome PLC

Companies with woman deputy chairperson:

- Cargo Boat Development Company PLC
- Renuka Agri Foods PLC
- Renuka City Hotel PLC
- Renuka Foods PLC
- Renuka Holdings PLC

Company with both woman chairperson and woman deputy chairperson:

- Renuka Hotels Limited

The companies under female leadership primarily operate in two sectors: Banks, Finance, and Insurance and Manufacturing. Companies under female leadership are significantly smaller than those run by their male counterparts in terms of market capitalization, total assets, and total revenues (Table 4). Due to significant differences in the size of companies led by women versus those led by men (in the top 30 sample), we did not analyze the correlation between the female chairperson and financial performance.

³⁵ Post and Byron, "Women on Boards and Firm Financial Performance: A Meta-Analysis," 1546–1571.

Table 4. Comparison between companies under female versus male leadership in terms of market capitalization, total assets, and total revenues

	Average (Median) Market Capitalization in US\$ million	Average (Median) Total Assets in US\$ million	Average (Median) Total Revenues in US\$ million
Companies under female leadership	24.4 (12.9)	159.0 (39.1)	42.0 (12.9)
Companies under male leadership	318.0 (221.0)	799.0 (128.0)	222.0 (129.0)

2.4 Findings from Pearson's Correlation Coefficient³⁶

Table 5. Correlations between gender diversity and financial performance variables

	PFEM_BOD	PFEM_INDEPD	PFEM_SMT	PFEM_BLP	PFEM_AUDCOM
ROE	0.084	0.135	-0.074	0.036	0.108
ROTA	0.078	0.139*	-0.050	0.041	0.104
PE	-0.071	-0.053	0.264**	0.230*	-0.054

*This table indicates Pearson's correlation coefficients. ***, **, and * denotes significance at the 1, 5, and 10 percent levels, respectively.

The table above summarizes the Pearson's correlation coefficient between gender diversity and financial performance for the 30 largest listed companies in Sri Lanka from 2015 to 2019. It shows that:

- The correlations between gender diversity and financial performance variables (10 out of 15) were mostly positive, although they were not statistically significant. In the three cases in which they showed statistical significance, both were positive and aligned with our expectations.
- **The percentage of women among independent directors (PFEM_INDEPD) is positively correlated with ROTA, and this relationship is statistically significant at the 10 percent level.**


³⁶ Pearson's Correlation Coefficient measures the statistical relationship, or association, between two continuous variables. The value ranges between +1 and -1, where 1 is a total positive correlation, 0 is no correlation, and -1 is a total negative correlation. This method provides information about the magnitude of the association, or correlation, as well as the direction of the relationship.

- **The percentage of women on senior management teams (PFEM_SMT) is positively correlated with the P/E ratio and is statistically significant at the 5 percent level.**
- **The percentage of women in business leadership positions (PFEM_BLP) is positively correlated with the PE ratio and is statistically significant at the 10 percent level.**
- There is no statistically significant correlation between financial performance variables and the percentage of women on boards (PFEM_BOD) and the percentage of women on audit committees (PFEM_AUDCOM).

3.5 Findings from Regression Analysis³⁷

Based on the regression analysis, most of the coefficients of the gender diversity variables were positive. Therefore, in line with our hypothesis, there is a positive correlation between women's leadership and firms' financial performance. However, the findings were not statistically significant, which is most likely because of the data limitations and the small number of observations included in this research.

³⁷ For complete results on the regression analysis, see Appendix 2.



Chapter 3

Working Towards Greater Gender Diversity

The way forward requires multiple stakeholders to undertake key initiatives. In addition to the "push" from the regulators, companies need policies that can "pull" and retain talented women, particularly when they face competing responsibilities outside of work. In addition, institutes of directors, professional and industry bodies, and stock exchanges are well-positioned to connect qualified women with companies. Global and local networks of women directors play a critical role in providing coaching, mentoring, and sponsorships for aspiring women corporate directors. The women themselves need to build their network and branding to make the most use of these opportunities. Maintaining a solid network (both social and professional) is a crucial prerequisite for any woman who aspires to reach the top, particularly in Sri Lanka, where many board vacancies are made known exclusively through the network of existing directors.



The Importance of Building One's Brand and Network

"As a woman, you have to consciously build your network. Women in Sri Lanka have less opportunity to cultivate professional networks, as opposed to men, who have institutionalized networking opportunities available to them from their schooldays."

Indira Malwatte welcomed the scrutiny and visibility that came with being the first and only female chairperson of the Exports Development Board (EDB) of Sri Lanka in its 40-year history. She notes that her successful track record at EDB as a dedicated professional with solid business acumen prompted the invitation to join the board of Cargills and many others. Malwatte encourages women leaders to cultivate their reputation as skilled experts in their fields while nurturing a business network early on in their careers.

Malwatte adds that boards must actively work towards building gender-balanced leadership teams to achieve holistic, customer-centric solutions. She also points out the vital role the board chair plays in increasing diversity in leadership, as he/she can drive change from the top. "The chair leadership plays a significant role in board dynamics. His/her behavior lays the groundwork for the acceptance of diverse viewpoints."

Ms. Indira Malwatte

Independent Non-Executive Director
Cargills (Ceylon PLC)
Sector: Food and Beverages

3.1 What Boards Can Do

A commitment to diversity should start at the top. The board sets a tone that reverberates throughout the company, and diversity among the board and senior management tends to beget further diversity. A 2017 study by Deloitte finds that companies led by a female chairperson have almost double the number of women serving on their boards compared to companies with a male chairperson (29 percent versus 16 percent). The same relationship holds for companies headed by female CEOs, which also have twice the number of women serving on their boards than companies with male CEOs (29 percent versus 15 percent).³⁸ A gender-diverse board and senior management signals a real commitment to gender equality and therefore are well-positioned to champion further diversity across the company.

Diversity, therefore, should begin in the boardroom. If the board is serious about gender diversity, it should be reflected in its structure and composition, recruitment and nomination procedures, evaluation processes, succession planning, and board dynamics. It is important to remember that "board diversity is as much about the culture within the boardroom and acceptance of a diversity of views as it is about having diversity (of gender or otherwise) around the boardroom table."³⁹

To promote gender diversity on corporate boards, we recommend that boards:⁴⁰

1. Develop and disclose policies and procedures for board renewal and succession planning with specific and measurable targets to achieve balance and diversity (including gender, skills, experience, and knowledge). To promote diversity, a board succession plan should include term limits for directors.
2. Develop and disclose board evaluation methodology and metrics, including self-assessment of board performance in achieving its diversity objectives. Board evaluations should be conducted annually to identify and fill any gaps between the board skills matrix and succession plan with incumbent directors, including diversity shortfalls. The results from the board evaluation should feed into new director recruitment efforts.
3. Ensure that the director selection criteria are broad enough to expand the talent pool while continuing to reflect the fundamental competencies required to serve as a director. Most boards look for past boardroom experience when hiring new members, which can lead to a very small number of female candidates being considered (if any) since typically there is a much smaller pool of women directors to recruit from. The board, whenever possible, should ensure that there are qualified diverse candidates on the director shortlist. Overall, the board should ensure that it possesses and maintains the right balance of independence, skills, and diversity, including in terms of gender.
4. Provide a formal and thorough onboarding program for new directors. This is critical, especially when recruiting new, first-term directors (both female and male), to ensure

³⁸ Deloitte, "Women in the Boardroom: A Global Perspective (5th Edition)," (2017): 3.

³⁹ International Corporate Governance Network, "ICGN Guidance on Diversity on Boards" (2016): 11.

⁴⁰ This section is adapted from "ICGN Guidance on Diversity on Boards," 2016.

that they fully understand their duties and responsibilities and contribute effectively to boardroom discussions. A continuous training program should be provided to existing women directors to ensure that they can advance to leadership positions, such as committee chair and board chair.

5. Establish a board recruitment pipeline, such as through collaboration with professional/ industry bodies and institutes of directors (such as The Sri Lanka Institute of Directors) prior to any vacancy in the board. This practice can help the board to develop relationships with a broader pool and more diverse candidates who might not be part of the current directors' existing networks.
6. Develop and disclose policies to monitor, review, and report on board diversity objectives. Ideally, the board should review the progress and report the results to shareholders and stakeholders annually.
7. The chairperson should encourage and nurture diversity, including diversity of thought, opinions, and information in the boardroom by facilitating constructive debate and ensuring that new, independent, and minority directors can contribute effectively to the dialogue.
8. Provide oversight to senior management as they develop and implement diversity policies and initiatives and ensure ongoing discussion, training, and reporting across the organization on diversity issues.

3.2 What Companies Can Do

Companies that fail to utilize an increasingly larger talent pool of qualified women risk falling behind in an increasingly competitive and diverse world. The challenges and opportunities presented by gender diversity extend to all levels of the corporation. Consequently, diversity objectives and strategies should be embedded across all operations.

1. Develop a company-wide, formal diversity policy. A diversity policy should include at least the following:
 - Commitment to diversity and equality in hiring, training, promotion, and pay
 - Protection from discrimination/harassment because of age, gender, race, religion, disability, sexual orientation, marriage status, pregnancy, and maternity
 - Anti-discriminatory and anti-harassment measures, including reporting and third-party grievance mechanisms
 - Guidelines to encourage female inclusion in hiring and promotion, including flexible talent management and family-friendly policies.
2. Develop and disclose specific and measurable targets to increase female representation, including within senior management and on the board. Ideally, diversity targets should be incorporated as a part of key performance indicators (KPI) and cascaded down to ensure accountability.

3. Initiate programs to help women advance through the organizational ranks, such as mentorship/sponsorship programs, ongoing training.
4. Provide training on diversity management, unconscious bias and stereotyping, and the importance of emotional intelligence to supervisors/managers who manage a growing female workforce. Better skills and understanding among workplace supervisors/managers, who are predominantly male, can lead to better retention of female workers. For example, Sri Lankan women tend to outperform their male counterparts during employment entrance exams, particularly on entrance exams given by financial institutions. Unconscious bias among management (such as the common perception that hiring a woman is more expensive or that retaining a woman is difficult) often results in more men being called in to interview, translating to fewer women being hired.
5. Identify leading, influential male managers/leaders and support them to become champions who catalyze changes and drive actions for gender diversity across the company.⁴¹
6. Collaborate with universities, vocational schools, and professional/industry bodies to recruit and train female talent.
7. Integrate gender-related and other diversity indicators into the company's annual reporting cycle.
8. Create a conducive work environment for women (and men) to excel, such as through the provision of employer-supported childcare for parents, safe transportation options, flexible work options.



Diversity and Inclusivity in Action

"We believe in creating the environment for women to succeed and own their seat at the table. During the last few years, we have also focused on increasing women's participation in our workforce."

Kasturi Chellaraja Wilson, explaining that Hemas had introduced policies on flexible work, prevention of sexual harassment, maternity, paternity, and adoption leave, and launched a backup childcare facility and lactation room in a concerted effort to recruit and retain more women to the workforce.

Chellaraja Wilson also shared her insights on the role of diversity has played in drawing top talent to the company. "Currently, 28 percent of the group employees and 31 percent of our leadership team are female. Increased diversity in leadership communicates that the management is committed to inclusivity in our teams, and we're not merely ticking boxes. It also demonstrates to female

⁴¹ For more information on this strategy, visit <https://malechampionsofchange.com/about-us/>.

employees that they too have an opportunity for career growth, which leads to increased motivation and positively impacts working culture."

Inclusivity strengthens brand value and establishes the organization as a progressive employer of choice. "Diversity facilitates a company's ability to attract top talent," said Chellaraja Wilson reflecting on the competitive advantage of equitable business culture.

Ms. Kasturi Challeraja Wilson

Executive Director/CEO

Hemas Holdings PLC

Sector: Diversified holdings



The Importance of a Coordinated Approach to Grow Female Talent Pipelines

"At JKH we have set an initial goal of 40 percent women in the workforce by the end of 2025/2026. Each business line has set interim and leadership level targets. We have realized that an equal opportunity platform alone is insufficient to translate diversity into reality."

Nadija Tambiah championed a targeted, multi-pronged approach to diversity at JKH, building on the organization's long-standing values of equal opportunity and inclusivity. "Our approach is to have a committed leadership to drive implementation while ensuring accountability by setting gender-related internal goals. This top-down approach has resulted in widespread support throughout the group and enthusiastic participation in implementing the initiatives," said Tambiah speaking of the strategic implementation of diversity across the group.

Given that most graduates in Sri Lanka are women, Tambiah believes that actively recruiting, retaining, and promoting women is a farsighted investment by the company, allowing JKH to harness a much larger talent pool and a more diverse decision-making matrix. This is particularly important for an organization that operates in sectors where women make most consumer decisions.

"We are also targeting increasing female participation in non-traditional roles and providing women with the right skills and confidence to take on operational roles, as there is a tendency for them to gravitate more towards support functions. Traditionally, more leadership positions are available in operational roles than supporting roles."

By providing opportunities and motivation for women to build their careers in operational roles, especially those conventionally held by men, JKH hopes to build more gender-balanced leadership teams in the future.

Ms. Nadija Tambiah

President - Group Executive Committee

John Keells Holdings (JKH)

Sector: Diversified holdings

4.3 What Policy Makers Can Do

The government has a variety of tools at its disposal, including 'hard' and 'soft' regulations, fiscal policies, enforcement, and partnership with the private sector, to influence gender outcomes. Regulators should take into account the interactions, coherence, and complementarity between different policy options and their overall ability to supervise and enforce such regulations. At the same time, the government should also avoid over-regulation, balance trade-offs among different policies, and limit unintended consequences. Ideally, the government should collaborate and consult with other key stakeholders, including the private sector, whenever possible to ensure buy-in and encourage greater compliance.

Below are some policy options that have been utilized by policymakers across the world to promote gender diversity:

1. Establish targets to increase female representation for listed companies in the workplace.
2. Encourage or require disclosure of diversity-related metrics, including the percentage of women across all levels of the organization, pay gap and turnover rates by gender, expenditure on training by gender, and actions taken to enforce gender requirements across the supply chain.⁴²

REGULATORS' TOOLBOX

- **Disclosure requirements** typically involve reporting gender-related metrics in annual reports, such as the gender breakdown among staff, management, board, diversity strategy and/or policy, and pay by gender.
- **Targets** establish voluntary goals for the percentage/number of females among staff and/or business leadership positions.

⁴² Sustainable Stock Exchanges Initiative, *How Stock Exchanges can Advance Gender Equality*, March 2017, 8.

- **Quotas** are government or industry-mandated percentages of women among board members and/or senior management. Failure to meet the quota will result in penalties.

Although the effectiveness of quotas is a controversial topic globally, a study found that both targets and quotas are more effective at increasing the number of women on boards than reporting requirements alone. Having a specific target, such as through a mandatory quota or voluntary goal, is a key driver to increasing female representation in the boardroom.⁴³

3. Encourage or require companies to develop and disclose a diversity policy, including diversity targets for the board, senior management, and across the company's operations, as well as relevant strategies, initiatives, and guidelines to achieve these targets.
4. Develop or amend anti-discrimination and anti-harassment regulations in the workplace to create a more secure working environment for all, including women.
5. Develop or amend regulations to ensure equal pay for men and women who perform work of equal value.
6. Develop or amend regulations to improve and protect parental rights to encourage women to return to work after maternity leave and men to take paternity leave.
7. Consider providing tax exemptions, tax rebates, or subsidies for companies or individuals to promote family-friendly policies.
8. Issue diversity guidelines to raise awareness and build the business case for diversity among companies.

STOCK EXCHANGES FOR GENDER DIVERSITY

The following are recommended actions by the Sustainable Stock Exchanges Initiative for exchanges to advance gender diversity:⁴⁴

- Require listing applicants to disclose material convictions for violations of human rights rules, including gender-based violations, in their prelisting disclosures
- Offer a separate listing segment that takes into account gender disclosure
- Support the development of gender-focused investment products
- Rank listed companies based on the quality and quantity of their disclosures of gender metrics
- Implement and encourage listed companies to implement the Women's Empowerment Principles (a framework to advance gender equality in the workplace, marketplace, and community)
- Conduct or sponsor research on gender-related issues

⁴³ Victor E. Sojo et al., "Reporting Requirements, Targets, and Quotas for Women in Leadership," *The Leadership Quarterly* 27 (2016): 527.

⁴⁴ Sustainable Stock Exchanges Initiative, *How Stock Exchanges Can Advance Gender Equality*, 17.

Appendix 1

Table 1. Sri Lanka's 30 largest listed companies in 2017

Company	Number of males on the board	Number of females on the board	Board size	Percentage of women on the board
DFCC BANK PLC	6	3	9	33%
SAMPATH BANK PLC	7	3	10	30%
SRI LANKA TELECOM PLC	5	2	7	29%
CEYLON COLD STORES PLC	6	2	8	25%
NATIONS TRUST BANK PLC	10	3	13	23%
LANKA ORIX LEASING COMPANY PLC	4	1	5	20%
NATIONAL DEVELOPMENT BANK PLC	8	2	10	20%
OVERSEAS REALTY (CEYLON) PLC	9	2	11	18%
CEYLON TOBACCO COMPANY PLC	5	1	6	17%
CHEVRON LUBRICANTS LANKA PLC	5	1	6	17%
HATTON NATIONAL BANK PLC	10	2	12	17%
NESTLE LANKA PLC	6	1	7	14%
JOHN KEELLS HOLDINGS PLC	7	1	8	13%
CENTRAL FINANCE COMPANY PLC	9	1	10	10%
LION BREWERY CEYLON PLC	9	1	10	10%
C T HOLDINGS PLC	11	1	12	8%
COMMERCIAL BANK OF CEYLON PLC	11	1	12	8%
ASIRI HOSPITAL HOLDINGS PLC	8	0	8	0%
BUKIT DARAH PLC	7	0	7	0%
CARGILLS (CEYLON) PLC	12	0	12	0%
CARSON CUMBERBATCH PLC	11	0	11	0%

Company	Number of males on the board	Number of females on the board	Board size	Percentage of women on the board
CEYLINCO INSURANCE PLC	16	0	16	0%
DIALOG AXIATA PLC	9	0	9	0%
DISTILLERIES COMPANY OF SRI LANKA PLC	7	0	7	0%
HEMAS HOLDINGS PLC	11	0	11	0%
MELSTACORP PLC	8	0	8	0%
PEOPLE'S LEASING & FINANCE PLC	8	0	8	0%
RICHARD PIERIS AND COMPANY PLC	7	0	7	0%
SOFTLOGIC HOLDINGS PLC	12	0	12	0%
TEEJAY LANKA PLC	8	0	8	0%

Table 2. Sri Lanka's 30 largest listed companies in 2019

Company	Number of males on the board	Number of females on the board	Board size	Percentage of women on the board
CEYLON COLD STORES PLC	4	2	6	33%
SAMPATH BANK PLC	8	4	12	33%
LOLC FINANCE PLC	5	2	7	29%
SRI LANKA TELECOM PLC	6	2	8	25%
BROWN & COMPANY PLC	4	1	5	20%
VALLIBEL ONE PLC*	4	1	5	20%
HEMAS HOLDINGS PLC*	9	2	11	18%
CEYLON TOBACCO COMPANY PLC	5	1	6	17%
BROWNS INVESTMENTS PLC	5	1	6	17%
LOLC HOLDINGS PLC	5	1	6	17%
HAYCARB PLC	12	2	14	14%
JOHN KEELLS HOLDINGS PLC	6	1	7	14%
MELSTACORP PLC	7	1	8	13%
DISTILLERIES COMPANY OF SRI LANKA PLC	9	1	10	10%
DIALOG AXIATA PLC	10	1	11	9%
CARSON CUMBERBATCH PLC	10	1	11	9%
COMMERCIAL BANK OF CEYLON PLC	10	1	11	9%
HAYLEYS PLC	10	1	11	9%
ROYAL CERAMICS LANKA PLC	10	1	11	9%
C T HOLDINGS PLC	11	1	12	8%
CARGILLS (CEYLON) PLC	11	1	12	8%

Company	Number of males on the board	Number of females on the board	Board size	Percentage of women on the board
LION BREWERY CEYLON PLC	12	1	13	8%
COMMERCIAL LEASING & FINANCE PLC	5	0	5	0%
HATTON NATIONAL BANK PLC	12	0	12	0%
NESTLE LANKA PLC	8	0	8	0%
EXPOLANKA HOLDINGS PLC	6	0	6	0%
BUKIT DARAH PLC	7	0	7	0%
CEYLINCO INSURANCE PLC	16	0	16	0%
DIPPED PRODUCTS PLC	12	0	12	0%
RICHARD PIERIS AND COMPANY PLC	8	0	8	0%

Appendix 2

Regression analysis is the most robust way to assess the impact of gender diversity on financial performance, as it allows us to filter out the influence of control variables in the relationship between the two main variables of interest. For each performance variable, we ran regressions with both a basic model and a full model. The basic model corresponds to a simple regression without controls, while the full model controls the relationship between gender diversity and financial performance by firm size, financial leverage/indebtedness, and industry dummies.⁴⁵ It is important to note that multiple regressions, similar to subgroup analysis, do not prove causality.

Table 1. Multiple regressions: Relation between board gender diversity and financial performance variables

Dependent variables	ROE		ROTA		PE	
	Basic Model	Full Model	Basic Model	Full Model	Basic Model	Full Model
Model	(1)	(2)	(3)	(4)	(5)	(6)
BOARD GENDER DIVERSITY (PFEM_BOD)	0.462 (0.92)	0.700 (1.01)	0.663 (0.88)	1.089 (0.92)	-36.113 (-0.90)	11.354 (0.80)
FIRM SIZE		0.151*** (2.91)		0.249*** (2.98)		-1.106 (-0.55)
FINANCIAL_LEVERAGE		-0.442*** (-2.32)		-0.631** (-1.98)		0.790 (0.11)
INDUSTRY DUMMIES	NO	YES	NO	YES	NO	YES
Constant	0.277*** (4.98)	-1.680** (-2.29)	0.48*** (3.53)	-2.898** (-2.46)	20.672** (2.47)	14.693 (0.50)
Number of observations	135	86	144	86	125	62
F statistic	0.85	4.25	0.78	7.38	0.81	26.7
R-squared	0.007	0.431	0.006	0.415	0.005	0.337

The table above shows the outcomes of different regression models related to gender diversity at the board level (the percentage of women on boards) with three financial variables: ROA, ROTA, and P/E ratio. For each performance variable, we ran regressions with both a basic model and a full model. The basic model corresponds to a simple regression without controls, while the full

⁴⁵ "Industry dummy" refers to a set of variables for each industry to which a company belongs. Each variable assumes the value of 1 for a specific industry and zero otherwise. For example, if a company is in the construction industry, it will score 1 for this industry and zero for variables related to other industries.

model controls the relationship between gender diversity and financial performance by firm size, financial leverage, and industry dummies.

Although the coefficients of the gender diversity variable were positive in all specifications and thus in line with our prediction, none of them were statistically significant. It is likely that the absence of statistically significant coefficients is due to the small number of data sets.

Table 2. Multiple regressions: Relation between gender diversity in business leadership positions and financial performance variables

Dependent variables	ROE		ROTA		PE	
	Basic Model	Full Model	Basic Model	Full Model	Basic Model	Full Model
Model	(1)	(2)	(3)	(4)	(5)	(6)
GENDER DIVERSITY IN BUSINESS LEADERSHIP POSITIONS (PFEM_BLP)	0.316 (0.58)	-0.574 (-0.78)	0.563 (0.71)	-1.326 (-1.08)	40.954** (2.18)	44.688** (2.49)
FIRM SIZE		0.426*** (2.80)		0.687*** (2.98)		-3.27 (-1.31)
FINANCIAL_LEVERAGE		-0.441** (-2.09)		-0.714** (-2.01)		-0.184 (-0.02)
INDUSTRY DUMMIES	NO	YES	NO	YES	NO	YES
Constant	0.282** (2.56)	-5.482*** (-2.64)	0.312** (2.06)	-8.880** (-2.62)	5.855** (2.68)	40.705 (1.05)
Number of observations	95	74	105	74	87	56
F statistic	0.33	2.36	0.50	2.01	6.80	20.62
R-squared	0.001	0.484	0.002	0.474	0.040	0.410

Similar to the prior analysis, the table above shows the outcomes of different regression models related to gender diversity in business leadership positions (the percentage of women on both senior management teams and boards of directors) with ROA, ROTA, and PE. In this case, we observed a positive influence of the proportion of women in business leadership positions on the price-to-earnings ratio, which is a proxy for a company's market value. For other performance variables, though, the coefficients were non-significant. As a result, we only found partial support for our hypothesis relating gender diversity to improved financial performance.

Appendix 2

List of Interviewees

1. Ms. Aroshi Nanayakkara

Independent Non-Executive Director
SAMPATH BANK

2. Mr. Chandima Gunawardena

Non-Independent, Non-Executive Director
CARSON CUMBERBATCH PLC

3. Ms. Indira Malwatte

Independent Non-Executive Director
CARGILLS (CEYLON PLC)

4. Ms. Kasturi Chellaraja Wilson

Executive Director/CEO
HEMAS HOLDINGS PLC

5. Ms. Nadija Tambiah

President - Group Executive Committee
JOHN KEELLS HOLDINGS PLC

6. Ms. Premila Perera

Independent Non-Executive Director
JOHN KEELLS HOLDINGS PLC

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