

# Boards need push on diversity

Drive for women representation on boards has gained traction worldwide, but majority still lack diversity. By **LYNETTE KHOO**

**F**ACEBOOK IPO is No Friend to Women", read a statement issued by Malli Gero, executive director of 2020 Women on Boards (@2020wob), a group that aims to increase the percentage of women who serve on public boards.

"Does Mr Zuckerberg think that women are too busy socialising online to sit on his board?" Ms Gero asked of Facebook's CEO Mark Zuckerberg.

The world's most highly anticipated IPO has called attention to the hot topic of board diversity as investors have questioned the lack of diversity in its all-male board.

The push for board diversity has gained traction globally, including Singapore, amid growing awareness that a diversity of viewpoints in the boardrooms is necessary to manage risks in an uncertain and complex environment.

While companies hail the power of board diversity, there may be some way to go before the majority embodies a true sense of diversity on their boards.

"I do not believe that currently, the majority of boards in Singapore or elsewhere for that matter, have sufficient degree of diversity," says John Lim, chairman of the Singapore Institute of Directors (SID).

"This issue has not received the attention it deserves as most boards, reacting to market pressures, have been more concerned with the issue of independence," he adds.

While gender diversity is most visibly absent in the boardroom, the issue of board diversity goes beyond gender to include business background, ethnicity or culture, industry expertise and age, governance experts say. Diverse boards need to reflect the whole breadth of their stakeholders and their business environment.

On that note, Facebook is drawing flak for a lack of female representation on its board when 60 per cent of its clients are females.

While the European Commission's (EC) review of its corporate governance regime has paid much attention to the subject of board diversity, some observers note that this area is not touched upon enough by Congress in Dodd-Frank or Sarbanes-Oxley.

"What companies need is diversity in competencies, functional expertise and business experience," says governance advocate Mak Yuen Teen, associate professor of the National University of Singapore.

"Most importantly, you need to have diversity in viewpoints. If people come from the same network, even though they have different functional expertise, you may find that they end up having similar viewpoints," he adds.

He notes that when choosing directors, companies tend to be inclined towards traditional areas of competence such as accountancy and legal expertise and are not tapping into non-traditional backgrounds such as human resource and compensation.

"We probably have a lot of generalists too and it is not clear what value they bring to the board," Prof Mak says. "What comes to mind is many Singapore boards have current MPs (members of parliament) and past MPs or former civil servants. I'm not sure if these are the right kinds of competencies that boards need."

Also lacking on the boards of companies are directors with deep market or industry expertise that is relevant to the companies' businesses, Prof Mak adds.

## Gender diversity

Singapore-listed companies have not come up smelling like roses in the latest study on board gender diversity, which shows females taking up only 6.9 per cent of the board seats here – a figure lower than those seen in other countries like Malaysia and China.



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More than 60 per cent of Singapore-listed companies did not have a single woman director in 2010, according to the inaugural "Board Diversity Report" jointly issued by the NUS Business School's Centre for Governance, Institutions and Organisations (CGIO) and BoardAgender.

According to a 2011 report by Korn Ferry Institute covering 100 largest listed firms in Asia-Pacific countries, the percentages of directorships held by women were 6.4 per cent in Singapore, 7.8 per cent in Malaysia, 8.1 per cent in China and 8.6 per cent in Hong Kong.

Other reports have shown that the European Union, North America and Australia have more than 10 per cent female participation in boardrooms. Norway, which has legislated a female quota, has the highest rate of women represented on the boards of companies at 40 per cent.

"Compared to the US and Europe, and many other Asian countries, gender diversity in the boardroom is lagging in Singapore,"

says Juanita Woodward, co-chair of BoardAgender, an outreach arm of the Singapore Council of Women's Organisations (SCWO) Women's Register initiative.

"Female participation in the Singapore boardroom is not proportionate to the number of women with senior-level skills and experience," she adds. "If board nomination committees would cast the net wider, they will find an untapped pool of qualified women to serve in Singapore's boardrooms."

She notes that gender diversity in the boardroom makes "good business sense" as it is a better reflection of a company's customers, employees, investors and the communities in which they operate.

Junie Foo, co-chair of BoardAgender who has held senior positions in various banks, notes that the hurdle is high for women to enter the boardroom as a majority of women play the primary care-giver role in the family.

"There is a leaking pipeline in the middle management where women either voluntarily bow out to look after the family or are passed

over in terms of promotion, which creates a low number of women in top executive roles," Ms Foo says. "Men have traditionally been invited to join boards by their associates, whereas many women find that to be considered for a board position, they require corporate director training and top-notch corporate credentials."

## No to quotas

Countries such as Spain, France, the Netherlands, Iceland, Italy and Belgium have all introduced legal minimum quotas for women directors on public company boards. In June last year, Malaysia also introduced quota legislation.

The debate continues to rage in Germany, the UK and US on whether such a quota system should be introduced. Singapore has not mandated a quota or set any target, and the proposed changes to the Code of Corporate Governance barely touches on the gender makeup of boards here.

Legislating a quota system is sometimes seen as undermining the merits of appointing female directors on the board.

"It would be an insult to women and a great disservice to companies if women are appointed to fill quotas," says Ng Shin Ein, a legally trained private equity entrepreneur, who sits on the boards of Yanlord, First Resources and Eu Yan Sang.

What is needed is for companies to adopt a mindset change, she adds. "At the board level, different perspectives and skills often translate to a more holistic approach with regard to long-term strategy and risk management. None of this is about men versus women – it's about embracing and adopting different perspectives."

Mr Lim of SID notes that quotas will not be helpful to the cause of better gender diversity as standards will inevitably be compromised when an arbitrary numerical target is set against an unrealistic timeline. Having a longer-term target on gender diversity may be more helpful.

"I am reasonably convinced that many able women professionals/senior executives would not want a situation where there is always a lingering doubt if their appointment was based on merit or a need to achieve an artificial numerical ratio," he says.

## Nominating process

Prof Mak notes that companies should review the way they go about seeking out suitable candidates for their board, a process that he finds to be rather ad-hoc and informal.

He believes that there should be more pressures on companies to undertake a formal search for directors and provide better disclosure and justification when putting directors for re-election. Shareholders should also scrutinise those nominations.

Companies have to consider what they are looking for in a director and consider tapping non-traditional areas of expertise, he adds. "Some companies put a lawyer on the board thinking that it's a cheap way to get legal advice."

Help is available for companies to widen their search for directors and evaluate their board performance.

The Singapore Exchange is working with advisory firm Heidrick & Struggles to help listed firms evaluate the effectiveness of their boards. The initiative recognises that having the right board structures does not ensure the directors are operating effectively.

SID currently provides board appointment service to help companies widen their search for directors beyond their usual network and carry out an objective evaluation of the collective skill sets in their existing boards.

This is similar to the "Board Match" service managed by the Centre for Non-Profit Leadership (CNPL), a registered charity which seeks to nurture leadership capability for the non-profit sector.

"The benefits of a diversified board are manifold, the most important of which is the increased capacity and capability to better deal with the many challenges of a company through the ability to provide a greater variety of inputs to different issues and the likelihood of a more thorough and rigorous debate," Mr Lim says.

## Getting the right mix

DRIVEN by business demands and to better manage risks, some Singapore-listed companies have actively embraced diversity on their boards.

Ho Kwon Ping, executive chairman of Banyan Tree Holdings, says the group actively seeks diversity on its board through a process of evaluation of its businesses.

It then seeks to match the relevant skills set and competencies it needs with the composition of the board to ensure directors have the suitable mix of expertise.

The process is handled by the Nominating & Remuneration Committee which sources poten-

tial candidates and interviews them. Currently, two of five of its directors are women.

"As a vertically integrated real estate and hospitality business with developments in different locations internationally, we look to have board members with an international perspective, as well as a keen sense of the impact of macroeconomic developments in the world and their impact on Banyan Tree Holdings' local developments in various markets," Mr Ho says.

"Presently, due to the rapid expansion of the group in China and diversification into new businesses, we are seeking new board

members who are familiar with real estate development in Asia with a focus on Thailand and China," he adds. "In this regard, the board is considering recruiting additional members who possess such experience."

It is a different stroke for Olam International, which does not have female directors at this moment but has sought diversity in other aspects.

According to Olam chairman R Jayachandran, the group has searched for directors with diverse skills and background to fill six board committees: Governance, Audit, Capital and Investment, Risk, Corporate Responsi-

bility and Sustainability (CRS), and the Human Resource & Compensation Committee (HRCC).

"Our focus has been to bring in people based on skills and background in terms of board experience, not on the basis of gender," he says. Of its 11 directors, six are independent directors.

"Olam's business is complex with operations in 65 countries covering 16 over product segments and growing all the time," he adds. "The diversity and independence of board members have helped to a great extent in coming to the right decision in handling investments and project decisions after a very rigorous evaluation process."

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