

THE IMPORTANCE OF BOARD DIVERSITY

Dato' Paul Supramaniam

Chairman of Law Asia International Lawyers



The global GDP will look very different in the future. Wealth and Power are moving from the industrialized West to the nations of the New Economy, Shifting demographics and rapid technological change are creating a new world order.

With governments more overwhelmed than ever, business must lead, shape policy, and drive progress. - New Economy Forum

The world economy faces now more than ever before, critical challenges facing world economy. Business leaders and politicians need to engage in real conversations, leading to actionable solutions about the critical challenges facing world economy in the throes of a historic transition.

The Fourth Industrial Revolution opens up unprecedented business opportunities but also increases the inevitability of a cyber-attack and businesses needs to be prepared. Not only do security measures need to be built into technology from the start, an awareness should be ingrained into company culture. - The Business Times

Role of the Board

- ▶ Role of the Board
 - ▶ Exercise effective leadership
 - ▶ Decisive decision making
 - ▶ Provide direction for the organization
 - ▶ Strong forward thinking
 - ▶ Exercise monitoring and control function of the Company and of Senior Management
 - ▶ Protect organization assets and members' investment
 - ▶ Meeting the appropriate interests of shareholders and stakeholders
 - ▶ Ensure good corporate governance and corporate social responsibility
 - ▶ Analyzing its Skill Strengths and recognizing its Skill Gaps
 - ▶ Ensuring Board Diversity

Key Requirements to be a Good Board Member

- ▶ Understanding the fiduciary duties of a Director
 - ▶ Avoiding conflicts of interest
 - ▶ Duty to act honestly and use reasonable diligence in the discharge of duties
 - ▶ Exercise Director's powers in good faith for the company's interest
 - ▶ Transparency in disclosing personal interest that may conflict with fiduciary duties to the company
- ▶ Representation of all shareholders
- ▶ Charged with hiring, monitoring, evaluating, replacing and advising key management
- ▶ Ensuring managerial decisions maximize shareholder returns
- ▶ Monitoring and advisory functions

Key Requirements to be a Good Board Member - (continued)

- ▶ Exercise independent judgement and views
- ▶ Being Responsible
- ▶ Being Well-Informed
- ▶ Diligent and Pro-active
- ▶ Fair, considered and mindful of shareholders' interest and creating shareholder value
- ▶ Maintaining Individual and Corporate Integrity

What Constitutes Board Diversity

- ▶ Gender Diversity
- ▶ Race Diversity
- ▶ Background Diversity
- ▶ Ethnic Diversity
- ▶ Age Diversity
- ▶ Differing Skills
- ▶ Differing Professional backgrounds
- ▶ Mix of Experience and Perspectives (e.g Global vs Local)
- ▶ Knowledge of new and emerging challenges and business model disruption (i.e knowledge in technological advancements)
- ▶ Diversity in Networks of each board member
- ▶ Diversity in International Exposure
- ▶ Differing personal convictions and attitudes

Necessity of Board Diversity

- ▶ The Boardroom is where strategic decisions are taken, governance applied and risks overseen
- ▶ Crucial that boards constitute of high caliber individuals possessing the right mix of skills, experience, qualifications and backgrounds.
- ▶ The case for boardroom diversity is clear in a talent-driven and increasingly diversified society.

“There is a strong correlation between board diversity, financial performance and value creation.” - Mckinsey & Company, “Delivering through diversity”, January 2018

Necessity of Board Diversity (continued)

- ▶ The financial crisis in 2007 prompted reflection on board composition
 - ▶ Government regulators and public viewed the lack of diversity in the boardroom as a possible reason for corporate failures
 - ▶ Lehman Brothers
 - ▶ Boards having members with similar backgrounds, experience, education and gender raise doubts about their ability to avoid “group think” which is characterized by a tendency to reach consensual decisions in order to minimize antagonism and frictions within a group.
 - ▶ “group think” does not produce real dialogue or real change
 - ▶ Impairment of ability of boards to “think out of the box” and benefit from new ideas, different perspectives and robust challenges.

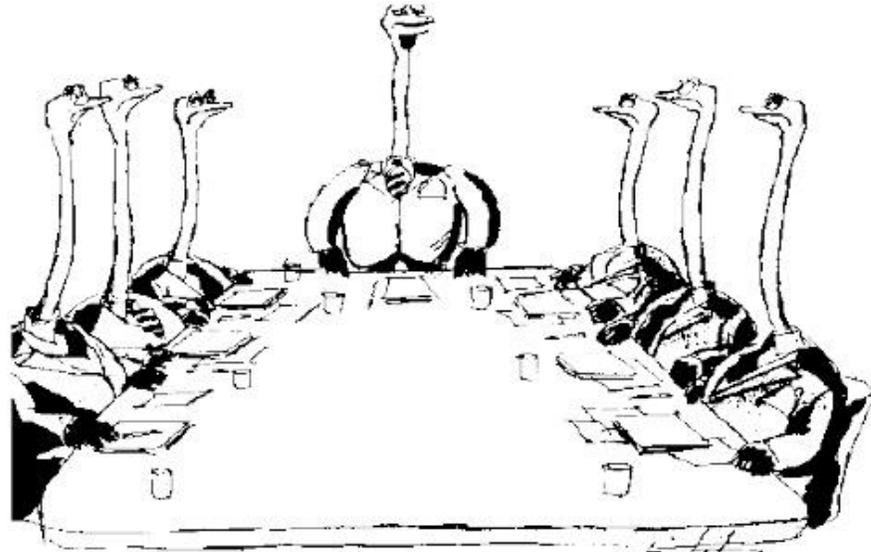
“It is a widely accepted view that the composition of the board could play a vital role in determining corporate performance.” - (Hermalin and Weisbach, 2013)

Benjamin E. Hermalin is the Willis H. Booth Professor of Banking and Finance at the University of California at Berkeley; Michael S. Weisbach is the I.B.E Distinguished Professor of Finance at the University of Illinois

Necessity of Board Diversity (continued)

Groupthink

Dealing With Differences



*The motion has been made and seconded
we stick our heads in the sand.*

Necessity of Board Diversity (continued)

- ▶ Necessary to cope with the disruptive and rapid movement of economy
- ▶ Impending threat of Artificial Intelligence
 - ▶ Artificial Intelligence (Automation) projected to take away 30% of all American jobs by 2030 (Study by McKinsey Global Institute in 2017)
- ▶ Better Corporate Governance and Corporate Social Responsibility
- ▶ To better reflect current values of society (non-discrimination of gender me-too, race, age etc)
- ▶ Acts as a defence against new and emerging challenges
 - ▶ *“using Social Media for business no longer a “nice to have” - Sensis Social Media Report, June 2016*
 - ▶ *Cybersecurity and Privacy ranked top in top ten technology challenges organizations face - Finance Monthly 2017*
 - ▶ *Having a board member trained in such matters can therefore act as a defence against such challenges*
- ▶ Key enabler of growth and value creation - “McKinsey & Company, Delivering through Diversity, 2018”
- ▶ To address demands by shareholders and institutional investors for board diversity

***“Board diversity is a necessity and not a nice-to-have” -
Grace Fu, Singapore’s Minister for Culture, Community and
Youth, 26 January 2017***

DIVERSITY OF FUNCTIONAL KNOWLEDGE AND EXPERIENCE



Diversity of Functional Knowledge and Expertise

- ▶ Translates to:
 - ▶ Wider range of skill sets (Industry-Specific or Function Specific)
 - ▶ Better intellectual capital
 - ▶ More effective monitoring of Company Performance
 - ▶ More effective in reviewing of strategic proposals
 - ▶ More diligent advisers/mentors to executives
 - ▶ Stronger corporate governance (especially when lawyers and accountants are brought into boards)
 - ▶ Better checks-and-balances
 - ▶ Increases effectiveness of boards
 - ▶ Enhances ability to obtain external resources
 - ▶ More alert to possible value destruction
 - ▶ Stimulates fact and experience driven dialogue to develop proactive actionable solutions on key company issues and oblique challenges

Diversity of Functional Knowledge and Expertise

- ▶ Many corporate governance guidelines have encouraged the creation of board committees with specific strategic-led mandates such as:
 - ▶ Audit and Control;
 - ▶ Corporate Governance;
 - ▶ Strategy and Human Resource
- ▶ Singapore's Code of Corporate Governance recommends that the Board and Board Committees should be:
 - ▶ of an appropriate size; and
 - ▶ comprise directors who as a group provide the appropriate balance and mix of skills, knowledge and experience; and
 - ▶ other aspects of diversity such as gender and age, so as to avoid group think and foster constructive debate
- ▶ Implies that Board should be from different professional backgrounds
 - ▶ To note: educational qualification requirements however, should not be lowered. A research conducted by Mahadeo, J.D from the Department of Management, Faculty of Law Management, University of Mauritius found that higher educational diversity decreases corporate performance (based on Return on Equity).

Diversity of Functional Knowledge and Expertise

- ▶ A study conducted by Stephen E Bear, Noushi Rahman from Pace University, USA and Corrine Post from Lehigh University, Bethlehem, U.S.A in 2010 finds that the greater functional diversity, the greater potential for understanding and problem solving that can enable the board to effectively address the business environment and encourage positive ratings for Corporate Social Responsibility

DIVERSITY IN AGE AND SENIORITY

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**“Don’t think of me as a 54 year old job applicant.
Think of it as getting two 27 year olds for the price of one!”**

Diversity in Age and Seniority

- ▶ Longer-tenured directors are more likely to have developed a shared understanding of each others roles and expertise
- ▶ Younger directors are able to bring “fresh perspectives” which senior members may not have considered
- ▶ Younger directors better positioned to address new challenges brought about by digital revolution (i.e, impact of social media and digital marketing)
- ▶ Improved levels of knowledge on the board
- ▶ Addresses succession planning issues at top management
- ▶ Provides sustainable route for development of board members

Diversity in Age and Seniority

- ▶ According to a study conducted by Richard and Shelor (2002), age diversity in top management shows a curvilinear impact on sales growth
 - ▶ For low and medium levels of age diversity, the relationship between age diversity and sales growth is **positive**
 - ▶ For high levels of age diversity, there is a **negative** impact on sales growth
 - ▶ Age Diversity therefore has to be within reasonable bands and not too stark
 - ▶ Potential Disagreements in strategy and direction could arise due to the different opinions held by a young board member and a senior board member
 - ▶ This could lead to delayed decision making and reduced cohesiveness within the Board

Dr Orlando Richard is an Associate Professor of Organizations, Strategy and International Management at the Naveen Jindal School of Management and Roger M Shelor is a Professor of Finance at the Ohio University - College of Business

ETHNIC DIVERSITY



Ethnic Diversity on Board

- ▶ Key Commercial Drivers for Ethnic Diversity - UK Parker Review Committee, Final Report, 12 October 2017 (Sir John Parker)
 - ▶ Inclusive leadership and avoiding “Group-Think”
 - ▶ Underpinning of Corporate Cultures and Values
 - ▶ Enhanced Brand Value and Reputation
 - ▶ A McKinsey survey from 2015 argued that companies in the top quartile for racial and ethnic diversity are **35% more likely** to have **financial returns above their respective national industry medians.**
 - ▶ Better employee recruitment and retention
 - ▶ Increased investor appetite
 - ▶ Broad stakeholder engagement
 - ▶ Improved Access to Top Talent
 - ▶ Better understanding of Corporate Supply Chain

Having a talent base that has a diverse range of perspectives, experiences and expertise is essential to ensuring the long-term viability and commercial success of any organization - Parker Review Committee, 12 October 2017

Ethnic Diversity on Board

- ▶ An increasing number of empirical research studies for Scandinavian countries measure a positive influence of foreign board members on companies' performance.
- ▶ A poll of 63 investors by executive search firm Green Park found that 56% believed that ethnic diversity of company boards would become important in the next five years

Recommendations by Parker Committee

- ▶ Increasing the Ethnic Diversity of UK Boards
 - ▶ Each Financial Time Stock Exchange (FTSE) 100 Board should have at least one director of colour by 2021;
 - ▶ Each FTSE 250 Board should have at least one director of colour by 2024
- ▶ Develop Candidates for the Pipeline and Plan for Succession
 - ▶ Developing of mechanisms to identify, develop and promote people of color within their organisations
 - ▶ Mentor/sponsor people of color to develop them for senior managerial/executive roles
- ▶ Enhance Transparency and Disclosure
 - ▶ Description of Board's policy and efforts on diversity should be set out in Annual Report
 - ▶ Companies that do not meet Board composition recommendations to disclose reasons in Annual Report

“Gender lies at the core of Diversity” - (Kamila Baczek, 2013)

♂ DIVERSITY IN GENDER ♀

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“The local business journal wants to do an article on the 10 most powerful women in our company. Quick, go hire 7 more women!”

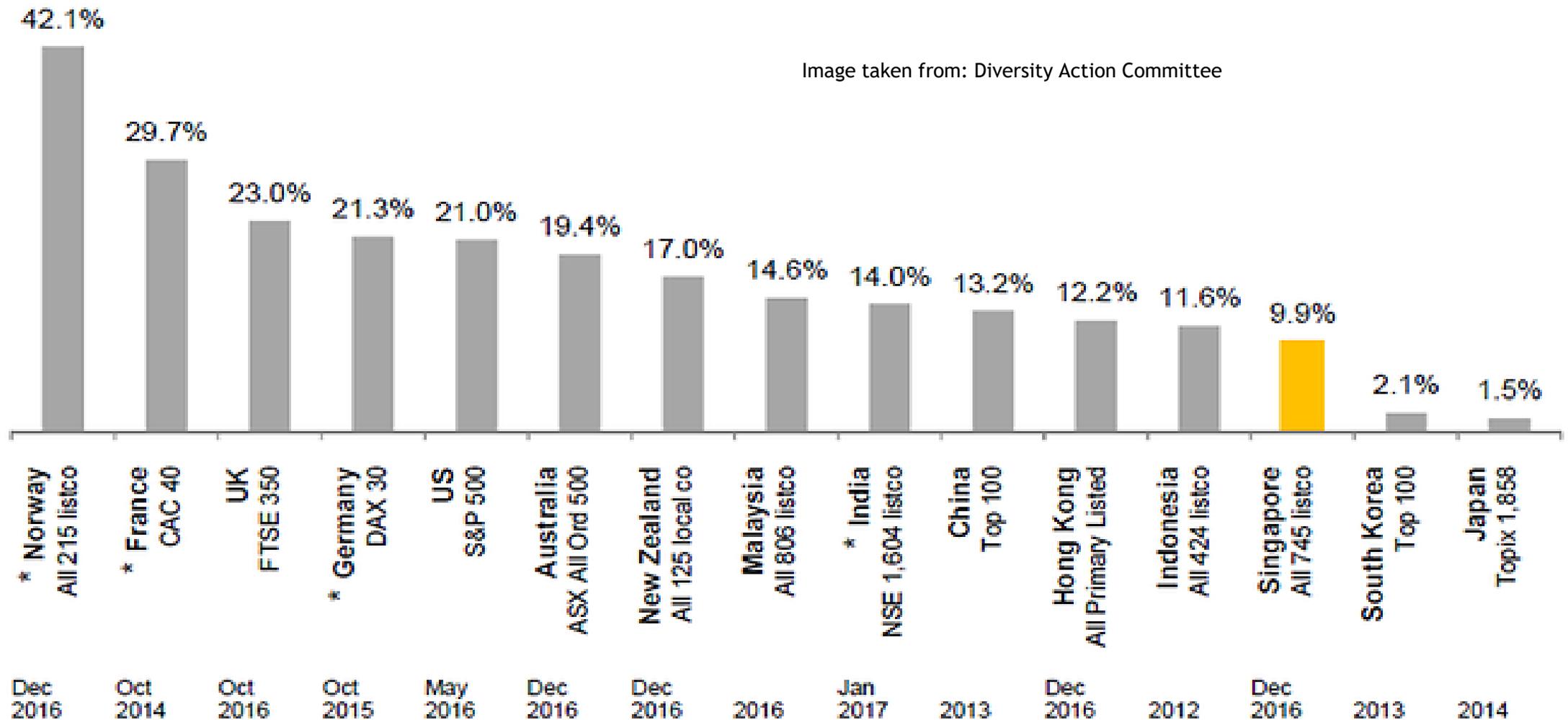
Issues with Gender Diversity

- ▶ Poor representation of women in the Boardroom
 - ▶ Singapore is second to last, among major capital markets for representation of females in the boardroom (total representation of women on all listed companies at 11.2% as at end June 2018)
 - ▶ Diversity Action Committee setting triple tier target to achieve 20% by 2020, 25% by 2025 and 30% by 2030
 - ▶ Code of Corporate Governance in Mauritius encourages boards to have at least one female director on board
 - ▶ Belgium, France, Germany, Iceland, India, Israel, Italy, Norway and Spain have legislated quotas for women on corporate board of listed companies
- ▶ Difficulty for women to climb the corporate ladder
 - ▶ Adherence to rules of the “man business world”
 - ▶ “They had never seen a woman come and sit at a table and talk to them as an equal. They did not know how to react”; and
 - ▶ “They would question her stamina to travel around to check on the products sold in far-flung shops across western India” - The Straits Times, ““Gender bias biggest hurdle for women execs”, 14 September 2018
- ▶ Young women leaders less respected by others due to traditions of respecting seniority and male figures

Consequences of Lack of Gender Diversity

- ▶ Raises questions on whether board recruitments are actually based on merit
- ▶ Shows a lack of support towards social values (i.e gender equality movement)
- ▶ Under utilization of top talent pool
- ▶ Weakening of board independence

Gender Diversity - some key figures



Gender Diversity in Thailand

- ▶ Women play a significant role in Thai work place
- ▶ Women highly praised as good organizational leaders
- ▶ More female professionals in the workplace than in any other Asian Country
 - ▶ Higher female population ratio 0.97 (33,801,003 men to 34,992,136 women as of 2018) - estimates by Countrymeters based on United Nations data
 - ▶ 12.7% of women on boards as of 2015 (study conducted by Credit Suisse)
 - ▶ Suggestions that women in Thailand Kingdom have a stronger advantage of succeeding in corporate leadership (Romanow, L. 2012)
- ▶ Global Entrepreneurship Thailand regularly organizes events and activities to equip women entrepreneurs with the knowledge, training, coaching and management tools required to advance their businesses to the next level
- ▶ Tomorrow People Organization, an internationally recognized not-for profit organization, held its ninth annual Women's Leadership and Empowerment Conference in Bangkok in March 2018.

Benefits of Gender Diversity and having Women on Board

- ▶ Improvement in customer insights (being themselves the users of the company's products) (i.e cosmetics, handbag, fashion apparel)
- ▶ Skill sets that are especially attuned to service to service-oriented industries (Farrell and Hersch, 2005)
- ▶ Empathy in decision making
- ▶ Reduced levels of rashness in decision making
- ▶ Provides different perceptions to similar problems
- ▶ Offers a check-and-balance against blind spots in decision making by male dominated boards
- ▶ Better reflection of customer base universally, improving goodwill
- ▶ A Mckinsey & Company study in 2017 found a **positive correlation** between gender diversity on executive teams and financial performance
- ▶ **Top quartile companies** on executive level gender diversity worldwide had a **27% greater likelihood** of outperforming fourth-quartile peers on longer-term value creation

“We have had gender diversity for many years. This is important, especially for a customer-facing industry like ours, where we serve a large number of female customers” - Stephen Lee, Chairman of Singapore Airlines from 2004 - 2016, (September 2016)

Benefits of Gender Diversity and having Women on Board (continued)

- ▶ Catalyst (2004), a US-American research and consultancy organization, found that companies with the highest representation of women on their top management teams had a **35% better return on equity and 34% better total return to shareholders** than companies with low female representation
- ▶ DID YOU KNOW?: A study conducted by Adams and Ferreira (2009), also determined that an increasing number of female board members induces a higher meeting attendance rate of the male board members.



Summary of Key Benefits of having Board Diversity

- ▶ Strong correlation between diversity and creativity
- ▶ Strong correlation between diversity, financial performance and value creation
- ▶ Improved decision making
- ▶ Access to wider pool of talents
- ▶ Greater flexibility and adaptability
- ▶ Enhanced levels of divergent thinking
- ▶ Enhanced talent management
- ▶ Enhancement of emotional intelligence and adversity quotient of a Board
- ▶ Enhances positive thinking and responsiveness of the Board
- ▶ Ability to manage differing views/cultures
- ▶ Improvement of customer insights
- ▶ Investment attraction to Institutional investors that take into account board diversity and corporate social responsibility
- ▶ Improved Diversity and Equality among employees

“Creativity thrives on Diversity” - Morgan G. (1989)

Difficulties in achieving Board Diversity

- ▶ Lack of Appropriate Candidates (Are the Candidates There?)
- ▶ Complacency
- ▶ Desire to maintain cosy “status quo” - especially in family run business
- ▶ Groupthink Mentality in Asia
 - ▶ When groups conform due to desire or conflict avoidance and conformity
 - ▶ Employees choosing to be silent and not express their opinions due to traditions of “saving face”
 - ▶ Fear of being laughed at and embarrassed when offering new creative ideas
- ▶ Rigid Traditionalism in Asia
 - ▶ Hierarchical structures where junior employees choose to be silent in fear of offending their superiors
 - ▶ If you do not conform, you are not a good fit
 - ▶ Men are superior to women
 - ▶ Unwillingness to impose on others/Conflict Avoidance (i.e Krengjai - Thai value)

Difficulties in reconciling and harnessing the strengths of Board Diversity

- ▶ Difficulty in communication
 - ▶ Board members with diverse occupational backgrounds may not necessarily understand each other's area of expertise
 - ▶ Differences in jargon and terminology that result from background related diversity
- ▶ Conflict/Disagreement over viewpoints
 - ▶ Diversity in terms of age and gender may lead to conflict over viewpoints/strategy
 - ▶ Overall deterioration of board dynamics and corrosion of group cohesion
 - ▶ Experiencing of emotional conflict
 - ▶ Increased time to make decisions

Improving Diversity

- ▶ Change of organization mind-set
 - ▶ Making a visible commitment to diversity with sustained action throughout the organization
 - ▶ Set new principles for decision making (e.g including women on every candidate slate)
- ▶ Expanding your search criteria for talent pool
 - ▶ Look beyond current CEOs and other members of the C-suite
 - ▶ Consider candidates with the right expertise, not just those with prior board experience
- ▶ Maintain an active pipeline
 - ▶ Expand your network for more diversity and explicitly ask search firms for more diverse candidates (in terms of gender, age, seniority, background, nationality, ethnicity etc)
 - ▶ Cultivate long-term relationships with prospective candidates

* BUT DO NOT DROP EDUCATIONAL STANDARDS

Improving Diversity

- ▶ How to improve Board Diversity when right candidates are not available?
 - ▶ Arrange for international encounters for existing Directors
 - ▶ Participate in career fairs and networking sessions in cities across the world
 - ▶ Cultural Training for existing Directors
 - ▶ Away day sessions, video training with trainers
 - ▶ Showing effective debate issues
 - ▶ Designating board members to focus on certain perspectives when considering issues
 - ▶ i.e considering new economy challenges or issues from an age, gender, race perspective

“Each step you take reveals a new horizon. You have taken the first step today. Now, I challenge you to take another.” - Dan Poynter

“The journey of a thousand miles begins with one step” - Lao Tzu

A Few Quotes on Board Diversity

- ▶ *“**Values** are the rock of foundation for an enduring enterprise. It is important that we seek leaders with the right values, and who are able to operate in the dimensions of vision, reality, ethics, and courage, regardless of gender. I recommend fellow board chairmen and business owners to consider the best talent possibilities, so as to bring on board stewards who will grow the enterprise assets entrusted to their care. **The diversity of views, skills and experience will enrich discussions and add value to our companies and customers.**”* - Philip Ng (Chief Executive Officer of Far East Organization), (September 2016)
- ▶ *“**Having diversity** on the board helps **avoid groupthink**, and **results in wider views and opinions**, as well as **richer dialogue**, that translate into better **strategies and decisions**. Boards that strive for effectiveness and embrace diversity as a mechanism to deliver effectively are likely to perform better than other boards.”* - Piyush Gupta (Chief Executive Officer of DBS Group), (September 2016)

Khàawp-Khun Mâak!