Board Diversity: A Business Imperative

It results in more robust decision-making, stronger corporate governance, less likelihood of groupthink and better returns for investments.

By THE DIVERSITY ACTION COMMITTEE

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Increasing attention is being paid to board diversity and women on boards. Why are these matters in the spotlight? Not so long ago the talk was all about corporate governance, with some digression to the role of the audit committee. Perhaps the subject is still corporate governance, but with rules having been tightened and guidelines adjusted, attention has shifted to the people who oversee the company and make good governance happen - directors who make up the board.

It is essential for the board to be business savvy, capable of overseeing the growth of returns in addition to the governance that keeps the company steady on its course. Ideally we would be looking for the collective balance of the board that performs greater than the sum of its parts. That calls for diversity.

Another force which increases the importance of diversity in boards is the business environment today, burgeoning with progress and change. The advance of technology transformed businesses from over-the-counter to on-the-Net, from selling machines to selling the services machines performed. In every business, there may be undetected accumulating risks and opportunities to be recognised and seized. These challenges have become starker and call for response at the topmost level of the company in the skillset and experience of the board.

All companies would agree that a homogenous board is not good for business, yet it is not obvious that all boards display diversity. Gender diversity is easy to detect.

A scan of boards of SGX-listed companies shows a glaring lack of gender diversity. Women occupy only 9.1 per cent of board seats as at June 30, 2015, lower than several Asian markets. How important is it to raise female participation at board level?

COMPETITION FOR INVESTMENTS

Studies have shown that greater diversity at the board level results in more robust decision-making, stronger corporate governance, a reduced likelihood of groupthink and better returns for investments, according to Credit Suisse's 2014 study of 3,000 companies and NUS Centre for Governance, Institutions and Organisations' study on Singapore listed companies in their 2014 Board Diversity Report.

Investors are increasingly using gender as a proxy for cognitive diversity, viewed as an indicator of future business performance, according to Aberdeen's Global CIO Anne Richards in her interview "Diversity best defence against risk" with the Financial Review.

It follows then, that if female participation remains at the current levels, companies in Singapore risk their leadership being less well regarded than competing investments in a global marketplace. And it is well recognised that one significant reason for investing in a company's equity is confidence in the quality of its management, not just its natural advantages such as location or technology. Without the talent or the recognition of possessing talent, Singapore companies would have to compete much harder for global investment.

Lee Suet Fern, a Singaporean independent director on global companies AXA and Sanofi, puts it aptly: "To ignore them (women) is to risk overlooking qualified candidates in a talent-scarce market and to miss the chance to enhance the diversity of voices and views that would make for better corporate governance, more dynamic boards and more business-facing companies."

BETTER REPRESENTATION

There are two direct business benefits that a gender-diverse board brings. It better understands the perspectives of its female customers and workforce, and having a female leader at the top table creates a positive role model for other women executives to advance upwards. Both create a stronger management team with deeper knowledge of its stakeholders.

It is curious that there are companies with no women directors in the banking, insurance, consumer goods, hotels & restaurants, and property industries despite women making up a large proportion of their customers and employees. Could not these companies gain better insight into customers' and employees' needs by having women directors, with direct benefits to the bottom line?

SUSTAINABILITY REPORTING

A growing interest in sustainability reporting will further add importance to companies' employment of women in the workforce and on the board, as gender diversity is tracked under the social aspect of the company's risks and opportunities.

At the latest count, close to 1,400 asset owners, investment managers and professional service partners have signed the United Nations Principles for Responsible Investment. These signatories include some from Singapore and collectively they represent some US$60 trillion in assets under management.

Responsible investment codes mandate stakeholder interaction with equity investee companies regarding issues of concern. On the other side of the coin, sustainability reporting also provides for stakeholder engagement by companies. Both make good business sense.

It seems like it will be only a matter of time before companies in Singapore find themselves forced to confront the issue of gender diversity on boards. The alternative of being spared that experience would mean their investors are not in the global league.

WHAT CAN COMPANIES DO?

Some companies have considered the question and acted upon their conclusion. Singtel, the largest company listed in Singapore, has increased the number of women directors to four, making it one of the companies with the highest participation of women on the board.

Singtel's chairman, Simon Israel, says: "While gender is only one aspect of diversity, it is an important one. Experienced women directors bring critical insights to boards and often approach issues differently to men. This makes for richer discussion, better outcomes and stronger boards."

Other companies need to think through their own needs and situations, but it is difficult to see how they might conclude differently.

An approach that might be useful is for companies to consider how well their board is suited for the decisions that lie ahead for the company. Answering that question may lead to a search for additional skillsets or different experience which better position the board for strategic decisions to increase the likelihood of success. Skillsets duplicated or no longer important have to be reprioritised in board renewal. Regular reviews of this sort make for well performing boards aligned with company strategy and risk management. It also addresses questions of **stewardship of the resources of the company which are the responsibility of all board members and most directly, the chairman.**

CONCLUSION

In summary, board diversity is a business issue and good stewardship of the company brings the best resources to bear on the decisions that affect business performance. Companies in many jurisdictions have come to this conclusion and proactively added diversity including participation of women on their boards.

Given that Singapore thrives in the global market, the way forward is clear. Increasing board diversity will be a win for women but undeniably a win for business and a win for the economy as well.

The Diversity Action Committee is a 15-member committee comprising leaders and professionals from the private, public and people sectors. The committee was formed to steer and implement initiatives with the objective of building up the representation of women directors on boards of companies in Singapore.