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Boards Here and Down Under: Spot the Differences

By Philip Forrest

Next year marks 50 years of formal relations between Singapore and Australia. The deepening ties promise increased corporate opportunities.

The two corporate landscapes share many similarities. For starters, a government and legal system based on the English, a broadly ethical and corruption-free business culture, and a commitment to high standards of corporate governance.

Yet, having sat on boards on both sides, I would say that there are distinct differences between how boards in the two countries function. They result from variances in regulation, culture and outlooks of economic opportunity and performance.

Regulation

There is a widespread view that Australian boards are turning more risk-averse. That is partly because existing legislation holds directors brutally accountable, and recent landmark court judgments add pressure to the tentative approach towards risk.

The Australian Federal Court in 2011, for example, found the Centro Properties directors in breach of their responsibilities when they missed critical errors in their financial statements. The judgement limited the reliance directors can place on specialist and external knowledge and advice by making directors ultimately liable for missing errors.

The Australian Institute of Company Directors (AICD) has proposed an Honest and Reasonable Director Defence in Australia's Corporations Act. If adopted, this reform will protect directors from claims that they have breached their fiduciary duties if they can prove that they had conducted themselves honestly, with due care and diligence, and had made an honest and reasonable mistake based on the facts before them.

Singapore directors also potentially face criminal sanctions for a failure to act diligently, but comparatively, Australian boards now seem more hesitant and risk adverse.

A separate key regulatory difference concerns remuneration. Singapore boards are currently held to a lower standard of disclosure and accountability than Australian boards.

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Australian boards face the "two strikes" rule where an entire company board can face re-election if at least 25 per cent of shareholders disagree with how much executives are being paid. If this number of shareholders rejects the pay report at two consecutive AGMs, the law mandates a "spill" meeting to determine if all the directors need to stand for re-election. The threat of a board spill has forced boards to be more open and engaged with investors on pay policy and quantum.

In Singapore, companies simply cite "competitive and confidentiality grounds" for withholding detailed disclosures.

Culture

Another discernible difference is in board dynamics. Broadly speaking, Australians are more blunt and less deferential in their remarks at board meetings. They are less concerned, culturally, about conflict and "face" than their Singaporean peers.

Singapore board members tend to refrain from outright disagreement that may cause embarrassment, or which may clash directly with another director's view. They prefer to convey their concerns privately to the chairman – after the meeting. Australian directors are more likely to say what's on their minds during the meeting than after. Neither approach is right or wrong; it is just different.

Outlook and diversity

It is clear to me that Singapore boards are more international in outlook and in the strategies they set. While few doubt that we are living in the Asian Century, a recent PricewaterhouseCoopers (PwC) study found that only 9 per cent of Australian businesses are currently operating in Asia.

Surprisingly, Australian companies invested more in New Zealand in 2014 than they did within the 10 Asean countries. PwC believes there is "a fear of failure in Australian corporates when it comes to Asia". For a small island that punches well above its weight, Singapore companies and boards prove more open and willing to venture well beyond their own backyard.

Both countries have made modest progress on diversity, although Australia is ahead on the gender issue and Singapore in international directors.

Women now comprise over 18 per cent of directorships in Australia, compared with less than 9 per cent in Singapore. In recent years, the AICD and the Australian Stock Exchange have emphasised the benefits of diversity, and I expect growing board representation for women. Singapore has only begun to turn the valve on gender diversity in the last year or so.

Boards in both countries are limited in terms of their ethnic diversity. The AICD calculates that 88 per cent of Australian directors are Caucasian, and only 4 per cent are Asian. This does not reflect the population or the opportunities ahead. The Singapore Board Diversity

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Report similarly shows that ethnic Chinese make up nearly 86 per cent of all directors, while Malay and Indian directors are at about 4 and 3 per cent respectively.

In terms of international directors, anecdotally and visibly, Singapore companies have more foreigners on their boards. This reflects the more cosmopolitan nature of the Singapore society and the broader regional and international footprints of its companies.

Finally, I would say that Singapore directors tend to be more optimistic. Comparatively, they are more likely to see a world (or at least a region) of opportunity. This reflects Singapore's stunning economic success in the last 50 years. Australia has also done well – not many countries have avoided a recession for 22 years – but it is not on par with the miracle that is the Lion City.

The two countries share more commonalities than differences. I have no doubt the synergies will provide significant strides in best corporate governance practices.

The writer is a member of the Governing Council of the Singapore Institute of Directors. This article first appeared in BTInvest, <http://www.btinvest.com.sg/specials/boardroom/boards-here-and-down-under-spot-the-differences/#>