

# SENSE AND SENSIBILITY IN BOARD DIVERSITY

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Recent upheavals in the financial and corporate realms have underlined the degree of close scrutiny on how boards – and directors – behave in good times and in crises, especially under the relentless glare of today’s 24/7 media platforms. There has never been a better time for companies to review the diversity of their boards seriously, to reflect the new reality of accountability faced by all business entities.

Ideally, boards should be made up of highly competent, experienced, high-calibre individuals. As a group, the members of a board need to have a mix of skills, experience and relevant backgrounds.

In Singapore, we are rightly proud of being a meritocracy. It makes sense that board appointments must always be made on

merit, with the best, most suitable people being appointed for the greatest benefit of the board. Traditionally, board appointments have been made by chairmen tapping into their own networks and that of their peers. This approach, however, tends to result in a board of rather homogenous individuals – they get on well together and a comfortable status quo prevails.

Yes, they could all be the most competent people, but they could also all end up being just competent in largely the same thing. Surely, having competency and capabilities in different areas is more useful than an overwhelming competence in one area. That, perhaps, is a good working notion of diversity.

## A DIVERSE LOOK AT DIVERSITY

Diversity is often thought and talked about in terms of gender diversity. It is true that we have a huge problem here – only 8.3 per cent of directors of listed companies in Singapore are female. This particular topic is getting enough play and I will leave it aside for the time being.

After all, diversity is much more than gender diversity. Consider also diversity in age, ethnicity, nationality, geography, industry, professions, and skill competencies.

Besides gender, there is limited documented data on these other diversity dimensions. But what exists suggests that boards do need to pay more attention to diversity as a whole.

Executive search firm Korn Ferry's study of board diversity in the Asia Pacific, *The Diversity Scorecard 2013*, revealed just how limited diversity and progress in gender, ethnic and age variations are within Asian boards.

The majority of Asian boards consist of a single ethnic group. Singapore boards do comparatively well with about one third

comprising two ethnic groups, and another third registering three or more ethnic groups.

In terms of age diversity, the majority of Hong Kong and China boards have directors from two or more generations, while Japanese boards are primarily composed of directors from one generation. Singapore falls in the middle with half its boards comprising single-generation directors.

Geographical diversity is increasingly emphasised by Singapore boards, especially those with regional and global operations and ambitions.

Diversity of professional and skill competencies is generally less of an issue because they tend to be the focus of the nominating committee: it ensures that the board includes one or more directors with accounting, legal, and perhaps investment, marketing, human resources and other competencies.

What is less emphasised is the diversity of industries. Many boards focus on ensuring relevant backgrounds in their own industries. Experts will tell us that companies in one industry can learn and adapt from companies in other industries. Concepts and practices from the hotel industry have spurred innovations in healthcare, airlines, banking – in fact, just about any company that has retail customers.

Pertinently, the widening view is that boards need a digital director on board; one who understands the transformative impact that information technology can bring to their operations.

On diversity, the Korn Ferry study concluded that “the world has changed but Asia’s boardrooms have not caught up”.

## WHY NOT DIVERSITY?

The rationale for diversity in the boardroom thus bears repeating.

For one, diversity reduces groupthink and uncritical conformity, or even the close-mindedness that groupthink produces. With sufficient diversity, there will be adequate and vigorous debate by directors with differing perspectives, which should lead to better decisions.

A Monetary Authority of Singapore study in 2012 (*MAS Staff Paper 52*) highlighted empirical evidence that showed a positive relationship between diversity and firm performance.

Diversity can increase the work that management needs to do to brief the board properly. It sharpens the need for management to think through proposals critically and objectively, and to think through alternatives thoroughly. It keeps management “on their toes”, which produces better executives and a better-performing company, and in the longer run, a better talent pipeline for the boards of tomorrow.

A diverse board produces good results and promotes sound corporate governance. In this context, board diversity surely makes a perfectly logical return on investment. ■