MINORITY SHAREHOLDER WATCHDOG GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Company No. 524989-M)

STAR – Biz Week – Saturday, 22 December 2012 (A)

Diversity on boards is about corporate governance

Shareholder Activism

RITA BENOY BUSHON

WE have often said that having a diverse boardroom is one of the best ways a company can overcome the challenges of operating in a globalised and volatile world.

Times are changing so fast that we often find it difficult to keep pace. In the last few years, seismic changes have occurred, changing the way we do business. The advent of cloud computing and social networks and the rise of people and consumer power, not to mention the importance of emotion in brand development, have all changed the landscape of decision-making in business.

The pace of change is relentless, and if the corporate world is keen to keep up with the pace of change, then it too must change with the times, especially when the merits have been proven and are sometimes obvious.

The merits of diversity on boards, including gender diversity, have been linked so intricately with corporate governance which makes business sense.

Thus, companies without such representation in the highest echelons of decision making are just not in tune with the needs of the current times.

How can we effectively compete globally in the present times when board members are confined mainly to just one gender or one approximate age or one social background or one skill-set or one type of qualification or even from the same university or college?

Thankfully, Malaysia is rapidly waking up to the benefits of widening the selection process to both genders and a wider range of ethnic, cultural, religious backgrounds and experiences. We have begun to realise the merits of a diversified pool of people with encompassing viewpoints and depths of experience in disparate markets over the more traditional and narrower board of directors.

Preliminary results from our Asean Corporate Governance scorecard have demonstrated that this initiative is beginning to bear fruit. Of the top-500 companies in our survey, there has been a meaningful increase.

From a mere 7.5% female board representation in 2009, we saw a small increase to about 7.8% in 2011. But by mid-2012, there was a 2.5 percentage-point rise to 10.5%.

We can only attribute this to the catalyst of a government-led push for more female representation in the corporate sector. In June, the Cabinet approved a policy stipulating that there must be at least 30% of women holding decision-making posts in the corporate sector -- an extension of a similar government policy introduced in 2004 for the public sector, which saw an increase in women participation from 18.8% that year to 32.3% last year.

With much work to be done before the 30% target is met, I should also like to point out and laud the latest changes to Bursa's listing rules, which places the onus of meeting diversity targets squarely on the board of directors.

Citing Chapter 15 Part B(A) of the latest changes in the Listing Rules, Bursa says a listed company must provide, in its annual report, information describing its policy on board composition as regards to the mix of skills, independence and diversity (including gender diversity), how it nominated and elected the directors and the criteria used in its selection process.

Bursa's emphasis on the qualitative elements of the nominating process demonstrates the importance placed on candidate quality.

We wholeheartedly agree that merit must be the dominant criteria behind a candidate's election, not his or her gender. Granted, female directors may right now be vastly under-represented in corporate boardrooms, but I am confident there are more than enough suitable candidates to fill the void between now and 2016, a mere four years away.

Shareholders, especially institutional investors, must play their role and ask for explanations if their investee companies are not able to source for qualified female independent directors on the boards.

In meeting this target, however, we must avoid the pitfalls of 'rubber-stamp nominations', where the quota is met by related parties and unqualified candidates.

Quotas have, nevertheless, succeeded in some countries (Norway introduced a 40% minimum for either gender into law in 2008 and today boasts a 36.3% aggregate ratio of women now on boards), but one would argue that timing and discipline are all-important factors to their success.

Notwithstanding Norway's example, I should also like, at this point, to highlight the enormous progress made in Europe on the issue of gender diversity.

Last month, Viviane Reding, the vice-president of the European Union and Commissioner for Justice, Citizenship and Fundamental Rights, managed a coup of sorts for diversity champions, when she announced that the European Commission had agreed a proposed new law that would aim for 40% female non-executive directors at larger European publicly listed companies by 2020. It will be tabled in the European Parliament soon.

Reding's proposed law, while a slight deviation from its original proposal (which specified a quota with sanctions for any failure to comply), nonetheless, envisages that this EU-wide consensus will not be a mandatory quota but rather a non-binding target to achieve a 40% representation of the under-represented gender by 2020.

However, with the imminent passing of this law in Europe – just as it has in Malaysia – the issue of board diversity is now under the close scrutiny of the powers that be.

On a wider basis, these local and international developments signal that the issue of gender diversity on boards will be high up on the agenda of company boards now and for the next few years at least.

And while these developments are currently aimed at larger and publicly traded companies, there is every possibility that there would be a ripple effect, impacting smaller public companies and even private companies, whether through a shift in attitudes or through voluntary compliance with corporate governance codes.

Sometimes, a journey of a thousand miles really does begin with a single step.

● *Rita Benoy Bushon is the CEO of the Minority Shareholder Watchdog Group*