MINORITY SHAREHOLDERS WATCH GROUP
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ONE WOMAN DIRECTOR RULE

THE CASE FOR GENDER DIVERSITY

THE listing requirements have been amended to have at least one woman director on the boards of public-listed companies (PLCs).

PLCs with a market capitalisation of RM2 billion and above up to Dec 31 last year must comply with this requirement by Sept 1 this year while other PLCs must do so by June 1 next year.

What was previously an advocation in a principle-based code (of corporate governance) has now become a rule (of the listing requirements).

Reasons for rule on gender diversity

There are probably two main reasons that prompted the one-woman director rule.

Firstly, there was a plateauing of the adoption rate when it came to gender diversity.

Up to Oct 1 last year , women held 17.7 per cent of board positions across all PLCs compared to 17.5 per cent in 2020 — a mere 0.2 per cent improvement.

When it came to the top 100 PLCs, there was a mere improvement of 0.4 per cent, from 25.1 per cent in 2020 to 25.5 per cent up to Oct 1 last year.

Since 2019, the percentages of board positions held by women hovered around 17 per cent overall and 25 per cent for the top 100 PLCs.

The second reason for the rule requiring at least one woman on boards is that there were several PLCs with no women on their boards.

Up to Oct 1 last year, there were 252 PLCs (representing 26.7 per cent of all PLCs) with an all-male boards while for 2020, it was 248 PLCs (representing 26.5 per cent of all PLCs). Even here, the improvement was a mere 0.2 per cent.

For gender diversity, the principle-based push has now become a rule-based shove, thanks to the enhanced listing requirements.

Studies correlating gender diversity with bottom-line

There are studies that support the proposition that gender diversity has a positive impact on the bottom line of companies.

A review undertaken by the Institute of Corporate Directors Malaysia on board diversity found that boards comprising at least one-third women directors had on average a 38 per cent higher return on equity compared to all male boards.

Credit Suisse's 2021 Gender 3000 Report highlighted positive correlation between increased participation of women in leadership positions and superior returns on capital, environmental, social and governance and stock performance.

"The more pervasive diversity is within an organisation, the stronger the relationship. These findings add to the body of research that presents evidence of the positive impact of women participation on boards," it added.

According to McKinsey, the most gender-diverse companies were 21 per cent more likely to experience above-average profitability.

Meanwhile, a report by MSCI showed that having women on the board of a company boosts productivity.

Reframing the case for gender diversity

One should not, however, mistake correlation for causation.

Large profitable PLCs have the means to adopt more practices from the Malaysian Code on Corporate Governance, including gender diversity practices. Thus, it is their profitability and size that increases the willingness to adopt gender diversity practices.

This can be framed simplistically by stating that PLCs with women on board are more profitable.

We do a great injustice to gender diversity cause by framing it in an outcome-based approach.

Perhaps a better approach is to frame the case from a process perspective, in that the decision-making process is more robust when we have women on boards.

Such rationalisation must start with the premise that both men and women are created differently albeit equal — that they have strengths that the other does not.

Having both women and men on your board means you benefit from the different points of view and approaches that come from different life experiences.

Women offer different perspectives for board deliberation and this will result in richer multi-perspective decisions that will result in better decision-making.

Needless, to say, there should not be any reason to doubt that this better decision-making will translate to profitability. The appreciation of the gender diversity cause is better appreciated if we juxtapose the outcome (the profit) with the cause (the process).

Group-think

We are all flattered by ourselves and are pleased with people who think and behave like us, who share our interests and have our attributes. There is a risk that we hire others who are of our own image. This sometimes ends up as men hiring other men resulting in all-male boards or predominantly male boards.

But therein lies the risk of group think. We are reminded of the maxim that where all think alike, no one thinks very much.

With women on board, there is less risk of gender-based group think. Of course, gender diversity is merely a subset of diversity in general, albeit an important one. Boards should strive for diversity in general, too. Ideally, it is a sample that represents the population it serve. It is then left to the PLCs to define their population.

A better reflection of your customers

PLCs have different customer bases. Surely, the idea then is to better communicate with your customer bases effectively.

This can be achieved if the make-up of the board reflects your customers. If your customer base is primarily women or even if women are the purchase decision-makers, it makes sense to have women on board. This means making sure the boards have a diversity of genders.

Women are hugely influential when it comes to making purchasing decisions — in 2018, women globally spent about US$40 trillion. That's a lot of buying power to connect with.

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The writer is chief executive officer of Minority Shareholders Watch Group