Future-Proofing Companies Through Diversity

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The Covid-19 pandemic has prompted stakeholders to pay close attention to companies' sustainability and resilience. Companies need to assure stakeholders that they can navigate constant change and uncertainty, anticipate risks and capture new opportunities.

A company's board of directors plays a critical role in charting corporate strategy, creating enterprise value and managing risks and opportunities especially during crises. Doing so requires a board to have a diversity of expertise and perspectives to assess situations from all angles, especially when encountering volatile, uncertain, complex and ambiguous scenarios.

Singapore Exchange (SGX) has mandated specific disclosures around board diversity at the end of 2021. The listing rules now require issuers to have in place a board diversity policy that addresses gender, skills and experience and any other relevant aspects of diversity.

Specifically, issuers must also disclose, in the annual report: (a) the board diversity policy;

(b) targets for achieving the stipulated diversity, accompanying plans and timeline for achieving the targets; (c) progress towards achieving the targets within the timelines; and (d) a description of how the combination of skills, talents, experience and diversity of its directors serves the needs and plans of the issuer.

The decision to require fuller and more transparent disclosure on board diversity by listed companies is in line with developments in other countries such as Australia, the UK, the US, and Malaysia.

Boost to visibility

Amidst the growing importance of environmental, social and governance (ESG) factors to investors, Singapore-listed issuers can raise their profile if they implement the rules in the right spirit.

Studies, including the latest EY *Global Institutional Investor Survey* and the Capital Group *ESG Global Study 2021*, have shown that the lack of robust ESG data remains one of the biggest hindrances for investors.

SGX's disclosure mandate will increase the availability of disclosures on board diversity policies, which helps reduce the problem of incomplete data for the Singapore market and makes it easier for investors to perform analysis and benchmarking. The availability of disclosures by all issuers will also help to precipitate discovery and awareness of best practices.

In such an environment, companies that make the effort to craft strong board diversity policies and to implement them well are more likely to be noticed.

Disclosures that avoid boilerplates will resonate. This is particularly important for non-blue-chip companies that can benefit from the extra boost in visibility.

While disclosure is a crucial part of board diversity, it is important to remember that it is not the end goal of corporate governance. Board diversity must ultimately translate into positive outcomes for companies.

Aim for real progress

There are two potential risks. The first is a blind focus on numbers without attention paid to how those numbers are achieved will not achieve the intended outcome. For instance, hitting a target on board gender diversity by appointing female directors who are close family members may not provide a board with the desired independent perspective. And appointing another female lawyer to a board already filled with legal experts when the board needs technological or supply chain expertise just to hit a target misses the point entirely.

Gender diversity is not about getting more women on corporate boards just to hit targets; it is about recognising that it is not just possible but also imperative that boards are concurrently competent, fit for purpose and gender-diverse.

Another risk is a lack of ambition. A board diversity policy that merely serves to allow a company to advertise that it has achieved some target entrenches the status quo, lacks impact, and is ultimately meaningless.

A diversity policy should compel the board to regularly re-examine the needs of the company and how well the board's composition serves those needs. Gaps, when they are identified, should be closed with appropriate haste and through a sufficiently extensive search process to find the best candidates instead of relying on personal networks. Board renewal and the nine-year rule on director independence are opportunities to bring on new directors with competencies that suit the company's circumstances and changing business conditions.

Outcomes also need to be measured. Boards should aim for real progress and challenge themselves to make the combination of skills, talents, experience and diversity of its directors more than the sum of its parts.

Progress needs an ecosystem

Every stakeholder in the market has a role to play in helping to avoid those pitfalls.

Corporate boards, especially chairpersons, need to develop a culture that embraces board diversity among their members and within their organisations. The rapid technological changes, volatile global politics and the evolving pandemic in recent years have made it more critical to have leadership that can minimise blind spots and react to them when they are encountered amid heightened uncertainty.

Boards that abide by the principles of stewardship are better able to understand and capitalise on the benefits of a diverse board and adopt ambitious diversity policies to place their organisations on a more equitable and sustainable footing.

Investors must also be vigorous sentinels. Shareholders should scrutinise disclosures and commend boards that adopt and practise strong diversity policies while challenging those that only pay lip service to comply with the letter of the regulation. When companies know that investors are paying attention, they will be incentivised to raise their performance.

Advocates should continue efforts to develop and grow resources to raise the standard of corporate governance and board diversity in Singapore. These include educational resources for all stakeholders and helping to reduce the friction of searching for worthy and diverse board candidates.

There is still much advocacy that needs to be done, particularly in improving women's participation on boards. Despite no shortage of capable and board-ready women in Singapore and overseas, women still held only 19.7 per cent of board seats among SGX's 100 largest primary listed companies and only 13.6 per cent of board seats among all SGX-listed companies, as of 1 January 2022. Better disclosure will make it easier to identify and address areas of need.

Hallmarks of quality

When companies have more diverse boards, including more female directors, stakeholders know they have invested time and effort in succession planning and board renewal. These are all hallmarks of quality corporate governance and show companies' commitment to long-term value creation.

The inclusion of board diversity – including specific attention to gender diversity – in the SGX listing rules is an important step in the right direction to raising the quality of corporate governance in Singapore.

But the journey is far from over. It will take all stakeholders in the market to pull together to ensure that we can capitalise on the progress that has been made and maintain our upward trajectory as a leading and progressive business hub.

Board diversity, done right, can future-proof a company. ■