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Hot seats and Seat warmers: The hunt for Directors of quality

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How can the quality of directors be assessed? What is the number of directorships that one person can reasonably hold? How long should a director sit on the board? These were some of the questions raised at a panel discussion jointly organised by SMU and Singapore Institute of Directors (SID) – perhaps in response to recent calls for professional standards of directors in the corporate of Singapore to be elevated.

The discussion was held in conjunction with the graduation ceremony of the inaugural Executive Certificate in Directorship (http://www.smu.edu.sg/executive_education/programmes/2010/sid10/index.asp) programme. Associate Professor Annie Koh (http://www.business.smu.edu.sg/faculty/finance/anniekoh.asp), Dean, Office of Executive and Professional Education, SMU, moderated the panel, comprising John Lim, Chairman, SID; Lee Suet Fern, Senior Director, Stamford Law Corporation; Saw Phaik Hwa, President and CEO, SMRT Corporation; Teo Soon Hoe, Senior Executive Director and Group Finance Director, Keppel Corporation; Christina Ong, Partner, Allen & Gledhill Advocates and Solicitors.

The directorship programme, the first of its kind in Singapore, is a formal certification process which aims to enhance knowledge on areas ranging from role of directors, their legal obligations, and how they should evaluate, market and manage human resources strategically.

Report Cards for Directors too?

Why are directors important? They play a critical role in a company: they represent the interests of all shareholders; they keep watch over the company's management team and provide the necessary guidance and expertise. They shoulder responsibilities that are by no means light, and in this rapidly changing business environment, play an increasingly complicated role. Their actions tie them to the corporate governance of the company.

So how should a company and its board go about assessing the quality of its directors? The panel's response, put simply, is that this is tough, especially in the Asian business environment. "Singaporeans are very *kayki (*polite in the Hokkien dialect*)*. We tend not to want to offend others, so the report card is: Everybody is okay," said SMRT's Saw. Her view is shared by Stamford's Lee and SID Chairman Lim.

Can facilitators or consultants help improve the quality of directors then? Only if people are willing to open up, said Saw. To do that, people must be honest about how they feel and be ready for an open, face-to-face engagement. As Lee said, the company will not go far unless there is constructive feedback.

However, while an effective director is important, an effective director alone does not mean an effective board, said Keppel's Teo. After all, it is about the actions and decisions of the entire board, and not the capabilities and personalities of individual directors. "You can have the best director who is individually qualified – but you won't necessarily get an effective board at the end of the day," he said.

"Effective are boards who find a successful formula, where every single director has his role to play. It is how they eventually evolve as a team – as a group of people who know what certain directors can contribute – that makes the boards effective," said Teo.

What is right, what is long?

Another hot topic is whether the number of directorships should be regulated. This is sparked off by a lingering concern among investors on the number of board seats that individual directors should sit on. J.Y. Pillay, chairman of the Singapore Exchange, commented recently that not more than five directorships is "humanly possible".

This is a point that Lee agrees. From her perspective, it is "physically very difficult to do so many directorships" because the time demands for reporting financial results are "all bunched at the same time". Singapore-listed companies are obliged to release their financial results for the first three quarters within 45 days after they close their books, and 60 days for full-year results. More often than not, companies tend to do so just before the deadlines and it is not too difficult to imagine the rush as directors need to meet and approve the accounts before they are made public.

Lee believes that self-regulation will not deter people from taking on too many directorships. "It is bad for us and bad for the investing public," she said. While she accepts that all guidelines are arbitrary, she feels that it is "better to have it than have a free-for-all".

As one of the most high-profile lawyers in Singapore, Lee sits on the board of French insurance giant AXA – one among the handful of Singaporeans with the chance to sit on boards of such a multinational corporation.

Lee does not give a specific number of directorships that one person can hold, but she suggests having a guideline for people with full-time employment, another for those without full-time employment, and perhaps, a third one for those who are already executive directors of public listed companies.

However, Keppel's Teo disagrees with limits on directorships. He feels that "it is an individual director's responsibility to ensure that if he sits on any board, he has time for it." SID's Lim concurs with Teo: that limits are best left to the nominating committee, the board and director himself to decide. "There is sufficient pressure for nominating committees to take an objective position," he said.

Besides raising the concern of directors holding too many directorships, Lee believes that a director should not sit on the board for too long, lest they get too comfortable with the management and stop asking 'stupid' questions.

This is also the view of SMRT's Saw. Even though this may spell more work for management, she felt that it was worthwhile as "you need people who ask questions". New directors also bring with them different perspectives and experiences. "Every six to seven years is very good," said Saw, whose company, the dominant operator of train services in Singapore, has a board of "revolving door directors" who stay for only six years. "I'll be very concerned if a board member stays 10 or 20 years in the company," she added.

Lim is for the concept of board renewal too. "I personally believe that every board should have a director that is fairly new because if he has sufficient courage, he will ask a lot of questions that older directors may not ask. If we do not allow new directors to come in and be mentored and groomed, where are we going to get our future supply of directors?"

While Teo agrees that the board should be continuously renewed, he nevertheless finds it unfortunate that a director would be perceived as non-independent after nine years of service. Teo is referring to a proposed measure by the Monetary Authority of Singapore (MAS) for financial institutions. "Directors who served for many years do not necessarily become less independent," he said. As it is, he thinks it is difficult enough to find good directors: Their wealth of knowledge and experience, earned over the years, cannot be substituted so easily.

Board Appointment Service

From his vantage point, Lim observed that many companies are approaching 'the usual names' to serve as directors. He feels that the pool out there is 'certainly bigger than the 4,000 directors that sit on the boards of companies' here in Singapore.

"We believe there are many directors who are available, who are competent, but are probably not as well-known," he said. To address this concern, the SID has introduced a match-making service, known as the Board Appointment Service, where for a nominal fee of $1,000, companies can tap into the institute's network and database to search for suitable director candidates.

"We will have their template, their qualifications, their experiences, including specific industry experience. When companies look for directors, we'll ask what sort of skills they are looking for, any specific attributes and then we'll try to match the needs of the companies," said Lim.

The services include giving companies tips on how they can structure their board and how they should write their Letter of Appointment. SID will also tie up with at least two search firms to provide evaluation services for the candidates.

The service is developed in view of the growing calls to professionalise and raise standards of independent directors amidst growing concerns that not enough has been done in the search for right candidates.

"On my own merit"

Some European countries, like France, have legislation stipulating a minimum quota of seats on the board that can only be taken by members of the fairer sex. While Singapore is nowhere near that line, many companies, on their own, are appointing female directors to widen their talent pool for diversity. Nevertheless, the number of women directors is still far few and between – and according to the panellists, gender discrimination has nothing to do with it.

Teo related the story of how a company had encountered great difficulty in finding a replacement director after a female director stepped down to spend more time with her family. "And when we finally found a person, we were told that she had too many directorships." Teo attributes the shortage of supply of women directors to the fact that they have not come up to offer themselves, and that this is not an issue of capability. Lim thinks likewise. Out of 28 graduates from the SID-SMU programme, only five were women.

Ong, who is also the Head of Financial Services at Allen & Gledhill, thinks that lack of prominence may play a part in the scarcity of female directors. Her observation is that there are many untapped people out there – not just women. "We see a lot of board movement of directorships but (we see) the same faces. If they leave one board, they would have gone to another board. And you wonder if there is any other person available out there," she said. While experience counts, she feels that 'fresh blood' should be welcomed too.

Lee agreed. "If you are looking for a well-known name, then of course there is a shortage," she said. But if you are looking for people who are able and conscientious; there should be no lack. However, at the end of the day, this is a job that is more than just about the directors' fees that shareholders approve during each annual general meeting – it is also a duty; a legal and moral responsibility that rewards in non-tangible ways.

So while all the panellists agreed that there ought to be more women directors around, none endorsed the idea of regulations for diversity. As Lee put it, "I would want to be there on my own merit."

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