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Broadening Boards: How Directorships should adapt for challenging times

Singapore Management University

BROADENING BOARDS: HOW DIRECTORSHIPS SHOULD ADAPT FOR CHALLENGING TIMES

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"Will good governance lead to greater profitability and business sustainability?" This was the question that framed the lively panel discussion that involved talk on a broad range of issues, from gender diversity to boardroom theatrics.

The panel, comprising Choo Chiau Beng, chief executive at Keppel Corporation Limited; Jeanette Wong, group executive at DBS Bank's Institutional Banking Group; Gan Seow Ann, president at Singapore Exchange Limited, and Peter Buerger, senior advisor at Pickering Pacific, spoke at the graduation ceremony of the Singapore Management University (SMU) – Singapore Institute of Directors (SID) Executive Diploma in Directorship programme.

Opening the dialogue, Annie Koh, dean of SMU's Office of Executive and Professional Education and an associate professor of finance, noted that a recurring 'theme' she had been hearing over the past few years is the criticality of a "good" board. A mounting public interest in such matters is hardly surprising, given the 2008 global financial crisis and recent episodes at HP, Olympus and MF Global.

It would thus seem that organisations with the "right" board members would stand better chances of survival and success, or at least, avoid unwanted public drama. But what makes a "right" or "good" board is a perennial question with no clear answers.

Get involved – but not too involved

To what extent should board members involve themselves within the organisation? "It's a delicate balance," answered Choo, a seasoned member of several boards and board committees, including the Energy Studies Institute, American Bureau of Shipping, Det Norske Veritas South East Asia, and a host of Keppel Corporation subsidiaries.

"The board must be clear about what it means to be a director at the board-level, and what it means to be a manager… The board looks at the big things, like strategy and risks. Day-to-day business should be left to the management," he said.

Concurring, Wong added, "You cannot execute on behalf of management; it would be impossible. But you need to ask enough questions… from all angles. And you need to do your own homework." Wong, who sits on boards like Neptune Orient Lines, DBS China, DBS Taiwan, the University of Chicago's Booth School of Business, is also chair of SMU's Lee Kong Chian School of Business advisory board.

Spending time at the company or giving it "mindshare" must be part and parcel of a director's job, she said. Before accepting directorships, Wong makes it a point to assess if she can afford the time and commitment required. For her, it is the responsibility of directors to probe, examine strategies, and not simply endorse whatever management proposes.

"Your role on the board is to ensure that the company survives long term; that it is sustainable and profitable. A lot of this has to do with market positioning and corporate leadership in the light of industry changes. The worst thing you can do is to go to a board meeting without reading any of the papers and have not thought through the issues and questions," she added.

Buerger, an alumnus of the SMU Directorship programme, took it one step further and proposed that directors should spend time at the company – at least a day per month – in order to understand what the organisation is doing and not doing. He acknowledged, however, that such 'time' is not always possible for directors, who are more often than not, fully employed and engaged with multiple commitments. Perhaps board roles should be filled by semi-retired professionals, Buerger quipped. After all, can directors really give the right advice if they do not put in the time?

Pressed for a view, Gan, the de-facto 'regulator' voice within the panel, said that the demands and responsibilities of directors have increased in recent years. While he generally agrees with the other panellists that a fine balance must be maintained between directors and managers, he would prefer a situation where boards start from the 'intrusive' side of the pendulum.

"We have many situations where boards are a little too hands-off… While the 'correct answer' lies somewhere in-between (non-intervention and intervention), I think it's better to start from (the latter) and then try to move back (to the former)," he said.

"It's a lot more difficult to start from the other (non-interventionist) end, and then try to tell the director that he needs to understand the company a lot more," Gan added. "The ground has shifted", so members have to either up their game or get left behind.

Gentlemen's club… and no gender quotas, please

Diversity is one important means by which boards can safeguard themselves from group-think. Yet, it would not be an exaggeration to say that most boards in Singapore are still, by and large, gentlemen's clubs.

According to the 2011 'Singapore Board Gender Diversity Report', 60 per cent of Singapore Exchange (SGX) listed firms do not have a single woman on their board. Of the 5,138 directorships, 356 positions were occupied by 324 women – a paltry 6.9 per cent. Contrast this with Hong Kong's 8.6 per cent, Malaysia's 7.8 per cent, the UK's 12.5 per cent, or the US' 15.7 per cent. Meanwhile, Norway's 39.5 per cent – the highest in the world – has been attributed to the country's gender quotas.

None of the panel speakers seemed to be in favour of such quotas for Singapore, though everyone agreed that existing gender imbalances ought to be addressed. Gender representation is not easy to legislate, said Wong. On the one hand, legislation can encourage more women to step into arenas traditionally dominated by men, but on the other hand, it can be perceived as tokenism – the affirmative action versus meritocracy debate.

'Meritocracy' was the clear favourite amongst the panellists, all of whom, in their own words, argued that ability and aptitude know no gender.

"The key point is not about gender, but about competency; whether or not a director can contribute to the board and its functions," said Choo. However, he admitted that it has been difficult, however, to persuade women to take on directorships.

Adding to that difficulty is the fact that few Singapore females take on leadership roles, which, in turn, places women less favourably in the running for directorship positions. "It's a chicken and egg, because we can say we're looking for female directors, but then we don't have enough women in leadership," Koh noted.

Also, while it may seem like gender quotas have improved board compositions in some European countries, Gan noted that such policies are quite recent. So the jury is still out on whether or not increased female representation as such will translate to a more effective board.

Be that as it may, *should* regulatory bodies assume some responsibility in helping to bring more minority groups into boardrooms?

Gan is of the view that an effective board serves both majority and minority interests. "I think it is better that we do not go with a trend of being too prescriptive," he said.

"At the end of the day, there is a business to be run and you've got to allow some latitude for that… I think a board member's obligation is to the company and to shareholders in general – not particular shareholders. If a board director does his job well, he will be taking care of both the majority and the minority shareholders."

In the absence of quotas, the chairman's has an important role to play when it comes to diversifying the board, Choo and Wong said – and one thing that chairmen of boards can do is to actively seek the participation of women.

"I like the idea of active seeking and active engagement – where the board goes out and makes extra effort to achieve (diversity)," said Buerger. However, 'diversity' should not be limited to gender, but also different competencies, professional experience, race and age. "The spectrum can be much wider," he reminded the group.

Governance – more than just rules

Companies like Enron and Lehman Brothers have catapulted buzzwords like 'governance' and 'risk management' to the forefront of public consciousness – and these words are, as such, talked about in board rooms – or are they?

"I wonder if boards are spending enough time on risk management," Gan asked, noting that while existing policies ensure that SGX-listed companies have audit, remuneration and nominating committees, 'governance' also has much to do with studying the broader economic climate and wide market changes.

Gan believes that rules and regulations have a role to play, of course, but that these mechanisms do not ultimately determine effective 'governance'. Rather, it is the alignment between the board and management, together with board diversity, commitment, time, and passion that determines the extent of 'governance'.

From her own experience, Wong feels there is too much emphasis on directors' professional qualification. "A lot people look to fill functional gaps – the lawyer, the auditor, the C-suite leader", as opposed to looking at personality-fit and critical-thinking skills i.e. people who are courageous enough to challenge and speak up, and those who have the humility to accept contradictory viewpoints.

Such skill-sets are often overlooked. "The problem is (when) you haven't got people with the right temperament, the courage to disagree, or allow room for alternative counterpoints, then you will allow things to happen that shouldn't happen… and sometimes these things happen because people did not speak up or ask the right questions," she said.

"When board members get too cosy and start to get a little complacent and not question one another or question the management; that cosiness leads to group-think, and that can be dangerous," Gan added.

"At the end of the day, rules and laws will not prevent fraud," Choo said. "A lot ultimately depends on the people involved."