

Three key considerations in enhancing board diversity

The role and effectiveness of a board have always been key priorities to regulators, shareholders and stakeholders — more so during times of crisis and uncertainties.

During the 1997/98 Asian financial crisis, companies in Malaysia's financial market were forced to intensify their focus on corporate governance and board effectiveness. Then, the aftermath of the 2008 global financial crisis uncovered many deficiencies in the boards of financial institutions.

Today, the Black Swan situation brought about by the Covid-19 pandemic has raised even more questions and placed more emphasis on the role of the board. Boards are expected to rise to the occasion, remain resilient, urgently rethink their strategy and avoid falling into groupthink.

In this critical time, many boards are positioning and reshaping themselves by enhancing their composition and diversity in order to be able to face current and future challenges. To enhance board diversity, a few key questions need to be considered.

Firstly, what aspects of diversity should boards consider?

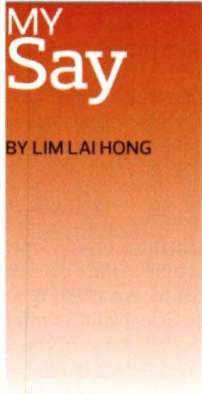
While there is a general perception that diversity involves gender, some studies show a more comprehensive picture, stating that both social diversity (for example gender, ethnicity and age) and professional diversity (expertise, knowledge and skills, and industry experience) are important and needed in the boardroom for better thinking processes and decision-making.

Today, given the uncertainties and challenges ahead, social and professional diversity may not be enough to provide boards with the necessary "power" to lead — leadership diversity is also needed, both individually and collectively.

Leadership diversity can be measured by reviewing the leadership attributes of each board member — including their competencies and traits, and what drives them — and more importantly, the synergy created as a result of their combined attributes. While a board is made up of individuals, having a holistic picture of the overall board leadership profile will answer the crucial question of whether the board has the right "DNA" to lead the management and institution through the storm, now and in the future.

Secondly, what options are available for boards to source for the right talent? Does the board have a "secret recipe" to help them identify and select the next member?

Boards face challenges in sourcing for "good talent with the right



fit" who meets their requirements. While there is already a scarcity of talent in the market in most industries, the stringent requirements of board directorship, for example in the financial services industry, makes the sourcing of talent a critical and daunting task.

Traditionally, and even currently, most boards are more inclined to look at candidates referred to them by stakeholders who know the institutions, or individuals whom they trust from their own networks. While this is practical and acceptable, with the drastic changes taking place in the ecosystem and macro environment, their existing networks may not be able to provide what is needed now. For instance, with the regula-

tory requirement to have board members with sufficient knowledge and experience to shoulder the responsibility of oversight of information technology-related matters, the boards may have to venture out to look for talent.

They may consider outsourcing the recruitment process, partnering with professional bodies that have a good understanding of the industry and are able to provide solutions based on insights unique to a particular industry.

In the outsourcing process, boards may ask critical questions, such as whether the outsourced partner has a comprehensive board leadership framework as the basis for talent

sourcing. Is the sourcing partner able to incorporate an "art" and "science" approach of the board leadership selection process, with stringent assessments of the board talent? Does it have the capacity and credibility to provide a pool of suitably qualified board-ready talent for the financial services industry?

Thirdly, how can boards take a long-term, holistic view when grappling with the issue of enhancing board diversity systematically while maintaining the smooth running of the current board?

Being able to address the talent needs of the board in a holistic manner, in line with the long-term strategy and culture of the organisation, is an ongoing effort rather than a one-time requirement to fill vacancies when the need arises. While most boards focus more on succession planning for the CEO and senior management team, emphasis should also be put on board succession planning in order to enhance board diversity.

Indeed, a holistic board talent management framework — when put in place — allows an institution to review the effectiveness of the current board, identify gaps and establish a medium- to long-term succession plan for the board. This will provide a solid foundation for the board to embark on the search for talent, and allow them sufficient time and opportunities to discover the gems who fit the needs of, and bring value to the board.

Indeed, enhancing board diversity is a strategic initiative. It warrants a board looking beyond the familiar, thinking beyond the norm and planning beyond the now. ■

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