

# BOARD DIVERSITY: THE INTERNATIONAL PERSPECTIVE

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The oft-argued point of diversity on boards has often focused on skills and gender. Another dimension that is increasingly being sought on some boards is foreign directors who can provide a geographical perspective beyond the company's home base.

Foreign directors are usually found on the boards of companies with global or regional presence and ambitions.

*Spencer Stuart's Board Index 2013* reports provide some comparatives of foreign directors on these large companies. It shows that the Netherlands leads with nearly 42 per cent of foreign directors among the boards of its largest 50 companies. In contrast, the US lags with only 7 per cent of foreign directors in the top 200 largest companies. In Hong Kong, 18 per cent of its directors in the largest

50 companies are foreign.

Spencer Stuart's reports did not cover Singapore. However, based on an exploratory study with Handshakes, a data analytics firm, Singapore seems to be doing well with some 39 per cent of board seats of the top 30 STI companies going to foreign directors. A closer examination of the data shows that the ratio is skewed by the number of foreign multinationals and Temasek-linked companies listed on SGX; Temasek Holdings has a focus on ensuring international directors for relevant boards of its subsidiaries.

## VALUE OF INTERNATIONAL DIRECTORS

There are many benefits to having international directors.

As much as business has globalised, specific customs that affect how business is conducted may vary by country. Directors with knowledge of business culture, regulations and key influencers can smoothen the way for the business expansion, or in some cases, prevent costly mistakes.

International directors – like women and minorities – bring a more open and diverse mindset to the board, adding new and different perspectives to enhance the board's deliberation and problem-solving skills.

Also, the inclusion of international directors signal to customers and investors the company's international outlook.

Yet, beyond these direct business benefits, I believe that there is significant value in itself, in the interactions of individuals from different jurisdictions and cultures.

For example, Gemalto, a leading global digital security company in Amsterdam and whose board I am on, has directors hailing from the US, France, Netherlands, France, UK, Germany and Asia on its 11-member board. I have found the board discussions rich with

varied perspectives that I have not typically experienced on more homogenous boards.

One aspect of this is an understanding of the regulatory approaches of the differing jurisdictions. While the company needs to navigate these different rules, it also benefits from the best practices.

In fact, foreign directors offer the opportunity to import best governance practices from other jurisdictions, especially if a foreign director comes from a country with better legal institutions or governance standards.

## OVERCOMING OBSTACLES

While there are clear benefits, there are also hurdles associated with having foreign directors on board. These lie in three areas: communication, distance and costs.

Foreign directors may have language and cultural differences from the other directors. This may reduce communication and the ability to make effective board decisions. In the short run, heterogeneity can impede communication and cooperation within groups.

Here open-mindedness – on the part of local and foreign directors – is key.

Towards this end, courses such as the International Directors Programme recently launched by SID in collaboration with INSEAD, will help directors function more effectively on international boards.

A second obstacle lies in the lack of physical proximity of foreign directors to the corporate headquarters. It is thus difficult and costly for the foreign directors to physically attend board meetings and interact with management and other directors.

Good planning and technology can, however, mitigate the distance factor. For example, the venue of board meetings can be rotated to

include the countries where foreign directors are located and where the company has a sizable market presence. In fact, exposing all directors to the different company locations serves to broaden their horizons and contextualise issues.

Discussions outside of the regular physical board meetings can be carried out via the Internet and social media. Board portals now enable directors to review, update and comment on the contents ahead of meetings in any location.

Ultimately, whether a board wishes to have international representation is a decision the board has to make, balancing the costs and benefits. It should be recognised that the benefits will accrue not just to the company but also to the individual directors – local and foreign. I can say that I certainly have benefited.

As companies continue to expand internationally, we expect the demand for international directors to increase. A board that demonstrates a commitment to being global will be more likely to attract an international director. ■