Battle for the Boardroom

A rising tide of public and shareholder discontent over executive pay packets, corporate accountability and responsibility are forcing boards to be more transparent, diverse and independent. Asia is also catching on fast.

The backlash began in the years immediately following the financial crisis: an angry public driving precarious Western governments to enact legislation and regulation against corporate directors and top executives. Shareholder activism is rising; the captains of industry are under fire.

Switzerland’s recent vote to cap executive pay not only puts more power in the hands of shareholders to vet board appointments, but also makes golden handshakes and parachutes illegal. The German government has also indicated that it would also soon introduce a bill to regulate executive pay. In the UK, the Institute of Directors says excessive pay is making it harder to defend the merits of capitalism.

“The financial crisis was a watershed because it led to the perception that the finance people were in it for themselves,” says Ludo Van der Heyden, INSEAD’s Mubadala Chaired Professor in Corporate Governance and Strategy and Academic Director of the INSEAD Corporate Governance Initiative. “The perception was that they were corrupt and when the public asks who is responsible, they go to the board...
Asia’s board directors are now facing similar scrutiny from regulators and shareholders, as wealth-creation in regional economies feeds investment and necessitates that market structures adapt and advance. Half of all listed companies in the Asia region are family run.

**Independent directors wanted**

“Whether we are looking at shareholder activism, more regulation and family owned companies, really it’s about two things: one is more transparency on boards and I would say the second one is a big emphasis on independent directors,” said Alexandra Schaapveld, herself an independent director.

In an interview with INSEAD Knowledge on the sidelines of the recent INSEAD Directors’ Forum on the Asia campus in Singapore, Schaapveld, a former banker who sits on the boards on Vallourec in France and Bumi Armada in Malaysia, added, “There’s a lot of external factors that have a very big influence on companies and I think it is the prerogative and also the role of a board to look at and be prepared.” But while independent directors may withstand the tests of regulators and shareholders, those invited to join family-run companies must be clear about expectations from the outset to avoid being influenced by vested interests.

Singapore’s code of corporate governance, revised last year, now stipulates that independent directors have to form one third of all board seats under normal circumstances. If the CEO/chairman are the same person, or the CEO or chairman are family members, independent directors should comprise half of the board under the new code. Compliance means some 40 percent of companies in Singapore have to appoint more independent directors or change their board composition. In short, Singapore needs about 400 independent directors. Finding those people will not be easy.

“A director has to have the integrity to take the job seriously and commit sufficient time. They are going to have to spend more time learning the company’s business and dealing with all the environmental and external factors so there is naturally a limitation to how many seats you can take,” said John Lim, chairman of the Singapore Institute of Directors, who also attended the INSEAD conference.

“Being on a serious board is becoming 20 days’ work a year, that’s a full month,” said Van der Heyden. “So if you have a crisis you may have a meeting every week or every day and you should be prepared for that. This is leading to limitations on the number of board seats people can take. That’s a big change, people will take at most four to six board memberships... still today you will find some people with 20 board seats. That is over. That is no longer acceptable. That’s a signal of bad governance.”

**Dearth of diversity**

Boards are also under pressure to boost diversity. In Europe, the EU adopted a quota requiring women to represent 40 percent of listed company boards by 2020. A recent study by Corporate Women Directors International shows that 28.1 percent of directors in the top 17 public French companies are now women. In the U.S., 20.9 percent of board members in the 57 largest listed companies are women.

Singapore’s female board representation is just 7.3 percent. China and Japan show only around 10 percent representation. “I think the push has already come,” said Lim. “People are now, in fact, highlighting this low percentage of female representation on boards… it’s so logical that a higher percentage of women should be on these boards, but it’s not just a question of wishing anymore. The supply of competent women should be made available and that has got to come from the executive ranks,” he added.

“People are beginning to see the value of people with diverse experience, diverse culture, diverse skill sets, so I think it’s going to come,” said Lim.

**Split the top jobs**

Directors also noted the shifting landscape with regards to the separation of the CEO and chairman in Asia and globally.

“The big shift is more towards increasing the separation of the CEO and the chairman,” says Van der Heyden. “You would normally say the buck stops with the CEO or the chairman, but I think there has been a shift now to ‘the buck doesn’t stop at the CEO’ because the CEO can be hired and fired... so the financial crisis has given more responsibility, more power to the boards and I think that’s been a healthy shift.”

Ludo Van der Heyden is Professor of Technology and Operations Management at INSEAD. He is also the Mubadala Chaired Professor in Corporate Governance and Strategy and Academic Director of the INSEAD Corporate Governance Initiative. He co-directs the International Directors Programme, part of INSEAD’s portfolio of executive education programmes.

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