



Illustration: Craig Stephens

# FULL DISCLOSURE

New provisions require companies to ensure transparency on how they appoint board members, writes *Tara Loader Wilkinson*

**A new code** of conduct is expected to enforce better diversity in Hong Kong's boardrooms and address the paucity of women leaders in the city. But experts say it may take a generation to see the results of the new regulation, which came into effect last month.

According to a recent study commissioned by New York-based think tank Catalyst, only 9.4 per cent of board members in Hong Kong are women, compared with an average 12.3 per cent in Australia, 17.3 per cent in Britain and more than 40.9 per cent in Norway, which leads the way globally.

Mindful of this shortcoming, the Hong Kong stock exchange issued new code provisions stating that a listed company must have a fully disclosed policy on diversity. This should include any measurable objectives that it has set for implementing the policy, and progress updates on achieving those objectives, says Ellie Pang, Hong Kong Exchanges and Clearing

(HKEx) assistant vice-president of listings, who drafted the new regulation.

While experts agree that the move is positive, some say that entrenched inequality on boards may take at least another decade or two before any real impact is seen within the city's leadership.

There are four key issues at stake. First, there are only a finite number of board positions and top roles, and a low rate of turnover.

Su-Mei Thompson, CEO of The Women's Foundation, based in Hong Kong, says that while women continue to be excluded – particularly in male-dominated industries and some family-controlled companies with a patriarch as chairman – the under-representation of women on boards is less about prejudice or lack of interest on the part of women than it is about the limited rotation of board seats.

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The under-representation of women on Hong Kong boards is less about prejudice than the limited rotation of seats, says Su-Mei Thompson, CEO of The Women's Foundation. Photo: Edmond So

case about diversity; it's something which most companies are aware of. But it will take a while before the situation changes. Existing directors tend to cling to board positions, and it can be years before an opening comes up," she says.

Thompson says she is optimistic that within a decade, there will be a much higher proportion of women on boards in Hong Kong. "The supply is there. It's mostly a function of demand."

The second challenge is finding the right women for various roles. Nick Sallnow-Smith, chairman of The Link Management, which manages the Hong Kong-listed real estate investment trust, recently appointed two women to his board for the first time as part of his aim for wider diversity.

He says a key element in achieving this is to ensure that the search firm be required to include women candidates on the list. This gives visibility to women candidates, even if the eventual choice may be a man.

"Some companies may say that the reason for their lack of diversity is that there aren't enough qualified women. But if you don't look, how do you know?" he says.

To help discover elusive talent, many firms are now engaging the services of headhunters and executive search firms who specialise in championing women directors, says Alice Au, co-lead of board practice in Asia at search firm Spencer Stuart. Au has experienced a surge in demand over the past five years for Asian women directors for Western multinationals based in Hong Kong.

The third issue is that regulation on the matter has come relatively late to Hong Kong compared with other countries such as Britain, the United States and the Scandinavian nations. It is also less stringent. One of the effects of the Sarbanes-Oxley Act in the US and The Walker Report in Britain was the increased pressure on boards to be more transparent and systematic in the

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Alice Au is co-lead of board practice in Asia at Spencer Stuart. Photo: May Tse

way they identify and select directors. Under those legislations, nomination committees in the US and Britain generally meet annually to review the structure, size and composition of the board to ensure it complements the company's strategy.

Au believes it is through such exercises that boards discover and acknowledge their own lack of diversity, and engage headhunters to provide a solution. But not all boards function in this way.

"In Hong Kong, my impression is that nomination committees, the establishment of which has been upgraded in December 2011 from RBP [recommended best practice] to CP [Code Provisions], are generally not very active and are not rigorous in planning the structure of the board to ensure that there is enough diversity in skills, knowledge, experience and perspectives to help the company," Au says. "Those who are will find that the board is really useful to the company, rather than just there for compliance to the HKEx requirements."

Lastly, change must come from women themselves. Statistics show that women will only put themselves forward for a role if they feel they can fulfil at least 80 per cent of the stated criteria, whereas men will go for a role even if they feel they can only fulfil 50 to 60 per cent of the requirements.

"Companies in Hong Kong frequently talk of the lack of a skilled talent pool of women – though research consistently demonstrates this is not the case," says Kirti Lad, a director at search firm Harvey Nash who also sits on the Women in Business Committee for the British Chamber of Commerce. "Female leaders are simply more hidden and less inclined to put themselves forward as they do not feel empowered, confident enough or ready to take on a board role."



“Many current female leaders highlight a lack of confidence as a key barrier to their progression. Empowering women to put themselves forward and instilling the confidence in them to go for their first board position is the key to getting more women on boards in the future.”

Last year, Harvey Nash launched the Women’s Directorship Programme, which aims to equip participants with the right skills and confidence to take on board leadership roles.

Lad stresses that women need knowledge and confidence along with the support of their companies in order to put themselves forward for senior positions. “Without this commitment and backing from the business community, the current imbalanced situation we are facing won’t change,” she says. Experts say that

although the new code may accelerate board diversity, changes are already under way. The introduction of regulation will not dramatically alter the numbers, but there may be a gradual change. Sallnow-Smith agrees that the new regulation is a sign of social and behavioural standards already in flux.

He says what is crucial in creating diverse boards is that other issues are not overlooked. Diversity of board members depends on several factors that are not limited to gender. Age, character, cultural and educational background, and professional experience all matter. The HKEx stresses this point in the new code, which states that “each issuer should take into account its own business model and specific needs, and disclose the rationale for the factors it uses for this purpose”.



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Search firm Harvey Nash has launched the Women's Directorship Programme, which prepares participants for the boardroom, says its director, Kirti Lad. Photo: Thomas Yau



Scandinavian countries have the highest proportion of women on boards, according to a recently published report. Hong Kong is ranked high for Asia, but in the middle globally.

## Ranking diversity across the board

Within the global board diversity rankings, Hong Kong is about middle of the pile, as the 20th most diverse out of 44 countries measured by Catalyst, a New York-based non-profit research organisation.

When it comes to diversity, Scandinavian countries rule the roost. The most women-friendly nation is Norway which, according to Catalyst’s report published in May, has 40.9 per cent women board members. Sweden follows with 27 per cent, followed by Finland with 26.8 per cent. Next up is France, with 18.3 per cent of its board seats held by women, then Britain with 17.3 per cent.

According to Catalyst, Hong Kong’s quota is only 9.4 per cent, less than the city’s own appraisal of 10.3 per cent. Hong Kong is the second-most diverse Asian location, trailing Thailand, which is marginally ahead with 9.7 per cent.

Perhaps not surprisingly, the least diverse boards occur in Japan, with 1.1 per cent of women on boards, Qatar with 0.3 per cent and Saudi Arabia with 0.1 per cent.

According to Kirti Lad, a director at search firm Harvey Nash, professional women in Hong Kong are better off than those in the rest of Asia in terms of equal pay and career advancement.

They also have access to affordable domestic help, which enables them to combine family and career more easily.

“The percentage of women on boards is generally higher in Hong Kong than some other Asian countries such as Japan and India. Hong Kong is lagging behind the rest of the developed markets because of its high proportion of family-controlled businesses. This means external stakeholders have less say. Also, the families are frequently conservative,” she says.

Britain and Australia have seen progress in board diversity accelerating as a result of increasing pressure from regulators, governments, investors, lobbying groups and other organisations, Lad says.

She adds that the Hong Kong stock exchange’s new code of conduct will support the changes that are already afoot.