

# BEST PRACTICE GUIDE FOR NOMINATING COMMITTEES

Underlining the launch of the *Nominating Committee Guide*, the first of six guides to be launched by SID, is the push for diversity, especially gender diversity, on boards.

CG GUIDES  
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IN SINGAPORE

NOMINATING  
COMMITTEE  
GUIDE

SID



On 28 August 2015, SID, with the support of ACRA, MAS and SGX, launched the Nominating Committee (NC) Guide.

It was the first of six guides in a series of Corporate Guides for Boards in Singapore. The remaining five – the Remuneration Committee Guide, Board Risk Committee Guide, a revamped Audit Committee Guide, Board Guide and an e-Guide to the Code of Corporate Governance – are set to be released by the end of 2016.

The launch of the NC Guide was held at the Marina Mandarin Ballroom with Minister in the Prime Minister's Office Grace Fu as the guest-of-honour.

Minister Fu spoke at length about the importance of diversity in maximising the performance of the boards and companies. The subject of board diversity and, in particular, gender diversity received much attention at the forum from the speakers and with the launch of a Board Diversity Pledge. (See box, "Call for boards to be more diverse").

After the launch, Mr Max Loh, Managing Partner, ASEAN & Singapore EY and Chairman of the NC

Guide Review Panel, provided an overview of the NC Guide (See Box: What's in the Nominating Committee Guide").

SID Chairman Willie Cheng highlighted that the team had sought to address the practical challenges of an NC. He said, "We have not flinched from addressing difficult issues like, 'How do you remove a director or a Board Chairman?' or 'How does one make sense of the nine-year rule?'"

A group of panellists drawn from members of the Review Panel and moderated by Mr Neo Sing Hwee, partner of EY discussed the practical concerns on implementation. The questions they addressed from the audience included the optimum number of boards a director could be on, the appointment and evaluation of the directors, as well as the appropriateness of financial investments by directors in a company.

On director evaluation, Mrs Yvonne Goh, Past Vice-Chairman of SID, said, "What is most commonly practised is the collective evaluation of board performance by the directors. What is not so widely practised are evaluations of individual performances of directors. We need



Panellists Neo Sing Hwee, Junie Foo, CK Lee, Yvonne Goh, Mak Yuen Teen



to ask ourselves what the fundamental objective and purpose of doing a board performance evaluation is. It should be to improve the effectiveness of the directors individually and collectively. Hence individual director, committee as well as a whole board evaluation are appropriate.”

On director independence, Associate Professor Mak Yuen Teen from NUS Business School said, “The onus is on the directors to confirm their independence. And, for example, if you decide that the director is independent, then you should go through a rigorous review.” He noted that several companies have made the move to redesignate independent directors who have served nine years on the board as non-independent directors.

On directors trading in the company’s shares, Mr Lee Chong Kwee, Chairman of Jurong Port felt that this is a decision of individual judgement. He said, “Some directors choose not to trade even during open periods as they feel

they are in possession of significant unpublished inside information that could be perceived to put them at an advantage. Others believe they are free to trade during open periods after a thorough evaluation that all significant information has been publicly disclosed”.



Mr Tan Boon Gin, Chief Regulatory Officer of SGX, summed up the event: “The best way to build trust in your company is to have watertight corporate governance. In this regard, this series of Board Committee Guides

is both prescient and timely, and I commend the SID for its foresight. In this environment, as companies become increasingly scrutinised about transparency, governance, and even whether their products or services are ethical, they will find that a board with a wide range of skills, background and experience is not only useful, but essential.”



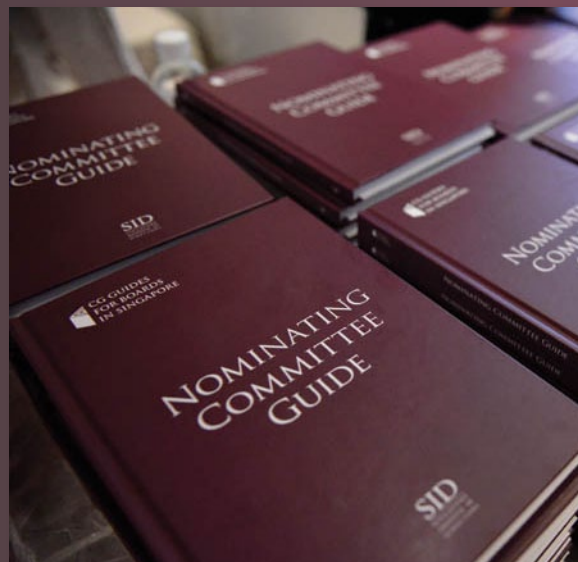
## What's in the Nominating Committee Guide



Mr Max Loh, Managing Partner of ASEAN & Singapore and Chairman of the NC Guide Review Panel, presented an overview and the focus areas of the NC Guide.

Key points that he made included:

- **Objective.** The NC Guide seeks to provide leading practice guidelines to help NCs discharge their responsibilities and achieve higher standards of corporate governance.
- **Contents.** The guidebook is comprehensive and practical.
  - ❖ The NC Guide comprises eight sections: NC Composition, NC Agenda, Nomination and Appointment Process, Director Independence, Professional Development, Board and Director Evaluation, Succession Planning, and Disclosure Requirements and Guidelines.
  - ❖ Each section provides guidance on common issues and challenges of an NC in that particular topic area. FAQs, case studies, sample documents and other detailed supporting information are provided as appendices in each section.
- **Director Independence.** This is one of the most involved topics and the Review Panel felt that it merited a separate section in the book.
  - ❖ Most (97 per cent) of boards do comprise one-third independent directors, but only half (54 per cent) have independent directors as majority of the board.
  - ❖ Independence is a matter of substance, and should go beyond the tests applied in the Code.
- **Director Tenure.** An extended period of service on the board can affect a director's independent and objective judgement due to an over-familiarity with the business or management team.
  - ❖ The Nine-year rule needs to be properly applied. At present, 54 per cent of boards have independent directors with more than nine years.
  - ❖ The Code requires a "particularly rigorous review" of the director's contributions and independence after nine years. The guide provides examples of such a review which should go beyond ticking of boxes.
- **Board evaluations.** Many boards conduct board evaluations but they can be perfunctory. For example, only 38 per cent of boards evaluate the board committees and only eight per cent evaluate the CEO. The NC Guide provides guidance and sample forms for:
  - ❖ Board evaluation
  - ❖ Each of the Board committee evaluation
  - ❖ Director peer evaluation
  - ❖ Board chairmen evaluation



## Call for boards to be more diverse



Minister Grace Fu and representatives of organisations launching the Board Diversity Pledge

Board diversity, in particular gender diversity, was a key topic in the NC Guide and took centre stage at the launch of the book.

In conjunction with the launch of the book, the Board Diversity Pledge was launched. A total of 210 companies have signed up for the pledge (see next page for *The Business Times* advertisement of the Board Diversity Pledge and its supporters).

Explaining the case for diversity, Mr Max Loh said, "In an age of disruptive technology and complexity, there are many cases where people from other industries can engage in creative innovation to point companies in the right direction."

Minister Grace Fu dived into the issue of gender diversity in her keynote address. She noted that women made up only 8.8 per cent of all board directors in SGX-listed companies. She highlighted studies that showed how gender diversity not only could enhance the performance of the management team, but also a company's profits.

Minister Fu identified three ways to increase gender diversity and harness the full potential of talent:

- Provide equal opportunities for leadership development to men and women with potential. Allowing women to develop all-rounded management experience prepares them for higher-level leadership roles.
- More men are seeking to play a greater role at home, whereas women are taking on more work responsibilities. Therefore, implementation of family-friendly work practices that benefit men and women is needed.
- Companies in Singapore can follow the examples of multi-national companies such as Apple, Microsoft and eBay that have since put in place policies and initiatives to overcome recruitment biases and encourage greater gender diversity in the workplace.

Ms Junie Foo, Co-Chair of BoardAgender and Chair of SID's Diversity Subcommittee agreed, saying that "Focus action needs to come from the top. The top corporate leadership needs to take the approach beyond a one-off diversity initiative. It should be part of talent management." ■