

Charity Board Diversity, Going Forward

By Zainul Abidin Rasheed & Suhaimi Zainul-Abidin

The Push for Greater Board Diversity

The topic of diversity in the boardroom has gained much attention in recent times. Many studies have been conducted on board diversity, mostly concerned with trying to find evidence of enhanced corporate performance arising from incorporating gender diversity in the boardroom. Some of these studies have focused on gender diversity and corporate boards because the relevant data is more readily available. For instance, according to a study by the World Economic Forum¹, the benefits of gender equality are compelling, and that companies with more women at top levels of leadership deliver better returns on equity.

Despite the abundance of studies concluding that organisations with more diverse boards deliver better performance, most of these studies have drawn conclusions from what can be described as correlational statistics. It is highly unlikely for studies to show that the mere inclusion of a female or ethnic minority board member is precisely what led to better board and organizational performance. That is because it takes time to show improved board and organizational performance, and the improvement is usually a result of a host of contributing factors.

In Singapore, the Code of Corporate Governance was enhanced in 2018 to require Singapore listed companies to disclose board diversity policies and progress made in achieving such policies, to encourage transparency and accountability on board diversity matters. Specifically, it required boards to be comprised of directors who, as a group, provide an appropriate balance and diversity of skills, experience, gender and knowledge of the company.

Applying Board Diversity to Charities

Unlike listed companies whose performance can be measured by market capitalization, share price and earnings, it is more challenging to define a universally accepted measure of organizational performance for charities and, accordingly, it is more difficult to prove that better board diversity leads to improved organizational performance for charities. As such, advocates of board diversity in the charity sector have historically relied on anecdotal evidence of the benefits of board diversity. This makes Conjoint Consulting's recent study on Board Diversity of Charities in Singapore² especially interesting.

The study first establishes that board diversity mattered to over 90% of persons surveyed. It went on to establish correlations between specific organizational performance measures such as fund generation and financial stability, and certain

¹ <https://www.weforum.org/agenda/2015/12/its-official-women-on-boards-boost-business/>

² <https://conjointconsulting.org/wp-content/uploads/2020/07/Board-Diversity-Report-14-Jul-2020.pdf>

specifically identified aspects of diversity such as gender diversity and ethnic diversity.

The metrics studied by Conjoint Consulting matter when determining organizational performance, but so do many other factors that are less easy to measure. These include the quality of service to beneficiaries, efficiency of spending donation dollars and engagement of volunteers. All these outcomes contribute to a charity's success.

Does Board Diversity Really Matter?

Apart from simply establishing correlations between board diversity and performance, Conjoint Consulting's study goes on to state that 27% of the survey respondents would factor board diversity into their donation decisions. This is interesting and significant, even though it is significantly lower than the 90% of respondents who thought board diversity was important. It means that slightly more than one quarter of potential donors would want to give more to charities that display board diversity.

Unfortunately, the study has not been able to explain why diversity was thought to be important enough to sway donor decisions. Could it be because such donors believe that board diversity improves organizational performance? Or is it based on a perception of better governance arising from diverse boards? Do donors prefer to support an organization that embraces values that they themselves believe in, reflecting the wave of ESG-consciousness? Or is it more simply a values-based principle - one that reflects the multi-cultural, multi-religious and inclusive ethos of Singapore?

The reality is that there is little public information about many a charity's board, and most donors will not likely spend too much time trying to uncover this information. It is probably the case that donors in Singapore assume that registered charities are well organized, well-governed and well run, and that is what ultimately matters to donors. If donors become aware that a charity has been flagged or investigated for poor governance, then they may well avoid that charity for a time. Similarly, if a charity becomes embroiled in a controversy which shows lack of inclusivity, there will likely be a reckoning on social media, and diminished donations and volunteers.

It is often said that diversity in its many forms improves board and organizational performance, primarily because greater diversity of views leads to better environment-sensing and decision-making. You need diversity to query pre-existing views and put new ideas to the test of arguments. In this respect, I think it worth clarifying that greater diversity is not likely to automatically lead to better boards and organisations. Instead, it sets the stage for better decision-making and higher standards of governance, which in turn increases the likelihood of improved organisational performance.

Perhaps it is not only important that a charity is successful in the usual sense. It also matters how a charity gets there and whether it reflects the society that the charity hopes to build. If society believes in diversity and inclusivity, then our institutions should strive towards such ideals as a matter of principle.

That being the case, diversity will become an increasingly important principle for firms to adopt in order to be seen as a responsible actor in civil society. Firms that fail to embrace diversity will become uncompetitive over time, in terms of attracting donors, employees and even directors. Make no mistake that diversity at the top does not just improve the perception of the charity to donors, it influences how employees and potential employees look at the charity. If a charity wants to be able to attract, retain and motivate employees from the widest pool of available talent, the board should lead by example and exhibit qualities that embrace diversity.

In short, diversity is a value that increasingly resonates with stakeholders, and embracing it will bring value to the organization.

Standards of Charity Board Diversity in Singapore

Despite charity board diversity having been advocated by various institutions in Singapore for years, the level of diversity on the boards of charities in Singapore is still relatively poor. Certain aspects of diversity such as gender diversity have certainly improved. From having 25% women-on-charity boards in 2013, the percentage is now a somewhat respectable 34%. However, when you contrast the United Nation's Sustainable Development Goals of full participation and equal opportunities for women in leadership by 2030 against the fact that there are still all-male charity boards in Singapore today, you know that there is still a lot of work to be done.

The poor level of ethnic diversity on boards has also received very little attention and consequently, has not improved for many years. The Conjoint Consulting report on board diversity highlights that a mere 3% of board members among the 204 IPC surveyed were Malays, a striking contrast to the 15% Malay population in Singapore.

These facts reinforce the need to keep pushing for better board diversity.

In NVPC's recently published Handbook on Effective Non-Profit Boards, which followed its Board Leadership Study, it was observed that between 2016 (when the last study was conducted by NVPC) and 2020, the charity sector had made significant progress in a number of areas concerning organizational leadership. In particular, 62% of charities had formalized self-assessments for board diversity compared to 33% in 2016. This means that any charity that is not seriously thinking about board diversity is already behind the curve compared to the rest of the sector.³

Going About Achieving Board Diversity

Constructing an effective and diverse board can be part art and part science. There are handy tools that can bring more structure into the process. Two key enablers to translating a pool of talent into a properly constructed diverse board would be:

³ https://cityofgood.sg/wp-content/uploads/2020/09/NVPC_A-Handbook-on-Effective-Non-Profit-Boards.pdf

Firstly, setting the appropriate tenures for board positions; and secondly, adopting robust nominating processes.

If charities do not institutionalize the need to refresh the board, they will starve themselves of the opportunity for renewal. However, when charity boards get into a regular rhythm of renewal, then there is an opportunity to ask the next questions: what qualities are we looking for and who do we know within and beyond our networks?

Many charity boards recruit directors from the pool of current and former CEOs and CFOs, partners of professional services firms, and successful business leaders, whom they know. The changing demographics within these pools will present opportunities to recruit more diverse members, but board members should go farther afield. They should not only look to appoint people they know; they should ask people they know for recommendations of candidates with diverse qualities, so there is a degree of separation and a widening of the net.

While going through this process, it is important to also recognize that there is no substitute for commitment and competence. As a baseline, charities need board members who have the dedication to serve and compassion for the cause. Next, the board as whole must be competent. This requires the board to have all the necessary skillsets and experiences needed to live up to its responsibilities as stewards of the charity. So the first step towards composing a good board is to think about what domain expertise or functional expertise is needed to fulfil its responsibilities, before going on to ask what aspects of diversity (such as gender, age, tenure and ethnicity) would further improve the board. Then from a diverse shortlist of competent board candidates, one can then choose the candidate who has the most to give to the charity and who would likely have the best chemistry with the rest of the board.

Each board member must bring something tangible to the board. If the board feels that a board member's only value is that she is a woman or comes from an ethnic minority, then the situation is likely to be a net loss to the board.

There are of course some costs to pursuing diversity. Finding appropriately skilled individuals who also match other desired elements of diversity can be challenging and time consuming. This is particularly so where boards are looking for candidates with highly specialized skills, causing the pool of potential board candidates to be reduced. Integrating an individual with diversifying characteristics or skillsets into the board will also typically (though not always) lead to prolonged decision making and reduced cohesion as the board will take time to understand the new board member and recalibrate its rhythm and build trust. Even so, an experienced board chairperson can skillfully set the tone to ensure a harmonious dynamic which minimizes the potential disruption caused by such board renewal.

Board renewal must be finely balanced. The board should be refreshed often enough to ensure that the appropriate level of debate and discourse is maintained in the boardroom, but not so often (and not so drastically at each round of renewal) that it prevents synergies from being created among directors.

Ultimately, leadership is key in ensuring that these board renewal and nominating processes are brought to life. With the right leadership and tools, all charities can create the boards that needed to propel them forward, and champion values of diversity and inclusion for our society.

Zainul Abidin Rasheed is a director of Temasek Foundation Cares and member of the NTU Board of Trustees.

Suhaimi Zainul-Abidin is a council member of the Charity Council and a director of Quantedge Foundation (Singapore) and The Esplanade.