

The Malaysia Board Diversity Study & Index

IN COLLABORATION WITH

WillisTowersWatson 

The information contained in this report is provided for general information purposes only and is not intended to constitute an alternative to professional advice. Although ICDM and WTW have endeavoured to ensure that the content of this report is accurate, users of this report should seek appropriate professional advice before taking any action in relation to any information contained within.

©2021 ICDM & WTW. All rights reserved.



Contents

04 PART ONE

04 ABOUT THE MALAYSIA BOARD DIVERSITY STUDY

- 05 Why Board Diversity
- 06 Investor Push for Improvement in Board Diversity
- 08 About the Study
- 10 Key Dimensions of Malaysia Board Diversity Index
- 11 Diversity Index Scoring Methodology

12 KEY DIMENSIONS OF BOARD DIVERSITY

- 13 Gender Diversity
- 14 Age Diversity
- 15 Tenure Diversity
- 16 Board Independence
- 17 Cultural Diversity
- 18 Diversity of International Expertise
- 19 Diversity of Domain Expertise
- 20 Diversity of Industry Expertise

21 MALAYSIA BOARD DIVERSITY INDEX

- 22 Top 10 Companies - Overall Scores
- 23 Top 10 Companies - By Market Capitalisation
- 25 Spotlight on Gender Diversity

26 PART TWO

26 CORRELATION OF BOARD DIVERSITY TO COMPANY PERFORMANCE

- 27 Business Case for Board Diversity

30 MOVING FORWARD



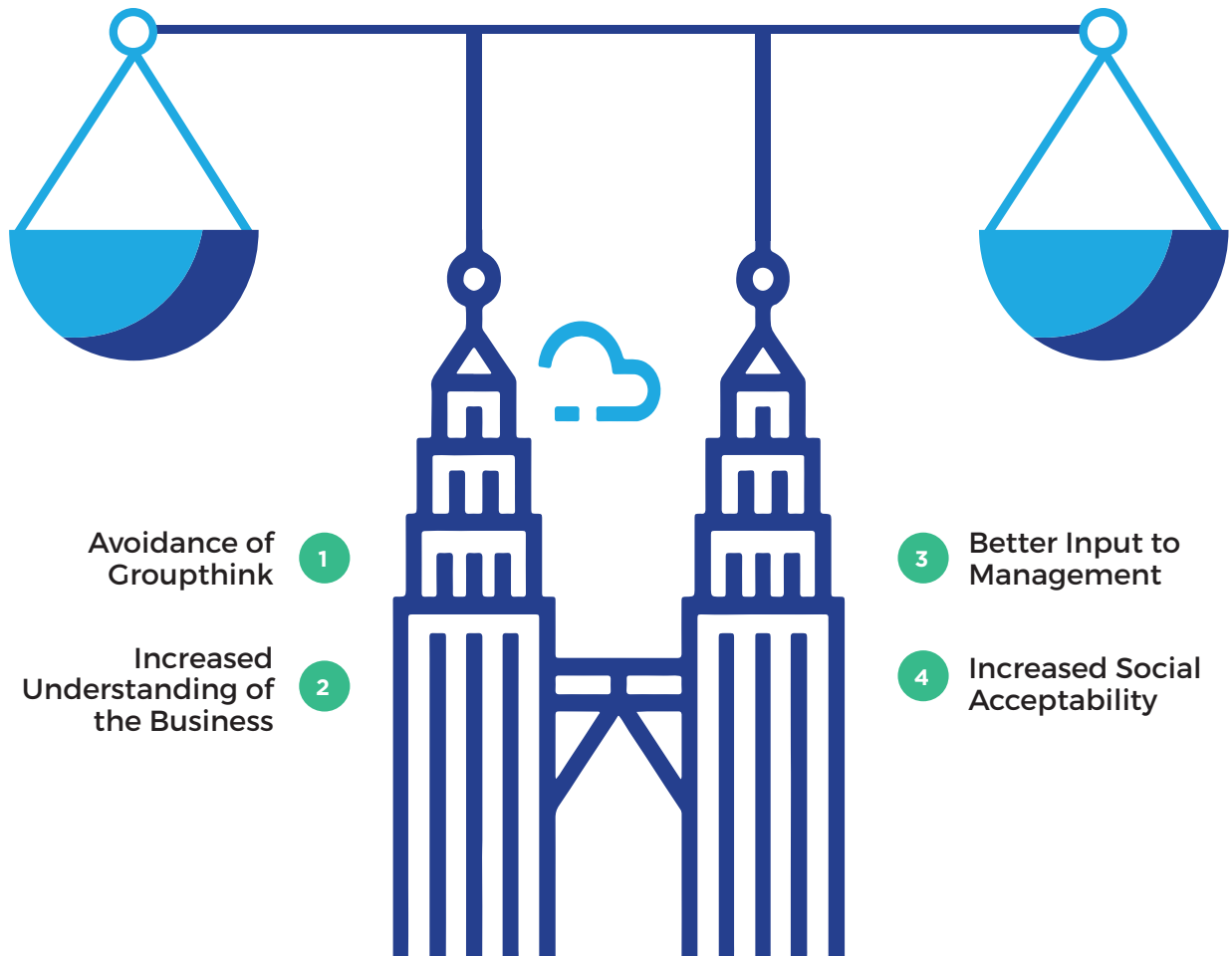


ABOUT THE MALAYSIA BOARD DIVERSITY STUDY & INDEX

01

The Study is a collaboration between the Institute of Corporate Directors Malaysia (“ICDM”) and Willis Towers Watson (“WTW”). The methodology is a proprietary right of WTW.

Why Board Diversity



MALAYSIAN CODE ON CORPORATE GOVERNANCE (MCCG) 2017

Board composition influences the ability of the board to fulfil its oversight responsibilities. An effective board should include **the right group of people, with an appropriate mix of skills, knowledge, experience and independent elements** that fit the company's objectives and strategic goals. The right board composition will ensure **sufficient diversity and independence to avert 'groupthink' or 'blind spots' in the decision-making process**. It also enables the board to be better equipped to respond to challenges that may arise and deliver value.

Investor Push for Improvement in Board Diversity

Blackrock

- Believes that **diverse boards make better decisions** and recognises that diversity is multi-dimensional.
- May **vote against Nomination Committee (NC)/ Governance Chair** if the board is insufficiently diverse.



Legal & General IM

- **Vote against** companies globally with **no female directors**.

3

Glass Lewis

- Encourages boards to have directors with diversity of skills, thought and experience.
- Recommends **vote against NC chair** where boards do not have at least one female director.



AXA IM

- May **withhold support** from director elections if the composition of the Board does not reflect **necessary diversity** (e.g. skills, knowledge, experience, gender and nationality).

4

State Street Global Advisors

- Will **vote against NC Chair** or director most responsible for the nomination process for **male-only boards**.

5



6

Goldman Sachs

- Will **not underwrite the initial public offering (IPO)** of firms having **only white male board** members.

7

Employees' Provident Fund (EPF) Malaysia

- Will **vote against reappointment** of directors whom have **served for more than 12 years** and directors aged 80 years and above.
- Will **vote against Chairman, NC Chair or reappointment of any male directors** if there is **no women director** on its board.


8

Permodalan Nasional Berhad (PNB)

- Will **vote against** an independent or PNB nominee director who has **served more than 9 years**, and those directors **holding more than 5 Board** directorships at public listed companies.

Note: Reproduced based on annual report disclosure and publicly disclosed information, March 2021.

While board diversity brings diversity of thought and is a good starting point, good corporate governance is a continuous process and is reflected in every decision the board makes.



Fair representation of people from different age groups can introduce fresh perspectives and bring different life experiences to the boardroom.

About the Study

This Study consists of two parts:

Part 1
Malaysia
Board Diversity
Index

Part 2
Correlation of
board diversity
to company
performance

We have analysed board diversity across
Eight Key Dimensions

Gender
Age
Tenure
Board Independence
Culture
International Expertise
Domain Expertise
Industry Expertise



We explore the correlation rather than causation of diversity dimensions and performance. The index provides a snapshot of Malaysia's Board diversity landscape; it is not a reflective of, nor meant to predict company performance and corporate governance standards.

While board diversity brings diversity of thought and is a good starting point, good corporate governance is a continuous process and is reflected in every decision the board makes. We are not making claims that a diverse board automatically leads to good corporate governance, but rather diversity as an enabler for good corporate governance. Board diversity brings different perspectives and experience to the board's deliberations, but good corporate governance is a continuous process and reflective of overall board proceedings.

In coming up with the high and low scoring for the Index, we have referenced the Singapore Board Diversity Index by WTW launched in 2020 and other published academic articles. These studies have shown correlations between diversity, corporate governance and company financial performance. The current proposed diversity index is built based on the collective insights from all these materials.

A total of 312 companies listed on Bursa Malaysia (“Bursa”) have been included in this Study. **All the data shown in this Report are based on the 312 companies sampled.** Those companies are categorised based on

the following market capitalisation as at 31 December 2019:

- Large-Cap: RM2 billion or more
- Mid-Cap: RM1 billion or more but less than RM2 billion
- Small-Cap: Less than RM1 billion

We further breakdown the data according to family-business and non-family business.

Family Business

- Family-owned firm with ownership by a single family resulting in effective control, with at least 25% shareholding rights and 1 representative in the family within the board/management team

- Family-owned firm with at least 25% shareholding rights but professionally managed
- Family firms in which founders/ family members hold the CEO or Chairman position, although there is no substantial ownership stakes

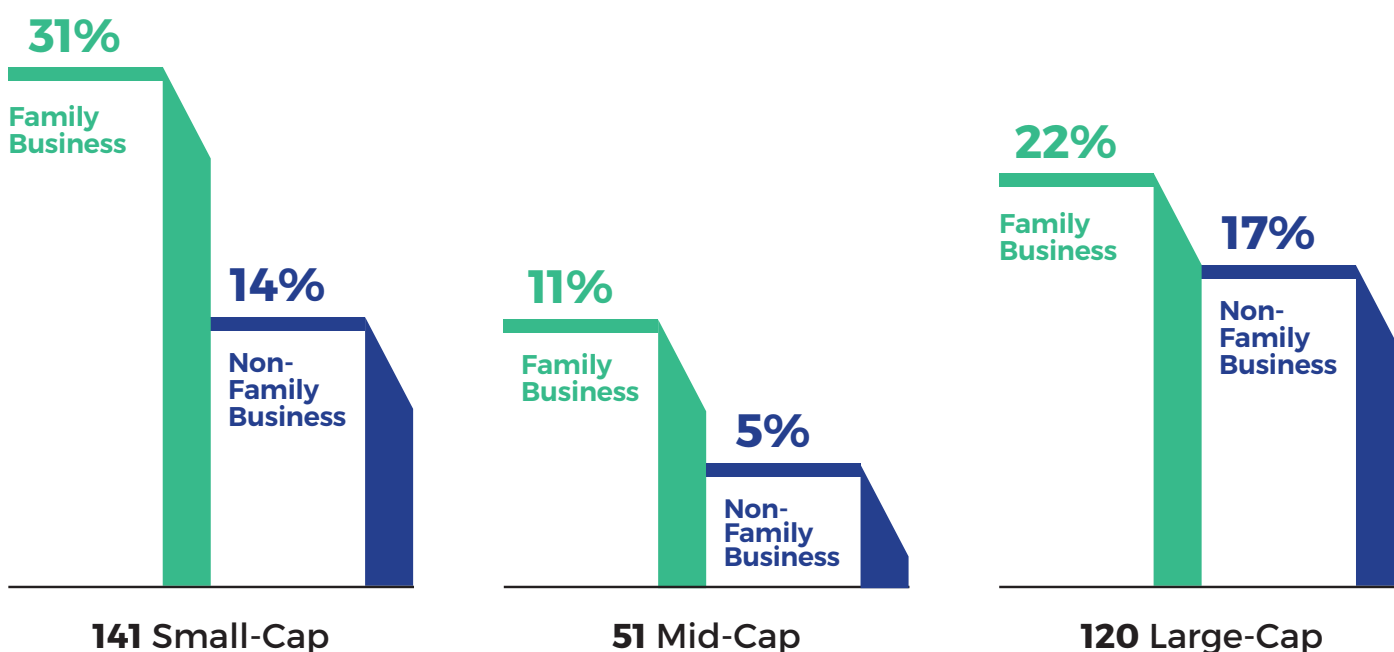
Non-Family Business

- Neither family ownership nor family influence in the form of board/management positions

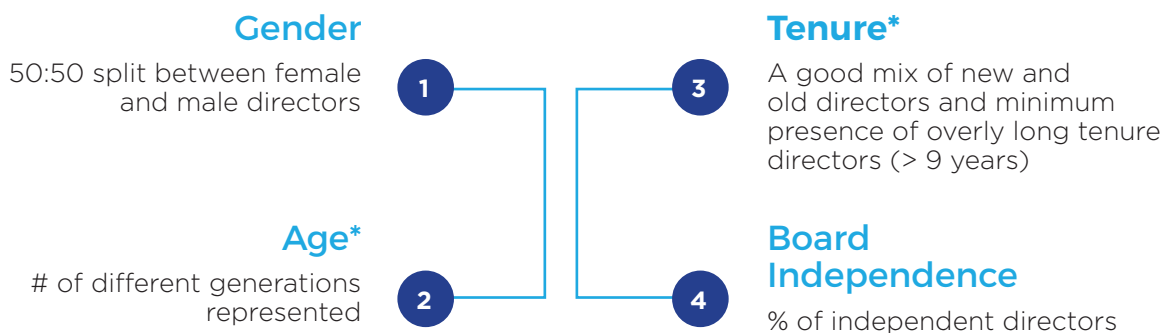
*Definition and classification for family and non-family business was derived from a combination of several sources.

The Study sources from publicly available data. All non-executive director (NED) information are based on disclosures as at 31 December 2019 and 31 December 2016. Outgoing board directors have been excluded from the analysis. Company performance is measured based on the past three years (2017-2019) financial information collated.

Distribution of Companies By Market Capitalisation

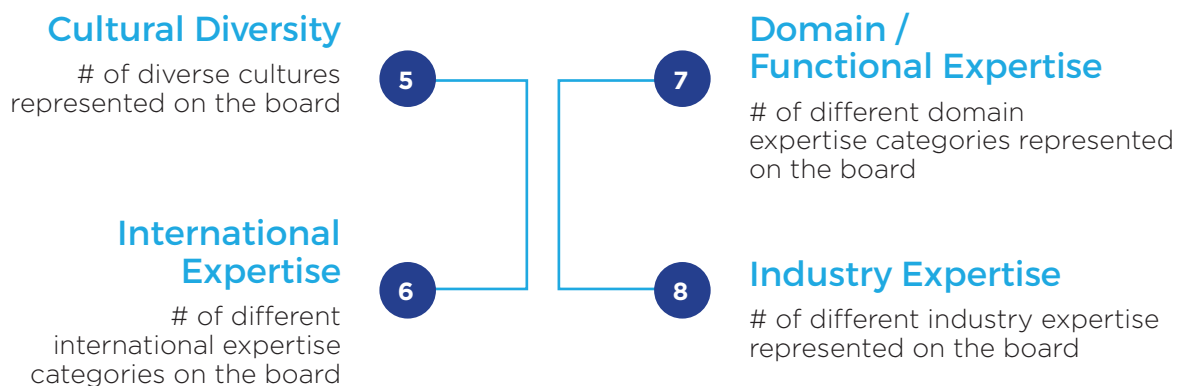


Key Dimensions of the Malaysia Board Diversity Index



DIVERSITY OF THOUGHT

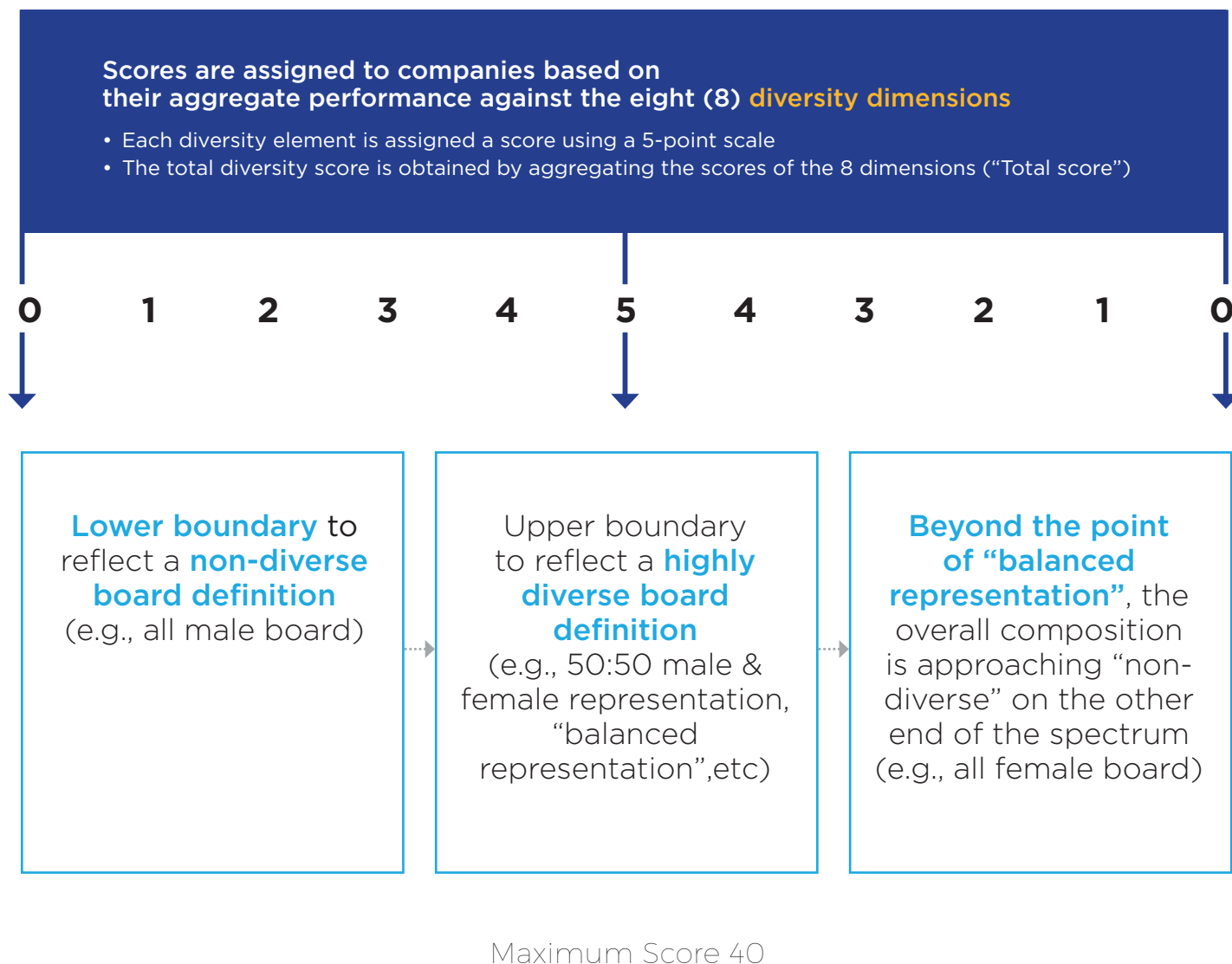
Maximum Score 40



* A good age spread has a standard deviation of >15 years, representing a mix of old and young directors while a good tenure spread has a standard deviation between 3.5 to 4.5 years, indicating a diverse mix of senior and junior directors.

Diversity Index Scoring Methodology

The index is created on a relative rank basis. There is no intended “passing score” for the index.



DIVERSITY IS ABOUT MIX

Our methodology seeks to capture the “**mix**” and the “**representation**” of each dimension on the company’s board



KEY DIMENSIONS OF BOARD DIVERSITY

02

The Index provides a snapshot of Malaysia's board diversity landscape as at 31 December 2019 based on the 312 Bursa-listed companies sampled. It is not a reflective of, nor meant to predict company performance and corporate governance standards.

01. Gender Diversity*

WHY GENDER DIVERSITY

Gender diverse boards have mixed representation of male and female directors who bring different perspectives, competencies, functional expertise, approaches to stewardship, and risk-reward orientation to the table, that enhance the quality of board decisions made.

SECURITIES COMMISSION MALAYSIA HAS SET A TARGET FOR 30% WOMEN ON BOARD OF TOP 100 LISTED COMPANIES BY END OF 2020.

As at 15 March 2021, actual achieved was 25.6 %.

In 2015, 30% Club Malaysia was launched to support sustainable business-led voluntary change to improve the current gender imbalance on boards.



19%

of board seats are held by women

(↑ 2016: 14%)



19%

do not have a female on the board

(↓ 2016: 33%)



43%

have > 20% women on boards

(↑ 2016: 23%)



19%

have > 30% women on boards

(↑ 2016: 9%)

*Data for the 312 companies sampled as at 31 December 2019 and 31 December 2016

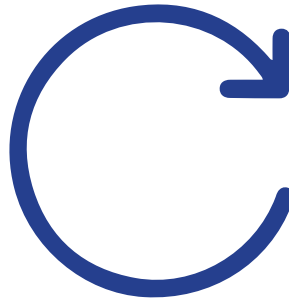
02. Age Diversity*

WHY AGE DIVERSITY

An age diverse board would consist of a good **mix of older and younger directors** spread across different generations which brings a holistic perspective to board discussions.

Fair representation of people from different age groups can introduce **fresh perspectives** and bring different life **experiences** to the boardroom.

Age diversity has been found to broaden debates within boards, **reduce the risk of groupthink** and stay **relevant** in the market.



60

Average age of directors
(2016: 59)

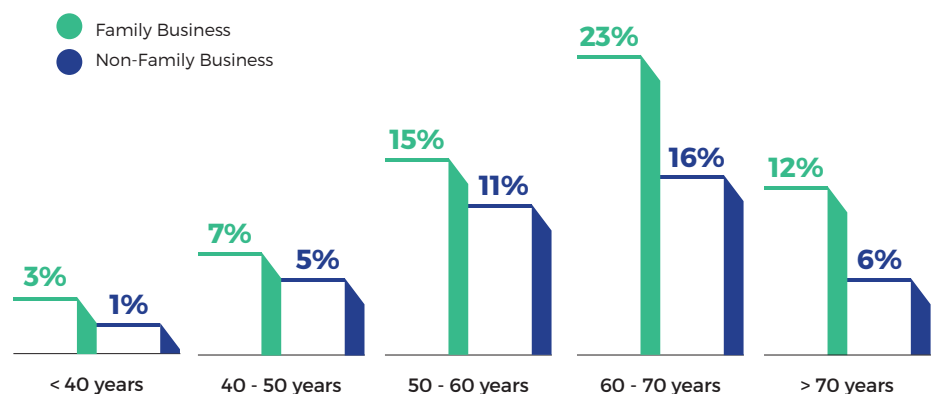


34%

companies with **two or more directors below 50 years old**
(2016: 38%)

39%

of directors aged **between 60-70 years old**



*Data for the 312 companies sampled as at 31 December 2019

03. Tenure Diversity*

WHY TENURE DIVERSITY

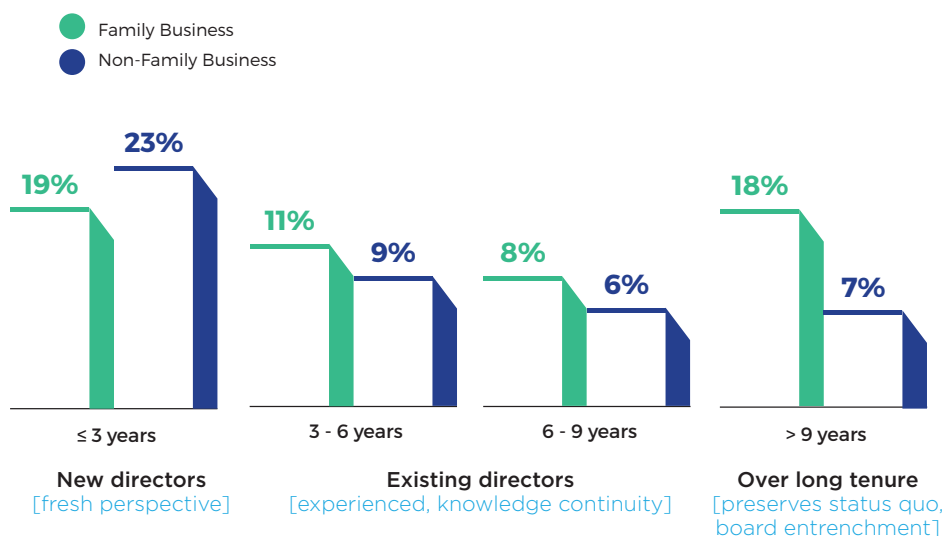
Tenure diversity is considered as an important component of effective governance and board monitoring.

A balance of directors with long and short tenures allows the board to benefit from senior directors' **knowledge continuity** whilst **mitigating the risk of groupthink and loss of independence**.

Having a wider tenure spread would indicate a more diverse **mix of senior and junior directors** on the board. However, research has shown that boards comprising of directors with overly long tenure tend to adversely impact company financial performance.

25%

companies with NEDs serving a tenure of more than 9 years, out of which 18% are from boards of family businesses



*Data for the 312 companies sampled as at 31 December 2019

04. Board Independence*

WHY BOARD INDEPENDENCE

A balanced board with independent and non-independent representation can **bring external expertise** and allows for **unbiased decision-making** that is **aligned with shareholders' interests**.



Average number of independent directors on boards

50%



54%

of boards have between 33% to 50% of independent directors



41%

of boards have an Independent Non-Executive Chairman



of boards comprise of more than 50% independent directors

*Data for the 312 companies sampled as at 31 December 2019

05. Cultural Diversity*

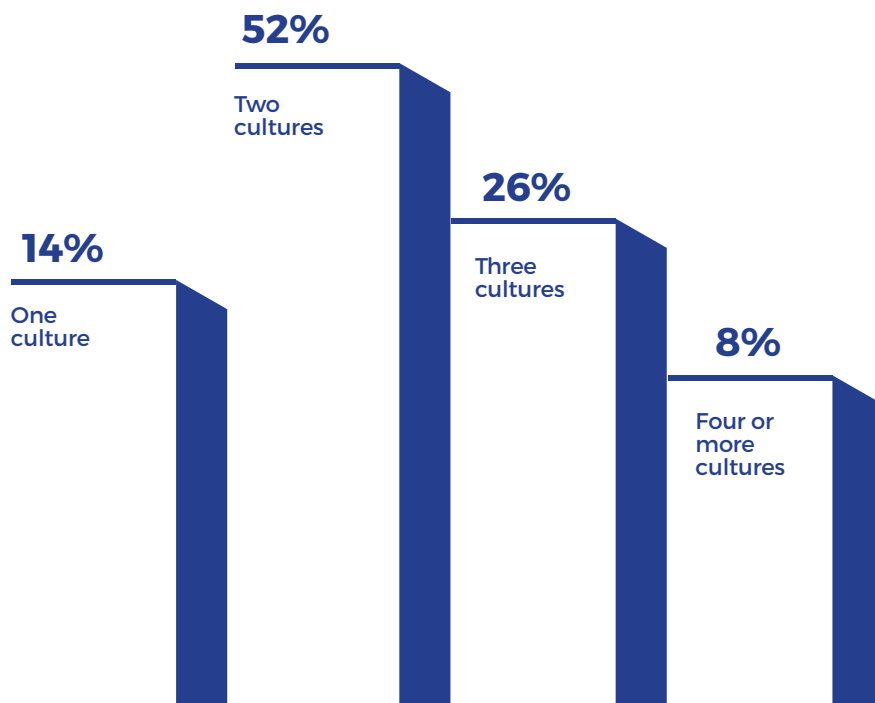
WHY CULTURAL DIVERSITY

Cultural backgrounds and values shape **individuals' perceptions and behaviour.**

Ethnically/culturally diverse boards benefit from:

- Broader range of thought/experience and reduced risk of cultural bias/prejudice, which **enhances quality of decision making**
- Better representation of and **sensitivity to stakeholders** from different cultural backgrounds

Number of cultures represented on boards



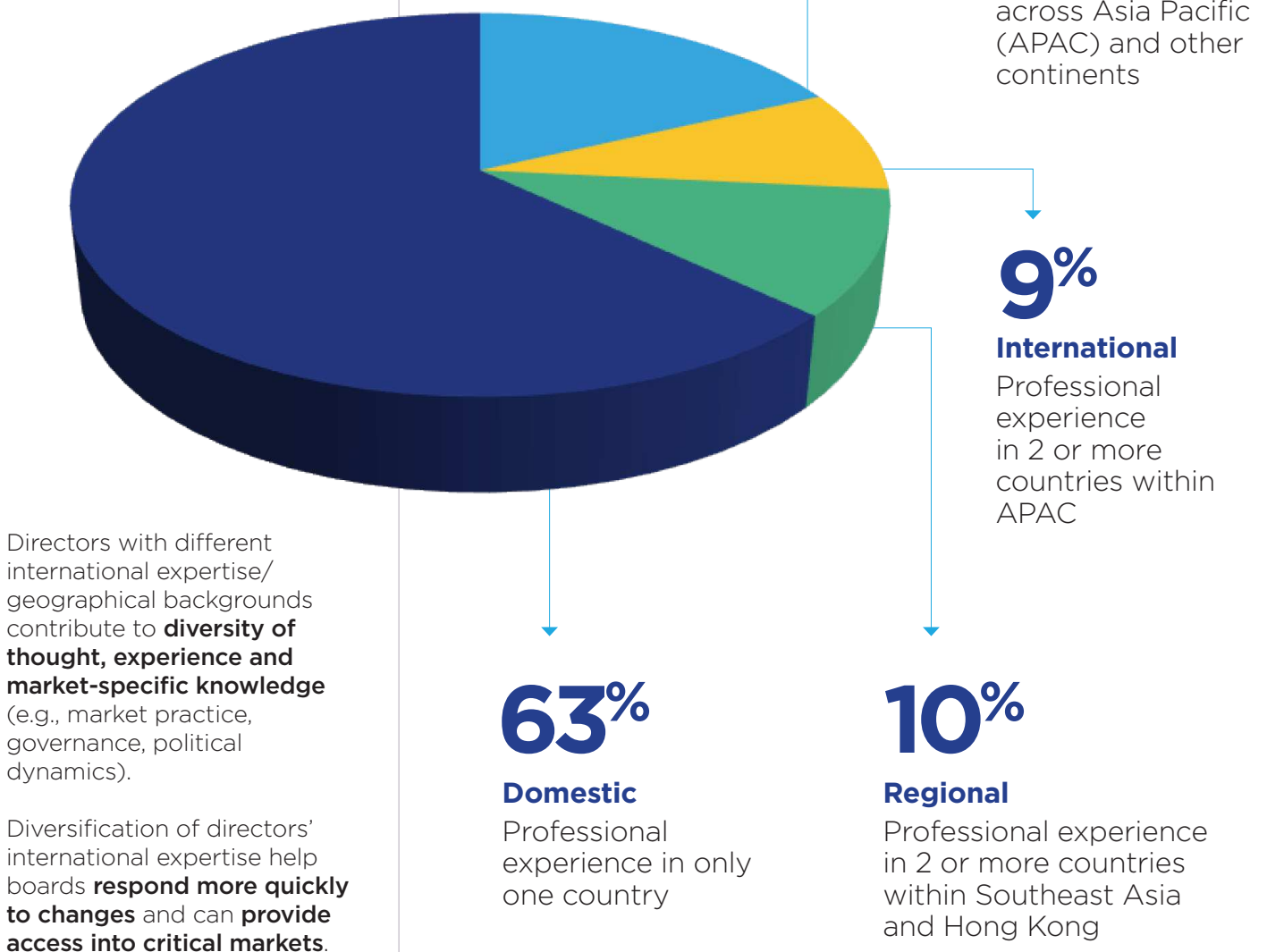
Note: Classification of ethnicity is based on the demographics classification as published by the Department of Statistics Malaysia.

*Data for the 312 companies sampled as at 31 December 2019

06. Diversity of International Expertise*

WHY DIVERSITY OF INTERNATIONAL EXPERTISE

International Expertise has been classified into four categories



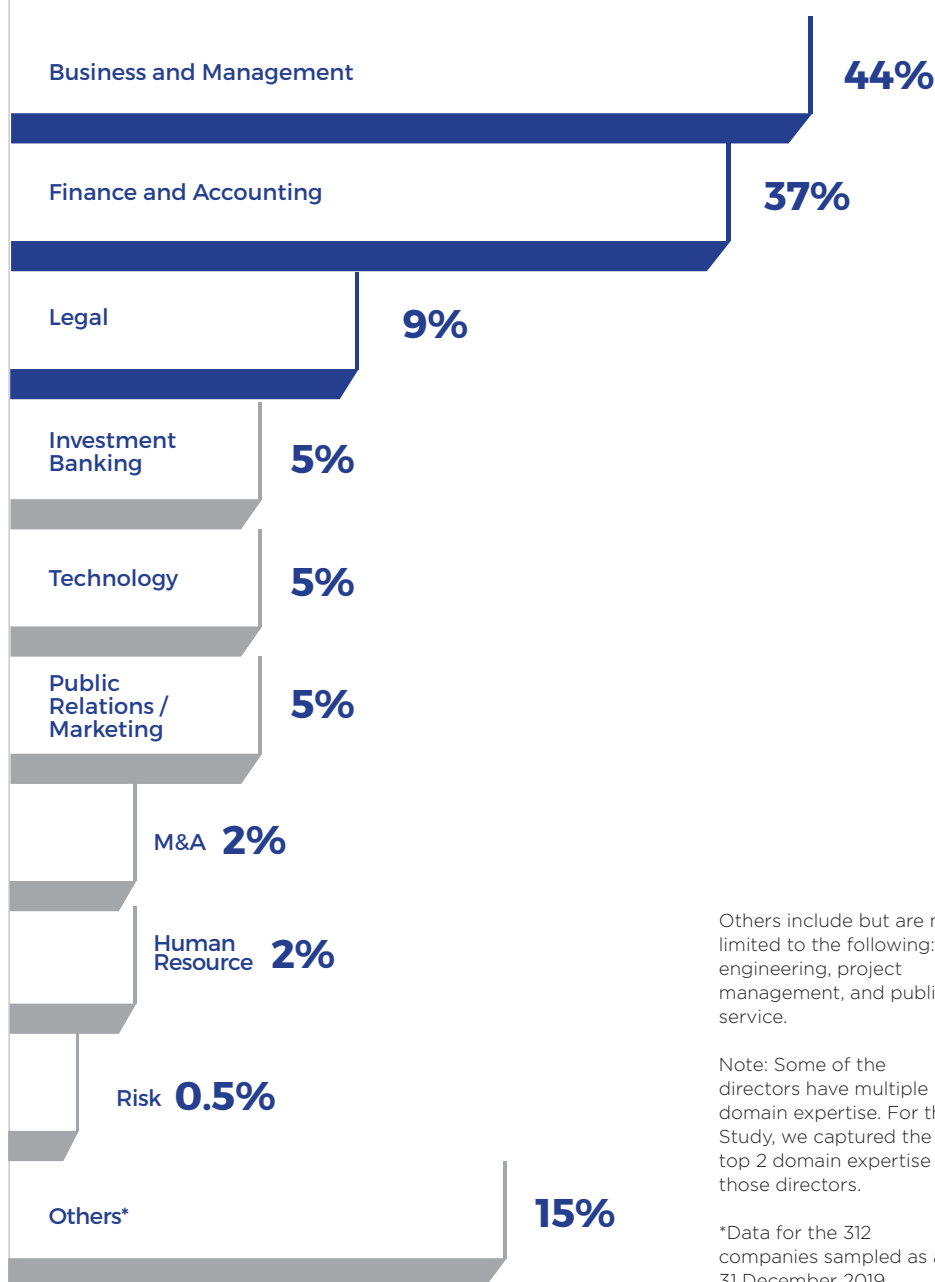
*Data for the 312 companies sampled as at 31 December 2019

07. Diversity of Domain Expertise*

WHY DIVERSITY OF DOMAIN EXPERTISE

Diversity of professional experience and background brings **greater resources to problem solving** and skills that **support the duty of boards to monitor corporate performance** and **provide strategic oversight** (e.g., risk, legal, finance and & accounting contribute to higher quality monitoring, management skills relating to advisory).

Domain Expertise has been classified into 10 categories



Others include but are not limited to the following: engineering, project management, and public service.

Note: Some of the directors have multiple domain expertise. For this Study, we captured the top 2 domain expertise of those directors.

*Data for the 312 companies sampled as at 31 December 2019

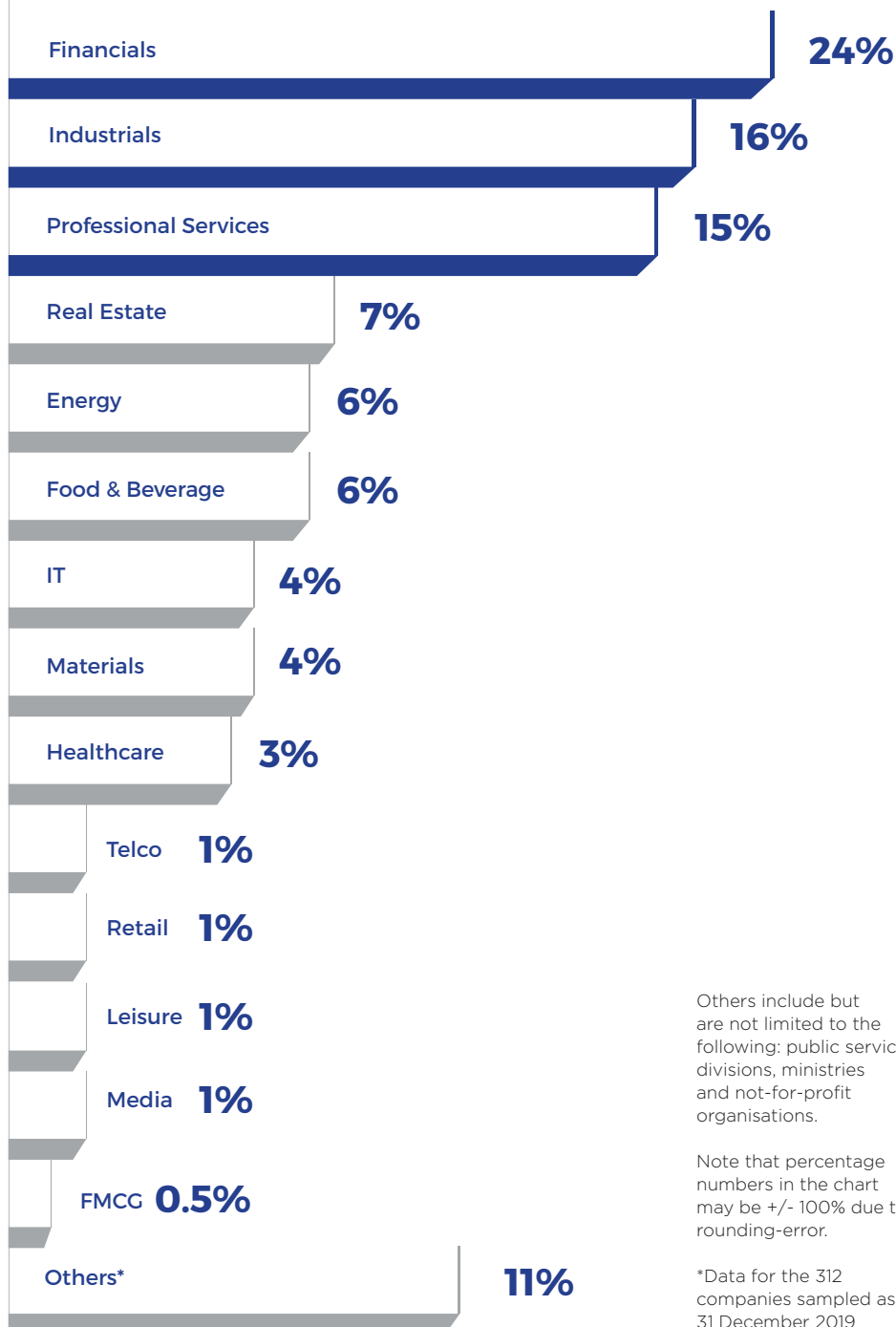
08. Diversity of Industry Expertise*

WHY DIVERSITY OF INDUSTRY EXPERTISE

The board is collectively accountable for the long-term success and financial soundness of the company, which requires directors to have **foresight, insight and oversight** of how an organisation is managed.

To add this level of **strategic value**, boards need to have diversity in its directors' **business knowledge** and **professional experiences**.

Industry Expertise has been classified into 15 categories





MALAYSIA BOARD DIVERSITY INDEX

03

The Index is created on a relative rank basis. Scores are assigned to companies based on their aggregate performance based on directors data as at 31 December 2019 against the eight key diversity dimensions with a 5-point scale each. Maximum total score is 40.

Top 10 Companies - Overall Score*

OVERALL TOP 312 BURSA-LISTED COMPANIES

Rank		
1	Axiata Group Berhad	32.1
2	Heineken Malaysia Berhad	32.0
3	PBA Holdings Berhad	31.3
4	Allianz Malaysia Berhad	30.8
5	IJM Corporation Berhad	29.8
6	Hai-O Enterprise Berhad	29.2
7	Media Prima Berhad	29.1
8	IHH Healthcare Berhad	29.0
9	Bumi Armada Berhad	29.0
10	Lotte Chemical Titan Holding Berhad	28.6

MEDIAN
21/40

*Based on directors data as at 31 December 2019

Top 10 Companies - by Market Capitalisation *

▶ LARGE-CAP (≥ RM2 BILLION) ◀

Rank		
1	Axiata Group Berhad	32.1
2	Heineken Malaysia Berhad	32.0
3	Allianz Malaysia Berhad	30.8
4	IJM Corporation Berhad	29.8
5	IHH Healthcare Berhad	29.0
6	Bumi Armada Berhad	29.0
7	Lotte Chemical Titan Holdings Berhad	28.6
8	Dutch Lady Milk Industries Berhad	28.0
9	Hartalega Holdings Berhad	27.8
10	Malaysia Airports Holdings Berhad	27.8

MEDIAN
23/40

▶ MID-CAP (RM1 BILLION – RM2 BILLION) ◀

Rank		
1	Hap Seng Plantations Holdings Berhad	26.3
2	Tropicana Corporation Berhad	25.6
3	Aeon Co. (M) Bhd	25.3
4	Pos Malaysia Berhad	24.5
5	7-Eleven Malaysia Holdings Berhad	24.3
6	TMC Life Sciences Berhad	24.2
7	Malaysia Marine and Heavy Engineering Holdings Berhad	24.1
8	Taliworks Corporation Berhad	23.8
9	GDEX Berhad	23.7
10	Ranhill Utilities Berhad	23.4

MEDIAN
20/40

▶ SMALL-CAP (< RM1 BILLION) ◀

Rank		
1	PBA Holdings Berhad	31.3
2	Hai-O Enterprise Berhad	29.2
3	Media Prima Berhad	29.1
4	Pharmaniaga Berhad	27.7
5	Karex Berhad	27.4
6	Hektar Real Estate Investment Trust	27.2
7	Manulife Holdings Berhad	26.8
8	Berjaya Food Berhad	26.7
9	Redtone Digital Berhad	26.3
10	MCT Berhad	26.1

MEDIAN
19/40



*Based on directors data as at 31 December 2019



Board diversity brings different perspectives and experience to the board's deliberations, but good corporate governance is a continuous process and reflective of overall board proceedings.

Spotlight on Gender Diversity *

HIGHEST % OF FEMALE DIRECTORS ON THE BOARD		
		% of Female Directors
1	DiGi.Com Berhad	50
1	Berjaya Corporation Berhad	50
1	Hong Leong Capital Berhad	50
1	Petronas Gas Berhad	50
1	Tenaga Nasional Berhad	50
1	Hong Leong Financial Group Berhad	50
1	Mah Sing Group Berhad	50
1	Malaysia Airports Holdings Berhad	50
9	MNRB Holdings Berhad	45
10	TA Global Berhad	44
10	Allianz Malaysia Berhad	44

*Based on directors data as at 31 December 2019



CORRELATION OF BOARD DIVERSITY TO COMPANY PERFORMANCE

04

A well-constituted Board is better placed to achieve sustainable financial performance

Business Case for Board Diversity

Diversity on boards has been a topic of growing interest.

The ambition for more diverse representations in boardrooms has been championed by many, including the 30% Club Malaysia which was launched in 2015 to inspire sustainable business-led voluntary change to support gender diversity on boards. With this effort, we see a slight improvement in the number of companies with at least 30% female directors on boards¹ - from 9% in 2016 to 19% in 2019.

However, as highlighted in the earlier part of this Report, true board diversity goes beyond just gender. Companies must meet the needs of various stakeholders, including shareholders, employees, customers, supply-chain partners, communities and the environment. The ideal way to represent a

diverse group of stakeholders is a well-constituted governing board comprising directors who provide diversity of thought, experiences, and perspectives. In this regard, it will be meaningful to expand the definition of diversity to cover board independence, as well as age, tenure, culture and expertise.

Apart from coming up with the Board Diversity Index, we examined over 300 top companies with primary listings under Bursa Malaysia against these multiple dimensions of board diversity.

To assess the business impact of board diversity, we tested whether companies with diverse boards performed better financially. The premise being that having a diverse mix of NEDs may lead to avoidance of group-think, constructive debates, and in turn, better decision making on boards.



Overall, we observed that a well-constituted board is better placed to achieve sustainable financial performance across key financial performance metrics

1

Return on Equity (ROE)

measuring operational performance

2

Revenue Growth

3

Price to Earnings (P/E) Multiple

an indication of market valuation premium

4

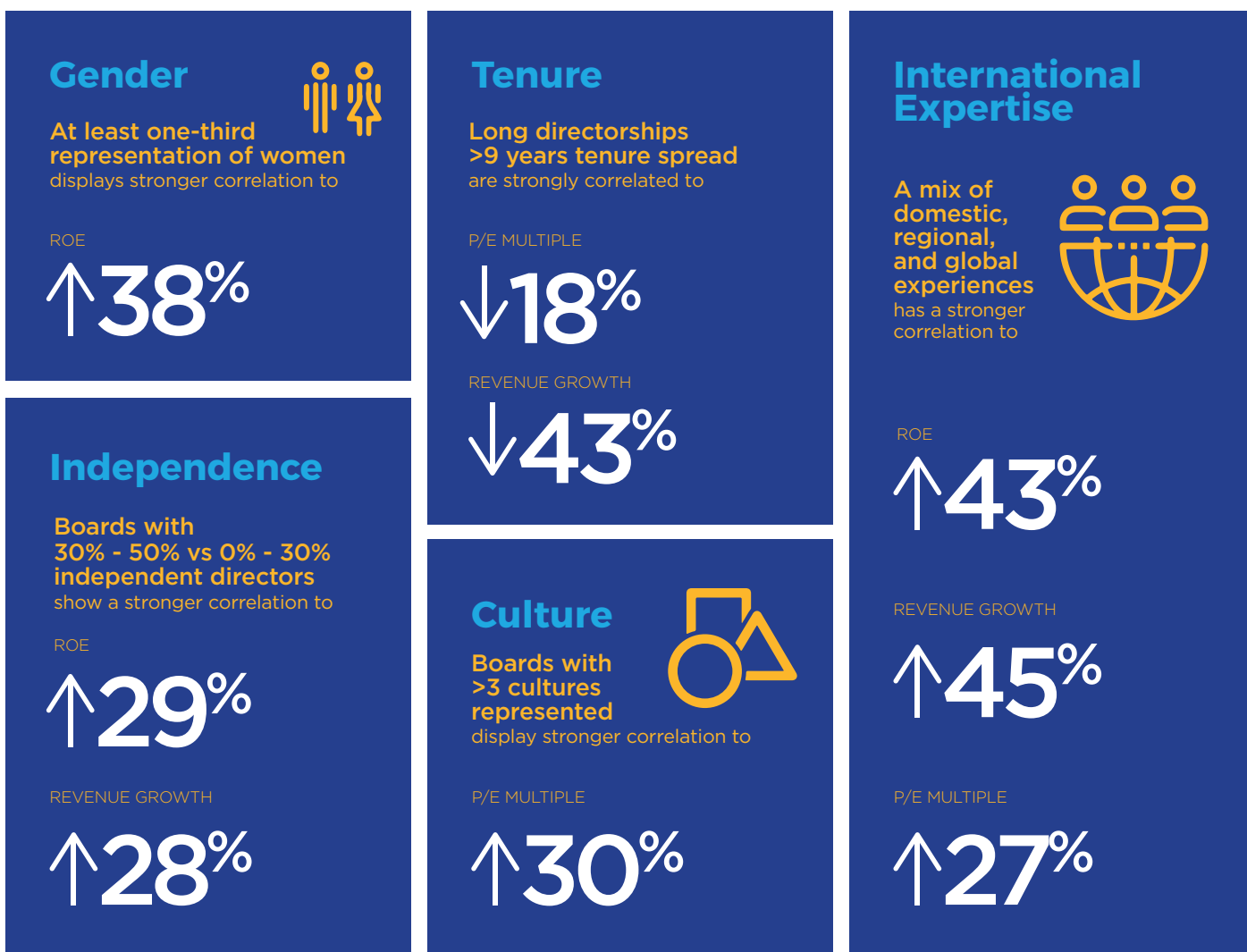
Total Shareholder Return (TSR)

1. Boards of the top 312 Bursa-listed companies sampled in this Malaysia Board Diversity Study.

A well-constituted board is better placed to achieve sustainable financial performance

Our observation of the top 312 Bursa-listed companies over the past three years (2017-2019) suggests a strong relationship between the following board diversity attributes and company financial performance.

Please note that this Study only measures correlations and not causality. We are not claiming that a diverse board automatically guarantees good financial performance; and conversely we are not claiming boards that are not diverse will necessarily report poor financial results. Our Study simply examines the correlations between companies that have exemplary diversity attributes and their corresponding financial performance. This Study is based on data for time-period from 2017-2019.



Note: All financial indicators and board diversity attributes reflected in this report are based on the median of the top 312 Bursa-listed companies sampled, over the performance period of 2017 to 2019.

A well-constituted board is better placed to achieve sustainable financial performance

Gender diversity

Gender diverse boards with a mixed representation of male and female directors can bring different perspectives and approaches to stewardship and risk-reward orientation to the table, which in turn enhance the quality of board decisions made.

In 2019, 19% of Malaysian board seats were held by women, an increase from 2016's 14%. However, there is still much room to enhance the current gender representation on Malaysian corporate boards.

Our Study has shown that boards with at least one-third women representation correlates with 38% higher median ROE than boards with no women representation. A larger representation of women seems to suggest more inclusive boards.

Board independence²

A balanced board with independent and non-independent representation allows for more considered decision-making. Independent board members can bring external expertise and are more likely to make decisions aligned with all stakeholders' interests.

We observed that boards with 33% - 50% independence correlates to better financial performance with 29% higher ROE and 28% higher revenue growth compared to boards with 0% - 33% independence, thus supporting the hypothesis that boards with an optimal balance between independent and non-independent representation are likely to outperform others.

Age diversity

An age-diverse board with a good mix of older and younger directors can bring holistic perspectives to the boardroom. Representation of varied age groups has been found to broaden debates, reduce the risk of groupthink and allow businesses to stay relevant in the market.

In Malaysia, we observed that board of family-founded businesses tend to have a higher diversity in age, where succession planning has provided opportunities for younger directors to participate in boardroom discussions.

While we did not observe a significant correlation between age spread and company financial performance in this study, we still see the importance of a balance between younger directors who can bring fresh ideas and older directors who often offer a wealth of experience which enhance company's performance. This view is also supported by past studies from the 2019 Willis Towers Watson Singapore Board Diversity Study³ and others.

Tenure diversity

Boards benefit from the fresh ideas and experiences of newly appointed directors, balanced with the institutional knowledge and continuity provided by long-serving directors. A healthy balance between the two allows for more measured decision making, and consequently stronger company performance.

Our Study shows that boards comprising of directors with overly long tenure (i.e. boards with tenure spread of above nine years) exhibit 43% lower revenue growth and 18% lower P/E multiple as compared to companies with smaller tenure spread.

Cultural ethnicity

Cultural backgrounds and values shape individuals' behaviours. Culturally diverse boards benefit from broader range of experiences, reduced risk of cultural prejudices, and sensitivity to stakeholders from different cultural backgrounds.

Malaysian boards have done particularly well in this regard with over 80% of companies having two or more cultures. A strong link can be drawn between cultural diversity and performance. Companies that have directors from more than three different ethnic backgrounds show stronger correlation with higher P/E multiple.

Expertise diversity

Having board members with a broad range of expertise can help the board respond more quickly to changes, provide different experiences and expertise for sound decision making, and even provide access into critical markets.

We see that a good mix of directors with domestic, regional, and global experiences correlates to higher financial performance. Particularly, boards with stronger international expertise performed 43%, 27%, and 45% higher than their peers in terms of ROE, P/E multiple, and revenue growth respectively.

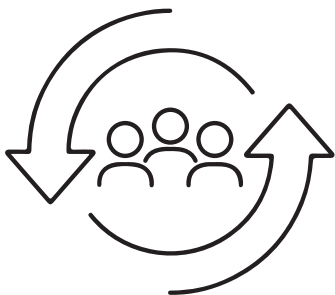
2. The Bursa Malaysia Main Market Listing Requirements (LR) requires all companies to have at least 2 directors or 33% of the board to be independent. In addition, the Malaysian Code on Corporate Governance 2017 (MCCG) recommends that independent directors comprise at least half of the board. For large companies, a majority of the board.

3. The study showed a strong relationship between company performance and age differential among board members, where companies with at least one generation difference tended to outperform in terms of ROE, P/E multiple and revenue growth. Willis Towers Watson. Singapore Board Diversity Study, 2019.

MOVING FORWARD

Diversity on boards is increasingly, and deservedly, gaining prominence across the world. Directors with diverse backgrounds bring diversity of thought and experiences to the board's deliberations, which in turn leads to more considered decision making and enhanced business performance. Furthermore, having a diverse board avoids groupthink, helps increase social acceptability, and in turn helps ensure that the board conducts itself appropriately.

It is hence important for Malaysian companies to critically and periodically review their board composition to work towards a truly diverse board. This can start from challenging the traditional ways of sourcing for directors (i.e. through independent sources rather than through personal networks) and focus on evaluating directors through a holistic assessment of their skills, experiences, and diversity of thought.



Four key actionable steps for Malaysian boards

Relook at your board architecture

Board refreshment may be necessary, especially with overly long tenure directors and consideration for additional independent non-executive directors. A board skills matrix analysis may also help determine the skill gaps needed to be filled.

Look beyond your inner circle for new board candidates

Start utilising independent and unconventional sources to identify suitably qualified candidates. You may get a wider and more diverse pool of candidates to choose from.

Evaluate your board effectiveness

The Nomination & Remuneration Committee to assess whether the current board mix is aligned to your organisation's future growth strategy.

Constantly acquire new skills and knowledge

Refresh your knowledge, keep up with the latest trends, issues and developments that may impact you and your organisation so you can better contribute at your board(s).

Many of us intuitively know that diversity is good for business; and the case for establishing a truly diverse workforce across all organisational levels, grows more compelling each year. However, the practice within Malaysia still varies quite significantly. Companies have the transformative power to change and contribute to a more open, diverse and inclusive society.

Institute of Corporate Directors Malaysia (ICDM)

Institute of Corporate Directors Malaysia (ICDM) is the one-stop centre for all board and director needs, dedicated to empowering boards and directors with the right skills, knowledge and mindset to enhance their professionalism and effectiveness. Spearheaded by the Securities Commission Malaysia and supported by Bank Negara Malaysia, Bursa Malaysia and the Capital Market Development Fund, ICDM serves as the national institute of directors and aims to be the leading influence of excellence in governance.

www.icdm.com.my

Willis Towers Watson (WTW)

Willis Towers Watson (WTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas - the dynamic formula that drives business performance. We provide expert, strategic and research-driven executive compensation and governance advice to help boards balance talent and risks and drive business performance. Together, we unlock potential.

#TalktoUs

Tailor a Bespoke Programme that drives specific results. jackie@icdm.com.my

Meet your MCCG needs with a candid and objective-driven Board & Director Effectiveness Evaluation. haniza@icdm.com.my

Sourcing of your Independent Non-Executive Directors stops here. dianaseow@icdm.com.my

ICDM membership supports your directorship journey and board needs. zafril@icdm.com.my

Voice your burning issues and key challenges faced by boards. vivian@icdm.com.my

Email info@icdm.com.my

Homepage www.icdm.com.my

Linkedin www.linkedin.com/company/icdm-malaysia

Twitter www.twitter.com/icdmalaysia

Institute of Corporate Directors Malaysia (1239276-V)

Unit 9-01 & 9-02, Level 9, Mercu 2, No 3, Jalan Bangsar
KL Eco City, 59200 Kuala Lumpur, Malaysia

T: +603 2202 2022 F: +603 2202 2023

The information contained in this report is provided for general information purposes only and is not intended to constitute an alternative to professional advice. Although ICDM and WTW have endeavoured to ensure that the content of this report is accurate, users of this report should seek appropriate professional advice before taking any action in relation to any information contained within.

©2021 ICDM & WTW. All rights reserved.