Board Matters Quarterly

Board Matters Quarterly offers thought-provoking perspectives and insights into leadership and governance issues for boards and audit committees, supporting them to navigate the increasingly complex business environment.

1. Strategy oversight in the digital age
2. Why women on boards matter

The EY Center for Board Matters helps directors navigate complex roles in the Transformative Age and ask the right questions.

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Can boards have the right answers if they don’t ask the right questions?

The better the question. The better the answer. The better the world works.
Digital disruption has led to a confusing tapestry of technologies and an explosion of fragmented systems within organizations. In the rush to deliver new experiences to customers, businesses also face near-constant threats from cyber attacks, forcing the need for security measures to protect data and systems.

To unlock the potential with digital technology, boards must better understand the rapidly evolving digital landscape; promote a mindset shift and endorse investment in supporting technology and embed analytics in the business; and recalibrate strategies, structures and leadership models to thrive sustainably in the new superfluid world.
Understanding the digital landscape

Driving data agility

The transition to a forward-looking organization requires a mindset shift and the board’s endorsement to invest in supporting technology and embed analytics in the business.

Data analytics allows for business insights across a range of scenarios: descriptive analytics, to understand issues retrospectively; predictive analytics, using past data for future planning; and prescriptive analytics, planning for the future with specific sets of objectives and constraints.

Many companies still share spreadsheets via email for budgeting, planning and forecasting. The drawback of this approach is that information is not integrated, with inconsistent definitions and classifications, creating unnecessary bottlenecks and delays in reporting, analysis and decision-making.

A centralized Enterprise Performance Management (EPM) system gives CFOs and ACs the ability to plan and improve performance, and enhance budgeting and forecasting by triangulating data from multiple internal and external sources. Data visualization allows for large volumes of data to be delivered to CFOs and subsequently, to be processed and presented clearly and logically to the ACs. The advantages of cloud-based EPM include fewer errors compared to manual intervention, greater flexibility in financial analysis and increased collaboration. The result is a finance team primed for higher-value work.

With compliance deadlines getting shorter and stricter, and increasing risks at all levels of the business, stakeholders such as shareholders and regulators that are consuming reports expect nothing less than succinct and pointed information on key issues and indication of next steps. Cloud and mobile-based technologies can offer 24/7 connectivity to every part of the business, and accessibility to financial systems and real-time reporting.

Combining control methods and data analytics to monitor key financial and reporting processes across the organization will also allow boards to move from isolated and manual control monitoring to a more comprehensive approach.

With data agility, boards will have right insights to make decisions fast for the future, offering businesses the opportunity to respond quickly to their strategic, investment and expense plans when the data is not trending in the expected trajectory.

Changing the game

With digitalization being one of the most profound business game-changers, now is the time for boards to recalibrate strategies, structures and leadership models to thrive sustainably in the new superfluid world.

Boards may assume that they need heavy capital investment in technology and large teams to get started on a digital transformation program. However, being digital is not about IT, but about taking on a fluid and agile mindset that is focused on innovation, using technology as an enabler. Organizations tend to apply digital transformation to customer experiences while sidelining significant opportunities in operations, such as applying blockchain in smart contracting, artificial intelligence in forecasting, and robotics in order management automation.

As boundaries evolve with disruptions, the private and public sectors increasingly have a symbiotic relationship, with companies moving from being reactive to becoming integral to the formation of regulations and policies.

This spirit of collaboration extends to keeping an open mind on partnering - established businesses are now more open to invest in start-ups to rapid-test business models and technology for the best fit. Partnerships with complementary peers or competitors are also on the rise with sector convergence.

Better questions for better outcomes

With new and evolving technologies disrupting business models and entire industries, which are converging at an unprecedented rate, it is incumbent upon boards to make sure that technology is integrated into strategy development. Understanding the technology landscape and emerging trends, as well as the benefits of a customer-first and purpose-led digital strategy, can position the board to ask better questions of management. Importantly, today’s world of digital disruption may also prove disruptive to the board itself, requiring a new operating model that is agile, customer-obsessed and committed to change.
Why women on boards matter

For too long, including women on boards has been viewed as a “nice-to-have”, something to check diversity boxes, rather than as a strategic imperative that elevates the board’s cognitive functioning. However, the fact that the percentage of women on boards has been on an increasing trend suggests that organizations are taking action because it’s good for business. Whether it results in improved responsiveness to stakeholder groups or improved quality of group decision-making, it is becoming more and more apparent that greater gender diversity at the board level leads to several strategic advantages.

Organizations with the ability to innovate quickly, reach new customer bases faster and drive value have one thing in common: their board reflects the world around them. However, these organizations tend to be few and far between, resulting in many organizations and their boards overlooking a strategic opportunity to drive value.

In tune with global markets and stakeholder expectations

The fact that the percentage of women on boards has been on an increasing trend suggests that organizations are taking action because it’s good for business.

One benefit of a gender diverse board is greater alignment with global market expectations, from investors to consumers. When considering consumer spending, women’s purchasing power translated as an emerging market is estimated to represent about $16 trillion in global income, larger than China and India combined.

And yet organizations have been slow to reflect the demographics of their consumer base at the highest decision-making level - including in the boardroom. It is important to note that when it comes to reaching out to an increasingly purpose driven consumer base, purpose and parity go hand-in-hand, and businesses that fall behind on either one will fail to achieve their untapped potential.
Stronger decision-making

Research proves that a more diverse group will come to a better decision than a more experienced or better educated, but more homogenous one. Sometimes it is merely the presence of a newcomer with a new perspective that allows the existing group to voice opinions it might otherwise hold back on. No doubt, customer research and data are still critical sources of management information and while increasing the gender diversity of your board doesn’t replace this, it does allow you to become more in tune, agile and effective in your ability to interpret and act on that information.

Having said that, in order to fully realize the benefits of a truly diverse board, you need at least 30% of the board to be made up of any minority group.

Better diversity, better outcomes

In 2015, women held just 15% of board seats in global organizations. Of those organizations, just 20% of them had a board makeup of at least 30% female board members. The figure of at least 30% women on boards was subsequently established as the benchmark for maximizing the potential of board diversity, as organizations that met or exceeded that benchmark added six percentage points to their net margins.

Walking the talk

In order to claim to be a brand that supports women, you need to reflect that on your board, otherwise you run the risk of alienating your customers who want to buy from brands that reflect their own purposes and values. Valuing diversity is not just about what you say but also about what you do, and if boards can’t answer how they’re addressing that, they could be putting their reputation at risk.

Blockers to greater diversity

A number of countries have adopted gender diversity quotas or alternative approaches to increase women representation on boards. In Malaysia, a requirement of 30% women representation on corporate boards is incorporated in the Malaysian Code on Corporate Governance which public-listed companies in Malaysia must comply with.

However, questions often arise around the number of qualified women for the available roles, or the experience level of those hired to perform at the board level. What is important to understand is that as with other leadership roles, director positions need to be considered in light of what is missing within the current set of directors in terms of experience and knowledge, and what will help the organization move forward. Traditional job descriptions and expectations that require a director to be a sitting CEO automatically limit the pool of resources and perspectives that will help drive innovation and agility.

To maximize the benefits of diversity and the ability to innovate, boards must create a culture that is inherently open to dissent and discussion, and be committed to advancing change on the board agenda. If your board today still looks as it did even 20 years ago, then you should question where else in your organization you may have failed to keep pace with the changing times, and what else is at risk as a consequence.

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