THE UNIVERSITY OF SYDNEY

Sydney Southeast Asia Centre

Gender participation and influence in corporate governance networks

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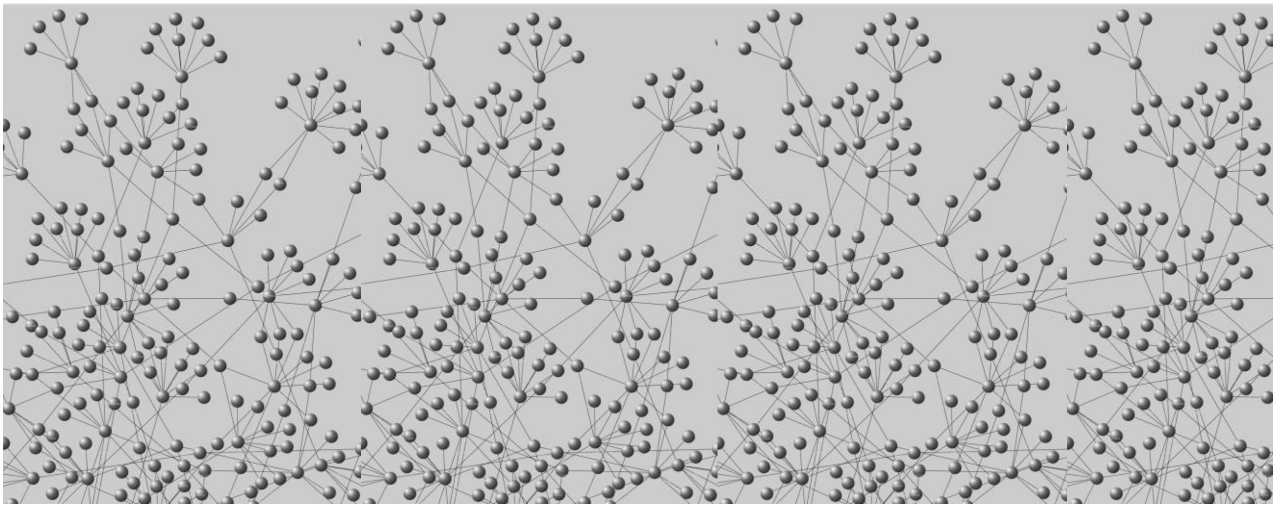

Corporate governance involves efforts to ensure that corporate objectives are met, and that the interests of shareholders and other corporate stakeholders are upheld.

Given the significant accountability of corporate boards for the management and control of capital, studies have explored the implications of board composition and diversity on outcomes such as risk, decision-making, corporate social responsibility practices, and firm performance, among others.

Strong boards are also seen to exert significant influence on corporate culture and organisational management practices. In light of the size and scope of some of the largest corporations in the world, the influence of corporate boards on the domestic and interconnected global economy cannot be underestimated.

Principles of corporate governance

Historically guided by regulatory frameworks, and heavily influenced by cultural norms and social expectations, corporate governance philosophies, policies and practices differ across countries.

Globalisation pressures along with the devastating effects of major economic crises and corporate scandals, however, have prompted efforts to increase the transparency of corporate governance practices, raise the level of accountability of corporate boards, and standardise governance principles around the world.

In spite of these early efforts, cross-country differences remain and there continues to be significant opportunity to further understand the nature and impact of these differences in the areas of theory, policy, and practice.

The task of governance lies with the company's board, composed of both shareholder representatives and independent directors. One important point of difference in governance practices across countries pertains to how boards are structured.

Countries such as Australia and the United States adopt a **sole board structure** (where the responsibilities of both management and control are undertaken by a single corporate board). Others such as Germany and the Netherlands adopt a **dual board structure** (where the control function is undertaken by a supervisory board alongside a separately-constituted management board). A third group of countries (including France and Switzerland) adopt a **mixed board structure,** combining elements of the sole- and dual-structure varieties.

The case of the Philippines

Reflecting its largely American influences, corporate governance structures in the Philippines are characterised by a single board, tasked with both control and management functions.

The Philippines has a long history of corporate regulation, beginning with the introduction of the Philippine Corporation Law in 1906 during the American occupation. The country does not have legislation that is specific to corporate governance, but the corporate governance policy framework is mainly embodied in the Philippine corporation code. Policy and practice are also guided by related regulations on securities, banking, and financial institutions.

The corporation code has undergone major changes and reforms since its introduction. There were reforms that were introduced in the wake of the Asian financial crisis in 1998 mainly pertaining to greater transparency and mandatory disclosure of related interests. Following the 2008 global financial crisis, further reforms have been introduced, increasing the accountability of directors.

The Philippines' top 100 corporate boards

To characterise the typical composition of corporate boards in the country, data from the Philippines' top 100 companies was analysed. The companies represent the largest publicly-traded corporations ranked according to 2015 market capitalisation. There are 27 industries represented among the top 100 corporations, with the three largest industry groups being major diversified conglomerates (18 companies), financial services (13 companies), and real estate investment (12 companies). Data shows that a total of 690 directors serve on the boards of the major corporations in the country. A company typically appoints ten directors to its board, with the smallest board composed of five directors and the largest composed of 16 directors.

Gender participation in the board of directors

Of all the directors that serve on the top 100 corporations, only 103 (or around 15%) are women. On average, women tend to comprise around 13% of the Board of Directors of individual companies. Notably, however, 30% of the companies have boards that are composed only of men. While this proportion is lower compared to some other Southeast Asian countries, there remains significant opportunity for companies to increase gender participation and reap the benefits of greater gender balance in corporate boards in the country.

Industry differences

The data further shows that there are industry differences in gender participation on corporate boards. On average, women comprise around 11% of directors in the major diversified conglomerate boards, 14% of directors in the real estate investment boards, and 16% of directors on financial services boards.

Not only do the major diversified conglomerates have the lowest participation rate of women on corporate boards, but they also have the most number of companies (9 out of 18 corporations) with all-male boards. There is only one real estate investment company and one financial services company with no women directors.

Corporate governance networks

Previous studies elsewhere have shown that companies tend to share common directors, resulting in interlocking boards. The data shows that in the Philippines, the corporate governance network of the top 100 corporations is highly clustered. There are only five companies whose boards are completely disconnected from all the other boards of the major corporations in the country.

There are two small clusters of two companies each, sharing one or two common directors. However, the data shows that the vast majority of the top corporations in the country form a very large network of interconnected boards.

Connectedness and 'betweenness'

The formation of corporate governance networks can be attributed to directors who sit on multiple boards. The number of boards on which an individual sits (i.e., a director's connectedness) is a key indicator of network position.

From a network perspective, greater connectedness implies greater importance in terms the role of keeping the network together.
Within the specific context of corporate governance, greater connectedness also points to more opportunities to control greater amounts of capital. This signifies importance of a different, but equally crucial kind.

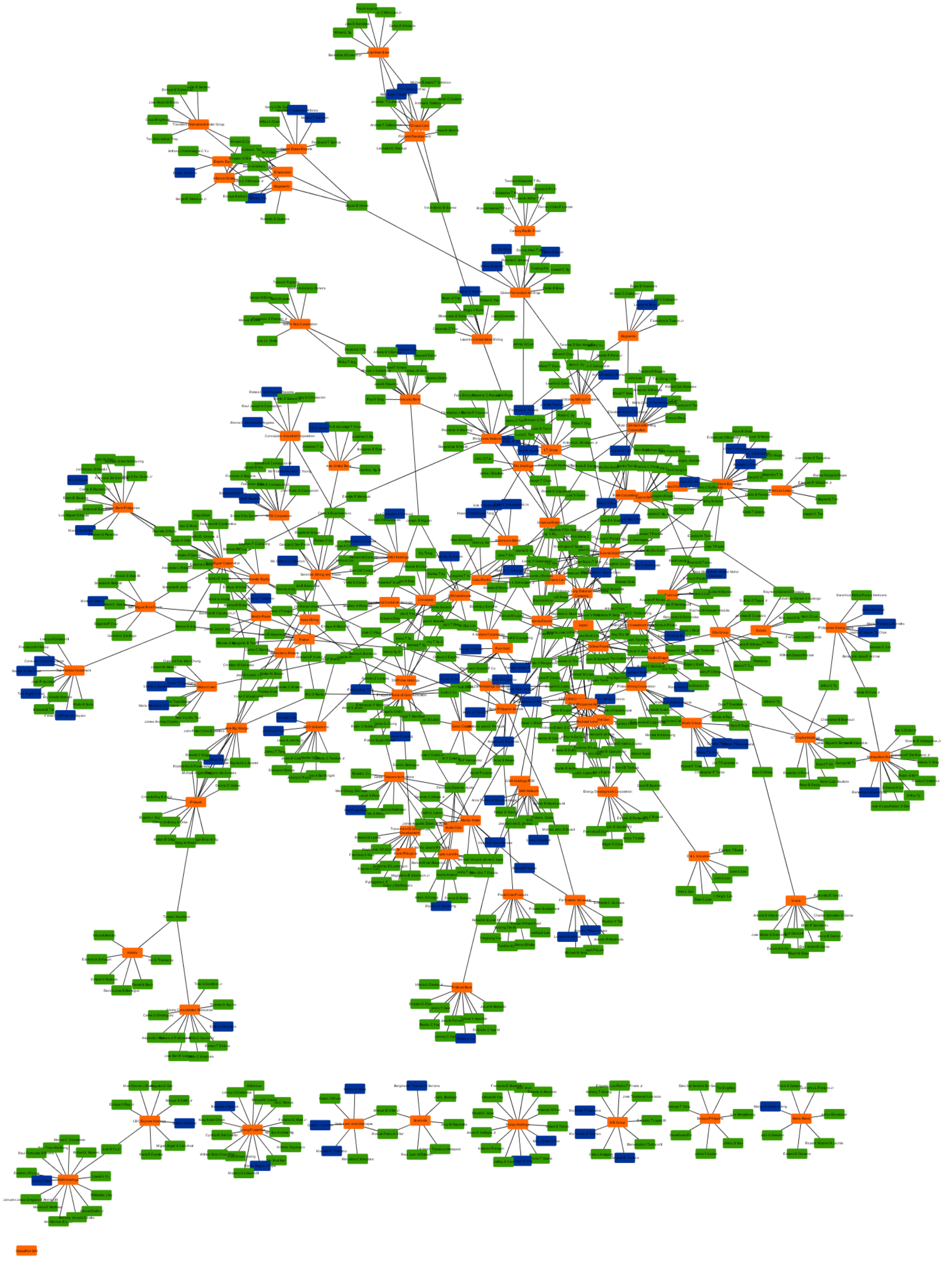

Image: 2015 board interlocks in the Philippines (where blue boxes are women directors)

The data shows that in the Philippines, close to 25% of the corporate directors (a total of 161 individuals) sit on at least two boards. Of these most connected directors, only 17 (or around 11%) are women.

Men occupy the most important connected positions in the network: the most connected male director sits on 11 boards, and there are 30 men who are members of between four and seven boards. In contrast, the five most connected women directors each sit on three boards. There are 12 women who sit on two boards, while the rest of the women hold only one directorship.

An alternate indicator of network importance pertains to the ability of an individual director to connect two or more companies that would not have otherwise had a connection (that is, a director's betweenness). Greater betweenness implies a greater ability to both gain access to and control information flows in the network. A ranking of all the directors in the network according to their betweenness scores reveals that the most influential woman is ranked at 28th place. The data shows that 90% of the most influential directors in the network are men.

Implications

The highly connected nature of the Philippines's corporate governance structure has important implications on the vulnerability of the corporate sector to crises. The data suggests that the control and management of capital may be concentrated in the hands of a few highly connected and influential directors.

On the one hand, the disadvantages of a highly connected and clustered corporate governance network include the potential speed of crisis contagion throughout the network. There may also be limited opportunities for risk and portfolio diversification for investors, given the highly concentrated nature of capital control and management.

On the other hand, the advantages of having a highly connected corporate governance network are associated with the speed at which information is
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able to travel through the network. A tightly-knit network structure is particularly helpful in the early detection of potential crises, and in developing proactive responses to risk and crisis management.

There is also a significant opportunity to harness the connectedness of the network for purposes of sectoral change and reform. Effecting change may be particularly effective by specifically eliciting the support of directors that have the highest levels of connectedness and betweenness in the network.

While the participation of women in corporate boards is higher in the Philippines compared to other countries in Southeast Asia (including Singapore and Indonesia), there continue to be significant opportunities to further improve gender diversity in the management and control of capital in the country.

Previous studies elsewhere have found higher levels of gender diversity at the board level to have positive effects on stock value and profitability, among others. This may be attributed to improvements in decision-making processes that come about as a result of the board having more a more diverse set of skills, experiences and perspectives to draw upon.

As in other Southeast Asian countries, the Philippines's corporate sector must proactively put in place measures to increase gender participation in order to reap its benefits, while continuing on its path of corporate governance regulation reform and enforcement.

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