

Company boards are stacked with friends of friends so how can we expect change?

Written by Sherene Smith, PhD student, RMIT University

Social connections drive board appointments and more than two-thirds of directors in the 200 largest public companies are on the board of multiple companies. So whoever replaces ex-AMP chairwoman Catherine Brenner will likely be drawn from a small pool of people.

Brenner [resigned](#) after the Financial Services Royal Commission heard AMP had misled regulators, among a number of other scandals.

Treasurer Scott Morrison [expects more resignations](#) at the Commonwealth Bank [following a damning report from the banking regulator](#)

I've interviewed directors, as well as looked at data from [ongoing surveys of Australia's top 200 public companies](#), and found there aren't a lot of outsiders.

Read more: [***There's no evidence that income management works ... so why introduce it?***](#)

We can see this anecdotally as well. ANZ chairman [David Gonski](#) is a [mentor to ex-AMP chairwoman Catherine Brenner](#). Gonski [was also chairman](#) of Coca-Cola Amatil when Brenner [was appointed to the board in 2008](#).

Meanwhile Brenner's [sister-in-law](#), Maxine Brenner, [sits on the boards](#) of Orica Ltd, Origin Ltd and Qantas Airways.

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The corporate governance crisis in Australia will not be solved by [greater gender diversity on boards](#) or director independence given how many directors sit on multiple boards and how important social connections are to get there. It shows there truly is no diversity or independence on Australian company boards.

Board diversity is barely improving

Women held [just 18.1%](#) of the board seats in ASX100 companies in 2012. This improved marginally to 25.2% by 2015.

In 2015, 58% of the directors in the ASX100 (the 100 largest companies on the ASX) and 49% in the ASX200 (the 200 largest) were [personally connected to the companies](#). This means they were either a substantial shareholder, supplier, customer, former executive, founder, adviser or had “a material contract” with the company on which board they served.

Having a vested interest in a company [can impair a director’s judgment](#). It may motivate a director to serve their own interests and not look after the best interests of a company and its stakeholders, as seen with the failure of

[Enron](#)

and

[HIH Australia](#)

Excluding outsiders

My interviews with directors suggest that board members are recruited in a fashion that excludes qualified “outsiders”. For instance, one director told me that identifying the most qualified person was not necessarily the focus of recruitment:

What was decided was that those of us who were at the board could look at who we knew ... I was not comfortable with that process and I fought that process and didn't win. My preference was that we advertise for appointed members, but the feeling around the table was we would rather have people we know rather than people who come from an ad, and I didn't get far pushing that change. I felt it was a boys' club and I wasn't happy with it. Being honest, it wasn't casting the net wide enough.

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When I pressed my interviewees on how they achieved board membership, many reflected on skills, qualification and experience. However, when the interviewees spoke about recruiting new board members the process is unstructured, featuring factors such as “reputation” and “background”. One interviewee said:

The background of the candidate is very important so you feel comfortable, or you feel there’s less chance of making a mistake if you choose this person.

Read more: [Experienced shareholders better than independent directors for business](#)

My research found that the social identity of candidates is a significant criterion in the selection of Australian company boards. Closed social networks are the primary means of identifying new board members.

What attempts there are to increase diversity and independence are narrowly focused on eliminating the “boys’ club” by having more females on boards.

This violates [discrimination legislation](#) that states recruitment should be open and accessible, based on clear assessment of skills, training and relevant experience.

The use of closed networks in the recruitment and selection of board members also creates other problems related to “[group think](#)”. Group think creates a situation where board members are more concerned with being a liked and connected member of a particular social group. As a result, members will conform to the status quo which guarantees them membership perks such as highly paid directorship roles. A direct outcome of the group think mentality are boards signing off on questionable business practices as we currently see in the banking sector. Group think helps to explain why there has been an epidemic of questionable business practices in Australia’s business sector. Coupled with a self-regulated system this is a recipe for disaster.

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~~[Blog post titled 'Company boards are stacked with friends of friends so how can we expect change?' by Sherene Smith, PhD student, RMIT University, on 25/07/2016. This document is disclosed under the provisions of the Freedom of Information Act 2009.](#)~~