

Diversity Without Dissent Is Not Governance: Rethinking The Boardroom Under MCCG 2021

28 April 2026

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For decades, the boardroom was viewed as a place of stability, where a relatively homogenous group of individuals, often drawn from familiar professional and social circles, oversaw management within a framework of legal compliance and commercial judgment. Corporate governance, in this traditional sense, was largely procedural: a system of directing and controlling, with success measured by how effectively the board ensured that management remained entrepreneurial yet compliant with applicable laws and regulations.

That model is no longer sufficient. The modern regulatory and investment landscape reflects a fundamental shift in how governance is understood and evaluated. The Malaysian Code on Corporate Governance 2021 (MCCG 2021) signals this transition clearly. What was once framed as “corporate social responsibility” or a “best practice” has evolved into a governance imperative. Board diversity is no longer peripheral as it is increasingly recognised as a core driver of decision-making quality, risk oversight, and long-term corporate resilience.

From Representation To Decision-Making

“Diversity” in the boardroom is often narrowly understood through the lens of gender representation. In practice, however, effective board diversity is multidimensional. It encompasses differences in age, tenure, professional background, cultural perspective, industry experience, international exposure, and cognitive approach.

The objective is not diversity for its own sake, but to mitigate what may be the most significant and least visible risk in governance: cognitive blind spots. Boards formed from narrow networks tend to share similar assumptions, heuristics, and biases. While this may create efficiency and cohesion, it also creates vulnerability. Common failure modes include:¹

- Groupthink, where consensus is reached too quickly and without sufficient challenge
- Artificial harmony, where directors prioritise collegiality over candour
- FOFO (Fear of Finding Out), where uncomfortable questions are avoided in favour of sanitised reporting

In such environments, governance can appear robust on paper while critical risks remain unexamined. Issues are not necessarily hidden; they are simply not interrogated with sufficient rigour.

Diversity, when properly integrated, introduces what may be described as constructive abrasion i.e. a dynamic in which differing perspectives generate productive tension. Assumptions are tested more rigorously, alternative scenarios are explored and dissent is reframed as a form of diligence rather than disruption.

However, it is important to be clear: diversity alone does not guarantee better governance. A diverse board that does not challenge management or itself remains susceptible to the same failures as a homogenous one. Representation without influence is insufficient.

Regulatory Direction: Diversity As A Governance Expectation

In Malaysia, the regulatory trajectory is unambiguous. Diversity is no longer optional; it is embedded within the broader governance framework. The MCCG 2021 encourages listed companies to achieve at least 30% women representation on boards and emphasises the need for a composition that reflects an appropriate mix of skills, experience, independence, and perspective aligned with the company's strategic objectives.²

In parallel, the Main Market and ACE Market Listing Requirements impose baseline expectations that:

¹ Boards of the Future, *How Boards Should Oversee Ethics: A Ten-Practice Guide* (Boards of the Future 2026).

² Securities Commission Malaysia, *Malaysian Code on Corporate Governance* (April 2021)
<https://www.sc.com.my/api/documentms/download.ashx?id=239e5ea1-a258-4db8-a9e2-41c215bdb776>

- directors, chief executive officers, and chief financial officers possess the requisite character, integrity, competence, experience, and time commitment;³ and
- boards include at least one woman director.⁴

Importantly, these requirements are supported by a disclosure-based regime. Through the “apply or explain an alternative” approach,⁵ companies must articulate how they have applied MCCG practices in their annual reports and provide prescribed disclosures to Bursa Malaysia.⁶

This framework reflects a broader regulatory philosophy: board composition is a leading indicator of governance quality and future risk, not merely a compliance exercise.

Investors are increasingly aligned with this view. Financial statements capture historical performance; they do not necessarily reveal emerging risks. By contrast, board composition provides insight into how decisions are likely to be made, how dissent is handled, and how effectively the organisation can respond to uncertainty.

The Real Risk: Tokenism And Passive Diversity

Notwithstanding regulatory momentum, a key challenge lies in the risk of tokenism, namely the appointment of directors to satisfy formal diversity expectations without materially enhancing board effectiveness. Token diversity can, in some cases, increase governance risk. It may:

- create the appearance of independence without substantive challenge
- reinforce existing power structures if new appointees are not empowered
- discourage dissent where minority voices are present but not influential

In such scenarios, diversity becomes performative rather than functional.

To move beyond this, boards must redefine what it means to be “qualified” for board service. Traditional selection processes often reliant on closed networks and prior relationships should be supplemented with more structured and objective approaches. Practical measures include:⁷

³ Bursa Malaysia Main Market Listing Requirements, paragraph 2.20A; Bursa Malaysia ACE Market Listing Requirements, paragraph 2.20A.

⁴ Ibid. paragraph 15.02(1)(b).

⁵ Securities Commission Malaysia, (n 2).

⁶ Bursa Malaysia (n 5), paragraph 15.25(1) and paragraph 15,25(2).

⁷ Institute of Corporate Directors Malaysia, *The Malaysia Board Diversity Study & Index* (ICDM 2021). <https://pulse.icdm.com.my/wp-content/uploads/2021/03/ICDM-BOARD-DIVERSITY-REPORT.v11.pdf>

- developing a Board Skills Matrix to identify gaps in expertise, experience, and perspective
- assessing diversity across multiple dimensions, including tenure, independence, international exposure, and domain expertise
- expanding candidate sourcing to include independent and broader talent pools, including individuals who may not have followed conventional board pathways but bring relevant capabilities

The objective is not to “fill seats,” but to enhance the board’s collective capacity to interrogate issues, challenge management, and make sound decisions under uncertainty.

Operationalising Diversity: From Principle To Practice

As the rationale for diversity becomes widely accepted, the focus must shift from *why* diversity matters to *how* it is embedded within board processes and culture. Effective boards recognise that governance is shaped not only by formal structures, but also by informal dynamics, that is, the unwritten norms, power relationships, and behavioural patterns that determine how discussions unfold in practice.

To operationalise diversity meaningfully, boards should consider:⁸

- Structuring for dissent: ensuring that alternative views are actively solicited, particularly for significant strategic decisions
- Evaluating participation and influence: moving beyond attendance metrics to assess who contributes, who challenges, and whose views shape outcomes
- Conducting independent board evaluations: focusing not only on formal compliance, but also on behavioural effectiveness and group dynamics
- Aligning incentives and expectations: reinforcing that constructive challenge is a core responsibility of directorship, not an exception

These measures help ensure that diversity translates into decision-making impact, rather than remaining a static characteristic of board composition.

Culture, Conduct And Hidden Risk

An important dimension of modern governance is the recognition that some of the most significant risks facing organisations are cultural rather than financial.

⁸ Boards of the Future (n 1).

A company may present strong financial performance while simultaneously accumulating “hidden liabilities” in the form of poor leadership behaviour, weak internal challenge, or misaligned values. These risks often crystallise suddenly, with disproportionate consequences for reputation and enterprise value.

Board diversity, when effectively harnessed, plays a critical role in surfacing such risks. A board that incorporates varied perspectives is more likely to question prevailing narratives, identify early warning signals, and challenge conduct that may otherwise be normalised within a homogeneous group.

In this sense, diversity contributes not only to compliance and oversight, but also to ethical foresight being the ability to anticipate how today’s decisions may evolve into tomorrow’s risks.

Conclusion

Diversity is not, in itself, synonymous with good governance. It becomes good governance only when it changes how boards think, challenge and decide.

Boards that treat diversity as a regulatory requirement or reputational signal may achieve formal compliance, but risk falling short of substantive effectiveness. By contrast, boards that move beyond quotas toward deliberate recruitment for contribution, active encouragement of dissent, and rigorous evaluation of board dynamics will be better positioned to navigate complexity and uncertainty.

In the evolving governance landscape shaped by MCCG 2021, the question is no longer who sits at the table, but whether those voices meaningfully influence what happens at it. Ultimately, diversity earns its place in governance not by representation, but by impact.

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