GLACIAL CHANGE IN DIVERSITY AT ASX 200 COMPANIES

Can corporate Australia escape the imposition of diversity quotas?

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Our political leaders and storytellers inform us Australia is a modern, egalitarian society where we help one another in a spirit of mateship, where there is a strong work ethic and we will always 'give it a go'. Self-determination, independence and fairness mean every Australian is generally expected to do what is right – and what makes sense. But this proud national backdrop brings into sharp focus an anomaly at the heart of executive ranks of corporate Australia.

The anomaly is a genuine lack of gender diversity within the ranks of our business chiefs. So slow is the progress in this area that the unwelcome hand of intervention could well be introduced. The notion that Australia's capital market system, with a proud heritage of self-determination and self-regulation, may be subject to a prescriptive 'quota' system to compel greater representation of women on boards – despite the obvious benefits diversity brings – would prove an embarrassment.

So what is going on?

BlackRock Australia's diversity investigation of ASX 200 companies' 2013 annual reports revealed two key findings: (1) the growth of representation of women on boards continues at a glacial pace; (2) disclosures made by ASX 200 companies regarding their gender polices point towards boards not appearing to take the issue seriously. If corporate Australia does not improve in both areas it may be exposing itself to the imposition of quotas and other regulation.

BlackRock identify the following companies as providing good disclosure of their approaches to diversity:

- CSL Limited
- Computershare Limited
- Graincorp Limited
- Mirabela Nickel Limited (good for a small mining company)
- Mirvac Group
- Pacific Brands Limited
- Telstra Limited
- Westfield Group
- Woodside Petroleum Limited
- Woolworths Limited

KEY FINDINGS

▶ Reports could be generally described as 'perfunctory'

In BlackRock's view 65% of diversity disclosures were considered perfunctory.[1] In other words, most organisations are applying a largely 'minimal standard' mindset to the reporting of their diversity reporting obligations. This may indicate that the gender diversity issue is not yet foremost in the minds of Australian company directors. Below is a typical example of reporting among the diversity disclosures reviewed. While the disclosure arguably meets minimum standards[2], it not only fails to articulate the benefits to the company of diversity but also fails to disclose the governance around the policy, i.e., who has accountability for implementation and monitoring of the policy:

> *In accordance with Recommendation 3.2 of the ASX Principles, the Company has established a Diversity Policy, which is included under Appendix K of the Board Charter. In line with its objective to increase the overall proportion of women at all levels within the Company, within Senior Management positions and on the Board, the Company has established a Diversity Committee and appointed a Diversity Manager.*

BlackRock's expectation is that Australia's largest companies should articulate the benefits of diversity policies and state why such policies were introduced and how they assist in the longer-term value of the company. Further, if such policies are so important that disclosure has been mandated, on an "if not why not" basis under ASX Listing Rules, then we would expect to see an explanation of the governance framework around the policy, i.e., who in the organisation is accountable for the effective implementation of such policies.

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We see articulation of the diversity initiatives within a board as part of the process of embedding initiatives in to the broader corporate environment. The fact that the board has to sign off on the annual report means the report delivers a window into the boardroom. It shows the board is ready to embrace change and fully manage the company's talent. In BlackRock's view given that on our assessment 65% of disclosures were cursory, it appears this is not the case.

▶ Lack of disclosure regarding the governance of diversity policies

Very few reports disclosed the governance framework for the effective implementation of the diversity policy. Some reports referred to the board as being accountable. However, diversity is an operational issue which would mean that accountability lies with management and oversight by the board. The 24 companies which had established diversity councils/committees generally provided more detail around the governance of diversity. It was interesting to note that all of these companies had at least one woman on the board as a non-executive director.

For some organisations a cultural shift needs to take place, and where a cultural shift is required it can only occur when it is led and owned by the office of the CEO. A recent McKinsey study found: "Gender diversity programs aren't enough. While they can provide an initial jolt, all too often enthusiasm wanes and old habits resurface. Values last if they are lived every day by the leadership down. If gender diversity fits with that value set, almost all the people in an organisation will want to bring more of themselves to work every day."[3]

While the research looked at disclosure of measureable objectives in terms of meeting the requirements of the guidelines, we did not analyse the measureable objectives disclosed. We did, however find some objectives which were, in our view, not possible to measure.[4] However, in line with comments above, measureable objectives may not be effective in achieving the desired outcomes if the desire for diversity does not fit in with the culture of the firm.

Mirvac was one of only a few companies that made transparent disclosure of the governance behind the diversity policy. At Mirvac the sponsor for the policy is the chairman and the CEO established and chairs the diversity council.

According to the 2012 Australian Census of Women in Leadership[7] the level of women in senior executive positions seems to have peaked at 12% in 2006 and since reduced to the 2012 level of 10.1%.

An increase in women on boards

At the time we reviewed the composition of women on boards in February 2013 the percentage of non-executive women on boards was 17.8% compared with 14.4% from our 2012 research. The increase is welcome. We conducted further research on appointments of non-executive directors to ASX 200 boards in 2012. Our research revealed that around 80% of the men appointed to ASX 200 company boards did not have previous or current experience as an ASX 200 board member. This starkly contrasted with the appointment of women where only 57% of appointments did not have previous or current experience as an ASX 200 board member. This may suggest that women need to "prove" themselves more than their male colleagues to be considered for an ASX 200 board.

Of the 35 women appointed as non-executive directors to ASX 200 boards in 2012, eight (~25%) went from one to two boards, two went from two to three boards and two went from three to four boards.

There is no doubt that the above statistics show a bias towards the appointment of former CEOs and senior executives of ASX 200 companies when selecting non-executive directors. As mentioned in last year's paper, the only way to address this issue is to ensure there is diversity in the senior executive front-line positions of ASX 200 companies.

Little change in the level of Key Management Personnel (KMPs)[5]

Although the level of women on boards has increased slightly, BlackRock notes there has been little change in the level of diversity among KMPs.

As noted in previous research the pipeline for the role of independent non-executive director is from the senior executive ranks of ASX 200 companies.[6] Addressing diversity at the senior executive ranks is essential if the pool of talent for women directors is to be increased.

Again, the underlying issue of gender representation at the senior executive level must be taken more seriously, and the case for championing gender diversity, we believe, sits at the CEO executive level. The number of senior executive positions has not undergone the same increase as the increase in the percentage of board seats held by women. According to the 2012 Australian Census of Women in Leadership[7] the level of women in senior executive positions seems to have peaked at 12% in 2006 and since reduced to the 2012 level of 10.1%. The increase in women on boards is not being matched by an increase in women in senior executive ranks. The ASX Corporate Governance Council's Guidelines do require companies to disclose the percentage of women in executive roles. However, we found that there was a lack of consistency among companies of the definition of "executive".[8] Therefore we are unable to reliably measure if there has actually been an increase of diversity in this area. This is an issue that should be addressed by the ASX Corporate Governance Council.

One ASX 200 company chairman commented to BlackRock that he was shocked to learn that a number of women employees were earning less than their male work colleagues for roles with similar scopes and responsibilities.

Limited signs of senior level diversity programs

One way to address diversity at senior executive levels is the existence of programs aimed at identifying and progressing high potential women. Annual report disclosures were reviewed to see if companies offered programs to increase diversity at the senior executive level. Marginally less than 50% of companies disclosed the existence of programs designed to increase diversity at senior levels. This was probably one of the most disappointing statistics revealed in the Study.

Lack of policies on pay equity a concern

Gender pay equity is an issue that continues in Australia despite "equal pay" being legislated in 1984 which effectively banned discrimination on the basis of gender. Disappointingly, only 30% of companies made reference to pay equity. This is a concern given that starting salaries for women graduates in 2012 was 91% of their male colleagues.[9]

Again this is concerning. One ASX 200 company chairman commented to BlackRock that he was shocked to learn that a number of women employees were earning less than their male work colleagues for roles with similar scopes and responsibilities. This is an area where there is considerable room for disclosure.

In November 2012, the gender pay gap stood at 17.6%.[10] Given this significant difference in pay gap we would have expected more companies to have included pay equity in their measurable objectives.

Concerning level of non-compliance

Analysis of the diversity policies disclosed in annual reports of ASX 200 companies in 2012, shows nearly 19% of companies failed to meet the basic disclosure requirements of the ASX Corporate Governance Principles on diversity. Of the 37 companies which did not comply, the breakdown of reasons is as follows:

RATIONALE	NUMBER
Without explanation – did not disclose measurable objectives	15
Without explanation – measurable objective to be introduced in 2013	10
No policy disclosed in annual report	6
Failure to disclose the required statistics	6
TOTAL	**37**

SUMMARY

Disclosure coupled with glacial change may see a move to a system of quotas

Given the relatively poor rate of change in the statistics coupled with poor disclosure of policies, corporate Australia is open to our political leaders imposing quotas of women on listed company boards.

In Europe where politicians were concerned about the slow rate of change of gender diversity on listed company boards, seven European[11] countries have now issued quotas. In Australia Governor General Quentin Bryce has also supported the introduction of quotas. Ms Bryce said she believed affirmative action might be the only way to break the stranglehold of the "old boys' network" on Australian business.[12] In Germany, Chancellor Angela Merkel has now conceded that Germany's leading companies need to be compelled to increase the number of women on their boards. [13]

In Australia Governor General Quentin Bryce has also supported the introduction of quotas.

The threat of a quota system looms large. An alternative to quotas is the imposition of targets. Targets are the preferred course of action in some jurisdictions – such as the 30% Clubs established in Britain and more recently in Hong Kong. The 30% Clubs are groups of business leaders committed to better gender balance at all levels of organisations. Their rationale is that this will make business and boards more effective. In the UK there is a voluntary goal of 30% of women on boards by 2015. The belief is that business-led change as opposed to legislated quotas is the right way forward.

Australian boards have seen what happened to the regulation of executive remuneration when community concerns influence politicians. If boards of Australian listed companies do not self regulate in the important area of diversity, the Government will. The ball is in the court of Australian business to improve the rate of change of diversity at both senior executive and boards levels.

BACKGROUND

This paper follows BlackRock's inaugural investigation of Australia's top 200 listed companies in 2011/12. That original paper probed the public disclosure performance of ASX 200 companies, revealing a lacklustre response to new diversity policies set down by the Australian Securities Exchange (ASX) in its 2010 *Corporate Governance Principles* standards.

The inaugural report entitled *"Australia's female-less boardrooms"* [14] was published in February 2012.

It highlighted a gulf in the gender representation at board level within corporate Australia, but – perhaps more importantly – identified a yawning gap of awareness of the standard and the underlying case for gender diversity. In 2011, when reporting to the ASX Corporate Governance Council's Principles on diversity was not mandatory,[15] just 19% of companies complied with the basic disclosure requirements relating to diversity.

APPENDIX 1
ASX CORPORATE GOVERNANCE COUNCIL'S DISCLOSURE REQUIREMENTS

Under Listing Rule 4.10.3, ASX listed entities are required to benchmark their corporate governance practices against the ASX Corporate Governance Council's recommendations and, where they do not conform, to disclose that fact and the reasons why. The ASX Corporate Governance Council's recommendations relating to disclosure of diversity polices are as follows.

Recommendation 3.2:

Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

Commentary

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The measurable objectives should identify ways in which the achievement of gender diversity is measured, for example, the proportion of women employed by (or consultants to) the company, in senior executive positions and on the board.

Where companies establish a diversity policy, they should also introduce appropriate procedures to ensure that the policy is implemented properly, which may include additional measurable objectives in relation to other aspects of diversity as identified in the policy. There also should be an internal review mechanism to assess the effectiveness of the policy.

Suggestions for the content of a diversity policy are set out in Box 3.2.

Box 3.2: Suggestions for the content of a diversity policy

Companies may find it useful to consider the following matters when formulating a diversity policy:

1. Commitment to diversity and articulation of the corporate benefits arising from employee and board diversity and the importance of benefiting from all available talent. This should promote an environment conducive to the appointment of well qualified employee, senior management and board candidates so that there is appropriate diversity to maximise the achievement of corporate goals.
2. Commitment to and identification of ways to promote a corporate culture which embraces diversity when determining the composition of employees, senior management and the board, including recruitment of employees and directors from a diverse pool of qualified candidates.
3. Identification of factors that should be taken into account in the selection processes and whether professional intermediaries should be used to identify or assess candidates.
4. Identification of programs that assist in the development of a broader pool of skilled and experienced board candidates including initiatives focused on skills development such as executive mentoring programs or more targeted practices relating to career advancement such as those that develop skills and experience that prepare employees for senior management and board positions.
5. Articulation of a corporate culture which not only supports workplace diversity but also recognises that employees at all levels of the company may have domestic responsibilities.
6. Transparency of board processes, review and appointments.
7. The extent to which the achievement of measurable objectives should be tied to Key Performance Indicators for the board, the CEO and senior executives.

Recommendation 3.3:

Companies should disclose ***in each annual report*** the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

Commentary

The ASX Corporate Governance Council encourages companies in Australia to foster a governance culture that embraces diversity in the composition of corporate boards, with a focus on the participation of women. The shareholder role is enhanced if shareholders are fully informed of the policy and the measurable objectives which facilitate tracking and monitoring of the company's performance against those objectives.

Recommendation 3.4:

Companies should ***disclose in each annual report*** the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

Commentary

Diversity is an economic driver of competitiveness for companies. Research17 has shown that increased gender diversity on boards is associated with better financial performance, and that improved workforce participation at all levels positive ly impacts on the economy. The promotion of gender diversity broadens the pool for recruitment of high quality employees, enhances employee retention, encourages greater innovation, and improves corporate image and reputation. Reporting on the diversity profile of the company facilitates greater transparency and accountability in relation to the policy that has been put in place, together with the objectives to be achieved by the company.

Companies should consider, in the context of the economic group controlled by the company, how best to report to achieve an accurate and not misleading impression of the relative participation of women and men in the workplace and the roles in which they are employed: for instance, whether a full-time equivalent measure is appropriate in all or some circumstances as opposed to clear categorisation of full-time, part-time and contracted services, and whether the participation is in a leadership, management, professional speciality or supporting role, or by relative participation of men and women at different remuneration bands.

The board, or an appropriate board committee, for instance the nomination or remuneration committee, should be charged with the duty, at least annually, to review and report on the relative proportion of women and men in the workforce at all levels of the economic group controlled by the company. This obligation should be included in the charter of the board or the relevant board committee.

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1. Oxford dictionary definition – adjective (of action) carried out without real interest, feeling or effort.
2. Refer Appendix 1.
3. Lessons from the leading edge of gender diversity McKinsey and Company April 2013 Joanna Barsh, Sandra Nudelman and Lareina Yee.
4. KPMG reported a similar finding in their report "ASX Corporate Governance Council Principles and Recommendations on Diversity – Analysis of disclosures for financial years ended between 31 December 2011 and 30 December 2012" page 16.
5. Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Definition from AASB 124.
6. Regnan Governance and Research found that 65% of independent non-executive directors were former CEO's and executive directors of ASX 200 companies.
7. Equal Opportunity for Women in the Workplace Agency (EOWA), 2012 www.eowa.gov.au
8. KPMG reported a similar finding in their report "ASX Corporate Governance Council Principles and Recommendations on Diversity – Analysis of disclosures for financial years ended between 31 December 2011 and 30 December 2012" page 22.
9. http://www.wgea.gov.au/sites/default/files/2013-01-07_GradStats_factsheet_tag.pdf
10. http://www.wgea.gov.au/sites/default/files/2013-02-Gender%20pay%20gap%20statistics.pdf
11. Norway, France, Belgium, Iceland, Italy, The Netherlands and Spain.
12. The Sydney Morning Herald 8 March, 2011.
13. The New York Times 18 April, 2013 "Merkel Concedes on Quotas for Women.
14. A review of diversity policies disclosed in annual reports of ASX 200 companies with financial years ending between 30 June 2011 and 30 September 2011.
15. Mandatory reporting commenced for financial year ends commencing 1 January, 2012.

Further information
www.blackrock.com.au

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