



## Women On Boards

THE NEXT GENERATION OF DIRECTORS

13 October 2009

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Dear Eric

### **Re: Proposed Amendments to ASX Corporate Governance Guidelines Principle 2**

Thank you for your letter of 15 September inviting Women on Boards to submit a short submission for the October meeting of the ASX Corporate Governance Council on how Principle 2 might be amended to assist ASX boards take a wider view of their director recruitment obligations in relation to gender diversity.

In developing our proposed amendments we have considered the recommendations from the CAMAC report of March 2009, 'Diversity on Boards of Directors' that made a number of suggestions for refinement of the Corporate Governance Council Guidelines in relation to:

- Consideration of board diversity matters
- A more structured approach to candidate selection
- Information to shareholders

In our submission we have largely focused on Recommendation 2.4 and the role of the nomination committee in ensuring transparent and accountable selection and appointment practices are employed by the company in the nomination of directors.

While the proposed amendments to the Guidelines would emphasise the need for ASX Companies to address gender diversity as a corporate governance issue, Women on Boards realizes that additional strategies and measures will be required to effect the cultural change needed to achieve true conformance. To this end we welcome the opportunity to engage in an ongoing dialogue with the Council and the wider ASX community on the matter of board diversity.

Thank-you again for the opportunity to make this submission to the Council.

Yours sincerely

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# WOB Pty Ltd (Women on Boards)

## Submission to the ASX Corporate Governance Council on ASX Corporate Governance Principles and Recommendations

October 2009

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## Summary

The case to amend Principle 2 of the ASX Corporate Governance Guidelines to assist ASX boards take a wider view of their director recruitment obligations in relation to gender diversity, is compelling.

The Equal Opportunity for Women in Australia's 2008 census of women's leadership revealed women hold only 8.3 per cent of board directorships in ASX200 companies and 10.7 per cent of executive manager positions.

Yet women make up over 51 per cent of Australia's population and 63 per cent of all university graduates. The Global Gender Gap report released by the World Economic Forum in 2008 shows Australia sits in the group of countries that are number one on women's educational attainment but is number 41 when it comes to women's workforce participation (38%).

There is no nation, government, industry or sector that can sustain such a significant loss of a highly educated, experienced and professional workforce over the long term. If Australia continues its trend of under-valuing and under-utilising its female talent it will struggle to remain internationally competitive and innovative in its business practices.

Moreover it will continue to fall further behind other OEDC nations who have seen the business case for improving diversity in their leadership ranks. Australia already lags the USA, Canada, the United Kingdom, New Zealand, most European Countries and South Africa in the percentage of female directors in the top 500 companies.

Women on Boards views ASX companies as a high priority as they are the benchmark for economic activity in Australia, yet are the worst performing sector in relation to women in leadership positions. By contrast the numbers of women in leadership roles in academia and the public sector have shown steady increases as outlined below.

### Female participation on boards by sector

- ASX200 companies 8.3% (EOWA 2008)
- Top 200 NFPs (by revenue) 28 % (WOB 2008)
- Credit Unions 19 % (WOB 2007)
- Health funds 22 % (WOB 2007)
- University Vice Chancellors 21 % (EOWA 2008)
- Federal Ministry 21.4 % (EOWA 2008)
- Government boards/ committees 35 % (FAHCSIA 2008)

The participation of women in leadership roles in the ASX will reduce further unless serious, positive and urgent action is taken. There is also growing evidence that the traditional conservative attitudes of women towards gender targets and quotas are changing as they become increasingly frustrated at the lack of diversity at board level. This is discussed further on in the report.

## Proposed Amendments to Principle 2

### Introduction

#### **Amendment 1**

(Add the following point - in red)

The board should be structured in a way that it:

- has a proper understanding of, and competence to deal with, the current and emerging issues of the business
- exercises independent judgement
- encourages enhanced performance of the company
- can effectively review and challenge the performance of management.
- **reflects the values and expectations of stakeholders**

#### **Recommendation 2.4**

**The board should establish a nomination committee.**

#### **Amendment 2: Purpose of the nomination committee**

(Amend the first sentence to read as follows)

A board nomination committee is an efficient mechanism to ensure transparent and accountable selection and appointment practices are employed by the company in the nomination of directors.

#### **Amendment 3: Charter**

(Insert the following paragraph)

The charter should require the nomination committee to be mindful of the need to consider the inclusion of candidates from the under-represented gender on the board.

#### **Amendment 4: Composition of nomination committee**

The nomination committee should be structured so that it:

- consists of a majority of independent directors
- is chaired by an independent director
- has at least three members
- **is gender diverse**

## **Amendment 5: Responsibilities**

(Add the following points - in red)

Responsibilities of the committee should include recommendations to the board about:

- the necessary and desirable competencies of directors
- review of board succession plans
- the development of a process for evaluation of the performance of the board, its committees and directors
- the appointment and re-election of directors.
- **strategies to address board diversity**
- **the process of candidate selection, including use of independent advisory services, advertisting and other mechanisms.**

## **Amendment 6: Selection and appointment process and re-election of directors**

(Amend the nominated paragraph as follows)

- *Board renewal* – Board renewal is critical to performance, and directors should be conscious of the duration of each director’s tenure in succession planning. The nomination committee should consider whether succession plans are in place to maintain an appropriate balance of skills, **age profile, gender**, experience and expertise on the board.

(Add the following requirements for information)

- *Election of directors* – The names of candidates submitted for election as directors should be accompanied by the following information to enable shareholders to make an informed decision on their election:
  - **A statement by the board of the skills and experience it was seeking.**
  - **How the candidates were identified and selected.**
  - **The steps taken to ensure that diversity was considered in candidate selection**
  - **A statement by the board supporting the nomination of the proposed candidate(s)**

## **Recommendation 2.5**

**Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.**

## **Amendment 7: Induction and education**

(Add the following points - in red)

An induction program should be available to enable new directors to gain an understanding of:

- the company’s financial, strategic, operational and risk management position
- **the culture and values of the company**
- the rights, duties and responsibilities of the directors
- the roles and responsibilities of senior executives
- the role of board committees
- **meeting arrangements and director interaction**

## **Appendix 1: The case for women in the boardroom**

There is a growing body of research into the benefits of having women on boards. A number of recent articles articulate in detail the corporate governance and bottom line benefits.

### **1. The business case for women**

McKinsey concluded that the gender gap isn't just an image problem. Its research study (A business case for women, September 2008) concluded that it can have real implications for company performance. Companies that hire and retain more women not only are doing the right thing but can also gain a competitive edge. These companies will be able to draw from a broader pool of talent in an era of talent shortages. What's more, research shows a correlation between high numbers of female senior executives and stronger financial performance.

### **2. Top earners in ASX200 companies**

This was released by the Equal Opportunity for Women in the Workplace Agency (EOWA) in 2006 and is a most telling piece of recent Australian material. The study found that women top earners of ASX200 companies earn 58 per cent of the top earnings of males for comparable roles. This compares with women earning 84 per cent of full-time average weekly earnings during 2007. More interestingly, while women represent seven per cent of the total top earners in the ASX200 companies, in companies with more than two women on their boards, females represent 13 per cent of top earners.

### **3. Impact of three or more women on corporate boards — 'the magic of three'**

Yet more recent research involved conversations with 50 Fortune 1000 female directors and CEOs, with additional contributions from male CEOs. In addition to the fieldwork the researchers applied social science theory and research into conformity and majority opinion to analyse the interview comments and so explain the behaviours identified by the interviewees.

They looked at the impact of one, two and three women in the boardroom. The comments made led them to conclude that a lone woman can and often does have a significant impact on a board but that two women are better than one and three women on a board makes a defining difference. This is consistent with the social science research. Many male and female directors in Australia have said that the value-add from having a woman on a board is that she brings a different and valuable perspective to issues. The comments in this paper add a deeper perspective to this view.

**Some comments from participants reported in the article were as follows.**

“If you are the only one, it is clear you are not part of the club. With three women their perspectives get a serious hearing as they raise topics that are critical to the business but which men may not raise, such as issues concerning employees, the community, organisational diversity and inclusiveness, or the company's reputation.”

*“This willingness to raise a broader set of issues helps a board to move beyond short-term financial numbers and to focus on factors that will sustain performance in the longer term.”*

“There is more transparency with diversity. You don’t assume people will think in a certain way, and people express opinions in a clearer way. Hence, diversity around the table forces both management and directors to express their ideas more clearly and logically, which enhances the quality of decision-making.”

*“The dynamics of being someone who hasn’t had the same experiences are that one asks different questions. One of the most valuable things in the boardroom is the questions asked. I see this increasingly on the dynamics on compensation. There was difficulty on setting limits by those who have benefited from the non-limits of the past former CEOs. ‘I don’t want them to question mine; I won’t question yours.’ Most women and minorities have not been CEOs and bring different perspectives to corporate compensation.”*

## **Appendix 2: Women's attitudes are changing**

Women on Boards surveyed its network prior to the 2nd Diversity on Boards Conference which was held in Sydney in September 2009. The aim of the survey was to explore the experience of those who are on a board or committee and determine their attitudes to setting targets or quotas for gender representation.

When asked the question of whether they favoured targets and quotas for firstly government and secondly ASX200 companies, 72 per cent agreed or strongly agreed that "Where applicable, boards/committees should set gender targets."

Specific findings were as follows:

- 85 % in favour of targets for women on Government boards & committees
- 78 % in favour of targets for women on ASX boards
- 62 % in favour of quotas for government boards & committees
- 53 % in favour of quotas for ASX boards

More than ninety per cent agreed that balanced gender representation on a board improves organisational performance, with the following comments being made:

### **Comment 1**

Diversity is the key to success whether it be gender, age, cultural or geographic location. The biggest challenge for women is getting access to key decision makers and having the opportunity to demonstrate capacity to be an excellent board member. Also the preparedness of existing directors to look outside their normal networks of contacts to access board members. The appreciation that board evaluations externally facilitated will provide the catalyst to address those directors who are not performing.

### **Comment 2**

Board selection should be focused on acquiring the range of skills and expertise needed for the governing body of a particular organisation. Gender equity is more than likely to be relevant and desirable, but should not be mandatory.

### **Comment 3**

Given the conservative bent of most existing boards & committees, legislation appears to be the only avenue to force a change away from the old boys club. If there was a trend towards increased representation I would advocate delaying legislation, but the trend is going backwards. With the financial crisis, boards are only getting more conservative, less inclined towards change & most importantly not retiring & giving new blood opportunities to fix the problems the old boards caused.

### **Comment 4**

I found being a sole female that it was challenging getting outcomes especially as rest of board was parochial in attitude. Board needed more process, structure and accountability to its stakeholders. Even the CEO's salary package, KPI's was done by the boys with no clear definitions nor performance management process.

### **Comment 5**

I responded "yes" to the legislation questions. Until fairly recently I was undecided on the matter of legislating for gender quotas, on the basis that a gender balance along with a balance of other experiences and skills was self-evidently going to be a good thing for boards. However, it's just not happening on its own, the current practice of looking to one's own existing networks to fill vacancies is too entrenched. The Norway experience provides evidence that quotas deliver positive outcomes, so I now say legislate.

### **About the Survey**

There were 598 respondents to the survey. The following table shows the most recent board appointment of the respondents.

<b>Most recent board appointment</b>	<b>Percentage of respondents</b>
Public Listed (ASX)	3.68
Public Unlisted	4.68
Private	8.53
Not For Profit	50.50
Incorporated Body	8.70
Government - Federal	4.68
Government - State	13.55
Government - Local	2.01
Other	3.68

## Conclusion

The need for gender diversity goes beyond the issue of whether women (or men) add value in the boardroom, to ones of equity, fairness and sustainability. Women make up 51 per cent of society, yet are poorly represented at the tables where decisions that affect our economy and community are made. After decades of relative inaction on diversity, the tipping point has come. Women on Boards prefers a non-prescriptive approach that places the onus on ASX200 companies to set their own diversity targets, tie them to executive remuneration and report to stakeholders. This can be achieved with some simple amendments as outlined to Principle 2 in the ASX Corporate Governance Guidelines.

## References

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- Women on Boards Research – [www.womenonboards.org.au/pubs](http://www.womenonboards.org.au/pubs)
- Women on Boards Roadmap for Gender Diversity on Australian Boards - [www.womenonboards.org.au/pubs/0810\\_roadmap.htm](http://www.womenonboards.org.au/pubs/0810_roadmap.htm)
- G Desvaux, S Devillard-Hoellinger and MC Meaney, ‘A business case for women’, McKinsey Quarterly, September 2008
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- For some explanation of the factors influencing these patterns, see H Riley Bowles and KL McGinn (2008) Gender in Job Negotiations: A Two-Level Game,
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