

## Gender Diversity, A Growing Issue

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### INTRODUCTION

Gender diversity in the workplace has emerged as a significant issue for all companies particularly those that are listed on the Australia Securities Exchange (ASX). Recent developments include:

- amendments to the 2<sup>nd</sup> edition of the ASX Corporate Governance Council's (CGC's) Corporate Governance Principles and Recommendations (CGC Guidelines) to include diversity principles, which came into effect for financial years commencing on or after 1 January 2011,
- Equal Opportunity for Women Agency (EOWA) announced changes which are to come into effect in 2013 for companies with more than 100 employees,
- in March 2011 the Prime Minister, Julia Gillard announced that the Government would be prepared to introduce legislation to lift the representation of females on Australian company boards if corporate Australia was unable to address the present imbalance, and
- the Australian Institute of Company Directors (AICD) has been running a number of programs which it believes have had an impact on both the size and quality of the pool of potential female non-executive director (NED) candidates and the proportion of newly appointed directors who are female.

This GRG Remuneration Review summarises the recent developments and provides statistics on recent changes in gender diversity.

### CGC AMENDED GUIDELINES

On 30 June 2010, the CGC released amendments to the 2<sup>nd</sup> edition of the CGC Guidelines which included new provisions relating to diversity and other matters. The "diversity" concept embraces a wide range of issues including; gender, age, ethnicity and cultural background. However, it seems clear that the emphasis is on increasing the participation of females.

The amended CGC Guidelines include three new recommendations relating to gender diversity:

- 1) Companies should establish a policy concerning diversity and disclose the policy or a summary of it. The policy should include:
  - a) measurable objectives for achieving gender diversity, and
  - b) for the board to assess annually both;
    - i) the objectives, and
    - ii) progress in achieving them.

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**GRG Remuneration Reviews** are articles to assist directors and senior executives who have responsibilities in relation to Board and senior executive remuneration and other human resources issues. Their role varies between articles with some aimed at stimulating critical thinking, others updating information and others simply acting as a reminder of principles and approaches where awareness may need to be heightened.

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- 2) Companies should disclose in each annual report:
  - a) the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy, and
  - b) progress towards achieving them.
- 3) Companies should disclose in each annual report the proportion of women employees:
  - a) in the whole organisation,
  - b) in senior executive positions, and
  - c) on the board.

The CGC Guidelines also include suggestions regarding the content of a diversity policy.

## **EOWA ANNOUNCED CHANGES**

The announced changes are intended to apply to companies with more than 100 employees and are broadly as follows but may be revised prior to their intended implementation in 2013:

- the EOWA is to be renamed “Workplace Gender Equality Agency” (WGEA),
- pay equity and caring responsibility will be recognised in WGEA’s enabling legislation,
- employer and employee representatives will be required to report online against gender inequity indicators including pay and flexible working hours,
- the WGEA will conduct audits to ensure that reports are accurate,
- non-compliant companies will be “named and shamed” in Parliament and publicly,
- the WGEA will encourage, through support and advice, the achievement of gender equality, and
- businesses will need a WGEA certificate of compliance to access government funding and/or be awarded government work.

## **PRIME MINISTER SUPPORTS GENDER EQUITY**

In March 2011 the Prime Minister, Julia Gillard announced that the Government would be prepared to introduce legislation to lift the representation of females on Australian company boards if corporate Australia was unable to address the present imbalance.

Sex Discrimination Commissioner Elizabeth Broderick recently contested Julia Gillard’s plan for tough new measures to impose gender equality. The Commissioner did not believe “corporate Australia needed legislated quotas for representation of women on boards.” While she acknowledged that quotas may be a means of achieving quick change she also expressed concern that they could lead to tokenistic appointments.

## **MARKET PRACTICE INFORMATION**

Given the discourse surrounding gender diversity, GRG felt that it would be important for companies to have a clear understanding of the current market position and emerging trends among top ASX listed companies. GRG focused on the top 200 ASX listed companies and analysed data disclosed in 2007 and 2010 annual reports. There was some change in the composition of the top 200 between 2007 and 2010 but the data relates to those in the top 200 at the relevant time. Thus some part of the changes in the numbers of females may be attributable to changes in the companies included in the top 200. The top 200 were selected as they are expected to be market leaders in terms of improving corporate governance practices.

The data related to the number of females and males filling:

- NED roles, and
- top executive roles.

The following table displays a profile of female representation on boards as disclosed in 2010 annual reports for the ASX200 companies. The number of companies with no females on their boards tends to grow as a percentage of the companies/boards as the size of the companies decrease. The apparent fact that over 50% of the top 200 companies have no females on their boards would seem to suggest that proactive action to increase the participation of females on boards may be warranted.

Index	2010 Number of Female NEDs									
	nil		1		2		3		>3	
	Cos	%	Cos	%	Cos	%	Cos	%	Cos	%
ASX50	12	24%	23	46%	13	26%	2	4%	0	0%
ASX100	38	38%	41	41%	18	18%	3	3%	0	0%
ASX200	108	54%	66	33%	22	11%	3	2%	1	0.5%

The following table shows the number of NED positions held by females and males as disclosed in annual reports for 2007 and 2010.

Index	Total Boards	2010			2007		
		Total Board Positions	Female NEDs	Percent	Total Board Positions	Female NEDs	Percent
ASX50	50	463	55	11.9%	408	41	10.0%
ASX100	100	831	86	10.3%	758	61	8.0%
ASX200	200	1467	123	8.4%	1335	92	6.9%

The foregoing table confirms that female NEDs are a minority among the top 200 ASX listed companies, but that the number of females has increased both in absolute terms and in their proportional representation of a higher number of NEDs. While there has been improvement, indicating a positive trend in terms of females holding NED roles, the increase has been modest and actual numbers are a long way short of what may be regarded as an equitable level of female representation in NED roles. In The Boardroom Report volume 9, Issue 8, the AIDC indicated that 31% of all new appointments to ASX200 boards in 2011 have been females. If this trend continues then the representation of females amongst NEDs will soon reach equitable proportions. Little data seems to be available in relation to smaller ASX listed companies but it would be fair to assume that fewer NEDs are females in this group and that the rate of change will be slower than appears to be occurring with larger companies.

It should be noted that the increased representation of female NEDs may be due to the increased emphasis at board level on audit and legal governance. Often female NEDs have professional accounting and/or legal qualifications.

When considering the number of female NEDs it needs to be remembered that boards of ASX listed companies tend to aim for compositions of individuals whose skills, experience and expertise result in a well-balanced fully competent board. Often NEDs are individuals who have held senior executive roles in ASX listed or other companies.

If females are to be selected to fill NED roles and the aim is to have equitable representation on boards then consideration needs to be given to the number of females in senior executive roles as this will be the main pool from which future NEDs will be drawn.

The following table shows the percentage of CEOs and Direct Reports that were females as disclosed in 2007 and 2010 annual reports. In both cases the proportions that are female is very low and while it has increased over the last 3 years the increase has been small.

<b>Women in Top Executive Roles</b>		
<b>ASX200</b>	<b>CEOs</b>	<b>Direct Reports</b>
2010	<b>2.50%</b>	<b>8.00%</b>
2007	<b>1.50%</b>	<b>7.48%</b>

If the representation of females on boards is to continue to increase and reach more acceptable levels then there needs to be a focus on improving the proportion of females filling senior executive roles. The same may also apply at other levels in order to feed into the executive levels.

## **CHANGING CORPORATE CULTURE**

Companies need to consider participating in mentoring and talent identification programs, and focus on improving manager accountability for diversity measures which will help change Australian business culture and advance females into senior corporate positions in equitable proportions.

To further highlight the proposed changes, the 2nd Annual Corporate Gender Equality Summit will be held on 8-9th June 2011 and will address diversity issues with regard to gender equity in NED and executive positions. The Summit will address:

- regulatory progression including the impacts of the revised ASX guidelines,
- successful and unsuccessful company policies and initiatives,
- corporate opportunities for change such as improving business practices which have inadvertently created no-win situations for females in corporate life, and
- improving interaction between male and female executives to support and promote females in senior roles.

## **Market Benchmarking of Executive & Director Remuneration**

Most companies review NED and top executive remuneration annual and adjustments are put into effect as of July. Accordingly, now is an ideal time to have your top executive and NED remuneration benchmarked against market practice.

The increased focus being placed on executive and director remuneration makes it more important than ever for Boards to be satisfied that they are adopting practices that are consistent with market practice and appropriate to their companies' circumstances.

If you would like an independent review of the market competitiveness of your company's remuneration practices for top executives and/or non-executive directors then GRG will be pleased to assist.

Please call Denis Godfrey or James Bouchier on (02) 8923 5700 or Mike Carroll on 0416 226 131.