

31 July 2015

Senate Finance and Public Administration Committees
PO Box 6100
Parliament House
Canberra ACT 2600

email: fpa.sen@aph.gov.au

Dear Sir/Madam

Gender balanced representation on Government boards

The Australian Institute of Company Directors (AICD) welcomes the opportunity to make this submission with respect to the *Australian Government Boards (Gender Balanced Representation) Bill 2015* (the Bill).

The AICD is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. We have a significant and diverse membership of more than 36,000 from across a wide range of industries, commerce, government, the professions, private and not-for-profit sectors.

Executive summary

- The AICD has long called for more diversity, and particularly gender diversity, on boards of all organisations, including Government boards, however we do not agree that the percentage should be mandated by legislation.
- We are strongly opposed to the introduction of quotas to achieve greater diversity on boards.
- Quotas will act as a hard ceiling on female representation on boards.
- The focus should be on maintaining the existing minimum target for Government boards and encouraging Government officials to consider what cultural issues need to be addressed to reach and maintain this target in a way that is sustainable.
- We support the proposal under the Bill that disclosures be made regarding the percentage of women on Government boards for the most recent financial year as well as for the three previous years. Requiring disclosure of the gender representation on Government boards will support the attainment and maintenance of the current target.
- We also support the introduction of an additional disclosure requirement if the existing target has not been reached over the last year on an "if not, why not" basis. This disclosure should explain why the target has not been met and describe what steps are being taken to address this.

Increasing gender representation on boards

Increasing diversity, particularly gender diversity, on boards of all organisations has long been a key objective of the AICD. Beyond being the right thing to do, a number of

**AUSTRALIAN INSTITUTE
of COMPANY DIRECTORS**

studies have demonstrated a positive link between the level of female representation on boards and improved corporate performance.¹

Earlier in 2015 we called for all boards to ensure that 30 per cent of their directors are female and urged S&P/ASX 200 companies to meet this new target by the end of 2018.² In setting this new numerical target and an ambitious time frame for ASX 200 companies to achieve it, the director community is challenging itself to meet a higher standard than currently exists.

The AICD is also a proud supporter of the Australian 30% Club which launched earlier this year to further encourage the development of a diverse pool of talent for all organisations through business-led and voluntary action.³

Prior to this, the AICD had introduced a range of practical activities which have made a significant contribution to increasing the number of women on boards. These include a Chairmen's Mentoring Program, a Diversity Scholarship Program (jointly-funded with the Commonwealth Government), a Public Sector Mentoring Program and the Victorian Women's Governance Scholarship program. The AICD has also taken a leadership role in the development of the ASX Corporate Governance Council's reporting requirements on diversity and publishes the only monthly statistics updating the number of women on ASX 200 boards.

There is still progress to be made but the results of these and other initiatives have been encouraging. Since January 2010, the total percentage of female directorships on ASX 200 boards has more than doubled from 8.3 per cent 2010 to 20 per cent today. The number of ASX200 boards without any female directors has more than halved from 87 boards (in June 2010) to 34 boards.

Legislated quota

While we agree with the need to increase the number of women on Government boards, we strongly oppose the introduction of legislation that mandates the number or percentage of women that must be appointed to a board.

International experience suggests that quotas do not necessarily generate the desired outcomes. In the case of Norway, for example, while quotas increased the number of female directors on the boards of listed and public companies, these changes had negligible effect on the number of female chairs, CEOs or the female executive pipeline.⁴ There is also a risk that the use of quotas will mean that women who are appointed to government boards as a result of the legislation will be viewed negatively. Research has shown that more prescriptive forms of affirmative action can undermine

¹ For example, see Credit Suisse Research Institute report "The CS Gender 3000: Women in Senior Management (2014) (<https://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=8128F3C0-99BC-22E6-838E2A5B1E4366DF>) and Reibey Institute research note "ASX 500 – Women leaders" (2011) (http://www.reibeyinstitute.org.au/wp-content/uploads/2011/10/ASX500_Women-Leaders-2011.pdf)

² See our website for more details: <http://www.companydirectors.com.au/director-resource-centre/governance-and-director-issues/board-diversity/30-per-cent-by-2018>

³ For further information in relation to the 30 % Club in Australia see: <http://30percentclub.org/about/chapters/australia>

⁴ Bertrand, Marianne, Sandra E. Black, Sissel Jensen and Adriana Lleras-Muney (2014) "Breaking the Glass Ceiling? The Effect of Board Quotas on Female Labor Market Outcomes in Norway"

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and marginalise those who benefit from it as they are viewed as less competent or deserving.⁵

As a general proposition, we are of the view that mandated standards of corporate governance result in a “one-size-fits-all” approach which should be avoided wherever possible. Appointments to boards need to be made based on the business needs of an organisation, including the skills and abilities that it needs represented on its board.

There is also the risk that, by mandating a certain percentage of women be appointed, this will act as a hard ceiling on female representation on boards. Quotas can have the effect of focusing attention only on reaching the required percentage without providing any incentive exceed the quota or to address any underlying issues that may have caused the lack of diversity.

This is why we have advocated for a target to be adopted by organisations. Organisations should be encouraged to develop their own targets and strategies to increase the number of women on their boards and throughout their organisation through means best suited to their own particular circumstances. This allows them to consider how their culture may need to change to make more women on boards an outcome as opposed to an objective. This will ensure gender-balanced representation on boards is sustainable going forward, rather than being a stopgap solution to comply with a legislative requirement.

Disclosure of gender representation on boards

We do support the disclosure of the gender composition of Government boards as proposed under the Bill.

In calling on all boards to adopt at least a 30 per cent target, the AICD urged organisations to regularly report on their progress towards it so that the results of this initiative can be transparent and monitored by stakeholders. Requiring the disclosure of the current gender composition of boards together with the composition over the previous 3 financial years as proposed under section 8(3)(e) of the Bill would go some way towards achieving this transparency.

We also recommend that, rather than requiring the disclosure of reasons why a particular board may have failed to comply with the gender representation requirements (as currently proposed under section 8(3)(d) of the Bill), an “if not, why not” disclosure be introduced into the reporting requirements. This can be achieved by requiring an additional disclosure to be made if the board has not achieved the target percentage of women directors. This additional disclosure would state why the target has not been met and also the steps that have been taken by the organisation to increase the percentage of women on the board.

We hope that our comments will be of assistance to the Committee.

Yours sincerely

JOHN BROGDEN
Managing Director & Chief Executive Officer

⁵ Whelan, Dr Jennifer and Prof Robert Wood (2012) “Targets and Quotas for Women in Leadership: A Global Review of Policy, Practice, and Psychological Research”