

JUNE - AUGUST 2016
QUARTERLY REPORT | VOLUME 5

30% by 2018: Gender diversity progress report



On track to achieving our goal



In May this year, the AICD engaged Mercer to analyse our ASX 200 board data from January 2013 to June 30 2016. We wanted to test our assumption, that a monthly new appointment rate of 40 per cent female directors would enable us to reach our target of 30 per cent female directors on ASX 200 boards by the end of 2018.

The full finding from this analysis can be found in this report. The great news is that based on appointment rates over the last year, we are on track to meet this timeframe.

However, the results suggest we need to be cautiously optimistic. When taking into account three and a half year historical annual average rates, this goal will only be met in early 2019. It is a reminder that we cannot lose our focus on this issue.

Monthly new appointment rates as calculated by the AICD need to be 38 per cent or above in order to maintain this required female yearly average appointment rate. An average yearly rate, combining historical appointments, total number of active directors (including tenure) and exit rates for men and women over 12 month periods, cannot fall below 25 per cent.

We need to remain cautious because the appointment rate has only reached the 40 per cent threshold and consistently remained there during the past six months. If the monthly new appointment rate falls and we can't reach the yearly average then we will miss the target.

The challenge now is to remain vigilant, committed and enthusiastic. We can't rest on our laurels or become complacent. We still have 22 boards without any female directors. There will be real cause for celebration when we can reduce that number to zero.

One of the pillars in our diversity strategy is to collaborate with other organisations and recognise their achievements. In this edition we feature a new joint report between Chief Executive Women and the Male Champions of Change called *In the eye of the beholder: Avoiding the merit trap*. This report highlights the importance of continuously testing our assumptions and biases around merit and the promotion process. If we continue to define merit as 'people like us' who have similar skills, attributes and past experiences then we are not evaluating the proper ingredients of merit; which are performance and potential.

I particularly encourage company executives to read the full report and analyse the way they promote and reward individuals within their organisations. To guarantee a constant supply of 'board-ready' women, we need to encourage senior executives to promote, support and develop women into key leadership positions, enabling all women to achieve their full potential.

A handwritten signature in blue ink, appearing to read 'John Brogden'.

John Brogden

Managing Director & Chief Executive Officer,
Australian Institute of Company Directors

30% by 2018 – Progress report

There have been two additions to the list of companies with at least 30 per cent female directors since May. The current number of companies with at least 30 per cent female directors is now at 53 (31 August 2016).

Additions

1. APN News & Media Limited joined the list on the retirement of Sir John Anderson on 30 June and Albert Harris on 11 May.
2. Aristocrat Leisure Limited joined the list on the appointment of Arlene Tansey on 21 July.
3. Aurizon Holdings Limited joined the list on the appointment of Katherine Vidgen on 25 July.
4. Link Administration Holdings Limited joined the list on the appointment of Anne McDonald on 15 July.
5. ASX Limited rejoined the list on the appointment of Melinda Conrad on 1 August.
6. Genworth Mortgage Insurance Australia Limited joined the list on the appointment of Gai McGrath on 31 August and the retirement of Richard Grellman on 31 August.

Deletions

1. After joining in May, Southern Cross Media Group Limited left the list on the retirement of Kathy Gramp on 21 June.
2. AGL left the list left due to the retirement of Sandra McPhee on 30 June. AGL will rejoin the list in the next quarterly report on the anticipated appointment of Diane Smith-Gander on 28 September.
3. Pacific Brands Limited moved out of the ASX 200 in June.
4. Retail Food Group Limited left the list on the appointment of Andre Nell as Managing Director on 1 July.

No female directors

There are currently 22 companies in the ASX 200 with no female directors. The number increased by two since the last quarterly report for the period March - May. Reliance Worldwide Corporation Limited joined the list after moving in to the ASX 200 at the end of July. Flight Centre Travel Group joined the list due to the retirement of Cassandra Kelly on 2 August.

The full list of ASX 200 companies with the number of women on their boards is listed below. Individual chairs with an asterisk next to their name are members of the 30% Club and have committed to achieving at least 30 per cent females on their boards by 2018 or as soon as they can.

ASX 200 Company	Chair	No. of Female Directors	% of Female Directors
Medibank Private Limited	Elizabeth Alexander	5	62.5%
AMP Limited	Catherine Brenner*	4	50.0%
Bellamy's Australia Limited	Robert Woolley	3	50.0%
Boral Limited	Dr Brian Clark	4	50.0%
Mirvac Limited	John Mulcahy*	4	50.0%
Nine Entertainment Co. Holdings Limited	Peter Costello	3	50.0%
Woolworths Ltd	Gordon Cairns*	4	50.0%
Duet Group	Douglas Halley*	4	44.4%
Dexus Property Group	Richard Sheppard*	3	42.9%
MetCash Limited	Robert Murray	3	42.9%
Navitas Limited	Harvey Collins*	3	42.9%
Programmed Maintenance Services Limited	Bruce Brook*	3	42.9%
Spark Infrastructure Trust	Douglas McTaggart	3	42.9%
Spotless Group Holdings Limited	Margaret Jackson*	3	42.9%
Super Retail Group Limited	Robert Wright*	3	42.9%
Bapcor Limited+	Robert McEniry	2	40.0%
IPH Limited	Richard Grellman	2	40.0%
Japara Healthcare Limited	Linda Nicholls*	2	40.0%
Trade Me Group Ltd	David Kirk*	2	40.0%
Aristocrat Leisure Limited	Ian Blackburne	3	37.5%
Aurizon Holdings Limited	Timothy Poole	3	37.5%
Link Administration Holdings Pty Limited	Michael Carapiet	3	37.5%
REA Group Ltd	Hamish McLennan	3	37.5%
Scentre Group Limited	Brian Schwartz*	3	37.5%
Stockland Corporation Ltd	Graham Bradley*	3	37.5%
Telstra Corporation Limited	John Mullen	4	36.4%
APN News & Media Limited	Peter Cosgrove	2	33.3%
Asaleo Care Limited	Harry Boon	2	33.3%
ASX Limited	Rick Holliday-Smith*	3	33.3%
Bank of Queensland Limited	Roger Davis	3	33.3%
Bendigo and Adelaide Bank Limited	Robert Johanson*	3	33.3%
BT Investment Management Limited	James Evans	2	33.3%
Commonwealth Bank of Australia	David Turner*	4	33.3%
CSL Limited	John Shine*	3	33.3%
CSR Limited	Jeremy Sutcliffe*	2	33.3%
Genworth Mortgage Insurance Australia Limited	Ian MacDonald	3	33.3%
InvoCare Limited	Richard Fisher*	2	33.3%
IOOF Holdings Ltd	Roger Sexton*	2	33.3%
Macquarie Group Limited	Peter Warne*	3	33.3%
Orora Limited	Christopher Roberts*	2	33.3%
OZ Minerals Limited	Neil Hamilton*	2	33.3%
SEEK Limited	Neil Chatfield*	2	33.3%
Sky Network Television Limited	Peter Macourt	2	33.3%

ASX 200 Company	Chair	No. of Female Directors	% of Female Directors
Suncorp Group Limited	Dr Ziggy Switkowski*	3	33.3%
Virtus Health Limited	Peter Macourt	2	33.3%
Woodside Petroleum Ltd	Michael Chaney*	3	33.3%
Brambles Limited	Stephen Johns*	3	30.0%
Coca-Cola Amatil Limited	David Gonski*	3	30.0%
Fortescue Metals Group Ltd	Andrew Forrest*	3	30.0%
Henderson Group PLC	Richard Gillingwater	3	30.0%
QANTAS Airways Limited	Leigh Clifford*	3	30.0%
Sims Metal Management Limited	Geoffrey Brunsdon*	3	30.0%
Wesfarmers Limited	Michael Chaney*	3	30.0%
Ardent Leisure Group	Neil Balnaves	2	28.6%
Australian Pharmaceutical Industries Limited	Peter Robinson*	2	28.6%
Blackmores Limited	Marcus Blackmore	2	28.6%
Caltex Australia Limited	Greig Gailey	2	28.6%
Carsales.com Limited	Jeffrey Browne	2	28.6%
Cover-More Group Limited	Louis Carroll*	2	28.6%
Cromwell Property Group	Geoffrey Levy	2	28.6%
Downer EDI Limited	Richard Harding	2	28.6%
GPT Group	Robert Ferguson	2	28.6%
Healthscope Limited	Paula Dwyer*	2	28.6%
Iluka Resources Limited	Greg Martin*	2	28.6%
Incitec Pivot Limited	Paul Brasher*	2	28.6%
IRESS Limited	Anthony D'Aloisio	2	28.6%
JB Hi-Fi Limited	Gregory Richards	2	28.6%
Myer Holdings Limited	Paul McClintock	2	28.6%
Orica Limited	Malcolm Broomhead	2	28.6%
Perpetual Limited	Peter Scott*	2	28.6%
Retail Food Group Limited	Colin Archer	2	28.6%
SAI Global Limited	Andrew Dutton	2	28.6%
Sigma Pharmaceuticals Limited	Brian Jamieson	2	28.6%
Sonic Healthcare Limited	Mark Compton	2	28.6%
Spark New Zealand Limited	Mark Verbiest	2	28.6%
Sydney Airport Limited	Trevor Gerber*	2	28.6%
Tabcorp Holdings Limited	Paula Dwyer*	2	28.6%
The Star Entertainment Group	John O'Neill*	2	28.6%
Whitehaven Coal Limited	Mark Vaile	2	28.6%
BHP Billiton Limited	Jacques Nasser*	3	27.3%
National Australia Bank Limited	Kenneth Henry*	3	27.3%
Rio Tinto Limited	Jan Du Plessis	3	27.3%
Vicinity Centres RE Ltd	Peter Hay*	3	27.3%
AGL Energy Limited	Jerry Maycock*	2	25.0%
Amcor Ltd	Graeme Liebelt*	2	25.0%
Ansell Limited	Glenn Barnes	2	25.0%
ANZ Banking Group Limited	David Gonski*	2	25.0%
APA Group	Leonard Bleasel	2	25.0%
Bluescope Steel Limited	John Bevan	2	25.0%

ASX 200 Company	Chair	No. of Female Directors	% of Female Directors
Challenger Limited	Peter Polson	2	25.0%
Cochlear Limited	Rick Holliday-Smith*	2	25.0%
Computershare Limited	Simon Jones	2	25.0%
DuluxGroup Limited	Peter Kirby	2	25.0%
Fairfax Media Limited	Nicholas Falloon	2	25.0%
Fletcher Building Limited	Ralph Norris*	2	25.0%
Gateway Lifestyle Group	Andrew Love	1	25.0%
Greencross Limited	Stuart James*	2	25.0%
Insurance Australia Group Limited	Elizabeth Bryan	2	25.0%
Iron Mountain Inc.	Alfred Verrecchia	3	25.0%
News Corporation	Rupert Murdoch	3	25.0%
Origin Energy Limited	Gordon Cairns*	2	25.0%
Platinum Asset Management Ltd	Michael Cole	2	25.0%
Shopping Centres Australasia Property Group	Philip Clark*	2	25.0%
Southern Cross Media Group Limited	Peter Bush*	2	25.0%
St Barbara Limited	Timothy Netscher	1	25.0%
Transurban Limited	Lindsay Maxsted*	2	25.0%
Village Roadshow Limited	Graham Burke and Robert Kirby	2	25.0%
AusNet Services Ltd	Peter Mason	2	22.2%
GrainCorp Limited	Donald Taylor*	2	22.2%
James Hardie Industries PLC	Michael Hammes	2	22.2%
Newcrest Mining Limited	Peter Hay*	2	22.2%
QBE Insurance Group Limited	Marty Becker	2	22.2%
Westpac Banking Corporation	Lindsay Maxsted*	2	22.2%
APN Outdoor Group Limited	Douglas Flynn	1	20.0%
Charter Hall Retail REIT	John Harkness	1	20.0%
Credit Corp Group Limited	Donald McLay	1	20.0%
CYBG PLC	James Pettigrew	2	20.0%
Goodman Group	Ian Ferrier	2	20.0%
Isentia Group Limited	Douglas Flynn	1	20.0%
Lendlease Group	David Crawford*	2	20.0%
Mantra Group Limited	Peter Bush*	1	20.0%
Ramsay Health Care Limited	Michael Siddle	2	20.0%
Saracen Mineral Holdings Limited	Geoffrey Clifford	1	20.0%
Seven West Media Limited	Kerry Stokes	2	20.0%
Sirtex Medical Limited	Richard Hill	1	20.0%
WorleyParsons Limited	John Grill	2	20.0%
Crown Resorts Limited	Robert Rankin	2	18.2%
Abacus Property Group	John Thame	1	16.7%
Adelaide Brighton Ltd	Leslie Hosking*	1	16.7%
Alumina Limited	George Pizzey	1	16.7%
Breville Group Limited	Steven Fisher	1	16.7%
BWP Trust	Erich Fraunschiel	1	16.7%
Charter Hall Group	David Clarke*	1	16.7%
Corporate Travel Management Limited	Anthony Bellas	1	16.7%
Costa Group Holdings Limited	Neil Chatfield*	1	16.7%

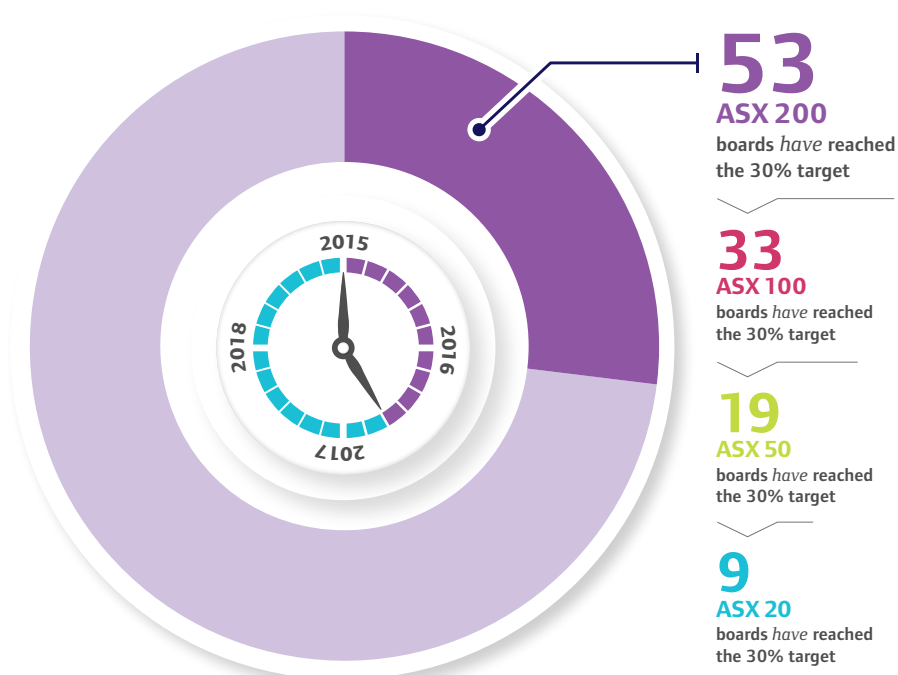
ASX 200 Company	Chair	No. of Female Directors	% of Female Directors
Domino's Pizza Enterprises Limited	Jack Cowin*	1	16.7%
Estia Health Limited	Patrick Grier	1	16.7%
G.U.D. Holdings Limited	Ross Herron	1	16.7%
G8 Education Limited	Mark Johnson*	1	16.7%
Magellan Financial Group Ltd	Brett Cairns	1	16.7%
McMillan Shakespeare Limited	Timothy Poole	1	16.7%
MYOB Group Limited	Justin Milne*	1	16.7%
Ozforex Group Limited	Peter Warne*	1	16.7%
Pact Group Holdings (Australia) Pty Ltd	Raphael Geminder*	1	16.7%
Regis Healthcare Limited	Mark Birrell	1	16.7%
Sandfire Resources NL	Derek La Ferla	1	16.7%
Skycity Entertainment Group Limited	Christopher Moller	1	16.7%
Steadfast Group Limited	Francis O'Halloran	1	16.7%
Syrah Resources Limited	James Askew	1	16.7%
Tassal Group Limited	Allan McCallum*	1	16.7%
Technology One Limited	Adrian Di Marco	1	16.7%
The A2 Milk Company Limited	David Hearn	1	16.7%
Aconex Ltd	Adam Lewis	1	14.3%
ALS Limited	Bruce Phillips	1	14.3%
Beach Energy Limited	Glenn Davis	1	14.3%
Brickworks Ltd	Robert Millner	1	14.3%
Eclixp Group Limited	Kerry Roxburgh	1	14.3%
Growthpoint Properties Australia Limited	Geoffrey Tomlinson*	1	14.3%
Macquarie Atlas Roads Group	Nora Scheinkestel	1	14.3%
Select Harvests Limited	Michael Iwaniw	1	14.3%
Tatts Group Limited	Harry Boon	1	14.3%
Automotive Holdings Group Limited	David Griffiths	1	12.5%
Bega Cheese Limited	Barry Irvin	1	12.5%
CIMIC Group Limited	Marcelino Fernandez-Verdes	1	12.5%
Cleanaway Waste Management Limited	Martin Hudson	1	12.5%
Fisher & Paykel Healthcare Corporation Limited	Antony Carter	1	12.5%
Nufarm Limited	Donald McGauchie	1	12.5%
Primary Health Care Limited	Robert Ferguson	1	12.5%
ResMed Inc	Peter Farrell	1	12.5%
South32 Limited	David Crawford*	1	12.5%
Treasury Wine Estates Limited	Paul Rayner	1	12.5%
Vocus Communications Limited	David Spence	1	12.5%
Harvey Norman Holdings Ltd	Gerald Harvey	1	11.1%
Oil Search Limited	Rick Lee*	1	11.1%
Santos Limited	Peter Coates	1	11.1%
Premier Investments Limited	Solomon Lew	1	10.0%
Seven Group Holdings Limited	Kerry Stokes	1	10.0%
Westfield Corporation Limited	Frank Lowy	1	8.3%
Altium Limited	Samuel Weiss*		0.0%
ARB Corporation Limited	Roger Brown		0.0%
Austal Limited	John Rothwell		0.0%

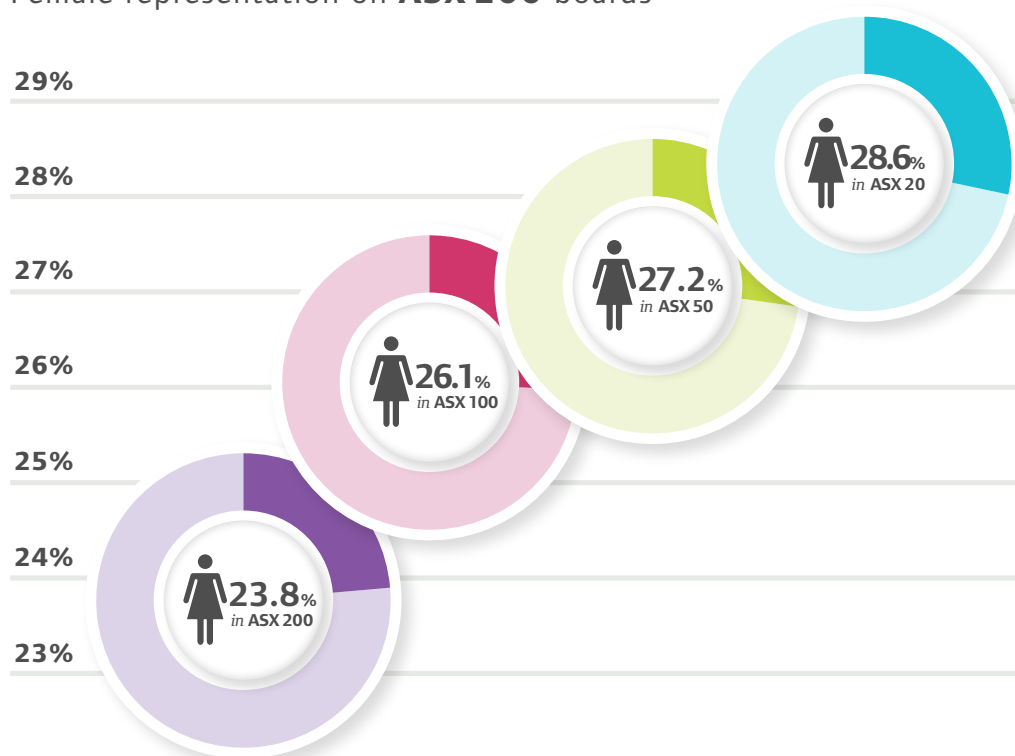
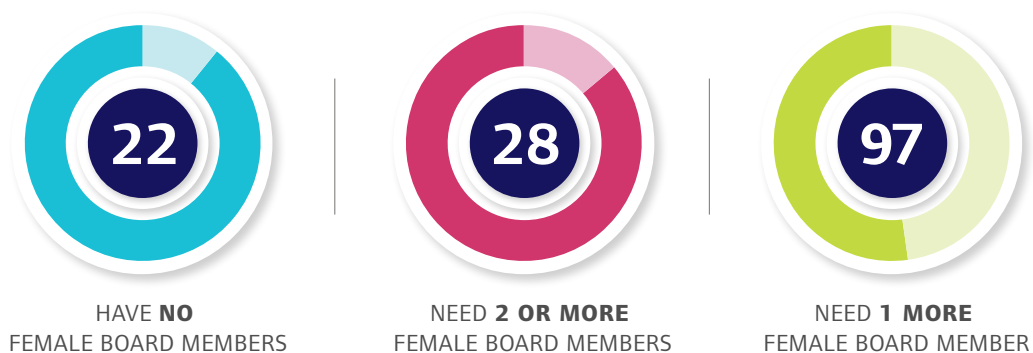
ASX 200 Company	Chair	No. of Female Directors	% of Female Directors
Australian Agricultural Company Limited	Donald McGauchie		0.0%
Aveo Group Limited	Seng Lee		0.0%
Evolution Mining Limited	Jacob Klein		0.0%
Flexigroup Limited	Andrew Abercrombie		0.0%
Flight Centre Travel Group Limited	Gary Smith		0.0%
GWA Group Limited	Darryl McDonough		0.0%
Independence Group NL	Peter Bilbe		0.0%
Investa Office Fund	Richard Longes		0.0%
Mayne Pharma Group Limited	Roger Corbett		0.0%
Mesoblast Ltd	Brian Jamieson		0.0%
Mineral Resources Limited	Peter Wade		0.0%
Monadelphous Group Limited	Calogero Rubino		0.0%
National Storage REIT	Laurence Brindle		0.0%
Northern Star Resources Ltd	Christopher Rowe		0.0%
Qube Holdings Limited	Christopher Corrigan		0.0%
Regis Resources Limited	Mark Clark		0.0%
Reliance Worldwide Corporation Limited	Jonathan Munz		0.0%
TPG Telecom Limited	David Teoh		0.0%
Western Areas Limited	Ian MacIver		0.0%

* Members of the 30% Club

† Elmer Funke Kupper is on a leave of absence from the Tabcorp board. He is still included in the numbers as a 3Z notice has not been filed with the ASX.

The number of boards that have reached the 30 per cent target and their position within the ASX 200 are included below.



Female representation on **ASX 200** boardsJust how close are we to reaching the **30%** target?

30% Club update



Patricia Cross FAICD

Australian Chair and Non-Executive Director,
30% Club



Rhian Richardson

Board Diversity Manager,
Australian Institute of Company Directors

The 30% Club working groups have had some noticeable successes in the last three months. The Education working group's *Barriers to Progression: The reasons Chairs and Non-Executive Directors (NEDs) use as to why they can't or won't appoint female directors to their boards* was released on 11 July to positive feedback. Although some of the excuses offered by directors are alarming, there are others that are just silly. It doesn't hurt to inject a little humour into the push for equality and the feedback received has been that the excuses are great conversation starters amongst directors.

The Investors working group released their *Statement of Intent* for the investment community, enabling organisations to publicly demonstrate their commitment to diversity and ensure they are following the principles of the statement within their respective organisations. An *Investor Toolkit for Engaging Boards on Diversity* was also released, providing a road map for engagement on this issue and encouraging the investment community to initiate conversations on gender diversity and board composition.

Both of these resources were released at two investor events hosted in Melbourne and Sydney in July. The speakers at each event, Margaret Jackson, Chair of Spotless Group and David Neal, Managing Director of the Future Fund in Melbourne and Kevin McCann, Chair of Citadel Group and Dixon Hospitality and Richard Brandweiner, former Chief Investment Officer at First State Super in Sydney, spoke about the importance of the investment and director community working together to influence change. David and Richard also spoke about their organisation's commitment to increasing the number of women working as funds managers to ensure they lead by example.

The events were attended by asset owners, Australian equity managers and other influencers working in the funds management industry. A number of attendees expressed an interest in signing up to the *Statement of Intent*. The Investors working group is now in the process of communicating the Statement and an associated code of conduct to attendees and the wider investment community.

Deloitte Digital hosted a marketing and audience engagement strategy workshop in July to help the Club develop the marketing and engagement strategy and goals for the next 12 months. The workshop was well attended by individuals with deep marketing, digital, PR expertise and communications expertise.

The Club is now seeking a financial sponsor for the public relations components of the plan. If your organisation is interested in assisting with the work of the 30% Club, please contact Rhian Richardson, Board Diversity Manager of the AICD (details below). Once a financial sponsor has been secured, the engagement plan will be finalised and further content will be produced that promotes the aims of the Club and the business benefits of diversity.

Lastly, we currently have 76 ASX 200 chair members representing 91 ASX 200 companies. Our chair members represent current and past ASX 200 companies and chair roles. Although we haven't reached our goal of 100 chair members, we hope to reach 100 ASX 200 companies being represented by the end of the year.



Getting to 30% Are we on track?

2016 REPORT



Executive summary

A spotlight on improving the representation of women on boards is finally yielding results. Based on the female yearly average appointment rate (*see definition A*) in the 12 months to 30 June 2016, women will comprise 30% of directors on ASX 200 boards by the end of 2018 in line with the target set by AICD in early 2015.

However, when taking into account three and a half year historical annual average rates, this goal will only be met in early 2019.

While parity remains a more distant ambition, advocacy by investors and others has substantially shifted the dial.

The challenge ahead is to maintain momentum. To meet the 30% target by the end of 2018 monthly new appointment rates (*see definition B*), as calculated by the AICD, need to be 38% or above. This equates to a female yearly average appointment rate of 25%.

Why 30%?

Diversity at board (and senior management) level is more than a social imperative; it is a performance and strategic priority. A growing body of research draws a link between representation of both genders in the board room and shareholder returns/risk management. Diversity includes more than gender, but – given women comprise half the population – a board's ability to tackle gender diversity is indicative of a broader commitment to inclusion. In addition, research shows gender diversity enhances group dynamics and improves the overall decision making processes of the board.

As the 30% Club, of which the AICD is the executive, states “30% is the proportion when critical mass is reached – in a group setting the voices of the minority group become heard in their own right, rather than simply representing the minority.”

Where to from here?

Through collective and continued advocacy from investors, boards and industry bodies, a 30% goal appears achievable, but recent robust appointment rates – a historical outlier and by no means a given –

must continue. Advocacy includes promoting a culture of inclusion: meaningful conversations with boards on why diversity matters and how boards embrace diversity in decision-making.

This report explores what it will take to achieve this target, as well as obstacles and related trends. It also models the forecast for equality and finds ASX 200 boards can achieve gender balance in 2022 if the commitment to diversity continues and financial year 2016 average appointment rates are maintained.

Definition A – Yearly average appointment rate

This report differs in purpose and methodology from the AICD's quarterly and monthly female appointment rate market updates. The definition of “yearly average appointment rate” used in this report takes into account historical appointments, total number of active directors (including tenure) and exit rates for men and women over 12 month periods.

The female yearly average appointment rate is:

Total female appointments for the 12 month period
Aggregate actives (female) for the period

The female yearly average exit rate is:

Total female exits for the 12 month period
Aggregate actives (female) for the period

The male yearly average appointment rate is:

Total male appointments for the 12 month period
Aggregate actives (male) for the period

The male yearly average exit rate is:

Total male exits for the 12 month period
Aggregate actives (male) for the period

This definition and the 12 month periods it is based on are further detailed in the “How are the projections calculated” and “Appendix: methodology” sections.

Definition B - Monthly appointment rate

Tables 2 and 5 also provide guidance on the monthly female “appointment rate”, as defined by the AICD in its monthly and quarterly diversity reporting.

The female monthly appointment rate is:

Female appointments for the month

Aggregate appointments (male + female) for the month

“30% is the proportion when critical mass is reached – in a group setting the voices of the minority group become heard in their own right, rather than simply representing the minority.”

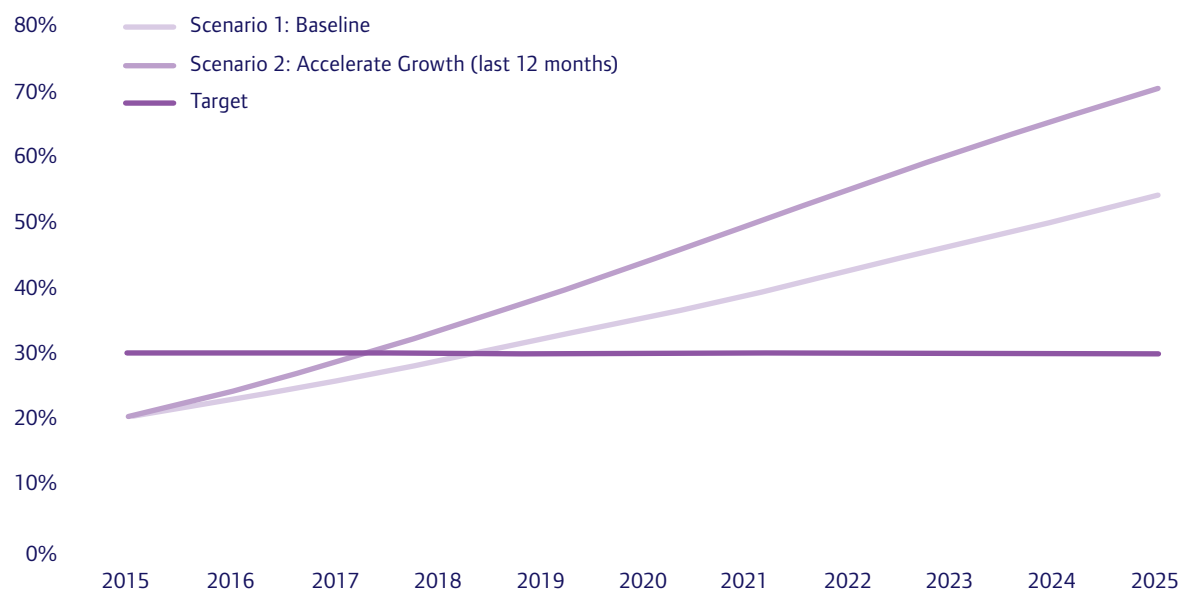
Insights and findings

On track to reach 30% by the end of 2018, if recent growth rates are maintained

The yearly average appointment rate of women to ASX 200 boards has rapidly accelerated in the 12 months to 30 June 2016. During this period (financial year 2016), the yearly average appointment rate climbed to 30.9% (males: 10.6%). This has been steadily increasing each year from a low of 16.1% in calendar year 2013. Subject to the continued momentum of financial year 2016, representation of women on boards is projected to exceed 30% by the end of 2018, reaching 29% in 2017. Comparably, the “baseline” female yearly average appointment rate, based on three and a half year historical data, is 24.8% (males: 11.3%), resulting in projected 30% female board representation in 2019.

Chart 1

Getting to 30%



How are the projections calculated?

Projections in this report are based on ‘Baseline’ and ‘Accelerate’ trends. ‘Baseline’ projections are based on average rates over four historical 12 month periods: financial year 2016 (“FY2016”), calendar year 2015 (“CY2015”), calendar year 2014 (“CY2014”) and calendar year 2013 (“CY2013”), while the ‘Accelerated’ projection is based on 12 months to June 2016 (FY2016). The yearly average rate is measured as the total number of female or male appointments from the designated period as a percentage of the total number of current male or female active board members. The exit rate is calculated in the same manner, using the total number of female or male exits. Actives are board members who have been on the board during the full period.

These numbers are then used to calculate the projections, which are based on the total number of active board members and the difference in percentage appointment and exit rates.

Using this difference, an increase (or decrease, should it occur) can be calculated for the total number of board members, as well as the representation of males and females.

As this report is based on data across the full calendar years 2013, 2014 and 2015, but the financial year ended 30 June 2016, there is an overlap between the 2015 and 2016 data. However, this approach is statistically sound because all rates are relative to a 12 month period, and there is an advantage that the data is weighted slightly more towards recent trends.

Chart 1 shows two projected outcomes, based on the following two scenarios:

- Baseline: Historical trend data based on 12 month data sets for the following periods: CY2013, CY2014, CY2015 and FY2016; and
- Accelerated: Current trend data set based on most recent 12 month period: FY2016.

No time for complacency

To achieve 30% by the end of 2018, the average yearly appointment rate must not slip below 25%. The table below highlights how a range of yearly average appointment rates impacts the target, demonstrating the importance of maintaining the momentum. This analysis assumes exit rates remain constant at 13.0% for females and 16.3% for males (current FY2016). Subject to maintaining strong

aggregate female appointments of 38% or above, the yearly average female appointment rate of 25% will be maintained and the projected target met. Again, this assumption is based on maintaining the average number of total director appointments of approximately 15 per month over a 12 month period. The historical three and a half year data also shows that the aggregate pool of ASX 200 directors has not significantly grown over that period.

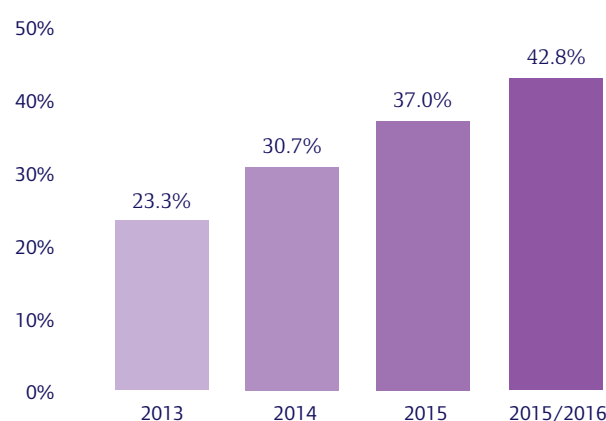
Table 2

AICD's Monthly New Female Appointment Rate	Yearly Average Female Appointment Rate	Timeframe for 30%
33%	20%	2019
38%	25%	2018
42%	30%	2018
46%	35%	2017
49%	40%	2017

As seen in Chart 3, new female appointment rates have climbed consistently over calendar years 2013, 2014 and 2015, and remained strong in the past 12 months.

Chart 3

AICD's Monthly New Female Appointment Rates



Female chairs lead more diverse boards

The data suggests women on boards beget women on boards. At 30 June 2016, there were just nine women (4.5%) chairing ASX 200 boards. As seen in the chart below, there is a correlation between female board chairs and gender diversity on the board – when there is a female chair, there is a significantly higher representation of females on the board.

This observation raises the question: causation or correlation? Do boards that value diversity attract women in senior roles, or do female chairs tend to recruit other women to their boards? The data points to women in chair roles as a key area for further investigation and advocacy.

Table 4

Gender of Chair	Female members	Male members
Female	35.8%	64.2%
Male	22.3%	77.7%

Is parity a distant dream?

Women are not a minority of the population, nor are they a minority of the consumers, customers and end-users of the constituents of the ASX 200. However they continue to be under-represented at board level. Through collaborative advocacy, appointments of women on boards have accelerated in recent years, but the gender diversity on boards (and in senior management) initiative is a journey, and there is no reason to remain complacent or accept 30% as the final destination.

The table below charts the journey to parity assuming steady exit rates.

Table 5

AICD's Monthly New Female Appointment Rate	Yearly Average Female Appointment Rate	Timeframe for 50%
33%	20%	2026
38%	25%	2023
42%	30%	2022
46%	35%	2021
49%	40%	2020

Who's on board? And who's not

Table 7 breaks the ASX 200 into bands, showing the aggregate number of companies and the proportion of the index at each percentage of female board representation. Leading the pack on female board representation in the ASX 200 is Medibank Private Limited, which also has

a female chair. This table shows that 3.5% of ASX 200 companies have achieved parity, and 25.5% have reached at least 30% in advance of the 2018 target.

Table 6

% of Female Directors	# of companies in index (current)	% of pool
71.4%	1	0.5%
57.1%	1	0.5%
50.0%	5	2.5%
44.4%	1	0.5%
42.9%	6	3.0%
40.0%	5	2.5%
37.5%	2	1.0%
33.3%	22	11.0%
30.0%	8	4.0%
28.6%	25	12.5%
27.3%	3	1.5%
25.0%	24	12.0%
22.2%	8	4.0%
20.0%	14	7.0%
18.2%	2	1.0%
16.7%	24	12.0%
14.3%	10	5.0%
12.5%	13	6.5%
11.1%	3	1.5%
10.0%	2	1.0%
9.1%	1	0.5%
0.0%	20	10.0%

However, boards without women still exist and 10% of the index (20 companies) still had no women on their boards. Those companies remain a focus for engagement and advocacy.

The ins (average yearly appointment rates) and outs (exits)

Encouragingly, overall average yearly appointment rates for women exceed exit rates across all years. The current FY2016 female appoint rate of 30.9% contrasts with an exit rate of 13%. A sector-by-sector analysis identifies positive and negative outliers over the last 12 months. In the lead are the household & personal products (40%) and insurance (34.8%) industries, both well ahead of the 30% target. Laggard

Table 7

	Average Yearly Appointment Rates		Average Yearly Exit Rates	
	Female	Male	Female	Male
Calendar year 2013	16.1%	10.5%	14.6%	15.2%
Calendar year 2014	25.0%	12.4%	19.0%	18.9%
Calendar year 2015	27.1%	11.8%	13.1%	17.2%
Financial year 2016	30.9%	10.6%	13.0%	16.3%

industries include automobiles and components (0%), consumer durables and apparel (0%), capital goods (3.7%) and pharmaceuticals & biotechnology (7.7%).

It is important to note that four sectors make-up almost a half of the total index, having a large impact on outcomes. Those four industries are Materials (29 companies/16.8% of sample), Real Estate (18/10.4%), Consumer Services (13/7.5%) and Health Care Equipment & Services (13/7.5%), with active female board participation of 20.0%, 20.3%, 19.7% and 18.5% respectively, all below the 30% target.

Table 8

	Actives		Appointments		Exits	
	Female	Male	Female	Male	Female	Male
Automobiles & Components	0.0%	100.0%	--	--	0.0%	100.0%
Banks	24.1%	75.9%	54.5%	45.5%	25.0%	75.0%
Capital Goods	3.7%	96.3%	50.0%	50.0%	0.0%	100.0%
Commercial Services & Supplies	24.1%	75.9%	40.0%	60.0%	0.0%	100.0%
Consumer Durables & Apparel	0.0%	100.0%	100.0%	0.0%	0.0%	100.0%
Consumer Services	19.7%	80.3%	50.0%	50.0%	50.0%	50.0%
Diversified Financials	23.4%	76.6%	42.9%	57.1%	27.3%	72.7%
Energy	18.5%	81.5%	33.3%	66.7%	50.0%	50.0%
Food & Staples Retailing	30.0%	70.0%	57.1%	42.9%	28.6%	71.4%
Food, Beverage & Tobacco	13.7%	86.3%	40.0%	60.0%	0.0%	100.0%
Health Care Equipment & Services	18.5%	81.5%	33.3%	66.7%	23.1%	76.9%
Household & Personal Products	40.0%	60.0%	0.0%	100.0%	0.0%	100.0%
Insurance	34.8%	65.2%	42.9%	57.1%	10.0%	90.0%
Materials	20.0%	80.0%	33.3%	66.7%	7.7%	92.3%
Media	22.2%	77.8%	77.8%	22.2%	6.7%	93.3%
Pharmaceuticals & Biotechnology	7.7%	92.3%	100.0%	0.0%	--	--
Real Estate	20.3%	79.7%	35.7%	64.3%	7.7%	92.3%
Retailing	15.8%	84.2%	66.7%	33.3%	25.0%	75.0%
Software & Services	19.2%	80.8%	100.0%	0.0%	0.0%	100.0%
Telecommunication Services	13.6%	86.4%	22.2%	77.8%	16.7%	83.3%
Transportation	22.0%	78.0%	16.7%	83.3%	0.0%	100.0%
Utilities	33.3%	66.7%	25.0%	75.0%	20.0%	80.0%
Overall (current)	20.4%	79.6%	42.8%	57.2%	17.0%	83.0%

Women more likely to sit on more boards, relative to men

Tables 9 and 10 reaffirm a key perception in the market: that female directors on ASX 200 boards hold an average of 1.4 board seats, relative to 1.2 for their male counterparts (as at 30 June 2016), which is statistically significant. Further, 11.8% of female directors sit on 3+ boards, as compared to just 3.0% of male directors. Caution needs to be taken when looking at percentages as there are an equal number of men and women, 29 in total, that sit on 3+ boards, yet the larger number of men on ASX 200 boards, 947 compared to 244, enlarges this percentage for female directors.

Table 9

Average # of boards	
Female	1.4
Male	1.2

Further investigation is required to understand the higher proportion of female directors sitting on 3+ boards relative to the total number of women on ASX 200 boards. There are several theories on root causes of this trend, i.e. that more women view directorship as a full-time career path relative to men, or that unconscious bias favours “known” and “road tested” female directors. Until the total number of female directors increases to match the total numbers of male directors, it will be difficult to conduct a proper like-for-like comparison and ascertain whether there are truly more female directors sitting on 3+ boards.

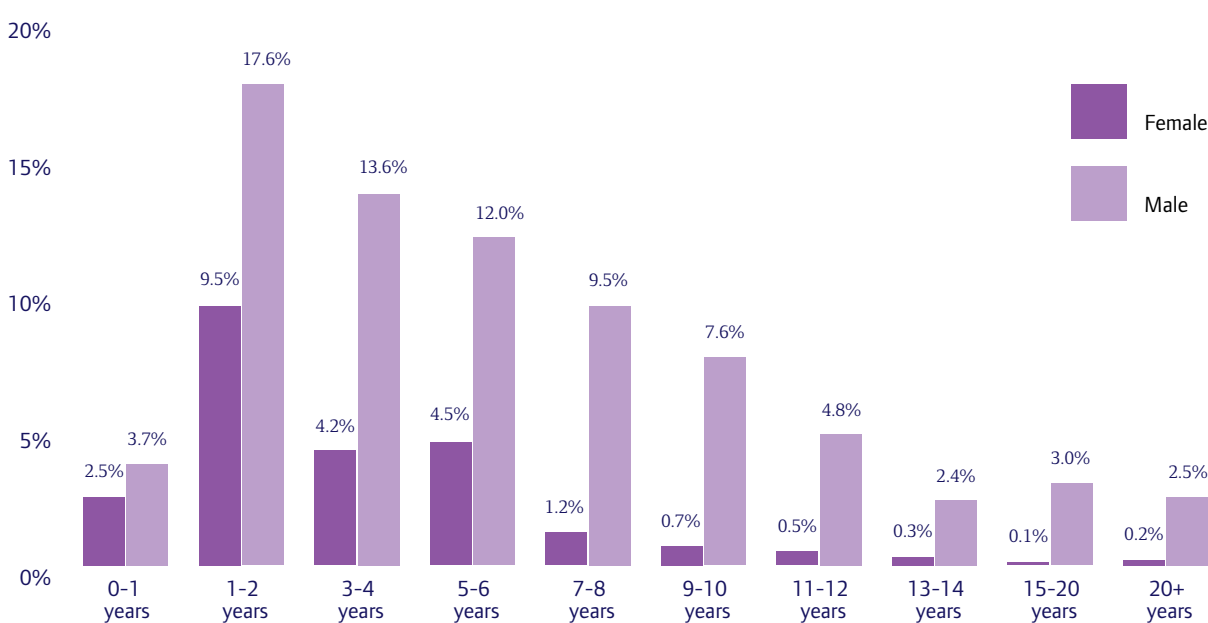
Table 10

# of boards	Female	Male	% of gender: F	% of gender: M
1	178	805	73.0%	85.0%
2	37	113	15.2%	11.9%
3	24	24	9.8%	2.5%
4	5	4	2.0%	0.4%
5	0	1	0.0%	0.1%
6	0	0	0.0%	0.0%

Tenure is heavily gendered

The link between tenure and gender is strong. Men currently (as at June 30) hold 92.5% of board seats tenured 11+ years, representing 12.7% of all board seats. Boards that continue to lack gender diversity may want to review their succession planning policies and investors and other advocates might similarly consider this issue in engaging with those boards.

Table 11



Appendix: methodology

As this report is based on data across the full calendar years 2013, 2014 and 2015, but the financial year ended 30 June 2016, there is an overlap between the 2015 and 2016 data. However, this approach is statistically sound because all rates are relative to a 12 month period, and there is an advantage that the data is weighted slightly more towards recent trends.

Due to periodic readjustments to the index throughout the year, and companies falling in and out of the index, the sample size was below 200 in each case, and included:

- FY2016: 173 companies
- CY2015: 168 companies
- CY2014: 176 companies
- CY2013: 180 companies
- As at 30 June 2016: 200 companies

References to “current” in this report relate to the FY2016 data.

However, projections, and the yearly average appointment/exit rates that underpin them, are based on two different time periods as follows:

- Baseline: Historical trend data based on 12 month data sets for the following periods: 2013, 2014, 2015 and 2015/2016
- Accelerated: Current trend data set based on most recent 12 month period; July 2015 to June 2016

The director pool includes both executive and non-executive directors and changes to the pool are based on the following definitions:

- “Actives” are directors who were on the board for the full period
- “Appointments” include anyone who newly joined the board during that period
- “Exits” are directors who are not “appointments” and who did not serve a full period

Finally, we have used the S&P/ASX official GICS codes classifications to define industry groups.

Avoiding the merit trap



Diane Smith-Gander

President, Chief Executive Women,
Non-Executive Director, Wesfarmers Limited

Tomorrow's businesses will look different to those of today, so we should expect our future leaders to have different backgrounds, skill sets and leadership styles to those of today.

Most people we meet in business believe that everyone should be judged on their merits and not factors such as race or gender. But, to make progress on gender equality and reap the benefits of diversity, we must confront the often unintended obstacle that our use of the concept of 'merit' presents.

If we continue to define merit as 'people like us' who have done what we have done, we will get more of the same, and be unable to meet the challenges of the future.

The ingredients for merit are both performance and potential. Past performance can be assessed only as long as performance benchmarks and outcomes are clear. Evaluating potential is, however, almost totally a subjective exercise.

Chief Executive Women and the Male Champions of Change share a common goal – that of a significant and sustainable increase in the representation of women in leadership. Working together, we identify approaches towards this end, put them into practice, and share those that are successful. We have worked together on the puzzle of merit and the result is our recent report, *In the Eye of the Beholder: Avoiding the Merit Trap*.

The report encapsulates what we have learned about how biases can influence the way the concept of merit is understood and applied. We share some of our efforts in this area with a view to more leaders delivering outcomes closer to what we wish to achieve: true meritocracy.

What is the Merit Trap?

Research shows – paradoxically – that the more organisations believe they are meritocracies, the more likely their leaders are to show bias.

Too often decision-makers think they're selecting the best person for the job on the basis of merit, but in fact they're favouring people who look like them or think like them and ignoring attributes required by organisations to meet its future needs. By mistakenly believing they can innately recognise the package of admirable qualities that defines merit they devalue merit and fall into the merit trap. In practice, this often means a bias in favour of men over women who have the skills and potential required by the organisation in the future.



Kevin McCann, AM

Non-Executive Director, Chairman The Citadel
Group Limited,
Male Champion of Change

Avoiding the Merit Trap

Spotting the merit trap warning signs can be as simple as tuning into conversations at decision making time. Perhaps like us you've heard "She's a great performer, but some people think she's aloof" or "She's great but she's not ready yet" or even "She gets things done but she's too aggressive". These statements reveal common biases that research tells us are unfounded. For example, certain behaviours in men that are seen as 'commercial' are seen as 'aggressive' in women. In our experience, organisations are prepared to take a bigger risk when appointing a man than when appointing a woman.

As leaders we must check ourselves when we declare "I always appoint the best person for the job". It's well worth posing some questions like: Is your preferred candidate just like you? Does your organisation struggle to keep diverse recruits? Are the candidates you deem risky those with different leadership styles? Do you consider the impact each candidate will make as a team member, as well as a leader? Are your hiring criteria based on future needs?

Merit is context driven and this is where a good, hard look at organisational processes is vital. For an appointment to be truly meritorious, the decision making process must include a critical evaluation of:

- potential as well as past performance;
- impact as a team member as well as an individual contributor;
- the processes in place to minimise bias in decision making;
- your organisation's future needs;
- agility to face disruptive competitors.

Does your organisation examine the use of merit?

1 LEVEL

'All of our decisions are merit-based.'

THE MEANING OF MERIT IS UNCHALLENGED

- Many in your organisation fully believe that gender imbalance is explained by actual gaps in experience, ability and potential
- Assumptions about 'meritocracy' are preserving the status quo and allowing existing biases to go unchecked
- Candidates are selected based on narrowly defined experiences and a tacit understanding of 'organisational fit'

The result? Gender diversity is unlikely to significantly improve

2 LEVEL

'We have introduced a range of diversity programs but we haven't seen a big increase in women in senior roles.'

SOME WORK IS BEING DONE TO CHALLENGE ASSUMPTIONS ABOUT MERIT

- Efforts to challenge merit are implemented inconsistently
- Gender imbalance is recognised and the focus is to 'fix' women not change the status quo
- Objectivity is called into question (e.g. 'She got special treatment')

The result? Glacial improvements, gender imbalance likely to remain

3 LEVEL

'We are seeing a steady and sustained increase in the number of women in senior roles.'

THE USE OF MERIT IS CONSISTENTLY CHECKED TO DELIVER BETTER BUSINESS PERFORMANCE

- Leaders consistently check for impact of biases
- Interventions to manage bias are integrated throughout the employee lifecycle
- Attributes, skills and learnings are acquired from a variety of experiences and pathways
- Gender balance is recognised as a business priority
- The link between diverse teams of leaders and better business outcomes is understood and reinforced by leadership

The result? Problem areas are identified and addressed, results are measured and consistent progress to diverse leadership talent is achieved

If more organisations examine their use of merit, a new generation will step up and shape our economy and the old definition of merit – that is somebody who looks and thinks like me – will be a thing of the past.

Board careers may start by thinking big but starting small



Katie Lahey

Executive Chairman
Korn Ferry

An all too common discussion at Korn Ferry's Board Services meetings is the need to manage expectations of aspiring board directors. We often meet candidates who have had strong executive careers and hope to start their board careers on the biggest and most sought after boards – the ASX 20. However, it is a rare executive that transitions straight to a top 20 board; in fact I would say only a high performing top 20 CEO is likely to start their board career there. There are some notable exceptions to this rule, but the first NED role at a listed organisation usually starts with a higher number – and a smaller company – on the ASX 200.

The advice we give aspiring directors is to look beyond the ASX 20 to the rest of the ASX. This is particularly relevant to women, who are less likely to be transitioning from a CEO role at a major listed company to a seat at a top board.

For first time directors seeking a board career, the more junior listed companies, which usually have smaller boards, offer a great opportunity to gain board experience and to have a strong voice around the board table. The women who have successful board careers on top 20 boards have often served on boards of smaller, listed organisations, on government boards, or non-profit boards.

Korn Ferry's 2013 report on the pathway to boards for women revealed that there is no single pathway to directorship, rather a range of pathways to the board table. The women we surveyed were highly qualified, cut their teeth on non-profit or government boards, understood how boards operated, and had already built a successful executive career. Most said their work on non-profit or government boards was the most effective preparation they experienced. One woman served on 13 non-profit boards before she was offered her first listed board seat. Others pursued corporate roles in which they gained relevant experience or sought out mentors to help them prepare for a NED career.

There are many pathways to a seat on a listed board and there is no better training for a board than being a successful corporate leader. One experienced NED noted that an executive career is where you establish technical skills, reputation, and commercial exposure—the positions that will prepare you to bring value to a board.

The allure of the ASX 20 is evident; they are strong boards, represented by the cream of Australian business including our best women directors. However, competition for these board seats is fierce and the best way to be considered for a top 20 seat is to bring varied and deep experience to the table.

Your first board is important and candidates need to be aspirational; but they also need to be realistic. Holding out for a top 20 board position could take years. I believe that time could be better spent gaining listed board experience elsewhere.

Finally, some advice to those boards that do not yet have a female director. If you are looking to boost women's participation specifically, and I hope you are, this requires understanding—and accepting as legitimate—the varied pathways women often take to a board seat. The journey men travel toward a board career, often from being CEO, CFO, or holding another C-suite role, is not as common for female directors. And yet the richness of experience collected along an alternative route to board service can be equally valuable.

Advice to women considering a board career

- Develop your executive career with an eye on your board career. Be aggressive in advancing in your line experience. Don't shift out of management too early. Gain as much senior corporate experience as possible, particularly a C-suite position with P&L responsibility. All these help secure board roles.
- Ensure you have boardroom skills. Fill any gap in skills, particularly related to financials such as the balance sheet and cash flow drivers of a business. Be prepared not only to understand, but contribute to the debate on key accounting and financing issues.
- Complete the AICD Company Directors Course.
- Obtain board experience. While still an executive, seek a seat on a subsidiary and/or non-profit board to gain experience. Be a willing and active participant on industry committees and working parties. Consider government boards in which quality NEDs and good governance exist.
- Know the right people. Networks are extremely important; new director selections are still heavily influenced by existing board members. Find a mentor—or better yet, a sponsor—who will open doors and introduce you to others. Ask senior board directors for recommendations and referrals.
- Choose a board with care. Research the company, the directors, and their track record of governance. Do not underestimate the importance of board dynamics and personal relationships in determining whether you'll find a board position fulfilling.
- Market yourself smartly. Have clarity on the kind of board you are interested in, and know what you would bring to such an opportunity. Have confidence and courage to put yourself forward for roles. Display a maturity that is essential in the boardroom. Remain confident in your ambition, and know that more often than not, rejection for selection is structural, not personal.
- Be realistic. Consider whether and why a board needs your skills and if there are gaps, seek to fill them. Do not wait too long for the high profile board role. You could be gaining bench strength on a smaller board during that time.

Adapted from; *Beyond if not why not, the pathway to directorship for women in leadership*, Korn Ferry, 2013. Korn-Ferry_Beyond-if-not-why-not.pdf

Role of Company Secretaries in promoting diverse boards



Joanne Hawkins
General Manager Legal Risk
and Company Secretary
Perpetual

Company secretaries are in a privileged position to see the reality of boards in action. They have the opportunity to view the overall dynamics of the board together with the contribution of individual directors and how that informs board decision making. It has been my experience as a company secretary that diversity, be it of skills, expertise, age, ethnicity or gender, can enhance the working of a board in terms of its decision making.

A board made up of directors with diverse capabilities and backgrounds has the ability to tap into the different perspectives of its directors. Directors are faced with increasing complexity in terms of both their legal responsibilities and stakeholder expectations. The ability to have a wide ranging discussion at the board table which can anticipate the consequences of decisions is a factor which the most effective boards share. This is underpinned by the diverse characteristics of those board members.

What is the role of the company secretary as regards board diversity? A scan of the company secretaries for the ASX 100 companies reveals a group which is reasonably diverse when assessed by gender at least. How can company secretaries support wider organisational diversity objectives? Individual company secretaries may play varied roles which can support the development of a board with diverse characteristics. The ASX Corporate Governance Principles and Recommendations (Recommendation 1.5) require listed companies to disclose their own diversity policies with measurable diversity objectives across board and management. Again depending on the organisation, company secretaries may be involved in the drafting and ongoing maintenance of a Diversity Policy. Other company secretaries may play a role assisting in the nomination and appointment of directors, the identification of internal talent for subsidiary board roles and board education and training in relation to diversity. Many of these aspects of a company secretary's role happen "behind the scenes." The company secretary's role relating to diversity is not readily apparent in listed companies' published disclosures. None of the ASX 50 companies disclose a specific role for a company secretary in this regard.

An area where company secretaries are likely to be involved is the creation and maintenance of board skills matrices. Recommendation 2.2 of the ASX Corporate Governance Principles and Recommendations requires that a "listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve". Recommendation 2.2 is a relatively recent addition and the disclosures in relation to board skill matrices are still evolving. A board skills matrix is one of the tools which can be used to promote and assist in the construction of a diverse board.

“Diversity is a core part of building an effective board.”

Looking at the ASX 50 companies, only 24 of those companies provide a numerical or percentage breakdown across the skills matrix.

Of those 24 board skills matrices:

- seven included “gender” (CBA, BHP Billiton, Woolworths, Amcor, Vicinity Centres, Lendlease, Incitec Pivot)
- three included “location” (as distinct from overseas “experience”) (BHP Billiton, Amcor, South32)
- two included “age” (CBA, Sonic Healthcare)
- one included “diversity” (Origin Energy)

There did not appear to be a clear link between market capitalisation or the type of industry and the inclusion of diversity criteria in the matrix.

There were 25 companies that did not provide a quantifiable matrix. Only a small number of these referred to diversity as an element considered in assessing board composition. This does not appear to reflect the practice of many listed companies. In particular gender is a factor which many listed companies appear to be actively considering when assessing the composition of the board. This is supported by the increasing numbers of listed companies joining the Australian chapter of the 30% club which has an objective of achieving 30 per cent female representation on ASX 200 boards by the end of 2018.

The absence of diversity criteria suggests companies may consider diversity a distinct issue, separate from achieving the most effective mix on the board that the skills matrix endeavours to capture. In my view, diversity is a core part of building an effective board and there is an opportunity for company secretaries to promote the inclusion of the elements of diversity as a fundamental part of assessing board skills and composition.

Heads Over Heels: Empowering Gender Diversity in Entrepreneurship



Fiona Boyd
CEO and Director
Heads Over Heels

Significant progress has been achieved towards increased diversity and representation of women on boards, and at executive level. Until recently however, there has been less attention given to the promotion and support of female entrepreneurs.

Heads Over Heels was formed to help women entrepreneurs gain access to the capital and support networks to help them grow and accelerate their businesses. One of the most important determinants of entrepreneurial success is access to business networks, however women are much less likely than men to have access to a broad network of financiers, mentors, advisors, clients and suppliers – all connections which they need to grow their businesses.

Emerging businesses need support to flourish, and in a recent article over 48 per cent of women entrepreneurs reported a lack of available advisors and mentors – “with the majority of the high-level business world still being dominated by men, it can be hard to blaze your own path and facilitate the introductions and connections into some of the more elite business networks”.

Heads Over Heels identifies and selects a portfolio of high potential women entrepreneurs, and facilitates access to business networks of both male and female connectors. There is a careful screening process to ensure that each Portfolio company has a strong business plan with aspirations for rapid growth and scalability. The selected portfolio companies then pitch their businesses and their specific ‘asks’ to business and community leaders at regularly held, highly structured events. In this way, Heads Over Heels helps level the playing field for women entrepreneurs, promoting greater gender equality and aspirational role models for women and men alike.

But, the motivation behind Heads Over Heels is not simply about ‘doing the right thing’ or about fairness. The high achieving portfolio of women entrepreneurs that Heads Over Heels represents, may well become the leaders of tomorrow’s major Australian businesses. Just as it makes economic sense for the diversity of the global market-place to be reflected in those who lead companies, it also holds that if women can fully participate as entrepreneurs, the economic benefits should follow.

The 2015 Global Entrepreneurship Monitor (GEM) Women’s report notes that substantial progress has been made on gender equity, simultaneously with the worldwide recognition that entrepreneurship is critical to economic development and sustainability. Entrepreneurs create jobs, and can enrich their societies by creating solutions to social problems.

They also introduce innovations, launch new industries and revive mature ones. With the looming global employment challenge, women need to be allowed to fully participate in these economic activities.

The local economic imperative is equally as confronting when we consider the disruption that is occurring across every industry sector in Australia. The Committee for Economic Development of Australia (CEDA) has reported that over 5 million jobs, almost 40 per cent of Australian jobs that exist today, have a high likelihood of disappearing in the next 10-15 years due to technology advancements.

It will be the current small start-ups – the businesses of the future, that will help create new employment opportunities and potentially replace some of the existing jobs lost through industry change and disruption. The 2015 Australian Innovation Report stated that over a 5 period (2006-11) there were 1.44 million FTE roles added to the Australian economy by start-up companies (businesses 2 years old or younger). During the same time-frame, existing corporations shed more than 400,000 FTE roles.

Women entrepreneurs have an important role to play in this start-up economy. According to the 2015 GEM Women's Report, approximately 10 per cent of the Australian adult female population are starting or running early stage businesses, as compared with just over 15 per cent of the adult male population. In the U.S., more than half of the 9.72 million new jobs to be established by 2018 in the SME sector will be created by woman-owned SMEs.

Start-up organisations led by or co-founded by women can also generate significantly higher returns. A recent article written by Therese Huston in the Australian Financial Review highlighted a venture capitalist group which examined 300 start-up organisations over a 10-year period, and concluded that those companies with either a female leader or co-founder performed 63 per cent better than companies founded only by men. Other research conducted by Dow Jones, Kauffman Foundation, and the SBA Office of Advocacy, have reported similarly high levels of return from female-led companies, including those in technology sectors. Another study analysing a dataset from 350 micro-finance institutions across 70 countries indicated lending to more women was associated with lower write-offs and lower portfolio-at-risk.

And yet, as the article noted, when it comes to achieving the critical support and financing needed to grow their businesses, it appears that women are not being given a 'fair

“When it comes to achieving the critical support and financing needed to grow their business, it appears that women are not being given a 'fair go'.”

go'. Babson College in the USA discovered that over a two-year period, companies with a female Chief Executive received \$US1.5 billion in venture capital, while companies led by men received \$US49.3 billion. Another study conducted by Harvard Business School, found that when men and women pitched the same idea, investors were 60 per cent more likely to invest when a man proposed it.

Access to appropriate financing options at all stages of business development for women entrepreneurs is essential, but as women develop and grow from micro to medium-sized businesses, they can sometimes encounter unexpected hurdles and ingrained gender bias in the lending process from the traditional investment community.

This again may be changing as women seek to build and leverage their own entrepreneurial eco-system, with more women moving into angel investment activities in addition to investment banking and VC's. According to the Centre for Venture Research, as at 2014, 26 per cent of all angels were women, and 36 per cent of all companies seeking funding were women, both of which had increased substantially from previous years.

Angel investors play an important role in assisting potential high-growth companies to achieve the early funding they need, as traditional banking loans are usually only provided when the business has the cash flow to cover monthly debt payments. In addition to funding, both female and male angel investors - who are an important part of the Heads Over Heels network - may also offer introductions to major customers, key employees, vendors, mentoring and strategic advice.

Women angels also sometimes sit on the boards of the companies they invest in. As these companies grow larger, women will get the experience needed to also sit on larger company boards, which should in turn help create a virtuous circle to further increase diversity.

As Geri Stengel notes, women angel investors can do more than simply crack the glass ceiling that prevents women from getting the capital they need, “women angels fly right through it”.

Entrepreneurship also provides opportunities for women to sidestep the glass ceiling. Although it may be risky to start a business, women are often keen to control their own destiny and no longer aspire to the corner office as their top career choice.

For smart investors and business people willing to back women entrepreneurs, there are significant untapped opportunities. The 2015 GEM report highlighted that when defining innovation as “offering products that are new to some or all customers, women entrepreneurs often display higher levels of innovation than their male counterparts”. This is yet another reason why women entrepreneurs are increasingly being recognised by the investment and business community.

At Heads Over Heels, we aim to be part of that change and to help our portfolio of women entrepreneurs with practical solutions to help accelerate their businesses. For us, that involves creating meaningful and targeted connections to a vast network of business leaders, prospective clients, advisors, angel investors and other financiers, who are all passionate about assisting women entrepreneurs to realize their full potential.

Heads Over Heels is supported by a group of dedicated Partners and Sponsors, including EY, Macquarie Group, CBA, Gilbert & Tobin, NSW Department of Industry, Hollard Insurance and Steadfast Insurance. The Heads Over Heels network has facilitated more than 2000 high impact, targeted connections for a diverse portfolio of female entrepreneurs, and although not a funding organisation has helped raise more than \$22million through its investment Connectors.

¹ ‘6 Challenges Women entrepreneurs face’, Paula Fernandes, Business News Daily May 10, 2016

² 2015 Global Entrepreneurship Monitor (GEM) Women’s report

³ <http://www.ceda.com.au/2015/06/16/five-million-Aussie-jobs-gone-in-10-to-15-years>

⁴ <http://www.industry.gov.au/Australian-Innovation-System/Australian-Innovation-System-Report-2015.pdf>

⁵ ‘Men miss out by underestimating women entrepreneurs’, Therese Huston – AFR, July 15th, 2016

⁶ ‘Angels change the ratio for Women Entrepreneurs’, Geri Stengels, Forbes, May 2014

⁷ ‘Entrepreneurship And Angel Investing Are Breaking Barriers For Women’ Geri Stengels, Forbes, May 2014

Why inclusion should be on the board agenda



Yolanda Beattie

Practice Leader Diversity and Inclusion
Mercer

The trajectory of corporate scandal has now become so familiar we can almost predict how each one will play out as the media headlines start to roll and regulators muscle up to investigate.

Those CEOs and their boards are often disappointed to discover that, beneath all the laudable company values, a toxic subculture existed.

At the heart of the issue is often a mismatch between what employees are expected to do and what they are actually rewarded for. But rewards and incentives are only part of the story. It is also a failure of culture – also known as “the way we do things around here” – and leadership. In particular, a failure to recruit and develop leaders with the right moral compass and personal strength who can cultivate the behaviours that deliver performance and meet the varied needs of a range of stakeholders.

As the late US management consultant Peter Drucker famously said: “Culture eats strategy for breakfast”.

Why culture matters and how you can build a great one

Focusing on culture is not just about avoiding becoming the next corporate scandal. Increasingly, it’s also about managing and delivering in uncertain and ambiguous times.

Yet, it can also be a source of great frustration for leaders. It is a difficult and complex task to change what is effectively the operating system of an organisation.

At Mercer, we believe there are four elements to creating a great culture and, if these are in place, leaders can improve decision-making across their businesses and make it less likely that they will become the subject of a Four Corners expose. These elements are:

1. Individual roles must be aligned with a clearly articulated, purpose-led business strategy which allows people to understand the context in which they operate.
2. Team diversity across decision-making styles, and gender and cultural identity.
3. Leadership and management ability to value and include that difference.
4. Aligned remuneration and incentive structures.

“We may feel more comfortable with people who look like us and sound like us, but a mono-culture delivers narrow thinking.”

Where you fit in the big picture: Role alignment

In terms of employees understanding the context of their work – the first element – there is now evidence to show the link between “why” we work and “how” we work. It is important that the motivation to work (the “why”) is a positive one.

Six motivations for work have been identified by US academics Lindsay McGregor and Neel Doshi. There are three positive ones: play (you enjoy it), purpose (you value the work’s impact) and potential (it enhances your career goals). The negative motivations are: emotional pressure (perhaps to avoid disappointing yourself or others), economic pressure (to gain a reward or avoid a punishment) and inertia (you no longer know why you are doing it, you just do).

As an example of how to foster the “purpose” motivation, pharmaceutical company Novartis has invited patients to “town hall” style meetings at its Canadian head office so its employees could learn how their work benefitted customers and their families. Almost every job contributes to a bigger picture and leaders have to be able to articulate that purpose in a way that is authentic and credible.

Team diversity – beyond visible difference

The second element of creating a great culture is diversity, however it needs to encompass more than just gender and race to be truly effective. Different thinking styles and backgrounds are essential in ridding a team of “group think”.

In her book, *Which Two Heads Are Better Than One?*, Deloitte Partner, Juliet Bourke, points out there is a common link between the discovery of DNA, the breaking of the German Enigma Code, the development of the Black-Scholes Options Pricing and Charles Darwin’s theory of natural selection.

“[These are] seemingly disparate moments in science, war and economics – but there’s a unifying theme,” she writes.

“The DNA scientists came from the diverse disciplines of chemistry, biology and physics. The Enigma Code breakers comprised linguists, mathematicians and scientists. The Black-Scholes model blended economics, mathematics and heat transfer physics.

“Darwin, a geologist, relied heavily on Gould, an ornithologist, to understand the significance of the birds he had collected from the Galapagos Islands.”

We may feel more comfortable with people who look like us and sound like us, but a mono-culture delivers narrow thinking.

Visible difference is also a powerful ingredient in creating a vibrant and effective organisation. When, for instance, there is gender and cultural diversity in people around a table, more effective conversations are triggered because people are less likely to make assumptions, they ask more questions and share more detail.

Inclusive leadership and management

If employees observe their leaders valuing difference in others, they can believe it is possible to achieve their own potential, without being affected by someone else's bias. But if, for instance, there are no (or not enough) women at the top, this is a visible and obvious signal their organisation is not a meritocracy.

Mercer's *When Women Thrive* global research platform shows women and men thrive when they have leaders who are passionate, who have a personal commitment to diversity and who are prepared to persevere to get it right.

Those leaders have to take on the heavy lifting of cultural change themselves. You build inclusive leaders by making it their task to prove the need for action on diversity and diagnose the precise pain-points, to redesign the processes that exclude talent segments, and then to lead the programs that drive change.

Mercer's approach to inclusive leadership development has mindfulness at its heart, using neuroscience to cultivate self-awareness and the ability to be non-judgmental. Enhancing cognitive capacity by reducing stress and encouraging a growth mind-set enables the kind of curiosity that is essential for leaders to be able to lead inclusively.

Rewarding the right behaviours

Rewards and incentives are a powerful management control system that has the most positive impact when aligned with a broader range of motivators, in line with McGregor and Doshi's purpose, play, potential framework. Interestingly, McGregor and Doshi say having a sales commission without believing that your work helps customers actually decreases motivation "If you don't believe in what you're doing, the commission becomes your motive ... If you do believe in what you're doing, the commission is gravy," they say.

Embedding inclusion outcomes into balanced scorecards is a relatively simple accountability method that ties leaders' and managers' remuneration to the behaviours that drive better decision-making and positive cultural outcomes.

But be warned...linking short term incentive structures to gender composition targets alone can backfire. It can lead to a mad scramble at year end to only hire women so that targets can be met – and that sends a bad signal to everyone.

Instead, a cultural scoreboard incorporating a range of metrics like engagement and inclusion scores by gender or promotion rates of different talent segments ensures people are rewarded for the behaviours that most contribute to the endgame of better decision making.

"If you don't believe in what you're doing, the commission becomes your motive... If you do believe in what you're doing, the commission is gravy."

Inclusion at the top

The most important decision a board makes is the appointment (and sometimes dismissal) of a CEO. Incorporating the CEO's ability to build a culture of inclusion should be part of that consideration set.

A 2015 qualitative study by Kay and Goldspink of 102 Australian company Chairs found governing inclusively matters too. Building a diverse team that comprises sought after skills and experiences including the ability to evaluate situations independently, embrace innovation, foster new ways of thinking, and nurture trust between the board and executive are the hallmarks of a well-functioning board, according to the study.

And so for directors, there's much at stake. The personal and professional cost of failing to pre-empt a corporate scandal can be immense. The personal and professional satisfaction of governing a great company that consistently delights its customers and employees while delivering strong shareholder returns is profound. Embracing inclusion as the cultural lever may well be the pathway to success.

For more information please contact

t: 1300 739 119

e: diversity@aicd.com.au

w: companydirectors.com.au/boarddiversity