

Response to the proposed 5th Edition of the ASX Corporate Governance Council Principles and Recommendations

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Importance of racial and cultural diversity in the 8 Principles in strengthening corporate governance and bringing sustainable value.

Corporate Australia should harness the power of diversity in Boardrooms and senior leadership where strategic decisions are made. This will advance our prosperity and ability to grow and successfully compete in an increasingly complex and globalised world. It is critical for Boards and Leadership teams to actively include representatives and experiences of underrepresented backgrounds and intersections of race, sexuality, disability, socio-economic, ethnicity, language, age and gender.

By fostering inclusion at the board level, fundamental human rights are honoured and environments are cultivated leading to more robust decision-making processes. From a strategic standpoint, diverse boards are empirically proven to drive innovation and enhance financial performance. This competitive edge stems from the fusion of different cultural insights, experiences, and expertise, enabling boards to navigate complex global markets effectively. More importantly, inclusive governance enhances corporate reputation and stakeholder trust. In an era where societal expectations for ethical leadership are paramount, stakeholders value companies that champion intersectional diversity. This positive perception translates into stronger investor confidence, customer loyalty, employee engagement and market integrity.

As a diversity advocate and risk professional, I believe diversity is essential to effective risk management and corporate sustainability. I want to highlight inherent risks and provide feedback to the 8 principles through the lens of racial and cultural diversity. I also see the opportunity to continue raising awareness of diversity and intersectionality.

Principle 1. Lay solid foundations for management and oversight:

Having robust check and balance through delineation of roles and responsibilities is crucial. However, the design of delineation should be tested periodically to stem out any exclusionary structures or barriers hindering diverse voices from fully participating in corporate governance. Cultural competencies and perspectives should be explicitly considered in performance reviews.

Principle 2. Structure the board to be effective and add value:

In addition to its size, skills, commitment and knowledge, the board should ensure diverse perspectives are not overlooked and proactively inject new experiences to the collective function. Regularly taking an outside-in perspective to ensure composition truly reflects the diverse landscape and adding best values.

Principle 3. Instil a culture of acting lawfully, ethically and responsibly:

To achieve a culture of 'Should' rather than a culture of 'Could', the desired culture should explicitly promote diversity, equity and inclusion. The board should set a tone from the top on safe working conditions to manage the risks of poor organisational justice.

Principle 4. Safeguard the integrity of corporate reports:

Integrity of corporate reports includes not only the accuracy of information but the comprehensiveness of information. Reports should include expansive non-financial measures with regards to People risks and at a minimum include detailed racial and cultural diversity metrics.

Principle 5. Make timely, balanced and accurate disclosure:

While half of Australian population are born overseas or having at least one parent born overseas, a reasonable person would expect the diverse needs and objectives are met. The disclosure should extend to diversity matters beyond composition of employees. Timely reporting on diversity initiatives, product innovations, challenges can demonstrate a commitment to transparent and balanced disclosure supporting broader market integrity.

Principle 6. Respect the rights of security holders:

Beyond providing appropriate information, the entity should proactively seek input and feedback in advancing culture, diversity and inclusion. Diversity is a crucial aspect when organisations consider inclusivity, accessibility and vulnerability. Historically marginalised demographics of security holders tends to be disproportionately disadvantaged if not engaged equitably.

Principle 7. Recognise and manage risk:

Diversity and/or People risk should be recognised as a material strategic risk for listed entity. The board should ensure a robust risk management framework that could effectively identify, monitor and manage risks associated with People matters. People include stakeholders, customers, employees and security holders.

Principle 8. Remunerate fairly and responsibly:

Fair and responsible remuneration should also consider diversity. Workplace Gender Equality Agency has published the gender pay gap which highlights the current disparity of remuneration and reward that is not fair. 7 of the top 10 largest cap organisations have double digits gap while the highest being 29.8% for Commonwealth Bank. Boards should ensure equitable compensation practices across diverse groups and address any pay gaps as a result of discriminatory structures and processes.

Racial and Cultural diversity in boards improves risk management culture, encourages constructive challenges and non-uniform thinking, offers the advantage of attracting and retaining global talent, and results in greater market safety and soundness. It has been proven internationally that leadership teams and boards with diverse cultural intelligence, experiences and perspectives are better equipped to handle competition and cement their corporate position in a globally competitive market.

As we have seen from the recent Watermark and Governance Institute's 10th Board Diversity Index, 34% of board positions are held by women and 26% do not have any women directors. The very pale boards are made up of 91.2% Anglo Celtic directors and 6.6% directors from "non-European backgrounds" which includes USA, Canada, New Zealand and South Africa. Only 4 Indigenous directors taking 7 board seats.

Australian Public Service Commission has introduced a reportable benchmark of 24% for Culturally and Linguistically Diverse representation in the Senior Executive Service ranks in its employment strategy and action plan. Consistent with major international markets corporate governance expectations, this new benchmark should be set across Corporate Australia as part of ASX Recommendations.

Enhancing diversity in corporate boards underscores both moral imperatives and tangible benefits. Boardrooms and senior leadership across Corporate Australia should better reflect diversity in all its forms and proactively improve racial literacy and cultural intelligence. Embracing diversity is an ethical obligation, reflecting a just and equitable society.