CHARTERED SECRETARIES
AUSTRALIA
Leaders in governance

Good Governance Guide

Issues to consider in developing a policy on diversity

It is considered good governance for the boards of listed entities to develop a policy on diversity. This Guide is intended to outline some of the issues to consider when developing or reviewing a policy on diversity.

It is **good governance** to consider the development of a policy on diversity not as a compliance issue, but as a means of improving the performance of the business. While the development of the policy will meet the requirements of the recommendations in the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* concerning the need for companies to establish a policy concerning diversity, including the establishment of measurable objectives for achieving gender diversity, the policy is intended to promote processes within any company that will deliver long-term economic advantages to the organisation.

The commentary supporting Recommendation 3.2 provides suggestions on the contents of a diversity policy. However, the policy should always be tailored to the unique circumstances and requirements of the company concerned. What is suitable for a small start-up company may be quite different from what is suitable for a large corporate group. What is suitable for a company operating in one industry sector may not be relevant to a company with operations in another industry sector. Similarly, a company that operates across a range of different industries and perhaps countries will have different requirements from a company operating in a single industry and country. These factors underline the importance of not copying another company's policy.

A company needs to address or consider, as appropriate, each of the five matters noted below in order to:

- put in place the processes, and
- develop and build its culture

where a commitment to diversity reaps the corporate benefits arising from employee and board diversity and making the most of all of its available talent.

1. Purpose of diversity policy

- Articulate what diversity means to the organisation.
- Consider diversity in broader terms than gender diversity, for example age, indigenous employees, employees with disabilities.
- Consider the workforce management and risk management aspects of diversity, which involve planning for future workplace needs.
- Agree on what can be substantively achieved when developing the diversity policy.

2. Stocktake of existing programs and approaches

- Conduct an audit of existing diversity programs. For example, the organisation may already have a Diversity Manager attached to the human resources division, or there may already be graduate programs in place seeking to attract a younger demographic to the organisation.
- Ensure the policy reflects existing approaches to diversity and what is happening organically in the business (subject to the current approaches matching the purpose as articulated by the board).
- Consider if there are gaps that need to be filled in the organisation's workforce. A gap analysis should influence the drafting of the policy.
- Consider the data that is likely to be being collected already and what data is able to be collected. For example, there are existing requirements to report on female workforce numbers to the Equal Opportunity for Women in the Workplace Agency (EOWA) in companies of over 100 employees.
- It should not be assumed that metrics on diversity have been captured or can easily be captured within an organisation. Human resources systems are unlikely to simply produce reports on gender or other diversity issues. Companies may find it more challenging than they expect to understand the baseline. This can lead to delays in developing the policy.
- Companies need to understand the organisational and board profile before setting measurable objectives.
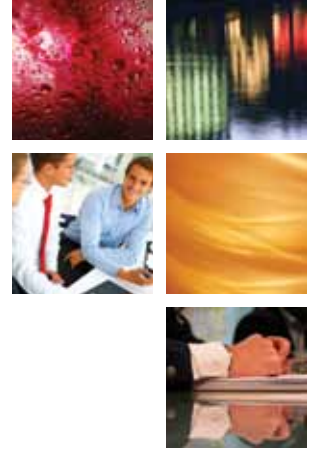
- Emphasis needs to be given to diversity at various levels within an organisation (particularly in the case of large organisations). For example, different approaches and programs will be appropriate to increasing diversity on the board compared with graduate intakes. Companies operating globally may need to focus on diversity of ethnicity in particular geographic areas. For example, a multinational company may target increasing the number of nationals from emerging economies taking management roles in operations in those countries.

- Decide which diversity initiatives should be formally adopted as measurable objectives. Examples of some measurable objectives a company may wish to consider are provided at the end of this Guide.

- Companies need to take account of federal and state anti-discrimination legislation when setting measurable objectives.

3. Responsibility

- The company secretary can work with the chairman to assist the board to clarify that the discussion is not to force female board appointments but to articulate how the board wishes to drive the company's approach strategically to diversity.

- The board needs to decide if it wants to delegate diversity to a board committee or committees, for example, the nomination committee and/or the remuneration committee. Ensure that there is a reporting line from the board committee to the board if diversity has been delegated.

- Responsibility for board diversity normally rests with the board or nomination committee, while, depending on the size of the company, responsibility for organisational diversity normally rests with the human resources function.

- Involve the company secretary to provide the link to the board and the executive team, and ensure a productive relationship is developed between the human resources function and the board.

4. Reporting

- If various approaches have been developed organically, and given the collection of data already in place, much of the existing data on diversity may not currently be elevated to board level and the challenge will be to report it in a manner which ensures the board is properly informed.

- Examine the data being reported internally and determine what the company wishes to report externally. It is important to ensure that the information can be verified and should, for example, use the same descriptions year on year when reporting different groups. It is also necessary to consider and include information from relevant subsidiaries, which should also be verifiable.

- Decide how any chosen measurable objectives can be measured and what methodology will be used in their measurement.

- Decide whether reporting will take the form of general statements or set percentages.

- Voluntary initiatives can still be implemented and reported voluntarily in the annual report. Distinguish between the information that is to be reported in the corporate governance statement of the annual report and other forms of reporting.

- Ensure that the measurement groups employees into different categories to provide an accurate reflection of diversity approaches within the company.

- Ensure that the measurement captures subsidiaries.

- If the human resources structure is different from the remuneration bands framework, consider whether the company wishes to aim for consistency of reporting.

5. Process

- Ensure that diversity features on the board agenda for discussion to commence the process.

- Amend board and board committee charters appropriately to reflect the new diversity responsibilities.

- Ensure that a review of measurable objectives is included annually on board and board committee agendas (if diversity has been delegated to a board committee).

- Consider whether the company wishes to include the measurable objectives in the diversity policy itself, or whether it will include general principles in the policy only.

- Ensure that the measurable objectives are sustainable, to provide for reporting on progress in achieving them year on year.

- Consider if talent and succession reviews will cover diversity as part of the overall monitoring and performance review activities undertaken by the board.

- Consider including measurable diversity objectives/targets in the performance plans (and bonus remuneration) of senior executives as key performance indicators.

- Ensure that management reports to the board on a regular basis on diversity to maintain the focus of senior executives on the issue.

- Ensure that the data being collected by the human resources function or other appropriate management personnel is in alignment with the measurable objectives set by the board.

- It may be useful to replicate the information disclosed in the annual report on the company's website, as well as the diversity policy, to ensure that stakeholders can easily access it.

- Consider if each business unit should develop and adopt its own diversity policy in alignment with the overarching policy.

Examples of measurable objectives

- Establish goals for female representation, for example:
  - female representation [on the board/at senior management level/company-wide level] of #% by [date]
  - #% female representation in [financial year] graduate intake.

- Establish a company-wide diversity forum consisting of senior executives and subject matter experts who meet a set number of times each year to consider diversity across the company, the company's diversity objectives, and review progress in achieving these objectives.

- Set clear expectations of behaviours which foster and promote diversity, inclusion and flexibility and evaluate employees on these behaviours as part of their annual performance review.

- Establish programs in relation to diversity, for example:
  - [number] of senior employees to attend a program to assist them to understand unconscious bias and its impact on individual and group decision making
  - implement a program which requires senior employees to formally stay in touch with women on parental leave on a regular basis and provide assistance to help them successfully transition back to work
  - conduct an annual review of the career development plans of female middle management employees and/or employees with part-time work arrangements to ensure their appropriateness in developing and retaining the [organisation's] female talent
  - implement a leadership program which assists in the development of a diverse pool of skilled and experienced executives, and that prepares them for senior management and board positions
  - implement a program to reduce the attrition rates of female employees identified as top talent

- Implement recruitment practices which aim for a mix of males and females short-listed for board positions or senior executive roles.

- Conduct a gender pay audit and implement equity pay.