Progress on gender diversity continues

ASX Corporate Governance Principles and Recommendations on diversity

ASX today released an independent report measuring the adoption of the Corporate Governance Council’s gender diversity recommendations by listed entities. In the second full year of reporting on diversity, the research found that the benefits of diversity are now well recognised and articulated by listed entities. However, an entity’s size is the primary predictor of whether it will take the next step of setting and monitoring measurable objectives or targets for female participation in leadership roles.

The ASX-commissioned report was conducted by KPMG and analysed compliance by 600 ASX-listed companies with the diversity recommendations in 2012/2013 (“2013” results below). KPMG has previously produced reports covering the first 12 months of reporting on diversity1 which became a requirement in 2011 (“2012” results below).

The Council’s recommendations provide listed companies with a reporting framework for gender diversity. It is not mandatory to follow the recommendations, but ASX requires listed companies to disclose in their annual report or their website the extent to which they have followed them during the reporting period. Where companies have not followed all of the recommendations, they must provide an explanation as to why (‘if not, why not’ reporting).

Summary data from the report:

<table>
<thead>
<tr>
<th></th>
<th>S&amp;P/ASX 200 (198 companies)2</th>
<th>ASX 201-500 (200 companies)</th>
<th>ASX 501+ (200 companies)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies that either adopted a diversity policy or explained why not</td>
<td>99%</td>
<td>100%</td>
<td>97%</td>
</tr>
<tr>
<td>Companies with a diversity policy</td>
<td>93%</td>
<td>98%</td>
<td>85%</td>
</tr>
<tr>
<td>Companies which set measurable objectives</td>
<td>82%</td>
<td>86%</td>
<td>59%</td>
</tr>
</tbody>
</table>
| Companies that disclosed the proportion of women in their organisations | Whole business: 93%
Senior executives: 90%
Board: 84%
| Whole business: 92%
Senior executives: 91%
Board: 82% | Whole business: 79%
Senior executives: 71%
Board: 73% | Whole business: 78%
Senior executives: 71%
Board: 73% | Whole business: 67%
Senior executives: 56%
Board: 59% | Whole business: 69%
Senior executives: 57%
Board: 49% |

1 ASX Corporate Governance Council Principles and Recommendations on Diversity: Analysis of disclosures for financial years ended between 31 December 2011 and 30 December 2012, KPMG 2013. A report looking at 31 December 2011 reports was also prepared by KPMG in 2012, as this was the first group of entities reporting against the diversity recommendations. However, the report cited in this note included these findings and expanded to cover all reports for periods between 31 December 2011 and 30 December 2012.

2 At the time of preparing this report, one entity had merged with another entity and one entity was “foreign exempt”. Therefore, the sample size of the entire group is 198 entities. In the 2012 sample, one company was suspended from official quotation while the other was “foreign exempt”.

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Key findings and conclusions:

- Adoption of a diversity policy increased in the top and bottom sample groups while remaining stable in the middle group. The biggest increase was in the bottom group, which indicates that the practice of adopting a gender diversity policy is continuing to spread across the range of listed entities.

- Increasing numbers of entities articulated the business benefits of diversity.

- Setting of measurable objectives did not increase significantly across the sample group – slight increases in the top and bottom groups were set off by a slight decrease in the middle group.

- The quality of measurable objectives was variable, with those entities who set numerical targets being the best able to demonstrate progress and communicate their commitment to diversity.

- The reporting of diversity metrics remained largely stable with minor increases up and down on each category (whole of company, senior executives, board) across each sample group and a larger decrease in reporting board numbers in the smaller companies. As in previous years, women on the board was the least reported metric although this information is readily discernable from the annual report.

- Increased numbers of entities provided a definition of “senior executive” and many entities, particularly in the top 200 sample group, gave highly detailed breakdowns of women in leadership roles, but many entities disclosed little detail on the categories of management reported.

- Size and stage of development was still the main reason given in ‘if not why not reporting’, closely followed by entities reporting that they were in progress of rolling out diversity measures.

Third edition of the Corporate Governance Principles and Recommendations

On 27 March 2014, the Council released its third edition of the Corporate Governance Principles and Recommendations after an extensive review and consultation process. The third edition provides further guidance on the meaning of measurable objectives, requires listed entities to provide a definition of senior executive, and also allows those entities required to report under the Workplace Gender Equality Act to report their Gender Equality Indicators in place of the statistics specified in the recommendation\(^3\). Reporting against the third edition will commence for financial years commencing on or after 1 July 2014.

Ms Jillian Segal, non-executive director of ASX Limited, said: “It is encouraging that the cultural acceptance of diversity is increasing among Australia’s listed companies. Nevertheless, the setting of targets will ultimately be the driver of real and lasting change. Many excellent resources have been created to assist organisations to do the analysis required to set appropriate targets for female participation. In addition, Groups such as the Male Champions of Change are working continually to promote targets as one of the key steps to achieve gender diversity outcomes. It remains to make these resources widely known and to work with listed entities to take their diversity efforts to the next level”.

Mr Kevin Lewis, ASX Chief Compliance Officer, said: “The changes made to the diversity recommendations in the third edition of the Corporate Governance Principles and Recommendations will clarify what is meant by “measurable objective” and improve the quality of disclosure around female participation in leadership roles. With supporting changes to the ASX Listing Rules, listed entities will now have much greater flexibility to make their governance disclosures on their website rather than in their annual report, which should also encourage greater disclosure. The flexibility of ‘if not why not’ reporting remains for those entities choosing not to adopt the recommendations.”


\(^3\) The Gender Equality Indicators include reporting of women on the board and detailed levels of management and non-management roles.
Resources for setting measurable objectives

Resources designed to assist listed entities to do the analysis and calculate the outcomes needed in retention, recruitment and promotion to achieve numerical gender targets include the Workplace Gender Equality Agency’s resources on setting targets (https://www.wgea.gov.au/learn/about-setting-gender-targets), which include guidelines on setting diversity targets and a target setting calculator, and the Women on Boards and Governance Institute’s resources for achieving gender balance (http://www.womenonboards.org.au/pubs/guidelines/) which include guidelines for gender balance and a tool for data collection, analysis and measurement.


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ASX Corporate Governance Council and third edition of the Corporate Governance Principles and Recommendations

ASX has chaired the ASX Corporate Governance Council since its inception in August 2002. The Council brings together 21 business, investment and shareholder groups to oversee the principles-based and industry-wide framework it developed for corporate governance - the Corporate Governance Principles and Recommendations.

ASX requires listed companies to disclose in their annual report or their website the extent to which they have followed the recommendations set by the Council during the relevant reporting period. Where companies have not followed all of the recommendations, they must identify the recommendations that have not been followed and provide an explanation for not following them (‘if not, why not’ reporting).

Importantly, the reporting requirements under the ASX Listing Rules provide for transparency of the corporate governance practices of listed companies, which better positions investors to make informed investment decisions. Ultimately, it is for the market to pass judgement on the corporate governance practices of Australian companies, not the Council or ASX.

The Council released its third edition of the Principles and Recommendations on 27 March 2014. The new edition follows an extensive consultation process and reflects changes in the Australian and international corporate governance landscape since the second edition was published in 2007. In addition to the changes to the Recommendations themselves, there are Listing Rule changes proposed by ASX which enable streamlined governance reporting for listed entities. The new edition retains the non-prescriptive, flexible, ‘if not, why not’ disclosure approach and the same hierarchy and structure – core principles, with supporting recommendations, and commentary providing additional guidance on both the principles and recommendations.