ONE WOMAN IS NOT ENOUGH

Token appointments no longer cut it as investors increasingly expect boards to reflect the communities with which their businesses engage.

By Rachel Alembakis

Investor groups are pressing the case for greater diversity on listed company boards. These groups cite empirical data that shows companies with more diverse boards and leadership generate better returns compared to those that don't. They are also calling for boards to better reflect the communities in which they operate.

The most prominent campaign for diversity at the moment is The 30% Club – a UK-based group with an Australian chapter pushing for women to hold 30 per cent of all ASX 200 board positions by the end of 2018.

According to the most recently statistics from the Australian Institute of Company Directors (AICD), the total percentage of women in ASX 200 board positions stands at 26.7 per cent. Women made up 47 per cent of ASX 200 board appointments in the first two months of 2018, up from 36 per cent in 2017. Across the ASX 200, a total of 74 companies have reached or exceeded the 30 per cent target.

"There is widespread acceptance of diversity in general, and that's been a real shift," says Louise Petschler, AICD's general manager of advocacy.

"You see that in the gender diversity numbers. All good boards worry about groupthink, and cognitive diversity is one of the best protections against that. Homogenous groups aren't going to find it that easy to challenge decisions. Having that diversity of thought can improve that governance process of challenging managers, challenging assumptions and questioning strategy."

Groupthink occurs when a cohort of people start thinking in the same way, leading to less than optimal decision-making.

Many investors and investor groups in Australia back The 30% Club, including the Australian Council of Superannuation Investors (ACSI). The council has 38 Australian and international asset owners and institutional investors that collectively manage more than $2.2 trillion in assets and own on average 10 per cent of every ASX 200 company. Last year ACSI announced a new policy to vote against directors of ASX-listed companies without females on the board.

"Once there are three or more women on a board, that's a tipping point for gender diversity making a real difference on a board. One thing we've learned is boards that are resistant to these issues tend to be those we worry are not well positioned for the future," says ACSI CEO Louise Davidson.

"They're not thinking strategically about how they need to position themselves. The business culture is different now, and societal expectations are different. Businesses must have proper regard for their position in society and take a broader approach to stakeholder management. It's difficult for boards without diversity to fully consider those issues."

Appointing more than one woman to a board is important because it allows for reinforcement of ideas and avoids stereotyping lone women on boards as token appointments.

"A body of academic work says you need to have more than one woman to bring about change," said Nicolette Rubinsztein, senior vice president at the Actuaries Institute, and a non-executive director at UniSuper, SuperEd and the Actuaries Institute. "I've absolutely experienced that. You might make a suggestion in a management or a board meeting, but unless somebody supports it, it becomes a dead idea and it floats away. So you do need people to bounce off each other and support different ideas."

State Street Global Advisors (SSGA), a global fund manager, has also laid down the challenge to companies. Last year it sent letters to more than 700 companies in the US, the UK and Australia with no women on boards, setting SSGA's gender diversity expectations and offering guidance on how to achieve better diversity. Of those, around 152 companies subsequently placed a female on the board in 2017, 16 of which were in Australia.

"Australia had 34 companies that hadn't put a female on the board. We talked to them and they said they were trying to change, so we're not going to vote against them. We like to work with companies, and we understand with board refreshment you can't expect things to happen straight away; we're realistic in that respect. We did vote against 500 director nominations globally," says SSGA senior managing director Susan Darroch.

SSGA has expanded its target list to include Canadian and Japanese compannies this year. It believes gender diversity has a material financial impact on company performance, which is partly why it talks to boards about gender diversity. According to a 2015 MSCI study, companies with strong female leadership generate a return on equity of 10.1 per cent a year, versus 7.4 per cent for those without females on the board, on an equal-weighted basis. Additionally the study found companies lacking board diversity tend to suffer more governance-related controversies than average.

SSGA has taken the path of engagement, not divestment, because as an index fund provider, SSGA has no choice but to hold certain stocks in their portfolio. "We see ourselves as permanent capital holders in these companies because they're in the index," Darroch says.

"Many people would say the powerful thing is to divest. We think it's powerful to have permanent capital in these companies. Often, we have a significant holding. The power that comes with that is the ability to talk to these people, negotiate with them and communicate what we expect of them," she adds.

The hold up in appointing females to boards is not a lack of women in corporate Australia or a lack of talent, but structural and unconscious biases, says Lisa Annese, CEO of Diversity Council Australia. The group undertakes a number of research studies annually to examine the value of diversity in organisations, and also works with members to implement its research findings.

"Barriers happen because women get side tracked when they work flexibly after having children. They happen because people promote women on experience, whereas they promote men on potential," says Annese.

"It happens because we look at women as not fitting the standard leadership model, which is designed in the image of the white male. Women don't have the right 'relationship capital' to be considered for board appointments. There are a whole bunch of reasons why women don't get board appointments," she argues.

Annese believes ASX 200 companies are making progress in achieving gender targets, but there is further work to be done around other areas such as cultural diversity.

"Affirmative action has tended to favour Anglo-Celtic women, and programs of cultural diversity have focused on men," Annese said. "It's important to understand that people fall through those cracks and there are specific reason why that happens, which is around the existing model of leadership," she adds.

For AICD, while the focus is on gender diversity, the work that goes into accomplish those targets can be used to evolve the conversation to new areas like cultural diversity.

"A lot of our focus is unapologetically on the gender diversity piece. The 30% Club, which we support, offers good insights and tools to support engagement on these issues. The 30% Club has a committee of recruitment consultants that has talked about diversity of boards, and agreed on principles around lists of candidates they'll put forward," Petschler says

There is also a group of chairpersons that get together to encourage the discussion on this topic to move forward. They have resources like reports, guides and case studies that provide practical tools for boards grappling with diversity.

While boards have so far been focused on gender diversity, get ready for the emphasis to move to broader concept of diversity over time.