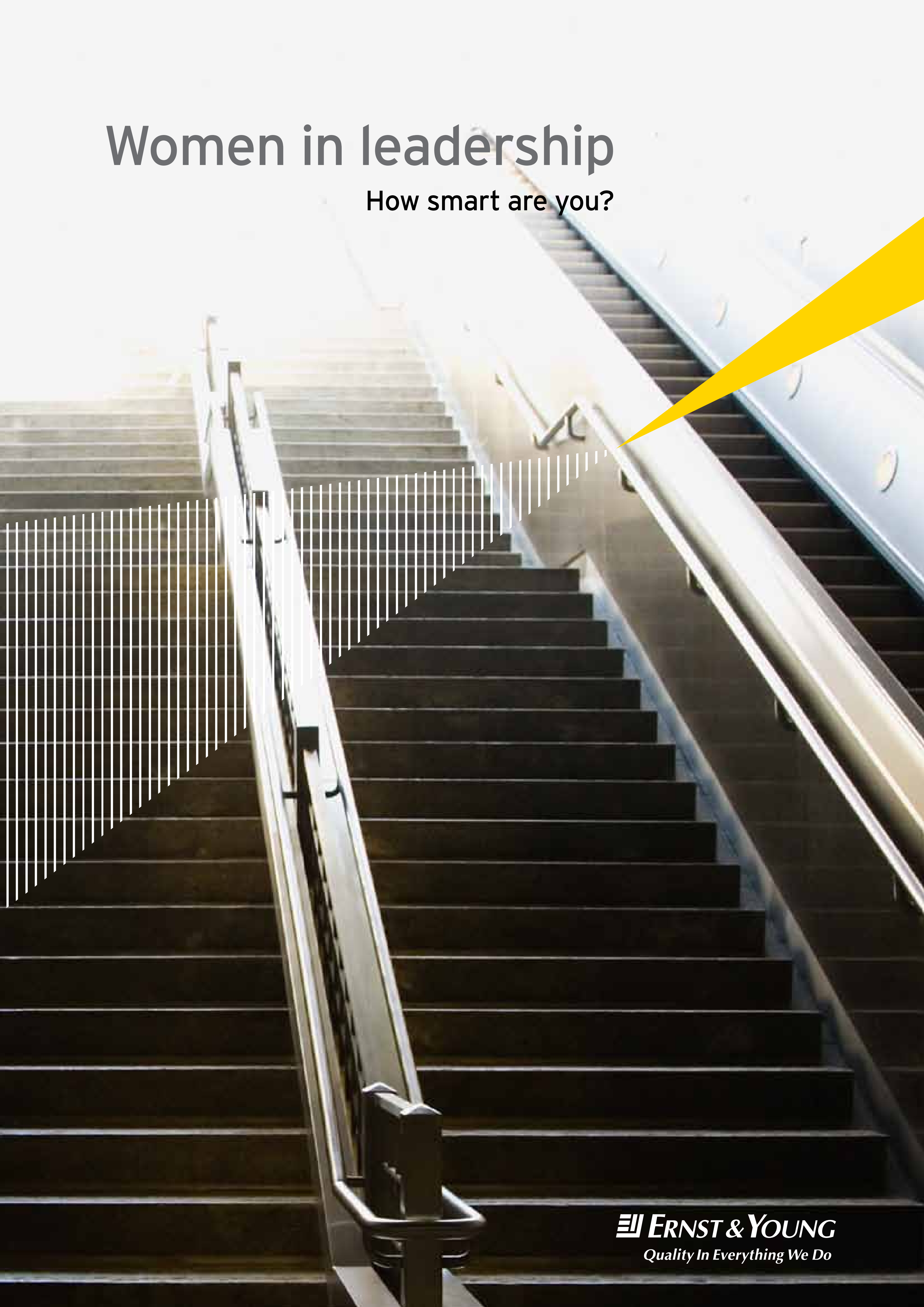
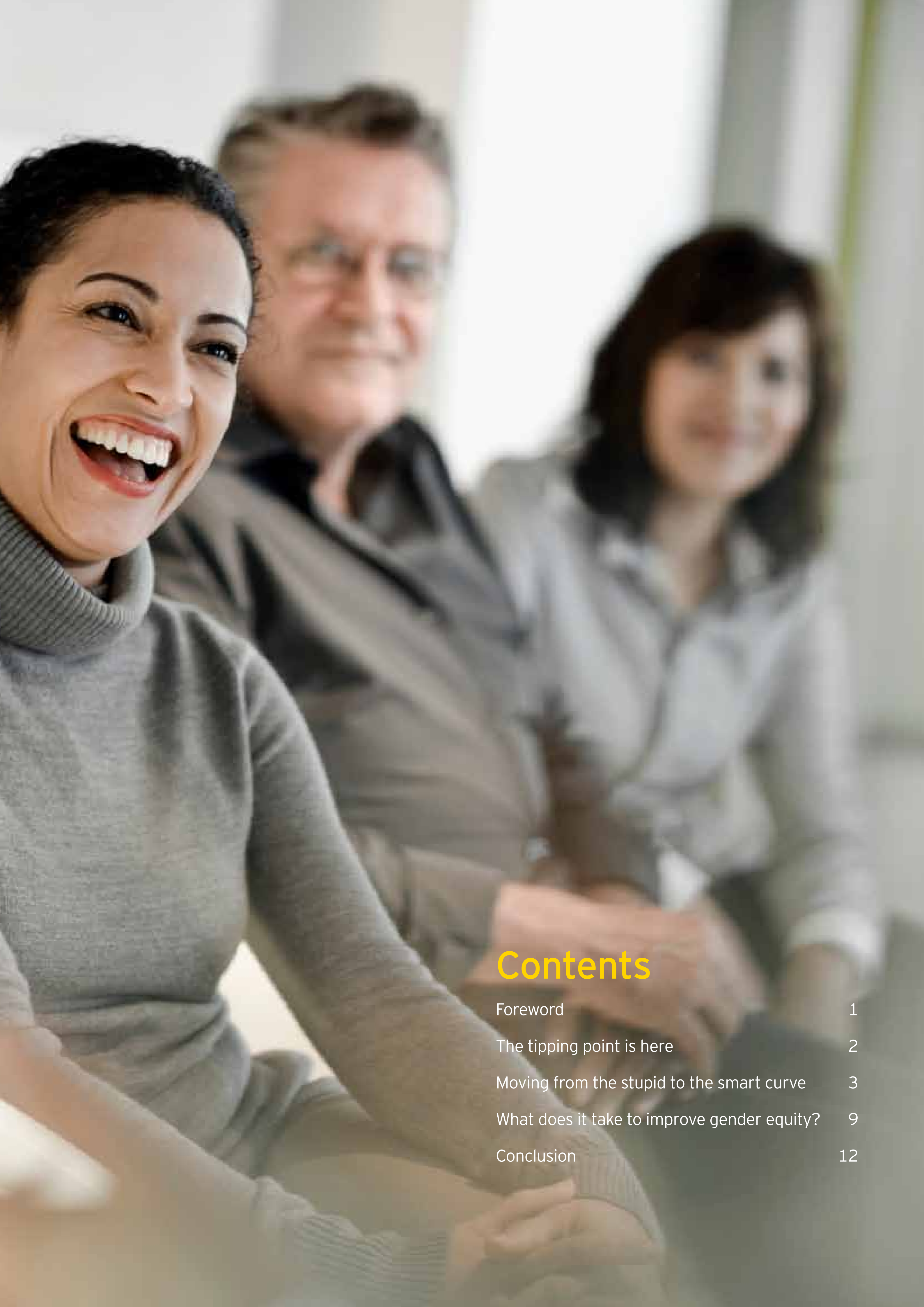
Women in leadership

How smart are you?



Ernst & Young
Quality In Everything We Do



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Foreword

Over the next year, many Australian listed companies will need to embark on a major program of positive cultural change. This time, the driver is not a global financial crisis, or a disruptive technology, but the fact that there is renewed business interest, backed up by the Australian Securities Exchange's (ASX) Corporate Governance Council recommendations, to finally address long-standing inequities in the representation of female talent across organisations. These gender diversity reporting recommendations mean that shareholders, employees and customers will be able to quickly assess which organisations are genuinely addressing any inequities in female representation, and which are choosing to ignore it.

The question every board should ask is this: Is this a risk and compliance issue, or does the business truly intend to realise the business benefits of better engagement of female talent?

In the context of this question it is also important to consider that a business' progress over time towards achieving more equitable representation of women at all levels is under increasing scrutiny, and for listed companies, this will be on the public record. What are the consequences if the spotlight falls on poor performing businesses, and investors and customers who care about gender equity vote with their feet?

The ASX Corporate Governance Council's 2010 amended recommendations mean that listed entities will be asked to establish and disclose measurable objectives for their gender diversity. The issue here is not to simply focus on reporting to achieve compliance, but to fundamentally shift business culture to be able to demonstrate measurable and sustained improvement year on year.

As many well-intentioned companies have already discovered, gender equity rarely improves as a result of investing in piecemeal diversity programs. Even companies with a strong commitment to diversity admit that, despite years of investment, they are yet to make major or sustained improvements in meeting their business commitments to attracting, developing and retaining female talent.

This report cuts to the chase, with practical advice to help companies identify where they are in their own diversity strategy plan, uncover systemic problems hampering their progress, and deliver material improvements in diversity outcomes within 12 months.

We believe business is ready for this change and, along with many CEOs, we understand the urgency of the issue and want action. We encourage boards and executive teams to understand the severity of the business dilemma they face and act decisively to improve their business performance and preserve shareholder value.

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The tipping point is here

In our view gender diversity has reached Malcolm Gladwell's 'tipping point': "The level at which the momentum for change becomes unstoppable."[1] It now has the three key factors that determine if a particular trend will 'tip' into wide-scale acceptance:

- **Championship** – Today, gender diversity has attracted a wide range of champions, from business consultants[2] whose studies repeatedly demonstrate that companies with higher percentages of women in their leadership perform better financially, to academics like economist Professor Scott Page, who believe 'diversity is strategy', to the Male Champions of Change[3] – a 10-man group formed by Sex Discrimination Commissioner Elizabeth Broderick including the CEOs of Woolworths, Telstra, Origin Energy, IBM, Citi Group, Goldman Sachs and Westpac.
- **Attention** – In the coming year, gender diversity – already a hot news story – will attract increasing attention as listed companies go public with their gender equity performance metrics and targets. Moreover, this mass disclosure will allow interested parties to form national equity indices, making it easy for lobbyists to name and shame the worst performers.
- **Context** – Both the regulatory environment and Australia's pending skills shortages have provided compelling context for the focus on gender diversity. Firstly, thanks to the ASX Corporate Governance Council's new recommendations, boards will be open to new scrutiny and pressure to improve gender diversity. Secondly, Australia's next economic growth cycle will coincide with the shrinkage of the working age population, as well as increasing competition from overseas enterprises to recruit Australian talent. The resulting skills crisis will force Australian corporations to make better use of the female talent pool.

The combination of all these factors is creating the conditions required for this phenomenon to tip.

Business has moved on from asking "*Why* must we do this?" The burning question now is "*How* can we do this well?"

1 "The Tipping Point", Malcolm Gladwell, 2000.
2 "The Bottom Line: Corporate Performance and Women's Representation on Boards", *Catalyst, 2007* "Women Matter", McKinsey & Company, 2007.
3 "Groundbreakers – using the strength of women to rebuild the world economy", Ernst & Young, 2009.

Is this just feminism re-badged?

Over the last four decades, interest in gender diversity has surfaced in various forms. At a recent Ernst & Young luncheon discussion on gender diversity with a group of company directors and board members, the question was raised; "Isn't this just feminism all over again? What's going to be different this time around?"

As one delegate put it: "In the '80s it was women talking to women. In the '90s it was women berating men. Now it is men talking to men".

A new corporate governance issue

It's time for business to elevate gender equity to a governance issue, putting effective metrics and risk management on the board's agenda. As Australia's mining companies discovered when the notion of a safety culture first began, the starting point was to establish a key safety metric – usually Lost Time Injuries – for governance purposes. Today, safety has become such an important metric, that companies build their entire brand around it.

It can be easy to baulk at equating gender equity with human safety, but that would be missing the point. What makes gender equity a governance issue is not its ethical importance, but the fact that it affects business results. A hundred years ago, the idea that safety affected business results was all but dismissed. Today, it's a serious risk factor, with the potential to damage brand, reduce the skills base and ruin businesses.

A decade ago, the idea that gender equity could improve financial performance was likely to be met with derision. Today, we have an overwhelming body of research that says otherwise. Last year, your customers did not have visibility into how women were represented in your organisation. Next year, it could be headline news. This is what makes gender equity a governance issue, and one that must be addressed.

The single most important factor indicating commitment to gender diversity from the point of view of employees (and increasingly, consumers) is the number of women represented in the workforce as well as in leadership roles across business.

Moving from the stupid to the smart curve

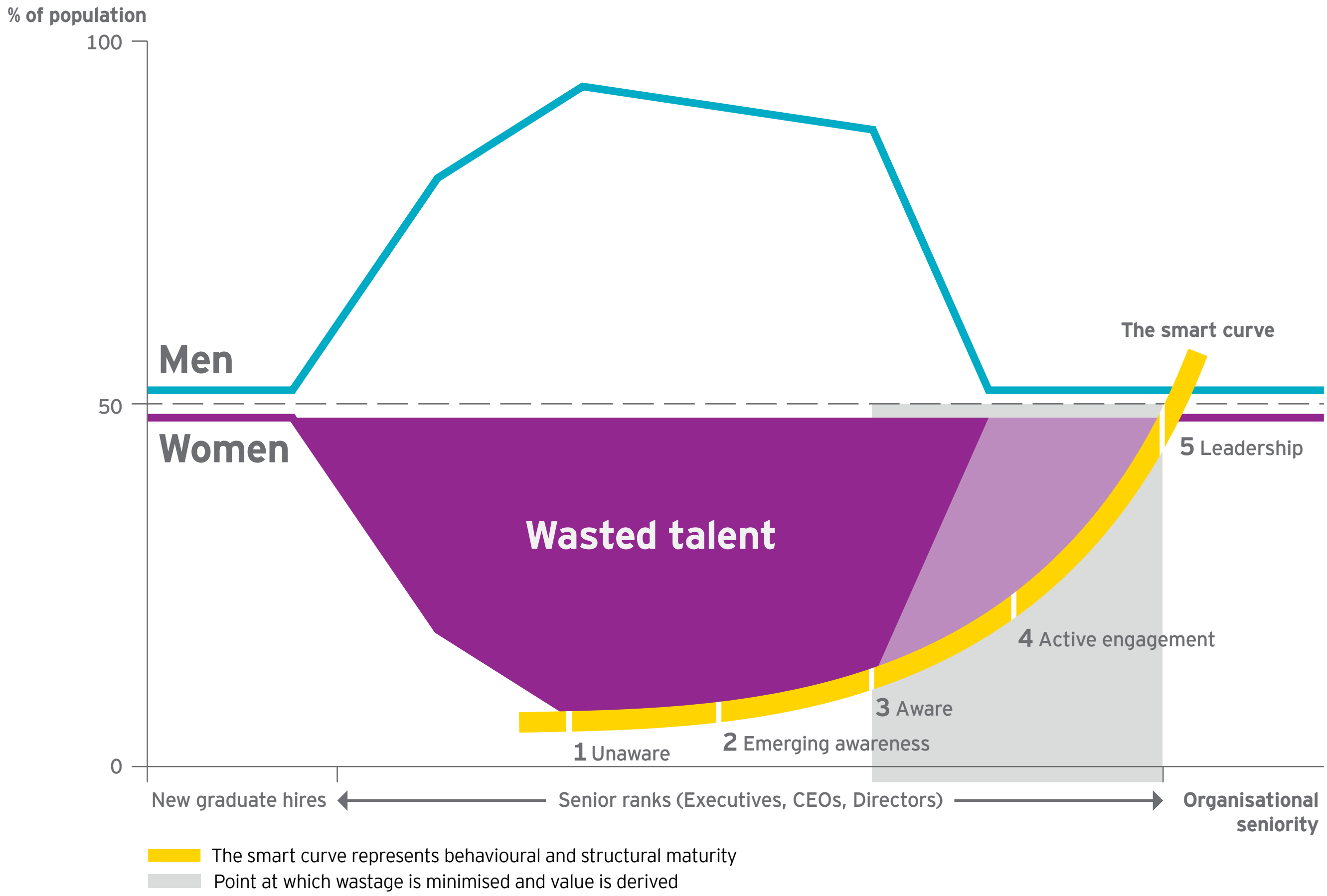
The stupid curve was a term coined over 10 years ago. It describes the ‘stupid’ wastage that occurs when women fail to climb to senior levels in an organisation. The argument goes like this: equal numbers of men and women enter most companies in the early stage of their careers; yet very few women make it anywhere near the top of the corporate ladder. If we accept that talent is spread evenly across the population — as evidenced by Australia’s roughly even numbers of female and male graduates — then we can only conclude that companies are actively and significantly limiting their talent pool, thereby compromising diversity of thinking and business solutions.

In addition, if we accept the argument that talent is spread equally across gender then we must admit that our assumption of operating within truly meritocratic organisations is fundamentally flawed. If the assumption were true, then we would be much closer to 50% female representation on the executive teams and boards of the ASX 200, even allowing for differences in gender aspirations.

Are your diversity programs working?

To help us, and our clients to move beyond the 'stupid' curve and understand how to improve gender participation and representation at all levels of the organisation, Ernst & Young has devised the 'smart curve'. The smart curve is based on observations and analysis of Australian organisations, including our own, attempting to implement diversity programs.

Ernst & Young gender representation maturity smart curve



Where are you on the smart curve?

As a rough guide, the following descriptions will help you find where your organisation might currently sit on the smart curve.

The experience of the past decades shows that many organisations do not move beyond level three of the smart curve. This means they are not yet reaping the benefits of effectively tapping the pool of talented women available in Australia. The smart curve provides an objective reference point to assess the progress of your business and to identify when you have reached a level of momentum that is delivering benefits back to the business.

Maturity				
Level 1 Unaware	**Level 2** Emerging awareness	**Level 3** Aware	**Level 4** Active engagement	**Level 5** Leadership
• You don't have any diversity strategies • You don't collect gender diversity metrics • You are unaware of the ASX Corporate Governance Council recommendations or the business case for addressing gender inequity • You don't think it applies to your business	• You are beginning to recognise that 'something should be done' to address gender inequity • This is in response to external pressures, such as the new guidelines, not internal recognition that there may be some business value in gender equity • You lack access to robust metrics around gender diversity	• You have some diversity programs however they are generic and ad hoc • A growing number of people are 'championing' diversity, but this has not yet filtered down to all levels • You have started to identify key performance indicators and collect relevant metrics • Your metrics are not improving • You are seeing some improvements, but it is not consistent across the business or sustained over time	• Gender diversity has strong executive sponsorship. Your diversity programs and initiatives have been informed by data and company insights about your organisational needs and levers • You have clearly defined objectives and strategies for addressing your gender inequities • You have effective governance and compliance, supported by integrated reporting against all metrics • Your metrics trends are starting to consistently improve	• You have an organised and integrated approach to diversity including: changing tactics based on lessons learned, refining your metrics and continuously improving • Diversity is now seen as 'business as usual' • You are a role model for others in the market, recognised by customers and investors as being truly committed to diversity • Your strongly improving gender equity metrics are translating into measurable financial results and business benefits

Why flexibility is critical to moving up the smart curve

In the 21st century, the rise of dual-income households, single parents and shared parenting has changed the shape of most employees' lives – men and women alike. Not only that, in our technology-enabled, service-based economy, the shape of work has also changed fundamentally. People at all stages of their career are looking for flexibility in the way they work, where they work and how they work. It's not just about working parents anymore – the design of work and career paths are changing fundamentally, and quickly, across the labour market.

However, the way organisations manage people's careers is largely based on legacies of the past and these do not respond effectively to today's environment. Many organisations are structured to fit the traditional linear career trajectory: the 20s are about career foundation, the 30s career acceleration, the 40s career consolidation and the 50s transition to retirement. They do not take into account external factors important to their employees and how they can change the career trajectory to reduce potential loss of talent.

Adhering to the traditional career model limits an organisation's ability to optimise the available talent pool due to:

- The clash between the career acceleration and the family formation stage and the resulting impact on women's career advancement
- Its failure to align with the shape of today's work, where people enter and exit different careers a number of times across their working life, cycling through foundation, acceleration, consolidation and exit stages
- Overlooking the fact that people in their 50s often want to work longer and are a huge pool of potential knowledge and skill. This is particularly significant given that women over the age of 50 are the fastest growing segment of the labour market.

Smart organisations are paying attention to the interaction between career and life stage and ensuring that their people have real access to appropriate arrangements including flexible work.

Ernst & Young life stage model

	Foundation	Acceleration	Consolidation	Transition
	20-30 years old	30-40 years old	40-50 years old	50-60 years old
Career stage	**Seeking:** ‣ Skill development ‣ Diverse and interesting work ‣ Career progression ‣ Social work environment	**Seeking:** ‣ Career advancement ‣ Optimised remuneration ‣ Advanced learning opportunities ‣ Income security	**Seeking:** ‣ Effective managers ‣ Recognition ‣ Competitive remuneration ‣ Job security	**Seeking:** ‣ Stable work environment ‣ Recognition ‣ Capable managers ‣ Aligned culture ‣ Opportunities to optimise retirement income
Life stage	Laying the foundation for their work life, few broader life responsibilities, strong focus on 'me' **Seeking:** ‣ Flexibility to support travel and study	In transition. Parenting leave, establishing work/life balance, little time to think about 'me' **Seeking:** ‣ Flexibility to support caring responsibilities	Often combining elder and child care responsibilities and striving to refocus on 'me' **Seeking:** ‣ Flexibility to support caring responsibilities and broader interests	Increased focus on health, well-being and lifestyle, more significant focus on 'me' **Seeking:** ‣ Flexibility to support elder care responsibilities and greater involvement in non-work pursuits
	Independent	**Family formation**	**Family consolidation**	**Empty nest**

How do you stop the wastage and get moving up the smart curve?

Just like any critical business imperative, it is time to treat gender diversity metrics like any other key performance indicator.

Once you take this step, then improving gender diversity becomes a familiar process:

- Understand where you are now (A)
- Decide where you want to be (B)
- Determine actions that will start moving you from A to B
- Set appropriate annual performance targets tied to management salaries
- Measure and reward performance appropriately
- Adapt targets/actions in line with the evidence of what works

The problem is, most companies who invest in diversity programs only get as far as merely determining their decision plan. They don't set targets — because that would be scarily close to setting 'quotas'. They certainly don't put salaries at risk and they don't drop diversity programs that are not demonstrably working, for fear of being seen to be politically incorrect, or because of uncertainty about what will work. In other words, they get stuck and can't move up to active engagement (level 4).

This is why, despite the best of intentions, the vast majority of gender diversity programs have not worked. After years of pursuing various diversity initiatives and programs, 106 boards in the ASX 200 have no female members[4].

We need to stop treating gender equity like a special case, and give it the attention and rigor applied to any other key performance indicator[5].

Where your organisation lies on the smart curve determines whether your diversity programs are working. If you're at the awareness level or lower — they're not. You have to move beyond awareness before you start to materially improve your gender diversity metrics and get any real business value. When you reach leadership (level 5), diversity becomes a source of competitive advantage.

Your ability to move up the smart curve is supported by your CEO's personal commitment to diversity and your diversity programs. However, many long-term diversity champions have plateaued on the maturity curve, without ever seeing their diversity metrics change.

This can create the worst of all positions, where you invest in diversity and not only fail to see a return on investment, but also provoke cynicism from employees who see the lack of real progress as a failure to 'walk your talk' or worsen a confirmation of the lack of true intent to drive change.

Over time, organisations may find their employees suffering 'gender fatigue': a lack of energy around gender discrimination, reluctance to continue talking about gender and questions regarding the relevance of new gender initiatives[6]. A close analysis of employee attitudes towards gender diversity initiatives and new energy will be needed to progress change.

As a general rule of thumb, if you don't see measurable change within 12 months, then your diversity programs aren't working.

4 "Australian Census of Women in Leadership report", EOWA, Oct 2010.

5 "The Bottom Line: Corporate Performance and Women's Representation on Boards", Catalyst, 2007.

6 "Gender Fatigue: The ideological dilemma of gender neutrality and discrimination in organizations" Canadian Journal of Administrative Sciences, E.K. Kelan, 2009, 26 (3), 197-210.

Case study

Global resources company finds the truth about its gender inequity

Ernst & Young worked with a global resources company to understand the drivers of poor representation of women across key functional areas of the business. This involved:

Post-exit interviews of high performing women, resulting in:

- An exit report articulating the driving factors leading to women leaving
- A reusable exit interview survey instrument for future analysis

A 'Career and Gender' survey, resulting in:

- A report outlining key gender variables in the employment experience and critical factors affecting the attraction, progression and retention of women
- Clear insight to short, medium and long term priorities for the future
- A reusable bespoke survey instrument, incorporating choice questions that identify employment preferences and how these drive employment behaviours

Results and Implications: The organisation had historically focused its efforts on generic and ad hoc diversity solutions, attributing the disproportionate level of female exits at senior levels to differences in career aspirations. However, the survey revealed no gender differences in career aspirations, but instead systemic barriers to career progression for women – such as the perception that men were favoured for career advancement, and hence women need not apply, and a lack of flexibility to allow women to manage career and family responsibilities.

The project also highlighted differences in the employment preferences of men and women and how these were influenced by role, level, age and life stage. This allowed the business to reshape its employment offer, change its job structure and build managers' awareness of the preferences and related drivers of employment behaviour for different groups – improving performance management.

What does it take to improve gender equity?

1. Engaged, accountable leaders

Leaders are instrumental to driving change. However, it is not enough for them to be passionate about the cause; they must be the chief architects of the transformation[7]. And they must also be accountable. That means linking gender equity targets to Board, CEO and senior executives' remuneration.

Active leader engagement means:

- Appointing change agents among the senior executive team and beyond
- Leaders communicating a compelling vision for the 'why' as well as outlining the 'what'
- Leaders monitoring and conveying progress
- Leaders exemplifying the desired behaviours
- A demonstration of commitment through visible and merit-based appointments
- Leaders seeking feedback from employees on diversity programs and solutions
- Assigning committed resources to the diversity strategy and initiatives

2. An evidence-based strategic plan

Improving gender equity requires a strategic plan, aligned to your organisational and broader diversity goals. Your diversity strategy will be iterative, setting out the strategic steps over the short, medium and long term, immediate actions, targets and expected benefits.

A critical step to moving up the smart curve – to effect real change – is data. Like any other metric, you cannot improve gender equity without measuring, monitoring and tying it to performance targets.

The biggest mistake is to base measurement on anecdotal evidence. As with any other change program, you need strategies based on robust metrics. Yet, when it comes to diversity, many organisations rely on "we have a policy" rather than "we can prove the policy and initiatives are working".

Most diversity initiatives fail to meet their objectives simply because they lack the appropriate metrics, reporting systems and dashboards. Without timely, granular information, you don't know whether the initiative has worked; and if not, why not. It's also virtually impossible for your executives to make effective decisions about strategic priorities or the level of investment required to drive outcomes.

3. Clearly defined and tracked metrics

Effective diversity strategies have clear, measurable goals. A good metric maps clearly against the goals of the organisation, informs possible action and should be readily comparable to benchmarks.

Most organisations collect data and report on their gender profile. While this is an important foundation to understand the representation of women, it does not provide significant insight to the gender dynamics of the organisation. To achieve this, more sophisticated metrics that allow you to build strategy which will move you up the smart curve are necessary. Examples of these are:

- profile of gender by functional area and role to understand where women are concentrated in the organisation and if they are represented in leadership making roles
- the attrition of high performers by gender to identify the comparative loss of talented women
- gender variables in employment preferences to understand the differences in what men and women value about their employment with an organisation, and how this changes by career and life stage

7 "The impact of Leadership and Change Management Strategy on Organizational Culture", British Journal of Management, Kavanagh and Ashkanasy, 2006.

4. Strong program management and governance

Diversity requires a broad program management approach and clear governance. Initiatives must always be considered within the broader integrated program of work and managed accordingly. For example, adding more steps to the recruitment process to include women or minority groups in the interview process may have consequences for metrics gathered on 'time to fill'.

When it comes to both corporate and program governance, diversity considerations may impact on the areas of: corporate social responsibility, regulatory requirements, business outcomes and risk management.

5. A well-aligned change management framework

Gender diversity is about managing significant cultural change. Without change management tools and principles, most organisations are unsuccessful in changing their fundamental DNA.

Embedded strands of this DNA may include hidden bias in policies or processes; job or career path design which unintentionally excludes particular groups; or attitudes and behaviours contributing to a culture based on assumptions.

The change management process should include opportunities to research (via survey, focus groups or interviews) and validate the current situation in relation to organisational diversity, preferably with a sample of employees from all levels. Diversity initiatives should not be designed based on assumptions about what employees want or what leadership thinks they can do to improve diversity. The change process should be developed based on a realistic understanding of current diversity effectiveness — appropriate programs, actions or initiatives can then be designed to address the gaps and utilise opportunities for improvement.

Appropriate communications will help support the change process, clarify intent, articulate the benefits for all members of the organisation and provide a vision of the outcomes of new initiatives.

6. A review framework to ensure continuous improvement

Continuous improvement is only possible if you have a review cycle and a metrics framework. You need the organisational maturity to commit time and resources to regularly and objectively review progress and to adjust or replace activities that are not working.

The benchmark data you gathered at step one will enable you to monitor progress. Cultural, attitudinal and behavioural change, particularly in relation to deeply embedded cultural norms, can take time to show evidence of significant change. Set reasonable and achievable targets for change, which are manageable given what your initial data collection revealed. Look for improvements not only in senior leadership, but at all levels in the organisation, for example recruitment, early promotions and a diverse talent pipeline.

If you collect data on employee attitudes and behaviours, analyse this for change in variables which are connected to diversity, for example, access to career improvement opportunities and access to learning and development. Performance reviews can also be used to find evidence of the impact of diversity initiatives for employees and managers, as well as allocating accountability measures.

Case study

Ernst & Young starting to move up the smart curve

Ernst & Young has always been a strong supporter of diversity and inclusiveness, but our approach has traditionally been ad hoc. Our policies and programs were robust but their execution was not always consistent, leaving us hovering on the smart curve at the awareness level, despite well-intentioned initiatives.

In the past two years, we changed our focus, taking an evidence-based approach to reach our tipping point. This included:

- Reviewing the firm using the CEW CEO diagnostic tool (see breakout box on pg12)
- Conducting an Oceania Diversity & Inclusiveness (D&I) survey
- Including D&I questions as part of the Global People Survey
- Implementing an actuarial study to gain a better understanding of the number dynamics impacting current and future proportions of women at partner level
- Reviewing key people processes through a D&I lens
- Establishing an Oceania gender dashboard to track and report on progress made over time

This evidence base helped us establish the following initiatives and actions:

- Establishing a Diversity Council to advise our leadership on how to improve female representation and hold the executive accountable for results
- Revising our recruitment, development and promotion processes to ensure they are bias-free, offer true pay parity and include diversity initiatives in our leadership development
- Including D&I targets, measures and accountabilities as part of all partners' annual performance goals for FY11
- Clearly articulating our goals to the organisation
- Enhancing our paid parental leave scheme and actively promoting this to both men and women

How are we tracking?

Our female partner numbers in FY10 are still hovering at the 14% mark. However, we have made inroads into female representation on the Oceania Executive with female numbers increasing from 0% in FY08, to 9% in FY09, and 27.3% at time of publication.

We have also set ourselves challenging targets across our female partner numbers with a commitment to more than double our current numbers in the next three years.

We now believe that, due to our focused approach and commitment to achieving sustainable change, Ernst & Young has been able to move up the curve to the starting point of 'active' (level 4). However, we freely acknowledge we still have a long way to go to attain sustained female representation at the leadership level and throughout the firm.

Conclusion

Experience over recent decades clearly indicates that actions taken to date to improve the representation of women in leadership have largely failed. This highlights the need for business to take a more strategic approach to this challenge. The smart curve provides a reference point for business to objectively review momentum towards achieving a greater representation of women in leadership roles. Smart organisations should see progress up the curve, past level three within a few years. If this is not the case then the hard question those organisations should ask is 'why not'?

The reward will be achieving the leadership point on the smart curve and the business benefits that accrue when companies successfully tap the contribution of talented women.

Ernst & Young's Diversity Advisory Services

Despite focused investment in initiatives to improve gender diversity, Australian corporations have largely failed to make progress on improving the representation of women at senior leadership levels. This indicates ineffective approaches to the shaping and targeting of diversity strategies.

Ernst & Young offers unique strategic advice in the design of gender diversity strategies that cut through the factors that often lead to failure. The principles that underpin our approach can be applied to broader diversity challenges.

CEW® CEO Tool Kit

At a time when so many organisations are grappling with how to respond to the ASX Corporate Governance Council recommendations on diversity, the CEW® CEO Kit (CEO Kit) is a proven and valuable communication, diagnostic and strategy-informing tool. Developed by Chief Executive Women (CEW®), the CEO Kit is a practical guide and toolset to help organisations make real progress in attracting, developing and retaining female talent.

The CEO Kit allows both a high level understanding of gender diversity within organisations as well as a granular view of data at all levels. This can enable boards and CEOs to establish meaningful targets referable to the current state of their own business. Results from the CEO Kit can directly help organisations in developing their diversity strategies and formulating specific actions to improve gender equity in their workforce.

For more information on the CEO Kit, please go to:
www.ey.com/au/en/services/advisory/performance-improvement

Contact Ernst & Young

The immediate challenge in gender diversity is promoting an understanding of the organisational specific issues and impacts, and then securing the appropriate level of sponsorship and support to effect change.

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